

## Advance Auto (AAP)

**\$157.44** (As of 08/20/20)

Price Target (6-12 Months): **\$181.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 08/20/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**1-Strong Buy**

Zacks Style Scores:

VGM:C

Value: C

Growth: F

Momentum: A

## Summary

Advance Auto's earnings and sales for the second quarter of 2020 beat the respective Zacks Consensus Estimate. Advance Auto continues to expand and optimize footprint by opening stores, widening online presence and collaborating. The company is laser-focused on improving retail traffic to accelerate growth. It is also taking actions to strengthen and streamline its supply chain to meet the evolving needs of its customers. These actions are expected to help the company unlock its long-term margin expansion. The company also continues to make progress on its DIY omnichannel e-commerce platform. The acquisition of the DieHard brand has also allowed it to extend the brand into other automotive and vehicular categories. Moreover, Advance Auto's low leverage compared to the industry and high cash balance underscores financial strength.

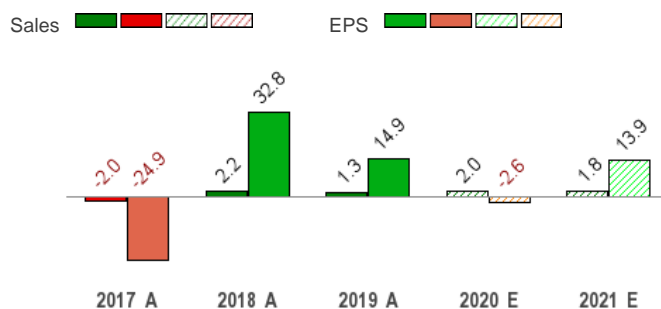
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$171.43 - \$71.33
20 Day Average Volume (sh)	1,008,835
Market Cap	\$10.9 B
YTD Price Change	-1.7%
Beta	1.31
Dividend / Div Yld	\$1.00 / 0.6%
Industry	<a href="#">Automotive - Retail and Wholesale - Parts</a>
Zacks Industry Rank	Top 8% (20 out of 252)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	48.2%
Last Sales Surprise	6.0%
EPS F1 Est- 4 week change	24.3%
Expected Report Date	11/10/2020
Earnings ESP	2.0%
P/E TTM	20.8
P/E F1	19.7
PEG F1	1.7
P/S TTM	1.1

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,948 E	2,494 E	2,480 E	2,259 E	10,083 E
2020	2,698 A	2,501 A	2,449 E	2,299 E	9,908 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	\$2.20 E	\$2.65 E	\$2.55 E	\$1.91 E	\$9.09 E
2020	\$0.91 A	\$2.92 A	\$2.55 E	\$1.87 E	\$7.98 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 08/20/2020. The reports text is as of 08/21/2020.

## 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:

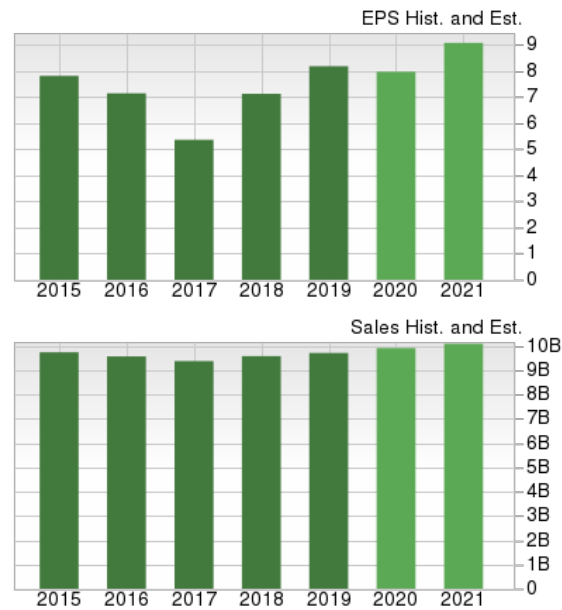
**Advance Auto Parts** – These stores focus on both Commercial and DIY customers. As of Dec 28, 2019, 4,313 stores, which are located in freestanding buildings, focus on Professional and DIY customers

**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.



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## Reasons To Buy:

- ▲ Advance Auto 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.
- ▲ Increasing member sign-ups for the Speed Perks 2.0 program, that provides its employees with data insights, bode well. The cross-banner replenishment initiative is likely be completed by mid-2021 and deliver significant cost savings and product availability. In addition to driving growth across professional business, the firm continues to make progress on its DIY omnichannel e-commerce platform. The acquisition of the DieHard brand from Transformco in December 2019 allows the company to sell DieHard batteries and extend the brand into other automotive and vehicular categories.
- ▲ As of Jul 11, total long-term debt was \$1.24 billion while cash and cash equivalents stood at \$1.14 billion, depicting the firm's financial strength and low default risk. Its long-term debt-to-capital ratio stands at 0.51, lower than its industry's 0.84. Low leverage of the firm increases its financial flexibility to tap onto growth opportunities. Moreover, the company's times interest earned ratio of 15.15 is also favorable to the industry ratio of 11.62. Amid gradual recovery in sales, the company also lifted its buyback program during the second quarter, boosting investors' confidence.

