

# Advanced Auto Parts

John Binz

Cody Foil

Lucas Kneitz

Erblin Ribari



# 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 AI

- Of 3662 stores, only 202 stores are

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

- 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	<u>202</u>	<u>194</u>	<u>156</u>	<u>125</u>	<u>108</u>

# 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



Durham, North Carolina circa 1930s



- 1932- Advanced Stores Company was incorporated
- 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



Durham, North Carolina circa 1930s

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



# History



Durham, North Carolina circa 1930s

- 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

We accept

TRUSTe

Check out Advance Auto Parts on:

Select Language

Powered by Google Translate

© 2012 Advance Auto Parts | Powered by CrossView™

85Z

# Products

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

- ✦ Engines & Ignition
- ✦ Tools, Fluids, & Garage



Percentage of Sales, by Product Group  
in AAP Segment <sup>(2)</sup>

Parts and Batteries	63%	61%	60%
Accessories	14%	15%	15%
Chemicals	11%	11%	11%
Oil	10%	10%	10%
Other	2%	3%	4%
Total	100%	100%	100%

# 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



### Ratios

		vs industry	vs history
P/E(ttm)	12.4		
P/B	4.8		
P/S	0.8		
PFCF	9.5		
EV-to-EBIT	7.4		
PEG	0.6		
Shiller P/E	16.3		



### Dividend & Buy Back

		vs industry	vs history
Dividend Yield	0.3		
Dividend Payout	0.04		
Yield on cost (5-Year)	0.3		
Share Buyback Rate	6.5		



### Valuation & Return

		vs industry	vs history
Price/Tangible Book	6.8		
Price/DCF (Projected)	0.8		
Price/Median PS Value	1		
Price/Peter Lynch Fair Value	0.9		
Price/Graham Number	1.8		
Earnings Yield (Greenblatt)	13.5		
Forward Rate of Return (Yacktman)	20.12		



- Total sales increased 4.1% to \$6.17 billion compared with revenues of \$5.93 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 Interpretation of Financial Statements (Advance Auto Parts)							
a. Gross Profit Margin:	Gross Profit	=	\$3,069,290,000	=	49.74%	Y	Threshold ≥ 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				
	2006	2007	2008				
	\$231,000,000	\$238,000,000	\$238,000,000				
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	\$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				
i. Goodwill:	2009		2010		2011	OK	
	\$34,387,000		\$34,387,000		\$76,389,000		
j. Intangible Assets:	2009		2010		2011	OK	
	\$26,419,000		\$25,360,000		\$31,380,000		
k. LongTerm Debt/Net Earnings:	\$722,800,000	=		=	1.83 Years	Y	< 5 (3-4 better)
	\$394,682,000						
l. Adj. Debt to Shareholders' Equity:	Total Liabilities	=	\$2,807,840,000	=	1.13	N	≤ .80
	Shareholders' Equity		\$847,914,000				
	+ Treasury Stock		\$1,644,767,000				
m. Preferred Stock:	None.					Y	None
n. Retained Earnings:	2010		2011	=	23.36%	Y	Increasing
	\$1,612,927,000		\$1,989,629,000				
o. Treasury Stock:	2010		2011			Y	Presence on B.S.
	\$1,028,612,000		\$1,644,767,000				
p. Return on Equity:	Net Income	=	\$394,682,000	=	46.55%	Y	≥ 15%
	Shareholders' Equity		\$847,914,000				
q. R&D Expenditures:	Research & Development	=	\$0	=	0.00%	Y	Combine W/SG&A
	Gross Profit		\$3,069,290,000				
r. Stock Buybacks:	2009		2010		2011	Y	Constant Buybacks Share Increases?
	\$100,062,000		\$622,442,000		\$631,149,000		
s. Capital Expenditures:	Capital Expenditures	=	\$0	=	0.00%	Y	≤ 25%
	Net Profit		\$394,682,000				
t. Return on Capital:	Net Income	=	\$394,682,000	=	25.13%	Y	≥ 15%
	Shareholders' Equity		\$847,914,000				
	+ Long-Term Debt		\$722,800,000				



(3)



u. Return on Assets:	Net Income	=	\$394,682,000	=	10.80%		
	Total Assets		\$3,655,754,000				
v. Dividend Payout Ratio:	5%					Y	≤ 60%
w. Dividend Yield:	0.50%						
x. Defined Benefit Plan:	None					Y	None
y. Free Cash Flow Yield:	\$7.84	=	11.49%				
	\$68.26						
z. Earnings Yield:	\$5.11	=	7.49%				
	\$68.26						

# Master Spreadsheet (1)



<u>Company Analysis Worksheet</u>	
Company Name	Advance Auto Parts Comments
Stock Ticker Symbol	AAP
<b><u>Quantitative Review</u></b>	
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
<b><u>P/E Ratios:</u></b>	
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 paying a dividend in 2006.

