



O'Reilly Automotive (ORLY)

Updated February 10th, 2019 by Kay Ng

Key Metrics

Current Price:	\$391	5 Year CAGR Estimate:	10.5%	Market Cap:	\$29.6B
Fair Value Price:	\$401	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	N/A
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.5%	Dividend Payment Date:	N/A
Dividend Yield:	0.0%	5 Year Price Target	\$645	Years Of Dividend Growth:	N/A
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	Last Dividend Increase:	N/A

Overview & Current Events

O'Reilly Automotive was founded in 1957 by the O'Reilly family and is now one of the largest specialty retailers of automotive parts and accessories in the U.S., serving both the do-it-yourself and professional service provider markets. The company operates more than 5,400 stores in 47 states and about 21 stores in Mexico. Despite its long history and strong profitability, O'Reilly Automotive does not pay dividends to shareholders.

O'Reilly Automotive reported its Q4 and 2019 results on 2/6/2020. The company generated sales of \$2.48 billion during the quarter, which equates to growth of 7% compared to Q4 a year ago. This revenue growth was possible thanks to a robust comparable store sales growth rate of 4.4% during the quarter, coupled with the impact of new store openings that drove O'Reilly Automotive's revenue growth further. O'Reilly Automotive grew its gross profits by 7% during the quarter, in line with the revenue growth rate. Operating income grew to \$442 million, up 3% year over year (YOY). O'Reilly Automotive generated diluted earnings-per-share (EPS) of \$4.25 in Q4, which was 14% more than the EPS that O'Reilly Automotive generated during Q4 2018 thanks partly to share count reduction.

In 2019, O'Reilly Automotive generated sales of more than \$10 billion, which equates to growth of 6% YOY. This revenue growth was possible thanks to comparable store sales growth of 4% and new store openings. O'Reilly Automotive grew its gross profits by 7% to \$5.4 billion and operating income by 6% to \$1.9 billion. O'Reilly Automotive generated diluted EPS of \$17.88, an increase of 11% YOY. The company's initial guidance for 2020 includes diluted EPS of \$19.03 to \$19.13. We used the mid-point for our 2020 EPS estimate.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$3.05	\$3.81	\$4.75	\$6.03	\$7.34	\$9.17	\$10.73	\$12.67	\$16.10	\$17.88	\$19.08	\$30.73
DPS	---	---	---	---	---	---	---	---	---	---	---	---
Shares¹	141	127	113	106	102	98	93	90	82	76	72	56

O'Reilly Automotive grew its EPS at an outstanding pace of almost 22% annually between 2010 and 2019, but that is not a good representation of the company's future growth potential. Ten years ago, O'Reilly Automotive's profitability was much lower than it is now, thus growing from that level was a relatively easy feat.

More recently, O'Reilly Automotive's five-year growth rate was about 16%, which is still amazing growth. During 2016 and 2017, O'Reilly Automotive's EPS growth rate was in the high-teens area. During 2018 the company grew its EPS at a high pace of 27%, but growth during that year was impacted by tax law changes.

O'Reilly guides for comparable store sales growth of 3%-5% during 2020, with new store openings of roughly 180 providing some additional revenue growth potential. All in all, O'Reilly Automotive expects to grow its sales to \$10.7 billion to \$11.0 billion this year, which should result in EPS of roughly \$19.08 for 2020. This equates to an earnings-per-share growth rate of 6.7% year over year.

We believe that the company will continue to generate stable earnings-per-share growth going forward, through a combination of same store sales growth, new store openings, some margin increases, and the impact of buybacks.

1. Shares in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	15.9	16.8	18.8	18.9	21.2	25.2	25.1	18.5	21.4	21.9	20.5	21.0
Avg. Yld.	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

O'Reilly Automotive has been a high-growth stock throughout the last decade, which is why it is not surprising that the shares seldom go on sale. The market has rewarded the company with an above-average multiple in the past, which seems justified based on O'Reilly Automotive's strong underlying performance. We believe that its multiple will be somewhat lower in the future, as the company's growth rate will be lower than before.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	---	---	---	---	---	---	---	---

O'Reilly Automotive does not pay any dividends, thus there is no dividend payout ratio in our table. Management is convinced that dividends are not the best way to return value to shareholders. Instead, O'Reilly Automotive has prioritized buybacks as a mean of shareholder payments.

