NUS INVESTMENT SOCIETY

O'Reilly Auto Parts (ORLY)

BUY: US$686.67 (+7.8%)

Equity Research Department – Consumer Discretionary

Date: 01st December 2021

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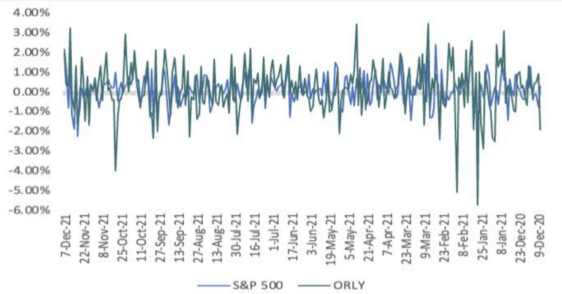
Basic Information

Last Closed Price:	US$636.74
12M Target price:	US$686.67
+/- Potential:	7.8%
Bloomberg Ticker:	ORLY US
GICS Sector:	Consumer Discretionary
GICS Sub-Industry:	Specialty Retail

1Y Price v S&P500



Company Description

O'Reilly Automotive, Inc is one of the largest specialty retailers of automotive aftermarket parts, tools, supplies, equipment and accessories in the U.S., selling products to both DIY and professional service customers.

Key Financials

Market Cap	US$43.10B
Basic Shares O/S	67.68M
52-Wk High-Low	US$424.03 - US$672.87
Fiscal Year End	31-Dec-2021

(US$ M)	FY19A	FY20A	FY21E	FY22E
Revenue	10,150	11,604	12,765	13,643
Gr Rate (%)	6.4%	14.3%	10.0%	6.9%
EBITDA	2,192	2,734	2,847	3,051
Gr Rate (%)	5.7%	24.7%	4.1%	7.2%
Net Income	1,391	1,752	1,794	1,928
Gr Rate (%)	5.0%	26.0%	2.4%	7.5%
ROA	0.13	0.15	0.16	0.17
ROE	3.50	12.49	(6.78)	(2.81)
EV/EBITDA	14.5	12.1	15.6	15.6
D/E	26.0	81.7	(43.5)	(17.5)

Key Executives

Gregory D. Johnson	Chief Executive Officer and Co-President

We are initiating coverage of **O'Reilly Auto Parts (ORLY)** with a **BUY** rating and a **US$686.67** 12M price target.

3Q21 Earnings Highlights

- Increase in comparable store sales by 6.9%
- 14% increase in earnings per share to $8.07 for Q3 with a year-to-date increase of 29% to $23.45
- 30 new store openings for Q3, bringing year to date total at 146
- Increased full year guidance of comparable store sales to a range of 10% to 12% from previous range of 5% to 7%
- Raised full year guidance of Earnings per share to a range of $29.25 to $29.45

Investment Thesis

- **O'Reilly Auto Parts enjoys strong defence due its strategic advantage in its strong penetration of dual markets**, allowing it to defend its DIY sales and capture future do-it-for-me (DIFM) growth against its competitors.

- **O'Reilly Auto Parts' successful capitalisation on its store distribution infrastructure is its competitive advantage**: through the unique tiered and well-connected distribution model, it enjoys industry-leading ability to reduce inventory carrying costs significantly.

- **O'Reilly Auto Parts' excellent executive track record of expanding in areas in which it has limited geographical presences** enables it to capitalise on current trends of industry consolidation, especially in the Northeast region of the United States.

Catalysts

- **Covid-19 climate** allows O'Reilly to take advantage of factors such as increased usage of personal over public vehicles and rising median age of these vehicles, due to economic and health uncertainties..

- **Shortage of semi-conductors** depresses new auto-production, leading to higher new car prices and consequently shift consumer demand to the used cars industry.

Valuation

Our 12M price target at the date of coverage is **S$686.67**. The valuation was obtained through a weighted average price blend from discounted cash flow valuations and relative valuations.

Investment Risks

- **Failure to adopt an automobile profile of electric vehicles** may affect its future growth and potential as electric vehicles take up greater market share in the long-term.

- **Inflationary pressures in the current economy** may cause customers to hold non-critical maintenances, or trade down the on the product value spectrum, reducing revenues of the company

Figure 1: O'Reilly Geographical Presence

Sources: World Atlas as of Q12021

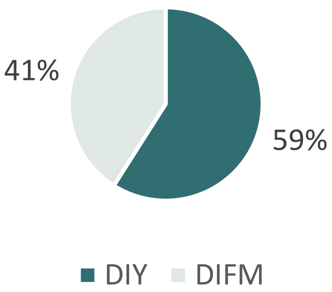
Company Overview

Founded in 1957 and headquartered in Springfield, Missouri, O'Reilly Automotive Inc ("O'Reilly" or "The Company") is one of the largest speciality retailers in the United States (U.S.) automotive aftermarket industry. As of Sep 30, 2021, the company operates in 5,740 stores in 47 states in the U.S. and 22 stores in Mexico. O'Reilly Automotive Inc sell their products to both do-it-yourself ("DIY") and Do-it-for-me ("DIFM") customers. DIY customers refer to individual customers who purchase the auto parts to repair their vehicles by themselves. On the other hand, DIFM customers refer to professional service providers who purchase auto parts to install them for others.

O'Reilly stores product line includes automotive hard parts and maintenance items such as alternators, batteries, brake system components, appearance products, engine parts etc. In addition, the company products include automobile accessories such as floor mats, seat covers.

Apart from products, O'Reilly stores also offer enhanced services and programs to their customers. These include battery diagnostic testing, drum and rotor resurfacing, electrical and module testing, used oil, oil filter and battery recycling etc.

Figure 2: O'Reilly Revenue Mix



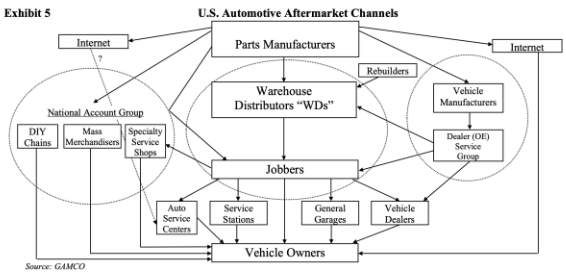
Sources: O'Reilly 10K

ORLY currently operates 28 regional DCs, which provide its stores with same-day or overnight access to an average of 159,000 stock keeping units ("SKUs"), many of which are hard-to-find items not typically stocked by other auto parts retailers. In addition, the company operates a total of 362 Hub stores that also provide delivery service and same-day access to an average of 70,000 SKUs from a Super Hub or 42,000 SKUs from a Hub to other stores within the surrounding area.

ORLY has significant store dominance in both the South and Midwest regions of the United States. However, it has faced difficulties expanding in the Northeast region in the past due to late entrance. There is no significant customer demographic differences across the regions and the company's geographical strength in each region is dependent on other factors like entry timing and efficiency of supply chain.

ORLY's major cost components are Cost of Goods Sold (COGS) which takes up 47.6% of revenue and Selling, General and Administrative (SG&A) expenses which take up 31.6% of revenue as of the latest FY. COGS primarily include cost of merchandise sold, freight expenses associated with acquiring merchandise and transport from distribution centres to stores and supplier allowances and incentives. SG&A consist primarily of payroll costs, occupancy costs of store and corporate facilities, depreciation and amortization related to store and corporate assets as well as other administrative costs such as accounting, legal and advertising costs.

Figure 3: U.S. Automotive Aftermarket Channels



Sources: GAMCO Asset Management

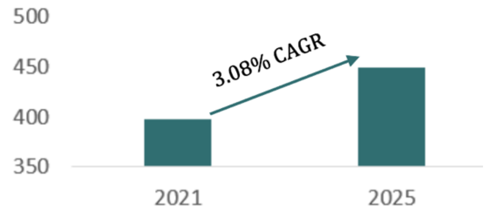
3Q2021 Earnings Review

- 6.9% increase in comparable store sales for Q3
- 14% increase in earnings per share to $8.07 for Q3 with a year-to-date increase of 29% to $23.45
- 30 new store openings for Q3, bringing year-to-date total at 146 stores across 40 states
- Increased full year guidance of comparable store sales to a range of 10% to 12% from previous range of 5% to 7%
- Raised full year guidance of earnings per share to a range of $29.25 to $29.45

Figure 4: O'Reilly Hub Store

Source: Seeking Alpha

Figure 5: Automotive After-Market Industry Growth



Source: GlobeNewsWire

Figure 6: Number of Stores of the "Big 4"

	ORLY	AZO	AAP	GPC
U.S. Stores	5,594	5,885	4,809	5,890
Non-U.S. Stores	22	664	167	-

Source: Company Filings

Industry Outlook

The U.S. automotive aftermarket industry is filled with approximately 535,000 individual businesses serving around 280 million vehicles in operations (VIO) registered in the US today. However, despite the high number of individual businesses, the entire industry is mainly dominated by large and branded chains such as O'Reilly, AutoZone, Advance Auto Parts and Genuine Parts Inc. The U.S automotive after-market is a USD$380b industry which is expected to grow to $448.9b in 2025, registering a compound annual growth rate (CAGR) of 3.08% between 2021 and 2025. The growth of the industry is more reliant on the vehicles' parc rather than on new vehicles sales. Additionally, factors such as a growing median age and mileages of vehicles will continue to be tailwinds for the automotive after-market industry.

Vehicle Fleet

In the US, the number of vehicles in operation (VIO) has been gradually climbing from 248.7 million in 2012 to 286.90 million in 2020. VIO is also forecasted to hit 289.5 million and 290.8 million in 2021 and 2022 respectively. With the increasing number of VIO, the automobile aftermarket industry is expected to grow further as increasing numbers of vehicles require repair and servicing.

