

Advance Auto (AAP)

\$140.12 (As of 02/19/20)

Price Target (6-12 Months): **\$149.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/24/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: F

Summary

Advance Auto Parts adjusted earnings grew year over year in the fourth quarter of 2019 but missed the Zacks Consensus Estimates. The firm expects net sales of \$9.88-\$10.1 billion in 2020, up from prior year's guidance of \$9.65-\$9.75 billion. It continues to expand and optimize footprint by opening stores, widening online presence and collaborating. Further, the company is investing in its supply chain capabilities which is expected to accelerate growth. However, increasing costs will likely dent margins if the company is not able to pass the price increases to customers. Moreover, the fact that consumers are opting for new vehicle purchases instead of maintaining old ones can adversely affect the demand for Advance Auto Parts' products. Hence, investors are recommended to wait for a better entry point.

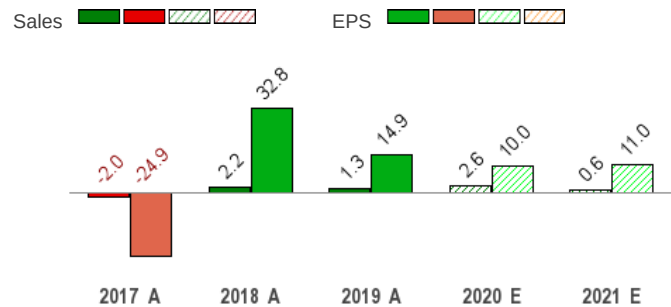
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$182.56 - \$129.94
20 Day Average Volume (sh)	1,018,579
Market Cap	\$9.7 B
YTD Price Change	-12.5%
Beta	0.88
Dividend / Div Yld	\$1.00 / 0.2%
Industry	Automotive - Retail and Wholesale - Parts
Zacks Industry Rank	Bottom 31% (175 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	20.6%
Last Sales Surprise	-0.5%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	05/27/2020
Earnings ESP	-1.0%
P/E TTM	17.1
P/E F1	15.6
PEG F1	1.4
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					10,020 E
2020	2,979 E	2,372 E	2,338 E	2,168 E	9,965 E
2019	2,952 A	2,332 A	2,312 A	2,113 A	9,709 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.08 E	\$2.50 E	\$2.53 E	\$1.90 E	\$10.00 E
2020	\$2.61 E	\$2.20 E	\$2.33 E	\$1.76 E	\$9.01 E
2019	\$2.46 A	\$2.00 A	\$2.10 A	\$1.64 A	\$8.19 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/19/2020. The reports text is as of 02/20/2020.

Overview

Advance Auto Parts, Inc. operates in the U.S. automotive aftermarket industry and is primarily engaged in selling replacement parts (excluding tires), accessories, batteries and maintenance items for domestic and imported cars, vans, sport utility vehicles, light and heavy-duty trucks. It is a leading automotive parts provider in North America, serving the "do-it-yourself" or "DIY", and "do-it-for-me" or "DIFM" (or Commercial) customers.

Advance Auto Parts operates through a single reportable segment comprising stores and distribution branch operations.

The company was founded in 1929 as Advance Stores Company. In the 1980s, it started selling automotive parts and accessories to DIY customers. The Professional delivery program was initiated in 1996. The company significantly increased sales to Professional customers since 2000.

The company operates under four store names:

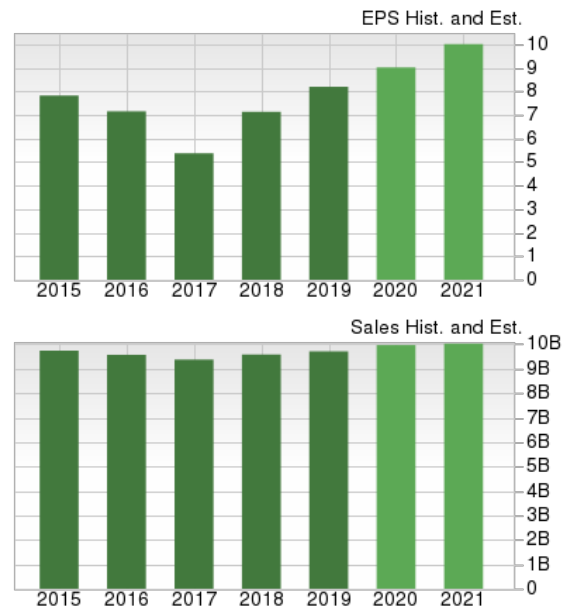
Advance Auto Parts – These stores focus on both Commercial and DIY customers. As of Dec 28, 2019, 4,313 stores, which are located in freestanding buildings, focus on Professional and DIY customers

