

O'Reilly Automotive (ORLY)

\$417.24 (As of 05/29/20)

Price Target (6-12 Months): **\$438.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 07/19/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: C

Summary

Customer-centric business model and growing demand for high-quality auto parts are likely to boost O'Reilly's prospects. The specialty auto parts retailer is poised to benefit from store openings and distribution centers in profitable regions. The company has a competitive edge due to dual-market strategy by serving DIY and DIFM customers. However, the near term earnings of the company may be adversely impacted owing to stay-at-home orders and travel restrictions along with weak consumer confidence amid coronavirus. Amid the coronavirus-induced uncertainty, O'Reilly has withdrawn its annual view as well as suspended buyback programs. The firm's rising SG&A costs along with high debt levels are also major concerns. As such, investors are recommended to wait for a better entry point.

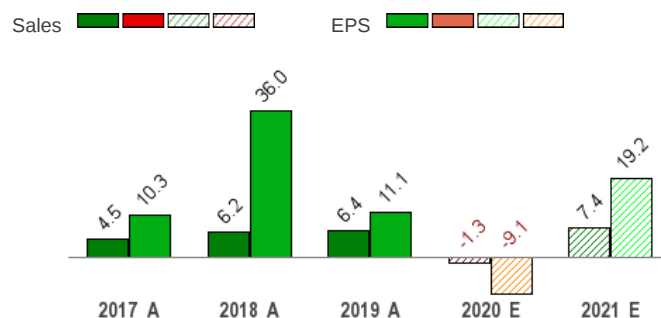
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$454.31 - \$251.52
20 Day Average Volume (sh)	622,805
Market Cap	\$31.0 B
YTD Price Change	-4.8%
Beta	1.05
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Retail and Wholesale - Parts
Zacks Industry Rank	Bottom 12% (223 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.9%
Last Sales Surprise	2.1%
EPS F1 Est- 4 week change	-1.3%
Expected Report Date	07/22/2020
Earnings ESP	0.0%
P/E TTM	23.4
P/E F1	25.7
PEG F1	1.7
P/S TTM	3.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,591 E	2,694 E	2,757 E	2,607 E	10,753 E
2020	2,476 A	2,368 E	2,613 E	2,526 E	10,013 E
2019	2,411 A	2,590 A	2,667 A	2,483 A	10,150 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$4.38 E	\$4.77 E	\$5.23 E	\$4.41 E	\$19.38 E
2020	\$3.97 A	\$3.33 E	\$4.67 E	\$4.11 E	\$16.26 E
2019	\$4.05 A	\$4.51 A	\$5.08 A	\$4.25 A	\$17.88 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 05/29/2020. The reports text is as of 06/01/2020.

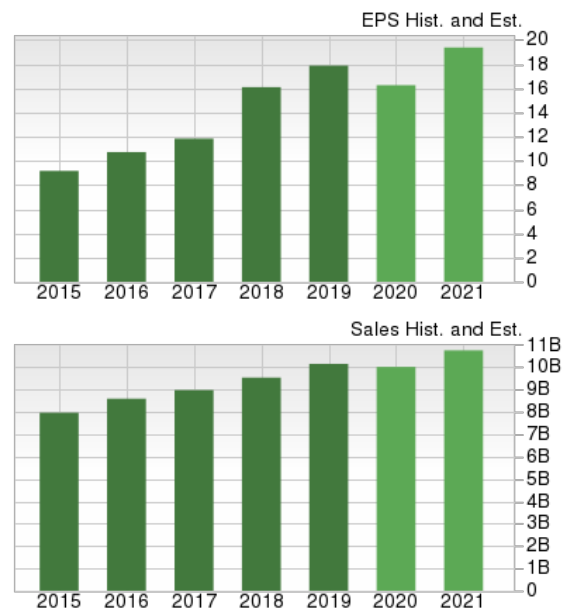
Overview

O'Reilly Automotive, Inc. is a leading specialty retailer of automotive aftermarket parts, tools, supplies, equipment and accessories in the United States. The company sells products to both Do-it-Yourself (DIY) customers and Do-it-for-Me (DIFM) or professional installers. It sells an extensive line of products consisting of new and remanufactured automotive hard parts (such as mufflers, brakes and shock absorbers), maintenance items, accessories, a complete range of auto body paint and related materials, automotive tools and professional service equipment. The company has a track record of over 20 years of following a dual-market strategy by serving both DIY and DIFM customers and is among the top three companies in both the markets.