(2)



<u>Statistical Array Analysis</u>		
<b>Increasing</b>		
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	3662	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%	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.

(3)



<u>Annual Growth Rate Analysis</u>		
Sales	Yes	Sales are expected to grow 9% per year, compared to 12.5% over 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 are expected to grow 13% per year, compared to 14% over the past 5 years.
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 expected to grow 12% per year, compared to 13% over the past 5 years.
Current Assets/Cur. Liabilities=Current Ratio; Prefer this to be 2:1		1.05
Cur assets (-) Cur Liabs = Working Capital; needs to be high and growing		\$105.9 million
Total Debt/Shareholder Equity=Debt to Equity Ratio; If this is higher than 1, then the company is funded by debt and not internal cash flow		1.13
Return on Assets: 1 is good; 1.5 is excellent		10.80%
<u>Qualitative Review</u>		
What type of business is this: commodity or sustained competitive advantage?	<b>Sustained competitive advantage</b>	
Can you easily explain what the business does?	<b>Sells auto parts</b>	
Is it heavily unionized?	<b>No</b>	
Does it require heavy capital infusion?	<b>No</b>	
Does it require lots of research and development?	<b>No</b>	
Are there chronic "one time" write offs?	<b>No</b>	
Buy a quality stock once you have determined that you are paying a significant discount to its traditional value		
Insiders sell for a variety of reasons; insiders only buy for one reason	<b>No recent insider buys</b>	
Is the company able to raise its prices to offset inflation?	<b>Yes</b>	
Will the company be able to sell more in the future?	<b>Yes</b>	
Ask yourself: if I gave you \$1 billion could you develop a competitor. If the answer is "no" your business has a sustained competitive advantage		
Read the footnotes--there are tremendous details that need to be evaluated		
Companies with a high ratio of fixed assets to sales generally earn low returns		
Look for businesses that sell a product or service that is highly desirable, to which there are few substitutes and which are not regulated.		<b>YES</b>
Earnings can be manipulated; cash flow is far harder to manipulate		

# CI: 3 Yr Default



Scenario or 'What If' Analysis

AAP Advance Auto Parts Inc  Symbol  Details  Print  Save Image  Save  Load  Default  Safety

Industry: Auto Parts Stores Market: USA

Earnings Per Share (EPS)										EPSttm	Years	HGROWTH	STAEGR™	
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11					
0.690	1.110	1.660	2.130	2.160	2.280	2.500	2.830	3.950	5.110	5.460	3	Calc	34.37%	98.82%

Sales Per Share										Chart	Years	HGROWTH	STAEGR™	
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11					
30.684	31.540	34.809	39.418	43.820	48.904	54.213	57.813	72.297	84.760	Chart	3	Calc	21.08%	99.03%

Net Profit Margin (NPM)										Current NPM
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	
2.29	3.58	4.99	5.50	5.01	4.92	4.63	5.00	5.84	6.40	6.40

Return on Equity (ROE)										Current ROE
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	
16.10	19.80	26.00	25.50	22.40	23.30	22.10	21.10	33.30	46.50	46.50

Price Earnings Ratio (PE Ratio)										Current	High	Current PE
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11			
30.00	25.10	18.50	22.40	21.10	19.10	18.20	16.80	17.60	14.20	17.05	High	12.48
19.30	11.10	13.30	13.20	12.80	12.90	9.60	10.40	9.70	9.70	10.18	Low	

Price										Current	High	Current Price
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11			
20.73	27.88	30.78	47.73	45.50	43.62	45.52	47.41	69.51	72.32	93.08	High	68.12
13.28	12.33	22.01	28.13	27.65	29.51	24.03	29.50	38.38	49.50	55.61	Low	

Payout Ratio (PR)										Current PR
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	
0	0	0	0	8	11	10	8	6	5	5%

