

## Driven Brands

# DRVN Bloomberg card data shows y/y growth in observed sales

Maintain Rating: BUY | PO: 20.00 USD | Price: 13.79 USD

## Bloomberg Second Measure shows some correlation

Bloomberg Second Measure credit and debit card data shows that there is a 46% correlation between DRVN's total revenue growth and average transaction value growth (Exhibit 1) and 32% correlation between comps and observed sales growth (Exhibit 2). We're currently modeling 4.4% revenue growth and 4.0% comps in 2024E. This is in-line with the company's 2024 guidance in which it expects revenue to be between \$2.35-2.45bn, with the midpoint equivalent to a 4% increase from \$2.30bn in 2023. For each segment, we're modeling 5.0% comps for maintenance, 1.5% comps for car wash, 5.0% comps for PCG (Paint, Collision & Glass), and 4.0% comps for platform services. DRVN also expects comp growth of 3-5% and net store growth of approximately 205 to 220. Approximately 165-185 of these stores are to be in the maintenance segment, of which 65% are planned to be franchise and 35% company-operated.

## January weather does not have material full year impact

Quarter-to-date, Bloomberg Second Measure credit and debit card data shows positive y/y change in DRVN's observed sales (Exhibit 3). DRVN experienced a challenging month in January as sales were impacted by multiple storms, flooding and freezing temperatures, but the company does not expect this to have a material impact on the full year. Y/y growth stabilized between 10-15% in February. During the 4Q23 earnings call, the company commented that it expects approximately 80% of total y/y dollar growth will fall in the second half.

## Still confident in long-term growth potential

We maintain our Buy rating and PO of \$20 based on 22x '24E P/E given our confidence in DRVN's long term growth. DRVN's above-average growth and margins vs. peers warrants a premium valuation multiple vs. 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\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.18	0.95	0.91	1.22	1.57
GAAP EPS	0.22	(4.52)	0.63	0.95	1.30
EPS Change (YoY)	32.6%	-19.5%	-4.2%	34.1%	28.7%
Consensus EPS (Bloomberg)			1.02	1.33	1.57
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	11.7x	14.5x	15.2x	11.3x	8.8x
GAAP P/E	62.7x	NM	21.9x	14.5x	10.6x
EV / EBITDA*	12.4x	12.0x	11.6x	10.1x	8.8x
Free Cash Flow Yield*	-10.7%	-16.0%	5.4%	6.0%	9.2%

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

29 February 2024

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### Stock Data

Price	13.79 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)	2,261 USD / 164.0
Free Float	35.5%
Average Daily Value (mn)	15.95 USD
BofA Ticker / Exchange	DRVN / NAS
Bloomberg / Reuters	DRVN US / DRVN.OQ
ROE (2024E)	13.7%
Net Dbt to Eqty (Dec-2023A)	305.2%
ESGMeter <sup>TM</sup>	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 29 February 2024 05:08PM EST

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

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	4.9%	4.7%	4.7%	5.4%	6.1%
Return on Equity	12.0%	12.2%	13.7%	15.0%	16.4%
Operating Margin	19.0%	16.9%	15.7%	17.3%	18.8%
Free Cash Flow	(242)	(361)	121	136	209

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	1.5x	2.4x	2.0x	1.9x
Asset Replacement Ratio	3.0x	3.4x	1.1x	1.2x	1.1x
Tax Rate	27.5%	30.5%	30.0%	30.0%	30.0%
Net Debt-to-Equity Ratio	151.9%	305.2%	204.5%	162.6%	122.5%
Interest Cover	3.4x	2.4x	2.2x	2.7x	3.2x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,033	2,304	2,404	2,590	2,787
% Change	38.6%	13.3%	4.4%	7.7%	7.6%
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	514	535	552	635	727
% Change	42.0%	4.2%	3.1%	15.2%	14.4%
Net Interest & Other Income	(114)	(164)	(170)	(167)	(164)
<b>Net Income (Adjusted)</b>	<b>197</b>	<b>156</b>	<b>144</b>	<b>196</b>	<b>252</b>
<b>% Change</b>	<b>34.3%</b>	<b>-21.0%</b>	<b>-7.3%</b>	<b>35.5%</b>	<b>28.7%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	197	156	144	196	252
Depreciation & Amortization	147	175	209	225	243
Change in Working Capital	(161)	(65)	11	(12)	(12)
Deferred Taxation Charge	21	(126)	0	0	0
Other Adjustments, Net	(7)	95	(13)	(13)	(13)
Capital Expenditure	(440)	(596)	(230)	(260)	(260)
<b>Free Cash Flow</b>	<b>-242</b>	<b>-361</b>	<b>121</b>	<b>136</b>	<b>209</b>
<b>% Change</b>	<b>NM</b>	<b>-49.1%</b>	<b>NM</b>	<b>12.5%</b>	<b>53.2%</b>
Share / Issue Repurchase	0	(44)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	334	220	(70)	(70)	(70)