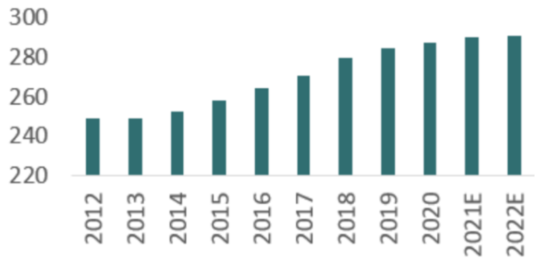
Median age of vehicles

According to data published by IHS Markit, the average age of US vehicles has hit a record high of 12.1 years. This increasing trend of vehicles ages has been steadily increasing over the past 15 years and is believed to continue in the upcoming years. This is mainly due to factors such as advancement of technology allowing for better quality and lifespan of the vehicles. Additionally, the rise in vehicles ages was also largely accelerated during the pandemic as shortages of semiconductors reduced the number of new vehicles manufactured. This caused prices of new vehicles to be inflated, pushing consumers to forego buying new vehicles and get used vehicles instead. This is evident during 2020, where 39,300 used vehicle sales, which is more than double of the 14,555 new car sales. Additionally, consumers may also turn to cheaper alternatives such as repairing and upgrading their existing vehicles. The rising median age of vehicles present an opportunity for the automotive aftermarket industry for increased revenue generated through increased sales via vehicle upgrades and maintenances.

Number of miles driven

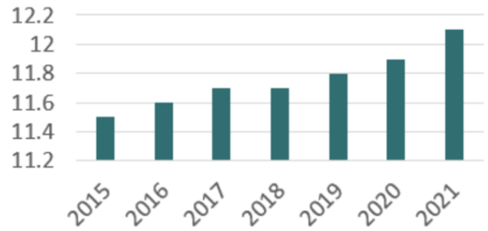
Besides increasing ages of vehicles, the total number of miles driven by Americans has also been steadily increasing over the years. The total number of miles driven has hit a record high of 277,883 millions of miles in February 2020 before a drastic decrease to a pandemic low of 160,981 millions of miles in April 2021. The decrease was due to increased lockdown restrictions and work from home arrangements pushing people to reduce their commuting. However, such a decrease has proven to be a short-term disruption as the number of miles driven has started to rebound as people started to resume their normal activities post pandemic. As of August 2021, the total number of miles driven has rebounded to 261,115 millions of miles. Furthermore, it can be expected that lingering reluctance to fly due to the pandemic may continue to be a factor for the increase in total number of miles driven in the future. The rebounding of total number of miles driven continues to be a tailwind for the automotive aftermarket industry as increased repairs and maintenances will be expected.

Figure 7: Number of registered vehicles in the U.S.



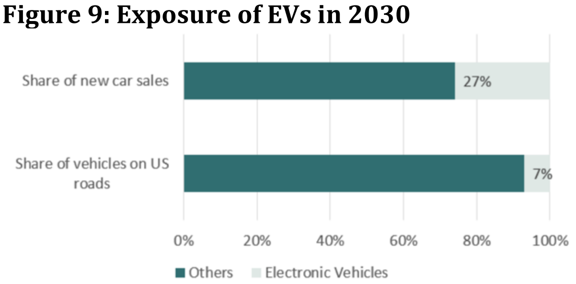
Source: HedgesCompany

Figure 8: Average age of cars and light trucks in operation



Source: IHS Markit

Figure 9: Exposure of EVs in 2030



Source: Deloitte and EEI

Shift in automobile profiles to electric

President Joe Biden recently announced a non-mandatory push for a new target whereby electric vehicles sales will make up half of all the new vehicles sold by 2030. There has been a rise in electronic vehicles companies such as Tesla, Lucid etc that produce electronic vehicles. In addition, current traditional automobile makers are also shifting their profile towards electric rather than the traditional Internal combustible engine (ICE) vehicles. Ford, General Motors, and Stellantis have also pivoted their goals to achieve 40-50% of their annual US vehicle sales to be electronic vehicles by 2030. Other brands such as Volvo have plans to convert all their sales in their US to electronic vehicles. According to Deloitte, the share of new car sales taken up by EV will be 27% in 2030. The rise of electronic vehicles may pose headwinds to the automobile aftermarket industry as EVs have fewer movable and serviceable parts, reducing the number of parts sold as compared to regular ICE vehicles. In addition, electronic vehicles may also suggest a reduction in the number of servicing needed as compared to regular ICE vehicles. For example, Tesla has recently announced that annual maintenance for their electronic vehicles is no longer necessary. This is due to the absence of required changes to the fuel filter; spark plugs or emission checks that are required for ICEs. Brake system checks and replacement for electronic vehicles are also reduced due to as the regenerative braking returns energy to the battery, reducing wears and tears on brakes significantly. However, according to EEI, the number of EVs in US is forecasted to only account for 7% of the total number of vehicles on US roads in 2030. As a result, the market share of ICE for the automobile aftermarket industry is still significantly huge. In addition, some analysts have also presented an opposing view whereby the declining traditional repairs for ICE will be compensated by fresh income from new revenue streams associated with EV such as batteries, reduction gears and e- axles. As such, it is still unclear as to what the shift in automobile profiles to electric vehicles may pose to the automobile aftermarket. However, it should be reiterated that the industry is indeed changing, but in the short term, the traditional automobile aftermarket companies will still have a significant number of ICE vehicles to tap on.

Porter's Five Forces

Competition within industry - Moderate

Although there are many individual businesses who operate in the automobile aftermarket industry, the industry is dominated by mainly a few renowned companies with large market share such as O'Reilly, AutoZone, Advance Auto Parts and Genuine Parts Inc. However, competition within the industry is increased as these companies sell similar products that do not necessarily have a significant difference. The main differentiating factors would be the companies' customer services, parts availability as well as their expansion and distribution strategies

Threat of new entrants - Low

The barrier of entry to the automobile aftermarket industry is high due to the high capital requirements required to set up stores and distribution networks. Additionally, the cost advantage of ordering large quantities established by O'Reilly would be difficult for new entrants to achieve. Hence, this provides O'Reilly with significant economies of scale, decreasing the threat of new entrants.

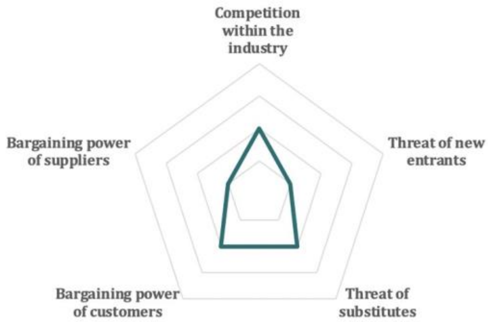
Threat of substitutes - Moderate

The main substitute of the auto part retailers would be the parts sold by the original equipment manufacturer (OEM). While the main selling point for purchasing OEM auto parts is quality and assurance, this advantage is slowly being eroded as many retailers now offer auto parts that are sometimes superior to the original. Furthermore, Auto parts retailers tend to offer more flexibility than OEM in terms of convenience, availability and pricing due to the greater selection of products at various price points and have greater geographical presence.

Bargaining power of customers - Moderate
Within the automobile aftermarket industry, the main competitors mostly sell products that do not have a significant difference. Furthermore, many of these companies have many stores located around the US making it easily accessible for consumers. Hence, this lowers the switching cost for customers within the automobile aftermarket industry. While customers do have a degree of bargaining power, O'Reilly is not a complete price taker as it manages to differentiate itself through better technical expertise and service of their employees.

Bargaining power of suppliers - Low
O'Reilly currently relies on a total of 730 suppliers for their automobile products. Of which, the largest supplier only accounted for 7% of their total purchases. Furthermore, the next 4 largest suppliers of O'Reilly only accounts for 3 to 6% of their total purchases. Hence, there is a low reliance of O'Reilly on just a single supplier. As such, bargaining powers of suppliers would be low as O'Reilly supply chain is widely diversified among companies.

Figure 10: Porter's Five Forces



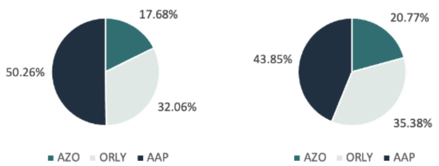
Source: NUS Investment Society estimates

Figure 11: Sales Mix of Auto Parts Competitors in U.S.

United States Sales Mix	2016	2017	2018	2019	2020
DIFM Market					
AZO	20%	21%	21%	23%	22%
ORLY	42%	42%	43%	44%	41%
AAP	58%	58%	58%	60%	57%
DIY Market					
AZO	80%	79%	79%	77%	78%
ORLY	58%	58%	57%	56%	59%
AAP	42%	42%	42%	40%	43%

Source: NUS Investment Society estimates

Figure 12: Market Share of Auto Parts Competitors in 2016 and 2020



Source: Company Filings

Investment Thesis

1. O'Reilly Automotive's balanced dual market strategy positions it better than its peers in taking advantage of industry tailwinds in the near future.

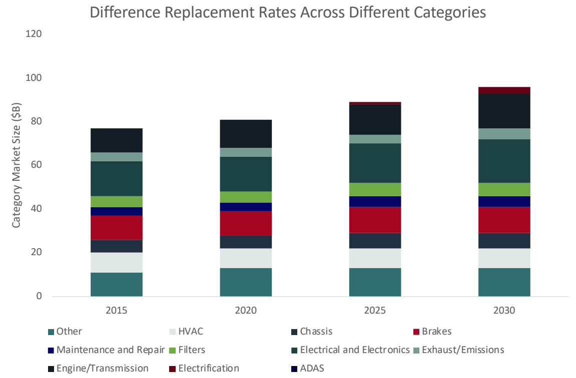
O'Reilly Automotive is first and foremost a retailer, thus it is strongly bounded by the trends and economic factors in the retail industry. Specifically, digitalisation and direct-to-consumer business models have disrupted the traditional retail industry, leading to a shift toward creating customer value through excellent customer service.

<u>The company's dual market strategy and ability to effectively service both DIY and professional service provider customers protects it against both online and offline threats from other retailers.</u>
Professional service providers have different requirements from DIY customers. Most significantly, they have a delivery requirement of 30-45 mins, a duration that online retailers like Amazon find difficult to meet. Due to the aforementioned density in O'Reilly's distribution network, as well as its stores' ease of access to the average customer, O'Reilly especially has a strong defence against both online and offline competitors.

In addition, customers in this market are relatively sticky, meaning they tend to purchase a significant portion of the parts from a main supplier for a long time, which leads to consistent revenue. Given that majority of auto retail chains are able to satisfy most of these customers' auto parts needs, professional customers prefer to maintain the relationships they have established initially. While majority of these customers also have relationships with other suppliers to ensure part availability, it is estimated that on average, 60% of the professional's business goes to its first-call supplier.

