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Jan 10, 2020

OReilly Automotive (ORLY)

$437.37 (As of 01/09/20)

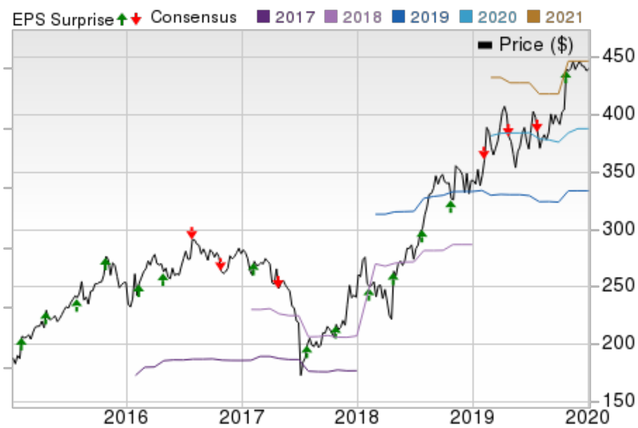
Price Target (6-12 Months): **$464.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 07/19/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: C | Growth: A | Momentum: D	

Summary

Customer-centric business model and growing demand for high-quality auto parts are likely to drive O'Reilly's growth, going forward. The firm projects higher y/y earnings and sales for 2019. The specialty auto parts retailer is poised to benefit from store openings and distribution centers in profitable regions. The company has a track record of following a dual-market strategy by serving DIY and DIFM customers. The firm's recent buyout deal with Mayasa Auto Parts bodes well. This marks O'Reilly's first international expansion transaction. Strong cash flow and buyback program are other positives. However, the company is bogged down by high SG&A costs, which may dent margins. High capex and elevated leverage play spoilsports. Hence, investors are recommended to wait for a better entry point.

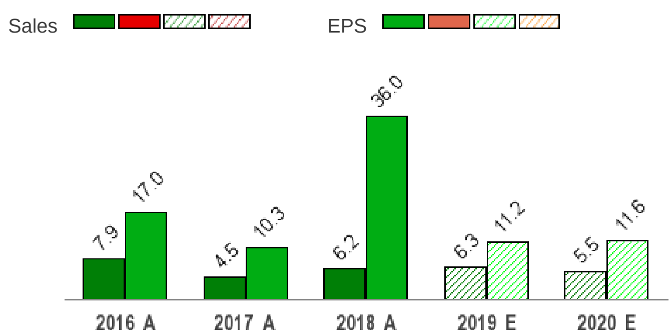
Price, Consensus & Surprise



Data Overview

52 Week High-Low	$454.31 - $331.34
20 Day Average Volume (sh)	444,902
Market Cap	$33.1 B
YTD Price Change	-0.2%
Beta	0.69
Dividend / Div Yld	$0.00 / 0.0%
Industry	Automotive - Retail and Wholesale - Parts
Zacks Industry Rank	Top 27% (69 out of 254)
Last EPS Surprise	6.3%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/05/2020
Earnings ESP	0.0%
P/E TTM	25.2
P/E F1	21.9
PEG F1	1.4
P/S TTM	3.3

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	2,556 E	2,733 E	2,784 E	2,597 E	10,693 E
2019	2,411 A	2,590 A	2,667 A	2,473 E	10,135 E
2018	2,283 A	2,456 A	2,483 A	2,315 A	9,536 A

EPS Estimates

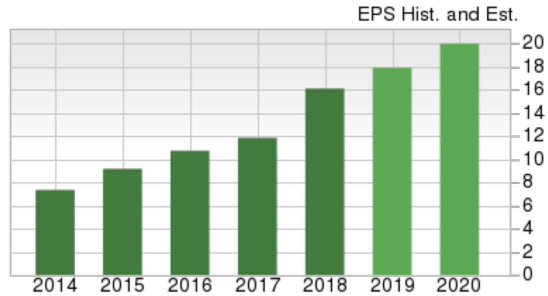
	Q1	Q2	Q3	Q4	Annual*
2020	$4.52 E	$5.12 E	$5.50 E	$4.73 E	$19.98 E
2019	$4.05 A	$4.51 A	$5.08 A	$4.26 E	$17.90 E
2018	$3.61 A	$4.28 A	$4.50 A	$3.72 A	$16.10 A

*Quarterly figures may not add up to annual.

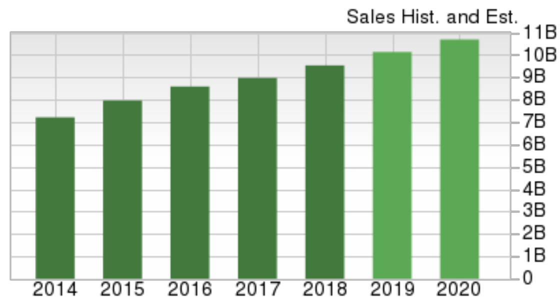
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/09/2020. The reports text is as of 01/10/2020.

