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Gabelli & Company

AUTOMOTIVE AFTERMARKET OUTLOOK AND REFLECTIONS FROM OUR 40th ANNUAL SYMPOSIUM
October 31 – November 1, 2016

PRESENTING COMPANIES

Company	Exchange	Ticker	11/4/2014 Price (a)	11/2/2015 Price (a)	11/1/2016 Price (a)
Autoliv, Inc	NYSE	ALV	$ 89.86	$ 121.44	$ 96.09
AutoNation, Inc	"	AN	55.96	63.35	42.95
AutoZone, Inc	"	AZO	554.36	785.26	734.45
Axalta Coating Systems Ltd	"	AXTA	N/A	28.10	25.11
Cooper Tire & Rubber Co.	"	CTB	31.99	42.60	35.50
Dana Holding Corporation	"	DAN	19.64	17.09	15.19
Donaldson Company, Inc	"	DCI	40.81	30.44	36.03
Genuine Parts Co.	NYSE	GPC	95.27	91.85	89.00
Lear Corporation	"	LEA	90.03	126.34	122.84
Monro Muffler Brake, Inc.	NASDAQ	MNRO	51.95	73.99	54.05
Motorcar Parts of America, Inc	"	MPAA	29.33	34.41	26.19
Navistar International Corp	NYSE	NAV	34.95	13.00	23.01
O'Reilly Automotive, Inc	NASDAQ	ORLY	177.11	273.84	264.24
Penske Automotive Group	NYSE	PAG	43.89	49.29	44.01
Rush Enterprises, Inc.	"	RUSHB	31.00	25.40	25.61
Standard Motor Products, Inc	NYSE	SMP	38.13	44.29	47.60
Superior Industries International, Inc.	"	SUP	17.78	20.25	23.50
Tenneco, Inc.	"	TEN	51.61	56.80	53.20
Uni-Select, Inc (b)	TSX	UNS	27.79	33.01	30.20
US Auto Parts Network, Inc.	NASDAQ	PRTS	2.77	2.50	3.06

(a) Adjusted for splits and dividends
(b) Prices in Canadian Dollars

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- Please Refer To Important Disclosures At The End Of This Report -

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<u>SYMPOSIUM REFLECTIONS</u>

Aftermarket: Tech, e-commerce dominate industry conversation, demographic tailwinds prevail

- Key demographic drivers continue to act as tailwinds for the automotive aftermarket: the unemployment rate continued to decline throughout 2016, average US gas prices remained low, ending the third week of November at $2.15, the average age of the vehicle continued to climb to 11.6 years in 2016, up from 10.9 five years ago and 9.8 ten years ago, and annual miles driven increased 3.3% to 3.2 trillion. Participating companies did note that a sharp increase in the price of oil has historically negatively affected the industry, although slowly rising prices can be absorbed. Unemployment and wage growth are regarded as more important factors.

- Retailers and distributors will continue to flex their strength over the supply base. The "Big 4" (ORLY, AZO, GPC, AAP) continue to project opportunities to expand their respective store bases amidst an auto parts store population that is fairly static. Thus, in continuation with years past, the parts that producers sell are being purchased by stronger buying groups - increasing volume discounts and lowering acquisition cost for the distributors. Additionally, the Big 4 continue to drive private label mix in the attempt to control the production process and potentially gain margin, which will most likely further pressure the supply base. Due to these trends, there was little hint that receivables factoring may slow.

- E-commerce will continue to be a topic of conversation, with expected 13% annual growth through 2025 amounting to $14.7 billion up from ~$5 billion today. The "Big 4" reminded investors that online options (PRTS, RockAuto, etc.) have existed for years before the introduction of Amazon and customers have continued to value the services provided by the brick-and-mortar format. These services range from 30-45 minute delivery options to helping DIY customers identify and repair vehicular issues at the store. However, the internet is also driving price transparency which may pressure gross margins and introduce new business models (such as Open Bay Repair, AutoMD, Shift Mobility, and other maintenance apps).

- The new car of the future will be more automated, connected and electrified creating profit opportunities for those suppliers and distributors able to respond to change. The complexity imposed by *safety* (crash mitigation/ADAS), *green* (CAFE standards/electrification) and *connected* (IoT/cybersecurity) trends, along with others have enabled suppliers to create unprecedented value.

- AASA believes that mobility and automated mega-trends will lead to a sharp increase in miles driven. According to KPMG, annual miles driven will increase by one trillion more miles/year by 2050 (currently at three trillion) with an upside scenario of an additional 3-4 trillion miles/year (6-7 trillion miles/year). Further, a more connected car, using telematics, should lead to aftermarket growth as dealers and DIFM professionals tap into unperformed maintenance – increased awareness of current and future failure and replacement needs along with location information. Theoretically, a better serviced car population would mean that cars could stay on the road longer, providing more opportunities for older vehicles to require maintenance parts.

- Vehicle to vehicle (V2V) technology may help reduce 80% of non- impaired crashes. These ADAS and automated systems are complex and will be difficult to repair, which should increase DIFM share and price. Along those lines, it will become increasingly important for the independent aftermarket and its suppliers to better understand vehicular needs as parts proliferation increases and technicians require access to a greater number of SKUs in order to effectively compete with dealers. The AASA expects that DIY will lose share as DIFM (both dealers and independents) takes 4% share of $14 billion by 2025 – of which dealers encompass $9 billion.

- Battle for Commercial business will intensify. Both Advance and AutoZone are embarking upon major distribution center investments to increase deliveries per day/week and parts coverage for improved availability or fill rates.

Dealers: Adjusting to the "Plateau" period

- Cautious optimism. For the second consecutive year, the "peak/plateau" discussion continued, with dealers offering a stronger employment environment, low gas prices, and a still-elevated car population age as reasons why US light sales could remain at an elevated level (+16 million SAAR) for the foreseeable future. Additionally, while rising interest rates were a topic of some concern heading into the event, dealers expressed that a slow and manageable rise in rates would likely not be a material negative to new car demand.

- Used car opportunity. Dealers regard used car pricing softness as a natural course of business, with lower prices also allowing for less expensive sourcing of used cars (as long as changes are not wildly volatile). Additionally, increases in trade-ins from higher new car sales years of 2013-2014 offer dealers like AutoNation and Penske the ability to be more selective on sourcing, drive higher gross per unit through increased Certified Pre-Owned sales, and grow Parts & Service at a time in which core Parts and Service revenues should benefit from an increasing population of 0-5 year old cars.

- Inventory correction underway. The bloated dealer lots that persisted throughout 2016 are only now finding appropriate mix equilibrium through more appropriate Car/CUV/SUV/Truck balance. Recent announcements of cuts to small and midsized sedan platforms, most notably by Ford, should continue to help lean out the 3.8 million vehicles in new car inventory at dealers and provide a way to increase gross profit per unit in 2017.

- Bad behavior wakeup call. AutoNation spoke to an improving environment regarding dealer "stair-step" incentive behavior, noting Ford's recent decision to abandon the practice and another unnamed OEM (likely Fiat Chrysler) to wean itself off in the coming months. Stair steps act as vehicles to pull forward demand, with negative effects on brand image, dealer-customer relations, and resale values (which affects new vehicle affordability).

- Parts & Service opportunity. A rising 0-5 year old car population, coupled with the slow but improving availability of replacement airbag inflators, should provide a boost to the dealer Parts & Service profit center over in 2017. Over the long term, increasing vehicle telematics should improve dealer P&S market share as predictive maintenance for simple items like oil changes and tire rotation allow dealers to increase consumer engagement, improve relations, and ultimately grow highly profitable service revenue per customer.

Suppliers: Never healthier, staying disciplined the key to future success

- Defending the industry. Presenting OE suppliers found themselves defending their companies against the idea of "peak" auto. Among the most notable points of contention: suppliers regard themselves as global by nature but generally trade on the ups and downs of the North American cycle. Additionally, mix shifts towards crossovers, SUVs and light trucks help soften the profit impact should US demand wane as these vehicles generally carry higher supplier content. Managements correctly pointed out that the US light vehicle industry ran well above 16 million units annually from 1997-2007, providing some perspective on the low likelihood of a severe decline (absent a major recession). Suppliers also pointed out that a 16+ million US industry is still a very healthy environment for cash flow generation, particularly given major restructuring efforts over the past decade. Finally, balance sheets for suppliers are healthier than at any point in their history, with many suppliers having had the benefit of a bankruptcy cleanse in the 2008-09 period (Dana, Lear, Visteon, Delphi to name a few) to better prepare them for future disruptions.

- Gas Direct Injection Growth offsets "Dying Diesel" concerns. Global regulations around light vehicle emissions and fuel economy are still drivers for increasing engine content over the next decade. Additionally, higher gasoline prices in Europe still favor diesel as the fuel of choice. Should oil prices drift higher over the next several years, we would expect regional diesel mix, which has been under pressure in recent years, to reverse in a positive manner for suppliers. In the meantime, growth of GDI engines provides additional content opportunities as turbocharged gasoline engines (such as Ford's EcoBoost) grow in popularity.

- Mass electrification adoption questioned. Consumer adoption and acceptance of electric vehicles remains tepid in a broader context. While Tesla continues to make headlines regarding demand for its $75,000+ vehicles, the reality of the market is that low gas prices coupled with a lack of fast charging infrastructure has made electric cars less attractive than originally expected year ago. Looking out to 2030, fully electric cars will still constitute just a fraction of the overall markets, while hybrid acceptance is likely to rise at a much faster rate.

- Large scale M&A is not in the cards (for our presenters). Company managements spoke to their desire for bolt-on acquisitions over large, transformational purchases, particularly in North America where the market is unlikely to improve much over the next several years. Of the presenting suppliers, Lear and Dana have the greatest capacity relative to their size to do larger deals, with Lear having, in our view, the greater scope of targets given its desired growth in a number of different Electronic and Electrical paths. Further, Harman's pending acquisition by Samsung highlights the attractiveness of certain targets in the space by non-auto purchasers.

- Focus on secular dynamics. As mentioned before, fuel economy and emissions regulations are likely here to stay, meaning that suppliers such as Tenneco and BorgWarner can continue to grow in excess of industry production. Further, next generation ADAS and automated driving adoption should continue to drive electronic content per vehicle higher, benefiting companies such as Lear (along with Visteon, which was not present in Las Vegas). Additionally, while electrification has stalled out to a degree, investors should continue to expect to see significant increases in hybridization, which requires a more robust and steady power supply to keep vehicle components operating as the vehicle drives in electric mode. At the same time, hybrids still require nearly all componentry currently found on cars with traditional internal combustion engines.

- Keep an eye on other end markets. We'd note as well that presenters such as Dana and Tenneco have significant presence in Commercial and Off Highway vehicle end markets. Many of these markets, particularly in South America, have been in a downcycle or outright state of depression for several years. Companies have done considerable work in restructuring these businesses and positioning them for significant profit enhancement when they eventually recover. When volumes do turn up, the benefits will likely offset declines in the North American light vehicle market, allowing companies to maintain earnings power and potentially, see shares rise as valuation multiples on cyclical businesses expand in a downturn.

- Autonomous: what does it mean? Most suppliers pushed out expectations for a rollout of fully autonomous vehicles well into the next decade. However, the most notable changes for fully autonomous "pods" would take place within the cabin, providing incremental content opportunities for seating and safety companies that would become critical in designing the interior of next-generation vehicles.

Commercial Truck: More pain on the way in North American Class 8

- Class 8: 2017 looks worse than 2016. Sluggish freight growth, excess fleet capacity, elevated dealer inventory levels, and declining used truck prices all point to a 2017 that looks 10+% worse in the US Class 8 market than 2017. Unfortunately for the industry, increasing trades are likely to create an issue for fleets regarding residual values well into 2018 and possibly 2019.

- Medium steady. Class 4-7 sales are likely to remain fairly steady as a slowly growing economy, coupled with elevated vehicle age and generally less cyclicality brings flat to low volume growth next year.

- NAV/VW Alliance brings change. Apart from injecting much needed cash into NAV in the midst of a Class 8 decline, the long-awaited VW deal provides long term assurance as to NAV's viability and allows its dealers to no longer have to compete for deals against other competing brand dealers calling into question Navistar's financial stability going forward. In the near term, NAV should benefit from a purchasing JV that will immediately boost competitiveness.

Table 1 Auto Stocks as % of the S&P 500

(Millions) COMPONENTS	Shares Outstanding* 10/31/16		Oct 31, 2014 Market Value	% S&P Index		Oct 31, 2015 Market Value	% S&P Index		Oct 31, 2016 Market Value	% S&P Index
Automobile Manufactuers										
Ford	3,903		53,230			57,726			45,820	
General Motors	1,524		50,450			54,326			48,169	
TOTAL	5,427	$	103,680	0.55%	$	112,052	0.58%	$	93,989	0.48%
Auto Parts & Equipment										
BorgWarner	213		11,735			9,691			7,633	
Dana	144		3,466			*Not in S&P*			*Not in S&P*	
Delphi	271		20,424			23,231			17,623	
Honeywell	762		67,709			80,740			83,186	
Johnson Controls	935		31,469			29,551			37,699	
LKQ Corporation	308		*Not in S&P*			*Not in S&P*			*9,926*	
TOTAL	2,632	$	134,802	0.71%	$	143,213	0.75%	$	156,068	0.79%
Automotive Retail										
Advance Auto Parts	74		*Not in S&P*			14,528			10,315	
AutoNation	101		6,478			6,990			4,433	
AutoZone	29		17,735			23,913			21,286	
Carmax	190		7,538			12,277			9,505	
O'Reilly Automotive	94		9,214			27,461			24,960	
TOTAL	488	$	40,965	0.22%	$	85,169	0.44%	$	70,500	0.36%
Construction, Farm mMchinery, Heavy Trucks										
Caterpillar	585		61,394			42,497			48,830	
Cummins	168		26,706			18,386			21,509	
Deere	314		30,659			25,597			27,764	
Paccar	351		23,176			18,604			19,251	
TOTAL	1,418	$	141,934	0.75%	$	105,084	0.55%	$	117,354	0.60%
Distributors										
Genuine Parts	149	$	14,862	0.08%	$	13,759	0.07%	$	13,474	0.07%
Industrial Machinery										
Eaton Corp.	452	$	32,458	0.17%	$	25,625	0.13%	$	28,805	0.15%
Tires & Rubber										
Goodyear Tire & Rubber	261	$	6,653	0.04%	$	8,831	0.05%	$	7,578	0.04%
Total Auto Components & Equipment		**$**	**475,354**	**2.51%**	**$**	**493,733**	**2.61%**	**$**	**487,768**	**2.48%**

* All shares are basic and split adjusted from prior years

Source: Standard & Poor's, Thomson Reuters

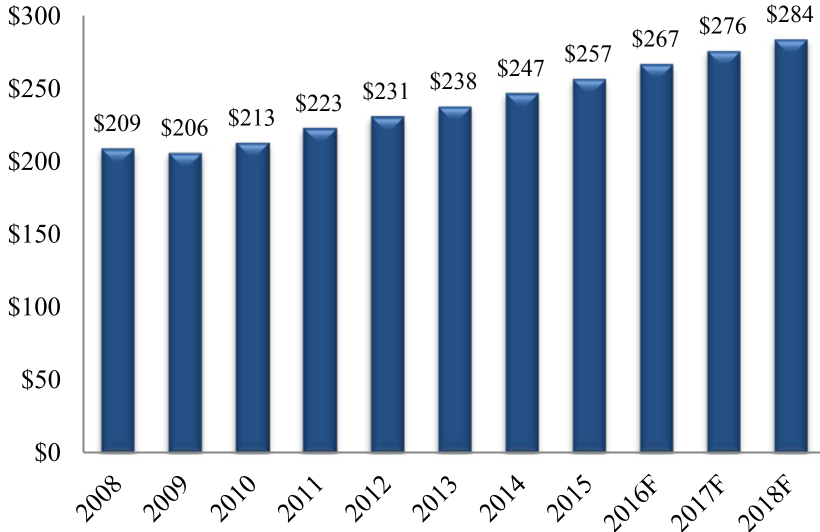
THE AUTOMOTIVE AFTERMARKET

A REVIEW OF INDUSTRY BASICS

According to the Automotive Aftermarket Suppliers Association (AASA), the total U.S. automotive aftermarket value grew by $10 billion in 2015 to $257 billion and is expected to grow to roughly $284 billion by 2018 (Exhibit 1).

Exhibit 1 **US Auto Aftermarket 2008-2018P**

($ in billions, USD)

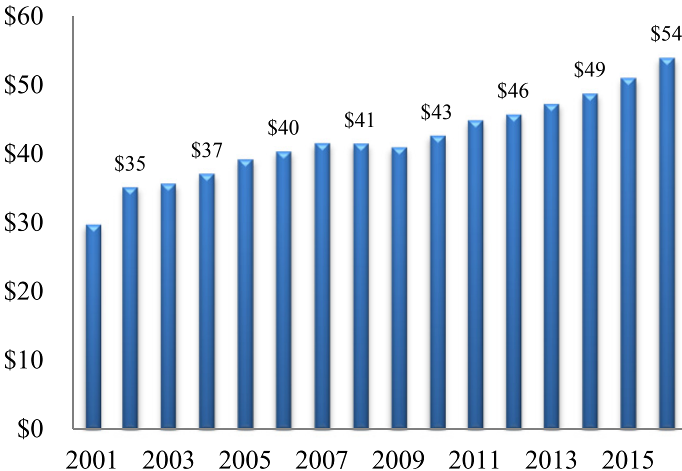


Source: AASA: 2016 Automotive Aftermarket Status Report

The market consists of two segments: The commercial "do-it-for-me" (DIFM) market and the retail "do-it-yourself" (DIY) market. Including purchased labor, the DIFM market is approximately three times larger in size than the DIY market. Excluding labor, the DIFM parts market is roughly 25% bigger than the DIY market (Exhibits 2 & 3). According to the AASA, DIY share is expected to grow at a slower pace going forward as complexity, changing consumer demand, and telematics enable dealerships and DIFM independents to take share. The global aftermarket size is estimated to be over $400 billion, with Western Europe representing the second largest global market at just under $100 billion.