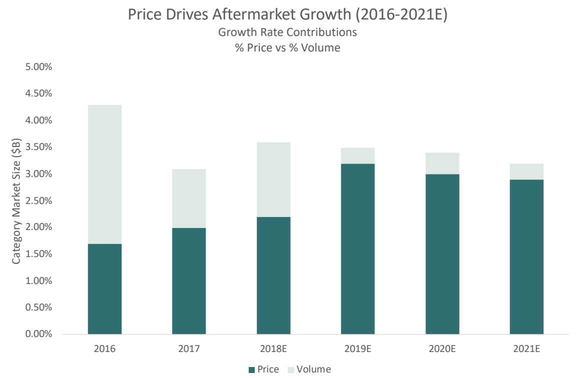
Cars are increasingly designed in more complex ways and use more technically advanced parts, which has led to greater demand for professional service, limiting the product mix that can be offered by online retailers. According to AASA, 36% of auto parts sales growth is from new products or technology. While this could change in the future, various channels indicate that customers mainly purchase

Figure 13: Difference Replacement Rates Across Different Categories



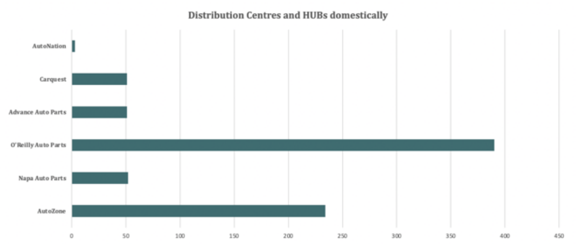
Source: Strategy & Analysis via AASA

Figure 14: Price Drives Aftermarket Growth (2016-2021E)



Source: AASA/ACA Joint Channel Forecast by IHS

Figure 15: Domestic Distribution Centres and Hubs



Source: NUS Investment Society estimates

replacement parts from online retailers, which are less complex and easy to manage individually. As a result, customers are willing to pay higher prices to purchase from the company due to the technical knowledge they can provide. As such, the professional service customer market is expected to have higher long-term growth rates than the DIY market due to the increasing need for technical expertise when dealing with more complex vehicles. Given the relative stickiness and long-term growth of the professional service customer, the company is able to deal with both online and traditional auto parts retailers.

In 2020, the company derived approximately 59% of its sales from DIY customers and approximately 41% of sales from professional service provider customers. While AAP derived 57% of its sales from professional service provider customers, this is due to its specialised focus into certain professional customers rather than the mass market. On the other hand, AZO derived only 22% of its sales from professional service provider customers. While this could position it for future growth, its store design and supply chain are not as effective as the company in serving the aforementioned market. The strong contribution of professional service customers to revenue insulates O'Reilly against significant loss in revenue from increased DIY competition, and provide significant opportunities for continued expansion in the professional service customer market.

Despite having higher sales mix in DIFM, Advance Auto Parts' business model is not as efficient as O'Reilly as its DIFM stores are specifically targeted at DIFM customers rather than both DIY and DIFM customers. While O'Reilly's revenue for both DIY and DIFM markets have been consistently growing, Advance Auto Parts' revenue from both markets have seen more fluctuations.

In addition, in comparison with two of its strongest competitors, AutoZone and Advance Auto Parts, O'Reilly Automotive has increased its market share of the three companies' total revenue year-over-year for the past 5 years in both DIY and professional service customer market.

Taken together, the strength of O'Reilly's current dual market strategy is solidly cemented, and is expected to remain so in the medium term given the "sticky" nature of the DIFM market.

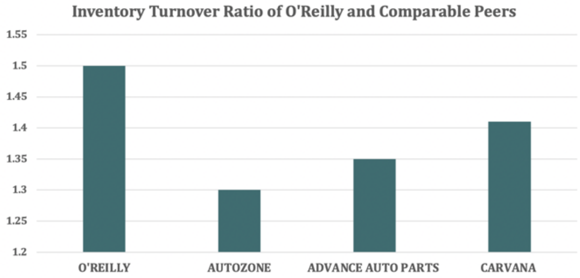
2. O'Reilly Automotive's existing store and distribution infrastructure provides it with a durable competitive advantage.

<u>O'Reilly's extremely well-connected distribution model possesses high density and is difficult to replicate by its competitors, giving rise to an industry-leading reduction in inventory carrying costs for the company.</u>

Management's commitment to a robust regional tiered distribution network gives rise to O'Reilly's superior ability to replenish its inventory and easy access to hard-to-find automotive parts, thus enabling optimization of product availability and inventory levels throughout O'Reilly's store network, leading to optimization of its margins by minimizing inventory-related costs. Moreover, its comparatively denser distribution network, further strengthened by the demanding capital intensity required to maintain such a network, puts O'Reilly in good stead to continue enjoying its market-leading position in the coming years. Overall, such a competitive advantage is expected to allow O'Reilly to leverage on its larger bargaining power over suppliers, further increasing its existing operating efficiencies and enabling more attractive margins when compared to competitors.

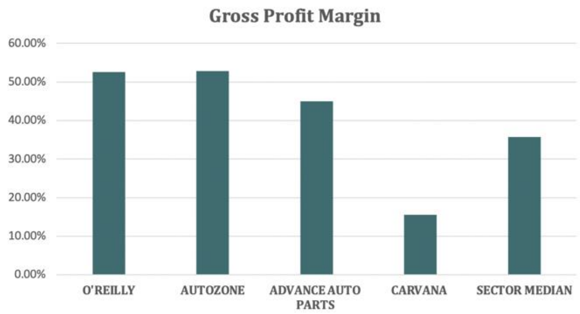
ORLY's strategic distribution network includes distribution centers (DCs) and Hub stores. Automotive parts flow from DCs to Hub stores,

Figure 16: Inventory Turnover Ratio of Auto Parts Competitors



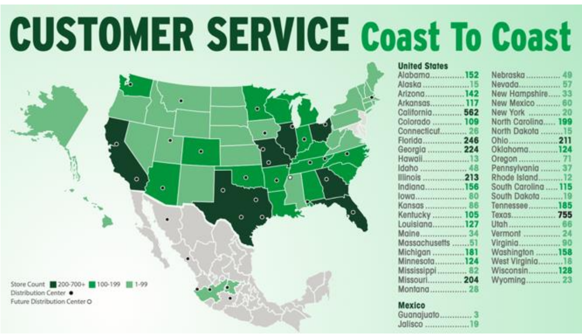
Source: NUS Investment Society estimates

Figure 17: Gross Profit Margin of Auto Parts Competitors



Source: NUS Investment Society estimates

Figure 18: O'Reilly's Geographical Presence



Source: Company Filings

which may be on a larger scale (i.e. Super Hub) or of a typical size (i.e. Hub), and following that, to a domestic ORLY store. Each Hub store is electronically linked to one or more DCs. Further, each store enjoys same-day or overnight access to stock keeping units, many of which are hard-to-find parts not typically stocked by other auto parts retailers. While its competitors do adopt the same distribution model, the comparatively higher density of O'Reilly's network sets it one notch above other players. This is a strong differentiating factor, given that as there is low differentiation between the actual auto parts being offered, customers value store accessibility and parts availability, first and foremost. O'Reilly's leading scale of network in terms of accessibility thus affords it significant bargaining power over its customers as compared to even its peers of comparable sizes, through its ability to remain significantly more accessible.

As such, with such leading scale of network, O'Reilly also enjoys strong bargaining power over its suppliers compared to its peers of smaller scales. As the key auto aftermarket retailer with the largest, most differentiating density of distribution routes, O'Reilly has unparalleled inventory turnover rates, reflecting its inventory replacement speed which outpaces those of its peers while maintaining adequate inventory reserves to be distributed to other stores if the need arises. We believe the resulting reduction in O'Reilly's cost structure due to such increased efficiency in turning inventory is its differentiating key to achieving consistently better margins when compared to its peers.

O'Reilly's Hub stores provide delivery service and same-day access from a Super Hub or a typical Hub to other surrounding stores. On average, O'Reilly's stores carry approximately 22,000 SKUs, with each store enjoying access to the nearest DC which averages 159,000 SKUs, in addition to the alternative of same-day access to a broad selection of inventory available at a Hub store. This contrasts with the access to 70,000 – 10,000 SKUs enjoyed by the largest auto parts retailer in the U.S., AutoZone, with other similar retailers averaging significantly below this number of accessible parts. As such, this shows that O'Reilly is leading in terms of parts availability and ease of access to inventory, placing it in good stead with consumers, given that these two traits are of the greatest priority.

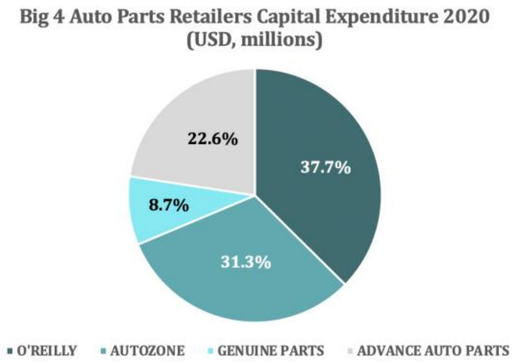
Its robust connection in its distribution network is exemplified in how each independent DC is linked to and have access to multiple other regional DCs' inventory, allowing for highly efficient access to inventory reinforcements. Each DC provides five-night-a-week delivery to substantially all stores. In addition, stores within an individual DC's metropolitan area receive multiple daily deliveries from the DC's "city counter" which keeps digital tracking of required parts to be delivered. Each DC also provides weekend service to all strategic Hub locations, which redistribute products to surrounding stores. The extensiveness of ORLY's distribution network is unmatched in its competitors, providing ORLY with strong and differentiating economies of scale in terms of managing distribution costs.

Additionally, further enhancement of its industry-leading distribution network with the opening of its Lebanon and Tennessee DCs in 2020 allowed the company to maintain its signature top-notch parts availability with maximized efficiency. The trend of growth in efficiency continued in 2021, underpinned by the opening of its new Mississippi DC. In addition, management is continuing significant investments into enhancing its distribution network capabilities.

