PHOENICIAN
INVESTMENT FUND

Advance Auto Parts (NYSE: AAP)
Recommendation: Long | **Current Price:** $51.40 | **18 – 24 Month PT:** $109.10| **Implied Upside:** 112%
Capital Goods & Machinery

Business Overview

Advance Auto Parts

- Advance Auto Parts is a leading North American automotive aftermarket parts retailer. The company serves both professional repair shops and do-it-yourself customers through its extensive network of retail stores and distribution centers, focusing on parts availability, service, and supply chain efficiency

Horizontally Integrated Business Model

Sourcing & Procurement

AAP leverages a **diversified supplier base across 300,000+ SKUs** through strategic partnerships with major manufacturers while driving differentiation via private-label ownership. (i.e. DieHard, & ARGOS)

Logistics & Distribution

AAP is **transitioning to an industry-standard "Blend-box" distribution model**, consolidating 38 legacy DC's into 12 regional DCs to improve SKU availability, inventory efficiency, and service times

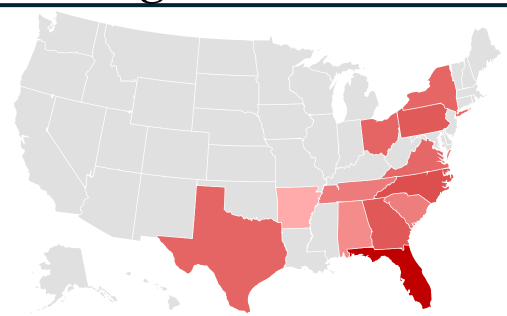
Omni-Channel Fulfillment

AAP employs a comprehensive **omni-channel distribution model** that integrates its physical retail network with its digital platforms and rapid last mile delivery to provide seamless experience for DIY and Pro customers

Regional Presence

~4,300
Total Stores

4,065
United States

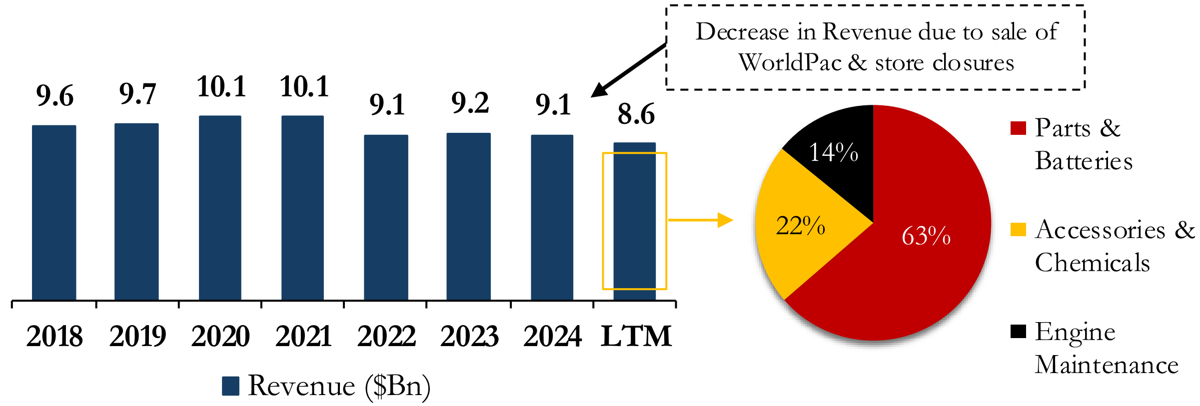


CARQUEST

Advance Auto Parts
Service is our best part.

- Advance Auto Parts operates ~4,300 stores, including 814 franchised Carquest locations across USA, Mexico, & Canada serving DIY & DIFM mechanics, **with over 75% of its footprint positioned in designated markets where the company holds a #1 or #2 share by store density**

Historical Revenue / Revenue Mix by Product



- The revenue mix by customer has a roughly **even split at 50/50 between DIFM (Do-It-For-Me (Mechanics)) and DIY (Do-It-Yourself) customers**
- Despite the mix **more than 90% of revenues is non-discretionary allowing them to operate in an inelastic market**
- When channel checking, most mechanics mention there go to is Advance Auto Parts

