The Standfast Report

COMMENTARY FOR INTELLIGENT INVESTORS
P.O. Box 1694, Boone, NC 28607 - Issue #5

Dear Reader, Wilkesboro, NC, August 20, 2023

I continue to roll and increase my 4-week T-Bills because their rates have remained relatively attractive at about 5.3% in recent weeks.[1] Banks generally are still not trying to compete with T-Bills on interest rates. If one has money that one will need in the near future but will not need in the next four weeks, then 4-week T-Bills could be a great place to park that money.

Advance Auto Parts, Inc. (AAP)[2] AAP's revenue and profit have been on a general uptrend since at least 2009 (i.e. as far back as I reviewed top and bottom-line financial numbers) and particularly from 2018 to 2021.[3] In 2022, revenue increased 1.4% ($157MM) from 2021 but net income decreased 18.5% ($114MM).[4] Net income for 2023 Q1 ($43MM) was lowest quarterly net income since 2009 Q4 ($34MM), though a few other quarters have been within a few million (2010 Q4 $48MM, 2013 Q4 $49MM and 2020 Q1 $44MM). Average quarterly net income since 2009 Q1 is ~$110MM, so the company definitely got thumped in 2023 Q1 with net income only being about 1.3% of revenue for the quarter while net income has been between 4.5% and 6.2% of revenue each year since at least 2012. While Q1 was a *relatively* bad quarter, it was still profitable which falls into the long-term pattern of profitability for the company.

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[1] About 5.3% for CUSIP 912797GT8 to be issued August 22. See: https://treasurydirect.gov/auctions/announcements-data-results/
[2] Disclaimer: The author has a financial position in this investment vehicle.
[3] Revenue/Profit: 2009 $5,413MM/$269MM, 2021 $10,998MM/$616MM. See: https://www.macrotrends.net/stocks/charts/AAP/advance-auto-parts/revenue and https://www.macrotrends.net/stocks/charts/AAP/advance-auto-parts/net-income.
[4] See sources in footnote 3 above.

The company's ratio of liabilities to assets at 12/31/2022 and at 04/22/2023 was 0.78[5] (higher than I like to see) but 47.8% of liabilities are long-term and the company's current ratios and quick ratios calculated at year-end from 2012 through 2022[6] seem to indicate that they have maintained the ability to meet their current obligations.[7] This ability apparently includes the option to move portions of AP to long-term debt, which the company arguably did with $440MM of the $599MM of note issuances on March 9, 2023.[8] While 0.78 is the highest year-end ratio of liabilities to assets from 2012 through 2022 for the company, it is not the highest by much, and the lowest of these year-end ratios was 0.60. Essentially, the company's ratio of liabilities to assets has not become substantially worse since 2012, at which time it was 0.74. The long-term portion of liabilities (as calculated at year-end) has grown from 25% in 2012 to 42.5% in 2022 (47.8% in Q1 2023) which could imply a long-term persistence in "lowering their payment" which would have downsides including greater interest expense.[9]

The market cap for the company was $4.151B on August 18 ($69.83 per share), which puts P/E at 10.38 and P/S at 0.38. The ~35% price drop on May 31, 2023 seems to have been a result of Q1 earnings,[10] the news that they are without a CEO and that there is a "...material weakness...in internal control over financial reporting..." essentially due to a shortage of competent accounting staff.[11] However, the price drop does not seem to accompany or indicate the demise of the company or a new downtrend in profits.

Two competitors to AAP may be acknowledged and briefly summarized (*without having reviewed their most recent 10-Qs or 10-Ks*). O'Reilly Automotive, Inc. (ORLY) and AutoZone, Inc. (AZO) have both had impressive uptrends in revenue, profit and (unlike AAP) in *net profit margin* since at least 2012. However, certain ratios indicate to me that they are on a weaker

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[5] Total liabilities divided by total assets at. See: 10-Q for period ending 04/22/2023, page 2.
[6] See: https://www.macrotrends.net/stocks/charts/AAP/advance-auto-parts/current-ratio and https://www.macrotrends.net/stocks/charts/AAP/advance-auto-parts/quick-ratio.
[7] For management's official view on liquidity and capital resources, see the 10-Q for period ending 04/22/2023, page 15.
[8] "On March 9, 2023, we issued our 5.90% senior unsecured notes due 2026…and our 5.95% senior unsecured notes due 2028…Proceeds from our 2026 Notes and 2028 Notes were utilized to make repayments on our revolving facility and supplement operational and capital expenditures." 10-Q for period ending 04/22/2023, page 16. Borrowings on senior unsecured notes was **$599.57MM** in the period ending 04/22/2023. The difference between borrowings and payments on credit facilities was $69MM, purchases of property and equipment was $89.99MM and net reduction of AP was $440.99MM (see cash flow statement, 10-Q for period ending 04/22/2023, page 5). These three items correspond to the stated utilizations of the note issuances and add up to **$599.98MM**.
[9] However "We may redeem some or all of our 2026…and 2028 Notes…at any time, or from time to time…" (2023 Q1 10-Q, page 10).
[10] Q1 revenue and profit discussed above. See also the May 31 press release: https://ir.advanceautoparts.com/investors/news-and-events/press-releases/press-release-details/2023/Advance-Auto-Parts-Reports-First-Quarter-2023-Results/default.aspx
[11] To be fair they also say "Management believes that the Condensed Consolidated Financial Statements and related financial information included in this Form 10-Q fairly represent, in all material respects, our balance sheets, statements of operations, comprehensive income and cash flows as of and for the periods presented." Part I, Item 4 *Controls and Procedures* of the 10-Q for period ending 04/22/2023 (page 18) provides an honest and helpful discussion from management on this issue including an outline of the remediation plan.

financial footing and are substantially more expensive than AAP relative to revenues and earnings. See chart below...

