

GENUINE PARTS COMPANY



BUY. HOLD. AND PROSPER.®

(as at May 31, 2020)

Business Description:

Founded in 1928, Genuine Parts Company is a service organization engaged in the distribution of automotive replacement parts, industrial replacement parts and materials, and business products. Its products and services are offered through a network of over 3,100 operations located throughout the United States, Canada, Mexico, Australia, New Zealand, Singapore, Indonesia, France, the U.K., Germany, and Poland.

Investment Thesis:

- **Large Opportunity in Fragmented End-Markets:**
 - **Automotive:** The automotive after-market parts market is estimated to be worth \$200 billion, of which Genuine Parts currently has a 7.5% market share as in 2019. The majority of revenues in this segment come from NAPA branded products, as Genuine Parts operates 18,000+ NAPA AutoCare centres in the U.S.
 - **Industrial:** The company is exploring growth initiatives via product category and line expansion, acquisitions, expansions in new markets, repair, fabrication and e-commerce. This market is estimated to be worth \$80+ billion, and Genuine Parts currently has an 8% market share. This group is one of the leading parts MRO (maintenance, repair and operations) distributors in North America.
 - **Business Products:** The company currently has a small market share in an industry worth an estimated \$100 billion. Multiple growth initiatives to expand market share are underway; these include new product introduction, private brand expansion and dealer services enhancement. This segment includes S.P. Richards Company, which is the second largest distributor of business products, office furniture, computer supplies and breakroom supplies in the U.S.
- **Shareholder Friendly Management:** 2019 marks the 63rd year of consecutive dividend increases from Genuine Parts Company. Management is prudent with its capital and is laser focused on deploying capital on value-creating acquisitions, reinvesting in the business, issuing progressive dividends, and buying back stock. The management team at Genuine Parts has done a fantastic job of generating returns on invested capital in excess of its cost of capital, thus creating shareholder value over time.

Industry Growth/Drivers:

- **Genuine Parts Company is poised to benefit from a fundamentally strong backdrop for aftermarket parts:**
 - Today's vehicle age is over 6 years old on average, as consumers hold on to their cars for longer periods of time than they have historically. The company estimates that the prime years for aftermarket service begin in year 6 of vehicle ownership.
 - Trucks and cars are becoming increasingly complex, and customers require specialized services that Genuine Parts is able to provide.
 - Total global vehicle fleet is growing
- **New Distribution:** The company has plans for new NAPA Auto Parts stores in the U.S., Canada and Mexico. It is also planning to expand the Alliance Automotive Group in France, Australia and New Zealand.
- **Store Initiatives:** The company is undergoing a retail sales initiative where they plan to renovate and upgrade many of their current retail locations.

Competition:

Automotive:

- US: Autozone Inc., Advance Auto Parts Inc., O'Reilly Auto Parts
- Canada: Uni-Select Inc., Carquest Corporation
- Mexico: Auto-Zone Inc.

Industrial:

- Applied Industrial Technologies Inc., Kaman Corporation, Bearing Distributors Inc.

Business Products:

- Essendant, Inc., Amazon.com Inc., Mass Merchants, Specialty Distributors

Barriers to Entry:

- Financial strength with access to low cost of capital
- Global presence with significant brand strength
- Scale advantages allow the company to leverage global sourcing and common suppliers

Officers and Directors:

Paul D. Donahue, Chairman and Chief Executive Officer; **Gregory Miller**, Chief Information Officer; **Carol Yancey**, Chief Financial Officer; **Treg Brown**, Executive VP Mergers and Acquisitions; **Thomas Gallagher**, Director



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Financial Summary:

Income Statement (USD millions, full year ended December 31st)

	2015	2016	2017	2018	2019
Total Revenue	15,280,044	15,339,713	16,308,801	18,735,073	19,392,305
Gross Profit	4,555,852	4,599,607	4,906,398	5,983,787	6,316,269
Net Income	705,672	687,240	616,757	810,474	621,085
Diluted Earnings Per Share	4.63	4.59	4.18	5.5	4.24

Balance Sheet

Cash	211,631	242,879	314,899	333,547	276,992
Long Term Debt	250,000	550,000	2,550,020	2,432,133	2,802,056
Total Equity	3,159,242	3,207,356	3,464,156	3,471,991	3,695,500
Net Debt: Total Equity	1.2%	9.6%	64.5%	60.4%	68.3%

Statement of Cash Flow

Cash Flows from Operations	1,159,373	946,078	815,043	1,145,164	892,010
Cash Flows from Investing	(263,627)	(593,999)	(1,630,280)	(496,124)	(563,206)
Cash Flows from Financing	(806,074)	(322,406)	872,059	(608,830)	(385,962)

Key Ratios and Figures (%)

Gross Profit Margin	29.8%	30.0%	30.1%	31.9%	32.6%
Total Debt/Equity	7.9%	17.1%	73.6%	70.1%	75.8%

Source: Genuine Parts Company 2019 Annual Report



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