

O'Reilly Automotive (ORLY)

\$391.31 (As of 02/10/20)

Price Target (6-12 Months): **\$415.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/19/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM: C

Value: D

Growth: A

Momentum: C

Summary

O'Reilly's fourth-quarter earnings missed the Zacks Consensus Estimate while sales topped the same. Customer-centric business model and growing demand for high-quality auto parts are likely to drive O'Reilly's growth, going forward. 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 faces headwind from high SG&A costs, which may dent margins. High capex and elevated leverage also play spoilsports.

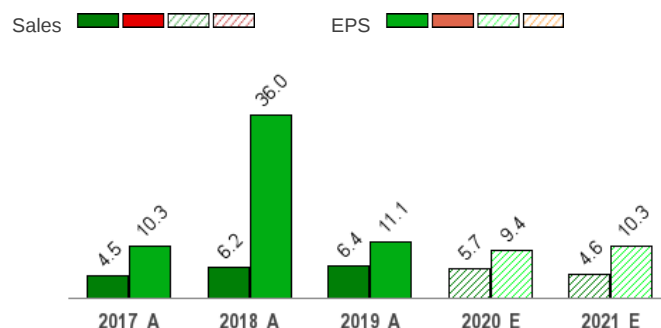
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$454.31 - \$349.71
20 Day Average Volume (sh)	723,609
Market Cap	\$29.6 B
YTD Price Change	-10.7%
Beta	0.69
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Retail and Wholesale - Parts
Zacks Industry Rank	Bottom 9% (233 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-0.2%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	-2.9%
Expected Report Date	04/22/2020
Earnings ESP	0.0%
P/E TTM	21.9
P/E F1	20.0
PEG F1	1.3
P/S TTM	2.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,676 E	2,866 E	2,921 E	2,710 E	11,222 E
2020	2,563 E	2,746 E	2,790 E	2,591 E	10,732 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	\$4.85 E	\$5.57 E	\$5.80 E	\$4.92 E	\$21.58 E
2020	\$4.44 E	\$5.03 E	\$5.38 E	\$4.52 E	\$19.56 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, except sales and EPS estimates, is as of 02/10/2020. The reports text and the analyst-provided sales and EPS estimates are as of 02/11/2020.

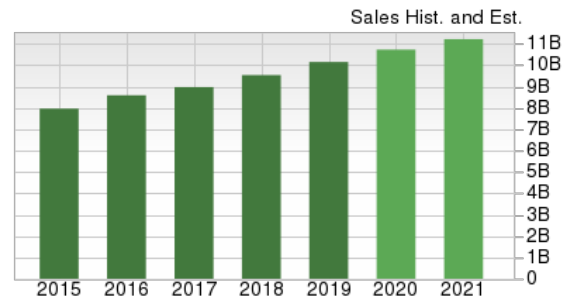
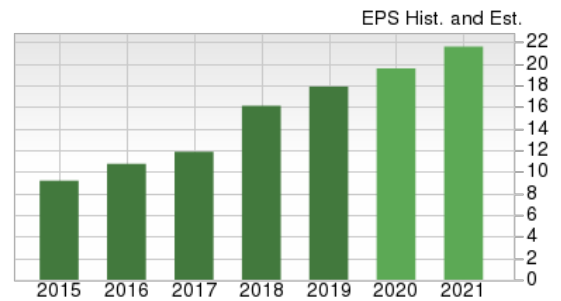
Overview

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:

- ▲ Customer-centric business model and growing demand for high-quality auto parts are likely to drive O'Reilly's growth in 2020. 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 2020 than a year ago. It expects 2020 EPS and sales within \$19.03-\$19.13 and \$10.7-\$11 billion, respectively. First-quarter 2020 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, raising the aggregate authorization to \$13.75 billion.

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.

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.
- ▼ The company's high capex is a cause of concern. The company forecasts 2020 capital expenditure within \$625-\$675 million, indicating a rise from 2019 figure of \$146.8 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 90.7%, 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.

