

## Genuine Parts

# 4Q23 recap: US automotive still lags in performance while Europe leads

Reiterate Rating: BUY | PO: 187.00 USD | Price: 143.71 USD

## Automotive comp decline offset by acquisition benefit

Genuine Parts (GPC) reported its 4Q23 results. 4Q EPS of \$2.26 was higher than BofAe \$2.16 and consensus \$2.20. Gross margin expanded 67bp to 36.4%, compared to consensus 35.9%. Opex delevered 41bp to 28.9%, compared to consensus 28.4%. Automotive sales were up 0.8% YoY, with a -2.7% comp, a 2.9% benefit from acquisitions, and a net 0.6% favorable impact from FX and other. Automotive operating margin of 7.5% was down 111bp compared to 8.6% in 4Q22. Europe automotive sales grew the fastest at 10.4% YoY, continuing its double-digit sales growth trajectory. US automotive sales declined 5.6%, Canada grew 0.8%, and Australasia grew 1.5%. Industrial sales were up 1.7% YoY, with a 1.2% comp, a 0.5% benefit from acquisitions, and no impact from FX. Industrial operating margin of 12.9% was up 190bp compared to 11.0% in 4Q22. Industrial sales grew 1.3% in North America and 9.5% in Australasia.

## Decelerating growth in 2024 for both segments

GPC provided guidance for 2024. The company expects total sales growth to be between 3%-5%, with the midpoint lower than 2023 sales growth of 4.5%. GPC anticipated a more moderated 1H and stronger 2H for both automotive and industrial. Specifically for the two segments, GPC expects automotive sales growth between 2%-4% (1%-3% comp) and industrial sales growth between 3%-5% (2%-4% comp). GPC is targeting full-year gross margin expansion of 20-40bp, driven by sourcing and pricing initiatives. SG&A will deleverage 20-30bp from further investments in technology. Adj. EPS is expected to be in the range of \$9.70-\$9.90, growing 4-6% YoY.

## Estimates lowered but remain confident in LT growth

Given the 2024 guidance, we're lowering 2024/2025 estimates by 2/3% and introducing 2026 estimates. We're lowering our PO from \$192 to \$187 still based on 19x '24E P/E, in-line with GPC's long-term average. We are confident in GPC's long-term performance as GPC's international mix and automotive business make it relatively defensive compared to the rest of our coverage. The industrial segment is exposed to favorable long-term growth trends such as EV production, near-shoring, and factory automation.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	8.35	9.33	9.84	10.62	11.45
GAAP EPS	8.31	9.33	9.84	10.62	11.45
EPS Change (YoY)	20.8%	11.7%	5.5%	7.9%	7.8%
Consensus EPS (Bloomberg)			9.83	10.64	11.40
DPS	3.48	3.73	4.00	4.21	4.43
Valuation (Dec)					
P/E	17.2x	15.4x	14.6x	13.5x	12.6x
GAAP P/E	17.3x	15.4x	14.6x	13.5x	12.6x
Dividend Yield	2.4%	2.6%	2.8%	2.9%	3.1%
EV / EBITDA*	12.7x	11.9x	11.4x	10.7x	10.1x
Free Cash Flow Yield*	6.5%	4.6%	4.6%	6.4%	6.7%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

16 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	192.00	187.00
2024E Rev (m)	24,572.9	23,892.0
2025E Rev (m)	25,848.5	24,893.7
2026E Rev (m)	NA	25,937.6
2024E EPS	10.04	9.84
2025E EPS	10.89	10.62
2026E EPS	NA	11.45
2024E DPS	3.99	4.00

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### Stock Data

Price	143.71 USD
Price Objective	187.00 USD
Date Established	16-Feb-2024
Investment Opinion	B-1-7
52-Week Range	126.35 USD - 181.37 USD
Mkt Val (mn) / Shares Out (mn)	20,057 USD / 139.6
Free Float	99.2%
Average Daily Value (mn)	139.80 USD
BofA Ticker / Exchange	GPC / NYS
Bloomberg / Reuters	GPC US / GPC.N
ROE (2024E)	29.1%
Net Dbt to Eqty (Dec-2023A)	63.5%
ESGMeter <sup>TM</sup>	High