Founded in 1957, O'Reilly's initially operated from a single store in Springfield, MO. The company's stores offer several services and programs to customers, which include battery diagnostic testing, check engine light code extraction and loaner tool program, among others. The products offered by the company stores are vehicle accessories, such as floor mats and seat cover as well as maintenance items like antifreeze, engine additives, filters, fluids, lighting and wiper blades. Besides these, it provides new as well as remanufactured automotive hard parts like alternators, batteries, brake system components, belts, chassis parts, driveline parts, engine parts and fuel pumps.

The automotive aftermarket items industry is a highly competitive industry. O'Reilly's presence in the market, customer service, product availability, store location, brand recognition price and store location position the company in a competitive position in the market among peers in the industry.

The company has been expanding its physical presence through opening or acquiring stores while maintaining the existing ones. In April 2019, it purchased a 580,000-square-foot building in the north of Mississippi. The new location will be used as distribution center project, supporting the company to offer improved service across the Memphis area markets.



Reasons To Buy:

- ▲ O'Reilly's revenue growth is impressive. The specialty retailer of automotive aftermarket parts has been generating record revenues since 27 consecutive years on the back of stable growth in the auto parts market and expansion of the store base. Customer-centric business model and growing demand for technologically advanced auto parts are likely to drive O'Reilly's prospects. Moreover, increased complexity of auto parts and repairs are driving more people to independent repair shops. Thus, as the cars as getting more technologically advanced, high quality auto parts are much in demand, which are likely to bolster the company's sales and earnings in future.
- ▲ The specialty auto parts retailer is poised to benefit from store openings and distribution centers in profitable regions. In addition to opening stores in new markets, the company has been actively increasing store count in less-populated areas. O'Reilly's penetration in new and contiguous markets will help in business growth in markets across the country. To help serve customers effectively amid the coronavirus mayhem, it is undertaking several initiatives like curbside pickup for Buy Online and Pick Up In-Store orders, et al.
- ▲ The company has a competitive edge due to dual-market strategy and a strong distribution network. O'Reilly's wide-ranging product portfolio caters to Do-it-Yourself (DIY) and Do-it-for-Me (DIFM) customers, which are driving comparable store sales growth. The firm's buyout of Mayasa Auto Parts bodes well and marks O'Reilly's first international expansion transaction.

O'Reilly has been generating record revenues since 27 consecutive years on the back of stable growth in the auto parts market and expansion of the store base.

Reasons To Sell:

- ▼ Coronavirus has rattled the auto sector with factory closures, low footfall at dealerships and supply chain distortions. Thanks to the impact of COVID-19, for the four-week period beginning in the middle of March and through the first two weeks of April, the comparable store sales of O'Reilly decreased 13%. Amid stay-at-home orders and travel restrictions along with weak consumer confidence, the near term earnings of the company may be adversely impacted. In fact, amid the coronavirus-induced uncertainty, O'Reilly has withdrawn its annual view as well as suspended buyback programs.
- ▼ Over the last few quarters, the company is bearing the brunt of increasing selling, general and administrative (SG&A) expenses. The rise in SG&A costs are attributed to increased expenses for opening stores, distribution centers and maintaining the existing ones, along with efforts to provide superior customer service. O'Reilly's plan to pursue omni-channel goals is likely to increase expenses even more, thereby clipping profit margins. Notably, the company's SG&A expenses increased 4.5% year over year to total \$ 872.3 million in the first quarter of 2020. Continuous rise in SG&A expenses are likely to strain margins further.
- ▼ O'Reilly has a stretched balance sheet which restricts its financial flexibility and limits growth. Its rising debt levels are a major cause of concern. Notably, the company's total debt stood at \$4.47 billion as of March 31, 2020, up from \$3.46 billion recorded in the prior-year quarter. Its total debt-to-capital ratio stands at 0.98, higher than its industry's 0.81. A high total debt-to-capital ratio often indicates that a firm may not be able to generate enough cash to satisfy its debt obligations.