Turnaround Point

- **The company is currently executing a three-year turnaround strategy which should be completed by 2027**
- The plan involves closing underperforming stores (as of now 700 have been closed), reducing the number of distribution centers, converting specific stores into "market hubs", and resetting product assortments to better align with customer demand
- **The company has also recently replaced management in multiple positions**
- The most notable one being their new CEO, Shane O'Kelly and CFO, Ryan Grimsland

- A K-shaped economy has widened affordability gaps, leading many consumers to hold onto older vehicles longer, raising the average vehicle age and structurally boosting demand for automotive aftermarket parts

A National Oligopoly…

DIY + DIFM (Pro) Auto Aftermarket Part Market Share

- Four Main Players: **Auto Zone, Advanced Auto Parts, Napa,** and **O'Reilly**
- Advance Auto Parts is one of the **"Big Four" that collectively control ~32%** of the DIY and DIFM market
- These industry powerhouses maintain a **unique barrier to entry from the large count of SKU's demanded by customers**

- U.S. auto parts aftermarket is **highly fragmented**, with scaled players steadily taking share from mom-and-pop competitors. **The top four players hold roughly 30% of the market**, leaving a long runway for consolidation-driven growth

- The automotive aftermarket industry serves two primary customer segments: the **Do-It-Yourself (DIY)** market, consisting of individual consumers performing their own vehicle repairs, and the **Do-It-For-Me (DIFM)** market, made up of professional installers and repair shops
- Since the industry is driven by non-discretionary repairs it is **defensive** because demand is largely driven by necessary vehicle maintenance and repairs, allowing it to remain relatively **resilient throughout economic cycles**
- During COVID-19, the aftermarket remained strong as **vehicle prices increased, new car supply was constrained**, and consumers were more likely to maintain older, more affordable vehicles rather than purchase new ones

…With Favorable Industry Dynamics

Average MSRP For New Vehicles

Fleet Vehicle Age in U.S at ATH's

- New vehicle prices are at **all-time highs** driven in part by tariff-related cost pressures, Inflation, higher cost of financing, and Supply Chain realignments
- **Leading to "Repair vs Replace" mindset which is increasing demand for aftermarket auto parts** since drivers are holding onto their cars for longer periods increasing the average age of the U.S. vehicle fleet

Light-Duty Aftermarket Industry Size (Industry Sales, Billions)

- The light-duty aftermarket industry is positioned to grow at a 5.2% CAGR through 2028 from the **consistent increase in miles driven and the number of light duty vehicles on the road in the U.S. with 84.6% of those vehicles being older than 4 years old**

Sources: Bureau of Transportation Statistics, Kelly Blue Book, 10-K, Equity Research

Consensus Sentiment

- "We do have concerns that AAP will **struggle to hit its FY27' operational and balance sheet deleveraging goals** introduced in November 2024" - CFRA
- AAP is currently in a state of **"perpetual turnaround," characterized by a cycle of restructuring efforts that have historically failed** to translate into sustainable market share gains
- AAP is a near term **"show-me" story that spans a decade of operational underperformance** relative to industry peers

What we See

- Sale of WorldPac and recent bond issuance in 2025 stabilized AAP's balance **sheet allowing management to focus heavily on execution and margin expansion**
- **AAP's executive team was almost completely replaced over the past 24 months**, while also achieving more than the previous CEO did over 10 years, solidifying a strategy that finally works
- Industry tailwinds coupled with better store execution, tighter merchandising, and a simpler supply chain are **allowing for steady execution path to higher margins**

Currently Trading at Trough Levels Allowing Us To Enter at a Compelling Margin of Safety

Thesis 1.1: What's Different Now? Management is Taking Bold and Differentiated Actions

- Years of mismanagement has caused operational failures; company is now undergoing a genuine **turnaround under a highly capable new management team**

Supply Chain & Distributional Dysfunction

Failed Integration of Transformative Carquest Acquisition

Two separate distribution networks running on different warehouse management systems, never unified in the ~7 years under previous CEO leadership

No market hub layer in the supply chain, stores couldn't access deep inventory same-day, leading to part availability gaps vs. AutoZone & O'Reilly who had built [illegible] models

5,000 stores spread across too many markets without sufficient density, many in Western U.S where AAP couldn't [illegible] ked #1 or #2 market position in [illegible] print

AAP struggled with supply shortages, wage inflation, inability to keep parts in stock, raise prices effectively and fulfill orders efficiently. **The result was lost market share, margin erosion, and a business that looked structurally broken** which led to the Stock to declined by ~65% leading to AAP dropping from the S&P 500.