Carquest – These stores focus on Commercial customers, but also serve DIY customers. As of Dec 28, 2019, 384 stores put primary focus on Professional customers but also served DIY customers.

Worldpac – These branches principally serve Commercial customers, utilizing an efficient and sophisticated delivery process. As of Dec 28, 2019, 160 branches principally served Professional customers.

Autopart International – These stores primarily operate in the Northeastern, Mid-Atlantic and Southeastern regions of the United States. The stores specialize in imported aftermarket and private-label branded auto parts, and focus on Commercial customers. As of Dec 28, 2019, 180 stores operate primarily in the Northeastern and Mid-Atlantic regions of the United States, with a focus on Professional customers.

As of Dec 28, 2019, the company operated a total of 5,037 stores and branches, compared to 5,109 stores and branches in 2018.



Reasons To Buy:

- ▲ Advance Auto Parts expects net sales of \$9.88-\$10.1 billion in 2020, up from prior year's guidance of \$9.65-\$9.75 billion. It is undertaking several initiatives to strengthen and streamline its supply chain to meet the evolving need of customers. Except for supply chain initiatives, it is also looking into store transformation and inventory positioning. Further, the company is laser-focused on improving retail traffic to accelerate growth. These initiatives are likely to help the company unlock its long-term margin expansion.
- ▲ The company continues to expand and optimise its footprint by opening new stores, widening online presence and strategic collaborations. In addition to driving growth across professional business, the firm continues to make progress on its DIY omnichannel e-commerce platform. It acquired the DieHard brand from Transformco in December, 2019, which will allow the company to sell DieHard batteries and extend the brand into other automotive and vehicular categories. As a part of the company's five-year strategic plan, it has constructed a productivity pipeline for the future, which will include the removal of at least \$500 million of unnecessary costs over the next five years.
- ▲ Advance Auto Parts launched a new Speed Perks 2.0 program that provides its employees with data insights. This program led to 45% growth in the number of Speed Perks transactions along with new member sign-ups increasing around 80%. With regard to margins, the company is investing in its supply chain capabilities. The cross-banner replenishment initiative is likely to be completed by mid-2021 and deliver significant cost savings and product availability.

Advance Auto Parts remains focused on expanding its footprint and strengthening its supply chain to access customers. Also, it expects to acquire customers through its online store.

Reasons To Sell:

- ▼ Price competition remains a concern for Advance Auto Parts, as it competes with national and regional automotive retailers such as AutoZone, O'Reilly Automotive, Pep Boys and CSK Auto Corporation. It is facing incursion from online competition, shifting driving habits and increasing part quality/complexity.
 - ▼ The improvement in the quality of new vehicles leads to reduced need for maintenance and repair of parts. This, in turn, impedes demand in the automotive maintenance market. In addition, the fact that consumers are opting for new vehicle purchases instead of maintaining old ones can adversely affect the demand for Advance Auto Parts' products.
 - ▼ Increasing costs will dent margins if the company is not able to pass the price increases to customers. Moreover, the company has huge capital expenditure. Funding of its plans — including acquisition, store openings and investments to develop supply chain — are leading to increased expenses.
-

Increasing costs will dent margins if the company is not able to pass the price increases to customers.

Last Earnings Report

Advance Auto Parts' Q4 Earnings Miss Estimates, Up Y/Y

Advance Auto Parts reported adjusted earnings of \$1.64 per share in fourth-quarter 2019 (ended Dec 28, 2019), up 40.2% from the prior-year number. The earnings figure, however, missed the Zacks Consensus Estimate of \$1.36. Adjusted operating income increased 18% year over year to \$149.9 million.