**STRETD®**

current year 27 Sep 2012

Dividend Reinvestment Strategy

Buy additional shares

Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

Price: 68.12

EPSttm: 5.460

PE Ratio: 14.53

HGrowth: 34.37%

Payout: 7%

Tax - dividends: 0%

Tax - capital gains: 0%

Investment Period: 5 years

Calculate: 39.2% per year

Sync with TARG

**TARGD®**

current year

Dividend Reinvestment Strategy

Buy additional shares

Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

Req Return: 10.0%

EPSttm: 5.460

PE Ratio: 14.53

HGrowth: 34.37%

Payout: 7%

Tax - dividends: 0%

Tax - capital gains: 0%

Investment Period: 5 years

Calculate: \$120.71

Sync with STRET

# CI: 6 Yr Default



Scenario or 'What If' Analysis

AAP Advance Auto Parts Inc. Industry: Auto Parts Stores Market: USA

Buttons: Symbol, Details, Print, Save Image, Save, Load, Default, Safety

Earnings Per Share (EPS)											EPSStm	Years	HGROWTH	STAEGR™
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11					
0.690	1.110	1.660	2.130	2.160	2.280	2.500	2.830	3.950	5.110	5.460	3	Calc	19.06%	91.86%

Sales Per Share											Chart	Years	HGROWTH	STAEGR™
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11					
30.684	31.540	34.809	39.418	43.820	48.904	54.213	57.813	72.297	84.760		2	Calc	13.84%	97.45%

Net Profit Margin (NPM)											Current NPM	Chart
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11			
2.29	3.58	4.99	5.50	5.01	4.92	4.63	5.00	5.84	6.40		6.40	Chart

Return on Equity (ROE)											Current ROE	Chart
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11			
16.10	19.80	26.00	25.50	22.40	23.30	22.10	21.10	33.30	46.50		46.50	Chart

Price Earnings Ratio (PE Ratio)											Current	High	Current PE	Chart
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11					
30.00	25.10	18.50	22.40	21.10	19.10	18.20	16.80	17.60	14.20	17.05	High	12.48	Chart	
19.30	11.10	13.30	13.20	12.80	12.90	9.60	10.40	9.70	9.70	10.18	Low			

Price											Current	High	Current Price	Chart
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11					
20.73	27.88	30.78	47.73	45.50	43.62	45.52	47.41	69.51	72.32	93.08	High	68.12	Chart	
13.28	12.33	22.01	28.13	27.65	29.51	24.03	29.50	38.38	49.50	55.61	Low			

Payout Ratio (PR)											Current PR	Chart
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11			
0	0	0	0	8	11	10	8	6	5		5%	Chart

