

ADVANCE AUTO PARTS INC  
Form 10-K  
February 19, 2019  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 29, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 001-16797

ADVANCE AUTO PARTS, INC.  
(Exact name of registrant as specified in its charter)

Delaware 54-2049910  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
2635 East Millbrook Road 27604  
Raleigh, North Carolina (Zip Code)  
(Address of principal executive offices)

(540) 362-4911  
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act  
Title of each class Name of each exchange on which registered  
Common Stock (\$0.0001 par value) New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
Yes  No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Registration S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Registration S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

As of the last business day of the registrant's most recently completed second fiscal quarter, July 13, 2018, the aggregate market value of common stock held by non-affiliates of the registrant was \$9,863,346,448, based on the last sales price on July 13, 2018, as reported by the New York Stock Exchange.

As of February 15, 2019, the number of shares of the registrant's common stock outstanding was 71,670,134 shares.

Documents Incorporated by Reference:

Portions of the registrant's definitive proxy statement for its 2019 Annual Meeting of Stockholders, to be held on May 15, 2019, are incorporated by reference into Part III of this Form 10-K.

Table of Contents

## TABLE OF CONTENTS

	Page
<u>Part I.</u>	
<u>Item 1. Business</u>	<u>2</u>
<u>Item 1A. Risk Factors</u>	<u>6</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>12</u>
<u>Item 2. Properties</u>	<u>12</u>
<u>Item 3. Legal Proceedings</u>	<u>12</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>12</u>
<u>Part II.</u>	
<u>Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>13</u>
<u>Item 6. Selected Consolidated Financial Data</u>	<u>15</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>16</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risks</u>	<u>25</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>25</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>25</u>
<u>Item 9A. Controls and Procedures</u>	<u>25</u>
<u>Item 9B. Other Information</u>	<u>26</u>
<u>Part III.</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>27</u>
<u>Item 11. Executive Compensation</u>	<u>27</u>
	<u>27</u>

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Item Security Ownership of Certain Beneficial Owners and Management and Related Stockholder  
12. Matters

Item Certain Relationships and Related Transactions, and Director Independence 27  
13.

Item Principal Accountant Fees and Services 27  
14.

Part IV.

Item Exhibits, Financial Statement Schedules 28  
15.

Item Form 10-K Summary 74  
16.

Signatures 75

---

Table of Contents

FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, may be forward-looking statements. Forward-looking statements are usually identified by the use of words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “intend,” “likely,” “may,” “plan,” “position,” “possible,” “potential,” “projection,” “should,” “strategy,” “will,” or similar expressions. These statements are based upon assessments and assumptions of management in light of historical results and trends, current conditions and potential future developments that often involve judgment, estimates, assumptions and projections. Forward-looking statements reflect current views about our plans, strategies and prospects, which are based on information currently available as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. Please refer to other filings made by the Company with the Securities and Exchange Commission for additional risk factors that could materially affect the Company’s actual results. Forward-looking statements are subject to risks and uncertainties, many of which are outside our control, which could cause actual results to differ materially from these statements. Therefore, you should not place undue reliance on those statements.

Table of Contents

PART I

Item 1. Business.

Unless the context otherwise requires, “Advance,” “we,” “us,” “our,” and similar terms refer to Advance Auto Parts, Inc., its subsidiaries and their respective operations on a consolidated basis. Our fiscal year consists of 52 or 53 weeks ending on the Saturday closest to December 31<sup>st</sup> of each year. Our fiscal year ended December 29, 2018 (“2018”), fiscal year ended December 30, 2017 (“2017”) and fiscal year ended December 31, 2016 (“2016”) included 52 weeks of operations.

Overview

We are a leading automotive aftermarket parts provider in North America, serving both professional installers (“Professional”), and “do-it-yourself” (“DIY”), customers as well as independently owned operators. Our stores and branches offer a broad selection of brand name, original equipment manufacturer (“OEM”) and private label automotive replacement parts, accessories, batteries and maintenance items for domestic and imported cars, vans, sport utility vehicles and light and heavy duty trucks. As of December 29, 2018, we operated 4,966 total stores and 143 branches primarily under the trade names “Advance Auto Parts”, “Autopart International”, “Carquest” and “Worldpac”.

We were founded in 1929 as Advance Stores Company, Incorporated and operated as a retailer of general merchandise until the 1980s. During the 1980s, we began targeting the sale of automotive parts and accessories to DIY customers. We initiated our Professional delivery program in 1996 and have steadily increased our sales to Professional customers since 2000. We have grown significantly as a result of comparable store sales growth, new store openings and strategic acquisitions. Advance Auto Parts, Inc., a Delaware corporation, was incorporated in 2001 in conjunction with the acquisition of Discount Auto Parts, Inc. In 2014, we acquired General Parts International, Inc. (“GPI”), a privately held company that was a leading distributor and supplier of original equipment and aftermarket automotive replacement products for Professional markets operating under the Carquest and Worldpac names.

Stores and Branches

Through our integrated operating approach, we serve our Professional and DIY customers through a variety of channels ranging from traditional “brick and mortar” store locations to self-service e-commerce sites. We believe we are better able to meet our customers’ needs by operating under several store names, which are as follows:

Advance Auto Parts — Our 4,380 stores as of December 29, 2018 are generally located in freestanding buildings with a focus on both Professional and DIY customers. The average size of an Advance Auto Parts store is approximately 7,600 square feet with the size of our typical new stores ranging from approximately 6,600 to 22,900 square feet. These stores carry a wide variety of products serving aftermarket auto part needs for both domestic and import vehicles. Our Advance Auto Parts stores carry a product offering of approximately 21,000 stock keeping units (“SKUs”), generally consisting of a custom mix of product based on each store’s respective market. Supplementing the inventory on-hand at our stores, additional less common SKUs are available in many of our larger stores (known as “HUB” stores). These additional SKUs are available on a same-day or next-day basis.

Autopart International — Our 185 stores as of December 29, 2018 operate primarily in the Northeastern and Mid-Atlantic regions of the United States with a focus on Professional customers. These stores specialize in imported aftermarket and private label branded auto parts. Autopart International stores offer approximately 54,000 SKUs through routine replenishment from their supply chain.

