DSR STOCK CARD

12/15/2022

GENUINE PARTS (GPC)

Business Model

Genuine Parts sells automotive parts (67% of pro-forma net sales) and industrial components. The company sells vehicle parts to commercial and retail customers through over 9,800 independently owned stores worldwide. Its industrial unit, primarily operating under the Motion Industries banner in the United States, supplies bearings, power transmission, industrial automation, hydraulic, and pneumatic components to maintenance, repair, and OEM clients.

The Company in a Nutshell

- GPC is a Dividend King (50+ consecutive dividend increases) with 50,000 employees across 10,400 sites.
- GPC benefits from strong brand recognition, a long history with their customers, and economies of scale.
- A low interest rate environment also amplifies GPC's growth by acquisition strategy.

Investment Thesis

Over the years, GPC has built a solid reputation through high-level service and high-quality parts. 75% of its auto parts sales come from the commercial segment (garages). This segment lends itself to highly consistent order patterns. Genuine Parts is also known for its never-ending appetite when it comes to buying out its competitors. A winning strategy for any portfolio building method is to pick strong companies with established business models that have become leaders in their industry. GPC is the parent company of NAPA Auto Parts, which is a great performer during recessionary environments. We expect growth to be driven by an increasing U.S. vehicle age, which rose to a record high of 12.1 years in 2021. In 2022, the stock experienced a drop, but has since recovered and seems to be overpriced.

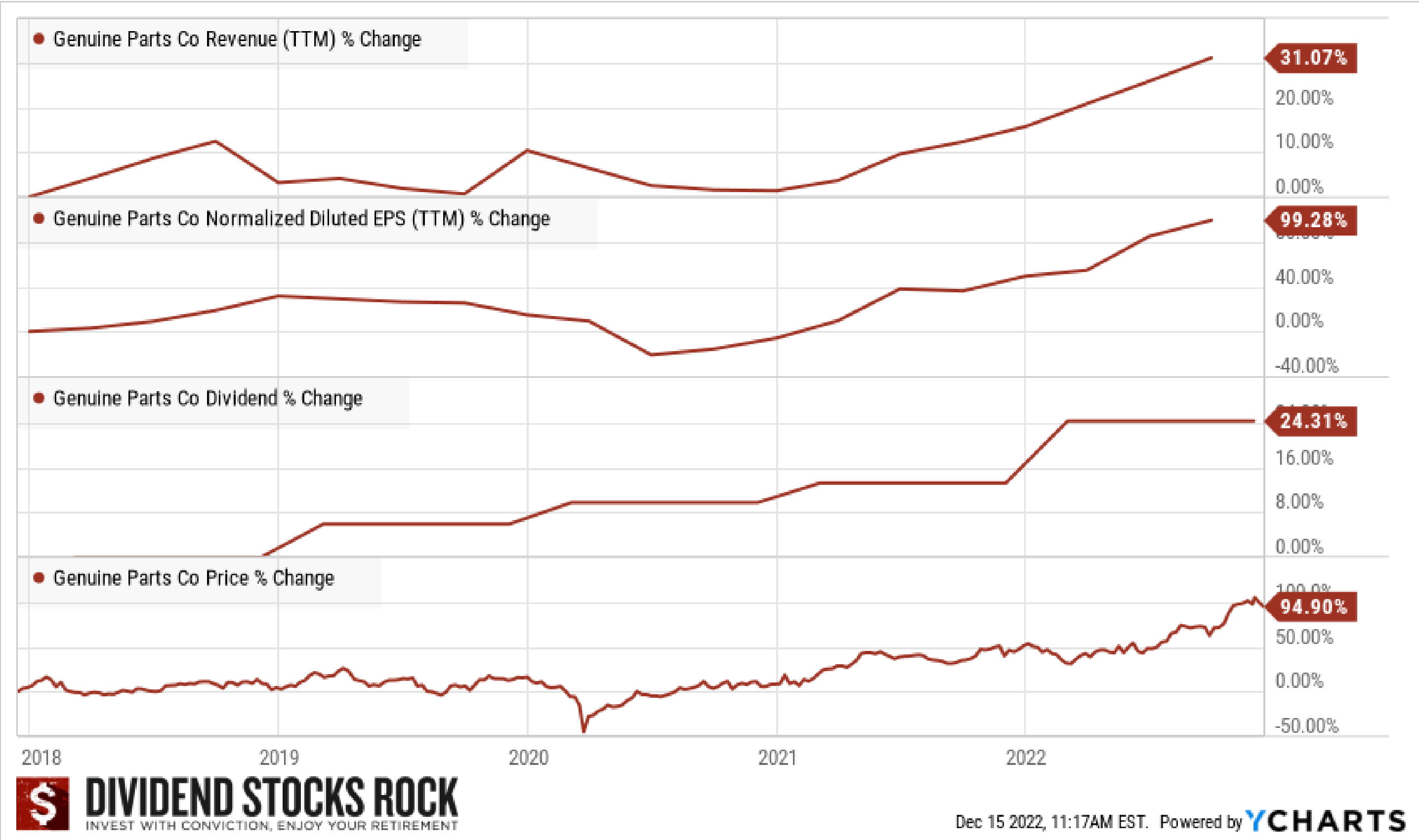
VALUATION

Dividend Growth Rate Years 1-10: 5.00% **Terminal Dividend Growth Rate**: 5.00%

	Discount Rate (Horizontal)		
Margin of Safety	**8.00%**	**9.00%**	**10.00%**
20% Premium	$125.85	$94.70	$75.99
10% Premium	$115.36	$86.81	$69.66
Intrinsic Value	$104.88	**$78.92**	$63.33
10% Discount	$94.39	$71.03	$57.00
20% Discount	$83.90	$63.13	$50.66

DSR STOCK CARD

12/15/2022



Potential Risks

Because GPC operates in a cyclical market, some investors may get nervous when the economy slows down over the coming quarters. The auto industry isn't growing, but automobiles will continue to require maintenance. GPC's primary source of growth is through acquisitions. The more companies they buy, the more expensive those purchases become. This dynamic may reduce GPC's profitability on future investments. It has become difficult to acquire smaller competitors in the U.S. for that reason. Genuine Parts is now pursuing new acquisitions in the European market. This is a whole new game, and we don't know if management can replicate their previous successes on another continent.

Dividend Growth Perspective

GPC is a steady dividend grower that began its dividend growth streak in 1957. GPC has been increasing its payouts more aggressively since 2010. This is interesting, as the company recently hit a few bumps when the economy wasn't as strong as expected. The 2021 dividend increase (under 4%) made us revise our long-term dividend growth perspective, even though the 2022 increase was more generous (9%). The company will continue to offer steady dividend increases in the future. Investors should expect mid-single digit dividend increases moving forward.