

## Driven Brands

# 4Q23 Recap: Solid results but guidance light versus consensus

Reiterate Rating: BUY | PO: 20.00 USD | Price: 14.56 USD

## Take 5 continues to lead in comp growth

Driven Brands (DRVN) reported 4Q23 results. Revenue was up 2.6% YoY (versus BofAe 6.1% and consensus 5.6%). Full-year revenue of \$2.3bn was in line with guidance. 4Q system-wide sales were up 3.0% YoY driven by 3.9% comps and 3.8% net store growth. Comp growth of 3.9% beat our estimate of 3.2% and consensus of 3.7% and was led by strength in the Maintenance (4.7%) and Paint, Collision & Glass (PCG) segments (6.4%), partially offset by declines in Car Wash (-3.3%), which was driven by the US car wash operations. Maintenance revenue growth of 8.8% was lower than BofAe of 15.6% and consensus of 11.2%. Take 5 delivered 7% comp growth and 14% EBITDA growth. PCG revenue declined 4.7%, compared to BofAe +9.3% and consensus +16.0% growth. Opex delevered 255bp to 84.1% (versus BofAe of 86.0% and consensus of 85.9%).

## EPS outlook is flat on expected revenue growth

DRVN provided guidance for 2024. The company expects revenue to be between \$2.35bn and 2.45bn, with the midpoint equivalent to a 4% increase from \$2.30bn in 2023. EBITDA is expected to be between \$535mn and 565mn, and EPS is expected to be between \$0.88 and \$1.00. The bottom end of guidance reflects potential impacts from macro uncertainty and weather, and the top end is consistent with what the company shared at its Investor Day. DRVN also expects comp growth of 3-5% and net store growth of about 205-220. Approximately 165-185 of these stores will be in the maintenance segment, of which 65% will be franchise and 35% company-operated.

## Still confident about long-term growth potential

Given 4Q results and 2024 guidance, we lower our 2024/2025/2026 estimates by 18/17/16%. We also lower our PO from \$25 to \$20, still based on 22x 2024 P/E, given our lower estimates. We reiterate our Buy rating given our confidence in DRVN's long-term growth. In our view, DRVN's above-average growth and margins versus peers warrant a premium valuation multiple versus the auto aftermarket average of 15x. DRVN's maintenance and PCG segments continue to perform well in a challenging environment for many consumer/retail companies.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	0.89	1.18	0.95	0.91	1.22
GAAP EPS	0.06	0.22	(4.52)	0.63	0.95
EPS Change (YoY)	134.2%	32.6%	-19.5%	-4.2%	34.1%
Consensus EPS (Bloomberg)			0.93	1.12	1.43
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	16.4x	12.3x	15.3x	16.0x	11.9x
GAAP P/E	242.7x	66.2x	NM	23.1x	15.3x
EV / EBITDA*	18.9x	13.3x	12.7x	12.4x	10.7x
Free Cash Flow Yield*	5.2%	-10.2%	-15.1%	5.1%	5.7%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

22 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	25.00	20.00
2023E Rev (m)	2,322.9	2,304.0
2024E Rev (m)	2,486.6	2,404.4
2025E Rev (m)	2,691.0	2,589.8
2023E EPS	0.91	0.95
2024E EPS	1.10	0.91
2025E EPS	1.47	1.22

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### Stock Data

Price	14.56 USD
Price Objective	20.00 USD
Date Established	22-Feb-2024
Investment Opinion	C-1-9
52-Week Range	10.61 USD - 31.47 USD
Mkt Val (mn) / Shares Out (mn)	2,387 USD / 164.0
Free Float	35.5%
Average Daily Value (mn)	15.23 USD
BofA Ticker / Exchange	DRVN / NAS
Bloomberg / Reuters	DRVN US / DRVN.QQ
ROE (2023E)	12.2%
Net Dbt to Eqty (Dec-2022A)	151.9%
ESGMeter <sup>TM</sup>	Medium

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opex: operating expense

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Timestamp: 22 February 2024 03:20PM EST

# iQprofile<sup>SM</sup> Driven Brands

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	4.2%	4.9%	4.7%	4.7%	5.4%
Return on Equity	10.7%	12.0%	12.2%	13.7%	15.0%
Operating Margin	18.2%	19.0%	16.9%	15.7%	17.3%
Free Cash Flow	123	(242)	(361)	121	136