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# iQprofile<sup>SM</sup> Genuine Parts

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	14.5%	13.5%	13.0%	13.1%	13.0%
Return on Equity	32.5%	32.0%	29.1%	27.3%	25.8%
Operating Margin	7.3%	7.6%	7.8%	7.9%	8.1%
Free Cash Flow	1,306	923	923	1,284	1,348

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.1x	1.0x	1.3x	1.2x
Asset Replacement Ratio	0.5x	1.5x	1.4x	1.5x	1.6x
Tax Rate	24.7%	24.4%	24.0%	24.0%	24.0%
Net Debt-to-Equity Ratio	70.3%	63.5%	55.5%	42.7%	31.7%
Interest Cover	21.9x	27.1x	18.6x	19.8x	21.1x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	22,096	23,091	23,892	24,894	25,938
% Change	17.1%	4.5%	3.5%	4.2%	4.2%
Gross Profit	7,740	8,291	8,643	9,006	9,383
% Change	16.7%	7.1%	4.3%	4.2%	4.2%
EBITDA	1,967	2,098	2,205	2,344	2,492
% Change	23.2%	6.6%	5.1%	6.3%	6.3%
Net Interest & Other Income	(42)	(5)	(48)	(45)	(42)
<b>Net Income (Adjusted)</b>	<b>1,188</b>	<b>1,317</b>	<b>1,372</b>	<b>1,467</b>	<b>1,567</b>
<b>% Change</b>	<b>19.1%</b>	<b>10.9%</b>	<b>4.2%</b>	<b>6.9%</b>	<b>6.8%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,188	1,317	1,372	1,467	1,567
Depreciation & Amortization	348	351	352	370	388
Change in Working Capital	(19)	(289)	(360)	(64)	(67)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(49)	58	59	62	64
Capital Expenditure	(161)	(513)	(500)	(550)	(605)
<b>Free Cash Flow</b>	<b>1,306</b>	<b>923</b>	<b>923</b>	<b>1,284</b>	<b>1,348</b>
<b>% Change</b>	<b>28.2%</b>	<b>-29.3%</b>	<b>0%</b>	<b>39.1%</b>	<b>4.9%</b>
Share / Issue Repurchase	(223)	(261)	(200)	(200)	(200)
Cost of Dividends Paid	(496)	(527)	(558)	(582)	(607)
Change in Debt	961	531	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	653	1,102	1,117	1,470	1,861
Trade Receivables	2,189	2,223	2,422	2,523	2,629
Other Current Assets	5,974	6,280	6,673	6,952	7,244
Property, Plant & Equipment	1,326	1,617	1,787	1,990	2,230
Other Non-Current Assets	6,353	6,746	6,846	6,955	7,065
<b>Total Assets</b>	<b>16,495</b>	<b>17,968</b>	<b>18,845</b>	<b>19,891</b>	<b>21,029</b>
Short-Term Debt	252	355	355	355	355
Other Current Liabilities	7,434	7,472	7,707	8,030	8,367
Long-Term Debt	3,077	3,551	3,551	3,551	3,551
Other Non-Current Liabilities	1,928	2,173	2,207	2,249	2,293
<b>Total Liabilities</b>	<b>12,691</b>	<b>13,551</b>	<b>13,821</b>	<b>14,186</b>	<b>14,567</b>
<b>Total Equity</b>	<b>3,804</b>	<b>4,417</b>	<b>5,025</b>	<b>5,705</b>	<b>6,462</b>
<b>Total Equity &amp; Liabilities</b>	<b>16,495</b>	<b>17,968</b>	<b>18,845</b>	<b>19,891</b>	<b>21,029</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Auto Parts

## Company Description

Genuine Parts is a North American focused distributor of automotive replacement parts, industrial replacement parts, and office products. The company was founded in 1928 and became publicly traded on the New York stock exchange in 1948.