Increasing SG&A costs, elevated leverage and coronavirus woes remain headwinds for the firm.

Last Earnings Report

O'Reilly Q1 Earnings Top Estimates, Down Y/Y

O'Reilly reported reported earnings per share of \$3.97 in first-quarter 2020, surpassing the Zacks Consensus Estimate of \$3.86. However, the bottom line compared unfavorably with \$4.05 a share recorded in the prior-year quarter. O'Reilly's quarterly revenues came in at \$2,476.5 million, topping the consensus mark of \$2,426 million. Moreover, the top line was higher than the prior-year level of \$2,410.6 million.

Net income amounted to \$300.4 million in the quarter, down 6% year over year. The auto parts retailer's comparable store sales declined 1.9% year over year in the quarter under review against a 3.2% rise in the comparable year-ago period. The metric was estimated to grow in the range of 2-4%. Coronavirus jitters and stay-at-home orders in multiple states hit the firm hard in March, in turn resulting in comps decline.

Notably, SG&A expenses increased 5% to \$872 million from \$835 million in first-quarter 2019. Operating income declined 5% to \$424 million from \$445 million reported in the prior-year quarter.

During the reported quarter, O'Reilly repurchased 1.5 million shares for \$574 million at an average price of \$386.71 per share. The company currently has approximately \$995 million remaining under the current share repurchase authorization. However, amid COVID-19-induced financial uncertainty, it has suspended the share buyback program. Further, the firm has withdrawn its annual guidance. In a bid to conserve cash, O'Reilly is implementing several cost-containment strategies including reduction of store operating hours and postponement of discretionary capital investments. To help serve customers effectively amid the coronavirus mayhem, it is undertaking several initiatives like curbside pickup for Buy Online and Pick Up In-Store orders, et al.

The company had cash and cash equivalents of \$287 million as of Mar 31, 2020. Its long-term debt stands at \$4,471 billion, representing a debt-to-capital ratio of 97.6%.

During the quarter under review, O'Reilly generated \$459 million in cash from operating activities compared with \$440.6 million in the comparable year-ago period. Capital expenditure amounted to \$133.3 million compared with \$152.9 million in the year-ago period. Free cash flow totaled \$227.2 million compared with \$279.2 million a year ago. New stores opened during the quarter totaled 76, bringing the total store count to 5,533 as of Mar 31, 2020.

Quarter Ending 03/2020

Report Date	Apr 22, 2020
Sales Surprise	2.06%
EPS Surprise	2.85%
Quarterly EPS	3.97
Annual EPS (TTM)	17.81

Valuation

O'Reilly's shares are down 4.8% in the year-to-date period and up 11.5% over the trailing 12-month period. Stocks in the Zacks Automotive - Retail and Wholesale - Parts industry and the Auto sector are down 5.7% and 4.3%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 6% and 15%, respectively.

The S&P 500 index is down 5.4% and up 11.1% in the year-to-date period and in the past year, respectively.

The stock is currently trading at 23.76X forward 12-month earnings, which compares to 20.59X for the Zacks sub-industry, 21.04X for the Zacks sector and 22.09X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.05X and as low as 13.38X, with a 5-year median of 20.73X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$438 price target reflects 24.94X F12M earnings.

The table below shows summary valuation data for ORLY:

Valuation Multiples - ORLY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.76	20.59	21.04	22.09
	5-Year High	28.05	21.41	21.04	22.09
	5-Year Low	13.38	12.62	8.2	15.23
	5-Year Median	20.73	17.73	9.87	17.49
EV/EBITDA TTM	Current	17	22.67	10.63	11.27
	5-Year High	18.21	24.03	11.3	12.86
	5-Year Low	9.25	15.21	6.94	8.26
	5-Year Median	15.16	20.3	9.25	10.8
P/S F12M	Current	3	1.89	0.72	3.43
	5-Year High	3.31	1.96	0.75	3.44
	5-Year Low	1.69	1.15	0.49	2.53
	5-Year Median	2.81	1.7	0.61	3.02