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

Last Earnings Report

O'Reilly's Q4 Earnings Miss, Up Y/Y

O'Reilly reported earnings per share of \$4.25 in fourth-quarter 2019, lagging the Zacks Consensus Estimate by a penny. High selling, general and administrative expenses led to the underperformance.

Nonetheless, the bottom line was up 14.2% from \$3.72 in the prior-year quarter. Net income amounted to \$324.9 million in the quarter, up from \$300.3 million recorded in the year-ago period. Higher year-over-year revenues and solid comps growth resulted in the improved results.

O'Reilly's quarterly revenues came in at \$2,482.9 million, topping the consensus mark of \$2,473 million. Moreover, the top line was higher than the prior-year level of \$2,314.9 million. The auto-parts retailer's comparable store sales growth was 4.4% in the quarter ended Dec 31, 2019 compared with 3.3% rise in the comparable year-ago period.

Quarter Ending **12/2019**

Report Date	Feb 05, 2020
Sales Surprise	0.52%
EPS Surprise	-0.23%
Quarterly EPS	4.25
Annual EPS (TTM)	17.89

Key Takeaways

Gross profit grew 7% to \$1.32 billion from \$1.23 billion in the year-ago quarter. SG&A expenses increased 10% to \$883 million from \$806 million in fourth-quarter 2018. Operating income grew 3% to \$442 million from \$428 million reported in the prior-year quarter.

During the reported quarter, O'Reilly repurchased 0.3 million shares for \$125 million at an average price of \$427.33 per share. From the quarter-end to the date of the earnings release, the company repurchased an additional 0.2 million shares of its common stock for \$88 million at an average price of \$428.29 per share. Bringing in pleasant news for its shareholders, it approved additional buyback worth \$1 billion, raising the aggregate authorization to \$13.75 billion.

The company had cash and cash equivalents of \$40.4 million as of Dec 31, 2019. Its long-term debt increased to \$3.9 billion as of Dec 31, 2019 from \$3.41 billion in the corresponding period of 2018. Debt-to-capital ratio stands at 90.7%.

At the end of the fourth quarter, O'Reilly generated \$218.8 million in cash from operating activities compared with \$385.5 million in the comparable year-ago period. During the quarter, capital expenditure amounted to \$146.8 million compared with \$153.8 million in the year-ago period. Free cash flow totaled \$43.2 million compared with \$230 million a year ago. Store count as of Dec 31, 2019 was 5,460.

Looking Forward

For first-quarter 2020, O'Reilly projects earnings within \$4.37-\$4.47 per share. Further, the company expects 2-4% rise in consolidated comparable store sales.

For full-year 2020, O'Reilly expects revenue between \$10.7 billion and \$11 billion. EPS is forecast within \$19.03-\$19.13. Capital expenditure is anticipated in the band of \$625-\$675 million. For the year, the company estimates free cash flow in the range of \$1.1-\$1.2 billion.

Valuation

O'Reilly's shares are down 10.7% in the year-to-date period and up 3.4% over the trailing 12-month period. Stocks in the Zacks Automotive - Retail and Wholesale - Parts industry and the Zacks Retail and Wholesale sector are down 8.5% and up 4.3%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 10.7% and 17.1%, respectively.

The S&P 500 index is up 3.4% in the year-to-date period and 22.8% in the past year.

The stock is currently trading at 19.73X forward 12-month earnings, which compares to 16.8X for the Zacks sub-industry, 25.41X for the Zacks sector and 19.12X 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 21.24X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$415 price target reflects 20.93X 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	19.73	16.8	25.41	19.12
	5-Year High	28.05	21.41	26.2	19.34
	5-Year Low	13.57	14.08	19.07	15.18
	5-Year Median	21.24	17.79	23	17.47
EV/EBITDA TTM	Current	16.01	21.73	15.71	11.36
	5-Year High	18.06	23.85	15.71	12.85
	5-Year Low	9.25	15.23	10.79	8.47
	5-Year Median	15.08	20.39	12.39	10.7
P/S F12M	Current	2.75	1.63	1.07	3.53
	5-Year High	3.31	1.96	1.1	3.53
	5-Year Low	1.69	1.23	0.8	2.54
	5-Year Median	2.81	1.7	0.92	3