Carquest — Our 401 stores as of December 29, 2018, including 140 stores in Canada, are generally located in freestanding buildings with a primary focus on Professional customers, but also serving DIY customers. The average

size of a Carquest store is approximately 7,300 square feet. These stores carry a wide variety of products serving the aftermarket auto part needs for both domestic and import vehicles with a product offering of approximately 21,000 SKUs. As of December 29, 2018, Carquest also served 1,231 independently owned stores that operate under the “Carquest” name.

Worldpac — Our 143 branches as of December 29, 2018 that principally serve Professional customers utilizing an efficient and sophisticated on-line ordering and fulfillment system. Worldpac branches are generally larger than our other store locations averaging approximately 26,400 square feet in size. Worldpac specializes in imported, OEM parts. Worldpac’s complete product offering includes over 165,000 SKUs for import and domestic vehicle carlines.

## Table of Contents

### Our Products

The following table shows some of the types of products that we sell by major category of items:

Parts & Batteries	Accessories & Chemicals	Engine Maintenance
Batteries and battery accessories	Air conditioning chemicals and accessories	Air filters
Belts and hoses	Air fresheners	Fuel and oil additives
Brakes and brake pads	Antifreeze and washer fluid	Fuel filters
Chassis parts	Electrical wire and fuses	Grease and lubricants
Climate control parts	Electronics	Motor oil
Clutches and drive shafts	Floor mats, seat covers and interior accessories	Oil filters
Engines and engine parts	Hand and specialty tools	Part cleaners and treatments
Exhaust systems and parts	Lighting	Transmission fluid
Hub assemblies	Performance parts	
Ignition components and wire	Sealants, adhesives and compounds	
Radiators and cooling parts	Tire repair accessories	
Starters and alternators	Vent shades, mirrors and exterior accessories	
Steering and alignment parts	Washes, waxes and cleaning supplies	
	Wiper blades	

We provide our customers with quality products, that are offered at a good, better or best recommendation differentiated by price and quality.

### Our Customers

Our Professional customers consist primarily of customers for whom we deliver product from our store or branch locations to their places of business, including garages, service stations and auto dealers. Our Professional sales represented approximately 58% of our sales in 2018, 2017 and 2016. We also serve 1,231 independently owned Carquest stores with shipments directly from our distribution centers. Our DIY customers are primarily served through our stores and can also order online to pick up merchandise at a conveniently located store or have their purchases shipped directly to them. Except where prohibited, we also provide a variety of services at our stores free of charge to our customers, including:

- Battery and wiper installation;
- Battery charging;
- Check engine light reading;
- Electrical system testing, including batteries, starters, alternators and sensors;
- “How-To” video clinics;
- Oil and battery recycling; and
- Loaner tool programs.

We also serve our customers online at [www.AdvanceAutoParts.com](http://www.AdvanceAutoParts.com). Our Professional customers can conveniently place their orders electronically, including through [MyAdvance.com](http://MyAdvance.com), by phone or in-store and we deliver product from our store or branch locations to their places of business.

### Store Development

The key factors used in selecting sites and market locations in which we operate include population, demographics, traffic count, vehicle profile, number and strength of competitors’ stores and the cost of real estate. As of December 29, 2018, 4,948 stores and branches were located in 49 U.S. states and 2 U.S. territories and 161 stores and branches were



located in 9 Canadian provinces.

We serve our Advance Auto Parts and Carquest stores primarily from our customer support centers in Raleigh, NC and Roanoke, VA. We also maintain a store support center in Newark, CA to support our Worldpac and e-commerce operations and in Norton, MA to support our Autopart International stores.

3

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## Table of Contents

### Supply Chain

Our supply chain consists of a network of distribution centers, HUBs, stores and branches that enable us to provide same-day or next-day availability to our customers. As of December 29, 2018, we operated 51 distribution centers, ranging in size from approximately 51,000 to 943,000 square feet with total square footage of approximately 11.5 million. Our smaller distribution centers primarily service our Carquest stores, including those that have converted to the Advance Auto Parts format, while our larger distribution centers primarily service Advance Auto Parts, Autopart International and Worldpac locations. In 2018, we closed distribution centers in Gallman, MS and San Antonio, TX.

### Merchandise, Marketing and Advertising

In 2018, we purchased merchandise from over 1,100 vendors, with no single vendor accounting for more than 9% of purchases. Our purchasing strategy involves negotiating agreements to purchase merchandise over a specified period of time along with other provisions, including pricing, volume and payment terms.

Our merchandising strategy is to carry a broad selection of high quality and reputable brand name automotive parts and accessories that we believe will appeal to our Professional customers and also generate DIY customer traffic. Some of our brands include Bosch<sup>®</sup>, Castrol<sup>®</sup>, Dayco<sup>®</sup>, Denso<sup>®</sup>, Gates<sup>®</sup>, Moog<sup>®</sup>, Monroe<sup>®</sup>, NGK<sup>®</sup>, Prestone<sup>®</sup>, Purolator<sup>®</sup>, Trico<sup>®</sup> and Wagner<sup>®</sup>. In addition to these branded products, we stock a wide selection of high-quality private label products with a goal of appealing to value-conscious customers. These lines of merchandise include chemicals, interior automotive accessories, batteries and parts under various private label names such as Autocraft<sup>®</sup>, Autopart International<sup>®</sup>, Driveworks<sup>®</sup>, Tough One<sup>®</sup> and Wearever<sup>®</sup> as well as the Carquest<sup>®</sup> brand.

Our marketing and advertising program is designed to drive brand awareness, consideration by consumers and omni-channel traffic by positioning Advance Auto Parts as the leader in parts availability, in-store parts and project expertise within the aftermarket auto parts category. We strive to exceed our customers' expectations end-to-end through a comprehensive online and in-store pick up experience, extensive parts assortment, experienced parts professionals, Professional programs that are designed to build loyalty with our customers and our DIY customer loyalty program, Speed Perks. Our DIY campaign was developed around a multi-channel communications plan that brings together radio, television, direct marketing, social media, sponsorships, store events and Speed Perks.

### Seasonality

Our business is somewhat seasonal in nature, with the highest sales usually occurring in the spring and summer months. In addition, our business can be affected by weather conditions. While unusually heavy precipitation tends to soften sales as elective maintenance is deferred during such periods, extremely hot or cold weather tends to enhance sales by causing automotive parts to fail at an accelerated rate. Our fourth quarter is generally our most volatile as weather and spending trade-offs typically influence our Professional and DIY sales.