O'Kelly's 5-step Plan

1. Sold Worldpac to Carlyle for \$1.5B at ~15x EBITDA (closed Nov 2024) – Allowed for financial stability to focus more on fixing operational inefficiencies
2. \$200M Cost Cuts + Reinvestment
3. Consolidate Supply chain into Industry Standard
4. Organizational Structure Overhaul
5. Close underperforming stores

New Turnaround CEO with Supply Chain DNA

Shane O'Kelly
New CEO

- West Point grad, U.S Army Captain (7yrs), Harvard MBA, McKinsey Alum. CEO of HD Supply, Home Depot Pro, PetroChoice, has combined supply chains at three prior roles
- In ~2 years: sold Worldpac for \$1.5B, consolidated 38 DCs to 15, opened 33 market hubs, closed 700+ underperforming stores, improved adjusted operating margins by 5%

"Shane's robust operational background leading complex supply chain organizations makes him the ideal next leader for Advance."

- Backed by activist investors **Third Point & Saddle Point who hold ~8% of AAP** and placed 3 industry veterans on the board, **having meaningful skin in the game**, incentivizing them to continue striving for AAP improvement

Management Has Been Largely Replaced Over The Last 24 Months

Ron Gilbert
- **SVP Supply Chain, 20+ yrs experience**

Thomas Seboldt - Board
- **Former O'Reilly Executive**

Kunal Das
- **Promoted to CTO 18+ yrs experience**

A. Brent Windom - Board
- **Former President & CEO, Uni-select**

Tony Hurst
- **SVP U.S Stores, 25+ yrs experience**

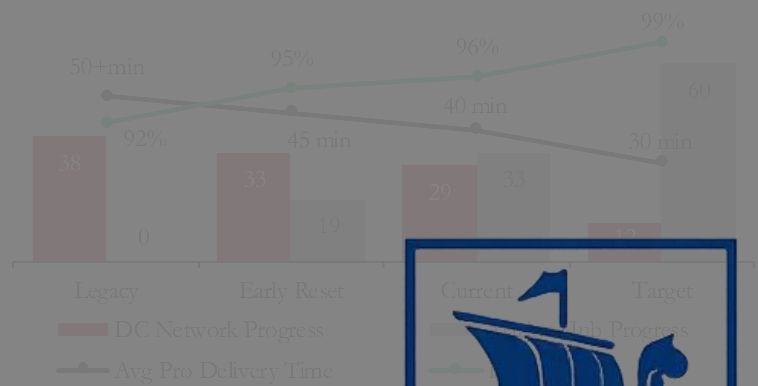
Gregory Smith - Board
- **Supply expert, Walmart/Goodyear**

They have done more operational improvements in the past 24 months than what the previous CEO did in the past 10 – years

Sources: Investor Presentations, 10-K, Equity Research

- AAP's operational turnaround, improving fill rates, expanding market hubs, reducing delivery times, and consolidating DCs, is driving same-store sales growth with a smaller footprint and positioning the company to capture share in an inelastic aftermarket, creating a structural pathway to sustainable revenue growth

Bold Actions Are Improving Execution Metrics Driving SSSG



- In the U.S. auto parts market, purchasing decisions are driven primarily by location and parts availability over price, and AAP's improving inventory availability and store [illegible] the company [illegible] incremental [illegible] share

- Transition to **"Blend Box" [illegible]** will allow AAP to execute on fill rates, market hub expansion, sam[illegible] and DC consolidation, which are the drivers of AAP's SSS growth, [illegible] pathway to durable revenue growth

Store Operation Metrics Drive SSSG

Implementation of AI pricing, Improving fill rates (92% → 99%), expanding market hubs (0 → 60 target), and reducing Pro delivery times (50+ min → 30 min) directly reduce lost sales and increase transaction velocity

DC Consolidation as Revenue Enabler

Streamlining 38 legacy DCs into ~12 regional nodes enhances inventory balancing and SKU depth (75–85k SKUs per hub), supporting higher in-stock rates and improved same store sales conversion

Commercial Share Gains Fuel Top-Line Growth

Better vendor terms, Faster time-to-serve, and improved parts availability position AAP as the "first call" for mechanics, accelerating DIFM share gains and driving sustainable revenue growth

