Advanced Auto Parts

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Overview

 Specialty Realtor for automotive parts (after-market), accessories, batteries, maintenance items

Primarily business is in the United States, but also have an international segment

3662 stores and 52,000 Team Members

AAP vs Al

Of 3662 stores, only 202 stores are

Income before provision for income taxes					
AAP	5	621,700	5	552,565	\$ 424,075
AI		11,536		4,490	7,580
Total income before provision for income taxes	5	633,236	5	557,055	\$ 431,655

Most of international income is from shipping foreign car parts

Hopeful to expand internationally, have kept Advanced Auto brand-name

	2011	2010	2009	2008	2007
Beginning Stores	194	156	125	108	87
New Stores	9	38	32	18	21
Stores Closed	(1)		(1)	(1)	
Ending Stores	202	194	156	125	108

Corporate Values

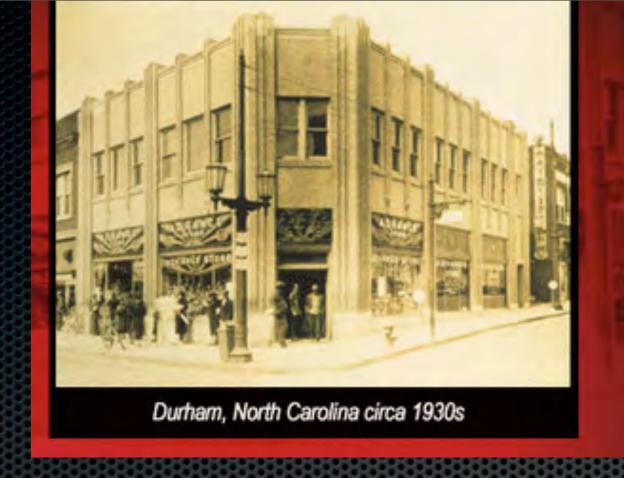
Inspire and build the self-confidence and success of every team member.



Serve our customers better than anyone else, help them succeed.

Grow the business and profitability with integrity.

History





- 1932- Advanced Stores Company was encorporated
- 1938- With few stores, the main product line involved children's toys
- 1941- After WWII the company restructured and became a retailer for the "automotive after-market"
- 1969-54 stores
- 1974- Name was changed to Advanced Auto

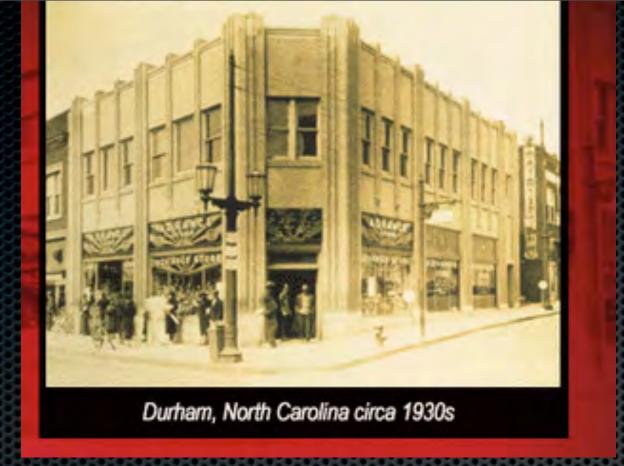
History



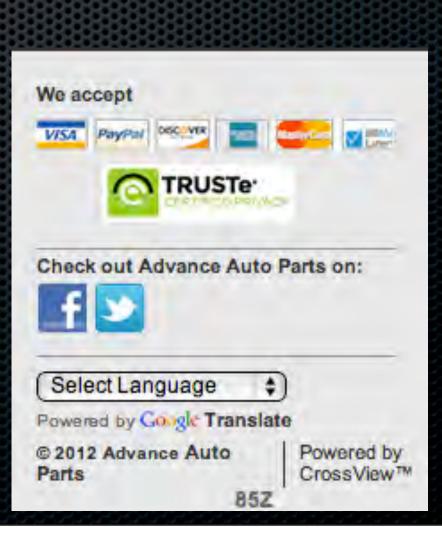
- 1984- Suffered losses due to a flood
- 1987-100th store opened
- 1993-352 stores
- 1994-5,000 employees
- 1995- Acquired Nationwise Auto Parts Stores



History



- 1998- Doubles size with acquisition of Western Auto Supply Co.
- 2000-1728 stores
- 2001 Acquired Discount Auto Parts / I.P.O.
- 2003- Listed on Fortune 500
- 2006-3000th store
- 2009- e-Commerce website launched



Products

- Air, Fuel, Emission & Exhaust
- Accessories, Body & Wipers
- Batteries, Electrical & Wiring
- Brakes, Steering & Suspension
- Cooling & Heating
- Electronics & Navigation



- Engines & Ignition
- Tools, Fluids, & Garage

Total	100%	100%	100%
Other	2%	3%	4%
Oil	10%	10%	10%
Chemicals	11%	11%	11%
Accessories	14%	15%	15%
Parts and Batteries	63%	61%	60%
Percentage of Sales, by Product Group in AAP Segment (2)			

Marketing/Advertising

- Emphasis on Brand Name
 - Advanced Auto Parts
 - Advanced Discount Auto Parts -certain stores in Florida
 - Western Auto Parts
 - Western Auto
- 2011- "Service is our Best Part" Campaign
- Radio, Direct, Digital, and Local marketing focuses

Store Technology

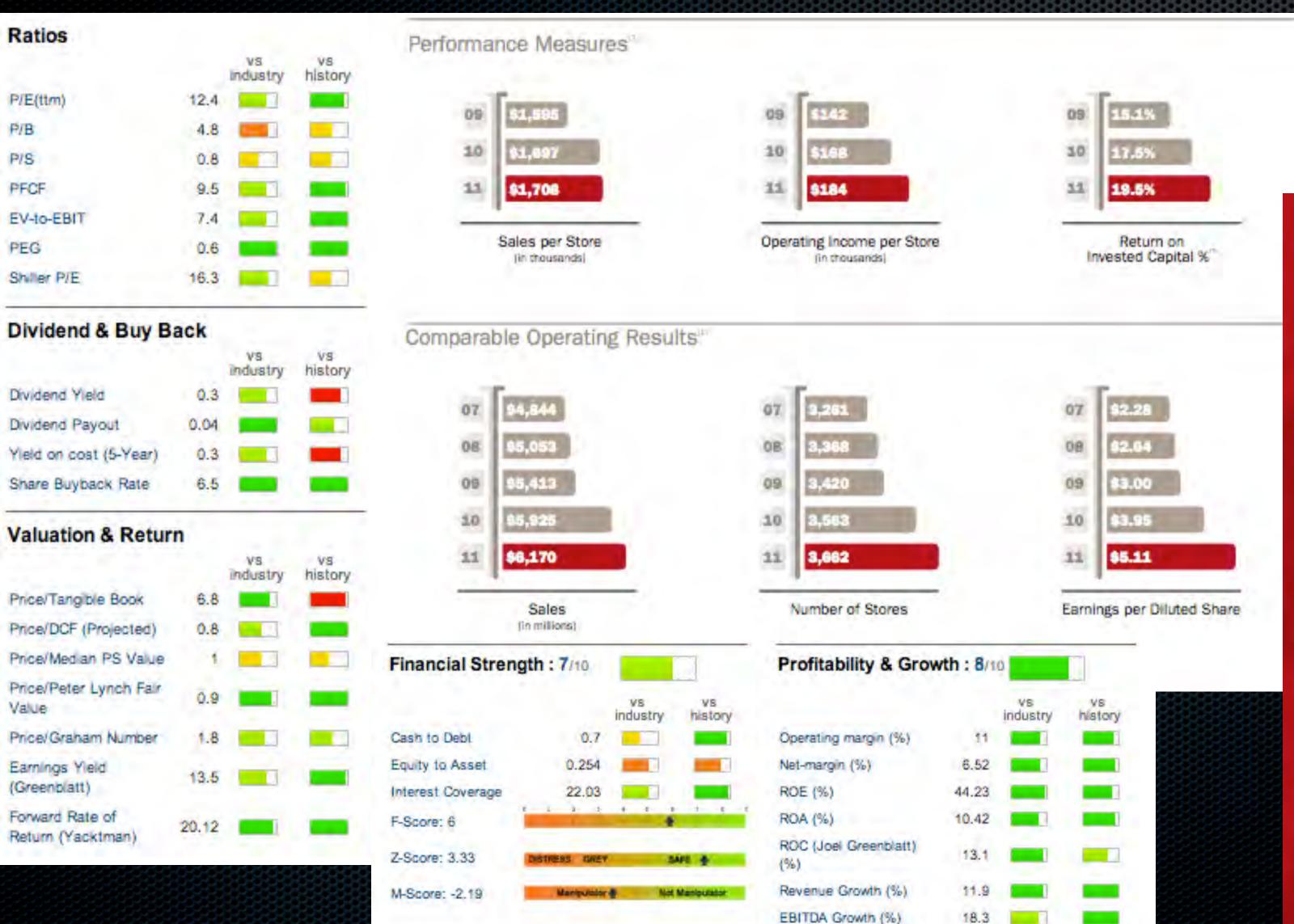
Real-time, comprehensive information to store personnel, resulting in improved customer service levels, Team Member productivity and in-stock availability.