### Team Members

As of December 29, 2018, we employed approximately 40,000 full-time Team Members and approximately 31,000 part-time Team Members. Our workforce consisted of 85% of our Team Members employed in store-level operations, 11% employed in distribution and 4% employed in our corporate offices. As of December 29, 2018, less than 1% of our Team Members were represented by labor unions. We have never experienced any labor disruption.

### Intellectual Property

We own a number of trade names, service marks and trademarks, including “Advance Auto Parts”, “Autopart International”, “Carquest”, “CARQUEST Technical Institute”, “DriverSide”, “MotoLogic”, “MotoShop”, “Worldpac”, “speed” and “TECH-NET Professional Auto Service” for use in connection with the automotive parts business. In addition, we own and have registered a number of trademarks for our private label brands. We believe that these trade names, service marks and trademarks are important to our merchandising strategy. We do not know of any infringing uses that would materially affect the use of these trade names and marks and we actively defend and enforce them.

## Table of Contents

### Competition

We operate in both the Professional and DIY markets of the automotive aftermarket industry. Our primary competitors are (i) both national and regional chains of automotive parts stores, including AutoZone, Inc., NAPA, O'Reilly Automotive, Inc., The Pep Boys-Manny, Moe & Jack and Auto Plus (formerly Uni-Select USA, Inc.), (ii) discount stores and mass merchandisers that carry automotive products, (iii) wholesalers or jobber stores, including those associated with national parts distributors or associations, (iv) independently owned stores, (v) automobile dealers that supply parts and (vi) internet-based retailers. We believe that chains of automotive parts stores that, like us, have multiple locations in one or more markets, have competitive advantages in customer service, marketing, inventory selection, purchasing and distribution as compared to independent retailers and jobbers that are not part of a chain or associated with other retailers or jobbers. The principal methods of competition in our business include customer service, product offerings, availability, quality, price and store location.

### Environmental Matters

We are subject to various federal, state and local laws and governmental regulations relating to the operation of our business, including those governing collection, transportation and recycling of automotive lead-acid batteries, used motor oil and other recyclable items, and ownership and operation of real property. We sell products containing hazardous materials as part of our business. In addition, our customers may bring automotive lead-acid batteries, used motor oil or other recyclable items onto our properties. We currently provide collection and recycling programs for used lead-acid batteries, used oil and other recyclable items at a majority of our stores as a service to our customers. Pursuant to agreements with third-party vendors, lead-acid batteries, used motor oil and other recyclable items are collected by our Team Members, deposited onto pallets or into vendor supplied containers and stored by us until collected by the third party vendors for recycling or proper disposal. The terms of our contracts with third party vendors require that they are in compliance with all applicable laws and regulations. Our third-party vendors who arrange for the removal, disposal, treatment or other handling of hazardous or toxic substances may be liable for the costs of removal or remediation at any affected disposal, treatment or other site affected by such substances. Based on our experience, we do not believe that there are any material environmental costs associated with the current business practice of accepting lead-acid batteries, used oil and other recyclable items as these costs are borne by the respective third-party vendors.

We own and lease real property. Under various environmental laws and regulations, a current or previous owner or operator of real property may be liable for the cost of removal or remediation of hazardous or toxic substances on, under or in such property. These laws often impose joint and several liability and may be imposed without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous or toxic substances. Other environmental laws and common law principles also could be used to impose liability for releases of hazardous materials into the environment or work place, and third parties may seek recovery from owners or operators of real properties for personal injury or property damage associated with exposure to released hazardous substances. From time to time, we receive notices from the U.S. Environmental Protection Agency and state environmental authorities indicating that there may be contamination on properties we own, lease or operate or may have owned, leased or operated in the past or on adjacent properties for which we may be responsible. Compliance with these laws and regulations and clean-up of released hazardous substances have not had a material impact on our operations to date.

### Available Information

Our Internet address is [www.AdvanceAutoParts.com](http://www.AdvanceAutoParts.com). Our website and the information contained therein or linked thereto are not part of this Annual Report on Form 10-K for 2018. We make available free of charge through our Internet website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, registration statements and amendments to those reports filed or furnished pursuant to the Exchange

Act as soon as reasonably practicable after we electronically file such material with, or furnish them to the SEC. The SEC maintains a website that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. These materials may be obtained electronically by accessing the SEC's website at [www.sec.gov](http://www.sec.gov).

## Table of Contents

### Item 1A. Risk Factors.

Our business is subject to a variety of risks. Our business, financial condition, results of operations and cash flows could be negatively impacted by the following risk factors. These risks are not the only risks that may impact our business.

If overall demand for the products we sell declines, our business, financial condition, results of operations and cash flows will suffer. Decreased demand could also negatively impact our stock price.

Overall demand for products sold by our stores depends on many factors and may decrease due to any number of reasons, including:

a decrease in the total number of vehicles on the road or in the number of annual miles driven or significant increase in the use of ridesharing services, because fewer vehicles means less maintenance and repairs, and lower vehicle mileage, which decreases the need for maintenance and repair;

the economy, because during periods of declining economic conditions and rising interest rates, consumers may reduce their discretionary spending by deferring vehicle maintenance or repair and new car purchases, which may impact the number of cars requiring repair in the future;

the weather, because milder weather conditions may lower the failure rates of automobile parts while extended periods of rain and winter precipitation may cause our customers to defer elective maintenance and repair of their vehicles;

the average duration of vehicle manufacturer warranties and average age of vehicles being driven, because newer cars typically require fewer repairs and will be repaired by the manufacturers' dealer networks using dealer parts pursuant to warranties (which have gradually increased in duration and/or mileage expiration over the recent past), while vehicles that are seven years old and older are generally no longer covered under manufacturers' warranties and tend to need more maintenance and repair than newer vehicles;

an increase in internet-based retailers, because potentially favorable prices and ease of use of purchasing parts via other websites on the internet may decrease the need for customers to visit and purchase their aftermarket parts from our physical stores and may cause fewer customers to order aftermarket parts on our website;

technological advances, such as battery electric vehicles, and the increase in quality of vehicles manufactured, because vehicles that need less frequent maintenance or have lower part failure rates will require less frequent repairs using aftermarket parts and, in the case of battery electric vehicles, do not require oil changes; and

the refusal of vehicle manufacturers to make available diagnostic, repair and maintenance information to the automotive aftermarket industry that our Professional and DIY customers require to diagnose, repair and maintain their vehicles, because this may force consumers to have a majority of diagnostic work, repairs and maintenance performed by the vehicle manufacturers' dealer networks.