Growing SSS with a Smaller Footprint

Total net sales decline as AAP intentionally closed 500+ stores, but for the past 3 quarters SSS at remaining locations are accelerating proving the surviving footprint is healthier and [illegible] gaining share

Inelastic Demand Moat: When Your Car Breaks, Price Doesn't Matter

- **If your car breaks down, you have to fix it.** ~90% of AAP sales are non-discretionary, replacement parts necessary for vehicle operation. Purchasing decisions are driven by **proximity and availability over price,** making demand structurally inelastic

12.8 years	$150B	3.6%
Avg. U.S Vehicle Age	U.S Aftermarket TAM	Global Aftermarket CAGR

Vehicles Age → Parts Fail → Repair is Required → Nearest Store Wins

- In recessions & tariffs heavy environments, consumers **delay new car purchases and repair existing ones,** driving aftermarket volume higher. AAP's hub and rising fill positions it as the **priority** when a part fails, capturing demand that comes regardless of the economic cycle

Thesis 1.3 : Operational Overhaul Positions AAP to Reclaim High-Single-Digit Margins

- With pricing reset, a new merchandising strategy, a restructured supply chain, and a denser store footprint, the company is positioned to recover lost productivity and rebuild margins. Before its missteps, AAP consistently delivered high-single-digit operating margins, a level we view as attainable again

Operating Leverage Breakdown

AAP's earnings volatility was amplified by extreme operating leverage during the margin collapse, but as operating income recovers, leverage normalizes and earnings become structurally more stable

Consensus

Street consensus expects ~260bps of operating margin expansion ('24–'26), driven by supply chain consolidation (38 DCs → ~15) and fixed-cost absorption through higher SKU productivity and improved sourcing

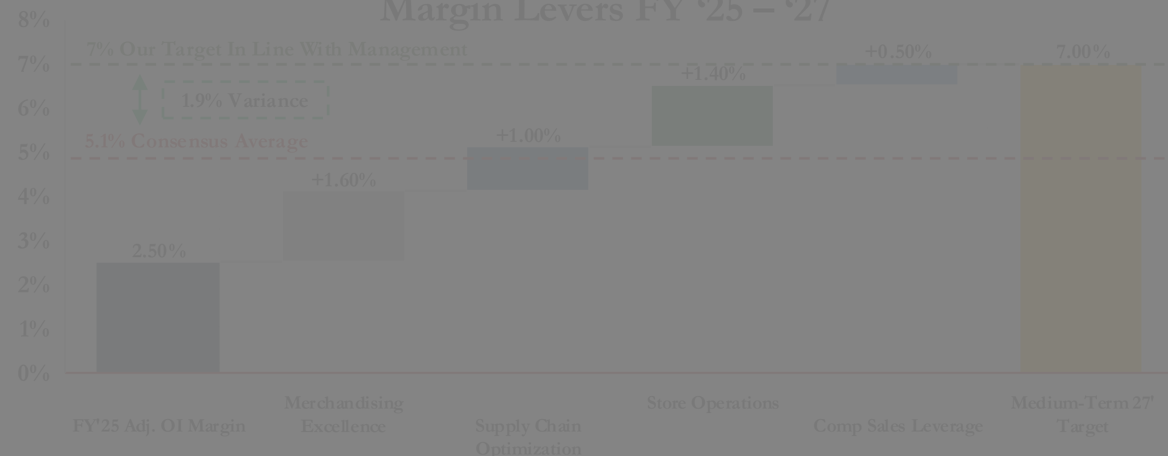
Our View

We believe consensus is overly focused on cost-cutting leverage and underappreciates the structural revenue and margin flywheel created by the Blend Box model, positioning AAP's operating margin expansion beyond current Street expectations.