**STRETD®**

current year 27 Sep 2012

Price: 68.12

Dividend Reinvestment Strategy: Buy additional shares

EPSStm: 5.460

PE Ratio: 14.53

HGrowth: 19.06%

Payout: 7%

Note: PE and PR Ratios are ave of 4 yrs

Investment Period: 5 years

Tax - dividends: 0%

Tax - capital gains: 0%

Calculate: 23.34% per year

Sync with TARG

**TARGD®**

current year

Req Return: 10.0%

Dividend Reinvestment Strategy: Buy additional shares

EPSStm: 5.460

PE Ratio: 14.53

HGrowth: 19.06%

Payout: 7%

Note: PE and PR Ratios are ave of 4 yrs

Investment Period: 5 years

Tax - dividends: 0%

Tax - capital gains: 0%

Calculate: \$120.71

Sync with STRET

# CI: 10 Yr Default



Scenario or 'What If' Analysis												Market: USA			
AAP Advance Auto Parts Inc												Symbol			
Industry: Auto Parts Stores												Default			
Earnings Per Share (EPS)												HGROWTH	STAEGR™		
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	EPSttm	Years	Calc	19.77%	83.65%	
0.690	1.110	1.660	2.130	2.160	2.280	2.500	2.830	3.950	5.110	5.460	10				
Sales Per Share												HGROWTH	STAEGR™		
30.684	31.540	34.809	39.418	43.820	48.904	54.213	57.813	72.297	84.760	Chart	10	Calc	11.95%	95.98%	
Net Profit Margin (NPM)												Current NPM			
2.29	3.58	4.99	5.50	5.01	4.92	4.63	5.00	5.84	6.40				6.40	Chart	
Return on Equity (ROE)												Current ROE			
16.10	19.80	26.00	25.50	22.40	23.30	22.10	21.10	33.30	46.50				46.50	Chart	
Price Earnings Ratio (PE Ratio)												Current	Current PE		
30.00	25.10	18.50	22.40	21.10	19.10	18.20	16.80	17.60	14.20	17.05	High		12.48	Chart	
19.30	11.10	13.30	13.20	12.80	12.90	9.60	10.40	9.70	9.70	10.18	Low				
Price												Current	Current Price		
20.73	27.88	30.78	47.73	45.50	43.62	45.52	47.41	69.51	72.32	93.08	High		68.12	Chart	
13.28	12.33	22.01	28.13	27.65	29.51	24.03	29.50	38.38	49.50	55.61	Low				
Payout Ratio (PR)												Current PR			
0	0	0	0	8	11	10	8	6	5				5%	Chart	
STRETD®						TARGD®									
current year 27 Sep 2012						current year									
Dividend Reinvestment Strategy						Dividend Reinvestment Strategy									
<input checked="" type="radio"/> Buy additional shares						<input checked="" type="radio"/> Buy additional shares									
<input type="radio"/> Invest at the rate below						<input type="radio"/> Invest at the rate below									
Note: PE and PR Ratios are ave of 4 yrs						Note: PE and PR Ratios are ave of 4 yrs									
Price	68.12	EPSttm	5.460	PE Ratio	14.53	Req Return	10.0 %	EPSttm	5.460	PE Ratio	14.53	HGrowth	19.77 %	Payout	7 %
HGrowth	19.77 %	Payout	7 %												
Investment Period	5 years	Tax - dividends	0 %	Tax - capital gains	0 %	Investment Period	5 years	Tax - dividends	0 %	Tax - capital gains	0 %				
Calculate	24.07%	per year		Sync with TARG		Calculate	\$120.71			Sync with STRET					

# CI: Safety



Scenario or 'What If' Analysis

AAP Advance Auto Parts Inc  
Industry: Auto Parts Stores  
Market: USA

Symbol Details Print Save Image Save Load Default Safety

Earnings Per Share (EPS)											EPSttm	Years	HGROWTH	STAEGR™
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11					
0.690	1.110	1.660	2.130	2.160	2.280	2.500	2.830	3.950	5.110	5.460	6	Calc	19.06%	91.86%

Sales Per Share											Chart	Years	HGROWTH	STAEGR™	
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11						
30.684	31.540	34.809	39.418	43.820	48.904	54.213	57.813	72.297	84.760		Chart	6	Calc	13.84%	97.45%

Net Profit Margin (NPM)											Current NPM	
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11			
2.29	3.58	4.99	5.50	5.01	4.92	4.63	5.00	5.84	6.40		6.40	Chart

Return on Equity (ROE)											Current ROE	
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11			
16.10	19.80	26.00	25.50	22.40	23.30	22.10	21.10	33.30	46.50		46.50	Chart

Price Earnings Ratio (PE Ratio)											Current	High	Low	Current PE
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11					
30.00	25.10	18.50	22.40	21.10	19.10	18.20	16.80	17.60	14.20	17.05	High	12.48	Chart	
19.30	11.10	13.30	13.20	12.80	12.90	9.60	10.40	9.70	9.70	10.18	Low			

Price											Current	High	Low	Current Price
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11					
20.73	27.88	30.78	47.73	45.50	43.62	45.52	47.41	69.51	72.32	93.08	High	68.12	Chart	
13.28	12.33	22.01	28.13	27.65	29.51	24.03	29.50	38.38	49.50	55.61	Low			

Payout Ratio (PR)											Current PR	
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11			
0	0	0	0	8	11	10	8	6	5		5%	Chart

**STRETD®**

current year 27 Sep 2012

Price 68.12

Dividend Reinvestment Strategy

Buy additional shares

Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

EPSttm 5.460

PE Ratio 11.14

HGrowth 11.67 %

Payout 3 %

Tax - dividends 0 %

Tax - capital gains 0 %

Investment Period 5 years

Calculate 9.46% per year Sync with TARG

**TARGD®**

current year

Req Return 10.0 %

Dividend Reinvestment Strategy

Buy additional shares

Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

EPSttm 5.460

PE Ratio 11.14

HGrowth 11.67 %

Payout 3 %

Tax - dividends 0 %

Tax - capital gains 0 %

Investment Period 5 years

Calculate \$66.47 Sync with STRET

# CI: Kill It!



Scenario or 'What If' Analysis

AAP Advance Auto Parts Inc  Symbol      Default Safety

Industry: Auto Parts Stores Market: USA

Earnings Per Share (EPS)										EPSttm	Years	HGROWTH	STAEGR™	
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11					
0.690	1.110	1.660	2.130	2.160	2.280	2.500	2.830	3.950	5.110	5.460	6	Calc	19.06%	91.86%