<u>Ongoing aggressive investments into distribution expansion strategy</u>

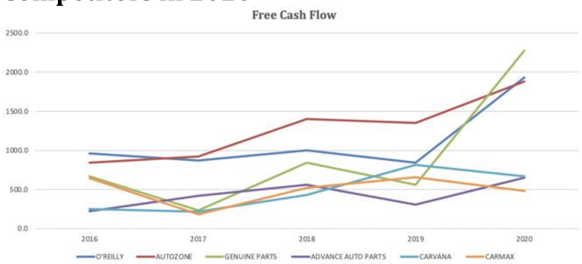
ORLY's ongoing distribution expansion strategy complements its new store opening strategy, by supporting newly established clusters of stores, and additional penetration into existing markets, in each DC

Figure 19: Capital Expenditure of Auto Parts Competitors in 2020



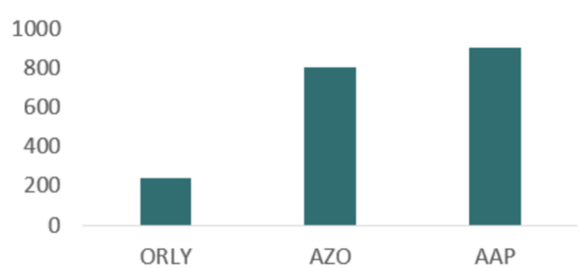
Source: NUS Investment Society estimates

Figure 20: Free Cash Flow of Auto Parts Competitors in 2020



Source: NUS Investment Society estimates

Figure 21: Number of stores in Northeast region



Source: Various 10-Ks

region. Such a strategy seeks to further its economies of scale in maximizing the efficiency of distribution, placing ORLY in a leading position moving forward. We believe the lead enjoyed by O'Reilly thus far is sustainable due to the moat created by the large scale of capital expenditure required to maintain such efficiency in its densely mapped distribution network, that is difficult for its peers to scale and replicate in the medium term. Furthermore, we expect this to be underpinned by O'Reilly's consistently increasing free cash flow that has remained steadily among the Big 4 auto parts retailers, which has enabled such steady large-scale investments into its distribution system to date.

Such intensive capital expenditure which is required for auto parts retailers such as O'Reilly to continually maintain and upgrade its distribution and store networks, as well as significant working capital needed to maintain inventory levels necessary for parts availability to be ensured are of extensive scales, resulting in a wide moat difficult to scale by its industry peers with less cash reserves, given that O'Reilly's cash reserves remain stable amongst the "Big 4" auto parts retailers, as mentioned.

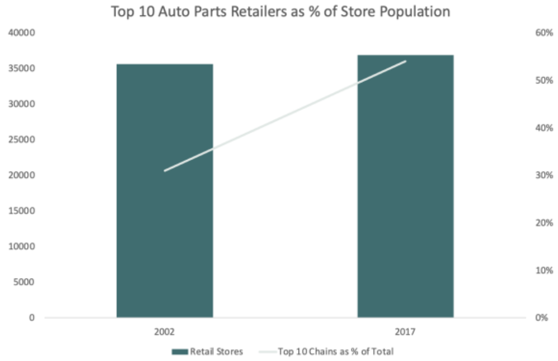
With management expecting to continue investing significantly in capital expenditure towards maintaining O'Reilly's key advantage of parts availability and robust inventory management, this moat is projected to further widen in the near to medium term, putting the company in a position to continue reaping the benefits of its large-scale investments. Moreover, with its comparatively healthy inventory turnover ratios as proof of its intensive investments into its distribution network paying off thus far, we have reason to believe that management's future execution of such investments has a healthy chance of further success.

3. O'Reilly Automotive has significant room for further expansion in the Northeast region.

The company is well-experienced with a good track record of landing and expanding into new markets. Prior to 2012, the company had a limited presence in Florida with only 58 stores in the state. Over four years from 2012 to 2016, the company expanded its store count in the state at a 29.5% CAGR, reaching 163 stores and taking share from incumbents, mainly from Advance Auto Parts (AAP). A contributing factor to the company's success is due to the failure of AAP's management to integrate its supply chain after the acquisition of General Parts International in 2014, resulting in large levels of complexity in its processes. More importantly, O'Reilly has key structural advantages in terms of its distribution and inventory management, as mentioned later, that enables it to achieve the best coverage of parts while maintaining the lowest inventory per store. These advantages have helped the company to gain market share when its competitors make mistakes.

Industry consolidation is likely to continue in the future. As vehicles become more complex, customers seek multiple distribution channels, and the largest chains are able to offer both convenience and part availability, independent stores and smaller chains have even less of a value proposition, with most currently in a small geographical area or providing specialised auto parts. Furthermore, the COVID-19 pandemic and online retail trends have accelerated industry consolidation, either by reducing the financial resources smaller stores have access to in order to compete during tough times, or by reducing demand for store parts, further cutting down the revenue to be earned by smaller stores, as such resulting in the vicious cycle of smaller players being muscled out. One recent example is the closing of about 100 retail stores by auto parts retailer Pep Boys due to low demand during the pandemic. While industry consolidation benefits

Figure 22: Top 10 Auto Parts Retailers as % of Store Population



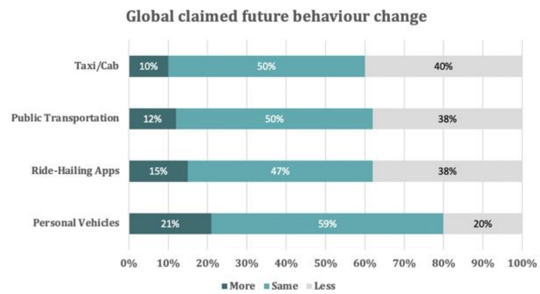
Source: AAIA Factbook

Figure 23: Number of Auto Parts Stores of Competitors in Select States in the Northeast Region of U.S.

	ORLY		AZO		AAP	
	2016	2020	2016	2020	2016	2020*
Connecticut	5	26	46	49	77	57
Massachusetts	30	51	80	82	127	86
New York	2	20	179	204	263	211
Pennsylvania	12	37	169	205	266	242
Rhode Island	3	12	17	17	22	16

Sources: Company Filings, Company Website

Figure 24: Global Claimed Future Behaviour Change in Mobility Preferences



Source: YouGov

the largest 4 auto parts retailers, the company is best positioned to benefit due to its superior inventory management and ability to expand quickly.

Industry consolidation is an opportunity for the company to expand its geographical footprint in a saturated auto parts retail market. More specifically, given the limited store count that the company has in the Northeast region, it has significant potential for growth as opposed to its competitors. This is because it is not economical for a company to have 2 stores in an area, but it is sensible for 2 stores from different companies to be in the same area.

The Northeast region was a non-factor until the company entered the space with the acquisition of VIP Auto in 2012 and followed it up with the acquisition of Bond in 2016. Since then, the total store count in the region has increased from 149 stores to 237 stores in 2020, at a CAGR of 12.3%. Store growth for the company is likely to continue across all regions, due to a combination of industry consolidation and rising median age of vehicles, not only increasing demand for auto parts but also increasing the company's market share. With relatively smaller market share in the Northeast region and a superior business model, the company has significant potential for store expansion in the U.S.

One reason for the limited presence of the company in the region is due to the presence of small and independent retail chains. However, with the trend of industry consolidation as well as increased capital investments required to compete in multiple distribution channels and in more complex vehicles, it is expected that these smaller stores will eventually shut down or be acquired by larger chains. Since majority of the company's competitors already have a strong presence in the region, it is likely that O'Reilly will acquire these smaller stores.

In addition, it is unlikely that competitors' presence will deter O'Reilly from entering the Northeast region more aggressively given that O'Reilly has a stronger business model and that competitors are able to co-exist in the same area.

In summary, the strong demand for auto parts, combined with the opportunity available to the company for further expansion in the U.S. suggests that revenue will increase at moderate single-digit rates in the next few years.

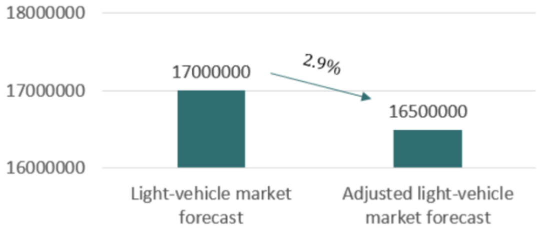
Catalysts

1. ORLY stands to benefit from the COVID-19 climate in the near to medium term

As the current economic pressure results in drivers delaying purchase of new vehicles, there will be an increase in demand for repairs on their current and older cars. Hence, the automotive aftermarket has remained resilient throughout the COVID-19 pandemic, and this is expected to continue in the near term while pandemic recovery gradually sets in in the U.S. Furthermore, the effect of curfews and decrease in visits to repair workshops is also expected to drive growth in ORLY's digital channel as consumers opt for auto parts delivery as opposed to visiting repair shops. Additionally, with fewer taking trips via public transport and shared-mobility services to reduce social contact, the reliance on personal vehicles has increased, spurring demand for aftermarket services and parts given that usage of personal vehicles increases.

On a whole, analysts expect the pandemic to create long-term tailwinds for aftermarket demand. This may be attributed to the fact that personal vehicles are likely to supplant public transport for many consumers, as the threat of contagion outweighs cost and convenience concerns, according to McKinsey. Additionally, in the medium term, average vehicle age is expected to increase as economic pressures force consumers to postpone new-car purchases, thus boosting the need for aftermarket service and parts, in turn driving the revenue growth of ORLY. Taken together with the reopening of the U.S. economy and relaxing of COVID-19 measures, usage of personal vehicles is projected to rise significantly, potentially driving revenue and causing upticks in ORLY's share price.

Figure 25: U.S. light vehicle production and sales



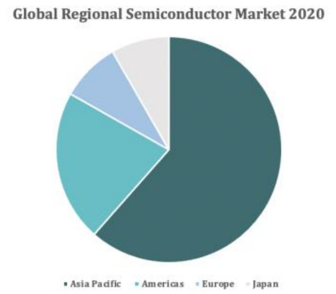
Source: LMC Automotive, Global Forecasting

2. Shortage of semiconductors depresses auto production, boosting demand in the aftermarket

One of the most essential factors of production in automobiles, semiconductor chips, has witnessed a global shortage as a result of the pandemic slowing production drastically. With the resurgence of the pandemic in Asia Pacific, further exacerbation of chip shortage is expected to occur in the near term, resulting in the continued reduction in production of new vehicles. This is attributed to Asia Pacific being the largest region globally for assembly and testing of semiconductors. Hence, analyst estimates early this year predicting the subsidence of pandemic effects have now been adjusted to reflect lower production levels and further increased shortage of chips due to the unexpected persistence of COVID-19.