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. As of Mar 31, 2019, the company operates 5,306 stores across 47 states in the United States. 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 strong capabilities in the supply chain, dual market strategy and investor-friendly moves are major positives. Its recent buyout deal with Mayasa Auto Parts bodes well.

- Customer-centric business model and growing demand for high-quality auto parts are likely to drive O'Reilly's growth in 2019. Moreover, increased complexity of auto parts and repairs led to average ticket growth, in turn driving the company's top line. As such, it forecasts higher revenues and earnings per share (EPS) in 2019 than a year ago. It expects 2019 EPS and sales within \$17.37-\$17.47 and \$10-\$10.3 billion, respectively. Third-quarter earnings and comparable store sales are also expected to grow sequentially.

- 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 is 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.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 recent buyout deal with Mayasa Auto Parts bodes well. This acquisition marks O'Reilly's first international expansion transaction. Strong cash flow aids O'Reilly to pursue an aggressive share-repurchase policy, which continues to boost earnings per share.To the delight of its shareholders, the firm approved an increase in the share repurchase authorization program by an additional \$1 billion in June 2019.

Reasons To Sell:

- 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.

Increasing SG&A costs, high overall expenses and elevated leverage are causes of concerns

- The company's high capex is a cause of concern. The company forecasts 2019 capital expenditure within $625-$675 million, indicating an improvement from the year-ago figure of $504 million. High capex may dent the company's cash flows. As it is, O'Reilly has a stretched balance sheet, with a debt-to-capital ratio of around 103%, which restricts financial flexibility and limits growth.

- Product price increases owing to complex auto parts have changed the spending habits of DIY customers. The DIY consumers are neglecting expenses for basic maintenance and rather spending on serious repairs. This shift is reducing DIY ticket counts for O'Reilly, thereby pressurizing same-store revenue growth from DIY customers. Further, inclement weather discourages customers, particularly DIY customers, from visiting stores. This hampers its product sales.

Last Earnings Report

O'Reilly's Q3 Earnings Top, Up Y/Y

Quarter Ending	09/2019
Report Date	Oct 23, 2019
Sales Surprise	1.07%
EPS Surprise	6.28%
Quarterly EPS	5.08
Annual EPS (TTM)	17.36

O'Reilly Automotive Inc. reported diluted earnings per share of $5.08 in third-quarter 2019, up 13% from $4.50 in the prior-year quarter. Moreover, the figure surpassed the Zacks Consensus Estimate of $4.78.

The company's quarterly revenues rose 7% year over year to $2.67 billion. Moreover, the figure beat the Zacks Consensus Estimate of $2.63 billion. O'Reilly witnessed comparable store sales growth of 5% in the quarter ended Sep 30, 2019, compared with 3.9% rise in the year-ago quarter.

Net income amounted to $391 million for the quarter, up from $366 million recorded in the year-ago quarter.

Q3 Highlights

Gross profit grew 8% to $1.42 billion from $1.32 billion in the year-ago quarter. Selling, general and administrative expenses rose 7% year over year to $886 million from $831 million in third-quarter 2018. Operating income grew 11% to $536 million from $485 million reported in the prior-year quarter.

Share Repurchases

During the reported quarter, O'Reilly repurchased 1 million shares for $387 million at an average price of $377.85 per share. From the end of the quarter to the date of the earnings release, the company repurchased an additional 0.1 million shares of its common stock for $32 million at an average price of $393.33 per share.

Financial Position

The company had cash and cash equivalents of $42.8 million at the end of the third quarter compared with $40 million in the year-ago period. Its long-term debt increased to $3.7 billion as of Sep 30, 2019, from $3.1 billion as of Sep 30, 2018.

At the end of the third quarter, O'Reilly generated $642.7 million in cash from operating activities compared with $466.8 million recorded a year ago. During the period, capital expenditure amounted to $185.6 million compared with $126.3 million in the year-ago period. Further, free cash flow rose to $454.7 million from $327 million a year ago.

Outlook

For fourth-quarter 2019, O'Reilly projects earnings of $4.12-$4.22 per share. Further, the company expects 3-5% rise in consolidated comparable store sales.

For 2019, O'Reilly reiterated total revenue projection at $10-$10.3 billion and earnings per share at $17.75-$17.85.

For the year, the company expects free cash flow of $1.0-$1.1 billion.

Valuation

O'Reilly's shares are up 29.1% over the trailing 12-month period. Stocks in the Zacks Automotive - Retail and Wholesale - Parts industry and the Zacks Retail and Wholesale sector are up 26% and 10.2%, respectively, over the past year. The S&P 500 index is up 24.4% in the past year.