Exhibit 2 **DIY Market Size 2001-2016**

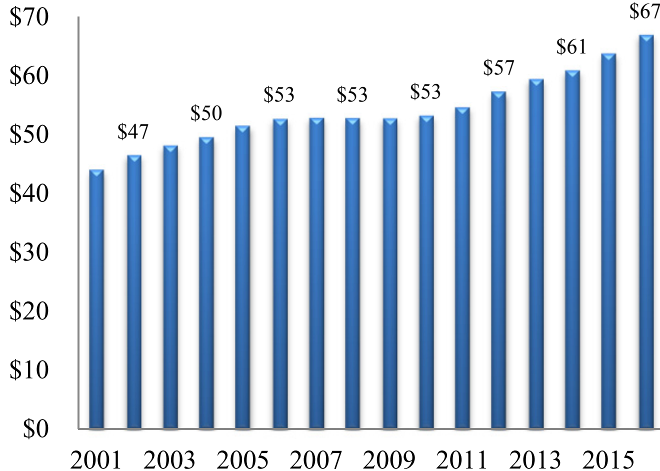
($B)



Source: 2016 Auto Care Factbook via AutoZone

Exhibit 3 **DIFM Market Size, ex-Labor 2001-2016**

($B)



Source: 2016 Auto Care Factbook via AutoZone

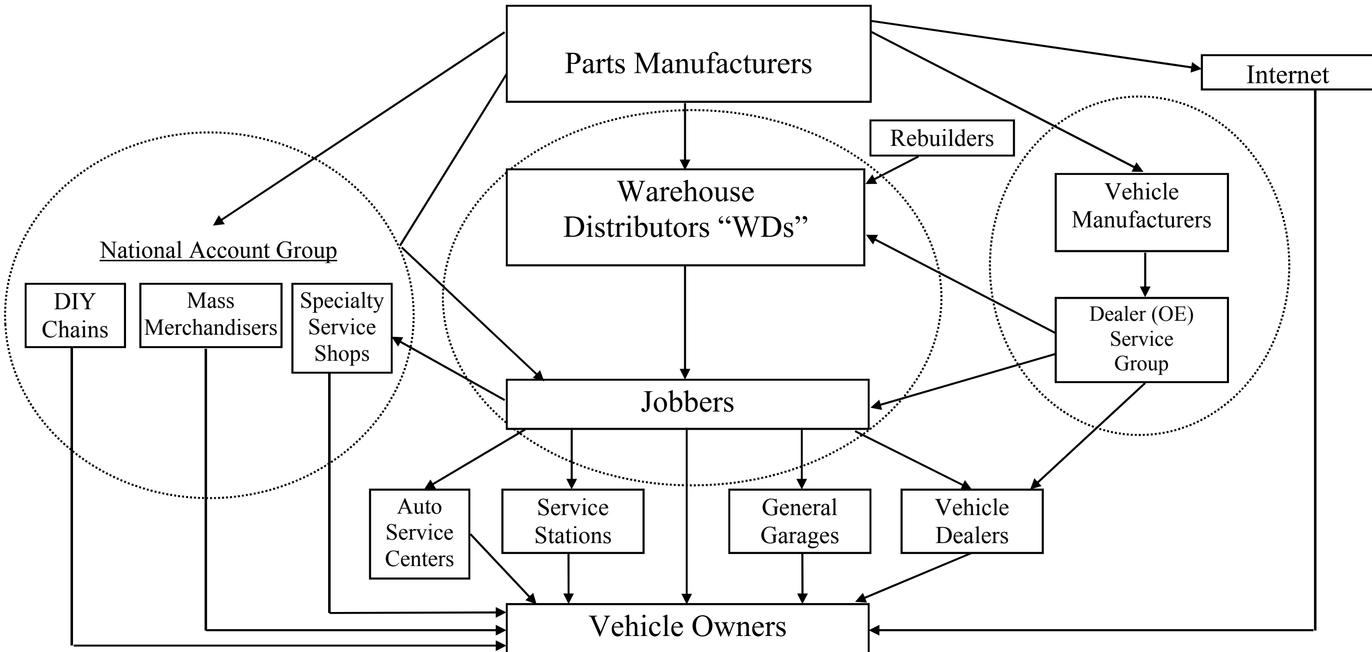
The U.S. car population consists of approximately 260 million light duty vehicles on the road, operated by just over 210 million licensed drivers. Servicing those vehicles are individuals working on their own cars (DIY), 165,000 repair outlets and 100,000 gas stations that also do some repair work. These shops are supplied by 35,000 parts stores and over 220 distributors. Over 1,000 aftermarket parts suppliers exist in North America, with tens of thousands of other manufacturers located in low-cost countries around the world.

The traditional or "three-step" system consists of the warehouse distributor (WD), the jobber, and the end-user or installer (Exhibit 4). The leaders amongst WDs and jobbers continue to be NAPA (Genuine Parts), CARQUEST (now part of Advance Auto Parts), and O'Reilly Automotive, while the largest service chains are Midas and Jiffy Lube, with over 3,400 outlets combined along with public company, Monro Muffler Brake (MNRO). Despite inroads made by traditional brick and mortar retailers, and Internet retailers to a smaller (but growing) degree, the traditional system remains efficient and provides the broadest range of parts deliverable within the shortest amount of time. The ability of other systems or forms of distribution to gain prominence will depend on the ability to meet required delivery speeds of 30-45 minutes after an order is received.

In the retail "two-step" system, parts are distributed through consumer accessible chain stores, the largest of which are AutoZone, Advance Auto Parts, and O'Reilly Automotive, as well as department stores and general retailers such as Sears and Wal-Mart/Sam's Club. Over the last few years, Amazon has made strengthened its e-commerce distribution of automotive aftermarket products directly to DIY customers, with recently announced plans to sell to the DIFM installer. While this will take massive investment to build out the necessary inventory and distribution, we note that at >$60 billion, the DIFM automotive aftermarket parts market is one of the largest retailing segments that Amazon does not currently participate. In the OE Service "two-step" system, part suppliers ship products to a dealer service organization (e.g. Ford or Toyota), which typically warehouses the product and ships it off to franchised vehicle dealers and other repair operations upon request.

Exhibit 4 below depicts the traditional aftermarket channels. DIY products are generally shipped through the retail channel, while DIFM sales are made using the three-step process or dealer channels.

Exhibit 4 **U.S. Automotive Aftermarket Channels**



Source: Gabelli & Company estimates

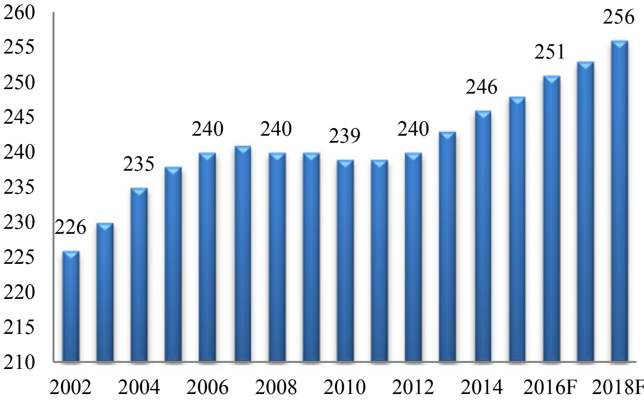
AFTERMARKET DRIVERS

The automotive aftermarket is traditionally driven by four primary dynamics 1) the number of vehicles on the road, 2) the age of the vehicle population, 3) employment and wage growth, and 4) the number of miles driven by consumers. Aftermarket growth has remained relatively steady over the past thirty years, interrupted only by periods of excessive fuel price inflation or overwhelming economic uncertainty, as in 2008 and 2009.

More Vehicles on the Road

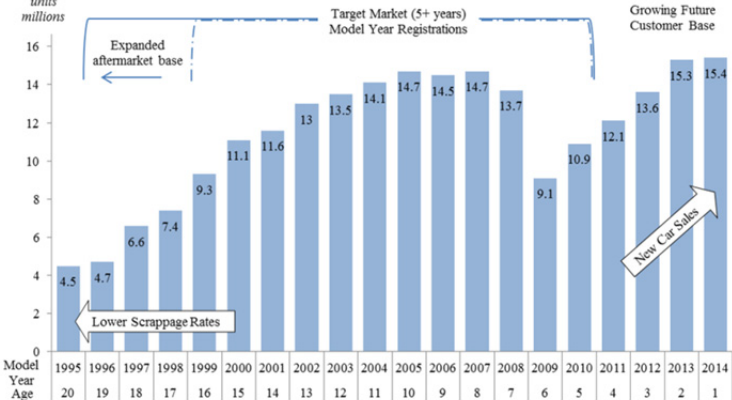
The vehicle population outside of warranty is perhaps the most obvious of aftermarket parts drivers. Essentially, the more units in existence, the greater number of available candidates exist for potential aftermarket work. U.S. Vehicles in Operation have grown consistently over the last four years, driven by 1) an improving economy that has bolstered new vehicle sales and 2) reduced scrappage rates due better manufactured vehicles that last longer (illustrated in Exhibit 6).

Exhibit 5 US Light Vehicle Population (millions)



Source: AASA

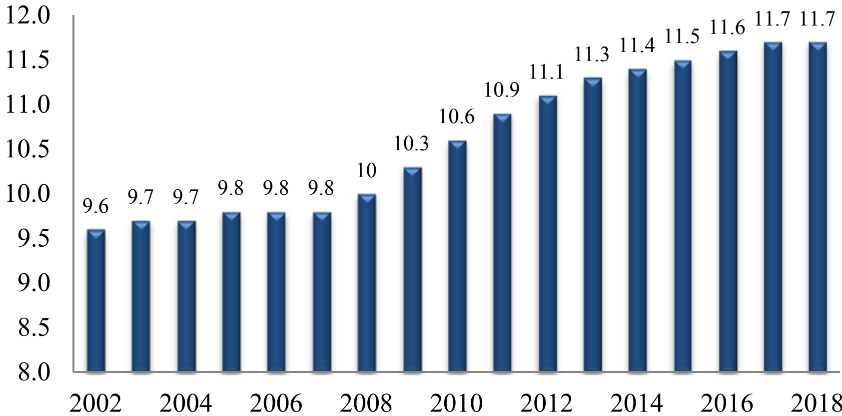
Exhibit 6 Expanding US Light Vehicle Target Market



Vehicle Age Still Very Much a Positive

The average age of light vehicles in the United States has remained elevated at 11.6 years (Exhibit 7) despite the significant increase in new vehicle sales over the past five years. As vehicular quality has improved, owners have been able to maintain and drive their vehicle longer elongating the back end of the age curve (Exhibit 6, above). Further, as these owners are able to drive their vehicles longer, they are more willing to invest in repair and replacement of parts. This has increased the age range of the aftermarket's "sweet spot," or age at which a vehicle requires significant replacement business. As vehicles continue to remain in operation longer, the industry should digest the relatively low number of 7-11 year old vehicles which are just now passing through that sweet spot (Exhibit 6: years 2009-2011). We further note that stronger vehicle sales beginning in 2012-2013 should bolster industry growth as they exit warranty.

Exhibit 7 **U.S Light Vehicle Age (years) 2002-2018P**



Source: AASA

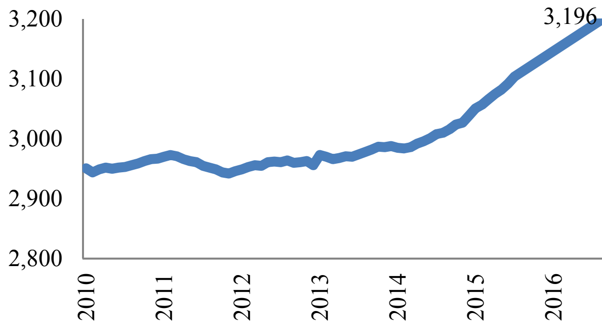
An older vehicle parc has bolstered the sale of alternators, starters, brake calipers, and brake master cylinders, as these parts are generally only replaced later in a vehicle's life. Higher numbers of replacement jobs also help generate more auxiliary business for installers, jobbers and retailers as service providers get a chance to diagnose ancillary problems in these older vehicles as well.

According to Experian, over 91% of the light duty vehicles in operation are model year 1996 or younger, with 88 million vehicles within the aftermarket's "sweet spot" (calculated to be model years 2004-2010). In line with retailers' comments, that "sweet spot" is increasingly composed of a higher mix of import brands – a trend which will continue into the future. In 2015, market segmentation suggests that the oldest cohort of light duty vehicles were pickup trucks at 13.6 years, while the youngest, unsurprisingly, were the crossover cohort at just 6.6 years. Further, the light truck share of 2015 registrations rose 4% to 55% YoY. We expect these dynamics to continue for the next several years.

Miles Driven Back to Record Levels

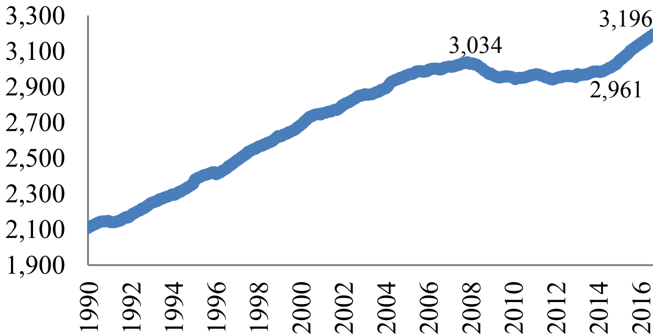
Miles driven may be the greatest measure of broader vehicle wear and tear. As of August, 2016, US miles driven by consumers rose to a record 3.2 trillion miles on a trailing twelve month basis, surpassing 2007 and driven by a slowly improving economy that has added jobs (and commuter miles) over the past three years. As shown in Exhibit 9, US miles driven ran positive for nearly every year, prior to the recession, in the last 25 (and prior as well).

Exhibit 8 U.S. Vehicle Miles Driven (billions) 2010-2016



Source: U.S. DOT

Exhibit 9 U.S. Vehicle Miles Driven (billions) 1981-Present



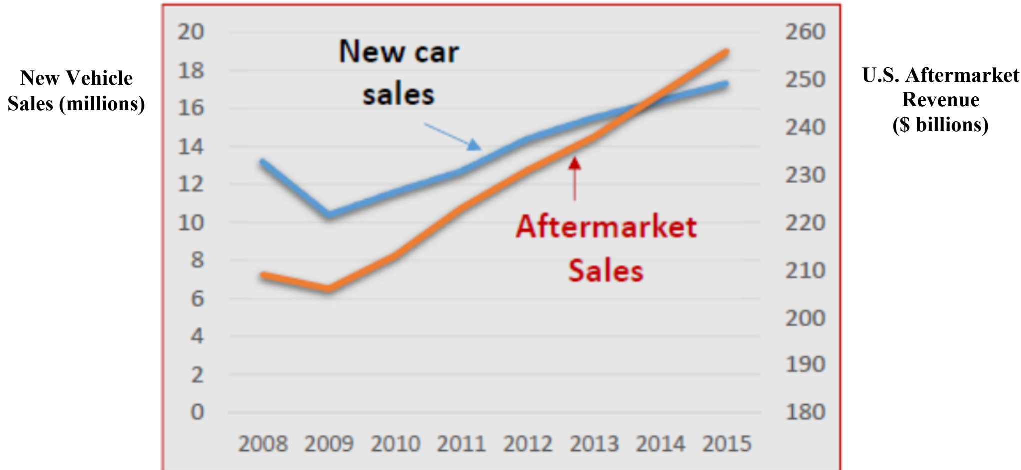
Source: U.S. DOT

OTHER AFTERMARKET FACTORS

Increasing New Vehicle Sales Does Not Slow Aftermarket

Contrary to popular belief, increasing new vehicle sales do not lead to a slower aftermarket. Rather, increasing new vehicle sales is indicative of broader economic growth and stronger consumer confidence, each of which are important for the aftermarket and reasons why total aftermarket spend has risen over the past six years.

Exhibit 10 US New Vehicle Sales vs. Aftermarket Revenue, 2008-2014

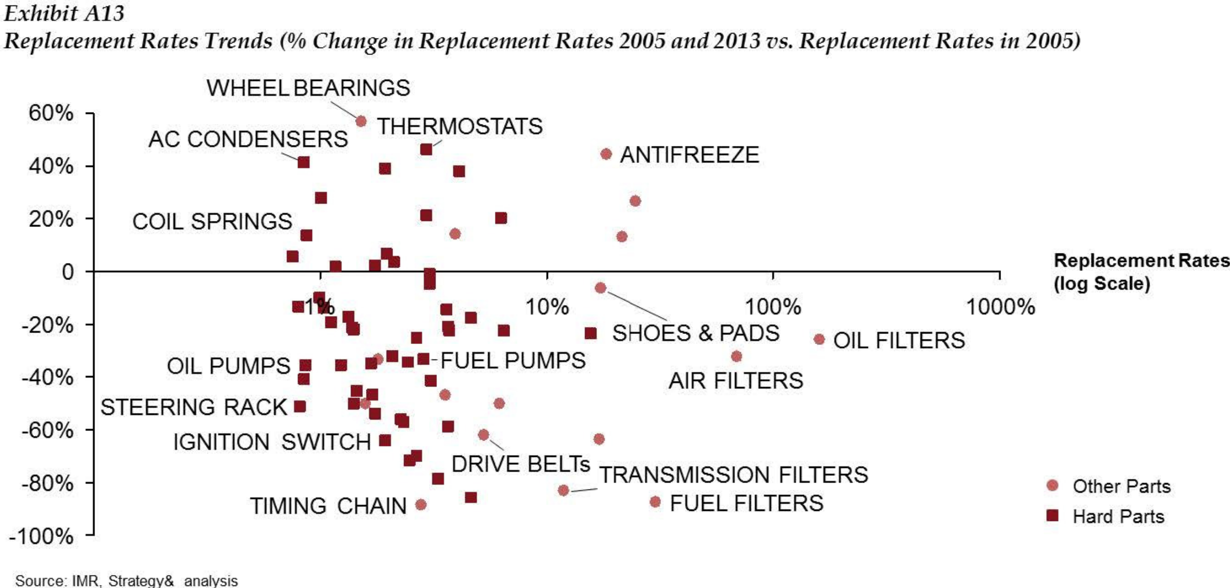


Source: AASA, MEMA

Parts Getting Better

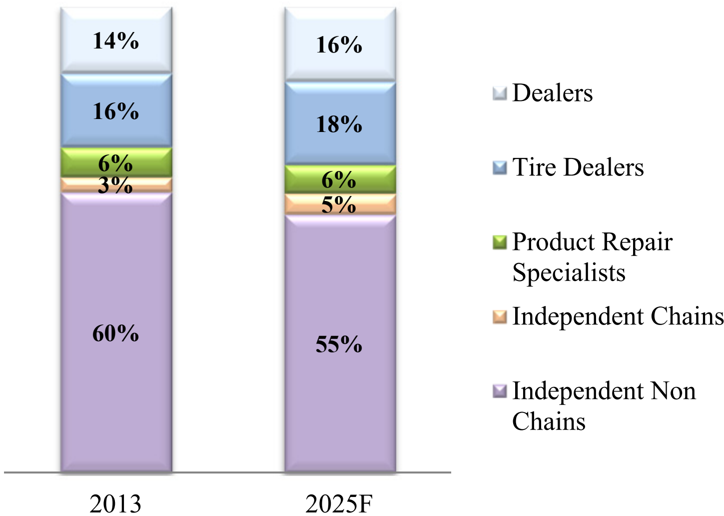
Exhibit 11 shows the replacement rate for a variety of typical automotive parts in 2013 relative to 2005. To put it simply, if a part appears below the X-axis, its replacement rates trends are declining (ie, parts are being made better and are taking longer to wear down). Optically, it is obvious that more parts fall below the line, meaning that replacement intervals for parts are elongating (and likely lengthening vehicle age). This is generally considered a net positive for the aftermarket given that the decline in some replacement rates is offset by more opportunities to replace consumables (filters, belts, etc.) as vehicles age. Further, extensions of replacement rates are often offset by an increase in quality or complexity of the part that drives price.