This in turn leads to a surge in demand and usage of used cars, increasing the need for aftermarket services and products such as ORLY's offerings. As such, the rise in supply-chain snarls is increasing the demand for ORLY's products for at least the near term, given that the resurgence of COVID-19 is expected to exacerbate such conditions.

Figure 26: Global Regional Semiconductor Market 2020

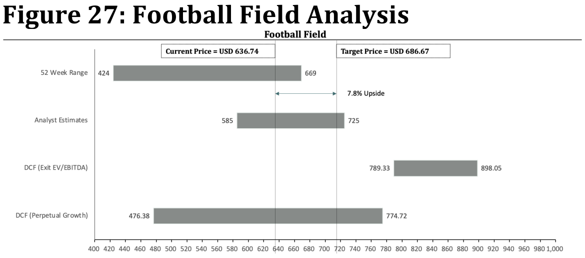


Source: Various 10-Ks

Financial Analysis

(US$m)	2019A	2020A	2021E	2022E
Revenue	10,150	11,604	12,765	13,643
Net Income	1,391	1,752	1,794	1,929
NI Gr Rate (%)	*5.0%*	*26.0%*	*2.4%*	*7.5%*
Profit Margin (%)	*13.7%*	*15.1%*	*14.1%*	*14.1%*
ROA (%)	*0.13*	*0.15*	*0.16*	*0.17*
ROE (%)	*3.50*	*12.49*	*(6.78)*	*(2.81)*
EV/EBITDA	14.5	12.1	15.6	15.6
D/E	25.97	81.68	(43.49)	(17.51)

Figure 27: Football Field Analysis



Source: NUS Investment Society estimates

Overview

The chart above reflects ORLY's financial prospects in the near term. Most indicators are supportive of the BUY recommendation we have made.

Revenue growth

Revenue is expected to grow significantly due to a combination of industry growth and increased market share, accelerated by pandemic trends as discussed above.

Consistent margins

Profit margins are expected to decrease slightly in FY2021 due to conservative expectations around recovery of the automotive aftermarket in the coming year. However, profit margins are expected to remain consistently around 13-15% due to ORLY's inventory system and distribution network contributing to maintaining high cost efficiencies.

Improving returns

ROA is expected to increase from 15% to 17% as the company is able to capture greater demand on its existing infrastructure.

Valuation

12M Price Target: US$686.67

The target price was calculated as a blended average of 2 different target prices derived from (1) a DCF valuation using the perpetuity growth method and (2) a DCF using the exit multiple method.

Relative Valuation

We picked comparable companies that operate in the auto parts retail space. We calculated their NTM P/E and NTM EV/EBITDA multiples. The mean NTM P/E multiple of the comparable companies is 20.35x, as compared to that of O'Reilly, which is 23.60x. If O'Reilly were trading at the average level of its competitors, its current price would mean that its NTM EPS is expected to be US$30.70, which is 29% higher than its LTM EPS of US$23.74. The mean NTM EV/EBITDA multiple of the comparable companies is 14.18x, as compared to that of O'Reilly, which is 17.40x. The company is trading at a huge premium to other auto parts retail companies due to the optimism surrounding its future growth prospects. We believe this optimism is justified as discussed above.

Intrinsic Valuation

A discounted cash flow (DCF) analysis was used to derive the intrinsic value of O'Reilly Automotive, Inc. The DCF model is forecasted over a 5-year period and is most sensitive to the factors discussed below.

WACC

Beta was derived from Yahoo Finance and the market risk premium from Professor Damodaran's website. CAPM was then used to calculate the cost of equity, with the current yield on the 10-year US treasury as the risk-free rate. Pre-tax cost of debt was derived from historical interest rate paid on debt and historical tax rate was used to calculate the tax shield.

Figure 28: WACC

O'Reilly Automotive Inc
WACC Build

WACC Calculation	
Total Debt (USD '000)	4,123,217
Market Capitalisation (USD '000)	43,580,000
Debt as proportion of current capital structure	8.6%
Equity as proportion of current capital structure	91.4%
WACC	6.18%
Cost of Equity	
Risk Free Rate	1.58%
Equity Risk Premium	4.72%
Beta	1.04
Cost of Equity	6.49%
Cost of Debt	
Pre-Tax Cost of Debt	3.70%
Tax Rate	22%
After-Tax Cost of Debt	2.87%

Source: NUS Investment Society estimates

Revenue

A bottom-up approach was used to forecast O'Reilly's revenues going forward. The underlying factors driving its revenues are the total number of retail stores and same-store sales growth for the company's retail stores. However, we projected revenue growth in FY21 at a 10% growth rate based on FY21 Q1-Q3 results.

Figure 29: Exit Multiple Method

Exit Multiple	
Exit EV/EBITDA Multiple	14.18x
Terminal Year EBITDA	3,703,325.24
Terminal Value (EV)	52,494,635.23
Present Value of Terminal Value	50,098,543.76

Source: NUS Investment Society estimates

The total number of stores for FY21 is determined through an analysis of management's guidance as well as the feasibility of its occurrence. Management intends to open 165-175 net, new stores in 2021, and having opened approximately 100 stores in the first half of the year, as well as continued growth in year-on-year revenue, it is reasonable to assume that the company will achieve its goal. As the growth drivers causing store expansion are expected to persist in the medium term, we forecasted the number of stores to increase by 130-160 stores per year from FY22-FY25.

Figure 30: Gordon Growth Method

Gordon Growth Method	
Perpetual Growth Rate	2%
Terminal Year FCFF	1,606,412.27
Terminal Value	39,233,644.50
Present Value of Terminal Value	37,442,844.34

Source: NUS Investment Society estimates

Same store sales is expected to grow at a rate of 4% in the next five years. According to the U.S. Bureau of Labour Statistics, car parts have historically experienced an average inflation rate of 1.62% per year. In addition, we expect average ticket prices to increase due to increased complexity and consequently more expensive parts. In addition, we expect that the volume of transactions will increase due to the rising demand for used car repair and maintenance.

Figure 31: Exit Multiple and Gordon Growth Method Output

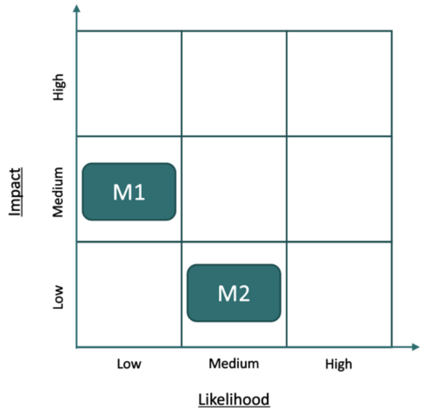
Model Output	Exit Multiple	Gordon Growth
Present Value of Cumulative FCFF	8,135,393	8,135,393
Present Value of Terminal Value	50,098,544	37,442,844.34
Implied Enterprise Value	58,233,937	45,578,238
Less: Debt	(4,123,217)	(4,123,217)
Plus: Cash	465,640	465,640
Implied Equity Value	54,576,360	41,920,661
Implied Share Price	776.73	596.62

Source: NUS Investment Society estimates

Cost of Sales

Cost of sales is derived from a 3Y historical average using percentage of revenue. As the company is able to pass on rising costs to customers, we expected that cost of sales as a percentage of revenue is likely to remain consistent.

Figure 32: Risk Matrix



Source: NUS Investment Society Estimates

SGA Expenses

SGA expenses is derived from FY20 using percentage of revenue. We used a 3Y historical average as we expect the company to maintain its increased operating leverage in the future due to the strong demand as a result of the COVID-19 crisis.

Terminal Value

For the perpetuity growth method, we used a terminal growth rate of 2.0% based on the US GDP long-term growth rate of 2.0%. For the exit multiple method, we chose an exit EV/EBITDA multiple of 16.26x, which was the 90th percentile NTM EV/EBITDA multiple derived in our relative valuation. This is because we believe that O'Reilly's growth rate continues to exceed its competitors due to a stronger business model and expansion opportunities. Target price of US$843.25 was calculated under the exit multiple method and US$590.94 under the perpetuity growth method. The significant difference is due to an implied growth rate of 2.54% in the exit multiple method, due to the company's expected strong future performance relative to its competitors.

Investment Risks

Market Risk [M1]

Failure to adapt to the changing EV market

As mentioned in industry outlook, there is a changing profile of vehicles in the US to electric vehicles from ICE. As of now, it is unclear if O'Reilly will be able to pivot their product and services to cater to the different technical expertise needed for electric vehicles. Although this shift to a market whereby electric vehicle takes up the majority of number of vehicles in the US is still in the long distance, failure of O'Reilly abilities to pivot into the electric vehicle aftermarket will prove detrimental to the future outlook and growth of the company.

Market Risk [M2]

Inflationary Pressures

During the pandemic, the FED has been heavily involved in purchasing assets to boost job creations and economic recovery. Additionally, countless stimulus checks have been given out to citizens to boost spending in the US to aid the economy to recover after the recession caused by the pandemic. As such, inflation data such as the consumer price index has been rising at concerning rates in the recent times. Since June 2021 to September, the YoY CPI data has remained elevated of around 5% to 5.4%. With sustained high inflation of the economy, prices of auto parts will remain high, ultimately causing some potential economically challenged customers to hold non-critical maintenances, or trade down the on the product value spectrum. Such a situation has also been highlighted by O'Reilly CEO in the latest Q2 2021 earnings call.