As of 05/29/2020

Industry Analysis Zacks Industry Rank: Bottom 12% (223 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Advance Auto Parts, Inc. (AAP)	Neutral	4
American AxleManufacturing Holdings, Inc. (AXL)	Neutral	3
AutoZone, Inc. (AZO)	Neutral	3
Dorman Products, Inc. (DORM)	Neutral	3
Standard Motor Products, Inc. (SMP)	Neutral	4
Tenneco Inc. (TEN)	Neutral	3
Genuine Parts Company (GPC)	Underperform	4
CarMax, Inc. (KMX)	Underperform	5

Industry Comparison Industry: Automotive - Retail And Wholesale - Parts				Industry Peers		
	ORLY	X Industry	S&P 500	AAP	AZO	KMX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	4	3	5
VGM Score	C	-	-	D	A	D
Market Cap	30.97 B	14.32 B	21.48 B	9.63 B	26.80 B	14.32 B
# of Analysts	10	8	14	9	10	8
Dividend Yield	0.00%	0.00%	1.96%	0.72%	0.00%	0.00%
Value Score	C	-	-	C	B	D
Cash/Price	0.01	0.04	0.06	0.14	0.01	0.04
EV/EBITDA	16.70	13.34	12.56	12.65	13.34	19.98
PEG Ratio	1.67	2.02	2.87	2.07	1.96	2.86
Price/Book (P/B)	284.53	10.85	2.92	2.72	NA	3.82
Price/Cash Flow (P/CF)	18.95	13.57	11.74	11.74	14.11	13.03
P/E (F1)	25.66	23.71	21.35	21.76	18.40	32.82
Price/Sales (P/S)	3.03	1.02	2.27	1.02	2.22	0.70
Earnings Yield	3.90%	3.90%	4.52%	4.59%	5.44%	3.04%
Debt/Equity	56.35	1.10	0.76	0.92	-4.64	4.08
Cash Flow (\$/share)	22.02	11.86	6.96	11.86	81.35	6.76
Growth Score	B	-	-	F	B	D
Hist. EPS Growth (3-5 yrs)	18.82%	15.11%	10.87%	-1.61%	14.56%	15.66%
Proj. EPS Growth (F1/F0)	-9.07%	-9.11%	-10.48%	-21.83%	-1.63%	-49.67%
Curr. Cash Flow Growth	4.97%	7.27%	5.39%	7.27%	15.07%	7.77%
Hist. Cash Flow Growth (3-5 yrs)	11.32%	9.09%	8.55%	-0.81%	8.49%	9.70%
Current Ratio	0.91	1.05	1.29	1.36	0.92	2.39
Debt/Capital	98.26%	66.39%	44.54%	47.79%	NA	80.32%
Net Margin	13.41%	4.37%	10.59%	4.10%	13.42%	4.37%
Return on Equity	670.84%	13.20%	16.26%	13.20%	-95.47%	24.46%
Sales/Assets	0.96	1.00	0.55	0.83	1.07	1.00
Proj. Sales Growth (F1/F0)	-1.35%	-1.35%	-2.53%	-1.74%	-0.70%	-23.63%
Momentum Score	C	-	-	B	A	A
Daily Price Chg	0.99%	0.33%	-0.11%	0.64%	0.03%	-0.71%
1 Week Price Chg	-0.52%	5.89%	4.99%	5.89%	4.46%	7.59%
4 Week Price Chg	8.00%	15.23%	4.40%	15.23%	12.50%	19.55%
12 Week Price Chg	15.47%	11.46%	-2.75%	9.77%	11.46%	2.47%
52 Week Price Chg	12.07%	12.07%	0.07%	-12.59%	9.81%	12.75%
20 Day Average Volume	622,805	947,702	2,425,602	1,065,532	265,992	1,506,279
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.18%	0.00%
(F1) EPS Est 4 week change	-1.34%	-4.08%	-1.70%	-4.08%	-1.69%	-15.56%
(F1) EPS Est 12 week change	-16.48%	-20.00%	-16.00%	-29.18%	-7.84%	-52.06%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-3.25%	24.08%	-0.73%	-87.50%

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.

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	B
Momentum Score	C
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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