Expansion and optimisation of its footprint by opening new stores, widening online presence and strategic collaborations bode well for Advance Auto Parts.

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## Risks

- The coronavirus pandemic has crippled the auto industry. Spike in the coronavirus infections and fears of subsequent lockdown and depressed demand looms large. Amid the uncertainty, the firm has refrained from providing full year 2020 guidance. As such, disruptions to the company's supply chain due to a fresh wave of coronavirus remains a concern and may hurt the firm's sales and earnings in the near future.
  - 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.
  - 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.
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## Last Earnings Report

### Advance Auto Parts' Q2 Earnings & Sales Rise Y/Y

Advance Auto Parts reported adjusted earnings of \$2.92 per share in second-quarter 2020 (ended Jul 11, 2020), up 46% from the prior-year number. The earnings figure also beat the Zacks Consensus Estimate of \$1.97.

Advance Auto Parts generated net revenues of \$2,501 million, beating the Zacks Consensus Estimate of \$2,360 million. The revenue figure also rose 7.3% from the year-ago quarter reported figure. During the second quarter, comparable store sales increased 7.5% year on year.

Adjusted operating income climbed 42.2% year over year to \$279.3 million. Adjusted selling, general and administrative (SG&A) expenses totaled \$817.7million compared with the \$813 million witnessed in the year-ago quarter.

Advance Auto Parts refrains from providing 2020 guidance amid coronavirus-led uncertainty.

### Financial Position

Advance Auto Parts had cash and cash equivalents of \$1.14 billion as of Jul 11, 2020, compared with \$418.7 million as of Dec 28, 2019. Total long-term debt was \$1.24 billion as of Jul 11, 2020, compared with \$747.32 million as of Dec 28, 2019.

Operating cash flow was \$448.2 million as of Jul 11, 2020, down from the prior-year quarter's \$492.2 million.

### Dividend & Share Repurchase

On Aug 11, Advance Auto Parts' board approved a cash dividend of 25 cents per share to be paid on Oct 2, to all common shareholders of record as of Sep 18, 2020.

The company lifted its temporary suspension on its existing share-repurchase program as of Aug 12, 2020. At the end of the second quarter, the company had \$861.7 million remaining under the share-repurchase program.

### Store Update

As of Aug 11, 2020, the company operated 4,819 stores and 167 Worldpac branches in the United States, Canada, Puerto Rico and the U.S. Virgin Islands. It also serves 1,262 independently-owned Carquest branded stores across these locations in addition to Mexico, the Bahamas, Turks and Caicos and British Virgin Islands.

Quarter Ending 06/2020

Report Date	Aug 18, 2020
Sales Surprise	5.97%
EPS Surprise	48.22%
Quarterly EPS	2.92
Annual EPS (TTM)	7.57

## Valuation

Advance Auto Parts' shares are down 1.7% in the year-to-date period and up 14.5% over the trailing 12-month period. Stocks in the Zacks Automotive - Retail and Wholesale - Parts industry and the Zacks Auto sector are up 6% and 30.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 18.1% and 39.3%, respectively.

The S&P 500 index is up 4.7% in the year-to-date period and 15.7% in the past year.

The stock is currently trading at 20.27X forward 12-month earnings, which compares to 20.45X for the Zacks sub-industry, 33.8X for the Zacks sector and 22.78X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.75X and as low as 8.34X, with a 5-year median of 18.24X.