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Appendix:

Pro-Forma Financial Statements

O'Reilly Automotive Inc
Financial Statements

Figures in '000 USD	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
	Historical			Forecasted				
Income Statement								
Revenues	9,536,428	10,149,985	11,604,493	12,764,942	13,642,648	14,546,284	15,475,566	16,430,108
COGS	(4,496,462)	(4,755,294)	(5,518,801)	(6,023,269)	(6,437,424)	(6,863,814)	(7,302,305)	(7,752,715)
Gross Profit	5,039,966	5,394,691	6,085,692	6,741,673	7,205,224	7,682,470	8,173,261	8,677,393
SG&A	(3,224,782)	(3,473,965)	(3,666,356)	(4,239,492)	(4,530,996)	(4,831,112)	(5,139,745)	(5,456,767)
Operating Income	1,815,184	1,920,726	2,419,336	2,502,181	2,674,228	2,851,359	3,033,516	3,220,625
Interest Expense	(122,129)	(139,975)	(161,126)	(153,445)	(150,608)	(150,165)	(149,705)	(149,705)
Interest Income	2,521	2,545	2,491	2,520	472	504	537	570
Net Interest	(119,608)	(137,430)	(158,635)	(150,924)	(150,136)	(149,661)	(149,168)	(149,134)
Other Non-Operating Income (Loss)	(1,489)	7,033	5,704					
Total Non-Operating Income (Loss)	(121,097)	(130,397)	(152,931)	(150,924)	(150,136)	(149,661)	(149,168)	(149,134)
Pretax Income (Loss)	1,694,087	1,790,329	2,266,405	2,351,256	2,524,092	2,701,697	2,884,349	3,071,491
Abnormal Losses (Gains)	-	-	-					
Pretax Income, GAAP	1,694,087	1,790,329	2,266,405	2,351,256	2,524,092	2,701,697	2,884,349	3,071,491
Income Tax Expense (Benefit)	(369,600)	(399,287)	(514,103)	(557,178)	(595,489)	(634,932)	(675,495)	(717,160)
Net Income Inc. MI	1,324,487	1,391,042	1,752,302	1,794,078	1,928,603	2,066,765	2,208,854	2,354,332
Minority Interest	-	-	-					
Net Income	1,324,487	1,391,042	1,752,302	1,794,078	1,928,603	2,066,765	2,208,854	2,354,332

Figures in '000 USD	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Balance Sheet								
Assets								
Cash, Cash Equivalents & STI	31,315	40,406	465,640	(1,096,350)	(1,816,034)	(2,515,091)	(3,278,773)	(4,062,951)
Cash & Cash Equivalents	31,315	40,406	465,640					
ST Investments	-	-	-					
Accounts Receivable	270,181	294,407	330,294	365,076	390,178	416,022	442,600	469,900
Inventory	3,193,344	3,454,092	3,653,195	4,213,302	4,503,005	4,801,266	5,107,993	5,423,057
Other ST Assets	48,262	44,757	50,658	58,871	62,919	67,086	71,372	75,774
Total Current Assets	3,543,102	3,833,662	4,499,787	3,540,899	3,140,068	2,769,284	2,343,191	1,905,780
Net PPE	3,587,002	3,948,203	4,094,918	4,408,878	4,730,226	5,014,136	5,345,364	5,678,806
PPE	5,645,552	6,191,427	6,559,911	7,218,907	7,917,518	8,610,667	9,386,945	10,203,087
Accumulated Depreciation	(2,058,550)	(2,243,224)	(2,464,993)	(2,810,028)	(3,187,292)	(3,596,531)	(4,041,581)	(4,524,281)
LT Investments	-	-	-	-	-	-	-	-
Other LT Assets	850,685	2,935,295	3,001,937	3,285,825	3,451,177	3,621,413	3,796,481	3,976,308
Operating Lease, Right-of-Use Assets	-	1,928,369	1,995,127	2,309,909	2,468,736	2,632,255	2,800,416	2,973,147
Goodwill	807,260	936,814	881,030	881,030	881,030	881,030	881,030	881,030
Misc LT Assets	43,425	70,112	125,780	94,886	101,411	108,128	115,036	122,131
Total Non-Current Assets	4,437,687	6,883,498	7,096,855	7,694,703	8,181,403	8,635,549	9,141,845	9,655,114
TOTAL ASSETS	7,980,789	10,717,160	11,596,642	11,235,602	11,321,470	11,404,834	11,485,037	11,560,894
Liabilities								
Revolver Facility/ST Debt	-	-	-	-	-	-	-	-
Accounts Payable	3,376,403	3,604,722	4,184,662	4,551,989	4,864,980	5,187,217	5,518,600	5,858,990
Self-Insurance Reserves	77,012	79,079	109,199	107,552	114,947	122,561	130,390	138,433
Accrued Payroll	86,520	100,816	88,875	113,454	121,255	129,287	137,546	146,030
Accrued Benefits and Withholdings	89,082	98,539	242,724	170,054	181,747	193,785	206,165	218,881
Income Taxes Payable	11,013	-	16,786	-	-	-	-	-
Current Portion of Operating Lease Liabilit	-	316,061	322,778	376,272	402,144	428,781	456,173	484,310
Other ST Liabilities	253,990	270,210	297,393	335,645	358,723	382,484	406,919	432,018
Total Current Liabilities	3,894,020	4,469,427	5,262,417	5,654,966	6,043,796	6,444,114	6,855,793	7,278,662
Long-term Debt	3,417,122	3,890,527	4,123,217	4,123,217	4,123,217	4,123,217	4,123,217	4,123,217
Operating Lease Liabilities, Less Current	-	1,655,297	1,718,691	1,324,105	1,415,149	1,508,883	1,605,277	1,704,291
Deferred Income Taxes	105,566	133,280	155,899	160,137	171,148	182,484	194,142	206,117
Other LT Liabilities	210,414	171,289	196,160	237,614	253,953	270,773	288,072	305,840
Total Non-Current Liabilities	3,733,102	5,850,393	6,193,967	5,845,073	5,963,466	6,085,357	6,210,708	6,339,465
Total Liabilities	7,627,122	10,319,820	11,456,384	11,500,039	12,007,262	12,529,471	13,066,500	13,618,127
Shareholder's Equity								
Common Stock	790	756	711	711	711	711	711	711
Additional Paid-In Capital	1,262,063	1,280,760	1,280,841	1,361,108	1,446,893	1,538,361	1,635,673	1,738,986
Retained Earnings	(909,186)	(889,066)	(1,139,139)	(1,624,100)	(2,131,241)	(2,661,555)	(3,215,692)	(3,794,775)
Accumulated Other Comprehensive Incom	-	4,890	(2,155)	(2,155)	(2,155)	(2,155)	(2,155)	(2,155)
Minority Interest	-	-	-	-	-	-	-	-
Total Equity	353,667	397,340	140,258	(264,437)	(685,792)	(1,124,637)	(1,581,464)	(2,057,233)
TOTAL LIABILITIES AND EQUITY	7,980,789	10,717,160	11,596,642	11,235,602	11,321,470	11,404,834	11,485,037	11,560,894
Balance Check	*Passed*	*Passed*	*Passed*	*Passed*	*Passed*	*Passed*	*Passed*	*Passed*

Statement of Cashflows								
Operating Activities								
Net Income	1,324,487	1,391,042	1,752,302	1,794,078	1,928,603	2,066,765	2,208,854	2,354,332
Add: Adjustments to Reconcile Net Incom	312,638	325,399	359,029	345,035	377,263	409,239	445,050	482,700
Depreciation and Amortisation of PPE	258,937	270,875	314,635	345,035	377,263	409,239	445,050	482,700
Amoritsation of Debt Discount and Issua	3,470	3,916	4,580					
Deferred Income Taxes	20,160	21,158	12,381					
Share-based Compensation Programs	20,176	21,921	22,747					
Other	9,895	7,529	4,686					
Add: Changes in Working Capital	90,430	(7,962)	725,272	(210,553)	69,977	72,045	74,089	76,103
Accounts Receivable	18,138	(15,577)	(20,515)					
Inventory	(163,367)	(239,912)	(198,864)					
Accounts Payable	177,676	213,423	580,608					
Income Taxes Payable	22,903	(20,139)	197,739					
Accrued Payroll	9,373	14,296	(11,941)					
Accrued Benefits and Withholdings	28,022	16,868	189,332					
Other	(2,315)	23,079	(11,087)					
Cash from Operating Activities	**1,727,555**	**1,708,479**	**2,836,603**	**1,928,560**	**2,375,844**	**2,548,049**	**2,727,993**	**2,913,135**
Investing Activities								
Purchases of PPE	(504,268)	(628,057)	(465,579)	(658,996)	(698,611)	(693,149)	(776,278)	(816,142)
Proceeds from Sale of PPE	4,784	7,118	15,770					
Investment in Tax Credit Equity Investmer	-	(33,781)	(164,111)					
Other, including acquisitions, net of cash	(34,818)	(142,026)	(975)					
Cash from Investing Activities	**(534,302)**	**(796,746)**	**(614,895)**	**(658,996)**	**(698,611)**	**(693,149)**	**(776,278)**	**(816,142)**
Financing Activities								
Dividends Paid	-	-	-	-	-	-	-	-
Payments of Debt	(3,923)	(3,990)	(507,929)	-	(300,000)	(300,000)	(300,000)	-
Proceeds from Issuance of Debt	498,660	499,955	997,515	-	300,000	300,000	300,000	-
Decrease (Reduction) of LT Assets	-	-	-	(283,888)	(165,351)	(170,237)	(175,068)	(179,827)
Increase (Repayment) of LT Liabilities	-	-	-	(348,894)	118,393	121,891	125,350	128,758
Proceeds from Issuance of Common Stocl	72,146	60,206	62,284	80,267	85,786	91,468	97,311	103,313
Repurchase of Equity	(1,714,013)	(1,432,791)	(2,087,194)	(2,279,039)	(2,435,744)	(2,597,078)	(2,762,991)	(2,933,414)
Revolver Payments	(2,473,000)	(2,734,000)	(1,423,000)	-	-	-	-	-
Revolver Proceeds	2,414,000	2,708,000	1,162,000	-	-	-	-	-
Other Charges	(2,156)	(191)	(253)	-	-	-	-	-
Cash from Financing Activities	**(1,208,286)**	**(902,811)**	**(1,796,577)**	**(2,831,555)**	**(2,396,917)**	**(2,553,956)**	**(2,715,398)**	**(2,881,170)**
Effect of Exchange Rate Changes	0	169	103					
Net Change in Cash	(15,033)	9,091	425,234	(1,561,990)	(719,684)	(699,056)	(763,683)	(784,177)