If we are unable to compete successfully against other companies in the automotive aftermarket industry we may lose customers and our revenues may decline.

The sale of automotive parts, accessories and maintenance items is highly competitive and influenced by a number of factors, including name recognition, location, price, quality, product availability and customer service. We compete in both the Professional and DIY categories of the automotive aftermarket industry, primarily with: (i) national and regional chains of automotive parts stores, (ii) internet-based retailers, (iii) discount stores and mass merchandisers that carry automotive products, (iv) wholesalers or jobbers stores, including those associated with national parts distributors or associations (v) independently owned stores and (vi) automobile dealers that supply parts. These competitors and the level of competition vary by market. Some of our competitors may possess advantages over us in certain markets we share, including with respect to the level of marketing activities, number of stores, store locations, store layouts, operating histories, name recognition, established customer bases, vendor relationships, prices and

product warranties. Internet-based retailers may possess cost advantages over us due to lower overhead costs, time and travel savings and ability to price competitively. In order to compete favorably, we may need to increase delivery speeds and incur higher shipping costs. Consolidation among our competitors could enhance their market share and financial position, provide them with the ability to achieve better purchasing terms and allow them to provide more competitive prices to customers for whom we compete.

In addition, our reputation is critical to our continued success. Customers are increasingly shopping, reading reviews and comparing products and prices on-line. If we fail to maintain high standards for, or receive negative publicity (whether through social media or traditional media channels) relating to, product safety and quality or our integrity and reputation, we could lose customers to our competition. The product we sell is branded both in brands of our vendors and in our own private label brands. If the perceived quality or value of the brands we sell declines in the eyes of our customers, our results of operations could be negatively affected.

## Table of Contents

Competition may require us to reduce our prices below our normal selling prices or increase our promotional spending, which could lower our revenue and profitability. Competitive disadvantages may also prevent us from introducing new product lines, require us to discontinue current product offerings, or change some of our current operating strategies. If we do not have the resources, expertise and consistent execution, or otherwise fail to develop successful strategies, to address these potential competitive disadvantages, we may lose customers, our revenues and profit margins may decline and we may be less profitable or potentially unprofitable.

If we are unable to successfully implement our business strategy, including increasing sales to Professional and DIY customers, expanding our margins and increasing our return on invested capital, our business, financial condition, results of operations and cash flows could be adversely affected.

We have identified numerous initiatives as part of our business strategy to increase sales to both Professional and DIY customers and expand our margins in order to increase our earnings and cash flows. If we are unable to implement these initiatives efficiently and effectively, our business, financial condition, results of operations and cash flows could be adversely affected. For a description of select initiatives, see Note 4, Exit Activities and Other Initiatives, of the Notes to the Consolidated Financial Statements included herein.

Our inventory and ability to meet customer expectations may be adversely impacted by factors out of our control.

For that portion of our inventory manufactured and/or sourced outside the United States, geopolitical changes, changes in trade regulations or tariff rates, currency fluctuations, work stoppages, labor strikes, port delays, civil unrest, natural disasters, pandemics and other factors beyond our control may increase the cost of items we purchase or create shortages that could have a material adverse effect on our sales and profitability. In addition, unanticipated changes in consumer preferences or any unforeseen hurdles to meeting our customers' needs for automotive products (particularly parts availability) in a timely manner could undermine our business strategy.

If we are unable to successfully implement our growth strategy, keep existing store locations or open new locations in desirable places on favorable terms, it could adversely affect our business, financial condition, results of operations and cash flows.

We intend to continue to expand the markets we serve as part of our growth strategy, which may include opening new stores or branches, as well as expansion of our online business. We may also grow our business through strategic acquisitions. We do not know whether the implementation of our growth strategy will be successful. As we expand our market presence through various means, it becomes more critical that we have consistent and effective execution across all of our Company's locations and brands. We are unsure whether we will be able to open and operate new locations on a timely or sufficiently profitable basis, or that opening new locations in markets we already serve will not harm the profitability or comparable store sales of existing locations. The newly opened and existing locations' profitability will depend on the competition we face as well as our ability to properly stock, market and price the products desired by customers in these markets. The actual number and format of any new locations to be opened and the success of our growth strategy will depend on a number of factors, including, among other things:

- the availability of desirable locations;
- the negotiation of acceptable lease or purchase terms for new locations;
- the availability of financial resources, including access to capital at cost-effective interest rates;
- our ability to expand our on-line offerings and sales; and
- our ability to manage the expansion and to hire, train and retain qualified Team Members.

We compete with other retailers and businesses for suitable locations for our stores. Local land use and zoning regulations, environmental regulations and other regulatory requirements may impact our ability to find suitable



locations and influence the cost of constructing, renovating and operating our stores. In addition, real estate, zoning, construction and other delays may adversely affect store openings and renovations and increase our costs. Further, changing local demographics at existing store locations may adversely affect revenue and profitability levels at those stores. The termination or expiration of leases at existing store locations may adversely affect us if the renewal terms of those leases are unacceptable to us and we are forced to close or relocate stores. If we determine to close or relocate a store subject to a lease, we may remain obligated under the applicable lease for the balance of the lease term. In addition to potentially incurring costs related to lease obligations, we may also incur severance or other facility closure costs for stores that are closed or relocated.

## Table of Contents

If we are unable to successfully integrate future acquisitions into our existing operations, it could adversely affect our business, financial condition, results of operations and cash flows.

We also expect to continue to make strategic acquisitions an element of our growth strategy. Acquisitions involve certain risks that could cause our growth and profitability to differ from our expectations. The success of our acquisitions depends on a number of factors, including among other things:

- our ability to continue to identify and acquire suitable targets or to acquire additional companies at favorable prices and on other favorable terms;
- our ability to obtain the full benefits envisioned by strategic relationships;
- the risk that management's attention may be distracted;
- our ability to retain key personnel from acquired businesses;
- our ability to successfully integrate the operations and systems of the acquired companies and achieve the strategic, operational, financial or other anticipated synergies of the acquisition;
- we may incur significant transaction and integration costs in connection with acquisitions that may not be offset by the synergies achieved from the acquisition in the near term, or at all; and
- we may assume or become subject to loss contingencies, known or unknown, of the acquired companies, which could relate to past, present or future facts, events, circumstances or occurrences.