Exhibit 11 Aftermarket Parts Replacement Rates in 2013 vs. 2005



More Share Ahead for Dealers, Tire Shops at Expense of Independents

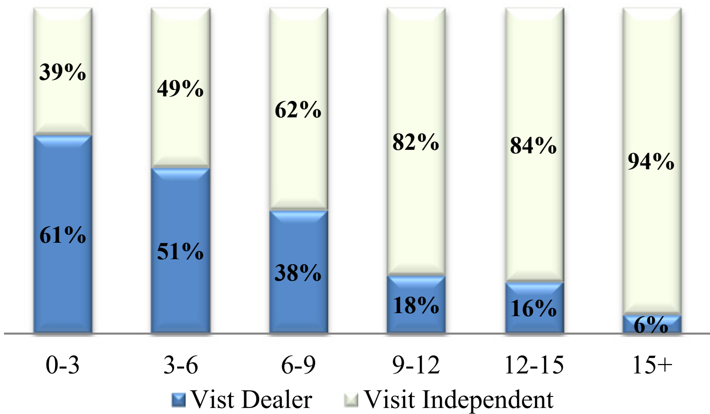
Exhibit 12 US Aftermarket Service Market Share



Source: AASA, MEMA

Over the next decade, AASA predicts that Auto Dealers, Tire Dealers, and Independent Chains will all eat away at market share from Independent-non Chain installers. This is due largely to Dealers and Tire Centers engaging in work such as oil changes as a means of driving bay traffic and giving mechanics an opportunity to diagnose potentially important maintenance. The use of telematics should further increase Dealer share gains as they receive information early on regarding preventative maintenance. According to the AASA, DIFM should take 4% market share through 2025 with 65% of the share gains attributed to OES. Further, complexity in parts is raising the cost of doing business, providing an advantage for larger organizations which have the diagnostic and tool capability to complete these jobs.

Exhibit 13 Consumer Aftermarket Service Preference



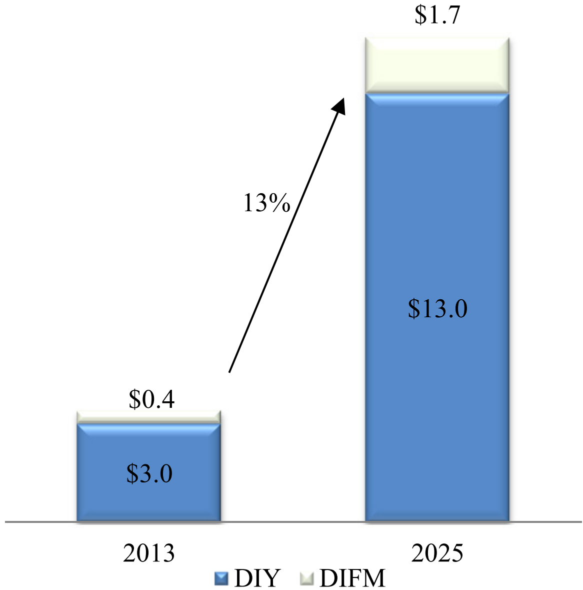
Source: AASA, MEMA

As illustrated in Exhibit 13, as vehicles age, owners are less likely to bring cars to dealers (blue, bottom) for service work. This is logical given 1) more work is covered by OE warranties earlier in the life of a vehicle and 2) owners of older cars tend to be more price sensitive and are more likely to look for lower cost work done by independent service chains. However, Dealers have revitalized their focus on those vehicles past warranty and plan to implement telematics and data to improve their share of this vehicle age group.

E-Tailing and the rise of Amazon

While widely topical, E-tailing within the auto aftermarket still constitutes low single digit share as a percentage of total sales. E-tailing growth is expected to outpace broader aftermarket growth by 4x over the next decade. Industry experts generally believe that the immediacy of parts needed by professional installers is likely to hinder e-tailing in the DIFM arena; however, Amazon recently announced a focus on this core demographic. While incumbent companies have noted service as another brick-and-mortar value add, the threat of Amazon's investment and encroachment in the space may pressure opportunity to capture share and increase competition in the future. In the near term, DIYers who consistently do their own maintenance on vehicles are more likely users of the internet as a parts source. Despite the 13% CAGR through 2025 expected by AASA, online sales will still constitute less than 7% of the aftermarket.

Exhibit 14 US Aftermarket E-tailing sales ($billions)

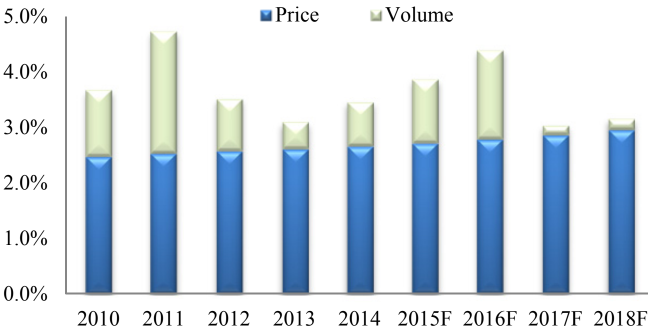


Source: AASA, MEMA

Sales Growth from Mix, While Unit Volume Flat

AASA notes that price has played a greater role in aftermarket growth over the past five years, as unit volumes have remained relatively flat (Exhibit 15, right). We would note that in this case, price is inclusive of mix, meaning that the growth that has come as a result of price has not been driven by inflation (which remains elusive) and instead by greater mix from hard parts, which are more expensive than maintenance items.

Exhibit 15 Volume and Price as Contributors to Overall Aftermarket Growth

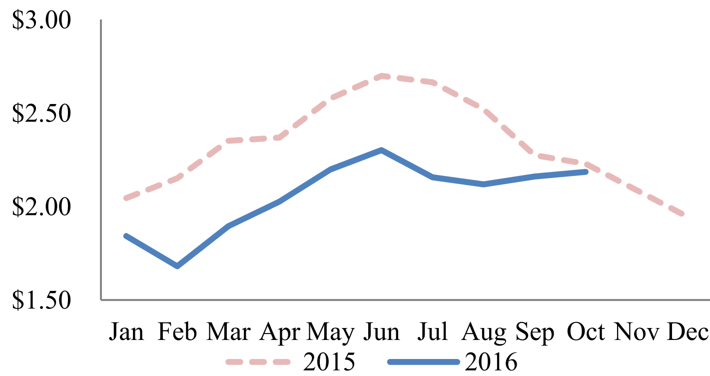


Source: AASA

Lower Gas Prices a Positive

Low gas prices of $2.15 are in line with prices of a year ago, but low on an absolute level relative to 2013-2014 (+$1.00 below 2014 levels). These low prices continue to benefit the aftermarket as vehicle owners do not have to pay the higher prices to get to work and thus, have discretionary income to potentially pay for repairs on their vehicles or take additional trips. Management teams have stated that historically a sharp increase in the gas price would affect the aftermarket, with prices in the mid-$3 dollar range having a more profound and extended impact.

Exhibit 16 U.S On Highway Gas Prices



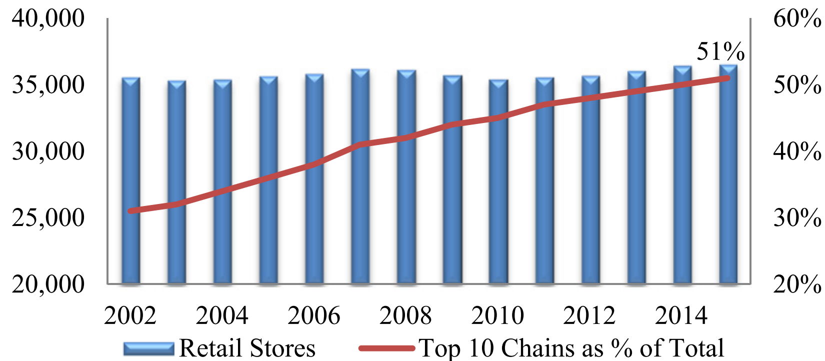
Source: EIA

Buying power in the hands of the Big Four: Great for retailers and a hindrance to suppliers
The consolidation of buying power has significantly altered aftermarket parts sourcing with the "Big 4" continuing to build out new locations. On their own, company-owned stores at AZO, ORLY, AAP, and NAPA (GPC) composed 45% of the parts stores in the U.S. Overall, the top ten aftermarket parts providers constitute 50% of U.S. parts stores, up from 31% in 2002 (Table 2). While the DIY market is highly consolidated, parts suppliers are still highly fragmented, with professional installers often looking to local jobbers to source parts.

Table 2 Top Ten Auto Parts as a % of Store Population

Top 10 Auto Parts Chains (stores-2015)	
1. AutoZone	(5,717)
2. Advance Auto Parts	(5,211)
3. O'Reilly	(4,660)
4. Genuine Parts/NAPA	(1,100)
5. Pep Boys	(803)
6. Fisher Auto Parts	(489)
7. Uni-Select US/Auto Parts Plus	(267)
8. Replacement Parts, Inc.	(160)
9. Auto-Wares	(158)
10. Automotive Parts Headquarters	

Note: AAP/NAPA/UNS company-owned only
Source: ORLY via AAIA Factbook



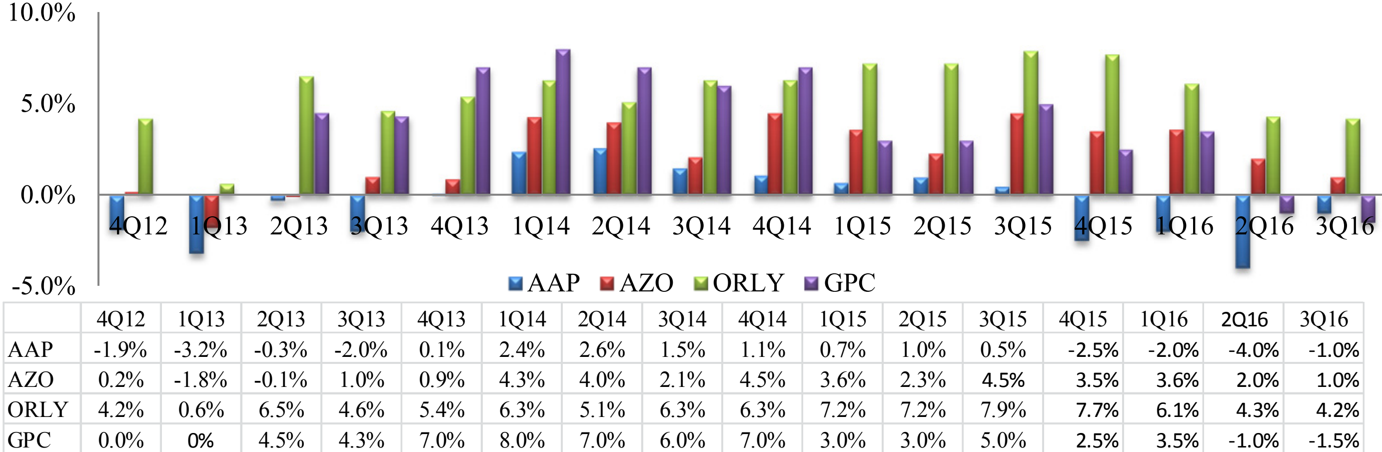
As a result of their market dominance, the "Big 4" have gained market power both extending payable terms and improving volume incentives (or lowering acquisition costs). As a result of this continued growth, the "Big-Four" are increasingly benefiting from volume rebates from vendors. Further, these companies are levering size advantages to extract extended payable terms from their supplier. Through a process referred to as reverse factoring, financial institutions provide suppliers with receivables financing backed by the strong credit rating of the retailer. During the current low interest rate environment, suppliers have used this inexpensive form of financing to extend terms and compete for clients while retailers have pushed AP/Inventory ratios above ~100% reducing net working capital and freeing up cash flow for investments and repurchases.

We are concerned about the long term implications for the supply base, particularly as aftermarket retailers continue to add distribution centers and SKUs in an arms race to gain market share and increase operating profit dollars. The stress, in our view, will become particularly acute once interest rates start to rise and borrowing costs by suppliers on their receivables increase concurrently.

Disruption at AAP may be improving

Industry disruption appears to have taken place in the time since AAP acquired General Parts (CARQUEST/WORLDPAC) on January 2, 2014. Over the last 12+ quarters, comps at GPC and especially, ORLY have significantly outpaced peers and AAP (we note since the conference, that AAP posted a -1% comp showing slight improvement QoQ). The disruption caused by the massive integration at AAP enabled ORLY to pick up share, especially in Florida due to DIFM attrition. However, due to operational changes, share gains may be more difficult for AAP's competitors going forward. Little was spoken about the warmer than average 2015-2016 winter which was most likely a cause for some deceleration in comps for AZO, AAP and NAPA over the last three quarters.

Exhibit 17 **Aftermarket Comp Store Growth last 16 quarters**



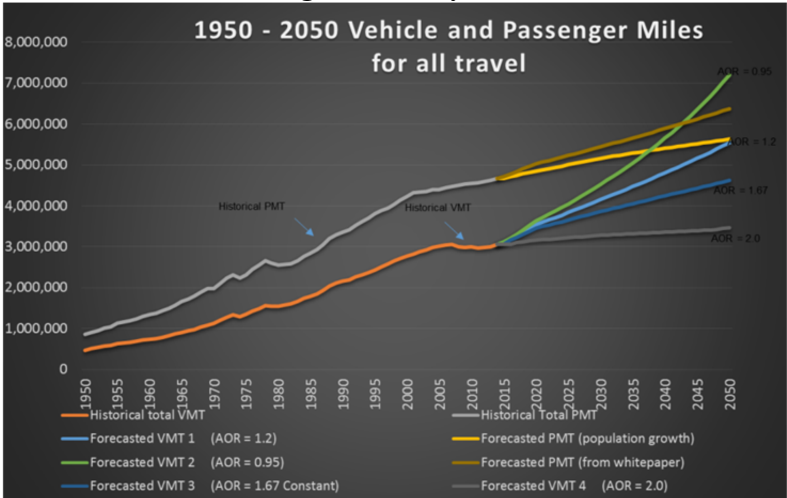
	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16
AAP	-1.9%	-3.2%	-0.3%	-2.0%	0.1%	2.4%	2.6%	1.5%	1.1%	0.7%	1.0%	0.5%	-2.5%	-2.0%	-4.0%	-1.0%
AZO	0.2%	-1.8%	-0.1%	1.0%	0.9%	4.3%	4.0%	2.1%	4.5%	3.6%	2.3%	4.5%	3.5%	3.6%	2.0%	1.0%
ORLY	4.2%	0.6%	6.5%	4.6%	5.4%	6.3%	5.1%	6.3%	6.3%	7.2%	7.2%	7.9%	7.7%	6.1%	4.3%	4.2%
GPC	0.0%	0%	4.5%	4.3%	7.0%	8.0%	7.0%	6.0%	7.0%	3.0%	3.0%	5.0%	2.5%	3.5%	-1.0%	-1.5%

Source: Company reports, Gabelli & Company estimates

Potential for miles driven to ramp up in the long term

The AASA laid out potential mobility and automated mega trends that may lead to an explosion in miles drive as vehicle riders are able to optimize the time that is spent within the vehicle. The upside scenario would imply an additional 3-4 trillion miles driven annually, relative to the current ~3 trillion driven now (Exhibit 18).

Exhibit 18 **Automation a long term catalyst for miles Driven**



Source: KPMG through MEMA

Further, the AASA outlined how a focus on safe (ADAS/automation), Green (Café/electrification), Connected (IoT/cybersecurity), and Mobility (data/usage patterns) have created profit opportunities for responsive suppliers. The new technologies should result in increased numbers of newly designed parts and many existing replacement parts will need to be redesigned. Thus, the trend towards more complex repairs will accelerate while prices should continue to be driven higher. While cybersecurity issues may lock out aftermarket parts due to OBD-II (on-board diagnostic standards) access restrictions, there are many future opportunities for the AASA to attain this business.

LIGHT VEHICLE MARKET OVERVIEW

Inventory and Incentives Drive 2016 Headlines

On the surface, US vehicle sales remained at an elevated pace throughout 2016, with drivers such as stronger employment, available credit, and an all-time record vehicle population age of 11.6 years driving demand to approximately 17.3 million this year.

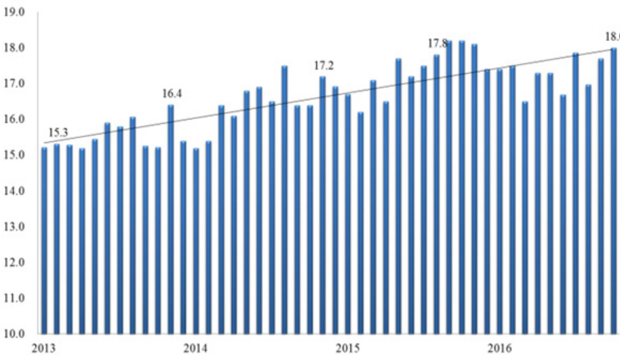
However, significant cracks in what would be regarded as a healthy supply/demand balance emerged early in the year and has plagued the industry throughout 2016.

- The rapid decline in gasoline prices during 2015 put the auto industry on its heels as 2016 began, with excess car inventory clogging dealer lots while the supply of CUVs, light trucks, and SUVs was too low.
- Sensing the ability to sell more highly profitable trucks and SUVs, OEMs increased production levels on high demand products. At the same time, their inability to react faster to cut production of weaker selling small and midsized sedans led to problems that have lasted in earnest throughout 2016. Only recently have dealers begun to see some degree of normalization.
- The excess demand led to increases in "Stair Step" incentives, by which dealers are compensated with bonuses based on volumes of vehicles sold, irrespective of gross profit per vehicle. These incentives tend to pull forward future demand and cause brand erosion.
- Further exacerbating nearly every issue was the continuation of Takata airbag inflator recall, which has now put over 60,000,000 cars and light trucks into a protocol by which parts will be made available at varying times over the next two years. Dealers are legally forbidden from retailing these units until they are fixed.

Vicious Cycle reemerges in 2016, leaving investors concerned about the future.

2016 did nothing to quell the negativity for a potential decline in the automotive cycle in the United States. The industry has steadily grown sales since March of 2009, making the recovery nearly 8 years old and among the longest on record. Exhibit 19 (right) shows US SAAR over the most recent four year period. This has had lead some investors to assume the market will naturally decline.

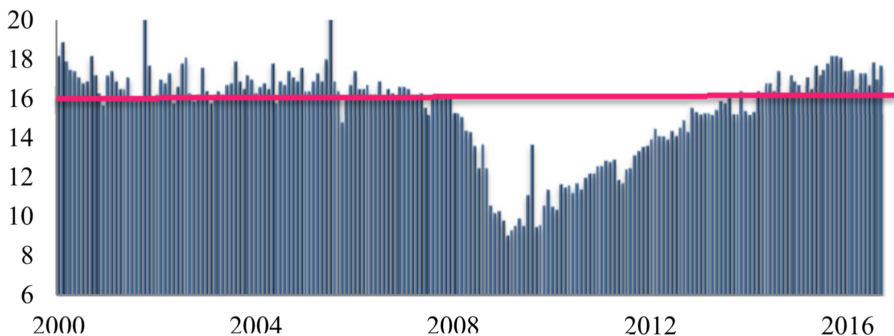
Ex. 19 U.S. Auto SAAR, 2013-2016 (millions)



Source: Automotive News, Gabelli & Company estimates

As noted below, there is precedent for vehicle demand to remain at an elevated rate for some time. Exhibit 20 shows US Light Vehicle SAAR for the period between 2000 and 2008. Demand generally stayed at or above the 16 million unit level (in red) for the entirety of the period (with similar behavior extending back well into the 1990s). We include this exhibit to provide some historical context that the broad declines in demand many expect for the light vehicle markets may be more benign in practice than anticipated.

