Genuine Parts Company

BBB

1 year PD
0.10% to 0.15%

- High profitability with 9.3% EBITDA margin (almost 2x peers), and low leverage ratio of 1.75 (vs peers 2.45) offset liquidity concerns below-median current ratio (1.23).
- Recent leadership changes (planned CEO transition) and revised profit outlook (lower) indicate operational focus but highlight near-term revenue and market pressures.

Strengths

- **Profitability**: EBITDA margin of 9.3% (FY 2023) is well above the peer median of 4.8%, demonstrating strong operational efficiency and profitability.
- **Leverage Management**: Net Debt/EBITDA ratio **of** 1.75 versus the industry median of 2.45 highlights robust debt coverage and conservative financial management. Jointly with Profitability is provides ample flexibility to bolster any liquidity needs. As of 9/24 they had a fully unused unsecured revolving line of credit over $1.5bn.
- **Geographic Coverage**: Operates over 10,700 locations across 17 countries, enabling risk diversification and resilience in global markets.

Challenges

- **Liquidity Constraints**: Current ratio of 1.23 lags the peer median of 1.80, signaling less flexibility in covering short-term liabilities.
- **Inventory Dependency**: Quick ratio of 0.63, though aligned with the peer median, reflects significant reliance on inventory for liquidity.
- **Short-Term Margin Pressure**: T9-24 EBITDA margin dipped to 8.6%, reflecting near-term operational challenges and possibly some macroeconomic headwinds, as their Net Income in Q3 declined by $226.6mn missing analyst expectations.

Company Overview

Headquarters	Atlanta, GA
Type	Public
Employees	48,000
Year Founded	1925
Website	https://www.genpt.com/
Business	Distributes automotive and industrial replacement parts.
Revenues	$23,090.6M

- **Company Overview:** Genuine Parts Company ("GPC") is a leading global distributor of automotive and industrial replacement parts. Headquartered in Atlanta, GA, the company operates across 17 countries.
- **Product:** GPC offers over 475,000 automotive parts under brands like NAPA and more than 5.9 million industrial components through Motion Industries.
- **Customers:** Serves diverse clients, including 150,000+ industrial MRO and OEM customers, as well as retail and commercial automotive clients.
- **Ownership:** Publicly traded on the NYSE under the ticker GPC, with a diverse shareholder base.
- **Debt Structure:** The FY-23 financials provided a maturity profile which we reflected below, and includes primarily Operating Lease Liabilities and Long-Term Debt. Through 2028 there is no maturity wall in sight. Their average interest rate on outstanding borrowings was 3.16% in FY-23 vs 2.33% in FY-22. The vast majority of their debt is subject to (low) fixed rate agreements.
- **Public Issuer Ratings:** S&P and Moody's reaffirmed their issuer rating of "BBB" and "Baa1" ("BBB+" on the S&P-scale) in June 2024 - both with a stable outlook.
- **Recent Developments:** In 10/24, GPC reported a decline of net income in Q3 by $226.6mn, missing analysts' expectations. They attributed this to ongoing market challenges in Europe and its industrial segment. Consequently, GPC lowered its full-year profit forecast, leading to a significant drop in its stock price. They also had a CEO-transition and changes to the board which may lead to a change in strategy.

Financial Statement Highlights

$ '000s	(C) Dec-21 T12	(B) Dec-22 T12	(A) Dec-23 T12	Change (C) to (B)	Change (B) to (A)
Income Statement					
Total Revenue	18,870,510	22,095,973	23,090,610		4.5%
Gross Profit	6,634,136	7,740,104	8,290,672		7.1%
Adjusted EBITDA	997,010	1,999,329	2,157,346		7.9%
Gross Profit Margin	35.2%	35.0%	35.9%		+88 bps
Net Income	898,790	1,182,701	1,316,524		11.3%
Balance Sheet					
Cash And Cash Equivalents	714,701	653,463	1,102,007		68.6%
Total Current Assets	7,756,422	8,816,739	9,605,852		9.0%
Total Assets	14,352,102	16,495,379	17,968,454		8.9%
Total Current Liabilities	6,581,583	7,686,110	7,827,109		1.8%
Total Debt	3,198,538	4,164,842	4,886,166		17.3%
Total Equity	3,503,290	3,804,447	4,416,985		16.1%
Key Ratios					
Current Ratio	1.18	1.15	1.23		7.0%
Quick Ratio	0.59	0.57	0.63		10.6%
Net Debt / EBITDA	2.49	1.76	1.75		-0.1%
Debt to Assets	22.3%	25.2%	27.2%		+194 bps
EBITDA Margin	5.3%	9.0%	9.3%		+29 bps
ROCE %	15.0%	18.3%	17.2%		(110) bps

- Total revenue grew from $18.9bn (FY-21) to $23.1bn (FY-23), and is likely to grow by ~2% in FY-24 when annualizing the T9-24 financials.
- EBITDA margin improved from 5.3% (FY-21) to 9.3% (FY-23), supported by effective pricing strategies and cost controls, yet compressed to 8.6% per T9-24.
- Total debt increased from $3.2bn (FY-21) to $6bn (9/24), likely pushing leverage back up to 2.4 on an annualized basis, vs 1.75 in FY-23.

Scorecard Summary

Financial vs Business Risk Weighting Factors

Ownership	Public
Company Stage	Growth
Financials	Complete

	Weight	Score	Dimension	Weight	Score
Financial	75%	7.2	Liquidity	15%	5.3
			Leverage	40%	5.1
			Profitability	45%	6.2
Business	25%	7.1	Industry Risk	20%	5.5
			Competitive Position	50%	7.9
			Mgmt / Governance	30%	7.0
			Sponsor / Parent		
Modifiers		0.0	Trend Analysis		(0.3)
			Financial Flexibility		0.25

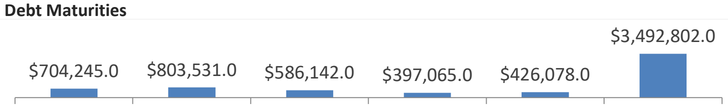
Financial Benchmarking & Debt Maturity Profile

# of Benchmarks: *19*

		Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	1.80	1.23	32%
	Quick Ratio	0.62	0.63	54%
Leverage	Net Debt / EBITDA	2.45	1.75	67%
	Debt to Assets	31.4%	27.2%	60%
Profitability	EBITDA Margin	4.8%	9.3%	80%
	ROCE %	12.4%	17.2%	63%
	Revenue	$2,254M	$23,091M	

Industry Benchmarks - Primary: Distributors

Debt Maturities



Business Risk Highlights

- **Industry:** Operating in the distribution industry, GPC faces moderate risk tied to global economic conditions, supply chain challenges, and demand volatility. From 2023 through 2028, the industry is expected to grow at a CAGR of 3.8% annually.
- **Competitive Position:** GPC's vast product range and geographic footprint position it as a market leader in automotive and industrial distribution.
- **Management:** In April 2024, GPC announced that CEO Paul Donahue would step down and assume the role of Executive Chairman, effective June 3, 2024. William P. Stengel, then President and COO, was appointed as the new CEO. Stengel joined GPC in 2019 and has held various executive roles, including Chief Transformation Officer and President.Alongside the CEO transition, GPC made adjustments to its Board of Directors to align with the new leadership structure. These changes aimed to support the company's strategic direction under Stengel's leadership. These leadership changes are critical as they signal a strategic shift within GPC. The appointment of Stengel, with his background in transformation and operations, suggests a focus on innovation and efficiency. The Board's restructuring indicates support for this new direction, which could impact GPC's strategic initiatives and market positioning.