- **Old Management / Legacy Model:** Fragmented supply chain, dual DC networks, and an oversized store base created a bloated cost structure, so as sales stalled operating leverage turned negative and margins collapsed
- **New Management / Turnaround:** Under CEO Shane O'Kelly, Blend Box consolidation, store closures, and hub rollout are resetting the cost base, allowing operating leverage to work positively again with a path to meaningful margin expansion

Switch to Industry Standard "Blend Box" Distribution Model

Margin Levers FY '25 – '27



Supply Chain Transformation…

AAP is consolidating from **38 DCs into 14-15 large DCs** feeding a growing network of **market hubs** (33 today → 60 by 2027) that carry 50,000-100,000+ SKUs and serve surrounding stores within a **30-minute delivery radius**

Fill rates improved from **low-90s% to high-90s%**, Pro delivery cut from 50+ min to **30-40 minutes**, and stores carry narrower, faster-turning assortments while hubs backstop slow movers, driving higher inventory turnover

Comp Sales Impact

Hub-served stores showing **~100 bps comp uplift** vs. non-hub locations, **with only ~20% of the network currently hub-served**

…Drives Margins

Supply Chain Overhaul – Blend Box consolidation fixes structural inefficiencies that drove AAP's margin gap to peers for a decade

~500 bps Margin Path – Better fill rates, faster delivery speed, lower logistics costs, leaner stores, and comp leverage bridge 2.5% → 7% target

Hub Flywheel – Improves all three P&L lines: revenue (faster delivery), gross margin (less shrink), and SG&A (simpler network)

Upside Opportunity – Consensus ~5.1% margin vs. 7% target; the 1.9% gap reflects execution skepticism we believe is mispriced

Sources: Investor Presentations, 10-K, Equity Research

- AAP's FCF inflection ($298M negative to ~$100M positive), fortress liquidity ($3B+ cash), and deleveraging to 2.4x create a clear path to investment-grade recapture, unlocking vendor economics that drive a self-reinforcing FCF expansion flywheel

"Debt restructuring is a bridge toward re-attainment of an investment grade credit rating" - CFO Ryan Grimsland

FCF Inflection

FCF Inflection: Free Cash Flow was deeply negative at **($298M)** in FY25, driven by ~$140M in one-time restructuring charges, $252M in Capital Expenditures, and working capital swings. Management has guided **~$100M in positive Free Cash Flow** for FY26, supported by 3.8-4.5% adj. Operating Income margins, no further store closures, and normalized working capital.

As restructuring charges roll off, **underlying cash generation improves dramatically.**

Balance Sheet Improvement

Fortress Liquidity: Advance Auto Parts enters FY26 with **$3B+ in cash** and a **$1B undrawn revolver**, providing ample coverage for ~$2.5B in supplier financing payables. Net leverage has declined to **2.4x** (within the 2.0-2.5x target), down from 2.6x the prior quarter.

The $1.9[illegible]B senior notes issued in Aug[illegible] proactively termed out near-term maturities, while supplier financing was reduced from [illegible] to $2.5B to de-risk the balance sheet.

Credit Upgrade

Credit Rating Path: AAP held **investment grade (Baa2/BBB-)** through March 2022, but successive downgrades, S&P to BB+ in Sep '23, Moody's to Ba1 in Nov '24, and further to **Ba3/BB** in Jul '25, left the company in junk territory with a negative outlook. However, with leverage now at 2.4x within target, margins expanding ~[illegible] annually, and FCF turning positive, **conditions for an upgrade are aligning**. CFO Grimsland has explicitly stated the debt restructuring is a bridge toward IG recapture.

Vendor Leverage

Vendor Unlock: Improved vendor relationships have already delivered **70+ bps in product cost reductions** in FY25 through strategic sourcing, with ~50bps more targeted. The ARGOS private brand launch and new brake introductions turned negative comps into strong positive growth. Critically, an IG upgrade would unlock the **same vendor economics that ORLY and AZO enjoy** better payment terms, promotional funding, and consignment arrangements, closing a gap that has been a direct headwind to AAP's gross margin.

"Our vendor relations are the best they've ever been." – CEO Shane O'Kelly

Cash Conversion Cycle Lagging Vs. Peers

CCC Improvement: AAP's supply chain transformation should **structurally improve CCC** through **lower DIO** from DC consolidation and the Blend Box model, and **higher DPO** as vendor terms strengthen. The resulting working capital release drives higher FCF, supports deleveraging, and **creates room for multiple expansion toward peers.**

EPS Showing Improvements

EPS Improvement Drivers: Closing ~700 unprofitable stores, 70+ bps in sourcing savings, and DC consolidation structurally lower the cost base. **As restructuring charges roll off, operating leverage on a smaller, higher-margin footprint drives earnings growth, while deleveraging reduces interest expense and further lifts EPS.**

- Depressed Valuation + investor skepticism from turnaround allows us to enter at a wide margin of safety