Electronic Catalogue and POS system

EPC System- search engine optimization through data mining

Store operations and standard operations

Financial Highlights





- Total sales increased 4.1% to \$6.17 billion in 2010.
- Comparable store sales increased 2.2% on top of an 8.0% increase in 2010.
- We opened a net 99 new stores, including nine Autopart International stores, and ended the year with a total store count of 3,662, including 202 Autopart International stores.
- We generated \$828.8 million in operating cash flow and a record \$507.2 million of free cash flow.
- Earnings per share increased 29.4% to \$5.11 on top of a 31.7% EPS increase in 2010.
- Our 19.5% return on invested capital, which increased from 17.5% in 2010, reflected our disciplined approach to managing our balance sheet and capital structure.

Buffettology Spreadsheet(1)

	Warren Buffett and the I	nterpre	etation of Financial	Staten	nents		
	(Adv	vance A	Auto Parts)				
		24 17					Threshold
a. Gross Profit Margin:	Gross Profit	-	\$3,069,290,000	=	49.74%	Y	≥ 40%
	Revenue		\$6,170,462,000				
b. SG&A Costs as a % of GP:	SG&A Expenses	-	\$2,404,648,000	-	78.35%	N	≤ 30%
	Gross Profit		\$3,069,290,000				
c. Depreciation as a % of Gross Profit:	Depreciation Expense	-	\$175,949,000	-	5.73%	Y	≤ 10%
	Gross Profit		\$3,069,290,000				
d. Interest Payouts:	Interest Expense	-	\$30,949,000	-	4.66%	Y	≤ 15%
	Operating Income		\$664,642,000				
e. Net Earnings Trend:	2009		2010		2011	Y	Up Trend
	\$270,373,000		\$346,053,000		\$394,682,000	6464	
	2006		2007		2008		
	\$231,000,000	74	\$238,000,000	-40	\$238,000,000	p 49-4	
f. Net Earnings/Total Revenues:	\$394,682,000	=	6.40%			N	10≤X≤20%
	\$6,170,462,000						
g. High Cash Balances:	2009		2010		2011	N	
	\$100,000,000		\$59,209,000		\$57,901,000		
	2006		2007		2008		
	\$11,120,000	715	\$14,650,000		\$37,350,000		



(2)

h. Current Ratio:	Current Assets	=	\$2,293,820,000	=	1.05		Y	≥ 1
	Current Liabilities		\$2,187,875,000				101	
i. Goodwill:	2009		2010		2011		ОК	
	\$34,387,000		\$34,387,000		\$76,389	,000	18.5	
j. Intangible Assets:	2009		2010		2011		ОК	
	\$26,419,000		\$25,360,000		\$31,380		100	
k. LongTerm Debt/Net Earnings:	\$722,800,000	=	1.8	3 Years			Y	< 5 (3-4 better)
	\$394,682,000							
I. Adj. Debt to Shareholders' Equity:	Total Liabilities		\$2,807,840,000	-	1.13		N	≤ .80
. Man Debt to Sharenovation againg	Shareholders' Equity		\$847,914,000					
	+ Treasury Stock		\$1,644,767,000					
m. Preferred Stock:	None.	П					Y	None
n. Retained Earnings:	2010	2011	2011 =		23.36%	Y	Increasing	
	\$1,612,927,000		\$1,989,629,000			70.00		
o. Treasury Stock:	2010		2011			-	Y	Presence on B.S.
	\$1,028,612,000	7	\$1,644,767,000	illocation of			10.1	
p. Return on Equity:	Net Income	=	\$394,682,000	-	46.55%		Y	≥ 15%
	Shareholders' Equity		\$847,914,000					
g. R&D Expenditures:	Research & Development		50	-	0.00%		Y	Combine W/SG&A
	Gross Profit		\$3,069,290,000					
r. Stock Buybacks:	2009		2010		2011		Y	Constant Buybacks
	\$100,062,000	-14	\$622,442,000		\$631,149	9,000		Share Increases?
s. Capital Expenditures:	Capital Expenditures	=	\$0	=	0.00%		Y	≤ 25%
	Net Profit		\$394,682,000				16	
t. Return on Capital:	Net Income	=	\$394,682,000	-	25.13%		Y	≥ 15%
	Shareholders' Equity + Long-Term Debt		\$847,914,000 \$722,800,000					
	Secretary Congress of the Debt	-	3722,000,000	-				



(3)

Net Income	=	\$394,682,000	=	10.80%		
Total Assets		\$3,655,754,000				
5%					Y	≤ 60%
0.50%						
None					Y	None
\$7.84	=	11.49%				
\$68.26						
\$5.11	=	7.49%				
\$68.26			+			
	Total Assets 5% 0.50% None \$7.84 \$68.26	Total Assets 5% 0.50% None \$7.84 = \$68.26 \$55.11 =	Total Assets \$3,655,754,000 5% 0.50% None \$7.84 = 11.49% \$68.26 \$5.11 = 7.49%	Total Assets \$3,655,754,000 5% 0.50% None \$7.84 = 11.49% \$68.26 \$5.11 = 7.49%	Total Assets \$3,655,754,000 5% 0.50% None \$7.84 = 11.49% \$68.26 \$5.11 = 7.49%	Total Assets \$3,655,754,000 5% 0.50% None Y \$7.84 = 11.49% \$68.26 \$5.11 = 7.49%



Master Spreadsheet (1)

Company Analysis Worksheet					
Company Name	Advance Auto Parts	Comments			
Stock Ticker Symbol	AAP				
Quantitative Review					
Current Price per Share	68.26	AAP is trading	in the lower half	of its 52-week range.	
52 Week High	93.08				
52 Week Low	57.5				
P/E Ratios:					
Current	12.7	10-year high P/	E is 48.9, and 10-	year low P/E is 12.1	
Trailing	12.9				
Forward	11.4				
Relative	0.89				
Dividend Yield	0.5%	AAP started pay	ying a dividend in	2006.	



