



Dennis DesRosiers

Outlook for the Automotive Aftermarket

Our company does a lot of work for aftermarket players in the automotive sector but that being said, most who read our *Observations* do not reside on that side of the industry. Consequently, I like to start with some basic principles so that everyone is on the same page.

The automotive aftermarket is comprised of all the parts, maintenance and repairs performed on or installed in light vehicles after the vehicle leaves the dealership. We typically look at light vehicles up to class II trucks and exclude a long list of other products that could technically be included if a very broad definition were to be established.

We exclude medium and heavy-duty trucks, off-highway equipment, recreational vehicles

including water craft, snowmobiles, farm vehicles and industrial equipment. If all these other self-powered products were included, the size of the market would be significantly larger.

We also narrow our definition to maintenance and repair items and exclude things like collision work, accessories, appearance products, gasoline etc.

Within the aftermarket, there are three primary channels of distribution which are driven by consumer behaviour:

1. The consumer can return to their new vehicle dealer for maintenance and/or repairs. We call this the Original Equipment Service (OES) channel.

(continued on next page)

Installed Versus DIY in the Market

	Canada	Atlantic	Quebec	Ontario	Prairies	British Columbia
2000	13.7%	16.6%	9.4%	11.6%	17.3%	19.5%
2005	14.1%	17.5%	9.9%	12.7%	17.9%	20.9%
2006	14.5%	17.6%	10.0%	12.8%	17.5%	19.5%
2007 F	14.5%	17.6%	10.5%	13.0%	17.1%	19.0%
2008 F	14.5%	17.5%	10.4%	12.9%	17.0%	18.9%
2009 F	14.4%	17.4%	10.3%	12.8%	16.9%	18.8%
2010 F	14.4%	17.3%	10.2%	12.7%	16.8%	18.7%

Source: DesRosiers Automotive Consultants Inc.

Observations - "Outlook for the Automotive Aftermarket"

(continued from previous page)

2. Consumers can go to a long list of independent and/or specialty shops, which we refer to as the "Traditional Aftermarket" channel.

3. Some consumers prefer to source their own components at automotive parts retailers and do their own vehicle repairs. We call this third channel the "Do It Yourself" (DIY) retail channel.

The first two channels (OES and Traditional Aftermarket) are also often referred to as the "Do It For Me" (DIFM) side of the aftermarket.

Together, DIFM and DIY comprise the aftermarket.

The aftermarket is blessed with a built-in crystal ball looking into the future. If you look at the new cars being bought today, you can predict what will need to be repaired

in the future. We estimate that every vehicle bought new in 2007 will have over \$14,000 in aftermarket dollars attached to it over its lifetime. Since two-thirds of vehicles last at least 15 years, this represents a significant opportunity for aftermarket players.

Looking at the current picture in this crystal ball, we see that aftermarket demand should be healthy over the next four to five years. There are some downside threats, but for the most part the variables point to solid demand.

If vehicles were not so well built, demand would be even higher. We measure aftermarket labour hours per vehicle and because of rising long-term vehicle quality; the average amount of repair has declined from 5.27 hours per

vehicle (per year) in 2000 to a forecast of only 4.60 hours per vehicle in 2010. This represents a decline of approximately 15 percent, and it means that improvements in vehicle quality have decreased aftermarket

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demand by about one percent annually over the past 15 years. The aftermarket is still growing, but it would have grown that much faster had repair intervals not been stretched.

New vehicle sales in Canada grew rapidly beginning in 1993, and they continued to grow right through to 2002 when they peaked at more than 1.7 million units. New vehicle sales since

(continued on next page)

Parts to Labour Ratio

	2000	2005	2006	2007	2008	2009	2010
Parts	52.6%	51.9%	51.7%	51.5%	51.3%	51.1%	50.9%
Labour	47.4%	48.1%	48.3%	48.5%	48.7%	48.9%	49.1%
Ratio	111%	108%	107%	106%	105%	104%	104%
Labour Hour Rate	\$63.34	\$75.30	\$77.90	\$80.20	\$82.60	\$85.10	\$87.70
Labour Hours Per Vehicle	5.27	4.68	4.66	4.63	4.59	4.6	4.6
Percent Change	2.8%	3.0%	-0.4%	-0.7%	-0.7%	0.1%	0.0%
CPI Parts:	101.3	117.8	120.5	121.7	122.9	124.2	125.4
% Change:	0.8%	3.2%	2.3%	1.0%	1.0%	1.0%	1.0%
CPI Labour:	113.2	134.6	139.2	143.4	147.7	152.1	156.6
% Change:	2.2%	3.3%	3.4%	3.0%	3.0%	3.0%	3.0%
CPI Total Parts and Labour	109.2	128.8	132.20%	134.6	137	139.5	142
% Change:	1.8%	3.3%	2.7%	1.8%	1.8%	1.8%	1.8%

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Observations - "Outlook for the Automotive Aftermarket"

(continued from previous page)

2002 have tracked at a respectable 1.6 to 1.65 million units per year. Aftermarket demand remains at more than \$1,000 per vehicle when vehicles are eight to 12 years old. The high vehicle sales levels from the mid 1990s are now reaching their prime aftermarket repair years.

back to the dealership for maintenance and repair.

Most consumers have a monthly budget for operating their vehicle, covering their car payment, gasoline, insurance and vehicle repairs.