Comparable Companies Analysis

Amount in millions as of 02/25/2026

Company	Ticker	Market Data: Share Price	Shares Outstanding	Equity Value	Net Debt	Enterprise Value	Financials: Revenue	EBITDA	EBIT	Net Income	Valuation: EV/Revenue	EV/EBITDA	EV/EBIT	P/E
O'Reilly Automotive,Inc.	ORLY	93.50	842	78,718	8,298	87,015	17,782	3,972	3,461	2,538	4.9x	21.9x	25.1x	31.0x
AutoZone, Inc.	AZO	3,748.52	17	62,102	12,005	74,106	19,288	4,181	3,553	2,464	3.8x	17.7x	20.9x	25.2x
Genuine Parts Company	GPC	116.60	138	16,044	6,453	22,497	24,300	2,014	1,476	66	0.9x	11.2x	15.2x	243.5x
Valvoline Inc.	VVV	38.73	127	4,931	1,971	6,902	1,758	351	226	86	3.9x	19.7x	30.5x	57.1x
Asbury Automotive group,I	ABG	226.16	19	4,356	6,052	10,408	17,999	1,085	1,002	492	0.6x	9.6x	10.4x	8.9x
Advance Auto Parts	**AAP**	**59.37**	**60**	**3,328**	**2,536**	**5,864**	**8,601**	**473**	**201**	**44**	**0.7x**	**12.4x**	**29.2x**	**75.6x**
										High	4.9x	21.9x	30.5x	243.5x
										75th Percentile	0.9x	11.2x	15.2x	[illegible]
										Average	**[illegible]**	**[illegible]**	**[illegible]**	**73.1x**
										Median	**[illegible]**	**17.7x**	**[illegible]**	**31.0x**
										25th Percentile	3.9x	[illegible]	[illegible]	[illegible]
										Low	0.6x	9.6x	10.4x	8.9x

Advance Auto Parts	EV/Revenue	EV/EBITDA	EV/EBIT	P/E
Implied Enterprise Value	[illegible]	[illegible]	[illegible]	[illegible]
Net Debt	[illegible]	[illegible]	2,536	[illegible]
Implied Market Value	[illegible]	[illegible]	[illegible]	[illegible]
Shares Outstanding	60	60	60	60
Implied Value Per Share	**507.66**	**97.29**	**27.56**	**22.71**

- **Advance Auto Parts trades at a relatively large discount to peers (12.4x EBITDA vs.17.7x for peers)**
- The market appears to be pricing in the lower operational margins AAP has compared to its peers like O'Reilly and AutoZone who have margins around the 18% - 20% range while AAP averages an operational margin of [illegible]6%
- This focus on margins is one of the pillars creating set opportunity, as once margins begin to improve, the stock price will also see an increase

Path to Multiple Expansion

Margin Expansion

AAP 2.5% Operating margins is currently lagging behind its peers. If the turnaround program is successfully rolled out it would narrow the structural gap allowing them to trade closer to competitors

Regaining Investment Grade Rating

AAP's credit downgrade created a balance sheet overhang, threatening supplier financing and increasing working capital risk. To stabilize liquidity, management issued $1.95B in senior notes and secured a $1B ABL facility as a bridge back to investment-grade status. Achieving its 2.0x–2.5x net leverage target and regaining IG would materially de-risk the financial profile and support multiple expansion.

A Rebound in Free Cash Flow

Transition from cash-burning turnaround to consistent FCF generator causes a **Capital Allocation Flywheel that Re-Engages** enabling (i) debt reduction toward 2.0x–2.5x leverage, (ii) restart of buybacks under $947M authorization, and (iii) future dividend flexibility, aligning AAP with premium peers.

