Genuine Parts Co.
GPC
O'Reilly Automotive Inc.
ORLY

1 November 2023

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BLUE CHIP PARTNERS, LLC
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Investment review

Genuine Parts Co. (GPC) & O'Reilly Automotive Inc. (ORLY)

Automotive parts retail industry – current thesis

Concern related to how companies in the industry will perform if the U.S. economy enters a period of deflation as well as unfavorable weather conditions YTD have led to relative underperformance for the group in 2023.

A more favorable backdrop for margins, supply chains, inflation, and wage growth coupled with better valuations than the beginning of the year set this industry up well for the coming year.

With structurally higher new car prices, increasing miles driven, and the fact that maintenance can only be deferred for so long, auto parts retailers are poised for secular benefit and can act counter-cyclical. Overall, the industry appears well positioned at this juncture given our assumption of their ability to provide an attractive mix of offense / defense in portfolios.

Catalysts

1. Individuals refresh vehicles less frequently
   - Consumers are getting forced to the sidelines by record high new and used vehicle prices
   - Should trend continue, retail auto parts sellers benefit of extended ownership periods via additional repair and maintenance spending
2. Industry consolidation
   - The automotive and industrial part retail sectors should consolidate around larger participants due to superior levels of component availability

Risks

1. Inflation tailwinds abate
   - The auto distributors are beneficiaries of inflation, and have consistently beefed EPS by passing on costs
   - Concerns around medium-term growth without aid of inflation
   - Worth noting, historically speaking, price increases have stuck
2. Weather / traffic
   - Although out of anyone's control, less favorable weather conditions can weigh on distributors
   - More air travel / less car travel would a meaningful headwind to the group

Source: Blue Chip Partners. As of 1 November 2023.

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Genuine Parts Co. – summary

- **Commercial "do-it-for-me" (DIFM):** ~80% of revenue
- **Retail "do-it-yourself" (DIY):** ~20% of revenue
  - Both categories have benefitted from rising miles driven and average vehicle age, but have shown resilience in past recessions
  - DIFM larger for GPC vs. ORLY (45% of revenue) – DIFM is lower margin relatively, but stickier as professional service providers tend to display greater brand loyalty

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- **Automotive parts group:** ~60% of revenue
  - Distributes automotive parts and accessory items to the aftermarket
- **Industrial parts group:** ~40% of revenue
  - Distributes industrial bearings, power transmission equipment, hoses, and other components to Maintenance Repair and Operation (MRO) and Original Equipment Manufacturer (OEM) customers

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- **North America:** 75.6% of revenue
- **Europe:** 15.3% of revenue
- **Australasia:** 9.1% of revenue

Source: Blue Chip Partners with data from Bloomberg. As of 30 June 2023.

Investment review

Genuine Parts Co. (GPC) & O'Reilly Automotive Inc. (ORLY)

O'Reilly Automotive Inc. – summary

- **Commercial "do-it-for-me" (DIFM):** ~45% of revenue
- **Retail "do-it-yourself" (DIY):** ~55% of revenue
  - Both categories have benefitted from rising miles driven and average vehicle age, but have shown resilience in past recessions
  - DIFM smaller for ORLY vs. GPC (80% of revenue) – DIFM is lower margin relatively, but stickier as professional service providers tend to display greater brand loyalty
  - DIFM market share has been increasing, although it's mostly been taken from smaller competitors and not public peers

- **Automotive aftermarket parts:** ~100% of revenue
  - Distributes automotive parts and accessory items to the aftermarket

- **United States:** ~100% of revenue
  - **Mexico:** <1% of O'Reilly stores

Source: Blue Chip Partners with data from Bloomberg. As of 30 June 2023.