If we experience difficulties implementing various information systems, including our new enterprise resource planning system ("ERP"), our ability to conduct our business could be negatively impacted.

We are dependent on information systems to facilitate the day-to-day operations of the business and to produce timely, accurate and reliable information on financial and operational results. We are in process of implementing various information systems, including a new ERP. These implementations will require significant investment of human and financial resources, and we may experience significant delays, increased costs and other difficulties with these projects. Any significant disruption or deficiency in the design and implementation of these information systems could adversely affect our ability to process orders, ship product, send invoices and track payments, fulfill contractual obligations or otherwise operate our business. While we have invested meaningful resources in planning, project management and training, additional and serious implementation issues may arise as we integrate onto these new information systems that may disrupt our operations and negatively impact our business, financial condition, results of operations and cash flows.

If we are unable to maintain adequate supply chain capacity and improve supply chain efficiency, we will not be able to expand our business, which could adversely affect our business, financial condition, results of operations and cash flows.

Our store inventories are primarily replenished by shipments from our network of distribution centers, warehouses and HUB stores. As we expand our market presence, we will need to increase the efficiency and maintain adequate capacity of our supply chain network in order to achieve the business goal of reducing inventory costs while improving availability and movement of goods throughout our supply chain to meet consumer product needs and channel preferences. We continue to streamline and optimize our supply chain network and systems and cannot be assured of our ability to increase the productivity and efficiency of our overall supply chain network to desired levels. If we fail to effectively utilize our existing supply chain or if our investments in our supply chain do not provide the anticipated benefits, we could experience sub-optimal inventory levels or increases in our costs, which could adversely affect our business, financial condition, results of operations and cash flows.

We are dependent on our suppliers to supply us with products that comply with safety and quality standards at competitive prices.

We are dependent on our vendors continuing to supply us quality products on payment terms that are favorable to us. If our merchandise offerings do not meet our customers' expectations regarding safety and quality, we could experience lost sales, increased costs and exposure to legal and reputational risk. All of our suppliers must comply with applicable product safety laws, and we are dependent on them to ensure that the products we buy comply with all safety and quality standards. Events that give rise to actual, potential or perceived product safety concerns could expose us to government enforcement action and private litigation and result in costly product recalls and other liabilities. To the extent our suppliers are subject to additional government regulation of their product design and/or manufacturing processes, the cost of the merchandise we purchase may rise. In addition, negative customer perceptions regarding the safety or quality of the products we sell could cause our customers to seek alternative sources for their needs, resulting in lost sales. In those circumstances, it may be difficult and costly for us to regain the confidence of our customers.

Table of Contents

Our reliance on suppliers subjects us to various risks and uncertainties which could affect our financial results.

We source the products we sell from a wide variety of domestic and international suppliers. Our financial results depend on us securing acceptable terms with our suppliers for, among other things, the price of merchandise we purchase from them, funding for various forms of promotional programs, payment terms and terms covering returns and factory warranties. To varying degrees, our suppliers may be able to leverage their competitive advantages - for example, their financial strength, the strength of their brand with customers, their own stores or online channels or their relationships with other retailers - to our commercial disadvantage. Generally, our ability to negotiate favorable terms with our suppliers is more difficult with suppliers for whom our purchases represent a smaller proportion of their total revenues, consequently impacting our profitability from such vendor relationships. We have established standards for product safety and quality and workplace standards that we require all our suppliers to meet. We do not condone human trafficking, forced labor, child labor, harassment or abuse of any kind, and we expect our suppliers to operate within these same principles. Our ability to find qualified suppliers who can supply products in a timely and efficient manner that meet our standards can be challenging. Suppliers may also fail to invest adequately in design, production or distribution facilities, may reduce their customer incentives, advertising and promotional activities or change their pricing policies. If we encounter any of these issues with our suppliers, our business, financial condition, results of operations and cash flows could be adversely impacted.

Deterioration of general macro-economic conditions, including unemployment, inflation or deflation, consumer debt levels, high fuel and energy costs, could have a negative impact on our business, financial condition, results of operations and cash flows due to impacts on our suppliers, customers and operating costs.

Our business depends on developing and maintaining close relationships with our suppliers and on our suppliers' ability and willingness to sell quality products to us at favorable prices and terms. Many factors outside our control may harm these relationships and the ability or willingness of these suppliers to sell us products on favorable terms. Such factors include a general decline in the economy and economic conditions and prolonged recessionary conditions. These events could negatively affect our suppliers' operations and make it difficult for them to obtain the credit lines or loans necessary to finance their operations in the short-term or long-term and meet our product requirements. Financial or operational difficulties that some of our suppliers may face could also increase the cost of the products we purchase from them or our ability to source product from them. We might not be able to pass our increased costs onto our customers. If our suppliers fail to develop new products we may not be able to meet the demands of our customers and our results of operations could be negatively affected.

In addition, the trend towards consolidation among automotive parts suppliers as well as the off-shoring of manufacturing capacity to foreign countries may disrupt or end our relationship with some suppliers, and could lead to less competition and result in higher prices. We could also be negatively impacted by suppliers who might experience bankruptcies, work stoppages, labor strikes, changes in foreign or domestic trade policies, changes in tariff rates or other interruptions to or difficulties in the manufacture or supply of the products we purchase from them.

Deterioration in macro-economic conditions or an increase in fuel costs or proposed or additional tariffs may have a negative impact on our customers' net worth, financial resources, disposable income or willingness or ability to pay for accessories, maintenance or repair for their vehicles, resulting in lower sales in our stores. An increase in fuel costs may also reduce the overall number of miles driven by our customers resulting in fewer parts failures and a reduced need for elective maintenance.

Rising energy prices also directly impact our operating and product costs, including our store, supply chain, Professional delivery, utility and product acquisition costs.

We depend on the services of many qualified executives and other Team Members, whom we may not be able to attract, develop and retain.