Exhibit 20 US Light Vehicle SAAR, 2000-Present (millions)



Source: Ward's, Gabelli & Company estimates

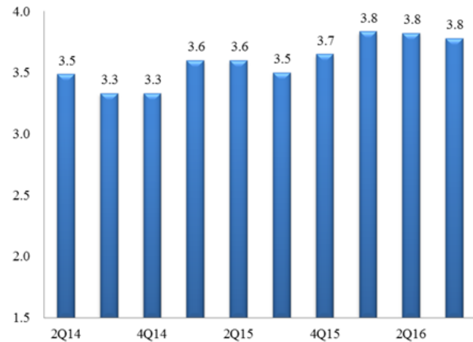
Below we examine two specific issues to watch as we head into 2017

Inventory Levels

Gross light vehicle inventory levels have remained elevated both on a gross and Days' Supply basis despite the increase in incentive levels by OEMs to move excess cars off dealer lots. While some improvement since the beginning of the year has been evident (Exhibit 21), we view production cuts (such as those announced by Ford on a variety of platforms) as more the norm in the coming months and see 2017 North American light vehicle production down in the context of a relatively flat demand environment. While the increase in light truck demand generally requires larger inventory levels to accommodate varying needs, we would be significantly less concerned regarding vehicles on hand in dealer lots in the 3.2.-3.3 million unit range.

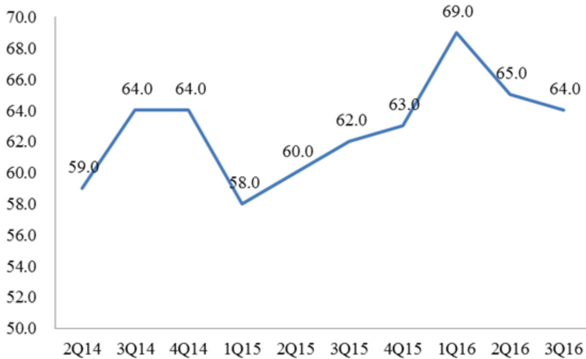
Exhibit 21 U.S. Dealer Inventory

(millions)



Source: Automotive News, Gabelli & Company estimates

Exhibit 22 Dealer Inventory Days' Supply

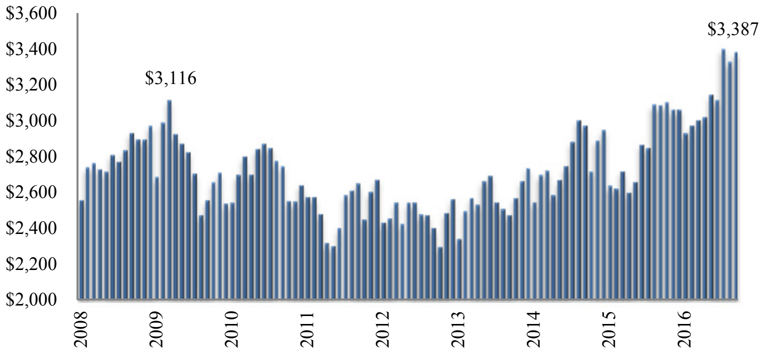


Source: Automotive News, Gabelli & Company estimates

Incentives

Of particular concern heading into 2017 are elevated incentive levels that have reached well above prior peak. While incentives as a percentage of ATPs have not risen at quite as rapid a rate due to higher average transaction prices and mix, the gross increase in incentives speaks to some degree of demand support by OEMs. While early commentary from OEMs in 2016 generally shrugged off increased incentive levels as short term tactical measures to more appropriately balance car and SUV mix, we have yet to see levels begin to recede to more healthy levels from 2015. Should a higher incentive level environment persist we would be more apt to conclude that demand was impaired and that the inevitable decline in new vehicle sales would be here sooner rather than later.

Exhibit 23 U.S. Average Light Vehicles Incentive Levels

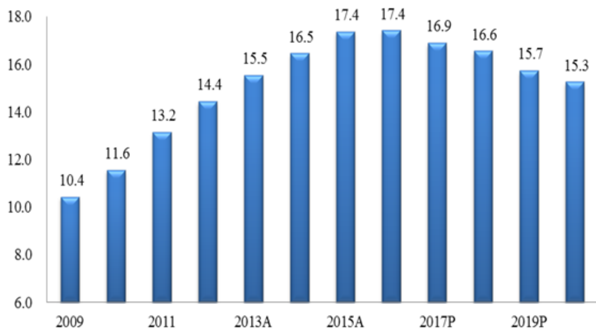


Source: TrueCar, Gabelli & Company estimates

Plateau Period Likely Over Next 3-4 years

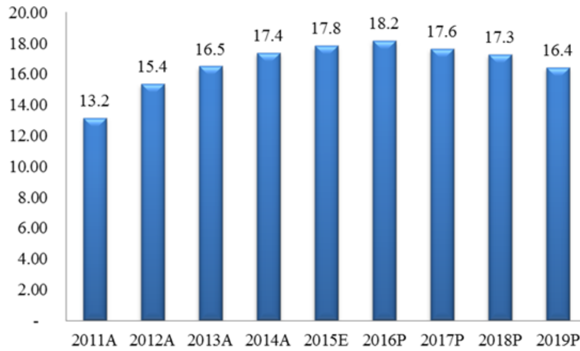
We expect demand for light vehicles in the United States will remain above the 16 million unit level for the next two years, with slightly softer sales as lower used vehicle prices and higher interest rates slowly conspire to reduce light vehicle sales. In general, however, we expect the environment to be supportive of solid profitability across the industry and especially at suppliers best exposed to crossover, SUV and light truck markets (such as Dana and Tenneco).

Exhibit 24 US Light Vehicle Sales
(millions)



Source: Ward's, Gabelli & Company estimates

Exhibit 25 North America LV Production
(millions)



Source: Ward's, Gabelli & Company estimates

AUTO DEALERS

Automotive retailing is the largest retail trade sector in the U.S., totaling $1 trillion in sales annually and historically comprising roughly 7% of GDP. Collectively, there are roughly 18,000 new vehicle dealerships in the United States. Despite a 37% contraction in the overall dealer population from a high of nearly 28,000 in 1980, auto retailing remains very much a fragmented industry. Currently, the top-ten dealer groups (including six publicly-traded dealers: AutoNation, Penske Automotive, Sonic Automotive, Group 1 Automotive, Asbury Automotive and Lithia Motors) contribute to less than 7% of overall new vehicle sales. Used vehicle retailing is even more fragmented, with approximately 38,500 independent used vehicle retailers operating nationwide. The precipitous decline in new vehicle sales and rising inventory financing costs in 2009 disproportionately hurt independent dealers that did not have the resources or scale to compete with larger, better capitalized publicly traded dealers. As the market has recovered over the last seven years, larger dealership groups have gained share through market attrition and selective M&A, ultimately emerging in a stronger and more defendable position. More recently, financial buyers including Berkshire Hathaway and a host of private equity firms have recognized the strong cash flows and attractiveness of the auto retailing business and have made acquisitions of major dealership groups.

Table 3 — Top Public Dealership Groups in the United States, 2015

Unit Rank		Total New Retail Units	Total Used Units	Total Fleet Units	Total Wholesale Units	Total Units	Dealerships	2015 Revenue ($000)
1	AutoNation Inc.	339,080	227,290	4,041	73,753	644,164	254	$ 20,862.0
2	Penske Automotive Group Inc.	233,524	198,459	7,220	84,556	523,759	263	$ 19,285.0
3	Group 1 Automotive Inc.	174,614	124,153	–	57,226	355,993	152	$ 10,632.5
4	Sonic Automotive Inc.	138,129	117,123	1,872	30,168	287,292	99	$ 9,624.3
5	Lithia Motors Inc.	137,486	99,109	3,389	38,167	278,151	137	$ 7,864.3
7	Asbury Automotive Group Inc.	105,981	82,589	–	–	188,570	84	$ 6,588.3

Source: Automotive News

AUTO DEALERS 101

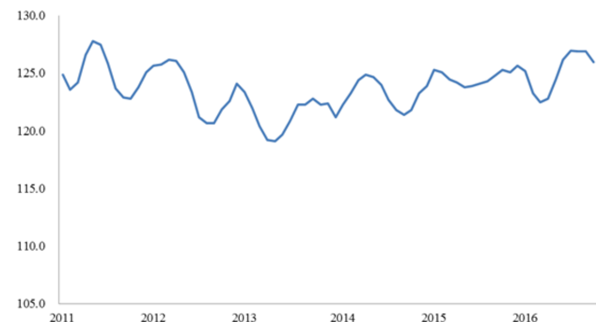
Auto dealers are diversified businesses that generate sales and profits from four distinct operating lines: new vehicle sales, used vehicle sales, service & parts, and finance & insurance. While new vehicle sales constitute the majority of an auto dealer's revenues, dealers rely heavily on the higher margin service & parts business to cover fixed costs and generate higher gross profit. Additionally, dealers benefit from a variable cost structure in which primary fixed costs are constituted by building maintenance, administrative overhead, and base advertising. A dealer's sales force is generally compensated via commission, helping maintain dealer profitability at low new vehicle sales levels by naturally reducing SG&A. To highlight this, AutoNation, Penske, and Lithia all reported positive EPS in 2009 and again in 2010 despite the largest percentage decline in new unit sales since World War II. These dealer groups have continued to profitably grow earnings over the last six years, though that trajectory flattened in 2016 given some of the mix and stair step dynamics highlighted earlier.

Below we highlight a dealer's four main operating businesses:

- **New Retail Sales (~55-60% of dealer revenues)** - New vehicle sales constitute the majority of an auto dealer's revenues but only a small portion of its operating income. Over the past decade, price competition from overserved markets, increased pricing transparency attributable to the Internet, and consumer expectations for extreme OEM incentive programs (such as "employee pricing") have all contributed to secular longer term margin compression in new sales. New vehicles gross margins contracted in 2016 given excess cxar supply that forced dealers to look to push cars off lots to free up cash.

- **Used Car Sales (20-25% of dealer revenues)** - Consumers typically trade in their current vehicle to offset the cost of purchasing a new car. Dealers then either sell the trade-in to the public or wholesale the vehicles at auction. Used vehicle sales generate higher profit margins than new vehicles, as dealers can more accurately assess market value than can consumers. With superior information, dealers can earn excess returns on both trade-in and eventual sale of a used car to a retail buyer. Used vehicle margins have come under pressure in 2015 as supply/demand normalization has caused some weakness in underlying used vehicle pricing. We expect this dynamic to continue over the next several years as vehicles sold in the recent (and strong) past come off leases or come up for trade.

Exhibit 26 Manheim Used Vehicle Price Index 2011-Present



1995 = 100
Source: Manheim Auctions

Exhibit 26 (right) depicts the Manheim used vehicle price index. The index provides an important gauge in determining when a potential recovery in auto sales may materialize (and when a potential decline may occur). As used car prices rise, the economic benefit of owning/buying a used vehicle over buying a new vehicle declines. Additionally, higher used vehicle prices increase new vehicle affordability by helping consumers lower payments as they receive more equity from the trade-in of their current vehicles.

For the majority of 2016, used vehicle prices, particularly those for Crossovers, Light Trucks, and SUVs, held up much better than original expectations heading into the year. Weakness thus far has been predominately been found in small and midsized sedans, driven largely by lower gas prices as well as the significant increase in smaller, low priced crossovers that provide higher utility to consumers than sedans.

Dealers can generally manage declining used vehicle prices as long as swings are not particularly violent, as sourcing costs decline along with the ultimate sale price. As long as employment stays steady, driving replacement demand, expected declines in used prices as more trade-ins come back to dealers can also be viewed positively, as the increased volume provides a high quality source of vehicles to retail, many with Certified Pre-Owned premiums.

- **Parts & Service (10-15% of revenues)** - A dealership's Parts & Service (P&S) division is the profit center of a dealership and arguably its most important component. Manufacturer warranty contracts permit consumers to have their vehicles serviced at no charge for a certain period of time (typically 3-5 years) after a vehicle is purchased. Dealers service the vehicle, then invoice the OEM for work performed. With gross margins of approximately 50%, a dealer's P&S division provides an important countercyclical business within a dealership. With market peak concerns at the top of investors' lists, it is important to remember that, during the 2008-2010 period, each publicly traded dealer reported positive EPS despite new vehicle sales falling to their lowest levels in thirty years.

  Looking ahead, public dealerships should all benefit tremendously from an increase in the population of 3-5 year old vehicles, as these cars repopulate dealership bays with cars requiring work falling under factory warranty. Increased OEM warranty length over the past decade has helped dealers increase P&S sales through regular maintenance service, such as oil changes and fluid work, thereby growing the segment's contribution to sales. In addition to warranty work, dealers have increased non-warranty service share from independent service shops in recent years by continuing customer relationships through oil change and other maintenance service plans sold earlier in vehicles lives. As noted before, newer model vehicles are increasingly more complex, including more electrical parts and highly engineered processes that require regular maintenance. Highly trained technicians and expensive equipment are often cost prohibitive for non-franchised local repair shops, redirecting consumers to dealers for repairs.

  Finally, we'd note that we expect dealers in 2017 to benefit from increased availability of parts for announced safety recalls, most notably those of Takata airbag inflators, that have kept a significant number of new and used vehicles from being resold and reconditioned.

- **Finance & Insurance (2-5% of dealer revenues)** – Dealers earn referral fees from third-party lenders that finance new or used vehicle purchases. The lender of choice is typically the captive finance subsidiary of the auto manufacturer whose vehicle is being sold, though banks and credit unions gained share in the 2008-2010 downturn as captives became more reticent to extend credit to near prime and subprime customers. Dealers are typically incented to push customers toward captive lenders, as they often receive volume bonuses for arranging financing. Predominately tied to new vehicle sales and pricing, F&I offers dealers a pure-profit sales add-on. Other F&I products, such as extended warranties and maintenance plans, are more often sold to customers of domestic or volume import brands. High lease penetration in premium vehicles, which typically carry more complete and longer, warranty coverage from OEMs, makes the products less attractive for luxury buyers.

  One interesting development that took place in 2016 was AutoNation's venture into company-specific branded F&I products, which thus far have had wide acceptance among AutoNation customers and illustrates one of the primary reasons by which the company set out the painful process of transforming local domestic and volume foreign dealers from their local name to the AutoNation brand.

Below, we examine dealer issues heading into 2017:

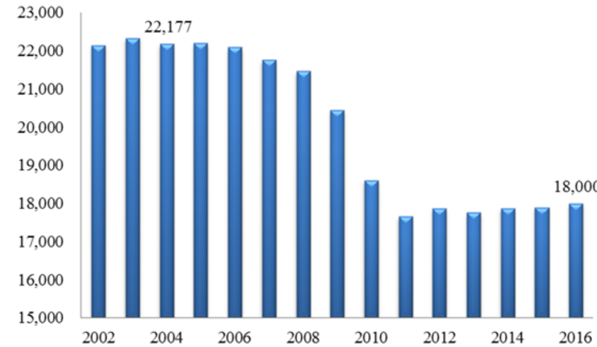
Year of the Takata Recall
In 2015, we termed OE Recalls as a "double edged sword" for dealer groups. In previous years, dealers have benefited from increased Parts & Service revenue and profit (not only do they invoice the OEM for the recall work but also get another look under the hood at other issues that the vehicles may have). Additionally, in some cases, recalls have enabled dealers to get customers back in their showrooms to see the latest models and the new technologies that have actually led to new car sales.

However, that balance was clearly negative this past year, with dealers encumbered with significant new and used inventory on hand that were part of Takata's 60+ million vehicle recall. Units that would otherwise have been reconditioned, retailed, or auctioned have sat on dealer lots, tying up cash in inventory and reducing profitability. Relief parts have begun to flow to dealers; however the market finds itself at least a year away from being totally done with the problem.

Similarly, the aforementioned benefits of recalls in typical periods are balanced against potential customer annoyance and brand deterioration if the recalls bump up against what customers perceive to be quality standards, particularly for safety. While Toyota and GM have emerged from substantial recalls in recent years largely unscathed, dealers must be cognizant that consumers can vote with their wallets and choose to shop elsewhere if they perceive that they have 1) bought an inferior product or 2) have been deceived by the OEM (VW).

Dealer Population Steady. Following a two decade period of decline, the US dealer population stabilized at roughly 18,000 in 2016, similar to that of prior years. While dealer consolidation is likely to continue, it is important to note that publicly traded dealers still constitute a very small portion of the overall market, making public-public M&A less likely than dealers buying smaller groups in contiguous geographies.

Exhibit 27 U.S. Auto Dealer Population



Source: Automotive News

AUTO SUPPLIERS

North America at Plateau; Global Market on the Rise

Presenting auto suppliers were quick to point out that their businesses were global by nature, with most of our attending companies not only having significant presence in Europe but also China, where expectations for the next ten years include the addition of at least 8 million incremental units to nearly 30 million. To put that in perspective, while regional growth may be slowing, broader expectations for the country has additional demand 1.5x the size of the entire annual demand of Japan.

Inventory vs. Incentives – Time to Pay Attention Again

Last year we called out the delicate balance between Inventory and Incentives as something to watch heading into 2016. Unfortunately, our fears proved correct as excess inventory levels cited earlier in the report led to necessary production cuts, most notably by Ford, over the back half of 2016. As mentioned above, dealer inventory declined by roughly 200,000 units to 3.6 million at the end of October, approximately 300,000 units more than we would like to see in a healthy demand environment (with lower incentive levels).

M&A & Financial Engineering continue

Large scale M&A in the supplier space continued in 2016 following ZF's acquisition of TRW in 2015. Most notable was the recent announcement that Samsung would be entering the automotive world in earnest through the acquisition of Harman. Elsewhere, IEP's cash bid of $9.25 per share for FDML remains outstanding, while AXL's purchase of MPG was met with significant investor skepticism. Finally, JCI spun its seating and interiors business (now called Adient) to shareholders following its merger with TYC. Other M&A has generally been smaller by nature, with suppliers focusing on adding adjacent technologies or filling in geographic holes to expand their reach.

ADAS and the Future of Autonomy and Automated Driving

We had the pleasure of hearing from Bridget Karlin, Intel's Managing Director of its Internet of Things (IoT) platform. Ms. Karlin spoke to both the revolutionary aspects of physical asset connectivity along with the evolution of how that technology gets adopted into future vehicles through Automated Driving. Over the next decade, improvements in vehicle safety through automated features such as automated braking and hands-free cruise control will grow in popularity. Already, OEMs are providing options for volume and domestic vehicle platforms that 2-3 years ago could only be found on premium brands.