	L/A[12]	Current Ratio[13]	Quick Ratio[14]	P/S[15]	P/E[16]
ORLY	1.12	0.69	0.09	3.89	26.03
AZO	1.28	0.79	0.12	2.83	19.40
AAP	0.78	1.24	0.24	0.38	10.38

Coinbase Global, Inc. (COIN) Coinbase is in a relatively new industry without a long-term track record for itself or its industry which makes it difficult for me to find what I typically consider to be indicators of a good business such as a long history of profits and favorable key ratios compared to competitors. My initial impression of the company does not inspire personal proactive interest with a view to investing.[17]

Coinbase has made acquisitions of directly-related, semi-related and potentially-related companies as a means to growth and to position themselves for involvement in various other financial and cryptocurrency businesses.[18] This is not helpful in terms of easily understanding Coinbase...It is much easier to understand a well-established business that simply continues to make money on a focused, time-tested model.

It is not clear from the company's *NATURE OF OPERATIONS* statement[19] *what the company does to make money*. Essentially, Coinbase makes money from fees for cryptocurrency transactions on their platform (and to a lesser extent, from blockchain rewards, custodial fees, interest income, and other subscription and services income). Of total revenue for the 6 months ending June 30, 2023, transaction revenue was 47.4%, subscription and services revenue was 47.1% and other revenue was 5.5%. For the same period last year the breakdown was 84.5%, 15.2% and 0.3% respectively. Total revenue for the 6 months ending June 30 was

[12] L/A = total liabilities / total assets. Both the numerator and the denominator of this ratio (as with the current ratio and quick ratio) are taken either directly from the company's balance sheet as shown in their most recently filed 10-Q or 10-K or from the same information as shown on a third-party website such as MacroTrends.net.
[13] MacroTrends.net > company > Other Ratios > Current Ratio. Current ratio = current assets / current liabilities. Essentially, the current ratio is a measure of a company's ability to pay their liabilities that are coming due within the next 12 months. See: https://www.investopedia.com/terms/c/currentratio.asp
[14] MacroTrends.net > company > Other Ratios > Quick Ratio. Quick ratio = (current assets - inventory - prepaid expenses) / current liabilities. Essentially, the quick ratio is like the current ratio but more conservative. See: https://www.investopedia.com/terms/q/quickratio.asp
[15] MacroTrends.net > company > Price Ratios > P/S Ratio.
[16] MacroTrends.net > company > Price Ratios > PE Ratio.
[17] Potential investors should read and understand Coinbase's most recent 10-Q (in addition to whatever other due diligence is appropriate) before actively considering investment. I find *Customer custodial funds and customer custodial cash liabilities* on page 14 and *Concentration of credit risk* on page 15 particularly insightful.
[18] See 10-Q for period ending June 30, 2023, page 17, *ACQUISITIONS*.
[19] Coinbase "...operates globally and is a leading provider of end-to-end financial infrastructure and technology for the cryptoeconomy. The Company offers consumers the primary financial account for the cryptoeconomy, institutions a state of the art marketplace with a deep pool of liquidity for transacting in crypto assets, and developers technology and services that enable them to build crypto-based applications and securely accept crypto assets as payment." 10-Q for the period ending June 30, 2023, page 13, *NATURE OF OPERATIONS*.

down 25% (down $494MM) in 2023 from 2022.[20] See chart below showing revenue and net income for the periods indicated.[21]

	2023 Q1&2	2022	2021	2020	2019
Revenue	$1.481B	$3.194B	$7.839B	$1.277B	$534MM
Net income	-$176MM	-$2.625B	$3.624B	$322MM	-$30MM

There is no clear trend in revenue or profit, as perhaps should be expected of a financially, technologically and legally ground-breaking cryptocurrency-focused financial technology company.

As of June 30, 2023, L/A[22] was 0.96, the current ratio was 1.05 and the quick ratio[23] was 1.04. As of August 18 P/S is 6.19 and P/E is -13.43. P/E is negative because the market cap is $17.168B while earnings/net income in the trailing 12 months is -$1.278B.

I do not understand the cryptoeconomy and Coinbase had a net loss of $2.8B over the last 6 quarters. This would be enough to prevent me from seriously considering buying shares of the company, but other significant unknown factors may soon come to bear on Coinbase and the cryptoeconomy such as legislation, regulation and the political favorability of cryptocurrency. While broad usage of and a legislated framework for cryptocurrency would produce some benefits, the federal government and the Federal Reserve are not likely to be ultimately in favor of cryptocurrency since the United States dollar is a tool of power and performs best as such when competition is weak. This does not mean that Coinbase won't find an enduring place in the money system...but I don't see a clear path forward.

[20] See: 10-Q for the period ending June 30, 2023, page 23, *REVENUE*.
[21] See: https://www.macrotrends.net/stocks/charts/COIN/coinbase-global/revenue and https://www.macrotrends.net/stocks/charts/COIN/coinbase-global/net-income.
[22] See footnote 12.
[23] The quick ratio, if strictly calculated as (cash & cash equivalents $5,166,733K + marketable securities $0.00 + net accounts receivable $427,210K) / current liabilities $128,538,752, was 0.04. However, there are certain assets and liabilities that would negate each other in any practical analysis (Customer custodial funds, Customer crypto assets, Customer custodial cash liabilities and Customer crypto liabilities). If Customer custodial funds and Customer crypto assets were included in the numerator of the quick ratio then the modified quick ratio would be 1.04.