

Advance Auto Parts

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Company Overview

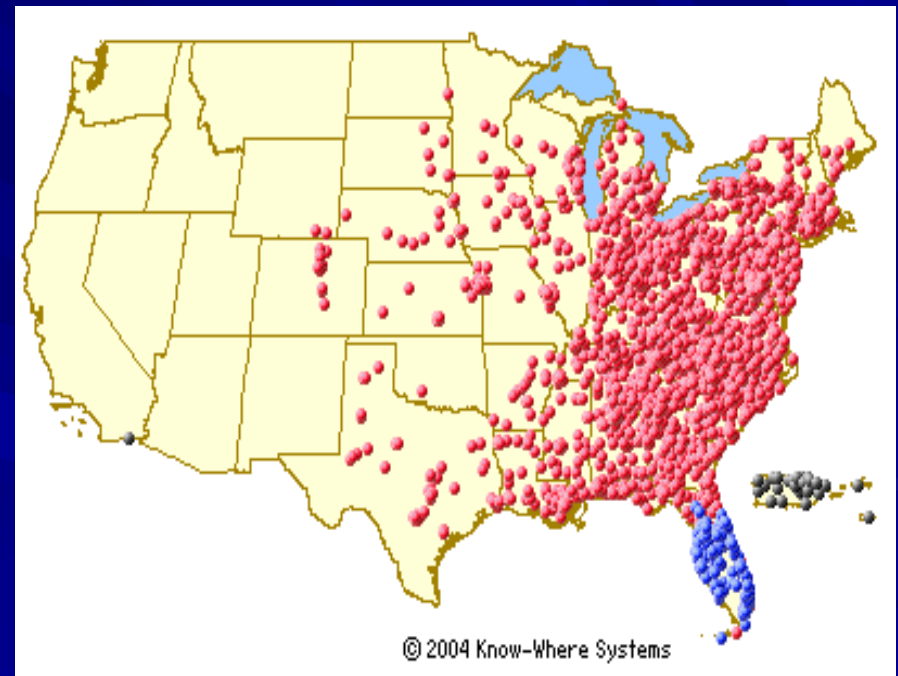
- Founded in 1932 in Roanoke, VA
- The company sells auto parts in the do-it-yourself (DIY) market and the professional parts installer market of the automotive aftermarket industry
- The DIY market consists of the auto parts the company sells at its Advance Auto Parts, Advance Discount Auto Parts, and Discount Auto Parts stores (accounts for 85% of revenue)

Company Overview

- The professional installer market consists of the auto parts that Advance sells to professional repair shops (accounts for 15% of revenue)

Company Overview

- Advance has 2,496 stores in 38 states, Puerto Rico, and the Virgin Islands
- Second largest retailer of auto parts in US
- Stores carry quality brand name parts such as AC Delco, Monroe, and Purolator



Competitors

- Auto Zone, Pep Boys, Genuine Auto Parts, Wal-Mart are the company's main competitors
- Also face competition from smaller, regional parts retailers
- Auto Zone is the leading retailer of auto parts in US



Theses

- Thesis 1: Automotive Aftermarket Industry has been successful industry with substantial growth and it will continue to show this growth in the future
- Thesis 2: Advance Auto Parts has superior customer service that sets it apart in industry
- Thesis 3: Advance has shown rapid growth and has potential for future growth

Thesis 1

- From 1991 to 2001 the DIY segment of the industry grew from \$22 billion industry to \$35 billion industry
- Industry has become more consolidated
- Advance's competitive advantages in pricing, number of stores, store selection, and brand recognition will allow it to be dominant in this industry

Thesis 1

- Industry will continue to succeed:
- Average age of US vehicles is nine years
- Vehicles of 6+ years are growing at 3.6% annually
- SUV's have larger, more expensive parts