Advance Auto Parts generated net revenues of \$2,113 million, missing the Zacks Consensus Estimate of \$2,124 million. Revenues also edged down 0.4% from the year-ago quarter reported figure. During the fourth quarter, comparable store sales inched up 0.1% year on year.

Adjusted selling, general and administrative (SG&A) expenses totaled \$779 million compared with the \$802 million witnessed in the year-ago quarter, amid lower labor costs.

Financial Position

Advance Auto Parts had cash and cash equivalents of \$418.7 million as of Dec 28, 2019, compared with \$896.5 million as of Dec 29, 2018. Total long-term debt was \$747 million as of Dec 28, 2019, compared with \$1.05 billion as of Dec 29, 2018. The debt-to-capital ratio stands at 17.29%, as of Dec 28, 2019.

Operating cash flow was \$867 million as of Dec 28, 2019, up from the prior-year quarter's \$811 million.

Dividend & Share Repurchase

On Feb 12, Advance Auto Parts' board approved a cash dividend of 25 cents per share to be paid on Apr 3, to all common shareholders of record as of Mar 20, 2020.

The company also authorized \$700 million as an addition to the existing \$400-million share-repurchase program in fourth-quarter 2019. Under this program, the company repurchased 3.4 million shares of its common stock, at an aggregate amount of \$487.4 million, for an average price of \$144.23 per share. At the end of the fourth quarter, the company had \$890.8 million remaining under the share-repurchase program.

Store Update

As of Dec 28, 2019, the company operated 4,877 stores and 160 Worldpac branches in the United States, Canada, Puerto Rico and the U.S. Virgin Islands. It also serves 1,253 independently-owned Carquest branded stores across these locations in addition to Mexico, the Bahamas, Turks and Caicos and British Virgin Islands.

Guidance

For full-year 2020, the company anticipates consolidated revenues of \$9,880-\$10,100 million. Further, adjusted operating income margin is estimated in the band of 8.4-8.7% and capital expenditure is projected at \$275-\$325 million.

Quarter Ending **12/2019**

Report Date	Feb 18, 2020
Sales Surprise	-0.51%
EPS Surprise	20.59%
Quarterly EPS	1.64
Annual EPS (TTM)	8.20

Recent News

Advance Auto Parts Increases Quarterly Cash Dividend

On **Feb 18**, Advance Auto Parts approved an increase in the quarterly cash dividend from 6 cents per share to 25 cents per share. This dividend is payable on Apr 3, 2020 to shareholders of record as of Mar 20, 2020.

Valuation

Advance Auto Parts' shares are down 12.5% in the year-to-date period and down 15.5% over the trailing 12-month period. Stocks in the Zacks Automotive - Retail and Wholesale - Parts industry and the Zacks Auto sector are down 6.3% and up 7.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 11.4% and 16.9%, respectively.

The S&P 500 index is up 4.9% in the year-to-date period and up 22.8% in the past year.

The stock is currently trading at 15.32X forward 12-month earnings, which compares to 17.13X for the Zacks sub-industry, 26.22X for the Zacks sector and 19.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.75X and as low as 12.17X, with a 5-year median of 18.13X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$149 price target reflects 16.28X forward 12-month earnings per share.

The table below shows summary valuation data for AAP:

Valuation Multiples - AAP					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.32	17.13	26.22	19.3
	5-Year High	23.75	21.41	26.22	19.34
	5-Year Low	12.17	14.08	19.07	15.18
	5-Year Median	18.13	17.79	22.99	17.47
EV/EBITDA TTM	Current	11.84	21.84	15.89	11.31
	5-Year High	16.86	23.85	15.89	12.85
	5-Year Low	7.4	15.23	10.79	8.47
	5-Year Median	11.51	20.39	12.41	10.7
P/S F12M	Current	0.97	1.66	1.09	3.57
	5-Year High	1.46	1.96	1.11	3.57
	5-Year Low	0.61	1.23	0.8	2.54
	5-Year Median	1.13	1.7	0.92	3

As of 02/19/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (175 out of 255)