Intel puts the total long term benefits from autonomous vehicles at $1.3 trillion, consisting of just under $500 billion in reductions to accident costs along with just over $500 billion in productivity gains from reduced traffic as well as time regained by consumers within vehicles by consumers who would otherwise be occupied driving. An additional $138 billion would be sourced from congestion productivity savings and another $158 billion from fuel cost savings.

Regarding automated driving, Intel was appropriately conservative (in our view) in cautioning attendees that while headlines regarding fully autonomous driving are seemingly omnipresent, the market would evolve over time to through increasing degrees of autonomy from SAE level 2 (Automated braking) to Level 3 (partial vehicle takeover) up to Level 4 (full driving; vehicle still has steering wheel) and eventual level 5 (no driver, no steering wheel).

Requirements to get to Level 5 include a more robust 5G connection, along with significant in-vehicle computing to enable decision making within milliseconds. More interesting and applicable in our view is the need for significant increases in Human Machine Interface (HMI). Regarding this dynamic, by 2020, car displays will require to 38 million pixels or the equivalent of 19 full HD Televisions.

COMMERCIAL TRUCK

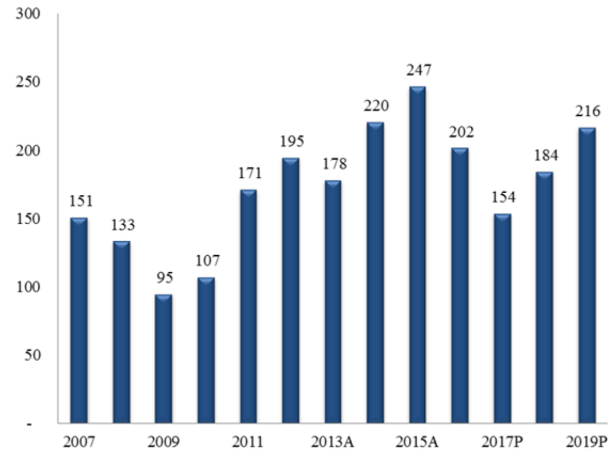
"You can't hurt yourself when you're sleeping on the floor"

Sluggish freight, excess fleet capacity and dealer inventory, coupled with OEM overproduction have all contributed to a significant decline in the North American commercial truck market in 2016. After significant sales years in 2014 and 2015, the industry was ill-prepared for the downturn, leading

Looking ahead, presenters such as Rush Enterprises were less than optimistic that a Class 8 market recovery was on the horizon. Very simply, in the absence of a major improvement in broader economic conditions, market demand was insufficient absorb the number of 4-5 year old used trucks entering typical trade-in age. As a result, declines in used truck prices are likely to persist throughout 2017 and well into 2018. Certain pockets of the Class 8 Severe Service market may hold up better to a degree (Refuse & Waste Disposal as an example); however the core On-Highway truck market is likely to remain pressured over the next 18 months.

Exhibit 28 U.S. Class 8 Truck Sales 2007-2019P

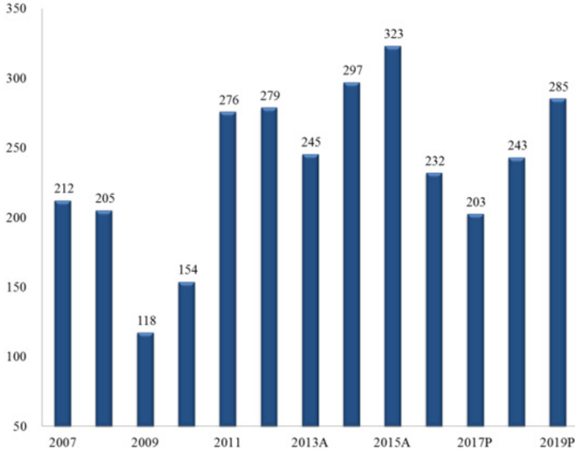
(in thousands)



Source: Ward's, Gabelli & Company estimates

Exhibit 29 NA Class 8 Truck Production 2007-2019P

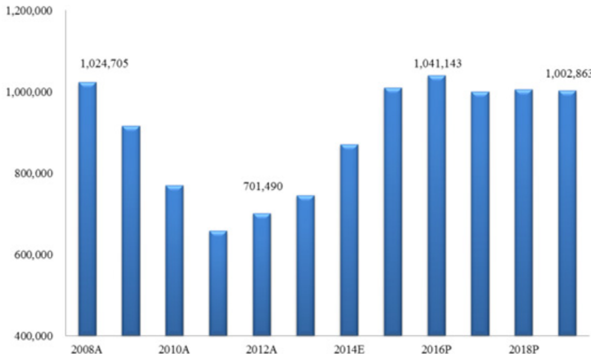
(in thousands)



Source: Ward's, Gabelli & Company estimates

We currently model US Class 8 truck sales of 154,000 for 2016 vs. 202,000 in 2015, down from the recent 2015 peak of 247,000. Softness continues into 2018 (though up off lows) before rebounding in 2019. With inventories more closely in line with demand, North American production will mirror sales. From a production standpoint, we see Class 8 builds at just over 200,000 next year before rebounding somewhat in 2018.

Exhibit 30 U.S. Class 8 Pop. 5 Years and Younger



Source: Ward's, Gabelli & Company estimates

For the Medium Duty Class 4-7 market, 2017 should resemble this past year, with slight growth as the impacts of oil and gas-related sales subside and the industry likely benefits from continued economic strength as well as the potential for incremental infrastructure investments in 2017 and beyond.

2016 SYMPOSIUM PARTICIPANTS

ORIGINAL EQUIPMENT SUPPLIERS

	Autoliv, Inc.	Dana, Inc.	Lear Corporation	Tenneco Inc.	Superior Industries International
	(ALV- NYSE)	(DAN - NYSE)	(LEA - NYSE)	(TEN - NYSE)	(SUP - NYSE)
CAPITALIZATION:					
(in millions, except per share data)					
Balance Sheet as of:	30-Sep-16	30-Sep-16	1-Oct-16	30-Sep-16	30-Sep-16
Common Shares	88.2	147.9	71.2	55.6	25.4
Convertibles	-	0.9	-	-	-
Options (a)	0.2	0.4	-	-	0.1
Fully Diluted Shares	88.4	149.2	71.2	55.6	25.5
Market Price (b)	$ 99.87	$ 15.10	$ 128.68	$ 54.62	$ 27.33
Equity Market Capitalization	**9,095.4**	**2,524.7**	**9,162.0**	**3,312.1**	**646.3**
Debt	1,544.8	1,665.0	1,948.6	1,296.0	-
Convertible Debt & Preferred	-	-	-	-	-
Pension & Other liability	140.5	331.5	318.5	195.0	16.6
Minority Interest	-	95.0	-	-	-
Cash and Equivalents	(1,182.6)	(853.0)	(1,341.6)	(337.6)	(36.6)
Other Assets	-	-	-	-	-
TOTAL ENTERPRISE VALUE	**$ 9,598.1**	**$ 3,763.2**	**$ 10,087.5**	**$ 4,465.5**	**$ 626.3**
Total Cap / '16E EBITDA	**7.7**	**5.7**	**5.4**	**5.3**	**7.8**
Price / 2016E Earnings	**15.5**	**9.7**	**9.7**	**10.4**	**24.1**

(a) Uses Treasury Method

Source: Company Data, Gabelli & Company estimates

AUTO DEALERS

	AutoNation, Inc.	Penske Automotive Group, Inc.
	(AN - NYSE)	(PAG - NYSE)
CAPITALIZATION:		
(in millions, except per share data)		
Balance Sheet as of:	30-Sep-16	30-Sep-16
Common Shares	101.2	85.2
Convertibles	-	-
Options (a)	0.1	-
Fully Diluted Shares	101.3	85.2
Market Price (b)	$ 44.64	$ 49.00
Equity Market Capitalization	**4,520.3**	**4,174.8**
Debt	2,757.8	1,877.6
Convertible Debt & Preferred	-	-
Pension & Other liability	-	-
Minority Interest	-	3.5
Cash and Equivalents	(62.2)	(89.4)
Other Assets	-	(809.0)
TOTAL ENTERPRISE VALUE	**$ 7,215.9**	**$ 5,157.5**
Total Cap / '16E EBITDA	**7.8**	**7.1**
Price / 2016E Earnings	**10.9**	**11.5**

(a) Uses Treasury Method

Source: Company Data, Gabelli & Company estimates

SERVICE PROVIDERS

	Monro Muffler Brake, Inc.
	(MNRO - NASDAQ)
CAPITALIZATION:	
(in millions, except per share data)	
Balance Sheet as of:	30-Sep-16
Common Shares	33.3
Convertibles	-
Options (a)	0.3
Fully Diluted Shares	31.3
Market Price (b)	$ 57.40
Equity Market Capitalization	**1,797.9**
	-
Debt	197.5
Convertible Debt & Preferred	186.1
Pension & Other liability	-
Minority Interest	-
Cash and Equivalents	(7.2)
Other Assets	
TOTAL ENTERPRISE VALUE	**$ 2,346.2**
Total Cap / '15E EBITDA	**13.8**
Price / 2015E Earnings	**28.6**

(a) Uses Treasury Method

Source: Company Data, Gabelli & Company estimates

AFTERMARKET RETAIL AND DISTRIBUTION

	AutoZone Inc.	Genuine Parts Co.	O'Reilly Automotive Inc.	Uni-Select	U.S. Auto Parts
	(AZO - NYSE)	(GPC - NYSE)	(ORLY - NASDAQ)	(UNS-TO)	(PRTS- NASDAQ)
CAPITALIZATION:					
(in millions, except per share data)					
Balance Sheet as of:	29-Aug-16	30-Sep-16	30-Sep-16	30-Sep-16	30-Sep-16
Common Shares	30.7	148.7	94.7	42.2	35.0
Convertibles	-	-	-	-	-
Options (a)	0.7	0.8	1.8	0.1	0.2
Fully Diluted Shares	31.3	149.5	31.3	31.3	35.2
Market Price (b)	$ 746.27	$ 97.05	$ 273.88	$ 30.60	$ 3.11
Equity Market Capitalization	**23,374.6**	**14,511.5**	**8,578.4**	**958.5**	**109.5**
	-	-	-	-	-
Debt	2,757.8	775.0	1,886.5	203.4	-
Convertible Debt & Preferred	-	-	-	-	-
Pension & Other liability	-	131.4	-	-	-
Minority Interest	-	13.1	-	-	1.0
Cash and Equivalents	(62.2)	(225.2)	(560.3)	(27.6)	(7.5)
Other Assets					
TOTAL ENTERPRISE VALUE	**$ 27,562.1**	**$ 15,205.8**	**$ 27,847.5**	**$ 1,460.1**	**$ 103.0**
Total Cap / '16E EBITDA	**11.6**	**10.9**	**14.6**	**13.5**	**12.9**
Price / 2016E Earnings	**19.5**	**21.1**	**11.3**	**11.0**	**62.2**

(a) Uses Treasury Method

Source: Company Data, Gabelli & Company estimates

COMMERCIAL TRUCK

	Clarcor Inc.	Dana, Inc.	Donaldson Company Inc.	Navistar International Corporation	Rush Enterprises, Inc.
	(CLC - NYSE)	(DAN - NYSE)	(DCI - NYSE)	(NAV - NYSE)	(RUSHB - NASDAQ)
CAPITALIZATION:					
(in millions, except per share data)					
Balance Sheet as of:	31-Aug-16	30-Sep-16	30-Jul-16	31-Jul-16	30-Sep-16
Common Shares	48.6	147.9	132.7	81.6	39.9
Convertibles	-	0.9	-	-	-
Options (a)	0.4	0.4	1.2	-	-
Fully Diluted Shares	49.0	149.2	133.8	81.6	39.9
Market Price (b)	$ 69.60	$ 15.10	$ 39.99	$ 23.00	$ 23.26
Equity Market Capitalization	**3,411.4**	**2,524.7**	**5,352.4**	**2,406.9**	**913.1**
Debt	318.0	1,665.0	568.5	2,566.0	114.2
Convertible Debt & Preferred	-	-	-	565.0	-
Pension & Other liability	19.3	331.5	12.2	1,948.7	-
Minority Interest	-	95.0	-	7.0	-
Cash and Equivalents	(119.8)	(853.0)	(243.2)	(640.0)	(91.7)
Other Assets	-	-	-	(587.0)	-
TOTAL ENTERPRISE VALUE	**$ 3,628.9**	**$ 3,763.2**	**$ 5,689.9**	**$ 6,266.6**	**$ 935.6**
Total Cap / '16E EBITDA	**14.5**	**5.7**	**15.8**	**13.1**	**7.2**
Price / 2016E Earnings	**26.8**	**9.7**	**26.5**	**NM**	**23.3**

(a) Uses Treasury Method

Source: Company Data, Gabelli & Company estimates

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Autoliv (ALV - $103.93 - NYSE) Electronics Lead Next Decade

Year	EPS	P/E	PMV				
2018P	$ 8.07	15.0 x	NA	Dividend:	$ 2.32		Current Return: 2.2%
2017P	7.15	14.5	NA	Shares O/S:	88 million		
2016E	6.80	15.3	NA	52 Week Range:	$ 129.37	-	$ 93.31
2015A	7.24	14.4	NA				

Source: Bloomberg Consensus Estimates

COMPANY OVERVIEW

Autoliv is the world's leading supplier of automotive occupant safety restraint. Autoliv offers a broad range of products, including modules and components for passenger and driver-side airbags, side-impact airbag protection systems, seatbelts, steering wheels, safety seats and other safety systems and products. Active safety products include automotive radars, night driving assist, camera-based vision systems, active seatbelts and brake controls.

HIGHLIGHTS

- When asked about the potential for long term recall risk similar to that which currently affects Takata, the company noted the decision made in the late 1990s by management to use a different propellant than Ammonium Nitrate. Additionally, any purchase of Takata outside of a bankruptcy process was unlikely as ALV noted disinterest in the significant product liabilities that still cannot be completely quantified. We would expect consideration for a post-bankruptcy purchase to be far likelier.

- ALV has clearly taken advantage of its beleaguered competitor’s woes, having recently won up to 50% of contracts up for award. ALV believes it needs a 3-4 year period of similar performance for those market share gains to be considered more permanent in nature.

- Replacement Inflators. Autoliv has stepped in to help fill the void of replacement inflators worldwide. Currently, ALV sees the total replacement market at 30 million units, however, this figure could grow as further recalls are announced. About 15 million units were delivered in 2015 and 2016 apiece with expectations for 10 million in 2017, after which delivery needs for remaining vehicles drop.

- ALV views Electronics and Active safety as a growing part of their company for years to come. As a result, increased R&D spend should be expected to pressure margins until scale can be achieved in 2-3 years. Current Electrical segment operating margins of 1-3% are expected to grow to 8-9% by 2019, putting a significant opportunity ahead for earnings growth in this relatively young segment. Much of the growth will come from Automatic Electric Braking (AEB) as more OEMs adopt the new technology and regulatory agencies require the componentry.

- Autonomous Cockpit impact. Autoliv expects to be an integral partner with automakers in the move to autonomy as airbags will need to be reengineered for driverless vehicles that will no longer have steering wheels and will include cockpits where seating arrangements are nontraditional. Regardless of future changes, passive safety components will still be required to protect occupants in the event of a crash.

- ALV agrees that the runway to full autonomy will take some time, and that system integration with both safety components and broader vehicle integration will be among the most important drivers to reach Level 5 vehicle availability.

- Autoliv also named key potential areas for M&A focus, including Vehicle to Vehicle (V2V) and Vehicle to Infrastructure (V2X) communications. ALV made its first foray into the latter with its recent acquisition of MACOM. With technology changing so frequently, the company also noted the importance of not moving too early into a technology in case the industry moves in a different direction, and having enough dry powder to be able to buy into winners as adoption becomes clearer.

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AutoNation (AN - $44.64 - NYSE) — 2017 Sets Up With Easy Comps - Buy

Year	EPS	P/E	PMV			
2018P	$ 4.90	9.1 x	$ 70	Dividend:	None	Current Return: Nil
2017P	4.45	10.0	61	Shares O/S:	101 million	
2016E	4.10	10.9	56	52 Week Range:	$64.71 - $ 40.45	
2015A	3.98	11.2	55			

COMPANY OVERVIEW

AutoNation, Inc. is America's largest automotive retailer. Headquartered in Fort Lauderdale, FL., AutoNation employs approximately 19,000 people at 371 new vehicle franchises. The company sells 35 different brands of new vehicles, with 95% of vehicles sold represented by Toyota, Ford, Honda, Nissan, GM, Mercedes, BMW, Chrysler, and Volkswagen.

HIGHLIGHTS

- Last year, we highlighted that, at the time of our conference, AutoNation saw “no dark clouds” on the horizon with respect to the overall buying market. However, over the course of the next three months, small problems got large in a very quick way: OE overproduction, coupled with car/SUV mix issues led to severe inventory overhangs. Additionally, softness in the company’s energy-related markets, in particular Texas, led to weaker than anticipated sales.
- Stair step incentive behavior by OEMs has persisted throughout 2016, with participants such as Ford, Nissan, and Fiat Chrysler maintaining the practice throughout 3Q. We were pleased to hear more of Ford’s decision to fully pull away from Stair Steps, and though FCAU went unnamed, the company seems to at least accept their plans to wean off Stair Steps into 2017. Nissan remains the notable holdout, no doubt in part due to the automaker’s heavy reliance on sedans relative to utilities and light trucks.
- Looking into 2017, a number of issues that AutoNation faced either do not repeat or lessen from a headwind perspective. For example, the company’s heavy exposure (25%) to Texas will likely be less of a hurdle in 2017 given what is likely to be a market that does not decline 20% as Texas it early this year. Additionally, parts for the significant amount of Takata-related recalls are likely to begin flowing to dealers, providing AutoNation some relief for both its used car retail and Parts and Service divisions. Third, the aforementioned pressure on gross margin from stair steps should be less than it was in 2016 should automakers hold firm on moving away from the practice. Finally, car/utility/truck mix should be more in balance in 2017, in particularly in the first half of the year, leading to easier year over year comparisons from a gross profit per unit perspective.
- AutoNation’s heavy investment over the past three years to move all non-luxury vehicles to the AutoNation brand was necessary for the company to launch AutoNationUSA, its used car superstore platform. Starting with one store in early 2017, the company expects to roll out up to five per year for the next several years in markets where AN already has brand awareness. Total capital expenditures for the rollout are expected to be $500 million, spread over several years.
- Similarly, that brand awareness has allowed the company to introduce both AutoNation branded service parts as well as branding Finance and Insurance products that have had strong take rates thus far with consumers. AutoNation stands out as the only dealer capable of successfully accomplishing this endeavor given that dealers are typically known by traditional local names, while all non-luxury franchises are branded AutoNation.

INVESTOR RECOMMENDATION - BUY

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AutoZone, Inc. (AZO - $790.24 - NYSE) Distribution is Key - Buy

FYE 8/31	EPS	P/E	PMV			
2019P	$ 55.05	14.4 x	$ 1,064	Dividend:	None	Current Return: Nil
2018P	50.00	15.8	972	Shares O/S:	31	million
2017P	45.25	17.5	890	52 Week Range:	$819.54	- $681.01
2016A	40.80	19.4	809			

COMPANY OVERVIEW

AutoZone, Inc., headquartered in Memphis, TN, is the largest specialty retailer of automotive parts and accessories in the United States. The company sells to both the DIY (Do-It-Yourself) and DIFM (Do-It-For-Me) markets. As of August 27, 2016, the company operated 5,297 stores in the United States and Puerto Rico, 483 in Mexico, and 8 in Brazil.