As of 02/10/2020

Industry Analysis Zacks Industry Rank: Bottom 9% (233 out of 255)



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)	Neutral

Industry Comparison Industry: Automotive - Retail And Wholesale - Parts				Industry Peers		
	ONLY Neutral	X Industry	S&P 500	AAP Neutral	AZO Neutral	KMX Neutral
VGM Score	C	-	-	A	C	D
Market Cap	29.61 B	15.95 B	24.17 B	9.05 B	25.11 B	15.95 B
# of Analysts	10	8	13	10	9	8
Dividend Yield	0.00%	0.00%	1.77%	0.18%	0.00%	0.00%
Value Score	D	-	-	B	C	C
Cash/Price	0.00	0.01	0.04	0.06	0.01	0.03
EV/EBITDA	15.92	15.92	13.89	13.20	12.62	22.24
PEG Ratio	1.30	1.42	2.05	1.34	1.42	1.57
Price/Book (P/B)	74.51	3.52	3.27	2.70	NA	4.34
Price/Cash Flow (P/CF)	17.77	16.21	13.60	12.44	12.95	16.21
P/E (F1)	19.94	17.46	19.00	14.49	15.93	18.98
Price/Sales (P/S)	2.92	0.93	2.66	0.93	2.09	0.81
Earnings Yield	5.00%	5.26%	5.26%	6.90%	6.28%	5.26%
Debt/Equity	13.96	0.79	0.71	0.79	-4.39	4.07
Cash Flow (\$/share)	22.02	10.51	6.89	10.51	81.35	6.02
Growth Score	A	-	-	A	C	C
Hist. EPS Growth (3-5 yrs)	19.31%	14.89%	10.85%	-3.47%	14.35%	15.43%
Proj. EPS Growth (F1/F0)	9.38%	9.07%	7.22%	13.69%	4.28%	7.39%
Curr. Cash Flow Growth	4.97%	15.07%	8.88%	18.30%	15.07%	18.60%
Hist. Cash Flow Growth (3-5 yrs)	11.32%	8.49%	8.36%	4.14%	8.49%	10.83%
Current Ratio	0.86	1.06	1.22	1.31	0.88	2.43
Debt/Capital	93.31%	62.27%	42.90%	44.27%	NA	80.28%
Net Margin	13.70%	4.58%	11.81%	4.58%	13.45%	4.40%
Return on Equity	514.91%	15.61%	16.98%	15.61%	-96.87%	24.53%
Sales/Assets	0.98	1.00	0.54	0.91	1.14	1.00
Proj. Sales Growth (F1/F0)	5.74%	2.84%	4.06%	2.32%	2.84%	10.37%
Momentum Score	C	-	-	B	D	D
Daily Price Chg	0.93%	-0.25%	0.45%	-1.69%	-0.49%	1.40%
1 Week Price Chg	-4.53%	0.09%	2.47%	0.90%	0.09%	-0.76%
4 Week Price Chg	-10.15%	-6.62%	0.95%	-10.04%	-6.62%	7.27%
12 Week Price Chg	-13.02%	-11.28%	5.05%	-20.16%	-11.28%	-2.09%
52 Week Price Chg	6.72%	18.67%	16.18%	-20.86%	18.67%	60.90%
20 Day Average Volume	723,609	849,849	1,999,386	976,090	241,283	1,106,632
(F1) EPS Est 1 week change	-2.47%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.93%	-0.49%	0.00%	-0.49%	-0.04%	-0.72%
(F1) EPS Est 12 week change	-2.39%	-0.36%	-0.18%	-0.36%	1.08%	-2.70%
(Q1) EPS Est Mthly Chg	-2.15%	0.00%	0.00%	0.34%	-0.07%	0.11%

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	D
Growth Score	A
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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