Our success depends to a significant extent on the continued services and experience of our executives and other Team Members. We may not be able to retain our current executives and other key Team Members or attract and retain additional qualified executives and Team Members who may be needed in the future. We must also continue to motivate employees and keep them focused on our strategies and goals. Our ability to maintain an adequate number of executive and other qualified Team Members is highly dependent on an attractive and competitive compensation and benefits package. In addition, less than one percent of our Team Members are represented by unions. If these Team Members were to engage in a strike, work stoppage, or other slowdown, or if the terms and conditions in labor agreements were renegotiated, we could experience a disruption in our operations and higher ongoing labor costs. If we fail or are unable to maintain competitive compensation, our customer service and execution levels could suffer by reason of a declining quality of our workforce, which could adversely affect our business, financial condition, results of operations and cash flows.

Table of Contents

The market price of our common stock may be volatile and could expose us to securities class action litigation.

The stock market and the price of our common stock may be subject to wide fluctuations based upon general economic and market conditions. Downturns in the stock market may cause the price of our common stock to decline. The market price of our stock may also be affected by our ability to meet analysts' expectations. Failure to meet such expectations, even slightly, could have an adverse effect on the price of our common stock. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against such a company. If similar litigation were instituted against us, it could result in substantial costs and a diversion of our attention and resources, which could have an adverse effect on our business.

Our level of indebtedness, a downgrade in our credit ratings or a deterioration in global credit markets could limit the cash flow available for operations and could adversely affect our ability to service our debt or obtain additional financing.

Our level of indebtedness could restrict our operations and make it more difficult for us to satisfy our debt obligations. For example, our level of indebtedness could, among other things:

- affect our liquidity by limiting our ability to obtain additional financing for working capital;
- limit our ability to obtain financing for capital expenditures and acquisitions or make any available financing more costly;
- require us to dedicate all or a substantial portion of our cash flow to service our debt, which would reduce funds available for other business purposes, such as capital expenditures, dividends or acquisitions;
- limit our flexibility in planning for or reacting to changes in the markets in which we compete;
- place us at a competitive disadvantage relative to our competitors who may have less indebtedness;
- render us more vulnerable to general adverse economic and industry conditions; and
- make it more difficult for us to satisfy our financial obligations.

The indenture governing our notes and credit agreement governing our credit facilities contain financial and other restrictive covenants. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debt, including such notes.

In addition, our overall credit rating may be negatively impacted by deteriorating and uncertain credit markets or other factors that may or may not be within our control. The interest rates on our publicly issued debt and revolving credit facility are linked directly to our credit ratings. Accordingly, any negative impact on our credit ratings would likely result in higher interest rates and interest expense on any borrowings under our revolving credit facility or future issuances of public debt and less favorable terms on other operating and financing arrangements. In addition, it could reduce the attractiveness of certain vendor payment programs whereby third-party institutions finance arrangements to our vendors based on our credit rating, which could result in increased working capital requirements.

Conditions and events in the global credit market could have a material adverse effect on our access to short and long-term borrowings to finance our operations and the terms and cost of that debt. It is possible that one or more of the banks that provide us with financing under our revolving credit facility may fail to honor the terms of our existing credit facility or be financially unable to provide the unused credit as a result of significant deterioration in such bank's financial condition. An inability to obtain sufficient financing at cost-effective rates could have a material adverse effect on our business, financial condition, results of operations and cash flows.



## Table of Contents

Because we are involved in litigation from time to time, and are subject to numerous laws and governmental regulations, we could incur substantial judgments, fines, legal fees and other costs.

We are sometimes the subject of complaints or litigation, which may include class action litigation from customers, Team Members or others for various actions. From time to time, we are involved in litigation involving claims related to, among other things, breach of contract, tortious conduct, employment, labor discrimination, breach of laws or regulations (including The Americans With Disabilities Act), payment of wages, exposure to asbestos or potentially hazardous product, real estate and product defects. The damages sought against us in some of these litigation proceedings are substantial. Although we maintain liability insurance for some litigation claims, if one or more of the claims were to greatly exceed our insurance coverage limits or if our insurance policies do not cover a claim, this could have a material adverse effect on our business, financial condition, results of operations and cash flows. For instance, we are currently subject to a putative securities class action regarding past public disclosures (see Item 3, "Legal Proceedings" of this annual report) and to several lawsuits alleging injury as a result of exposure to asbestos-containing products (see Note 14, Contingencies, of the Notes to the Consolidated Financial Statements included herein).

We are subject to numerous federal, state and local laws and governmental regulations relating to, among other things, environmental protection, product quality and safety standards, building and zoning requirements, labor and employment, discrimination and income taxes. Compliance with existing and future laws and regulations could increase the cost of doing business and adversely affect our results of operations. If we fail to comply with existing or future laws or regulations, we may be subject to governmental or judicial fines or sanctions, while incurring substantial legal fees and costs, as well as reputational risk. In addition, our capital and operating expenses could increase due to remediation measures that may be required if we are found to be noncompliant with any existing or future laws or regulations.

We work diligently to maintain the privacy and security of our customer, supplier, Team Member and business information and the functioning of our computer systems, website and other on-line offerings. In the event of a security breach or other cyber security incident, we could experience adverse operational effects or interruptions and/or become subject to legal or regulatory proceedings, any of which could lead to damage to our reputation in the marketplace and substantial costs.

The nature of our business requires us to receive, retain and transmit certain personally identifiable information about our customers, suppliers and Team Members, some of which is entrusted to third-party service providers. While we have taken and continue to undertake significant steps to protect such personally identifiable information and other confidential information and to protect the functioning of our computer systems, website and other online offerings, a compromise of our data security systems or those of businesses we interact with could result in information related to our customers, suppliers, Team Members or business being obtained by unauthorized persons or adverse operational effects or interruptions, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. We develop, maintain and update processes and systems in an effort to try to prevent this from occurring, but these actions are costly and require constant, ongoing attention as technologies change, privacy and information security regulations change, and efforts to overcome security measures by bad actors continue to become ever more sophisticated.