Sources: Investor Presentations, 10-K, Equity Research

- Base Case Produces a 112% Upside with a 6.6% WACC and a 9.0x exit multiple – 5:1 R/R Skew

Discounted Cashflow Analysis

$M	2021A	2022A	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E	2031E		
Revenue	10,998.0	11,145.7	9,209.0	9,094.0	8,601.0	8,755.8	9,009.7	9,235.0	9,484.3	9,759.4	10,052.2		
Growth YoY		1.3%	-17.4%	-1.2%	-5.4%	1.8%	2.9%	2.5%	2.7%	2.9%	3.0%	% CAGR	2.3%
COGS	(6,074.0)	(6,222.5)	(5,349.0)	(5,254.0)	(4,828.0)	(4,871.1)	(4,967.3)	(5,073.1)	(5,191.1)	(5,322.1)	(5,461.6)		
Gross Profit	4,924.0	4,923.2	3,860.0	3,840.0	3,773.0	3,884.7	4,042.4	4,161.9	4,293.3	4,437.3	4,590.5		
% Margin	44.8%	44.2%	41.9%	42.2%	43.9%	44.4%	44.9%	45.1%	45.3%	45.5%	45.7%		
SG&A	(4,101.6)	(4,262.0)	(3,805.0)	(3,813.0)	(3,572.0)	(3,241.9)	(3,148.1)	(3,219.6)	(3,285.8)	(3,355.2)	(3,429.1)		
EBITDA	822.4	661.3	55.0	27.0	201.0	642.7	894.3	942.4	1,007.5	1,082.1	1,161.5		
% Margin	7.5%	5.9%	0.6%	0.3%	2.3%	7.3%	9.9%	10.2%	10.6%	11.1%	11.6%		
(-) D&A	(259.9)	(283.8)	(269.0)	(292.0)	(272.0)	(248.7)	(264.6)	(278.4)	(287.7)	(292.5)	(298.0)		
EBIT	562.4	377.5	(214.0)	(265.0)	193.5	394.0	629.8	664.0	719.9	789.5	863.5		
% Margin	5.1%	3.4%	-2.3%	-2.9%	2.3%	4.5%	7.0%	7.2%	7.6%	8.1%	8.6%		
(-) Taxes	(185.9)	(140.0)	17.0	181.0	43.9	(89.4)	(143.0)	(150.7)	(163.4)	(179.2)	(196.0)	% Tax Rate	22.70%
NOPAT	376.6	[illegible]	[illegible]	[illegible]	237.5	304.6	486.8	513.3	556.5	610.3	667.5		
(+) D&A	259.9	283.8	269.0	292.0	272.0	248.7	264.6	278.4	287.7	292.5	298.0		
% of Sales	2.4%	2.5%	[illegible]	3.2%	[illegible]	2.8%	[illegible]	[illegible]	3.0%	[illegible]	[illegible]		
(+) SBC	63.1	[illegible]	[illegible]	42.0	[illegible]	41.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
% of Sales	0.6%	[illegible]	[illegible]	0.5%	[illegible]	0.5%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
(-) Capex	(289.6)	[illegible]	[illegible]	[illegible]	[illegible]	(306.5)	[illegible]	[illegible]	[illegible]	(292.5)	[illegible]		
% of Sales	2.6%	3.8%	[illegible]	[illegible]	[illegible]	3.5%	[illegible]	[illegible]	3.0%	[illegible]	[illegible]		
(+/-) Change in NWC	[illegible]	36.2	[illegible]	[illegible]	(355.0)	(262.7)	(225.2)	(184.7)	(94.8)	(48.8)	20.1		
% of Sales	[illegible]	0.3%	[illegible]	[illegible]	-4.1%	-3.0%	-2.5%	-2.0%	-1.0%	-0.5%	0.2%		
Periods						1	2	[illegible]	[illegible]	5	[illegible]		
Unlevered FCF	[illegible]	[illegible]	[illegible]	[illegible]	(61.5)	[illegible]	[illegible]	[illegible]	509.0	[illegible]	[illegible]		
Discount Factor						[illegible]	[illegible]	[illegible]	0.77	[illegible]	[illegible]	% WACC	[illegible]
Present Value of UFCF						23.9	283.2	323.0	394.2	439.7	506.1		
Sum of Present Value of UFCF						23.9	307.1	630.1	1,024.3	1,464.0	1,970.1		

Revenue Growth is driven by AAP's transition to a Blend-Box distribution model which increases fill rates and reduces delivery and service times driving higher inventory turnover and SSSG.

Margin Growth is driven by 3 core pillars, merchandising improvements, supply chain consolidations, and store operation & footprint efficiency

FCF Growth is driven by operational improvements and AAP's path to IG credit rating which will improve capital financing leading to a decrease in working capital that will eventually lead to higher future FCF.