Statistical Array Analysis		
Increasing		
Sales Per Share	Yes	Has nearly tripled, from \$30.67 in 2002 to \$84.76 in 2011.
Cash Flows Per Share	Yes	Has quadrupled, from \$1.78 in 2002 to \$7.84 in 2011.
Earnings Per Share	Yes	Has increased by more than 5 times, from \$0.89 in 2002 to \$5.11 in 2011.
Dividends Declared Per Share	Yes	Has remained constant at \$0.24 since dividends began in 2006.
Capital Spending Per Share	No	Had been between \$1.90 and \$2.50 from 2005 to 2010, increased to \$3.68 in 2011.
Book Value Per Share	No, 2010, 2011	Had tripled between 2002 (\$4.37) and 2009 (\$13.70), fell to \$11.65 in 2011.
Revenues (Sales)	Yes	Gross sales have nearly doubled from 2002 to 2011.
Gross Margin	49.70	% Has steadily increased from 44% in 2002.
Operating Margin	13.60	% This is the highest operating margin over the past 10 years.
Number of Stores	366	52 Has added about 100 stores each year for the last 5 years.
Net Profit	No, 2006	Has quadrupled, from \$97 million in 2002 to \$395 million in 2011.
Net Profit Margin	6.40	% This is the highest net profit margin over the past 10 years.
Working Capital	No	Working capital had been steady at \$400-500 million through 2009, then fell to \$100 million in 2011.
Shareholder's Equity	Yes	Nearly tripled from 2002 (\$468 million) to 2009 (\$1,282 million), but fell to \$848 million in 2011.
Return on Total Capital	No, '06	ROC has increased from 11.4% in 2002 to 32.5% in 2011.
Return on Shareholder's Equity	No, '05, '06, '09	ROE has increased from 20.7% in 2002 to 46.6% in 2011.
Common Shares Outstanding	Yes	Since 2003, shares outstanding have decreased by 34%, from 111 million to 73 million.
Long-Term Debt	Yes	Dropped by nearly 70% from 2002 to 2009, increased from 2009 to 2011.
LT Debt Payable in 5 years	Yes	LTD plus uncapitalized leases can be paid off with 1.8 years of net income.
All Dividends to Net Profit under 60	0%Yes	Dividends are 5% of net profit.
ValueLine Financial Strength	YES	B+ rating indicates good financial strength.
ValueLine Stock's Price Stability	YES	Price stability is 75.
ValueLine Earnings Predictability	YES	Earnings predictability is 95.

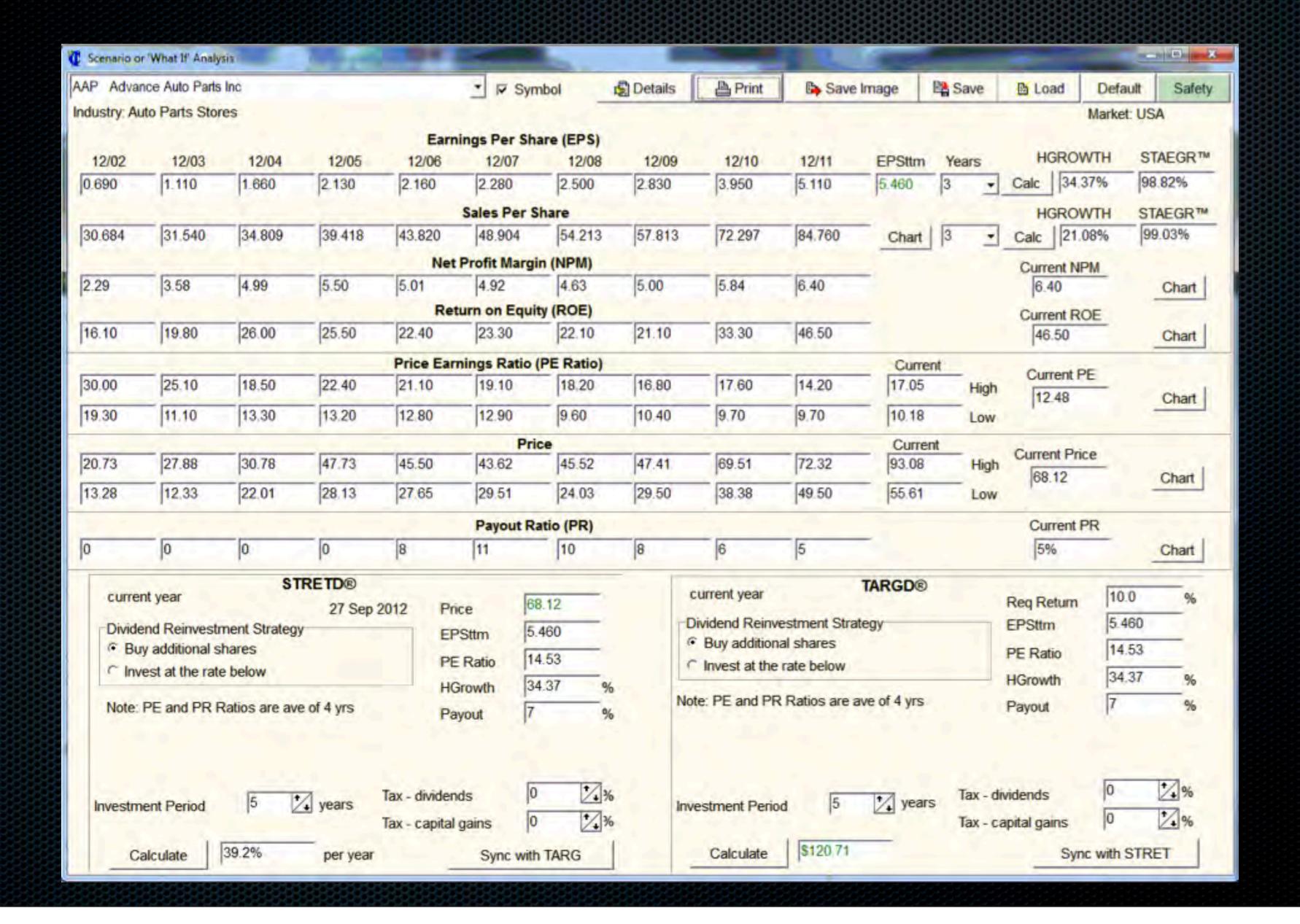




Annual Growth Rate Analysis		100	0						
Sales	Yes	Sales are	expected to	grow 9% pe	er year, con	pared to 12.5% over t	the past 5 years		
"Cash Flow"	Yes	Cash flow is expected to grow 12% per year, compared to 12.5% over the past 5 years.							
Earnings	Yes	Earnings a	are expected	to grow 13	% per year	, compared to 14% ov	er the past 5 ye	ars.	
Dividends	Yes	Dividends are expected to grow by 16.5% per year, after not growing over the past 5 years.							
Book value	Yes	BV is exp	ected to gre	ow 12% per	year, comp	ared to 13% over the	past 5 years.		
Current Assets/Cur. Liabilities=Cur	rent Ratio; Prefer this	to be 2:1						1.05	
Cur assets (-) Cur Liabs = Working	Capital; needs to be h	igh and grov	wing			Landa Eve		\$105.9 million	
Total Debt/Shareholder Equity=Deb	t to Equity Ratio; If th	is is higher	than 1, then	the compan	y is funded	by debt and not intern	nal cash flow	1.13	
Return on Assets: 1 is good; 1.5 is e	excellent							10.80%	
Qualitative Review									
What type of business is this: comm	odity or sustained con	npetitive adv	antage?	Sustained	competiti	ve advantage	10		
Can you easily explain what the bus		Sells auto					10		
Is it heavily unionized?		No					18		
Does it require heavy capital infusio	n?	No							
Does it require lots of research and	development?	No							
Are there chronic "one time" write of	offs?	No			L	1			
Buy a quality stock once you have d	letermined that you are	paying a si	gnificant di	scount to its	traditional	value			
Insiders sell for a variety of reasons	; insiders only buy for	one reason	No recen	t insider bu	ys		10		
Is the company able to raise its price	s to offset inflation?	Yes					1 6		
Will the company be able to sell more	re in the future?	Yes					12		
Ask yourself: if I gave you S1 billio	n could you develop	a competitor	. If the answ	wer is "no" y	our busine	ss has a sustained con	npetitive advant	tagNo	
Read the footnotes-there are tremen	dous details that need	to be evalua	ited						
Companies with a high ratio of fixed	d assets to sales genera	ally earn low	returns				4 - 1 - 7		
Look for businesses that sell a produ	uct or service that is hi	ghly desiral	ole, to which	h there are fe	ew substitut	tes and which are not	regulated.	YES	
Earnings can be manipulated; cash f	low is far harder to ma	nipulate							