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.9x	1.0x	1.5x	2.4x	2.0x
Asset Replacement Ratio	1.4x	3.0x	3.4x	1.1x	1.2x
Tax Rate	23.3%	27.5%	30.5%	30.0%	30.0%
Net Debt-to-Equity Ratio	113.0%	151.9%	305.2%	204.5%	162.6%
Interest Cover	3.5x	3.4x	2.4x	2.2x	2.7x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,467	2,033	2,304	2,404	2,590
% Change	62.3%	38.6%	13.3%	4.4%	7.7%
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	362	514	535	552	635
% Change	76.1%	42.0%	4.2%	3.1%	15.2%
Net Interest & Other Income	(76)	(114)	(164)	(170)	(167)
<b>Net Income (Adjusted)</b>	<b>147</b>	<b>197</b>	<b>156</b>	<b>144</b>	<b>196</b>
<b>% Change</b>	<b>238.6%</b>	<b>34.3%</b>	<b>-21.0%</b>	<b>-7.3%</b>	<b>35.5%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	147	197	156	144	196
Depreciation & Amortization	113	147	175	209	225
Change in Working Capital	12	(161)	(65)	11	(12)
Deferred Taxation Charge	10	21	(126)	0	0
Other Adjustments, Net	2	(7)	95	(13)	(13)
Capital Expenditure	(161)	(440)	(596)	(230)	(260)
<b>Free Cash Flow</b>	<b>123</b>	<b>-242</b>	<b>-361</b>	<b>121</b>	<b>136</b>
<b>% Change</b>	<b>290.4%</b>	<b>NM</b>	<b>-49.1%</b>	<b>NM</b>	<b>12.5%</b>
Share / Issue Repurchase	761	0	(44)	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	191	334	220	(70)	(70)

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	523	227	177	407	514
Trade Receivables	118	180	151	158	170
Other Current Assets	128	164	493	482	494
Property, Plant & Equipment	1,351	1,546	1,438	1,459	1,494
Other Non-Current Assets	3,737	4,383	3,651	3,651	3,651
<b>Total Assets</b>	<b>5,857</b>	<b>6,500</b>	<b>5,911</b>	<b>6,158</b>	<b>6,322</b>
Short-Term Debt	26	33	33	33	33
Other Current Liabilities	452	472	394	409	436
Long-Term Debt	2,356	2,705	2,911	2,841	2,771
Other Non-Current Liabilities	1,378	1,636	1,666	1,669	1,674
<b>Total Liabilities</b>	<b>4,212</b>	<b>4,846</b>	<b>5,004</b>	<b>4,951</b>	<b>4,914</b>
<b>Total Equity</b>	<b>1,645</b>	<b>1,654</b>	<b>907</b>	<b>1,206</b>	<b>1,409</b>
<b>Total Equity &amp; Liabilities</b>	<b>5,857</b>	<b>6,500</b>	<b>5,911</b>	<b>6,158</b>	<b>6,322</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Retailing-Hardlines

## Company Description

Driven Brands is the largest automotive services company in North America with a growing and highly-franchised base of more than 4,800 locations across 49 states and 14 international countries. The company's platform of brands includes a wide range of consumer and commercial automotive applications, separated into four reporting segments: Paint, Collision & Glass (PCG), Maintenance, Car wash, and Platform Services. The majority of its locations are franchised.

## Investment Rationale

We view the do-it-for-me (DIFM) channel of the auto aftermarket as having relatively higher long-term growth than do-it-yourself (DIY) auto parts, given more favorable fleet growth dynamics and long-term secular trends. Within this channel, DRVN has an industry-leading position in a highly-fragmented market, with superior margins compared to other public peers.

## Stock Data

Average Daily Volume 1,046,275

## Quarterly Earnings Estimates

	2022	2023
Q1	0.29A	0.25A
Q2	0.36A	0.29A
Q3	0.29A	0.20A
Q4	0.25A	0.19E

## Price objective basis & risk

### Driven Brands (DRVN)

Our price objective of \$20 is based on a P/E of 22x our 2024E, reflecting a premium to the auto aftermarket company average (15x) due to DRVN's superior margin profile and top-line growth outlook. Relative to franchise operators in other sectors (quick-service restaurants and fitness), DRVN trades at a discount, which we believe is appropriate given the somewhat slow-and-steady organic growth of the auto aftermarket.