Implied Share Price Build

Sum of Present Value of UFCF	**1,970.1**
Exit Multiple Method	
Last Year EBITDA	1,161.5
Multiple	9.0x
Terminal Value	**10,453.1**
Discount	0.68
Present Value of Terminal Value	**7,123.7**
Enterprise Value	**9,093.8**
(-) Debt	5,659.0
(+) Cash	3,123.0
Equity Value	**6,557.8**
Shares Outstanding	60.1
Implied Share Price Build	**$109.1**
Upside/(Downside)	112%

Returns Attribution Commentary

Our variance on managements ability to execute a successful turnaround, revenue and margin flywheel from a switch to distribution model similar to industry leaders, regain of market share, and supportive industry dynamics lead to a 112% implied upside

AAP's valuation re-rating is driven by a structural supply chain transformation from new management, **including the Blend Box rollout, AI-driven pricing, WMS optimization, DC consolidation, and market hub expansion, driving improved fill rates, faster delivery, higher inventory turnover, and regained DIFM market share.**

For this investment to succeed, **AAP does not need to outperform peers it simply needs to revert to its historical margin profile** and close the valuation gap from its currently depressed levels. Execution is the key variable, but we believe the turnaround is achievable given the CEO's deep supply chain expertise, a largely new management team, active investor oversight, and strong industry tailwinds.

Sources: Investor Presentations, 10-K, Equity Research

Advance Auto Parts

PHOENICIAN INVESTMENT FUND

Diligence Point Risks	Mitigants
Turnaround Execution Risk Non-linear path to 7% Operating Income margin target by 2027; margin cadence may shift as reinvestment needs evolve	• **Targets are realistic, supported by a detailed action plan with measurable milestones. AAP maintains sufficient liquidity on its balance sheet to manage elevated costs, and allow management to focus on executing the operational turnaround** • Q4 adjusted gross margin expanded ~530 bps to 44.2%; OI margin +870 bps YoY. The experienced Management team and Board of Directors bring credibility to the turnaround strategy. **New management under CEO O'Kelly has met or exceeded guidance every quarter since taking over**, a marked departure form the prior regime, and the turnaround plan is tracking on schedule toward the 7% medium-term OI target
DIY Segment Weakness DIY channel declined low-sing[illegible] in FY25 [illegible] consumer spending and increase in prices from tariffs pressuring traffic	• **The ARGOS owned-brand launch, loyalty program enhancements, recent AI pricing & promotion strategies implementation give AAP a direct level to recapture DIY share through value driven alternatives that improve traffic and margin mix.** Pro momentum is building with Q4's final period posting the highest Pro comp of the year as assortment and service improvement gain traction. • The macro backdrop also help, cost of financing and MSRP levels are at ATH's making the consumer have a **"Repair vs. Replace"** mindset (e.g. Vehicle age [illegible] yrs) drives secular maintenance tailwind that supports aftermarket demand regardless of near-term consumer sentiment.
Competitive [illegible] Consensus believes AAP is lagging [illegible] with years and se[illegible] billion dollars of capex behind.	• **AAP is shifting form defense to offense with a transition to a "Blend-Box distribution model" similar to what AZO and ORLY operate**. With 40-45 new stores planned for FY26, including 10-15 market hubs that [illegible] regional dominance and improve delivery speed to Pro customers. The return to positive comps after [illegible] years of decline shows the restructured footprint is working, and the completed assortment rollout across all targeted markets ensures stores carry the right parts for their local demand.

Catalyst to Keep an Eye On

Continuous SSS Growth

- Watch for comps accelerating beyond the 1-2% FY26 guide, particularly if DIY stabilizes alongside Pro momentum, signaling a self-reinforcing turnaround
- A sustained move toward 3%+ comps would be a major inflection point for Street confidence and directly support multiple expansion

Margin Expansion

- Monitor whether AAP can exit FY26 at or above the 4.5% high end of adj. OI margin guidance, setting up a credible bridge to the 7% medium-term target
- Each quarter of sequential gross margin improvement narrows the profitability gap to peers (ORLY/AZO ~20% OI margins) & validates the turnaround trajectory

Deleveraging Improving FCF

- The swing from ($298M) negative FCF in FY25 to ~$100M positive in FY26 is the key signal for credit agencies evaluating AAP's path back to investment-grade
- Consistent positive FCF quarters would reduce the leverage overhang depressing the multiple & unlock capital return optionality over time

Sources: Investor Presentations, 10-K, Equity Research