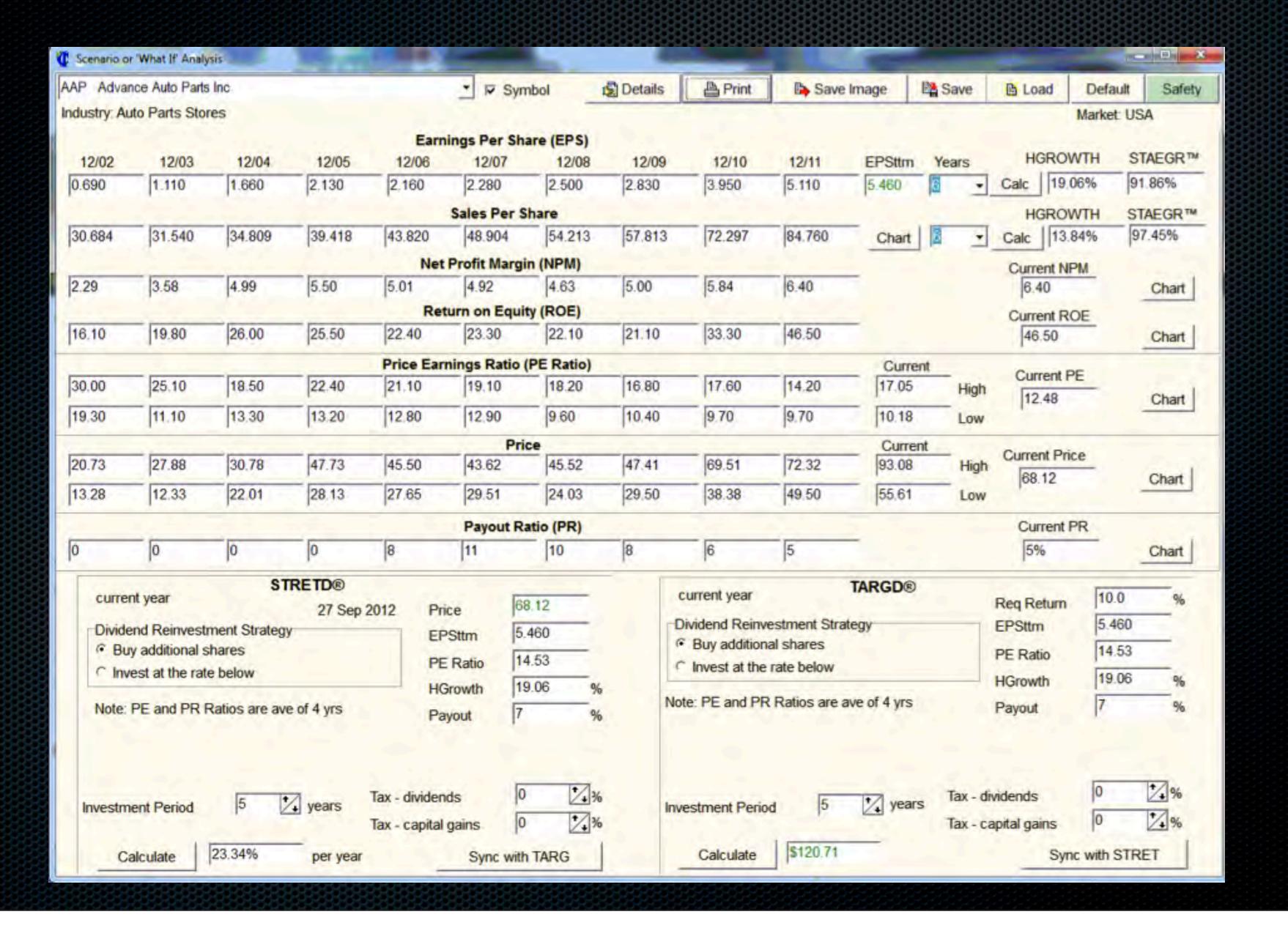


CI: 3 Yr Default



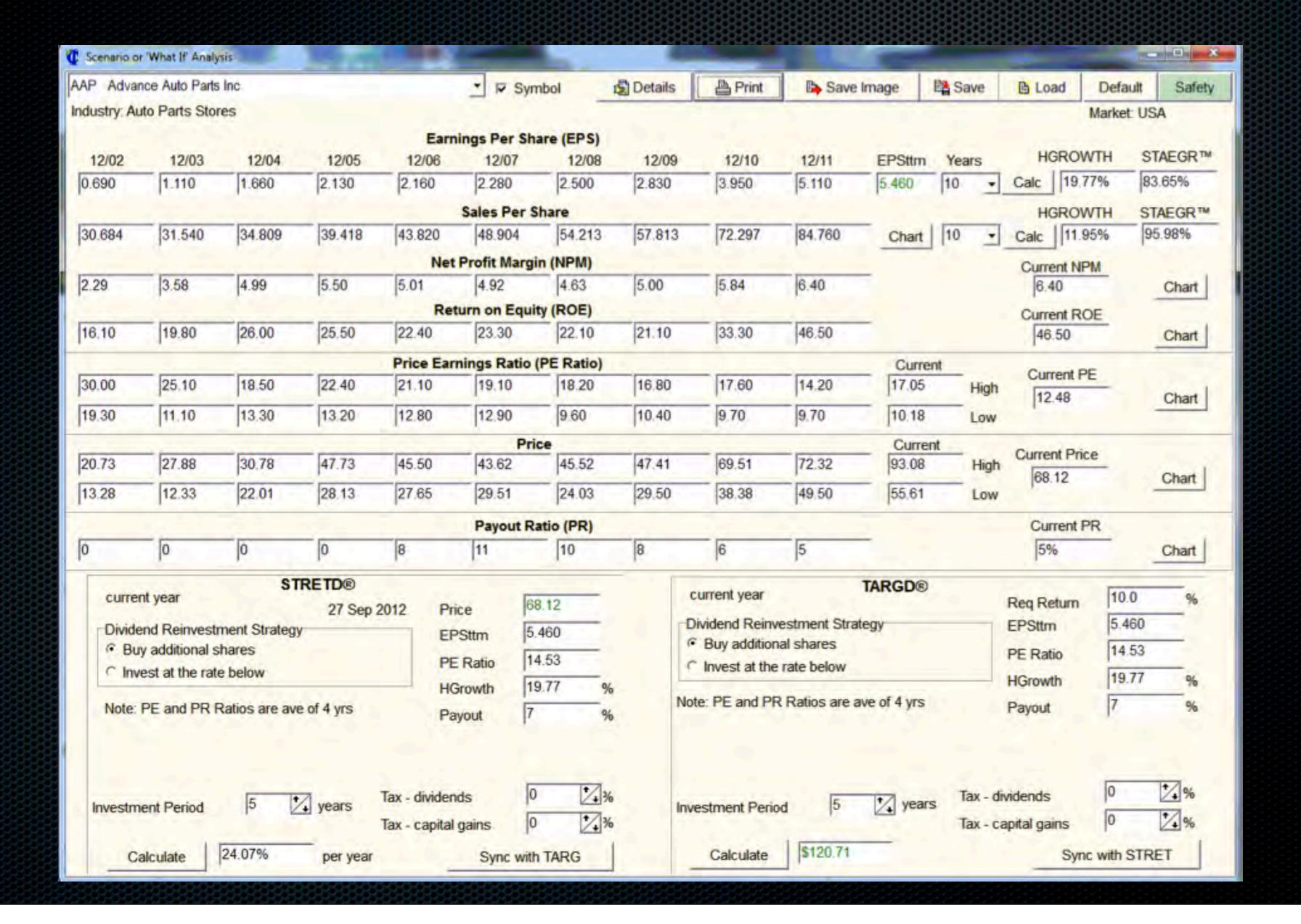


CI: 6 Yr Default