Financial Projections

O'Reilly Automotive Inc
Financial Projections

	Historical			Forecasted				
Figures in '000 USD	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Revenue	9,536,428	10,149,985	11,604,493	12,764,942	13,642,648	14,546,284	15,475,566	16,430,108
Number of Stores	5219	5460	5616	5786	5946	6096	6236	6366
Average Sales / Store	$ 1,842	$ 1,881	$ 2,057	2206	2294	2386	2482	2581
Revenue Growth				10.0%	6.9%	6.6%	6.4%	6.2%
Gross Profit	5,039,966	5,394,691	6,085,692	6,741,673	7,205,224	7,682,470	8,173,261	8,677,393
Operating Income	1,815,184	1,920,726	2,419,336	2,502,181	2,674,228	2,851,359	3,033,516	3,220,625
Pretax Income	1,694,087	1,790,329	2,266,405	2,502,181	2,674,228	2,851,359	3,033,516	3,220,625
Net Income	1,324,487	1,391,042	1,752,302	1,945,002	2,078,739	2,216,426	2,358,022	2,503,466
Cost Build								
COGS	(4,496,462)	(4,755,294)	(5,518,801)	(6,023,269)	(6,437,424)	(6,863,814)	(7,302,305)	(7,752,715)
COGS as % of Revenue	47.2%	46.9%	47.6%	47.2%	47.2%	47.2%	47.2%	47.2%
SG&A	(3,224,782)	(3,473,965)	(3,666,356)	(4,239,492)	(4,530,996)	(4,831,112)	(5,139,745)	(5,456,767)
SG&A as % of Revenue	33.8%	34.2%	31.6%	33.2%	33.2%	33.2%	33.2%	33.2%
Income Tax Expense	(369,600)	(399,287)	(514,103)	(557,178)	(595,489)	(634,932)	(675,495)	(717,160)
Effective Tax Rate	21.8%	22.3%	22.7%	22.3%	22.3%	22.3%	22.3%	22.3%
Net Working Capital								
Account Receivable	270,181	294,407	330,294	365,076	390,178	416,022	442,600	469,900
Accounts Receivable as % of Revenue	2.8%	2.9%	2.8%	2.9%	2.9%	2.9%	2.9%	2.9%
Inventory	3,193,344	3,454,092	3,653,195	4,213,302	4,503,005	4,801,266	5,107,993	5,423,057
Inventory as % of COGS	71.0%	72.6%	66.2%	70.0%	70.0%	70.0%	70.0%	70.0%
Other ST Assets	48,262	44,757	50,658	58,871	62,919	67,086	71,372	75,774
ST Assets as % of Revenue	0.5%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%
Accounts Payable	3,376,403	3,604,722	4,184,662	4,551,989	4,864,980	5,187,217	5,518,600	5,858,990
Accounts Payable as % of COGS	75.1%	75.8%	75.8%	75.6%	75.6%	75.6%	75.6%	75.6%
Self-Insurance Reserves	77,012	79,079	109,199	107,552	114,947	122,561	130,390	138,433
As % of Revenue	0.8%	0.8%	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%
Accrued Payroll	86,520	100,816	88,875	113,454	121,255	129,287	137,546	146,030
As % of Revenue	0.9%	1.0%	0.8%	0.9%	0.9%	0.9%	0.9%	0.9%
Accrued Benefits and Withholdings	89,082	98,539	242,724	170,054	181,747	193,785	206,165	218,881
As % of Revenue	0.9%	1.0%	2.1%	1.3%	1.3%	1.3%	1.3%	1.3%
Operating Lease Liabilities, Current	-	316,061	322,778	376,272	402,144	428,781	456,173	484,310
As % of Revenue	0.0%	3.1%	2.8%	2.9%	2.9%	2.9%	2.9%	2.9%
Other ST Liabilities	253,990	270,210	297,393	335,645	358,723	382,484	406,919	432,018
As % of Revenue	2.7%	2.7%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%
Net Working Capital			(1,228,270)	(1,017,717)	(1,087,694)	(1,159,739)	(1,233,828)	(1,309,931)
Increase in NWC				210,553	(69,977)	(72,045)	(74,089)	(76,103)
Non-Current Accounts								
Operating Lease, Right-of-Use Assets	-	1,928,369	1,995,127	2,309,909	2,468,736	2,632,255	2,800,416	2,973,147
As % of Revenue	0.0%	19.0%	17.2%	18.1%	18.1%	18.1%	18.1%	18.1%
Misc LT Assets	43,425	70,112	125,780	94,886	101,411	108,128	115,036	122,131
As % of Revenue	0.5%	0.7%	1.1%	0.7%	0.7%	0.7%	0.7%	0.7%
Deferred Income Taxes	105,566	133,280	155,899	160,137	171,148	182,484	194,142	206,117
As % of Revenue	1.1%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
Operating Lease Liabilities, Less Current	-	1,655,297	1,718,691	1,324,105	1,415,149	1,508,883	1,605,277	1,704,291
As % of Revenue	0.0%	16.3%	14.8%	10.4%	10.4%	10.4%	10.4%	10.4%
Other LT Liabilities	210,414	171,289	196,160	237,614	253,953	270,773	288,072	305,840
As % of Revenue	2.2%	1.7%	1.7%	1.9%	1.9%	1.9%	1.9%	1.9%
Repurchase of Equity	1,714,013	1,432,791	2,087,194	2,279,039	2,435,744	2,597,078	2,762,991	2,933,414
As % of Net Income	129.4%	103.0%	119.1%	117.2%	117.2%	117.2%	117.2%	117.2%
Proceeds from Share Issuance	72,146	60,206	62,284	80,267	85,786	91,468	97,311	103,313
As % of Net Income	0.8%	0.6%	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%

Financial Projections

O'Reilly Automotive Inc
Financial Projections

Figures in '000 USD	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
	Historical			Forecasted				
PPE Build								
Depreciation Schedule								
CAPEX	504,268	628,057	465,579	658,996	698,611	693,149	776,278	816,142
CAPEX as % of Revenue	5.3%	6.2%	4.0%	5.2%	5.1%	4.8%	5.0%	5.0%
Accumulated Depreciation	(2,058,550)	(2,243,224)	(2,464,993)	(2,810,028)	(3,187,292)	(3,596,531)	(4,041,581)	(4,524,281)
PPE								
Land	745,050	805,556	860,797	941,947	1,027,975	1,113,331	1,208,923	1,309,424
Buildings and Building Improvements	2,147,969	2,378,074	2,574,969	2,871,900	3,186,680	3,499,000	3,848,776	4,216,514
Leasehold Improvements	686,058	751,155	799,013	882,425	970,852	1,058,587	1,156,844	1,260,147
Furnitures, Fixtures and Equipment	1,350,808	1,450,444	1,562,664	1,718,053	1,882,784	2,046,227	2,229,271	2,421,716
Vehicles	424,421	447,939	456,957	487,406	519,686	551,713	587,582	625,292
Construction In Progress	291,246	358,259	305,511	317,175	329,540	341,809	355,549	369,994
Total PPE	**5,645,552**	**6,191,427**	**6,559,911**	**7,218,907**	**7,917,518**	**8,610,667**	**9,386,945**	**10,203,087**
Acquisition								
Land	49,381	60,506	55,241	81,150	86,028	85,356	95,592	100,501
Buildings and Building Improvements	179,890	230,105	196,895	296,931	314,781	312,320	349,776	367,738
Leasehold Improvements	59,344	65,097	47,858	83,412	88,427	87,735	98,257	103,303
Furnitures, Fixtures and Equipment	100,118	99,636	112,220	155,389	164,731	163,443	183,044	192,444
Vehicles	32,291	23,518	9,018	30,449	32,280	32,027	35,868	37,710
Construction In Progress	33,393	67,013	(52,748)	11,664	12,365	12,269	13,740	14,446
Total CAPEX	**454,417**	**545,875**	**368,484**	**658,996**	**698,611**	**693,149**	**776,278**	**816,142**
Acquisitions as % of CAPEX				Average CAPEX into PPE				
Land	10.9%	11.1%	15.0%	12.3%				
Buildings and Building Improvements	39.6%	42.2%	53.4%	45.1%				
Leasehold Improvements	13.1%	11.9%	13.0%	12.7%				
Furnitures, Fixtures and Equipment	22.0%	18.3%	30.5%	23.6%				
Vehicles	7.1%	4.3%	2.4%	4.6%				
Construction In Progress	7.3%	12.3%	-14.3%	1.8%				
Depreciation Expense								
Buildings and Building Improvements				11,877	12,591	12,493	13,991	14,710
Leasehold Improvements				3,336	3,537	3,509	3,930	4,132
Furnitures, Fixtures and Equipment				14,126	14,976	14,858	16,640	17,495
Vehicles				1,060	1,124	1,115	1,249	1,313
Sum				30,400	32,228	31,976	35,811	37,650
Total Depreciation Expense	(258,937)	(270,875)	(314,635)	(345,035)	(377,263)	(409,239)	(445,050)	(482,700)

Useful Lives (Years)	
Buidling	25
Furniture & Fixtures	11
Leashold Improvements	25

	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Total Intangible Assets	-	-	-	-	-	-	-	-
Annual Amortization Expense								
Total Depreciation and Amortization Expense				(345,035)	(377,263)	(409,239)	(445,050)	(482,700)

Financial Projections

O'Reilly Automotive Inc
Financial Projections

	Historical			Forecasted				
Figures in '000 USD	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Cash Holdings								
Cash at Year End	31,315	40,406	465,640	46,366	49,554	52,837	56,212	59,679
Mean Cash Balance		35,861	253,023	256,003	47,960	51,195	54,524	57,946
Interest Income	2,521	2,545	2,491	2,520	472	504	537	570
% Interest on Cash Holdings		7.1%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%