SUV Growth Driving Up Average Ticket

<i>PART</i>	<i>1997 Ford Explorer</i>	<i>1997 Ford Taurus</i>	<i>Difference</i>
<i>Battery</i>	\$54.99	\$49.99	10.0%
<i>Alternator</i>	\$178.88	\$168.99	5.8%
<i>Water Pump (New)</i>	\$99.99	\$49.99	100.0%
<i>Brake Pads</i>	\$19.98	\$16.99	17.6%
<i>Brake Rotor</i>	\$32.24	\$20.89	54.3%
<i>Total Basket</i>	\$386.08	\$306.85	25.8%



Increasing Average Ticket

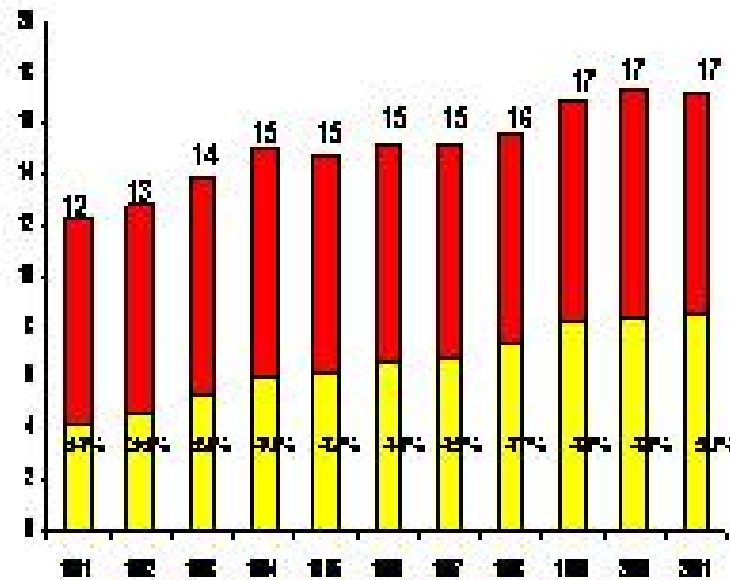


Thesis 1

Positive Industry Dynamics

SUVs Driving New Vehicle Sales

(in millions)

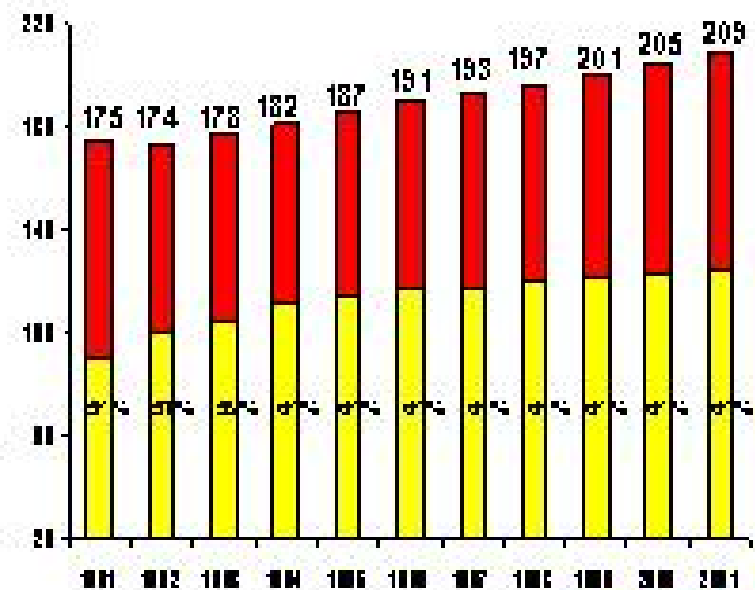


Source: J.D. Power

Source: J.D. Power Annual Feedback, 2007

Total number of vehicles has grown from 175MM to 209MM with vehicles 6+ years growing at 3.6% annually

(in millions)