Our Outperform recommendation indicates that the stock will perform above the market. Our \$181 price target reflects 23.29X 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 F 12M	Current	20.27	20.45	33.8	22.78
	5-Year High	23.75	21.39	34.77	22.78
	5-Year Low	8.34	12.6	19.08	15.25
	5-Year Median	18.24	17.75	23.47	17.58
EV/EBITDA TTM	Current	14.98	27.93	20.55	12.76
	5-Year High	17.38	28.03	20.64	12.85
	5-Year Low	7.25	15.89	11.14	8.25
	5-Year Median	11.85	21.39	12.96	10.91
P/S F 12M	Current	1.11	2.03	1.27	3.7
	5-Year High	1.46	2.08	1.27	3.7
	5-Year Low	0.52	1.23	0.82	2.53
	5-Year Median	1.12	1.81	0.97	3.05

As of 08/20/2020

## Industry Analysis Zacks Industry Rank: Top 8% (20 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
O'Reilly Automotive, Inc. (ORLY)	Outperform	2
Standard Motor Products, Inc. (SMP)	Outperform	2
AutoZone, Inc. (AZO)	Neutral	3
Dorman Products, Inc. (DORM)	Neutral	3
Genuine Parts Company (GPC)	Neutral	3
LKQ Corporation (LKQ)	Neutral	3
U.S. Auto Parts Network, Inc. (PRTS)	Neutral	3
Autoliv, Inc. (ALV)	Underperform	5

Industry Comparison Industry: Automotive - Retail And Wholesale - Parts				Industry Peers		
	AAP	X Industry	S&P 500	AZO	GPC	PRTS
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	3
VGM Score	C	-	-	A	A	B
Market Cap	10.89 B	22.71 B	23.46 B	28.10 B	13.30 B	711.70 M
# of Analysts	10	9	14	10	4	1
Dividend Yield	0.64%	0.00%	1.65%	0.00%	3.43%	0.00%
Value Score	C	-	-	B	B	D
Cash/Price	0.12	0.05	0.07	0.02	0.07	0.04
EV/EBITDA	14.07	15.91	13.34	13.68	12.36	-380.03
PEG Ratio	1.71	1.92	3.00	2.00	12.96	83.56
Price/Book (P/B)	2.92	4.84	3.12	NA	4.63	31.30
Price/Cash Flow (P/CF)	13.27	15.25	12.60	14.80	11.30	NA
P/E (F1)	19.73	21.02	21.61	18.83	19.44	752.00
Price/Sales (P/S)	1.13	1.73	2.44	2.33	0.73	2.10
Earnings Yield	5.07%	4.77%	4.43%	5.31%	5.14%	0.13%
Debt/Equity	0.88	2.52	0.76	-4.84	1.21	1.00
Cash Flow (\$/share)	11.86	16.94	6.93	81.35	8.16	-0.70
Growth Score	F	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	-1.61%	14.06%	10.44%	14.38%	5.17%	NA
Proj. EPS Growth (F1/F0)	-2.58%	1.46%	-5.53%	0.79%	-16.65%	102.25%
Curr. Cash Flow Growth	7.27%	7.52%	5.20%	15.07%	10.00%	-2,386.30%
Hist. Cash Flow Growth (3-5 yrs)	-0.81%	9.09%	8.52%	8.49%	6.64%	NA
Current Ratio	1.44	1.20	1.33	0.94	1.22	1.09
Debt/Capital	46.83%	80.58%	44.50%	NA	54.83%	50.02%
Net Margin	4.71%	8.81%	10.13%	12.90%	-1.06%	-7.65%
Return on Equity	14.78%	16.39%	14.67%	-91.18%	21.67%	-123.97%
Sales/Assets	0.83	0.93	0.51	1.00	1.27	3.06
Proj. Sales Growth (F1/F0)	2.05%	1.60%	-1.54%	1.14%	-13.16%	25.08%
Momentum Score	A	-	-	B	A	A
Daily Price Chg	-2.10%	-0.62%	-0.59%	-0.54%	-0.88%	1.76%
1 Week Price Chg	4.40%	2.61%	1.09%	1.17%	1.95%	18.71%
4 Week Price Chg	6.11%	4.64%	1.91%	3.00%	4.25%	26.49%
12 Week Price Chg	13.72%	12.78%	6.82%	4.88%	9.38%	132.82%
52 Week Price Chg	14.50%	17.69%	1.47%	11.27%	2.68%	1,084.25%
20 Day Average Volume	1,008,835	602,785	1,873,576	172,139	685,078	1,518,632
(F1) EPS Est 1 week change	22.05%	0.49%	0.00%	0.43%	0.00%	300.00%
(F1) EPS Est 4 week change	24.31%	13.02%	1.79%	1.74%	16.81%	120.00%
(F1) EPS Est 12 week change	24.63%	15.58%	3.35%	4.73%	18.81%	116.67%
(Q1) EPS Est Mthly Chg	28.55%	14.46%	0.42%	2.23%	37.68%	166.67%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### 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	C
Growth Score	F
Momentum Score	A
VGM Score	C

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.

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