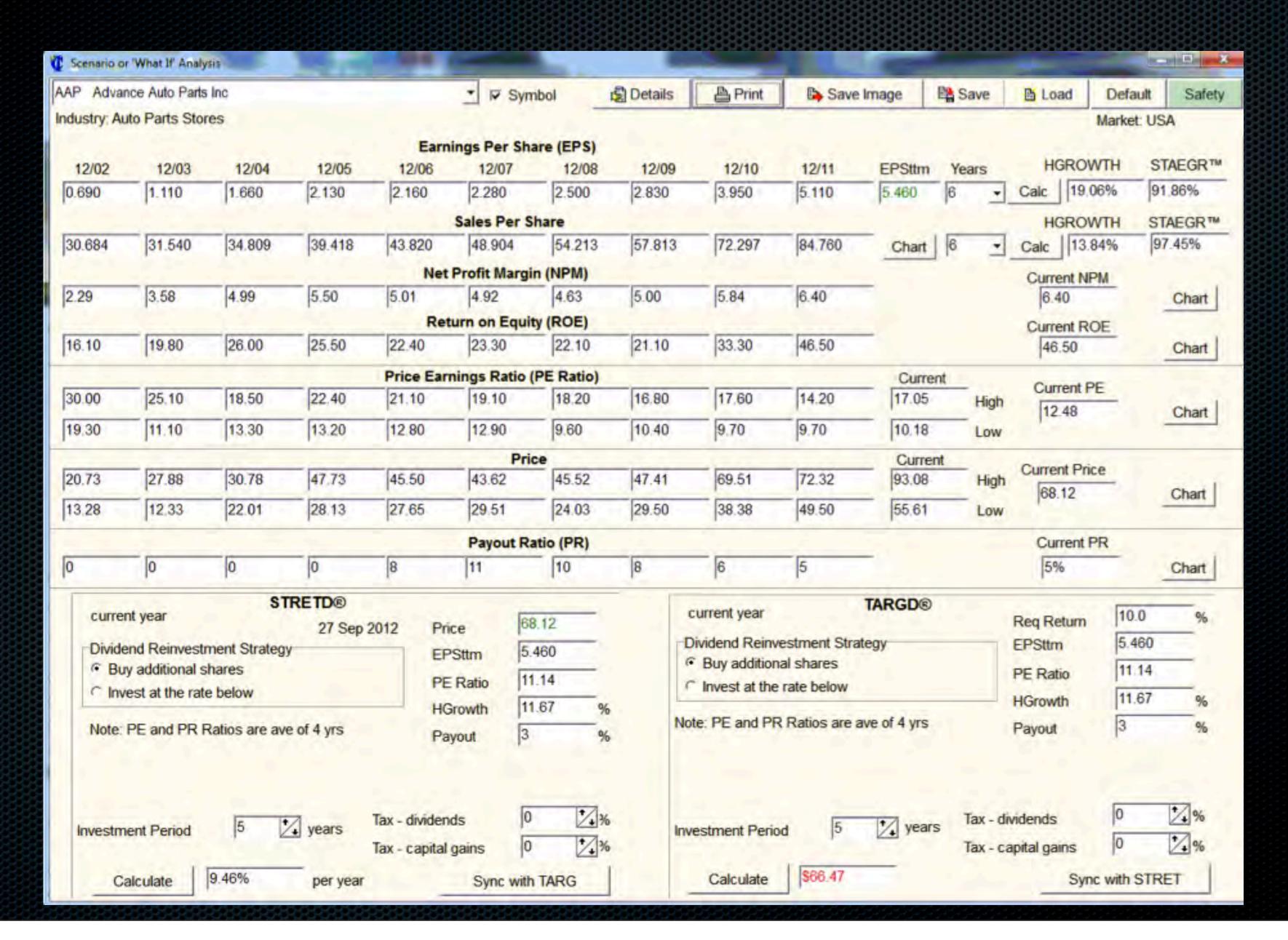


CI: 10 Yr Default



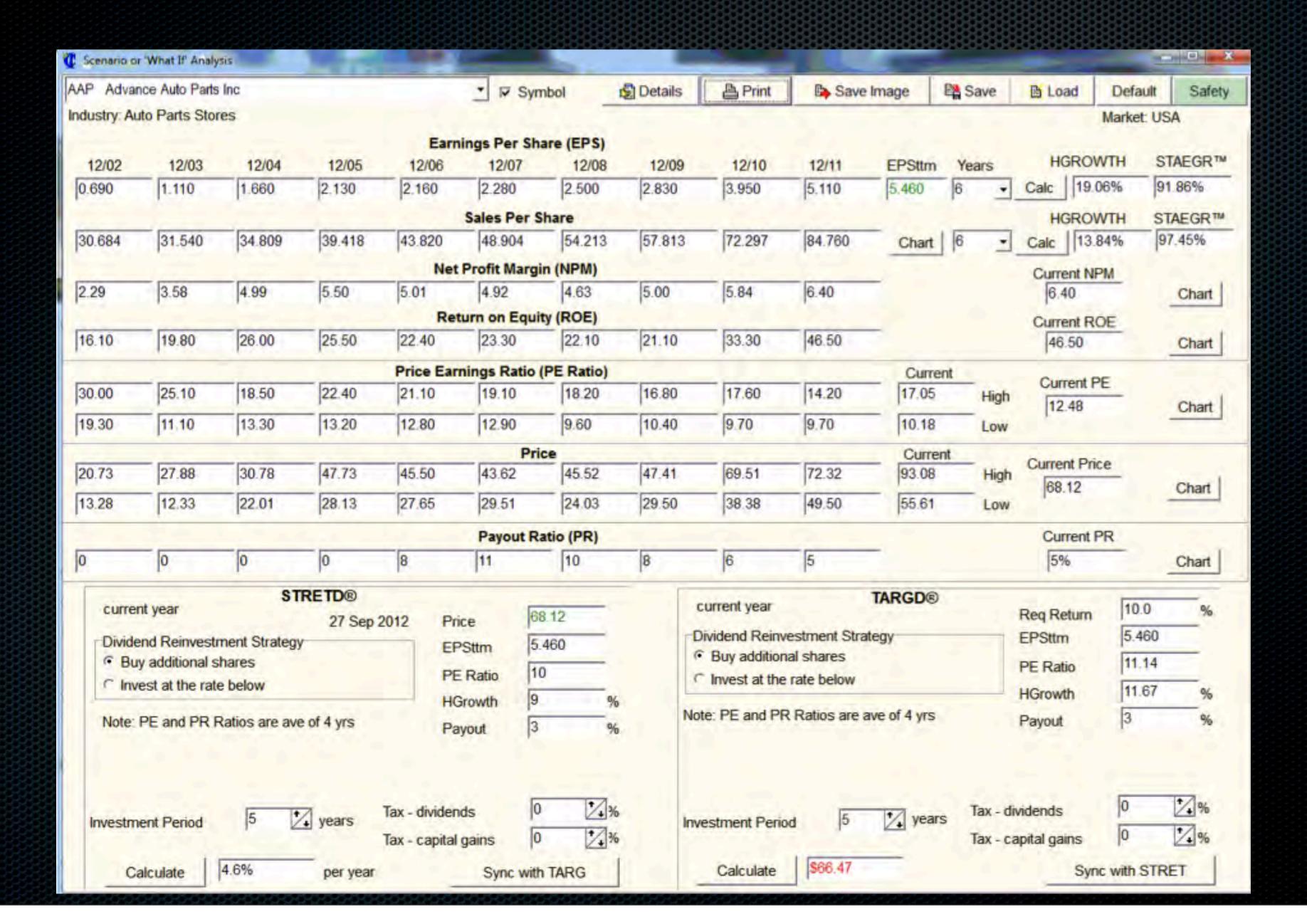


Cl: Safety