Sales Per Share										Chart	Years	HGROWTH	STAEGR™	
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11					
30.684	31.540	34.809	39.418	43.820	48.904	54.213	57.813	72.297	84.760	Chart	6	Calc	13.84%	97.45%

Net Profit Margin (NPM)										Current NPM	
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11		
2.29	3.58	4.99	5.50	5.01	4.92	4.63	5.00	5.84	6.40	6.40	Chart

Return on Equity (ROE)										Current ROE	
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11		
16.10	19.80	26.00	25.50	22.40	23.30	22.10	21.10	33.30	46.50	46.50	Chart

Price Earnings Ratio (PE Ratio)										Current	High	Current PE
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11			
30.00	25.10	18.50	22.40	21.10	19.10	18.20	16.80	17.60	14.20	17.05	High	12.48
19.30	11.10	13.30	13.20	12.80	12.90	9.60	10.40	9.70	9.70	10.18	Low	Chart

Price										Current	High	Current Price
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11			
20.73	27.88	30.78	47.73	45.50	43.62	45.52	47.41	69.51	72.32	93.08	High	68.12
13.28	12.33	22.01	28.13	27.65	29.51	24.03	29.50	38.38	49.50	55.61	Low	Chart

Payout Ratio (PR)										Current PR	
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11		
0	0	0	0	8	11	10	8	6	5	5%	Chart

**STRETD®**

current year 27 Sep 2012

Price

Dividend Reinvestment Strategy

Buy additional shares

Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

EPSStm

PE Ratio

HGrowth  %

Payout  %

Tax - dividends  %

Tax - capital gains  %

Investment Period  years

Calculate  per year

**TARGD®**

current year

Req Return  %

Dividend Reinvestment Strategy

Buy additional shares

Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

EPSStm

PE Ratio

HGrowth  %

Payout  %

Tax - dividends  %

Tax - capital gains  %

Investment Period  years

Calculate

# CI: Double-tap.



Scenario or 'What If' Analysis

AAP Advance Auto Parts Inc  
 Industry: Auto Parts Stores  
 Market: USA

Details Print Save Image Save Load Default Safety

Earnings Per Share (EPS)											EPSttm	Years	HGROWTH	STAEGR™
12/02	12/03	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11					
0.690	1.110	1.660	2.130	2.160	2.280	2.500	2.830	3.950	5.110	5.460	6	Calc	19.06%	91.86%
Sales Per Share												Years	HGROWTH	STAEGR™
30.684	31.540	34.809	39.418	43.820	48.904	54.213	57.813	72.297	84.760	Chart	6	Calc	13.84%	97.45%
Net Profit Margin (NPM)											Current NPM			
2.29	3.58	4.99	5.50	5.01	4.92	4.63	5.00	5.84	6.40			6.40	Chart	
Return on Equity (ROE)											Current ROE			
16.10	19.80	26.00	25.50	22.40	23.30	22.10	21.10	33.30	46.50			46.50	Chart	
Price Earnings Ratio (PE Ratio)											Current	Current PE		
30.00	25.10	18.50	22.40	21.10	19.10	18.20	16.80	17.60	14.20	17.05	High	12.48	Chart	
19.30	11.10	13.30	13.20	12.80	12.90	9.60	10.40	9.70	9.70	10.18	Low			
Price											Current	Current Price		
20.73	27.88	30.78	47.73	45.50	43.62	45.52	47.41	69.51	72.32	93.08	High	68.12	Chart	
13.28	12.33	22.01	28.13	27.65	29.51	24.03	29.50	38.38	49.50	55.61	Low			
Payout Ratio (PR)											Current PR			
0	0	0	0	8	11	10	8	6	5			5%	Chart	