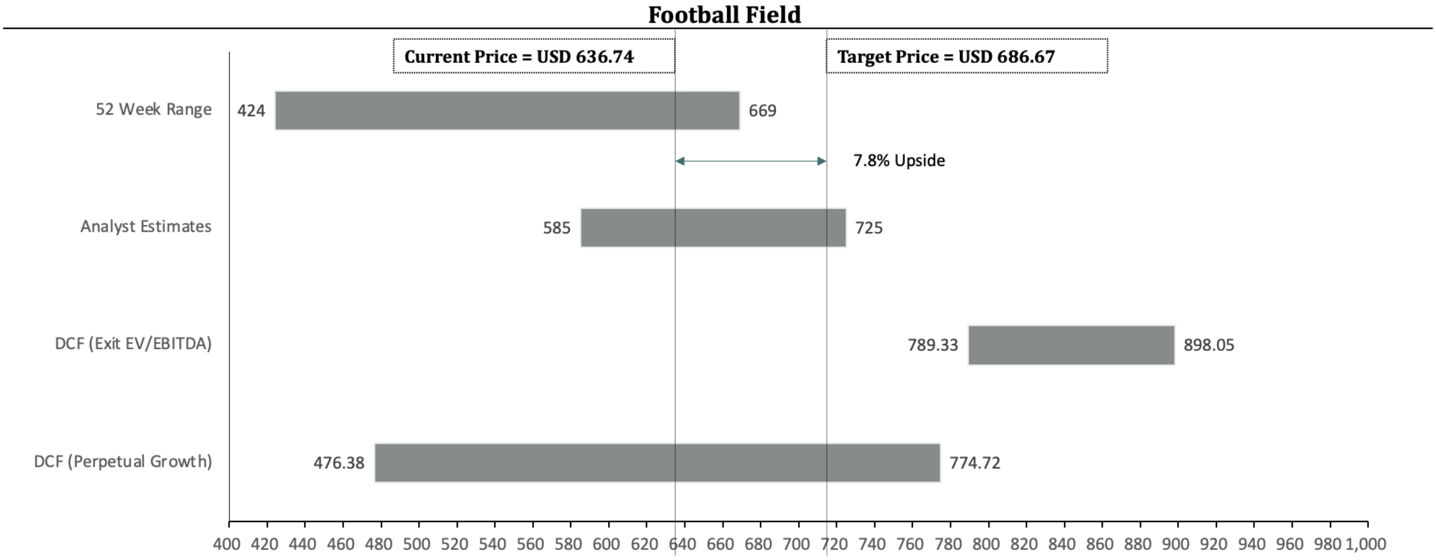
Debt Schedule

Long Term Debt	Year	Principal	Interest	Weighted Average Interest Rate
4.625% Senior Notes due 2021, effective int	2021	300,000	4.64%	0.34%
3.800% Senior Notes due 2022, effective int	2022	300,000	3.85%	0.28%
3.850% Senior Notes due 2023, effective int	2023	300,000	3.85%	0.28%
3.550% Senior Notes due 2026, effective int	2026	500,000	3.57%	0.43%
3.600% Senior Notes due 2027, effective int	2027	750,000	3.62%	0.65%
4.350% Senior Notes due 2028, effective int	2028	500,000	4.38%	0.53%
3.900% Senior Notes due 2029, effective int	2029	500,000	3.90%	0.47%
4.200% Senior Notes due 2030, effective int	2030	500,000	4.21%	0.51%
1.750% Senior Notes due 2031, effective int	2031	500,000	1.80%	0.22%
Total Long Term Debt		4,150,000		
Weighted Cost of Debt		**3.70%**		

	Historical			Forecasted				
Figures in '000,000 USD	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Interest Repayment Schedule								
Interest Paid				(153,445)	(139,516)	(127,981)	(116,428)	(116,428)
Principal Repayment				-	(300,000)	(300,000)	(300,000)	-
ST & LT Debt								
Long Term Debt								
Beginning Balance		3,417,122	3,890,527	4,123,217	4,123,217	4,123,217	4,123,217	4,123,217
Additions			-	-	300,000	300,000	300,000	-
Repayments			-	-	(300,000)	(300,000)	(300,000)	-
Ending Balance	3,417,122	3,890,527	4,123,217	4,123,217	4,123,217	4,123,217	4,123,217	4,123,217
New LT Debt Additions								
Balance			-	-	300,000	600,000	900,000	900,000
Interest Expense on New Debt			-	-	(11,092)	(22,185)	(33,277)	(33,277)
Total Interest Expense				(153,445)	(150,608)	(150,165)	(149,705)	(149,705)
Cash & Cash Equivalents	31,315	40,406	465,640					
Cash as % of Revenue	0.3%	0.4%	4.0%					
Minimum Target Cash Balance				46,366	49,554	52,837	56,212	59,679
Minimum Target Cash Balance as % of Revenue				0.4%	0.4%	0.4%	0.4%	0.4%
Revolver								
Cash available at beginning of period				465,640	-	-	-	-
Cash generated during current year				(1,561,990)	(719,684)	(699,056)	(763,683)	(784,177)
Minimum cash desired				46,366	49,554	52,837	56,212	59,679
Cash Surplus (Deficit)				(1,142,717)	(769,238)	(751,893)	(819,895)	(843,857)

Valuation

Football Field Analysis



Discounted Cash Flow Model

O'Reilly Automotive Inc
WACC Build

WACC Calculation

Total Debt (USD '000)	4,123,217
Market Capitalisation (USD '000)	43,580,000
Debt as proportion of current capital structure	8.6%
Equity as proportion of current capital structure	91.4%
WACC	6.18%

Cost of Equity

Risk Free Rate	1.58%
Equity Risk Premium	4.72%
Beta	1.04
Cost of Equity	6.49%

Cost of Debt

Pre-Tax Cost of Debt	3.70%
Tax Rate	22%
After-Tax Cost of Debt	2.87%

O'Reilly Automotive Inc
DCF

Model Assumptions

Terminal Growth Rate	2.0%
Effective Tax Rate	22%
Discount Rate	6.18%
Valuation date	5/11/21
Current Share Price	624.80
Basic Shares Outstanding ('000)	70,264.00

Model Output

	Exit Multiple	Gordon Growth
Present Value of Cumulative FCFF	8,135,393	8,135,393
Present Value of Terminal Value	50,098,544	37,442,844.34
Implied Enterprise Value	58,233,937	45,578,238
Less: Debt	(4,123,217)	(4,123,217)
Plus: Cash	465,640	465,640
Implied Equity Value	54,576,360	41,920,661
Implied Share Price	776.73	596.62

Free Cash Flow Calculation

	Historical			Forecasted				
Figures in '000 USD	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
EBIT	1,815,184	1,920,726	2,419,336	2,502,181	2,674,228	2,851,359	3,033,516	3,220,625
Tax-Adjusted EBIT	1,419,489	1,490,789	1,869,249	1,911,395	2,045,307	2,183,100	2,324,805	2,470,257
Add: Depreciation and Amortisation	258,937	270,875	314,635	345,035	377,263	409,239	445,050	482,700
Less: CAPEX	(504,268)	(628,057)	(465,579)	(658,996)	(698,611)	(693,149)	(776,278)	(816,142)
Less: Change in Net Working Capital	(90,430)	7,962	(725,272)	210,553	(69,977)	(72,045)	(74,089)	(76,103)
Unlevered FCFF	1,083,728	1,141,569	993,033	1,807,988	1,653,982	1,827,146	1,919,488	2,060,712
% Growth		5.3%	-13.0%	82.1%	-8.5%	10.5%	5.1%	7.4%
Period				2021	2022	2023	2024	2025
Discount Factor				0.99	0.93	0.88	0.83	0.78
Present Value of Unlevered FCFF				1,791,211	1,543,313	1,605,716	1,588,741	1,606,412

Terminal Value Calculation

Exit Multiple

Exit EV/EBITDA Multiple	14.18x
Terminal Year EBITDA	3,703,325.24
Terminal Value (EV)	52,494,635.23
Present Value of Terminal Value	50,098,543.76

Gordon Growth Method

Perpetual Growth Rate	2%
Terminal Year FCFF	1,606,412.27
Terminal Value	39,233,644.50
Present Value of Terminal Value	37,442,844.34

Sensitivity Analysis

Implied Share Price

WACC	Exit EV/EBITDA Multiple: 12.68x	13.18x	13.68x	14.18x	14.68x	15.18x
4.7%	710.79	736.16	761.54	786.91	812.29	837.66
5.2%	707.57	732.87	758.16	783.46	808.76	834.05
5.7%	704.48	729.70	754.92	780.14	805.37	830.59
6.2%	701.51	726.66	751.81	776.96	802.11	827.26
6.7%	698.66	723.74	748.82	773.91	798.99	824.07
7.2%	695.92	720.93	745.95	770.97	795.99	821.01

Implied Share Price

WACC	Perpetual Growth Rate: 0%	0.5%	1.0%	1.5%	2.0%	2.5%
4.7%	566.25	628.72	708.18	812.62	956.03	1,165.23
5.2%	506.66	556.17	617.52	695.54	798.11	938.94
5.7%	457.68	497.74	546.37	606.64	683.27	784.01
6.2%	416.72	449.71	489.08	536.85	596.06	671.35
6.7%	381.98	409.55	441.97	480.65	527.60	585.78
7.2%	352.16	375.48	402.57	434.44	472.46	518.60

Relative Valuation

O'Reilly Automotive Inc
Relative Valuation (Comparable Company Analysis)

Company Name	MC	NTM P/E	NTM EV/EBITDA
	USDb		
O'Reilly Automobile Inc	46.13	23.60	17.40
AutoZone, Inc	38.29	18.70	13.60
Genuine Parts Company	19.56	19.20	12.70
Advance Auto Parts, Inc	14.78	19.90	13.00

Screening Criteria: Auto Parts Retailers

	NTM P/E	NTM EV/EBITDA
25th Percentile	19.08	12.93
Median	19.55	13.30
75th Percentile	20.83	14.55
Mean	20.35	14.18

Relative Valuation (P/E)	
Mean NTM P/E	20.35
NTM EPS	24.94
Implied Share Value	**507.51**
Lower End of Range	
25th Percentile NTM P/E	19.08
Implied Share Value	**475.71**
Upper End of Range	
75th Percentile NTM P/E	20.83
Implied Share Value	**519.35**

Relative Valuation (EV/EBITDA)	
Mean NTM EV / EBITDA	14.18
NTM EBITDA (USD'000)	2,847,215.96
Implied Enterprise Value	40,359,286.24
Less: Debt	(4,123,217.00)
Add: Cash	465,640.00
Implied Market Cap	36,701,709.24
Share Count	70,264
Implied Share Value	**522.34**
25th Percentile NTM EV / EBITDA	12.93
Implied Enterprise Value	36,800,266.29
Implied Market Cap	33,142,689.29
Implied Share Value	**471.69**
75th Percentile NTM EV / EBITDA	14.55
Implied Enterprise Value	41,426,992.22
Implied Market Cap	37,769,415.22
Implied Share Value	**537.54**