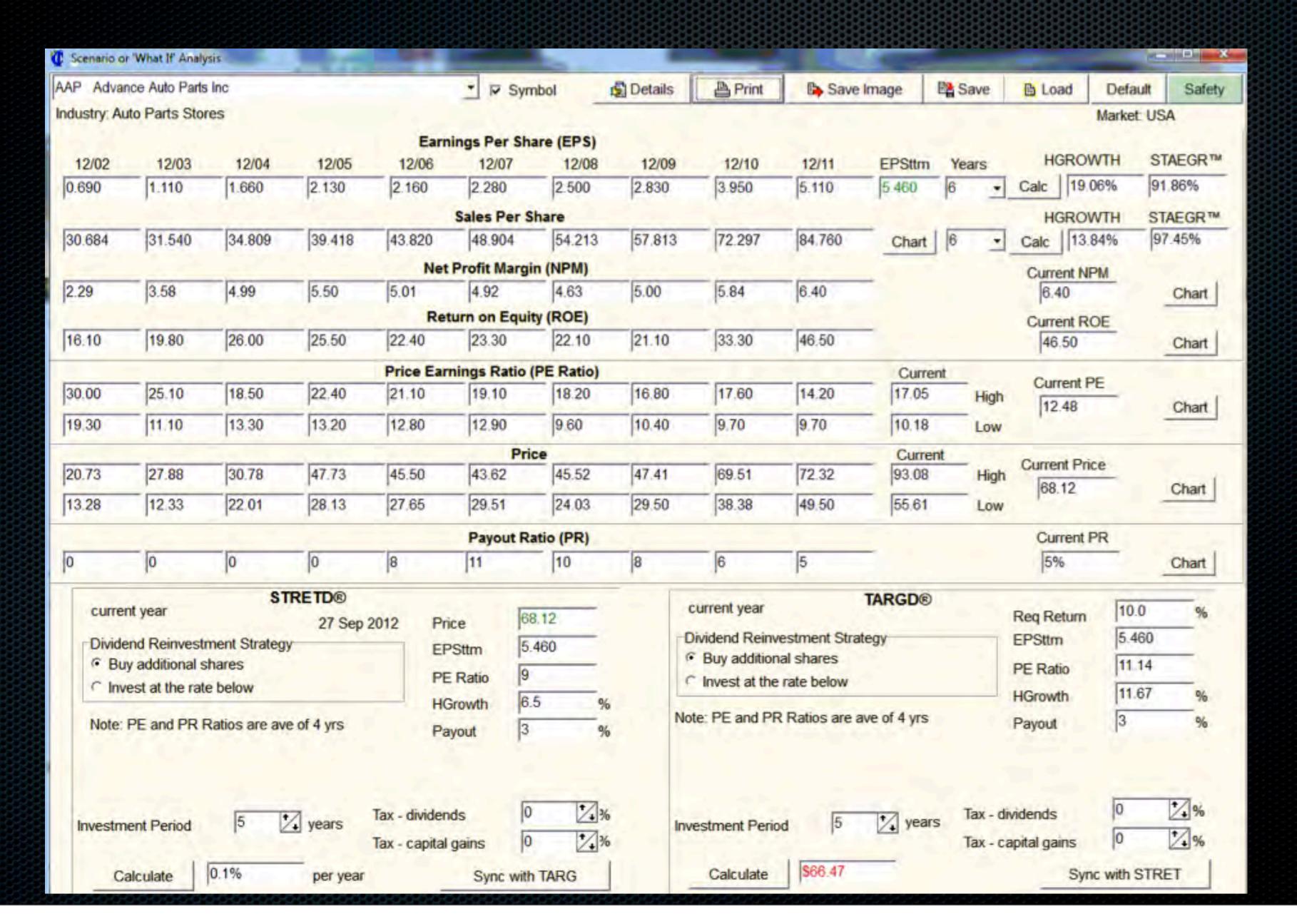


CI: Kill It!





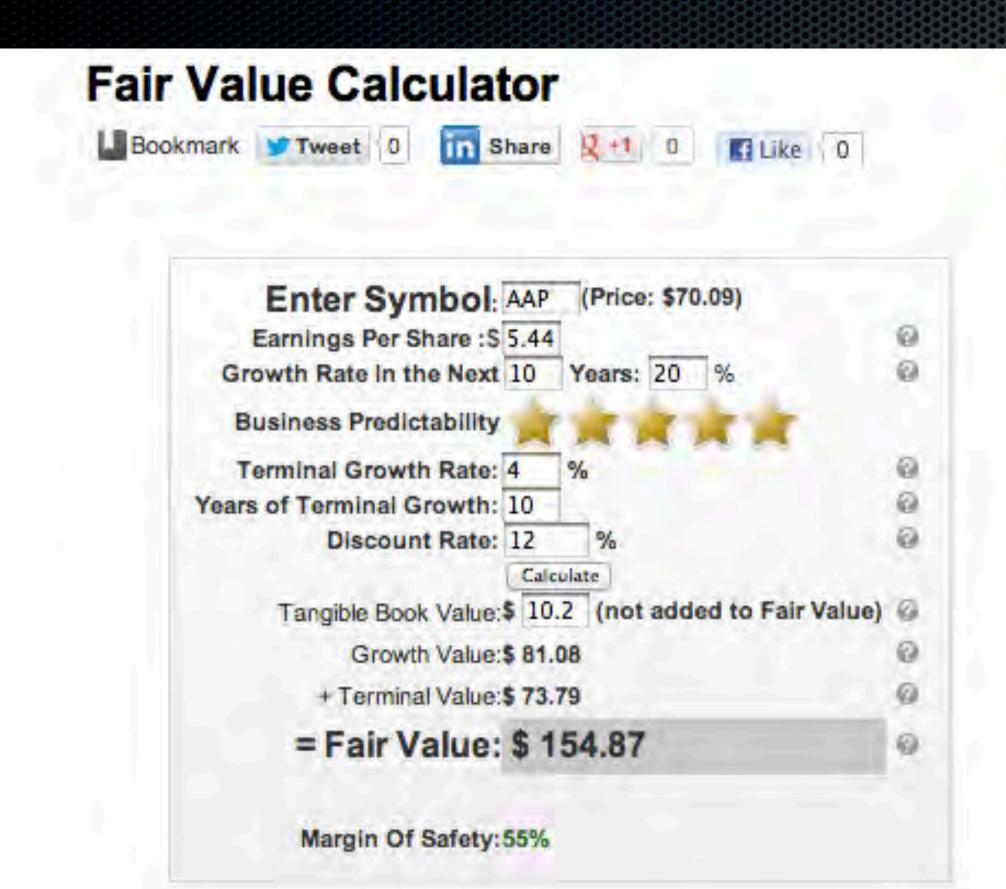
CI: Double-tap.