## Investment Rationale

The auto and industrial aftermarket industries have historically represented large, relatively stable markets. GPC has delivered a long-term track record of financial performance and dividend growth. The company also now has the potential to benefit from growth industries, such as electric vehicle (EV) production and automation through its Industrial segment.

## Stock Data

Average Daily Volume

972,780

## Quarterly Earnings Estimates

	2023	2024
Q1	2.14A	2.17E
Q2	2.44A	2.64E
Q3	2.49A	2.67E
Q4	2.26A	2.35E



## Price objective basis & risk

### Genuine Parts (GPC)

Our \$187 price objective for GPC shares is based on a PE multiple of approximately 19x on our 2024 EPS estimate, somewhat above the company's pre-COVID 10-year average (17x). As US auto aftermarket trends normalize and international markets begin to carry more earnings weight, we expect GPC to be relatively defensive compared to most US hardline retail names.

Downside risks to our price objective are 1) slower-than-expected economic recovery, 2) failure to continue the momentum of acquisitions and successfully integrate new businesses, 3) a slowdown or decline in US miles driven and or the size of the vehicle fleet, 4) highly competitive end markets and online channel shift resulting in pricing and margin pressure, 5) inability to maintain key suppliers and customers.

Upside risks are 1) stronger-than-anticipated US GDP growth and recovery in miles driven, 2) further acceleration in accretive acquisitions, 3) stronger than expected industry pricing trends, 4) larger than expected market share gains.

## 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

## 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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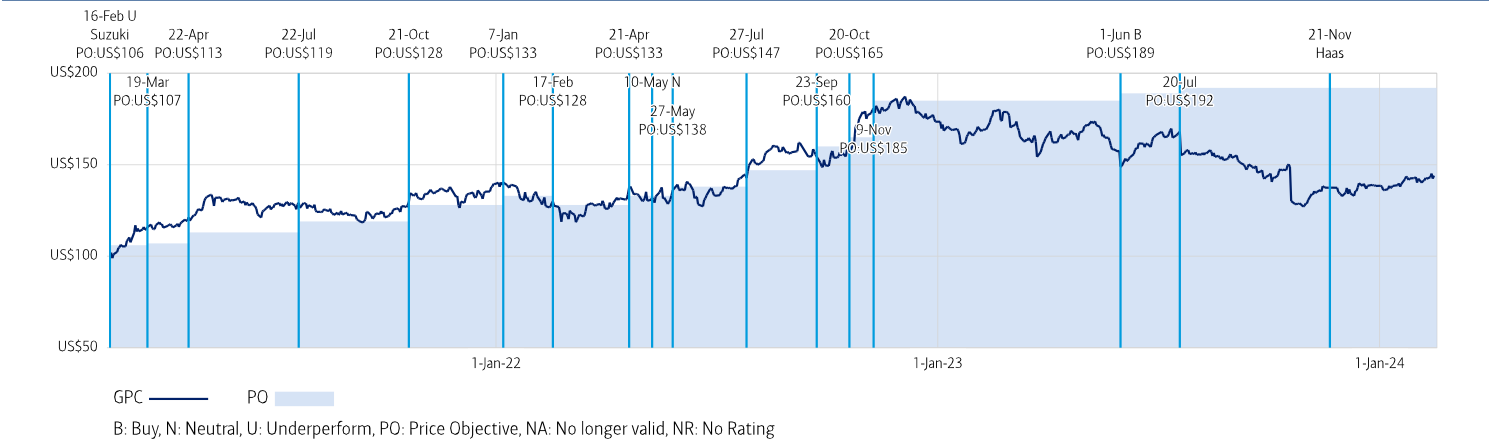
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Genuine Parts (GPC) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	67	55.83%	Buy	39	58.21%
Hold	30	25.00%	Hold	15	50.00%
Sell	23	19.17%	Sell	12	52.17%

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%

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