



Parts Alliance

Business description

The Parts Alliance is a UK buying group for aftermarket car parts distributors. It currently consists of twelve parts distributors and a central organisation which acts as a “virtual head office” supplying the distributors with a full suite of central services such as national sales and marketing, IT, and procurement. To date, we have completed the acquisition of ten distributors in the group and we continue to be in active discussions with the owners of several further companies. Our intention is to build a strong national player which we believe will be attractive to a range of potential trade and financial buyers.

Why did we invest?

The £5.2 billion UK car parts market is amongst the most fragmented in Europe, with c. 1,500 participants, and is characterised by greater levels of owner-management. We believe several market, regulatory and commercial catalysts will encourage consolidation of this sector in both the UK and Europe, which will offer a number of interesting investment opportunities and exit options. So far, we have invested c. £70 million of client capital with all of the previous owners reinvesting between 10% and 20% of their proceeds; as a result, we take some comfort that the founder/key man risk in these transactions has been mitigated and that they have confidence in the commercial logic behind our investment thesis.

How do we intend to create value?

We intend to create value in the investment in three ways:

- i) improving gross margin with better procurement, category management and more effective pricing;

- ii) building EBITDA margin by improving productivity, performance management and customer segmentation; and
- iii) removing overlaps in the back office.

What has been achieved?

In addition to M&A, the management team is focused on growing sales and improving the online offering, and an emphasis on professionalising the group's business processes. This includes: improving gross margins through pricing and category management; implementing EBITDA margin improvements by increased efficiencies; and harmonising management information systems.

How is it performing?

Despite a challenging market for the sector, the group has demonstrated resilient trading since our first investment in 2012. Whilst investment in the cost base has depressed profits in the short term, Parts Alliance is now benefiting from scale and experiencing strong organic growth in its core markets.

How will we crystallise value?

We believe the national footprint created by the roll-up of the Parts Alliance will appeal to potential US and European trade parties. Moreover, the fragmented nature of the market and the roll-out model inherent in a branch-based business model should additionally appeal to financial sponsors and trade buyers alike. This is evidenced by recent M&A activity in the sector:

Website: www.thepartsalliance.com

Original enterprise value: £44 million

HgCapital clients' total equity: 77.9%

Parts Alliance – Trust's underlying investment through HGT 6 LP

Sector	Location	Date of investment	Residual cost £'000	Unrealised value £'000
Services	UK	Aug 2012	10,495	12,557