Downside risks to our price objective: 1) Slower-than-expected growth in miles driven and therefore demand for auto service, 2) execution risk from incorporating recently acquired businesses, 3) sentiment risk from increased penetration of EVs and autonomous technology.

Upside risks: 1) Future M&A (not baked into forecasts), 2) franchise expansion beyond our current forecasts, 3) favorable sentiment/multiple expansion if rates moderate.

## Analyst Certification

I, Jason Haas, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Arhaus, Inc	ARHS	ARHS US	Jason Haas, CFA
	Boot Barn	BOOT	BOOT US	Jason Haas, CFA
	Driven Brands	DRVN	DRVN US	Jason Haas, CFA
	Five Below Inc.	FIVE	FIVE US	Jason Haas, CFA
	Floor and Decor Holdings, Inc.	FND	FND US	Robert F. Ohmes, CFA
	Genuine Parts	GPC	GPC US	Jason Haas, CFA
	Lowe's Companies, Inc.	LOW	LOW US	Robert F. Ohmes, CFA
	Mattel	MAT	MAT US	Jason Haas, CFA
	Mister Car Wash	MCW	MCW US	Jason Haas, CFA
	Ollie's	OLLI	OLLI US	Jason Haas, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Jason Haas, CFA
	Petco	WOOF	WOOF US	Jason Haas, CFA
	PROG Holdings Inc	PRG	PRG US	Jason Haas, CFA
	Rollins Inc.	ROL	ROL US	Jason Haas, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Jason Haas, CFA
	The Home Depot, Inc.	HD	HD US	Robert F. Ohmes, CFA
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
<b>NEUTRAL</b>				
	AutoZone Inc.	AZO	AZO US	Jason Haas, CFA
	Hasbro	HAS	HAS US	Jason Haas, CFA
	Sonos, Inc.	SONO	SONO US	Jason Haas, CFA
	Williams-Sonoma	WSM	WSM US	Jason Haas, CFA
<b>UNDERPERFORM</b>				
	Advance Auto Parts, Inc.	AAP	AAP US	Jason Haas, CFA
	Best Buy Co., Inc.	BBY	BBY US	Robert F. Ohmes, CFA
	Snap-on	SNA	SNA US	Elizabeth L Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Whirlpool	WHR	WHR US	Jason Haas, CFA



## US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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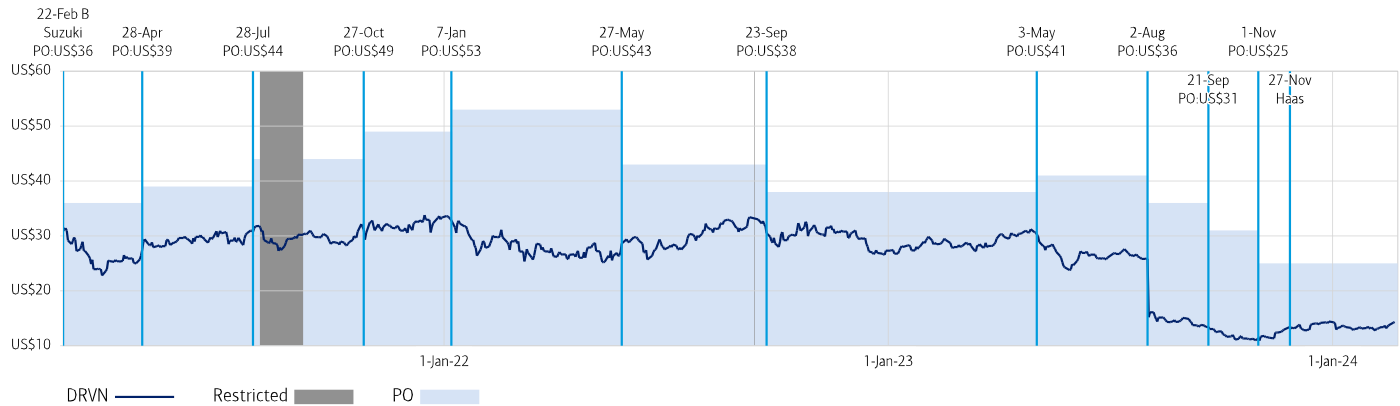
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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