**STRETD®**

current year 27 Sep 2012

Price 68.12

Dividend Reinvestment Strategy

Buy additional shares

Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

EPSttm 5.460

PE Ratio 9

HGrowth 6.5%

Payout 3%

Tax - dividends 0%

Tax - capital gains 0%

Investment Period 5 years

Calculate 0.1% per year Sync with TARG

**TARGD®**

current year

Req Return 10.0%

Dividend Reinvestment Strategy

Buy additional shares

Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

EPSttm 5.460

PE Ratio 11.14

HGrowth 11.67%

Payout 3%

Tax - dividends 0%

Tax - capital gains 0%

Investment Period 5 years

Calculate \$66.47 Sync with STRET

# DCF- GuruFocus Default



## Fair Value Calculator

[Bookmark](#)
[Tweet](#) 0
 [Share](#)
[+1](#) 0
 [Like](#) 0

[Fair Value Calculator Tutorial](#) , [Fair Value Calculator Updates Notes](#)

[Check out the list of Undervalued Predictable Companies calculated from DCF Calculator.](#)

**Enter Symbol:** AAP (Price: \$70.09)  
 Earnings Per Share :\$ 5.44  
 Growth Rate In the Next 10 Years: 20 %  
 Business Predictability ★★★★★  
 Terminal Growth Rate: 4 %  
 Years of Terminal Growth: 10  
 Discount Rate: 12 %  
  
 Tangible Book Value:\$ 10.2 (not added to Fair Value)  
 Growth Value:\$ 81.08  
 + Terminal Value:\$ 73.79  
**= Fair Value: \$ 154.87**  
 Margin Of Safety: 55%

### Financial Data of Advance Auto Parts, Inc.

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	Annuals (Year End)			Quarterly
	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)



## Fair Value Calculator

[Bookmark](#)
[Tweet](#) 0
 [Share](#)
[+1](#) 0
 [Like](#) 0

[Fair Value Calculator Tutorial](#) , [Fair Value Calculator Updates Notes](#)

[Check out the list of Undervalued Predictable Companies calculated from DCF Calculator.](#)

**Enter Symbol:** AAP (Price: \$70.32)  
 Earnings Per Share :\$ 5.44  
 Growth Rate in the Next 10 Years: 13.8 %  
 Business Predictability ★★★★★  
 Terminal Growth Rate: 4 %  
 Years of Terminal Growth: 10  
 Discount Rate: 12 %  
  
 Tangible Book Value:\$ 10.2 (not added to Fair Value)  
 Growth Value:\$ 59.45  
 + Terminal Value:\$ 43.41  
**= Fair Value: \$ 102.86**  
 Margin Of Safety:32%

### Financial Data of Advance Auto Parts, Inc.

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	Annuals (Year End)			Quarterly
	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 in 10 Year Revenue Growth %)



## Fair Value Calculator

[Bookmark](#)
[Tweet](#) 0
 [Share](#)
[+1](#) 0
 [Like](#) 0

[Fair Value Calculator Tutorial](#) , [Fair Value Calculator Updates Notes](#)

[Check out the list of Undervalued Predictable Companies calculated from DCF Calculator.](#)

**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 %  
  
 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%

### Financial Data of Advance Auto Parts, Inc.

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	Annuals (Year End)			Quarterly
	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- (Double-Tap Again)



## Fair Value Calculator

Bookmark Tweet 0 Share +1 0 Like 0

[Fair Value Calculator Tutorial](#) , [Fair Value Calculator Updates Notes](#)

[Check out the list of Undervalued Predictable Companies](#) calculated from DCF Calculator.

**Enter Symbol:** AAP (Price: \$70.32)  
**Earnings Per Share :** \$ 5.44  
**Growth Rate In the Next** 10 **Years:** 8 %  
**Business Predictability** ★★★★★  
**Terminal Growth Rate:** 4 %  
**Years of Terminal Growth:** 10  
**Discount Rate:** 12 %  
  
**Tangible Book Value:** \$ 10.2 (not added to Fair Value)  
**Growth Value:** \$ 44.78  
**+ Terminal Value:** \$ 25.73  
**= Fair Value: \$ 70.51**  
**Margin Of Safety:** 0%

## Financial Data of Advance Auto Parts, Inc.

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	Annuals (Year End)			Quarterly
	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

# 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 (\$mil)	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.

At the time of our initial investment in 2007, Advanced Auto Parts was operating with sales-per-square-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