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Ranks vs. U.S. peers

Genuine Parts Co.	Core rank in sector	FCF conversion	Gross profitability	Net debt / EBITDA
6 November 2023	25 / 53	33 / 53	20 / 53	25 / 53
6 May 2023	25 / 53	16 / 53	16 / 53	22 / 53
6 November 2022	23 / 53	29 / 53	17 / 53	22 / 53
6 November 2021	18 / 60	14 / 60	14 / 60	23 / 60

O'Reilly Automotive	Core rank in sector	FCF conversion	Gross profitability	Net debt / EBITDA
6 November 2023	22 / 53	22 / 53	9 / 53	27 / 53
6 May 2023	19 / 53	23 / 53	9 / 53	24 / 53
6 November 2022	19 / 53	24 / 53	8 / 53	23 / 53
6 November 2021	17 / 60	22 / 60	6 / 60	21 / 60

AutoZone	Core rank in sector	FCF conversion	Gross profitability	Net debt / EBITDA
6 November 2023	21 / 53	13 / 53	4 / 53	30 / 53
6 May 2023	22 / 53	16 / 53	16 / 53	26 / 53
6 November 2022	16 / 53	10 / 53	6 / 53	25 / 53
6 November 2021	23 / 60	29 / 60	4 / 60	28 / 60

Source: Blue Chip Partners with data from Bloomberg. As of 6 November 2023.

Investment review

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Genuine Parts Co. – current thesis

As an automotive and industrial replacement parts distributor, GPC offers a balanced exposure that should walk the line between cyclicality and stability. Synchronized growth in both its automotive and industrial segments can result in faster earnings growth and upward revisions over the next two years. Additionally, there has been a cultural and business transformation at Genuine Parts with new management helping to shift the company toward faster growing end markets and leveraging IT, supply chain, and process improvements to drive margin expansion.

While not a pureplay auto parts retailer (40% of the business is related to industrial parts), the firm's auto parts exposure is heavily geared towards the sticky "Do-It-For-Me" subset. Shares are historically cheap in our view, as investors are rarely presented with the opportunity to gain exposure at a 3.0% yield.

Catalysts

1. Momentum remains
   > Coming into this year, concerns around the stickiness of momentum in **European auto** and **industrial** segments were highlights of a bear case

   > Momentum has remained strong in the first two quarters of this year, and these businesses provide upside to current levels should trajectory continue
2. Market share gains
   > Any traction in market share represents meaningful upside

   > Specifically in the large and fragmented European auto market, in which GPC is the 2nd largest player with single-digit market share

   > Accelerated share gains in U.S. auto serve as a catalyst as well
3. Strategic levers
   > Fresh management team has operated well

   > Potential for accretive tuck-in M&A given GPC's long track record of execution

Risks

1. Inflation tailwinds abate
   > The auto distributors are beneficiaries of inflation, and have consistently beefed EPS by passing on costs

   > Concerns around medium-term growth without aid of inflation

   > Worth noting, historically speaking, price increases have stuck
2. Weather / traffic
   > Although out of anyone's control, less favorable weather conditions can weigh on distributors

   > More air travel / less car travel would a meaningful headwind to the group

Source: Blue Chip Partners with data from Bloomberg. As of 1 November 2023.

Investment review

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O'Reilly Automotive Inc. – current thesis

O'Reilly has arguably the most fully realized dual-market capability (between DIY / DIFM) of national auto parts chains, which provides a best-in-class margin profile. ORLY boasts a strong operational track record and highly productive infrastructure, as these industry-leading margins are presented 1) despite investments in service and high parts availability, and 2) with a lower store count than AZO.

Consistently best-in-class from a profitability and execution perspective, O'Reilly boasts a relatively even split of revenue from the high margin "Do-It-Yourself" and the sticky "Do-It-For-Me" categories. While the company does not pay a dividend, the firm has consistently executed meaningful buybacks, which can be viewed as an additional form of shareholder yield.

Catalysts

1. Momentum remains
   - > Momentum has remained strong in the first two quarters of this year, and these businesses provide upside to current levels should trajectory continue
   - > During the pandemic, DIY has become more popular, but particularly in the younger generations who look for more ways to save money
   - > Should same store sales growth momentum continue to expand EBIT attractively, shares may not be as expensive as they look today
2. Market share gains
   - > Aggressive store growth strategy to consolidate the aftermarket space
   - > Growing DIFM business through gaining wallet share with current customers and acquiring new business
3. Strategic levers
   - > New store locations chosen strategically to compliment distribution network

Risks

1. Inflation tailwinds abate
   - > The auto distributors are beneficiaries of inflation, and have consistently beefed EPS by passing on costs
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3. Tough comps & valuation
   - > ORLY has executed well, and comparisons y/y will be challenging
     - > A -4% selloff the day of a Q2 beat and guidance raise was reported is evidence of the high expectations embedded
   - > Valuation is lofty relative to history (+16% vs. 5yr avg P/E) and peers (26.2x vs 19.9x for AZO)

Source: Blue Chip Partners with data from Bloomberg. As of 1 November 2023.