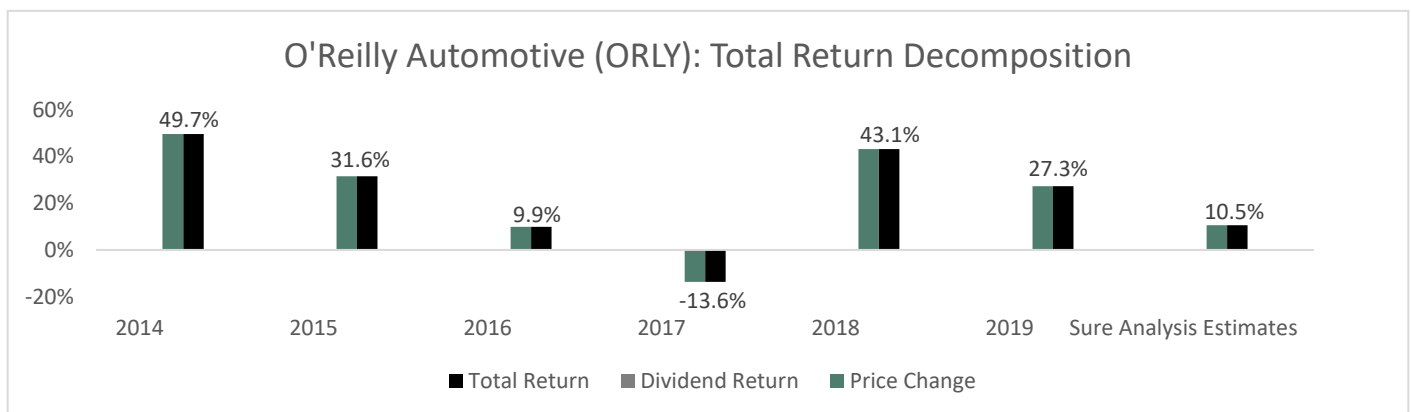
From 2010 to 2019, O'Reilly reduced its share count by more than 40%, which was management's gesture of shareholder-friendliness, despite the stock doesn't pay any dividends. Going forward, we estimate the share count to reduce by about 5% per year on average.

O'Reilly Automotive's business is less cyclical than one would assume at first sight. The automobile industry as a whole is quite dependent on the strength of the economy and on consumer sentiment, but the company benefits from lower new vehicle sales during recessions, as the average car gets older and needs more repairs. All in all, O'Reilly Automotive can sell car parts whether the economy is doing well or not.

Final Thoughts & Recommendation

In the past, O'Reilly Automotive has delivered highly attractive earnings-per-share and share price growth rates. As the company's size has grown, maintaining such growth rates gets a lot harder. This is why we believe that earnings-per-share growth will slow down going forward, yet remain meaningful. O'Reilly Automotive is not an overly cyclical company and shares look fairly valued. So, we rate the stock as a buy. We expect total returns of 10.5% from a growth rate of 11% and valuation multiple expansion of 0.5%.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	5,398	5,789	6,182	6,649	7,216	7,967	8,593	8,978	9,536	10,150
Gross Profit	2,621	2,837	3,097	3,369	3,709	4,163	4,509	4,721	5,040	5,395
Gross Margin	48.6%	49.0%	50.1%	50.7%	51.4%	52.3%	52.5%	52.6%	52.8%	53.1%
SG&A Exp.	1,887	1,973	2,120	2,266	2,439	2,649	2,810	2,995	3,225	3,474
D&A Exp.	161	166	177	183	194	210	218	234	259	271
Operating Profit	734	864	977	1,103	1,270	1,514	1,699	1,725	1,815	1,921
Operating Margin	13.6%	14.9%	15.8%	16.6%	17.6%	19.0%	19.8%	19.2%	19.0%	18.9%
Net Profit	419	508	586	670	778	931	1,038	1,134	1,324	1,391
Net Margin	7.8%	8.8%	9.5%	10.1%	10.8%	11.7%	12.1%	12.6%	13.9%	13.7%
Free Cash Flow	338	791	951	512	760	931	1,034	938	1,223	1,080
Income Tax	270	308	356	389	444	529	600	504	370	399

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	5,048	5,501	5,749	6,067	6,532	6,677	7,204	7,572	7,981	10,717
Cash & Equivalents	30	362	248	231	251	116	147	46	31	40
Accounts Receivable	184	135	123	132	144	161	197	216	192	215
Inventories	2,023	1,986	2,276	2,375	2,555	2,631	2,779	3,010	3,193	3,454
Goodwill & Int. Ass.	744	744	758	756	756	757	785	789	807	937
Total Liabilities	1,838	2,656	3,641	4,101	4,514	4,715	5,577	6,919	7,627	10,320
Accounts Payable	896	1,279	1,929	2,057	2,417	2,608	2,937	3,190	3,376	3,605
Long-Term Debt	359	798	1,096	1,396	1,388	1,390	1,887	2,978	3,417	3,891
Shareholder's Equity	3,210	2,845	2,108	1,966	2,018	1,961	1,627	653	354	397
D/E Ratio	0.11	0.28	0.52	0.71	0.69	0.71	1.16	4.56	9.66	9.79

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	8.5%	9.6%	10.4%	11.3%	12.4%	14.1%	15.0%	15.3%	17.0%	14.9%
Return on Equity	14.2%	16.8%	23.7%	32.9%	39.1%	46.8%	57.8%	99.4%	263.1%	370.4%
ROIC	11.9%	14.1%	17.1%	20.4%	23.0%	27.6%	30.2%	31.7%	35.8%	34.5%
Shares Out.	141	127	113	106	102	98	93	90	82	76
Revenue/Share	38.01	42.26	50.13	59.85	68.05	78.48	88.85	100.31	115.90	130.48
FCF/Share	2.38	5.77	7.71	4.61	7.17	9.18	10.69	10.48	14.87	13.89

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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