HIGHLIGHTS

- AZO has generated annual revenue growth of 6% over the last ten years regardless of the underlying economic cycles and continues to expect to do so. Management stated that no regions (across the US, Mexico and Brazil) are saturated at this point and AZO can continue to expand in all these markets The company continues to return 30% on invested capital while the free cash that is generated from mid-single digit EBITDA growth (and 23% margin) further accelerates EPS growth through continued buyback.

- AZO will continue spending in the order of 1) infrastructure and store upkeep, 2) new stores (~200/year) and 3) share repurchases.

- AZO holds the #1 market share of the $54 billion DIY segment, but only comprises 3% of the DIFM segment. DIFM remains AZO's fastest growing segment, doubling revenue to +$2 billion in the last few years. Thus, this segment remains a focus given growth potential and greater market fragmentation.

- AZO's 'Yes, We've Got It' initiative includes two goals: more mega hubs for improved coverage and more frequent deliveries. Currently operating out of 11 Mega Hubs (100,000 SKUs vs a Hub store that has 40-50,000 SKUs) the company plans to build an additional 29, improving coverage of satellite stores. The company is also increasing the frequency in deliveries due to the fact that of these SKUs, 70% have one item on the shelf, implying that a single part may be out of store often.

- Amazon. Management outlined the many reasons that a customer would enter the store rather than shopping online including: alternator, battery, light bulb, wiper blade testing and installation, identification of vehicle issues, understanding a check engine light, loan-a-tool programs and others. Further the company noted that many customers will enter the store with an old part to ensure they get the right part. Management also noted that the company has always competed against lower priced competitors such as Walmart and US AutoParts (online), however, their value proposition has remained strong.

- AZO has increased focus on digital integration**.** The AllData software, sold as a subscription model, provides repair diagnostics for garages, while AutoAnything, acquired in 2012, is an online retailer of accessory and consumer parts. The company is further working on an improved integrated CRM and rewards program.

- ~50% of business is private label with continued opportunity to expand mix through the Duralast program. The private label business offers control over manufacturing, sourcing and pricing of the product.

- As of yet, the company has not seen any changes in the competitive dynamics since the acquisition of PepBoys and integration of FDML.

INVESTOR RECOMMENDATION - BUY

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Axalta Coating Systems Ltd (AXTA - $26.51 - NYSE) New Capital Allocation - Buy

Year	EPS	P/E	PMV			
2018P	$ 1.55	17.1 x	$ 38	Dividend:	None	Current Return: Nil
2017P	1.45	18.3	32	Shares O/S:	246	million
2016E	1.10	24.1	26	52 Week Range:	$ 30.45 -	$ 20.67
2015A	1.00	26.5	24			

COMPANY OVERVIEW

Axalta Coating Systems (AXTA), headquartered in Philadelphia, PA, is a global manufacturer, marketer and distributor of high-performance coatings and holds the #1 position in the core automotive refinish market and #2 position in the Light Vehicle coatings market. AXTA is organized into four end-markets: Refinish ($1.7 billion), Industrial ($0.7 billion), Light Vehicle ($1.3 billion) and Commercial Vehicle ($0.4 billion).

HIGHLIGHTS

- AXTA generates 70% of revenue outside of North America and plans to expand products and distribution into underserved geographies, especially in the emerging markets.

- The business is difficult to replicate. Other than the fact a company would need to invest in 30,000 unique SKUs, distribution and service is a large part of the value add. For both the Auto Refinish and OEM end markets, efficiently painting a vehicle is key to strong operating results. Refinishers have to be efficient to ensure that insurance business continues. Further, AXTA trains painters in AXTA-specific courses; it takes as long as ten years for a tech to get to a higher skilled position of painting and to help reduce the bottleneck of the body shop. Similarly, on the OE side, technicians are employed in factories to manage the process.

- Both painters and products have to adapt to new car technology, including different substrates and surfaces, which gets priced into the can of paint. Importantly, price increases are easy to pass through in the Refinish segment.

- AXTA's scale in the automotive market enables them to allocate $160 million in annual CapEx, keeping them in the forefront of technology. That spend also enables them to access the many fragmented body shops in any given region. Out of the $138 million in CapEx, of 3.4% of sales, only 1.3% of that is maintenance CapEx.

- Now that Carlyle has sold out of AXTA, the company is open for a change in capital allocation priorities. While Carlyle would not have been interested in a dividend/share repurchase program or large impactful M&A due to a focus on a different debt reduction goal, the company is working on a new capital plan.

- AXTA plans to drive margins closer to peer averages. For example, PPG's Performance segment posted 14.9% EBIT in 2015 while AXTA posted 11.5% (excluding adjustments), providing opportunity for operational efficiencies. At this point, the company sees few impediments to achieving these higher margins, unless there is a plan devised to expand growth into lower margin business.

- Debt pay down is a priority. At ~3.3x the company plans to pay down debt to 2.5-3.0x by the end of 2017 with free cash flow opportunities in M&A. The company is looking for high IRR bolt-on M&A deals completed in core end markets.

- While peer coatings companies announced raw material increases that led to margin pressure, Axalta's results did not have to be revised. The company is 50% of COGS come from variable raw material inputs. Further, the company will reduce ~$60 million in costs in 2016 and expects to reduce another $50 million in 2017.

INVESTOR RECOMMENDATION - BUY

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Cooper Tire & Rubber, Inc. (CTB - $39.25 - NYSE) Well Positioned for Tariffs

Year	EPS	P/E	PMV			
2018P	$ 4.27	9.2 x	NA	Dividend:	$ 0.42	Current Return: 1.1%
2017P	4.10	9.6	NA	Shares O/S:	55 million	
2016E	4.35	9.0	NA	52 Week Range:	$ 42.57 - $ 29.29	
2015A	3.69	10.6	NA			

Source: Bloomberg Consensus Estimates

COMPANY OVERVIEW

Cooper Tire and Rubber Company, headquartered in Findlay, OH is a leading manufacturer and marketer of replacement tires. It is the fifth-largest tire manufacturer in North America and the twelfth-largest tire company in the world based on sales. Cooper specializes in passenger car and light truck tires, while also selling medium truck, motorcycle and racing tires.

HIGHLIGHTS

- CTB is the fifth-largest tire company in the United States and the twelfth-largest worldwide with a primary focus on the North American tire replacement market. Over the last ten years, CTB has expanded its production footprint into Mexico, the UK, Serbia and China.

- Currently operating out of one plant in China, CTB recently announced the closure of a 65% JV in China. The Chinese market is forecasted to grow by 7.5% over the next five years, potentially growing into the largest tire market in the world by 2017-18. In addition to volume growth, China is transitioning towards higher value-add products. Globally, the company is forecasting modest growth in the US and Western Europe over the next five years.

- Going forward, CTB will selectively pursue OE business which will help drive higher technology products, open up new avenues of distribution and help create brand awareness. While OE will never become a large portion of CTB's North American market, it is critical to Chinese growth. As the Chinese consumer shops for a replacement tire, they are 4x more likely than an American consumer to demand the original OE tire. CTB is currently partnering with 10 different automakers in China and is on 29 different platforms.

- CTB grew operating margin by over 300 bps from 2014 to 2015. One of the key reasons is the company's mix transition from lower priced entry level tires to higher value-add performance tires. Further the company is focused on moving away from private label brands tires towards Cooper propriety branded tires. Thus, going forward, while the top line is expected to remain flat, margins should continue to expand. The long term plan is to generate revenues of $5-6 billion and operating profit margin north of 10%.

- The tariffs imposed on Chinese-manufactured tires in 2015 did reduce the number of imports into the US as tires from other countries filled that demand. However, the prices were higher for those tire sold in the US. TBR tariffs (truck and bus) are preliminary and will be finalized early next year. CTB estimates that the tariffs will be ~50%; however there is not enough capacity in the US or outside of outside to fill current demand indicating continued supply of Chinese truck tires while the price adjusts upwards. Currently, CTB believes they are picking up share in the TBR segment (a higher margin business).

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Dana, Inc. (DAN - $16.91 - NYSE) — M&A on the Way - Buy

Year	EPS	P/E	PMV			
2018P	$ 2.10	8.1 x	$ 25	Dividend:	$ 0.24	Current Return: 1.4%
2017P	1.95	8.7	23	Shares O/S:	149 million	
2016E	1.75	9.7	21	52 Week Range:	$ 17.54 - $ 9.80	
2015A	1.74	9.7	19			

COMPANY OVERVIEW

Dana, Inc, based in Maumee, OH, is a world leader in the supply of driveline products (axles and driveshafts), power technologies (sealing and thermal-management products), and genuine service parts for light and heavy vehicle manufacturers. The company's customer base includes virtually every major vehicle manufacturer in the global automotive, commercial vehicle, and off-highway markets. Dana currently employs approximately 22,600 people and operates nearly 90 major facilities in 25 countries, supporting end customers in more than 125 countries.

HIGHLIGHTS

- CFO Jonathan Collins spoke to the differences between Dana and his former company, IAC, with the latter being predominately a rollup of a number of different interiors businesses in an industry in need of vast consolidation. Already, however, Dana has been active under Collins and new CEO Jim Kamsickas in finding deals such as the recently announced Brevini Off Highway acquisition. We would expect similar opportunistic M&A to be a hallmark of new management, which has a history in both growth through M&A and successful business integration thereafter.

- Over the past five years, Dana has lost $1 billion in sales simply from FX impacts. These currency headwinds have muted what has been a successful operating improvement story, particularly in the company's Off Highway division – a division where profit margins have expanded despite considerable end market pressure on top of a negative currency impacts.

- The company's Brazilian business continues to hover around breakeven despite end-market depression and volumes 50% below what is considered "normal." Over the next three years, Dana should enjoy considerable incremental profitability as volumes recovery.

- Dana's North American end market exposure is heavily weighted towards utility and light truck markets, where cyclicality is generally less severe than that experienced by the broader industry. Additionally, expectations for continued benign energy prices speak to opportunity for share gains by these vehicles at the expense of sedans.

- Dana's well documented supply chain issues that led to some lost Paccar business in 2015 and 2016 have not only been addressed but have helped the company redouble its efforts to become more customer-focused – a factor most recently addressed at the company's analyst day. By breaking down barriers between Light Vehicle, On-Highway, and Off-Highway segments, Dana's sees opportunities to ensure customer satisfaction as well as potential lead to cross selling opportunities.

- Capital allocation opportunities may shift somewhat away from share buyback (Dana has repurchased the equivalent of 74 million shares in common and preferred stock over the past five years). M&A is likely to become more important (see Brevini), but investors should not expect the company to get "deal fever."

INVESTOR RECOMMENDATION - BUY

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Donaldson Company, Inc. (DCI - $40.03 - NYSE) Looking for Deals - Hold

FYE 7/31	EPS	P/E		PMV			
2019P	$ 1.80	22.2	x $	39	Dividend:	$ 0.70	Current Return: 1.7%
2018P	1.65	24.3		36	Shares O/S:	134	million
2017E	1.55	25.8		33	52 Week Range:	$ 40.96	- $ 25.21
2016A	1.51	26.5		31			

COMPANY OVERVIEW

Donaldson Company, based in Minneapolis, MN, is a global manufacturer of worldwide filtration systems and replacement parts. The company's products include air and liquid filtration systems and exhaust and emission control products. Donaldson has two reporting segments: Engine Products and Industrial Products.

HIGHLIGHTS

- Donaldson has become more acquisitive under CEO Tod Carpenter. DCI continues to look to make 2-3 smaller bolt-on type acquisitions per year. Valuations generally remain above where DCI is willing to pay, but the company is optimistic about completing smaller deals. CEO Carpenter has noted that acquisitions are once again a major piece of DCI's growth strategies.

- CEO Tod Carpenter stated that no more than 10% of revenue in any given year will be acquired. In light of our pipeline discussion, where he said there are few filtration acquisitions over $100 million and the majority lies below $50 million, this growth expectation seems very reasonable. When looking at acquisitions, DCI requires deals to be accretive by the second year and have a 15% ROI by year five.

- While first fit filters demand for agricultural equipment remains weak, aftermarket volumes are still solid. DCI noted that aftermarket revenue accounts for roughly 35% of its off-highway engine filtration business, with first fit agricultural filters under 10%.

- Donaldson has undertaken a number of restructuring actions in order to manage costs in light of weak end markets. DCI expects to achieve ~$30 million of annualized savings by cutting corporate staff, as well as making cuts to factories to geographical areas that are under pressure.

- DCI noted that recent declines in defense spending have been offset by increases in orders related to commercial aircraft.

- Donaldson remains guarded around their China market view. While the company sees some stabilization, they are careful to suggest the overall end market has begun to recover. The impact for the company should be relatively low, as local market share across all end markets remains below 10%

- When looking for signs of a recovery, DCI looks for predictability on ordering patterns. Currently, DCI is seeing that from the OE side of its Engine business in small pockets, and is waiting for increased vehicle utilization to drive stabilization for the aftermarket before calling that markets have bottomed.

INVESTOR RECOMMENDATION - HOLD

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Genuine Parts Co., Inc. (GPC - $96.55 - NYSE) Won't Wait for Cold Weather - Hold

Year	EPS	P/E	PMV			
2018P	$ 5.25	18.4 x	$ 108	Dividend:	$ 2.63	Current Return: 2.7%
2017P	5.00	19.3	102	Shares O/S:	150	million
2016E	4.60	21.0	95	52 Week Range:	$105.97	- $76.50
2015A	4.62	20.9	96			

COMPANY OVERVIEW

Genuine Parts Company, located in Atlanta, Georgia, is a premier North American distributor of "consumables" such as automobile replacement parts, industrial bearings, mechanical power components, and other supplies, office products, and electrical and electronic components and replacement parts. The auto parts business encompasses a network of warehouses and jobber stores under the NAPA brand and is the company's largest and best-known operating segment.

HIGHLIGHTS

- Genuine Parts has a different relationship with AMZN than its peers. On the one hand, NAPA competes with the internet retailer for predominately DIY customers for auto parts such as wipers, filters, and other maintenance and discretionary items. On the other hand, SP Richards acts as a customer of Amazon as they help fulfill office products orders for online users.
- GPC sees its 2016 results as similar to dynamics last seen in 2012, in which a mild winter and early spring were followed by a very cold and snowy winter that helped propel comps into the mid-single digits the following year. With that said, the company "can't sit back and hope for cold weather" and has been opportunistically purchasing businesses in each of its 4 segments to best position the company for future performance.
- Working capital continues to present an opportunity for cash conversion at GPC. The company has already done an outstanding job improving its Inventory/Payables ratio but also sees opportunities to invest in supply chain and inventory management to reduce its own asset needs going forward.
- NAPA sees declines in the scrappage rate to provide a surge in 12+ year old cars over the next several years. This should help soften the blow of upcoming declines in the 8-11 year old car population - the portion of the car parc that had generally been considered the "sweet spot" for automotive aftermarket part and service providers.
- Energy market activity for both automotive and industrial distribution businesses continues to lag other geographies. Of note for Motion Industries is that GPC has seen some "stabilization" implying that YoY declines have not gotten worse but are still down relative to a year ago.
- GPC expects to invest in Import Car parts coverage as the car parc slowly becomes more import-centric. While GPC expects that business to grow on its own, investors should not be surprised to see import parts coverage as a target for M&A.
- DIY store refreshes are showing considerable improvement, with positive results leading to less than a two year cash payback on the roughly $50,000 in investment required for a store upgrade.
- GPC reminded investors that 3% growth is generally required to cover increasing costs, and that the business has been largely able to accomplish this despite nearly zero inflation in Auto.
- M&A in Office Products is likely to continue as GPC moves to diversify SP Richards away from core office supplies- a business that, while it will never go away, continues to face significant secular headwinds relative to other areas of growth such as breakroom and Jan/San (where the company has acquired four businesses in the last year).

INVESTOR RECOMMENDATION - HOLD

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Lear Corporation (LEA - $128.06 - NYSE) Double Fisted Strength

Year	EPS	P/E	PMV			
2018P	$ 15.08	8.5 x	NA	Dividend:	$ 1.20	Current Return: 0.9%
2017P	14.61	8.8	NA	Shares O/S:	71 million	
2016E	13.68	9.4	NA	52 Week Range:	$ 130.59 - $93.54	
2015A	10.84	11.9	NA			

Source: Bloomberg Consensus Estimates

COMPANY OVERVIEW

Lear Corporation, based in Southfield, MI, is a leading Tier 1 global supplier of seating assemblies and electrical distribution systems for the automotive industry. Lear provides content on approximately 300 vehicle nameplates worldwide, counting every major global auto OEM as a customer.

HIGHLIGHTS

- Lear views its core seating business as well positioned for future success given recent innovations in both vehicle utility (movable second and third rows) along with increased safety features (active safety vibration) as making the seat more of a factor in consumer buying decisions. Longer term, Lear sees the “intelligent” seating to drive content growth by capturing information regarding the occupant, including the example of vital signs in the context of the crash.
- Regarding M&A, Lear will likely continue to look within its Electronics division to next generation technology to drive growth. Recent acquisitions such as Autonet Mobile speak to the company’s desire to run end to end data through both software and wiring technologies. Given that upcoming acquisitions will likely be smaller by nature, the company sees no pieces as truly missing or necessary to ensure further success. Lear finished its statement by noting that it sees investment in itself, either through continued R&D growth or share repurchases with shares at 5x EBITDA as the best use of capital for investors. At 1.1x EBITDA, Lear sees up to $900 million available for tuck-ins before it hits its comfort range of 1.5x.
- Lear sees no major issues with the North American macro environment, with OEMs adjusting production to demand both on an absolute and mix basis. Continued consumer preference away from sedans and towards CUVs is a net positive for the company as utility vehicles require more second row mobility and provide higher content opportunities to Lear.
- Looking ahead, the company sees seating content growth of up to 5% on average, with premium covers and surface materials joining upcoming innovation in speaker technology, etching and active safety to provide sales opportunities for Lear in the context of a flat demand environment.
- 48V adoption by OEMs is another upcoming positive, as the increased electric power provides a low cost way for automakers to provide OEMs with continued vehicle performance without gas usage. 48V technology is likely to become more prominent as hybrid technologies continue to be adopted in cars (Stop-Start as an example).
- Further, vehicle connectivity will require Lear Electrical and Electronic systems as the car becomes more similar to a phone for system updates away from the dealer. This movement will require technology that provides information security and data continuity- capabilities Lear will have due to recent acquisitions.
- Regarding eventual autonomy, Lear views the days of full “pod” autonomy as far away, but that content is likely to stay incremental every year.
- Lear views its own stock as undervalued. With shares at just over 5x EBITDA, it believes the cash flow and profit characteristics of its seating business deserve an industry premium to the 6x multiple area. Further, its fast growing (and already highly profitable) Electronics business would likely command a multiple above 8x in a private transaction. All told, this speaks to a blended multiple in the mid-6x range, giving shares margin of safety (according to the company).
- Lear continues to believe it can continue to gain share within seating from JCI-Spin Adient, noting that as a pure play automotive company it never had to fight for company capital the way Adient has for the past several years. Lear thus implied that it sees itself as considerably ahead of its competitor from a tech and product standpoint.