DCF- GuruFocus Default





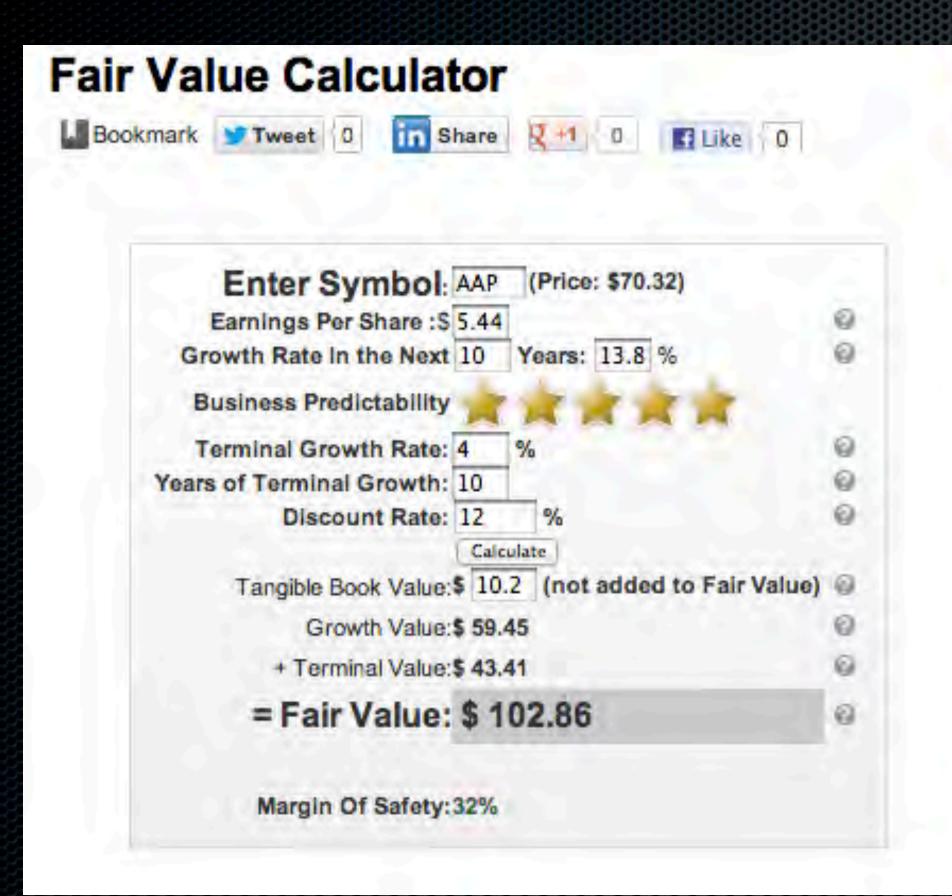
Fair Value Calculator Tutorial , Fair Value Calculator Updates Notes

Check out the list of Undervalued Predictable Companies calculated from DCF Calculator.

Annual Rates (per share)	10 yrs	5 yrs	12 months
Revenue Growth (%)	11.8	13.8	12.5
EBITDA Growth (%)	14.9	17.1	21.5
Earning Growth (%)	30.8	19.2	23.9
Free Cash Flow Growth (%)	21.6	41.9	30.5
Book Value Growth (%)	14.5	4.9	44.5

Per Share Data	Annua	Quarterly		
Fiscal Period	Dec09	Dec10	Dec11	Jun12
Revenue (\$)	57.20	70,50	85.17	19.87
EBITDA	6.40	8.92	11.60	2.88
Free Cashflow	5.43	5.55	7.76	1.51
EPS (\$)	2.85	4.00	5.21	1.36
Dividends	0.24	0.24	0.24	0.06
Book Value	13.55	12.37	11.70	14.41

DCF (plug 5 Yr. Revenue Growth)



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DCF-(Plug in 10 Year Revenue Growth %)

Fair Value Calculator Bookmark Tweet 0 Thare Q +1 0 Enter Symbol: AAP (Price: \$70.32) Earnings Per Share :\$ 5.44 Growth Rate In the Next 10 Years: 11.8 % **Business Predictability** Terminal Growth Rate: 4 Years of Terminal Growth: 10 Discount Rate: 12 Calculate Tangible Book Value:\$ 10.2 (not added to Fair Value) Growth Value: \$ 53.87 + Terminal Value: \$ 36.36 = Fair Value: \$ 90.23

Margin Of Safety: 22%

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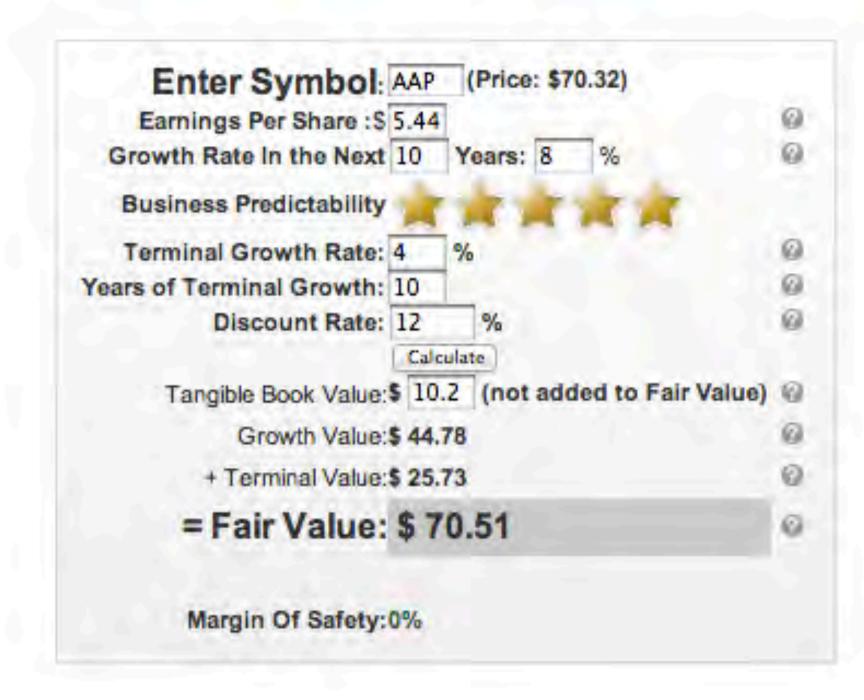
Per Share Data	Annua	Is (Year En	d)	Quarterly	
Fiscal Period	Dec09	Dec10	Dec11	Jun12	
Revenue (5)	57.20	70.50	85.17	19.87	
EBITDA	6.40	8.92	11.60	2.88	
Free Cashflow	5.43	5.55	7.76	1.51	
EPS (\$)	2.85	4.00	5.21	1.36	
Dividends	0.24	0.24	0.24	0.06	
Book Value	13.55	12.37	11.70	14.41	



DCF- (Double-Tap Again)

Fair Value Calculator





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Competitive Analysis

Company	Advance Auto Parts, Inc. (AAP)	AutoZone, Inc. (AZO)	O'Reilly Automotive Inc (ORLY)	The Pep Boys - Manny, Moe & Jack (PBY)	MarineMax, Inc. (HZO)	Genuine Parts Company (GPC)
Number of Guru Holders	7	6	9	4		6
Combined Weightings (%)	7.31	7.54	9.04	0.87		1.52
Number of Guru Buys:Sells (3 months)	0:0	0:0	0:0	0:0	0:0	0:0
Number of Guru Buys:Sells (6 months)	0:0	0:0	0:0	0:0	0:0	1:4
Number of Guru Buys:Sells (12 months)	8:5	8:13	8:5	5:3	0:0	0:0
Number of Insider Buys (3 months)	0	0	0	1	0	0
Industry	Specialty Retailers	Specialty Retailers	Specialty Retailers	Specialty Retailers	Specialty Retailers	Auto Parts
Price (\$)	70.29	380.09	87.02	10.34	8.17	63.04
Market Value (\$mil)	5,019	13,838	9,942	536.40	196.60	9,466
Revenue (Smil)	6,211	8,604	6,019	2,078	506.89	12,819
P/E	12.60	15.70	19.40	50.90	0	15.90
P/S	0.80	1.60	1.70	0.30	0.40	0.80
P/B	4.80	0	4	1	1	3.30
Yield (%)	0.30	0	0	0	0	3.20
Payout	0.04	0	0	0	0	0.52
ROA (%)	10.42	15.25	10.08	0.65	-0.69	10.05
ROE (%)	44.23	0	20.19	2.07	-1.27	20.91
Operating Margin (%)	11.	18.78	15.60	2.27	1	7.58
Net Margin (%)	6.52	10.81	9.39	1.77	-0,59	4.69
Debt to Equity (%)	49	-243	28	58	3	18
10-Year Rvn. Growth (%)	11.80	15.30	15.60	-1,20	-4.80	5.40
10-Year Earning Growth (%)	30.80	17.60	17.20	0	0	0
5-Year Rvn. Growth (%)	13.80	21.10	18.80	-1.70	-24,50	4.50
5-Year Earning Growth (%)	19.20	23.50	20.50	0	0	3.50
1-Year Rvn. Growth (%)	12.50	18.30	15.80	3.10	2	8.60
1-Year Earning Growth (%)	23.90	20.70	33.60	-9.20	0	14.90