Investment review

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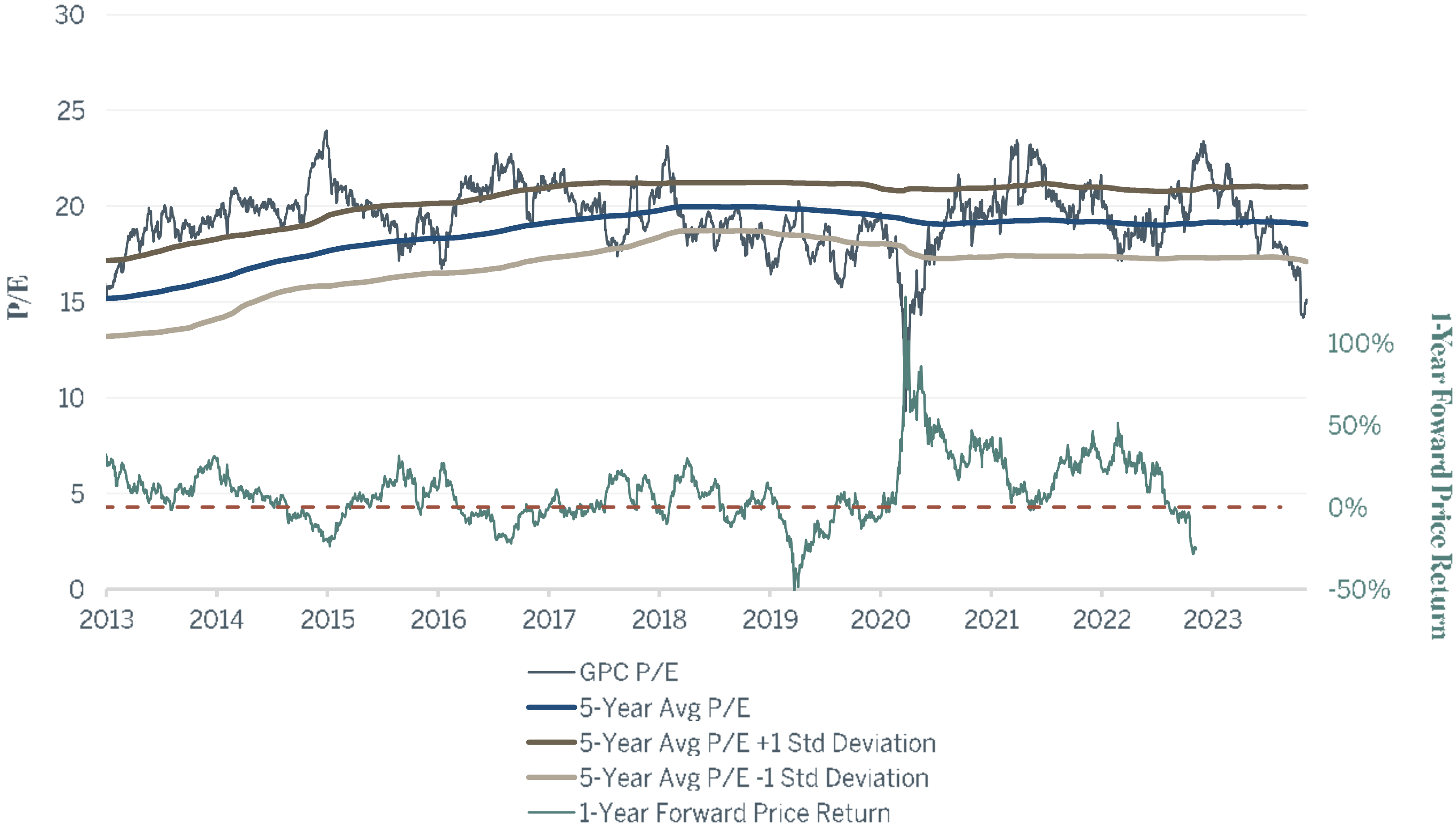
Genuine Parts Co. – P/E vs. 1-year forward price return



Source: Blue Chip Partners with data from Bloomberg. As of 7 November 2023.
P/E refers to the Price to Earnings ratio. a measure of a company's share price relative to the company's trailing 12-months earnings per share.
The 1-Year Forward Price Return is indicative of the forward 1-year price return from each date. and should not be relied on as an indicator of future results.