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	227	177	407	514	693
Trade Receivables	180	151	158	170	183
Other Current Assets	164	493	482	494	506
Property, Plant & Equipment	1,546	1,438	1,459	1,494	1,511
Other Non-Current Assets	4,383	3,651	3,651	3,651	3,651
<b>Total Assets</b>	<b>6,500</b>	<b>5,911</b>	<b>6,158</b>	<b>6,322</b>	<b>6,544</b>
Short-Term Debt	33	33	33	33	33
Other Current Liabilities	472	394	409	436	466
Long-Term Debt	2,705	2,911	2,841	2,771	2,701
Other Non-Current Liabilities	1,636	1,666	1,669	1,674	1,679
<b>Total Liabilities</b>	<b>4,846</b>	<b>5,004</b>	<b>4,951</b>	<b>4,914</b>	<b>4,878</b>
<b>Total Equity</b>	<b>1,654</b>	<b>907</b>	<b>1,206</b>	<b>1,409</b>	<b>1,666</b>
<b>Total Equity &amp; Liabilities</b>	<b>6,500</b>	<b>5,911</b>	<b>6,158</b>	<b>6,322</b>	<b>6,544</b>

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

## 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 1,156,917

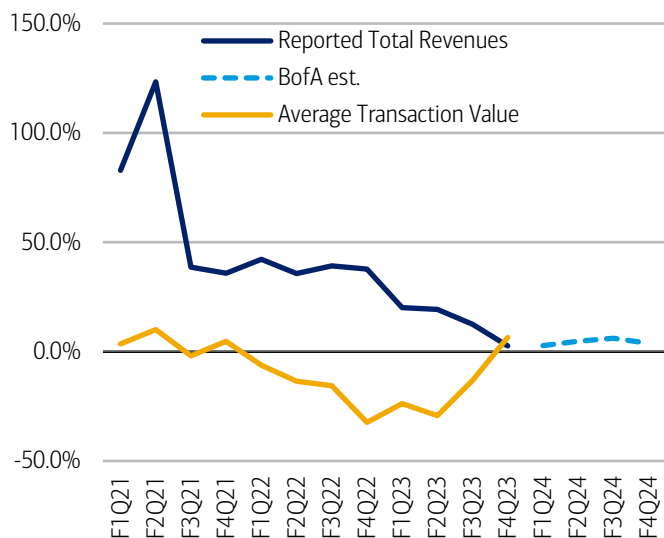
## Quarterly Earnings Estimates

	2023	2024
Q1	0.25A	0.19E
Q2	0.29A	0.29E
Q3	0.20A	0.25E
Q4	0.19A	0.17E

# Bloomberg Second Measure data

## Exhibit 1: Bloomberg Second Measure credit and debit card data – Average Transaction Value (ATV)

Average Transaction Value (ATV) accelerated in 2024 from (23.77)% y/y in F1Q to 6.53% y/y in F4Q

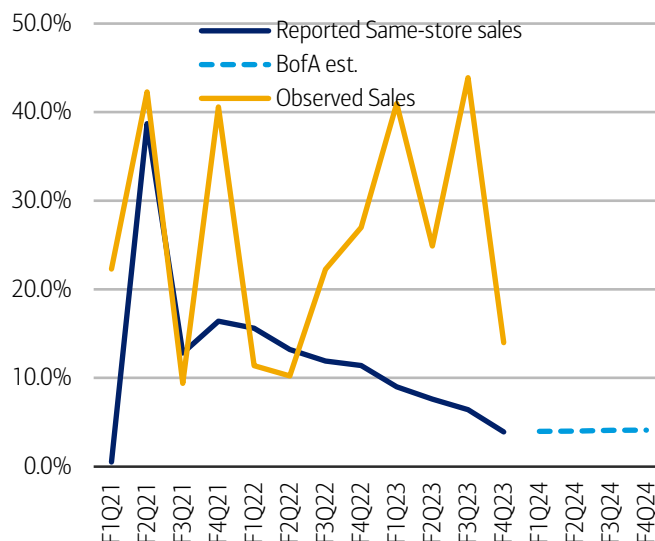


Source: Bloomberg Financial LP – ALTD <GO>, Company filings

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## Exhibit 2: Bloomberg Second Measure credit and debit card data – Observed Sales

Observed sales growth experienced fluctuation and reached its peak of 43.89% y/y in F3Q

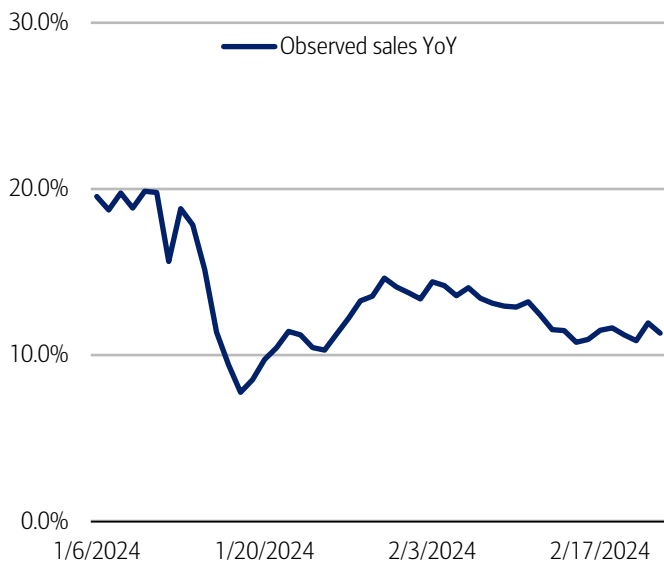


Source: Bloomberg Financial LP – ALTD <GO>, Company filings

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## Exhibit 3: Bloomberg Second Measure credit and debit card data – Observed Sales

Observed sales growth stabilized between 10-15% in February



Source: Bloomberg Financial LP – ALTD <GO>

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## 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

## 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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### Driven Brands (DRVN) Price Chart



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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