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Monro Muffler Brake, Inc. (MNRO - $57.90 - NASDAQ) Reversal Potential - Hold

FYE 3/31	EPS	P/E	PMV			
2018P	$ 2.70	25.2 x	77	Dividend:	$ 0.68	Current Return: 1.2%
2017P	2.30	25.2	69	Shares O/S:	34 million	
2016E	2.05	28.2	60	52 Week Range:	$ 77.00 - $ 52.05	
2015A	2.00	28.9	60			

COMPANY OVERVIEW

Monro Muffler Brake, headquartered in Rochester, NY, is the largest chain of company-operated undercar care facilities in the United States, operating 1,003 stores in twenty-four states. The company operates in the $196 billion "Do-It-For-Me" (DIFM) segment of the $257 billion U.S. Automotive aftermarket industry.

HIGHLIGHTS

- MNRO will continue to grow its tire store footprint. Tire stores generate lower gross margin, but actual profit dollars are similar due to the higher revenue per store.
- MNRO reiterated its five-year operating plan, calling for 15% average annual top-line growth (10% acquisitions, 2-3% comps, 2-3% Greenfield). The company has used recent acquisitions to fill out the current footprint and penetrate the Southeast, while continuing to expect to drive acquired store operating margins by 800-1500 bps. The current pipeline of NDAs continues to be strong, with similar sizes to those of recent acquisitions. Acquisitions have been increasing tire units by 25% annually, reducing costs going forward.
- Regarding acquired stores, MNRO can gain 500-1000 bps of operating margin improvement through lower cost of goods due to scale and sourcing. It attains stronger margins by staying within its own procurement system relative to buying from large retailers where it would pay double the price. Each store can see the inventory of the surrounding 14 stores, improving the probability of finding a part internally as well.
- Management stated that 2015-2020 estimates vehicles aged 6 or older to grow by 9%, adding about 200 bps of comp traffic over the next five years. Additional pricing opportunities result in 2-3% comps.
- While dealers are attempting to use telematics to compete on the first replacement tire on a vehicle, MNRO continues to offer better service and value. The company has more convenient hours and due to the high costs of running a dealership, dealers have difficult competing on price.
- Next year contracts on oil will expire, providing a benefit in the form of lower oil costs in addition to the aforementioned tire costs.
- The warmer winter had a negative effect on comps. 90% of MNRO's base is located in the Mid-Atlantic, North and Great Lakes, those areas most affected by short-term weather issues. However, acquisitions added about 14% to sales growth, resulting in an increase of ~10% to more Southern regions.
- They would consider buying from Amazon if parts could be delivered within 30-45 minutes on a reliable schedule.
- Falling costs did offset the benefit of the higher tariff pricing of tires. MNRO had previously shifted the majority of purchasing from China to other parts of Asia to negate the tariffs.
- Monro bought the Car-X brand in May 2015 and its 130 franchise operation in the attempt to drive royalties. Further, the company acts as an exit opportunity for current franchise owners, enabling MNRO to transfer the company's underlying operating benefits.

INVESTOR RECOMMENDATION - HOLD

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Motorcar Parts of America (MPAA - $25.29 - NASDAQ) Old Cars are Good Cars

FYE 3/31	EPS	P/E	PMV			
2018P	$ 2.63	9.6 x	NA	Dividend:	None	Current Return: Nil
2017P	2.34	10.8	NA	Shares O/S:	19	million
2016E	1.46	17.3	NA	52 Week Range:	$ 40.60 - $ 21.75	
2015A	1.00	25.3	NA			

Source: Bloomberg Consensus Estimates

COMPANY OVERVIEW

Torrance, CA-based Motorcar Parts of America, Inc. is a leading manufacturer, remanufacturer, and distributor of rotating electrical parts including alternators and starters. As a result of recent acquisitions MPAA has expanded its product line to include remanufactured undercar components such as steering components, brakes, clutches and wheel hubs. MPAA sells its products predominantly in North America to the largest auto parts retail and traditional warehouse chains and to major automobile manufacturers for both its aftermarket programs and its warranty replacement programs.

HIGHLIGHTS

- MPAA believes that end markets for rotating electrical, wheel hubs, and master cylinders offer an $8 billion opportunity.

- MPAA has a global footprint with seven manufacturing and distribution facilities across low-cost regions allowing them to deliver competitive pricing. It has also adopted lean manufacturing in everything it does to eliminate waste and reduce costs as retailers maintain pricing power.

- Management is focused on deploying capital through four key initiatives: launching new products, looking for synergistic acquisitions, finding ways of being more important to its customers and growing double-digit sales. It believes there is room to gain additional sales from existing customers in both current and new products and are not currently looking to expand internationally into Europe.

- The 12+ year old category has higher replacement rates and is growing so retailers and distributors have to ensure parts coverage. As long as vehicles 12 plus years old continue to grow, the few years of low sales growth from 2009-2011 should have minimal effect.

- MPAA has been investing in technology that includes laser quality and radar quality along with control systems. Additionally, it will be introducing systems that help educate the consumer about the right tooling and equipment and enable them to browse web with certainty.

- With regard to online retailing, MPAA believes online remains a much tougher environment for selling remanufactured parts, and will continue to favor Brick & Mortar stores.

- Low scrap metal prices are hurting MPAA, given that as metal prices fall, prices for new units decline relative to the price and time at which MPAA purchases a core.

- Despite industry consolidation, most recently culminating with Icahn Enterprises' 2015 acquisition of PBY, MPAA maintains that it is industry "agnostic," selling to all players in line with industry market share.

- Turbochargers have been one of the major tools that OEMs have used in order to bring vehicles emissions in line with regulations, with 25% of cars now having turbos. This opens a new market for MPAA, with Turbos typically failing 1-1.5x on average over the life of a vehicle.

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Navistar International Inc. (NAV - $29.52 - NYSE) Color on VW Collaboration - Buy

FYE 10/31	EPS	P/E	PMV				
2018PF	$ 1.90	15.5 x	$ 30	Dividend:	None	Current Return:	Nil
2017PF	1.35	21.9	17	Shares O/S:	82 million		
2016E	0.20	147.6	5	52 Week Range:	$ 31.50 - $ 5.78		
2015A	(2.10)	NA	-				

COMPANY OVERVIEW

Navistar International Corp., based in Warrenville, IL, manufactures Class 4-8 trucks, buses, and defense vehicles, as well as mid-range diesel engines and parts for the trucking industry. A wholly-owned subsidiary, Navistar Financial Corporation, provides financing of products sold by the company's truck segment.

HIGHLIGHTS

- Navistar's recent strategic alliance and equity injection announcement with Volkswagen was borne of the company's long term ability to have the capital to both stay competitive in a difficult North American Class 8 environment as well as meet coming environmental regulations in the years ahead. History between the two companies is extensive, as Navistar's 13L engine was originally licensed from VW-owned MAN. With VW Truck and Bus CEO Andreas Renschler highly interested in the purchasing synergies offered by adding NAV as well as the ability for VW to stake a flag in the North American market, the partnership made sense for both parties. NAV views the agreement as a critical next step in better consideration for its much-improved trucks.

- The initial and most obvious benefit to NAV will be the $256 million cash injection by VW, which will allow the company to stay confident in its ability to meet operating needs despite expectations for significant Class 8 softness to continue into 2016.

- The NAV/VW purchasing joint venture will be housed in Lisle at NAV HQ. Together, the combined entity creates the second largest truck company in the world, with benefits from the purchasing JV accretive in its first twelve months in existence inclusive of the dilution of the VW stake.

- Longer term, the companies' technology agreement revolves around powertrain but is not inclusive simply of engine arrangements. NAV offers a similar outlook to VW regarding open architecture telematics for the connected trucks of the future, with VW already in some areas where NAV is not.

- When asked as to whether there was some expectation of an increased stake or full takeover by VW, NAV simply noted "all options are on the table."

- In the near term, NAV sees its core end markets as "yucky," with tepid demand for new trucks exacerbated by used truck softness on an increasing number of truck trade-ins. Small and medium fleets find themselves slightly healthier from an equipment perspective than do larger operators. However, until book values decline in such a way as to better match current market residuals, replacement demand is likely to remain soft.

- On a positive note, NAV was very positive on the medium duty market, where the active population is beginning to age rapidly and broader macroeconomic drivers remain relatively positive.

- By the end of this year, NAV sees nearly all trucks with MaxxForce engines as out of factory warranty, with 35-40,000 trucks still in some sort of extended warranty. That population declines dramatically over the next two years.

- The company's GM JV begins initial production of a cutaway van this February, helping fill important capacity in its Springfield plant. In 2018, the company will produce a branded Chevy and International version of a Class 4/5 truck for a market in which NAV does not currently have a product.

- Regarding the balance sheet, Navistar views its 2018 convertible note as the next important issue to address, with another convert coming due in 2019. One positive note is that, should interest rates rise over the next several years, the company should see its Pension Benefit Obligation decline given fairly significant interest rate sensitivity.

INVESTOR RECOMMENDATION - BUY

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O'Reilly Automotive, Inc. (ORLY - $275.39 - NASDAQ) Regional Expansion - Buy

Year	EPS	P/E	PMV			
2018P	$ 14.05	19.6 x	$ 342	Dividend:	None	Current Return: Nil
2017P	12.35	22.3	302	Shares O/S:	95 million	
2016E	10.75	25.6	263	52 Week Range:	$ 292.84 - $ 225.12	
2015A	9.20	29.9	231			

COMPANY OVERVIEW

O'Reilly Automotive, Inc., headquartered in Springfield, MO, is one of the largest specialty retailers of automotive aftermarket parts, tools, supplies, equipment and accessories in the United States. The company sells to both the DIY (Do-It-Yourself) and DIFM (Do-It-For-Me) markets. As of September 30, 2015, O'Reilly operated 4,712 stores in 43 states.

HIGHLIGHTS

- An average comps YTD of 5% on top of 7.5% YoY is the best in the business (AAP averaged down 50 bps YTD and AZO up 2.5% for their FY'16). Management stated that the company's dual distribution model, large distribution base, and longstanding service culture is difficult to replicate. Throughout the last quarter, the company posted steady comps and continued to do that through October.

- ORLY has opportunities to increase share in the West Coast, Northeast and in Florida. ORLY entered Florida in the middle of the state, achieving large share gains, but can expand north. Years after acquiring into the West Coast, opportunity to accelerate DIFM business remains given the elongated relationship-based cycle of the business. The company's recent acquisition of Bond Auto, the seventeenth-largest auto parts chain in America, will enable the company to make inroads in the Northeast. We do note that management did mention that the majority of less-profitable family businesses have been driven out of business, reducing future bolt-on store acquisitions.

- ORLY continues to like private label business as it provides control over the product that goes into the box and limits the potential for a brand to be sold to a competitor.

- While Amazon is considered a threat, there have been many other retailers such as PRTS, Rock Auto, and E-Bay Motors that have been offering similar services for years and similar to AZO's comments, service is a strong value add for ORLY's current customer base. Appearance (dress your car up) and performance (take part off, put shinier part on) categories that are planned in advance often already utilize these other options. However, ORLY's customers want same day availability (35-40 minute delivery times) and multiple deliveries per day. On the DIY side of the business, a customer can bring a part back and receive money or credit, receive service on resolving an issue they can't understand, and can return to work quicker if their car has broken down.

- While gas prices are a proxy for "miles driven on cars outside of warranty," the real issue would be if gas prices were to rise sharply. The bigger factor, according to management, is actually the economy and employment.

- Managing inventory has clearly become more complex over the years due to the proliferation of SKUs; however, ORLY performs better than peers due to heavy investment in a network of physical locations and systems.

- Last quarter SG&A was up 12 bps due to lower leverage (relative to 7.9% comp) and healthcare and credit card costs. The increase in SG&A per stores was mostly due to store payroll. Management stated that SG&A investments to take share seem to work for them given their relative comps.

- While a price aggregator would be a technological update, most DIY customers act as their own price aggregators. "If your prices are different, you will lose the sale."

INVESTOR RECOMMENDATION - BUY

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Penske Automotive Group, Inc. (PAG - $49.19 - NYSE) CV M&A on Way - Hold

Year	EPS	P/E	PMV			
2018P	$ 4.70	10.5 x	$ 58	Dividend:	$ 1.16	Current Return: 2.4%
2017P	4.25	11.6	51	Shares O/S:	85 million	
2016E	3.95	12.5	47	52 Week Range:	$50.63 - $29.29	
2015A	3.70	13.3	50			

COMPANY OVERVIEW

Penske Automotive Group, headquartered in Bloomfield Hills, MI, is the second-largest automotive retailer in the United States. The company sells new and previously owned vehicles, finance and insurance products, replacement parts, and offers maintenance and repair services on all brands it represents. Penske has 163 franchises in nineteen states and 186 franchises outside the United States, primarily in the United Kingdom. The company also owns and operates retail commercial truck dealerships in the US and Commercial Vehicles distributors in Australia and New Zealand. Penske franchises represent 40 different brands and 30 collision repair centers.

HIGHLIGHTS

- Penske's move to use free cash flow to enter and expand non-US auto opportunities (Commercial truck dealerships, increased Western European luxury auto presence, and most recently its increase in its PTL ownership) all speak to the strategic decision made by the company to diversify as well as to find opportunities to make acquisitions at multiples substantially lower than those for available premium luxury dealerships in the United States. For example, US truck dealer multiples were 30% lower than potential auto purchases, while requiring significantly less capital expenditures to maintain and providing a much higher percentage of gross profit from Parts & Service (70% vs. 45%).

- Penske now stands as Freightliner's third-largest dealership group in the US. The company described the long history between Roger Penske and Daimler dating back to when Daimler bought Detroit Diesel from Penske in 2000. PAG sees the truck business as similar to that within auto, and believes many best practices learned from its car dealers can translate well for

- While investor focus for dealership groups tends to center on the health of the new vehicle market, Penske sees tremendous opportunities to expand its used vehicle sales presence, particularly given the size of the used market (>40 million units/year) and the rise in off-lease vehicles that will soon populate the secondary market.

- PAG saw GE's desire to dispose of non-core assets as an opportunity to increase its ownership of PTL, which provides both dividends as well as a pro rate share of the tax losses that PTL generates from the accelerated depreciation of its trucks. All-in, the purchase provides roughly a 30-35% cash on cash investment return as well as an incremental $0.25 in EPS on a business that is generally more stable than auto or truck retailing.

- Thus far, PAG has not seen softness in Class 8 volumes as a catalyst for sellers to bring down asking prices for commercial vehicle dealerships. The company attributed part of this phenomenon to the strength of the Parts & Service division, which as noted above constitutes approximately 70% of dealer gross profit. The company did say that it expected to continue to take losses on the repurchase of used trucks as a means of ensuring customer satisfaction and long term relationship continuity.

- Brexit impacts thus far have been benign, with no slow down as of the end of October and a credit environment that has remained favorable. PAG noted that more than 50% of the country voted to "leave," meaning that by definition not all were scared of Brexit consequences and continued to act rationally. Regarding long term price inflation concerns, PAG noted that it expects some next year but not to the draconian extent feared by many. These thoughts were echoed recently by UK peer Pendragon. Regardless of the potential for new car softness, PAG noted that used vehicle sales would still likely be strong, as would service.

- Regarding the US luxury market, PAG sees inventory significantly more in balance than at the start of the year, particularly for Mercedes and Audi, which have been more aggressive in increasing SUV availability. With 50% of luxury cars leased, PAG believes their customer base to be more recurring and predictable by nature, with the sale of a new car or a CPO used car a likely outcome. Long term, PAG believes it can continue to take share of the used car market through initiatives such as online advertising and used car-only stores.

- Active recall vehicles continue to pose challenges for dealers, with vehicles such as those waiting for Takata parts clogging up both dealer lots and service lanes. Additionally, recalls have proven costly for luxury dealers given the expectation of a loaner car while waiting for repairs. Stop sale inventory is down to $41 million vs. $80 million in March, providing some expectation of relief on the way (assuming no other massive recalls are announced).

INVESTOR RECOMMENDATION - HOLD

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Rush Enterprises, Inc. (RUSHA/RUSHB - $29.53[a] - NASDAQ) Class 4-7 Solid

Year	EPS	P/E(a)	PMV			
2018P	$ 1.59	18.6 x	NA	Dividend:	None	Current Return: Nil
2017P	1.25	23.6	NA	Shares O/S:	40	million
2016E	1.09	27.1	NA	52 Week Range (a):	$ 29.63	- $ 14.19
2015A	1.62	18.2	NA			

(a) P/E of Class A shares
Source: Bloomberg Consensus Estimates

COMPANY OVERVIEW

Rush Enterprises, Inc., based in New Braunfels, TX, operates the largest network of medium and heavy-duty truck dealerships in North America. The company operates over 121 Rush Truck Centers, primarily located in the Southern and Southwestern United States. Rush Truck Centers primarily sell commercial vehicles manufactured by Peterbilt, International, Hino, Ford, Isuzu, Mitsubishi Fuso, IC Bus or Blue Bird.

HIGHLIGHTS

- Regarding the Class 8 retail market, Rush expects a softer year in 2017, noting a rare agreement with ACT forecasts of 154,000 units. That being said, CEO Rush further stated that this estimate likely had no upside, but plenty of downside risk. While markets at this level would be near prior trough levels of 140,000, Rush feels the weakness in the market could last until 2018.

- With respect to Oil-related markets, Rush said that "it's hard to fall out of bed when you're sleeping on the floor," noting his previous evaluation that these markets bottomed in April 2016. Dealerships in these areas have done well as they diversify their focus, and Rush expects a turbulent market until a recovery occurs, with strength in parts & service. For the time being, Rush does not expect meaningful recovery, but does feel his dealerships will be able to outperform the broader market due to their markets being near the bottom (after past underperformance).

- The outlook for Medium Duty units is better than Class 8, and Rush expects this market to rise YoY. Increased infrastructure and municipal spending is driving demand for vehicles, i.e. refuse trucks. Additional Class 4-7 remains below historical averages, unlike Class 8 which surpassed prior peaks in 2015.

- Volkswagen/Navistar a positive. As Navistar's largest International-brand dealer in North America, Rush believes that Volkswagen gives NAV credibility to customers (and internally), and reassures stakeholders that the company will not be going "broke." Additionally, Rush finds it likely that VW will look to introduce its own engines to VW products in the medium term, providing another boost to dealerships.

- Used trucks. Used truck values have plummeted of late due to an imbalance of supply & demand. Based upon truck sales over the past 4-5 years, Rush doesn't believe this valuation issue will get better any time soon, especially after a monster 2015 sales year for Class 8. Larger fleets have begun to stretch out truck lives, while smaller customers have remained steady. Looking forward, it is likely for a larger number of used trucks to be pushed to market in Q1 impacting all OEMs, not just Navistar.