The stock is currently trading at 21.83X forward 12-month earnings, which compares to 18.07X for the Zacks sub-industry, 10.71X for the Zacks sector and 18.81X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.05X and as low as 13.57X, with a 5-year median of 21.29X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $464 price target reflects 23.16X 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	21.83	18.07	10.71	18.81
	5-Year High	28.05	21.41	11.75	19.34
	5-Year Low	13.57	14.08	8.23	15.17
	5-Year Median	21.29	17.88	9.93	17.44
EV/EBITDA TTM	Current	17.83	23.19	8.67	11.99
	5-Year High	18.06	23.85	11.33	12.86
	5-Year Low	9.25	15.23	7.05	8.48
	5-Year Median	15.06	20.39	9.27	10.67
P/S F12M	Current	3.09	1.77	0.67	3.49
	5-Year High	3.31	1.96	0.76	3.49
	5-Year Low	1.69	1.23	0.5	2.54
	5-Year Median	2.8	1.71	0.62	3

As of 01/09/2020

Industry Analysis **Zacks Industry Rank:** Top 27% (69 out of 254)

Top Peers

Advance Auto Parts, Inc. **(AAP)**	Neutral
American Axle & Manufacturing Holdings, Inc. **(AXL)**	Neutral
AutoZone, Inc. **(AZO)**	Neutral
Dorman Products, Inc. **(DORM)**	Neutral
Genuine Parts Company **(GPC)**	Neutral
CarMax, Inc. **(KMX)**	Neutral
Standard Motor Products, Inc. **(SMP)**	Neutral
Tenneco Inc. **(TEN)**	Underperform

Industry Comparison Industry: Automotive - Retail And Wholesale - Parts

Industry Peers

	ORLY Neutral	X Industry	S&P 500	AAP Neutral	AZO Neutral	KMX Neutral
VGM Score	B	-	-	A	C	D
Market Cap	33.09 B	14.31 B	23.94 B	10.59 B	27.29 B	14.31 B
# of Analysts	9	8	13	9	9	8
Dividend Yield	0.00%	0.00%	1.78%	0.16%	0.00%	0.00%
Value Score	C	-	-	B	C	B
Cash/Price	0.00	0.01	0.04	0.05	0.01	0.04
EV/EBITDA	18.47	18.47	13.97	15.01	13.46	21.04
PEG Ratio	1.42	1.55	2.03	1.56	1.54	1.35
Price/Book (P/B)	199.08	3.53	3.33	3.16	NA	3.89
Price/Cash Flow (P/CF)	22.08	14.55	13.73	14.55	14.08	14.54
P/E (F1)	21.87	17.11	18.79	16.86	17.31	16.91
Price/Sales (P/S)	3.32	1.09	2.64	1.09	2.27	0.73
Earnings Yield	4.57%	5.78%	5.32%	5.93%	5.78%	5.91%
Debt/Equity	32.16	0.79	0.72	0.79	-4.39	4.07
Cash Flow ($/share)	19.81	10.51	6.94	10.51	81.35	6.02
Growth Score	A	-	-	A	C	C
Hist. EPS Growth (3-5 yrs)	19.58%	14.89%	10.56%	-3.47%	14.35%	15.43%
Proj. EPS Growth (F1/F0)	11.60%	11.60%	7.49%	14.16%	4.31%	8.17%
Curr. Cash Flow Growth	22.44%	18.30%	14.83%	18.30%	15.07%	18.60%
Hist. Cash Flow Growth (3-5 yrs)	13.15%	8.49%	9.00%	4.14%	8.49%	10.83%
Current Ratio	0.81	1.06	1.23	1.31	0.88	2.43
Debt/Capital	96.98%	62.27%	42.99%	44.27%	NA	80.28%
Net Margin	13.69%	4.58%	11.08%	4.58%	13.45%	4.40%
Return on Equity	527.13%	15.61%	17.16%	15.61%	-96.87%	24.53%
Sales/Assets	1.03	1.03	0.55	0.91	1.14	1.00
Proj. Sales Growth (F1/F0)	5.51%	2.85%	4.20%	2.40%	2.85%	10.37%
Momentum Score	D	-	-	A	A	F
Daily Price Chg	1.27%	0.30%	0.53%	-0.19%	-0.18%	0.60%
1 Week Price Chg	0.35%	0.35%	-0.30%	0.68%	-1.21%	-1.29%
4 Week Price Chg	-0.87%	-2.08%	1.92%	-2.08%	-6.95%	-11.56%
12 Week Price Chg	7.42%	3.64%	6.54%	-6.64%	3.64%	-5.53%
52 Week Price Chg	27.35%	35.58%	22.58%	-7.39%	38.44%	35.58%
20 Day Average Volume	444,902	318,722	1,580,816	679,018	192,542	1,639,219
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.12%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.46%	-2.31%
(F1) EPS Est 12 week change	1.99%	0.92%	-0.50%	0.92%	1.23%	-1.99%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-0.15%	-2.20%

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	A
Momentum Score	D
VGM Score	B

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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