Despite our efforts, our security measures may be breached in the future due to a cyber-attack, computer malware viruses, exploitation of hardware and software vulnerabilities, Team Member error, malfeasance, fraudulent inducement (including so-called "social engineering" attacks and "phishing" scams) or other acts. While we have experienced threats to our data and systems, including phishing attacks, to date we are not aware that we have experienced a material cyber-security breach that has in any manner hindered our operational capabilities. Unauthorized parties may in the future obtain access to our data or the data of our customers, suppliers or Team



Members or may otherwise cause damage to or interfere with our equipment, our data and/or our network including our supply chain. Any breach, damage to or interference with our equipment or our network, or unauthorized access in the future could result in significant operational difficulties including legal and financial exposure and damage to our reputation that could potentially have an adverse effect on our business. While we also seek to obtain assurances that others we interact with will protect confidential information, there is always the risk that the confidentiality or accessibility of data held or utilized by others may be compromised. If a compromise of our data security or function of our computer systems or website were to occur, it could have a material adverse effect on our operating results and financial condition and possibly subject us to additional legal, regulatory and operating costs and damage our reputation in the marketplace.

## Table of Contents

Business interruptions may negatively impact our store hours, operability of our computer systems and the availability and cost of merchandise, which may adversely impact our sales and profitability.

Hurricanes, tornadoes, earthquakes or other natural disasters, war or acts of terrorism, or the threat of any of these calamities or others, may have a negative impact on our ability to obtain merchandise to sell in our stores, result in certain of our stores being closed for an extended period of time, negatively affect the lives of our customers or Team Members, or otherwise negatively impact our operations. Some of our merchandise is imported from other countries. If imported goods become difficult or impossible to import into the United States due to business interruption (including regulation of exporting or importing), and if we cannot obtain such merchandise from other sources at similar costs and without an adverse delay, our sales and profit margins may be negatively affected.

In the event that commercial transportation, including the global shipping industry, is curtailed or substantially delayed, our business may be adversely impacted as we may have difficulty receiving merchandise from our suppliers and/or transporting it to our stores.

Terrorist attacks, war in the Middle East, or insurrection involving any oil producing country could result in an abrupt increase in the price of crude oil, gasoline and diesel fuel. Such price increases would increase the cost of doing business for us and our suppliers, and also negatively impact our customers' disposable income, causing an adverse impact on our business, sales, profit margins and results of operations.

We rely extensively on our computer systems and the systems of our business partners to manage inventory, process transactions and report results. These systems are subject to damage or interruption from power outages, telecommunication failures, computer viruses, security breaches and catastrophic events or occasional system breakdowns related to ordinary use or wear and tear. If our computer systems or those of our business partners fail we may experience loss of critical data and interruptions or delays in our ability to process transactions and manage inventory. Any such failure, including plans for disaster recovery, if widespread or extended, could adversely affect the operation of our business and our results of operations.

We may be affected by global climate change or by legal, regulatory, or market responses to such change.

The concern over climate change has led to legislative and regulatory initiatives aimed at reducing greenhouse gas emissions ("GHG"). For example, proposals that would impose mandatory requirements related to GHG continue to be considered by policy makers in the United States and elsewhere. Laws enacted to reduce GHG that directly or indirectly affect our suppliers (through an increase in their cost of production) or our business (through an impact on our inventory availability, cost of sales, operations or demand for the products we sell) could adversely affect our business, financial condition, results of operations and cash flows. Changes in automotive technology and compliance with any new or more stringent laws or regulations, or stricter interpretations of existing laws, could require additional expenditures by us or our suppliers all of which could adversely impact the demand for our products and our business, financial condition, results of operations or cash flows.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The following table summarizes the location, ownership status and total square footage of space utilized for distribution centers, principal corporate offices and retail stores and branches at the end of 2018:

		Square Footage (in thousands)	
	Location	Leased	Owned
Distribution Centers	51 locations in 33 U.S. states and 4 Canadian provinces	7,298	4,183
Customer Support Centers:			
Raleigh, NC	Raleigh, NC	177	—
Roanoke, VA	Roanoke, VA	253	—
Stores and branches	4,948 stores and branches in 49 U.S. states and 2 U.S. territories and 161 stores and branches in 9 Canadian provinces	35,525	6,210

### Item 3. Legal Proceedings.

On February 6, 2018, a putative class action on behalf of purchasers of our securities who purchased or otherwise acquired their securities between November 14, 2016 and August 15, 2017, inclusive (the “Class Period”), was commenced against us and certain of our current and former officers in the U.S. District Court for the District of Delaware. The plaintiff alleges that the defendants failed to disclose material adverse facts about our financial well-being, business relationships, and prospects during the alleged Class Period in violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The case is still in its preliminary stages. We strongly dispute the allegations of the complaint and intend to defend the case vigorously.

Refer to discussion in Note 14, Contingencies, of the Notes to the Consolidated Financial Statements included herein for information relating to additional legal proceedings.

### Item 4. Mine Safety Disclosures.

Not applicable.

Table of Contents

## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "AAP".

At February 15, 2019, there were 348 holders of record of our common stock, which does not include the number of beneficial owners whose shares were represented by security position listings.

Our stock repurchase program authorizing the repurchase of up to \$600.0 million in common stock was authorized by our Board of Directors on August 8, 2018 and publicly announced on August 14, 2018. The following table sets forth information with respect to repurchases of our common stock for the fourth quarter ended December 29, 2018:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value that May Yet Be Purchased Under the Plans or Programs (In thousands)
October 7, 2018 to November 3, 2018	486,728	\$ 164.53	486,723	\$ 400,000
November 4, 2018 to December 1, 2018	6,215	169.44	—	400,000
December 2, 2018 to December 29, 2018	470,834	156.61	465,085	327,218
Total	963,777	\$ 160.69	951,808	\$ 327,218

The aggregate cost of repurchasing shares in connection with the net settlement of shares issued as a result of the (1) vesting of restricted stock units was \$2.0 million, or an average price of \$167.87 per share, during the twelve weeks ended December 29, 2018.

Table of Contents

## Stock Price Performance

The following graph shows a comparison of the cumulative total return on our common stock, the Standard & Poor's 500 Index and the Standard & Poor's Retail Index. The graph assumes that the value of an investment in our common stock and in each such index was \$100 on December 28, 2013, and that any dividends have been reinvested. The comparison in the graph below is based solely on historical data and is not intended to forecast the possible future performance of our common stock.