Articles

Advance Auto's warning weighs on parts retailers

(10:33 AM ET) SAN FRANCISCO (MarketWatch) — Shares of Advance Auto Parts

[AAP +0.96%] tumbled 15% to \$70 early Thursday after it warned of a "meaningful slowdown" in April sales. The company also took down its 2012 growth forecast for same-store sales. Advance Auto's report dragged down rivals AutoZone [AZO +1.27%] and O'Reilly Automotive [ORLY +0.54%]. AutoZone fell 4% to \$374.70, while O'Reilly slipped 4% to \$97.35. Advance Auto CEO Darren Jackson said in a statement that second-quarter sales trends "remain challenging." Roanoke, Va.-based Advance Auto is one of the largest U.S. auto-parts retailers with 3,682 stores, 200 of which are outside the country. Its stock performance is now breakeven over the past 12 months.

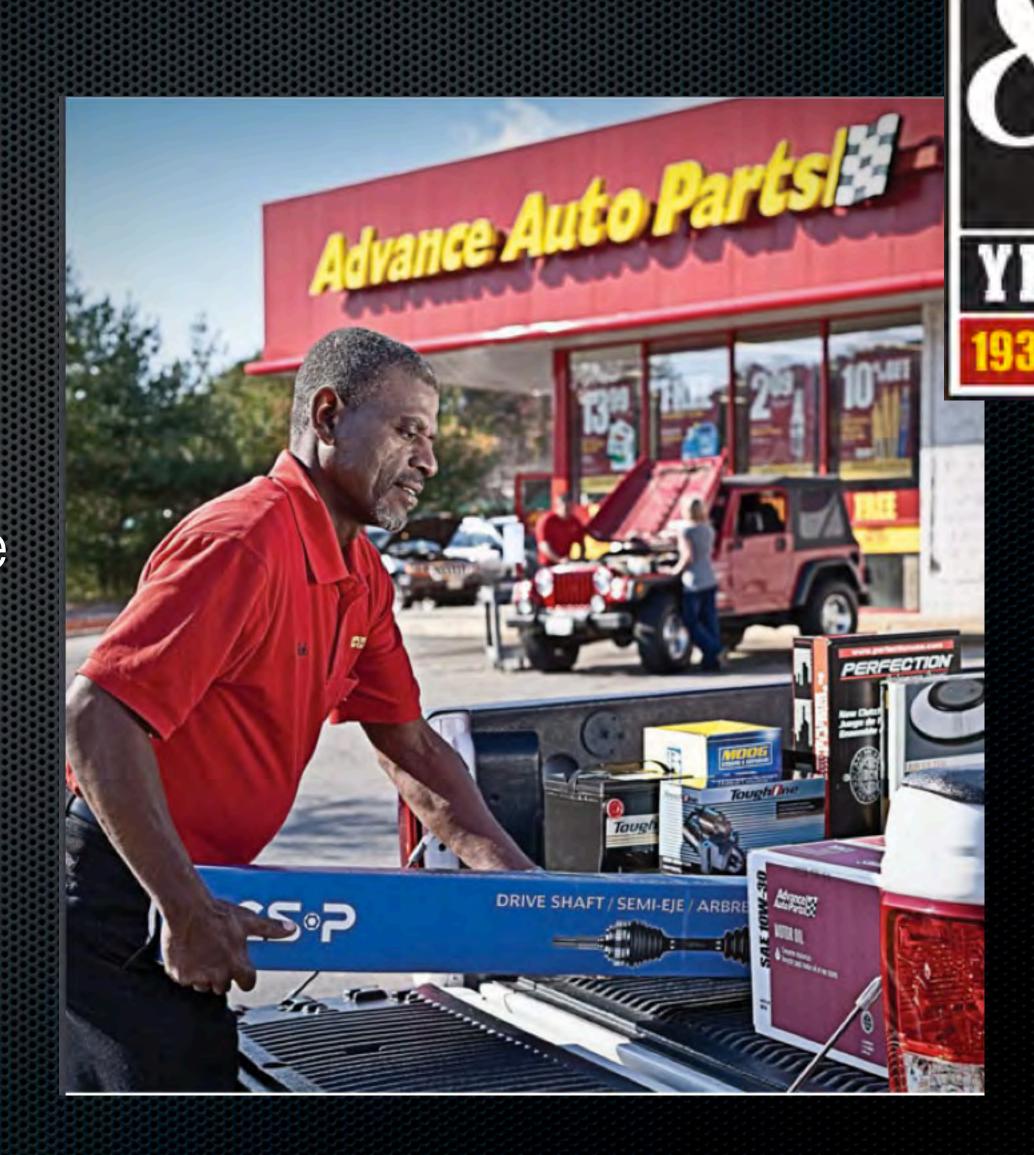
In the United States there is currently an increase in the age of the average vehicle, the number of vehicles, the number of licensed drivers and the number of light trucks. These increases have logically increased the number of parts needed to maintain and repair these older vehicles. I think this trend will continue well into the economic recovery as well as beyond and this bodes well for Advance Auto Parts. The further increase in foreign vehicles also bodes well for the company's foreign parts division. On the other hand, I think the recent consolidation of auto parts manufacturers limits the number of suppliers Advance Auto Parts can purchase its inventory from and gives the suppliers more pricing power which may affect the companies margins over time.

YEARS 1932 - 2012

At the time of our initial investment in 2007, Advanced Auto Parts was operating with salespersquare- foot of \$180, operating margins of 8.5%, a payables-to-inventory ratio of 50%, and was generating reinvestment cash flow of approximately \$280 million on an invested capital base of \$1.6 billion. Through successful implementation of a wide variety of operating initiatives, including greater parts availability, enhanced price optimization, better vendor terms, and improved labor productivity, CEO Darren Jackson and his team meaningfully improved the financial performance of the company. Today, Advanced Auto Parts operates with sales of \$230 per foot, operating margins approaching 11%, a payables-to-inventory ratio of 80%, and is generating reinvestment cash flows of approximately \$460 million on a reduced invested capital base of \$1.4 billion. Overall company ROIC has improved from 13-14% in 2007 to approximately 20% today. Advanced Auto Parts' share price has tracked this improvement in ROIC, appreciating from a stock that traded in the high \$30s at the time of our initial investment to \$90 per share more recently. Over the past five years we have both added to and trimmed our position size, depending on the relative risk/reward in the market, and we ultimately exited the position at the beginning of the second quarter at a substantial gain.

Moat/Conclusion

- Financial Stability
- Strong Brand Name
- Emphasis on retaining and taking-care of customers
 - Team Member Philosophy
 - Implementation of Technology
 - "Service is our Best Part"



Recommendation



Write a Put-Option with a strike price of \$70, which has an annualized return of 33% on the \$2.70 premium