Top Peers

Autoliv, Inc. (ALV)	Neutral
AutoZone, Inc. (AZO)	Neutral
Dorman Products, Inc. (DORM)	Neutral
Genuine Parts Company (GPC)	Neutral
LKQ Corporation (LKQ)	Neutral
O'Reilly Automotive, Inc. (ORLY)	Neutral
U.S. Auto Parts Network, Inc. (PRTS)	Neutral
Standard Motor Products, Inc. (SMP)	Neutral

Industry Comparison Industry: Automotive - Retail And Wholesale - Parts				Industry Peers		
	AAP Neutral	X Industry	S&P 500	AZO Neutral	GPC Neutral	PRTS Neutral
VGM Score	A	-	-	C	B	B
Market Cap	9.70 B	16.36 B	24.59 B	25.42 B	14.43 B	100.68 M
# of Analysts	9	7	13	9	5	1
Dividend Yield	0.17%	0.00%	1.78%	0.00%	3.07%	0.00%
Value Score	B	-	-	C	C	B
Cash/Price	0.06	0.01	0.04	0.01	0.03	0.01
EV/EBITDA	13.97	15.95	14.21	12.74	12.39	47.62
PEG Ratio	1.34	1.44	2.09	1.44	3.63	NA
Price/Book (P/B)	2.90	3.68	3.28	NA	3.94	2.81
Price/Cash Flow (P/CF)	13.34	16.62	13.59	13.11	13.53	88.90
P/E (F1)	15.54	17.80	19.17	16.13	16.68	NA
Price/Sales (P/S)	1.00	1.00	2.68	2.12	0.74	0.36
Earnings Yield	6.43%	5.13%	5.18%	6.20%	6.00%	-3.57%
Debt/Equity	0.79	0.79	0.70	-4.39	0.98	0.37
Cash Flow (\$/share)	10.51	10.51	6.93	81.35	7.34	0.03
Growth Score	A	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	-3.47%	14.89%	10.84%	14.35%	4.99%	NA
Proj. EPS Growth (F1/F0)	10.05%	9.07%	7.00%	4.28%	4.67%	54.55%
Curr. Cash Flow Growth	18.30%	15.07%	7.81%	15.07%	26.30%	-89.32%
Hist. Cash Flow Growth (3-5 yrs)	4.14%	8.49%	8.25%	8.49%	5.65%	-19.09%
Current Ratio	1.31	1.06	1.24	0.88	1.26	1.06
Debt/Capital	44.27%	62.27%	42.37%	NA	49.51%	27.26%
Net Margin	5.01%	5.01%	11.69%	13.45%	3.20%	-3.88%
Return on Equity	16.40%	16.40%	16.86%	-96.87%	22.88%	-29.60%
Sales/Assets	0.87	1.00	0.55	1.14	1.35	2.69
Proj. Sales Growth (F1/F0)	2.43%	2.84%	4.05%	2.84%	1.69%	1.81%
Momentum Score	F	-	-	D	B	C
Daily Price Chg	-1.19%	-0.33%	0.38%	-0.66%	2.68%	0.72%
1 Week Price Chg	0.50%	0.83%	1.65%	-0.54%	1.14%	3.02%
4 Week Price Chg	-5.10%	-5.10%	0.86%	-7.82%	-0.86%	0.72%
12 Week Price Chg	-11.75%	-4.91%	4.56%	-9.81%	-5.57%	30.84%
52 Week Price Chg	-15.59%	9.02%	14.15%	15.81%	-8.95%	161.68%
20 Day Average Volume	1,018,579	870,231	1,989,235	223,853	648,633	91,202
(F1) EPS Est 1 week change	-0.09%	0.00%	0.00%	0.00%	-1.84%	0.00%
(F1) EPS Est 4 week change	-0.11%	-0.04%	-0.03%	-0.04%	-1.84%	0.00%
(F1) EPS Est 12 week change	-0.78%	-0.78%	-0.21%	1.33%	-2.03%	0.00%
(Q1) EPS Est Mthly Chg	-1.96%	-0.07%	-0.40%	-0.07%	3.07%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	F
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.