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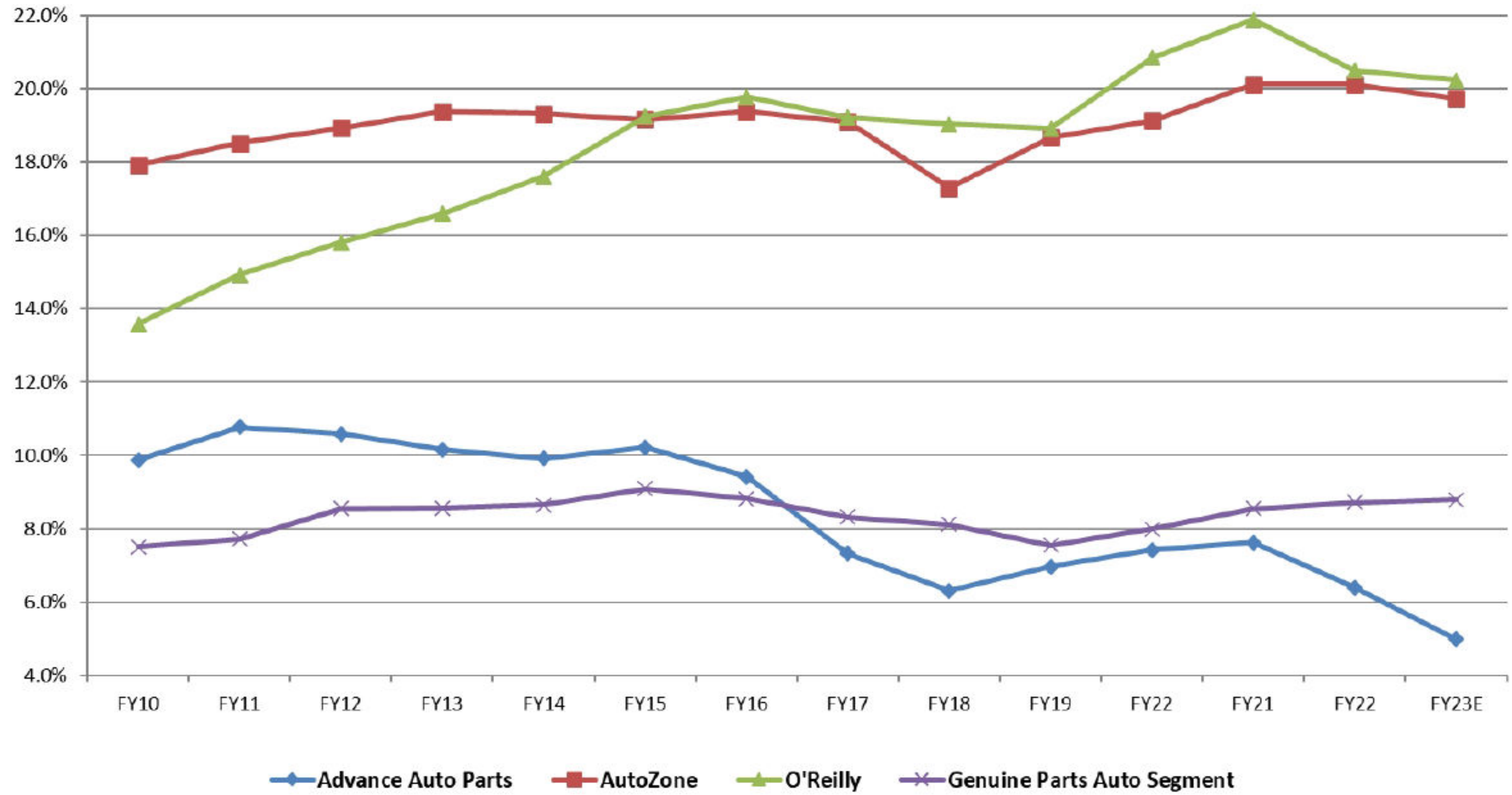
Industry operating margins



Source: Blue Chip Partners with data from Raymond James. As of 18 July 2023.