The changing age structure of the vehicles currently on the road has resulted in a number of interesting developments. Between 2000 and 2007, the one-to-five-year old vehicle group increased from 5.5 million units to 7.0 million units and will peak at 7.3 million units in 2009. This factor has benefited the OES channel, which has done a good job encouraging many of the buyers of these "younger" vehicles to bring their vehicles

Also a plus is the number of "middle aged" vehicles on the road. This age segment is now growing and will increase from 6.1 million units in 2007 to 7.2 million units by 2012. These products will provide a very strong base for demand over the next five years since it is this age of vehicle, which requires the highest level of aftermarket service.

Vehicles are now lasting a lot longer. In 1970, the average vehicle lasted only 150,000 kilometres, whereas today the figure is more than 250,000 kilometres. As a result, the number of older vehicles on the road continues to increase. In 2000 there were only 6.3 million over-10-year-old cars and trucks registered for use, but there will be over 7.4 million on the road by 2012. This should be positive for DIY work, which is predominantly done with older vehicles.

Most of the banks' economic forecasts are positive for the foreseeable future and this should help vehicle usage. This is a critical aftermarket variable - you can have all the vehicles on the road in the right age categories, but if they are not being driven they will not need to be repaired.

(continued on next page)

Canadian Vehicle Registration Forecast to 2012 All Vehicles on the Road - As of July 1

Model Year	2000 Actual	2003 Actual	2007 F	2008 F	2009 F	2010 F	2011 F	2012 F
1 to 5 Year Old	5,533,62	6,923,797	7,032,536	7,045,851	7,245,81	7,304.88	7,324.07	7,317.99
6 to 10 Year Old	5,271,895	5,787,991	6,094,977	6,425,915	6,625,453	6,762,840	7,026,269	7,167,502
10+ Year Old	6,295,387	6,653,556	6,654,416	6,748,615	6,774,478	7,002,768	7,139,240	7,430,945
Total	17,100,899	19,365,344	19,781,929	20,220,381	20,645,738	21,070,484	21,489,582	21,916,439
1 to 5 Year Old	32.4%	35.8%	35.6%	34.8%	35.1%	34.7%	34.1%	33.4%
6 to 10 Year Old	30.8%	29.9%	30.8%	31.8%	32.1%	32.1%	32.7%	32.7%
10+ Year Old	36.8%	34.4%	33.6%	33.4%	32.8%	33.2%	33.2%	33.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Average Age	8.45	8.35	8.28	8.25	8.24	8.26	8.29	8.33

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Observations - "Outlook for the Automotive Aftermarket"

(continued from previous page)

Usage per vehicle has declined with high gas prices but units in operation continue to grow so total kilometres driven has remained positive and this is positive for aftermarket demand.

The biggest downsides in the aftermarket today are escalating fuel and insurance costs.

Insurance has become very expensive for many vehicle owners and over the last few years' fuel prices have increased rapidly. Most consumers have a monthly budget for operating their

vehicle, covering their car payment, gasoline, insurance and vehicle repairs. Consumers

The biggest downsides in the aftermarket today are escalating fuel and insurance costs.

have no choice but to insure their vehicles and put gasoline in them and they certainly can't miss a car payment. But with increased insurance and fuel costs eating up their budgets, many vehicle owners have

postponed repairs and this has hurt demand in the aftermarket.

Overall, putting short-term month-to-month issues aside, aftermarket demand should be healthy over the next few years averaging around three and a half percent per year and edging closer to five percent per year among six-to-10-year old vehicles. **DAR**

Size of the Aftermarket by Market Segment - \$Millions Excludes Warranty Work, Collision & Accessories

	1 to 5 Year Old Vehicles	6 to 10 Year Old Vehicles	Over 10 Year Old Vehicles	Total
During 2000	\$3,007	\$5,208	\$5,673	\$13,888
During 2001	\$3,319	\$5,119	\$5,964	\$14,401
During 2002	\$3,704	\$5,173	\$6,191	\$15,067
During 2003	\$3,874	\$5,330	\$6,248	\$15,452
During 2004	\$4,095	\$5,342	\$6,518	\$15,955
During 2005	\$4,164	\$5,197	\$6,765	\$16,126
During 2006	\$4,362	\$5,632	\$6,743	\$16,738
During 2007F	\$4,424	\$6,024	\$6,859	\$17,308
During 2008F	\$4,465	\$6,361	\$7,053	\$17,880
During 2009F	\$4,666	\$6,680	\$7,181	\$18,527
During 2010F	\$4,745	\$6,866	\$7,608	\$19,219
2000 to 2001	10.4%	-1.7%	5.1%	3.7%
2001 to 2002	11.6%	1.1%	3.8%	4.6%
2002 to 2003	4.6%	3.0%	0.9%	2.6%
2003 to 2004	5.7%	0.2%	4.3%	3.3%
2004 to 2005	1.7%	-2.7%	3.8%	1.1%
2005 to 2006	4.8%	8.4%	-0.3%	3.8%
2006 to 2007	1.4%	7.0%	1.7%	3.4%
2007 to 2008	0.9%	5.6%	2.8%	3.3%
2008 to 2009	4.5%	5.0%	1.8%	3.6%
2009 to 2010	1.7%	2.8%	6.0%	3.7%

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