Source: J.D. Power



Thesis 2

- Advance Auto Parts places a premium on customer service
- Well lit, well stocked, accessible stores
- Friendly, helpful staff
- Stores offer 16,000-21,000 items
- 105,000 additional items are available on a same day or overnight basis through the Parts Delivered Quickly System (PDQ)

Thesis 2

- Advance has several customer service initiatives:
- APAL- Advance Parts and Accessories Look-up
- MPT-Management Planning and Training
- 2010 Store Format

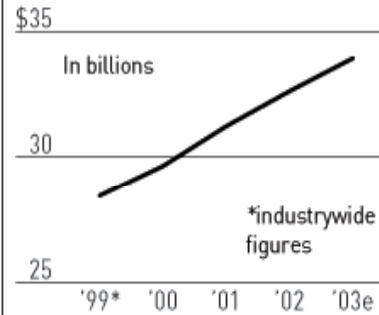
Thesis 3

- Advance had 536 stores in 1995 and now has 2,496
- Advance has had 5 year average same-store sales growth of 5.7%
- Advance has had strongest EPS growth in the industry for the past five years

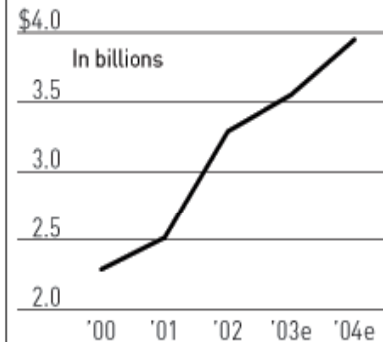
In High Gear

Advance Auto Parts is retooling its displays, advertising and operations. A rising number of used-car-owners also is helping grow sales

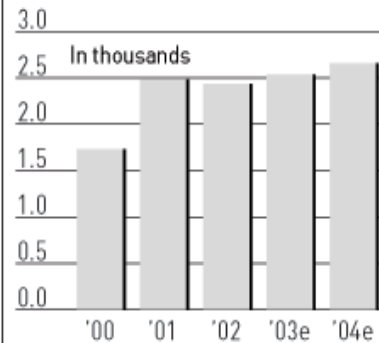
Do-It-Yourself Aftermarket Consumer Sales



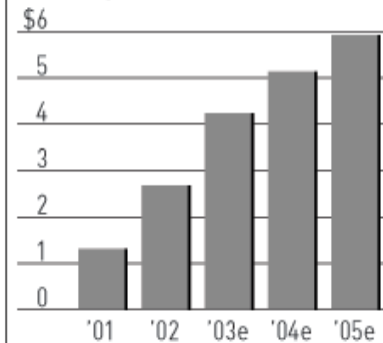
Company sales



Advance Auto Parts' stores



Earnings Per Share



Sources: Company data, Automotive Aftermarket Industry Association, Smith Barney, First Call

Thesis 3

- Growth has come from:
- Same-store sales growth
 - Expect 5% growth in 2004
- Increase in operating margins- margins have increased from 4.9% to 8.5%
- New store openings
 - 19 new stores opened in most recent quarter
- Acquisitions
 - Advance acquired Discount Auto Parts and its 671 stores in November, 2001

Thesis 3

- Growth will continue:
- Customer Service will help same-store sales growth
- Advance launched first nationwide ad campaign in 2003
 - “We’re Ready in Advance”
- There are future acquisition prospects
- New stores will continue to open
- Western US is open to consolidation

Thesis 3

- Advance can handle future growth:
- Current distribution system has capacity for over 3400 stores
- Inventory management system will keep inventory stable
- Healthy supply of cash
 - \$165M free cash flow in 2002, \$210M expected in 2003