- Last mile changes. RUSH already does business with a major freight carrier, and is working to figure out the potential impacts from AMZN on the "last mile" shipments.

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Standard Motor Products (SMP - $50.92 - NYSE) Acquisitions Ahead

Year	EPS	P/E	PMV		
2017P	$ 3.31	15.4 x	NA	Dividend:	$ 0.68 Current Return: 1.3%
2016E	2.87	17.7	NA	Shares O/S:	23 million
2015A	2.14	23.8	NA	52 Week Range:	$ 51.76 - $ 29.69
2014A	2.53	20.1	NA		

Source: Bloomberg Consensus Estimates

COMPANY OVERVIEW

Standard Motor Products, Inc., located in Long Island City, NY, is a manufacturer and distributor of replacement parts for motor vehicles in the automotive aftermarket industry. The company operates in two segments, Engine Management and Temperature Control and sells its products to warehouse distributors and retail chains, primarily in the United States, Canada, and Latin America, as well as in Europe.

HIGHLIGHTS

- SMP would like to see parts inflation but understands two major limiting factors: 1) the need to stay below OE prices and 2) staying competitive with Chinese import parts. Despite a lack of inflation, the company has been able to increase gross margin by moving production to low-cost countries and improving purchasing along with internal operations.
- The company continues to see demand shift in the aftermarket move towards economy line products, which now constitute more than one-half of SMP products.
- Gasoline Direct Injection engines, which are likely to increase in prominence in the wake of VW's emission scandal represent a big opportunity for SMP further down the road. That being said, only the very late models have seen this technology introduced and Standard is still in the development stage.
- Management emphasized that they will look to only do deals within Engine and Temperature Control products. Through all of the acquisitions SMP has done, CEO Eric Sills feels it has become adept at integrating bolt-on acquisitions and eliminating unneeded facilities to drive synergies.
- SMP acquired General Cable in May 2016, one of two major players in the ignition wire business. Since then, SMP has moved its production to existing facilities in Mexico and continue to increase profitability. Over the next 3-4 years, SMP believes segment margin to close the ~300bp delta to Engine Management EBITDA margins.
- With regards to recalls, no SMP product line has been directly impacted so far. It has seen opportunities in the past from high failure parts to manufacture replacements, and could potentially see more work in the future. An example is tire pressure monitors, whose life-span of ~8 years is close to expiring (due to battery life) and is ripe for replacement. SMP has become a minority supplier of a Taiwanese sensor technology company and looks to expand into that replacement business.
- Telematics are a "hot-button" issue, which is expected to impact the entire industry. While SMP believes the pervasiveness of telematics will eventually benefit the aftermarket industry, it will not be instantaneous and will first benefit dealers.
- SMP's Temp Control segment benefited from 2016's hot summer, with sales up 6% YTD vs customer POS sales growth of 9%. CEO Sills believes this to show destocking in the industry, which will bring customer inventory levels to normalized levels, boding well for future sales.

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Superior Industries Int'l. (SUP - $25.30 - NYSE) — Wheels as Selling Point

Year	EPS	P/E	PMV			
2018P	$ 1.95	13.0 x	NA	Dividend:	$0.72	Current Return: 2.8%
2017P	2.05	12.4	NA	Shares O/S:	26 million	
2016E	1.51	16.8	NA	52 Week Range:	$ 32.12 - $ 16.35	
2015A	0.90	28.2	NA			

Source: Bloomberg Consensus Estimates

COMPANY OVERVIEW

Superior Industries International, Inc., headquartered in Southfield, Michigan, is one of the largest suppliers of cast aluminum wheels to the world's automobile and light-duty truck manufacturers, with wheel manufacturing operations in the United States and Mexico. Customers in North America represent the principal market for its products.

HIGHLIGHTS

- Management view wheels as an evolving part of an OEM's value proposition, by which consumer demand has continued to shift towards larger radius wheels that can be stylistic differentiators. The company believes it can eventually take advantage of this dynamic through more positive pricing that should drop to the bottom line. For example, the Chevy Malibu, long regarded as primarily a rental car, is seeing high take rates for the 19 inch wheel offered by SUP.

- Superior sees its Chinese partnership, by which it has smaller wheels contract manufactured at a rate of 2,500 per week on its way to 4,000, as a means of increasing North American market share.

- The company believes it is in the early stages of a long term evolution by which it first improves its ability to manufacture high quality products at OEM-level rates.

- M&A is likely to come in the form of further wheel supplier acquisition, as management sees there being several manufacturers in the 2-4 million wheels per year category that will not be able to keep up with OEM demands for wheel finish differences. To this end, SUP sees several potential targets of this magnitude in Europe & Asia.

- Along those lines, SUP regards its ability to work with aluminum as natural to extend to other automotive parts. Although CFO Kerry Shiba did soften his tone against the possibility of expanding into aerospace, which was previously decried as impossible.

- SUP provided more color on the production issues management called out on their most recent earnings call, which was due to machine failure in addition to a power outage. Production at this facility went from 60k per week to "mid 40k." While SUP is getting close to normal production levels, the biggest cost increase due to these issues was expedited freight which will trail into Q4.

- Touching on the company's move from Van Nuys, CA to Southfield, MI, SUP believes that it is has aided tremendously in their recruiting efforts, allowing the company to hire from a variety of other automotive suppliers. Additionally, it more easily facilitates conversations with customers (and potential customers).

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Tenneco Inc. (TEN - $58.84 - NYSE) Still an Emissions Leader - Buy

Year	EPS	P/E	PMV			
2018P	$ 7.35	8.0 x	$ 95	Dividend:	None	Current Return: Nil
2017P	6.30	9.3	84	Shares O/S:	56	million
2016E	5.75	10.2	75	52 Week Range:	$ 60.89	- $34.45
2015A	4.75	12.4	68			

COMPANY OVERVIEW

Tenneco, Inc., headquartered in Lake Forest, IL, is a global Tier 1 supplier of emission control and ride control products and systems for automotive and transportation original equipment manufacturers and the automotive aftermarket. The company serves more than 63 OEMs globally, and provided content on all ten of the top-ten passenger car models in Europe as well as eight of the top-ten light truck models produced for sale in 2012. Tenneco sells its aftermarket products to a full line of specialty warehouse distributors, jobbers, retailers, installer chains, and car dealers.

HIGHLIGHTS

- Tenneco is not currently concerned about potential downside in the North American light vehicle cycle, noting that the market has the potential to stay at a relatively elevated level for some time and that market dynamics between passenger car and light truck demand remain favorable for the company. Elsewhere, opportunities remain for a slightly improving Europe to continue to do so as volumes remain well below that of a full recovery. The company was somewhat less optimistic on predicting 2017 demand in China, where volumes have been driven to a degree by heavy incentive activity by the government.

- Asia-Pacific demand should be a major source of growth for Tenneco over the next several years. Current increases in revenues do not match the regional volume growth, suggesting that as regulations and enforcement come into play, the content portion should begin to catch up with the total addressable market.

- Regarding China specifically, Tenneco has seen enforcement improve considerably over the last three years through a continuous improvement push that is required should the government continue to look to reduce pollution.

- Tenneco spoke to upcoming regulations as being more incremental to the company's top and bottom line, with no major regulations causing a step function increase in content similar to the adoption of SCR over the past decade. Added content for LV Tier 3 regulations in the US and Euro 6c levels will roll in over the next 5-7 years, while the introduction of Euro 6 standards in Chinese Tier 1 cities was also cited as a positive. Quality of fuel problems still pose some hurdles in the region given the inability to adopt particulate filters in order to clean gasoline. Among the many other potential positives was the pull forward of Stage 6 regulations in India and the decision to skip Stage 5 entirely as indicative of a government very serious about its commitment to pollution reduction.

- Among the most interesting technologies the company is developing revolve around waste heat recovery that could be critical for increasing fuel economy in vehicles.

- Long term end market expansion expectations appear to have pulled back somewhat. Locomotive regulations are not as near term as continued increases in On- and Off-Highway regulations. Additionally, Stationary power is an area still under evaluation given different sets of regulations (ambient air quality, etc.). Stationary represents a market where scale manufacturing benefits may not be readily visible given highly different product needs for different applications.

- Tenneco does not view electrification as a near term threat (near defined at 10-15 years). The company expects to have content on all vehicles except pure-electrics, and that a multiyear run of internal combustion engine growth is still ahead of them.

- Tenneco reiterated that declining markets have cost the company approximately $600 million in normalized revenue in On and Off Highway markets, most of which are at or near bottoms and from which the company can generate high-teens incremental margins as volumes recovery.

- Tenneco was generally positive on aftermarket opportunities, most notably in Europe as well as in China where the company's addressable market continues to grow each year. The company views North America as plateauing at a very strong level-one in which the company has the opportunity to generate considerable cash flow.

INVESTOR RECOMMENDATION - BUY

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Uni-Select, Inc. (UNS.T - CAD $30.39 - TSX) Acquisition Momentum

Year	EPS	P/E	PMV			
2018P	2.05	14.8 x	NA	Dividend:	$ -	Current Return: 0.0%
2017P	1.98	15.3	NA	Shares O/S:	21 million	
2016E	1.82	16.7	NA	52 Week Range:	$ 35.83 - $ 26.58	
2015A	1.53	19.9	NA			

All figures in $ Canadian, unless otherwise indicated

COMPANY OVERVIEW

Uni-Select, founded in 1968 and headquartered in Boucherville, Quebec is a leading distributor of automotive parts for independent wholesalers and installers throughout the United States and Mexico. Uni-Select is a leader in the Canadian distribution of automotive products and its FinishMaster, Inc. subsidiary is a leading independent automotive paint distributor in the United States. UNS-T owns and operates 13 distribution centers and over 200 corporate stores that service auto service shops and collision centers as well as more than 1,155 independent wholesalers in North America.

HIGHLIGHTS

- Uni-Select sells through two different segments, Finish Master – the US paint distribution segment and Automotive Canada – the company's Canadian's auto parts business. 63% of sales are generated in the US through the FinishMaster business.
- Over the last year, Uni-Select has focused on bolt-on acquisition in both the FinishMaster and Canadian Auto Parts businesses. However, due to the maturity of the Refinish (FinishMaster) business, the company has focused more investment in this segment.
- The company's Finish Master business spans only 31 states, providing plenty of opportunity for growth.
- Ending 2015 at 1.2x debt/EBITDA on the balance sheet, Uni-Select is comfortable with 2.5-3.0x debt or an additional ~$140-190 million. At this point the company could complete a larger transaction; however, there are few of these opportunities out there.
- The margin profile of the business has improved dramatically due to the divestiture of the US auto parts business sold to Icahn Enterprises for $340 million in 2014. Further, the company has been able to work together with the paint manufacturer in order to avoid duplicating services and to determine which business completes which function the best. Currently, FinishMaster offers inventory management programs, efficiency procedures, scaled reporting systems, technical sources, multiple ordering options and support for waterborne paint needs.
- Currently, the company believes that Canadian earnings are lower than they can be and plans to drive those higher. To create synergies, Uni-Select has launched FinishMaster in Canada.
- Uni-Select pays for the in-store inventory while each store's inventory tends to be specific to specific paint manufacturers (such as PPG or AXTA). The company does have some private label business derived from China.
- While autonomous vehicles may eliminate accidents, the company believes this threat is in the future given that there is an extremely large car parc that will take time to transition.

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US Auto Parts Network Inc (PRTS - $2.86 -NASDAQ) Going Private (Label)

Year	EPS	P/E	PMV			
2017P	$ 0.11	26.0 x	NA	Dividend:	None	Current Return: Nil
2016E	0.06	47.7	NA	Shares O/S:	35 million	
2015A	(0.04)	NA	NA	52 Week Range:	$ 4.49 - $ 2.30	
2014A	(0.19)	NA	NA			

Source: Bloomberg Consensus Estimates

COMPANY OVERVIEW

Headquartered in Carson, California, U.S. Auto Parts (PRTS) is leading pure-play internet retailer of aftermarket auto parts. Offering body parts (parts for the exterior of an automobile), hard parts (engine and chassis components), performance parts and accessories through a network of Websites and online market places, PRTS reaches 10 million online customers per month. The customer base is primarily composed of the $50 billion DIY market and more specifically, the $6.7 billion online DIY market which is anticipated to nearly double by 2020.

HIGHLIGHTS

- Only a small fraction of US Auto Parts' business is in competition with brick and mortar competitors. This fraction of the business mostly consists of private label parts, which traditionally sell at a lower price point than the retailer's branded categories, but also have a different value proposition. Those DIY customers who strongly value price tend to buy private label parts, increasing PRTS competitive opportunities within the space.

- PRTS main focus is to transfer from Branded to Private label. Currently at 65% of the business, private label is growing at 14% relative to branded which is dropping at 9%. While top line growth has fallen due to the lower price of private label, PRTS has expanded margins by 200 bps in the 1H of 2016.

- Management mentioned that eventually AMZN will be distributing directly to repair centers which may pressure online pricing in the future. Currently, PRTS prices are ~20% lower than a company such as AZO while AMZN sells at price points 5-10% below that of PRTS.

- While collision parts are often considered to be DIFM driven, PRTS dominates collision parts to DIY customers on e-Bay. Management stated that this segment may experience double digit growth that is relatively immune to any type of recession.

- Management stated that there is probably little room left for further consolidation similar to AutoZone and AutoAnything. AutoZone bought AutoAnything for the performance accessory segment of the business, but given that the industry is targeting DIFM business, there is little room left for consolidation. Going forward, the best opportunity for entering online is through a different brand but utilizing the high quality supply chains that currently exist in the brick and motor companies.

- Last quarter PRTS grew transaction 12% relative to the market's low single digit growth. Management believes that those consumers transitioned from brick and mortar locations.

- E-Bay is currently acting as a price aggregator for online parts while AutoMD, an investment of PRTS, acts as a price aggregator for service providers. Now AutoMD provides a valet service – which includes a driver that will transport the vehicle to and from the customer's preferred location.

Other Companies Mentioned:

Company	Ticker		Exchange
Advance Auto Parts Inc.	(AAP	-	NYSE)
Amazon.com, Inc.	(AMZN	-	NASDAQ)
Asbury Automotive Group	(ABG	-	NYSE)
Autoliv Inc.	(ALV	-	")
AutoNation, Inc.	(AN	-	")
AutoZone	(AZO	-	")
Axalta Coating Systems Ltd.	(AXTA	-	")
Berkshire Hathaway	(BRK	-	")
Blue Bird Corporation	(BLBD	-	NASDAQ)
BMW	(BMW	-	F)
BorgWarner	(BWA	-	NYSE)
Carmax Inc.	(KMX	-	")
Caterpillar Inc.	(CAT	-	")
Cooper Tire & Rubber	(CTB	-	")
Cummins Inc.	(CMI	-	")
Daimler AG	(DAI	-	XETRA)
Dana Holding Corp	(DAN	-	NYSE)
Deere & Company	(DE	-	")
Delphi Automotive	(DLPH	-	")
Donaldson Company	(DCI	-	")
Eaton Corporation	(ETN	-	")
Federal-Mogul	(FDML	-	NASDAQ)
Fiat Chrysler	(FCAU	-	NYSE)
Ford Motor Company	(F	-	")
General Electric Company	(GE	-	")
General Motors	(GM	-	")
Genuine Parts Company	(GPC	-	")
Goodyear Tire & Rubber Co.	(GTB	-	NASDAQ)
Group 1 Automotive Inc.	(GPI	-	NYSE)
Harman International	(HAR	-	")
Hino Motors	(7205	-	Tokyo)
Honda Motor Company	(HMC	-	NYSE)
Honeywell International	(HON	-	")
Icahn Enterprises	(IEP	-	NASDAQ)
Isuzu Motors	(7202	-	Tokyo)
Johnson Controls Inc.	(JCI	-	NYSE)
Lear Corp.	(LEA	-	")
Lithia Motors	(LAD	-	")
LKQ Corp.	(LKQ	-	NASDAQ)
Monro Muffler Brake	(MNRO	-	")
Motorcar Parts of America	(MPAA	-	")
Navistar International Corp.	(NAV	-	NYSE)
Nissan Motors	(NSANF	-	Other)
O'Reilly Automotive	(ORLY	-	NASDAQ)
PACCAR Inc.	(PCAR	-	")
Penske Automotive	(PAG	-	NYSE)
Rush Enterprises	(RUSHA/RUSHB	-	NASDAQ)
Sears Holding Corporation	(SHLD	-	")
Sonic Automotive Inc.	(SAH	-	NYSE)
Standard Motor Products	(SMP	-	")
Superior Industries	(SUP	-	")
Takata Corporation	(7312	-	Tokyo)
Tenneco Inc.	(TEN	-	NYSE)
Tesla Motors	(TSLA	-	NASDAQ)
Toyota Motor Co.	(TM	-	NYSE)
TrueCar Inc.	(TRUE	-	NASDAQ)
Uni-Select	(UNS	-	TO)
US Auto Parts Network, Inc.	(PRTS	-	NASDAQ)
Visteon Corporation	(VC	-	NYSE)
Volkswagen AG	(VOW3	-	XETRA)
Wal-Mart Stores Inc.	(WMT	-	NYSE)

Industry Reports: Aftermarket Symposium "Reflections": 12/07/15; 12/09/14; 12/12/13; 12/04/12; 12/08/11;

We, ***Brian Sponheimer, Matthew Paige and Carolina Jolly***, the Research Analysts who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

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Important Disclosures

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As of October 31, 2016 our affiliates beneficially own on behalf of their investment advisory clients or otherwise approximately 12.09% of Navistar, 9.36% of Superior Industries, 11.16% of Rush Enterprises (Cl B), 6.51% of Federal-Mogul, 5.69% of Dana Holding Corp., 2.83% of Standard Motor Products, 2.40% of Genuine Parts, 2.39% of Tenneco, 2.06% of Clarcor, 1.99% of Donaldson, 1.06% of Cooper Tire & Rubber, 1.37% of AutoNation, 1.19% of Penske Automotive and less than 1% of AutoZone, Berkshire Hathaway, BorgWarner, Bridgestone, Caterpillar, Costco, Cummns, Daimler, Deere, Delphi, Eaton Corp., Ford, General Electric, General Motors, Goodyear, Harman, Hino, Honda, Honeywell, Icahn Enterprises, Isuzu, Johnson Controls, Lear, Lithia Motors, Monro Muffler Brake, Motorcar Parts, Office Depot, O'Reilly, Paccar, Rush Enterprises (Cl A), Sears, Sonic, Staples, Tesla Motors, Tower International, Toyota Motors, Uni-Select, Visteon, Volkswagen AG, Wal-Mart and ZF TRW. One of our affiliates serves as an investment advisor to Dana Holding Corp., Genuine Parts Company, Honeywell International, Navistar International or affiliated entities and has received compensation within the past twelve months for these non-investment banking securities-related services. Because the portfolio managers at our affiliates make individual investment decisions with respect to the client accounts they manage, these accounts may have transactions inconsistent with the recommendations in this report. These portfolio managers may know the substance of our research reports prior to their publication as a result of joint participation in research meetings or otherwise. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. The analysts who wrote this report, or members of their households, own no shares of the above mentioned companies.

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Place:	TBD
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