Investment review

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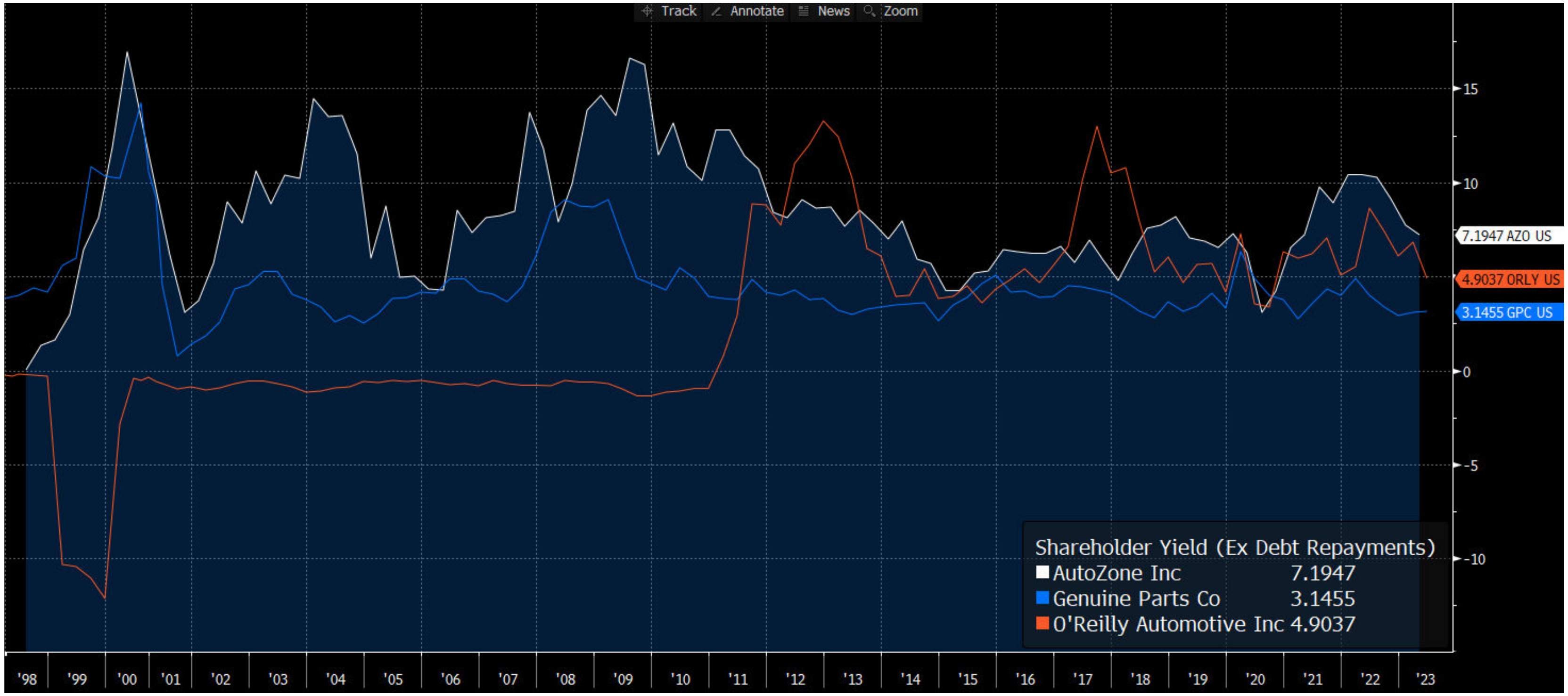
Shareholder yield: more than just dividends



Source: Blue Chip Partners with data from Bloomberg. As of 30 June 2023.
Shareholder Yield (Ex Debt Repayments) refers to the sum of cash dividends and net stock repurchases relative to a company's stock price.

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Disclosures

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