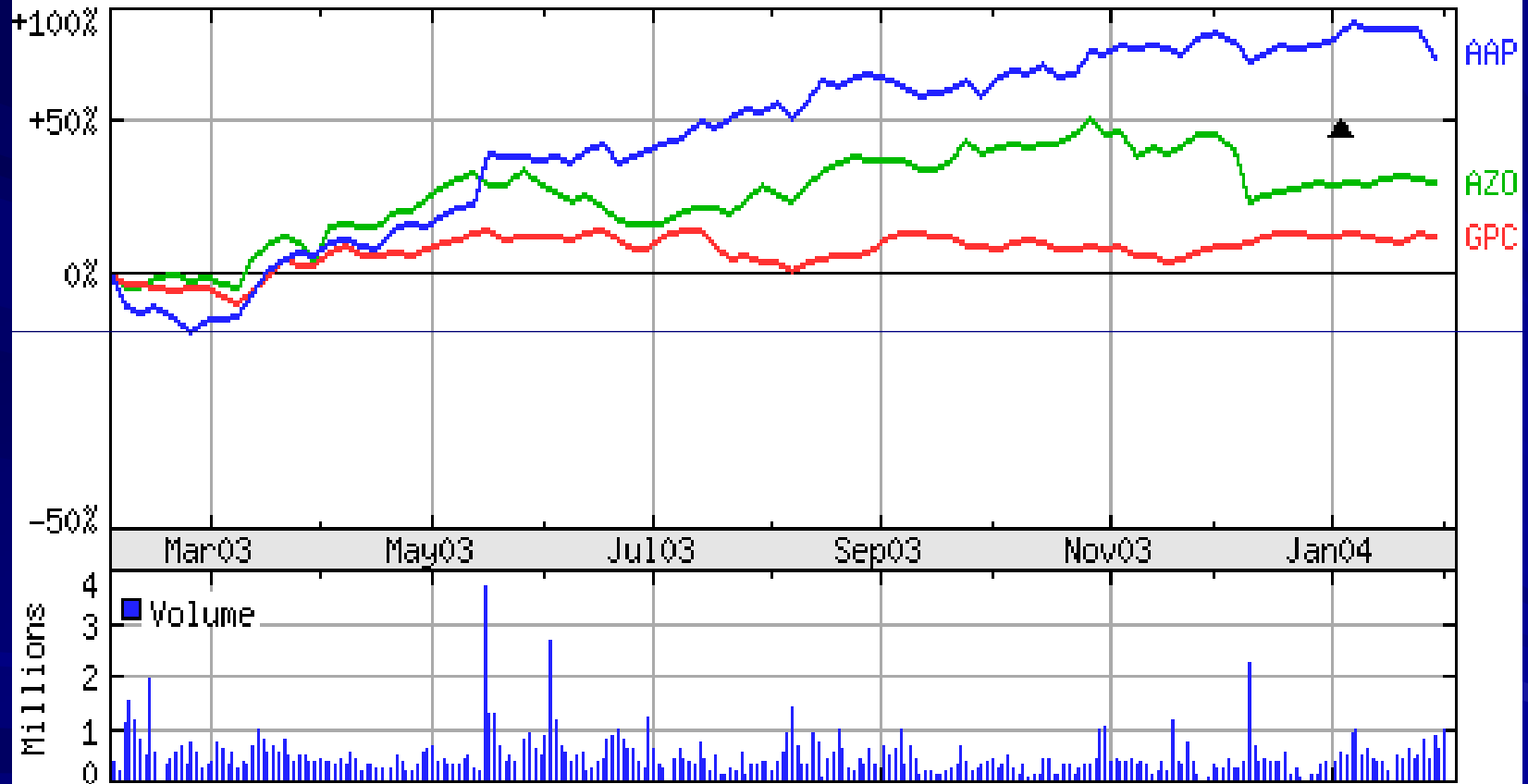
Key Figures

- Share Price: 39.39
- Shares Outstanding: 73.82M
- Market Cap: 2.90B
- 52wk Range: 18.50-42.75
- Debt to Capital Ratio:
 - Year End 2001: 77%
 - Year End 2002: 61%
 - Estimate Year End 2003: <50%

Stock Performance

AUTOZONE INC.
as of 2-Feb-2004

Splits: ▼



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Questions?