COMPARISON OF CUMULATIVE TOTAL RETURN AMONG  
ADVANCE AUTO PARTS, INC., S&P 500 INDEX  
AND S&P RETAIL INDEX

Company/Index	December 28, 2013	January 3, 2015	January 2, 2016	December 31, 2016	December 30, 2017	December 29, 2018
Advance Auto Parts	\$ 100.00	\$ 144.25	\$ 136.93	\$ 153.86	\$ 90.69	\$ 141.43
S&P 500 Index	\$ 100.00	\$ 114.11	\$ 115.71	\$ 129.55	\$ 157.84	\$ 149.63
S&P Retail Index	\$ 100.00	\$ 109.80	\$ 137.39	\$ 143.76	\$ 185.59	\$ 206.28

Table of Contents

## Item 6. Selected Consolidated Financial Data.

The following table sets forth our selected historical consolidated statements of operations, balance sheets and other operating data. Included in this table are key metrics and operating results used to measure our financial progress. The selected historical consolidated financial and other data (excluding the Selected Store Data and Performance Measures) as of December 29, 2018 and December 30, 2017 and for the years ended December 29, 2018, December 30, 2017 and December 31, 2016 have been derived from our audited consolidated financial statements and the related notes included elsewhere in this report. The historical consolidated financial and other data as of December 31, 2016, January 2, 2016 and January 3, 2015 and for the fiscal years ended January 2, 2016 (“2015”) and January 3, 2015 (“2014”) have been derived from our audited consolidated financial statements and the related notes that have not been included in this report. You should read this data along with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes included elsewhere in this report.

(in thousands, except per share data, store data and ratios) Year <sup>(1)</sup>

	2018	2017	2016	2015	2014
<b>Statement of Operations Data:</b>					
Net sales	\$9,580,554	\$9,373,784	\$9,567,679	\$9,737,018	\$9,843,861
Gross profit	\$4,219,413	\$4,085,049	\$4,255,915	\$4,422,772	\$4,453,613
Operating income	\$604,275	\$570,212	\$787,598	\$825,780	\$851,710
Net income <sup>(2)</sup>	\$423,847	\$475,505	\$459,622	\$473,398	\$493,825
Basic earnings per common share	\$5.75	\$6.44	\$6.22	\$6.45	\$6.75
Diluted earnings per common share	\$5.73	\$6.42	\$6.20	\$6.40	\$6.71
Cash dividends declared per basic share	\$0.24	\$0.24	\$0.24	\$0.24	\$0.24

**Balance Sheet and Other Financial Data:**

Total assets	\$9,040,648	\$8,482,301	\$8,315,033	\$8,127,701	\$7,954,392
Total debt	\$1,045,930	\$1,044,677	\$10,433,255	\$1,206,895	\$1,628,927
Total stockholders’ equity	\$3,550,813	\$3,415,196	\$2,916,192	\$2,460,648	\$2,002,912

**Selected Store Data and Performance Measures:**

Comparable store sales growth <sup>(3)</sup>	2.3	% (2.0	%) (1.4	%) 0.0	% 2.0	%
Number of stores, beginning of year	5,183	5,189	5,293	5,372	4,049	
New stores	27	60	78	121	1,487	
Closed stores	(101	) (66	) (182	) (200	) (164	)
Number of stores, end of year	5,109	5,183	5,189	5,293	5,372	

All fiscal years presented are 52 weeks, with the exception of 2014, which consisted of 53 weeks. The impact of <sup>(1)</sup> week 53 included in sales, gross profit and selling, general and administrative expenses for 2014 was \$150.4 million, \$67.8 million and \$46.7 million.

<sup>(2)</sup> Net income for 2018 and 2017 includes an income tax benefit of \$5.7 million and \$143.8 million related to the U.S. Tax Cuts and Jobs Act (the “Act”) that was signed into law on December 22, 2017. Refer to discussion in Note 12, Income Taxes, of the Notes to the Consolidated Financial Statements included herein for further information.

<sup>(3)</sup> Comparable store sales include net sales from our stores, branches and e-commerce websites. Sales to independently owned Carquest branded stores are excluded from our comparable store sales. The change in store sales is calculated based on the change in net sales starting once a store or branch has been open for 13 complete accounting periods (each period represents four weeks). Relocations are included in comparable store sales from the original date of opening. Acquired stores are included in our comparable store sales once the stores have

completed 13 complete accounting periods following the acquisition date (approximately one year). Comparable store sales growth for 2014 excludes sales from the 53<sup>rd</sup> week of 2014.

Table of Contents

## Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of financial condition and results of operations should be read in conjunction with our consolidated historical financial statements and the notes to those statements that appear elsewhere in this report. Our discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under the section entitled “Risk Factors” elsewhere in this report.

## Management Overview

Net sales increased 2.2% in 2018, primarily driven by an increase in comparable store sales. We experienced improvement across all regions with stronger sales growth in our Mid-Atlantic, Midwest and Northeast regions, growth in our Professional and Canadian businesses, as well as increased sales in several product categories.

Our gross margin expansion for 2018 was primarily driven by our increase in comparable sales, an improvement in inventory management related to utilizing inventory on hand and continued material cost optimization efforts. These improvements in margin were partially offset by increased supply chain costs due to higher fuel prices and transportation costs.

Our diluted earnings per share in 2018 was \$5.73 compared to \$6.42 in 2017. When adjusted for the following non-operational items, our adjusted diluted earnings per share (“adjusted EPS”) in 2018 was \$7.13 compared to \$5.37 during 2017:

	Year Ended	
	December	December
	29,	30, 2017
	2018	
GPI integration and store closure and consolidation expenses	\$0.07	\$ 0.22
GPI amortization of acquired intangible assets	\$0.39	\$ 0.33
Transformation expenses	\$1.02	\$ 0.41
Other income adjustment	\$—	\$ (0.07 )
Impact of the Act	\$(0.08)	\$ (1.94 )

Refer to “Reconciliation of Non-GAAP Financial Measures” for further details of our comparable adjustments and the usefulness of such measures to investors.

## Summary of 2018 Financial Results

A high-level summary of our financial results and other highlights from 2018 includes:

- Net sales during 2018 were \$9,580.6 million, an increase of 2.2% as compared to 2017, which primarily related to a comparable store sales growth of 2.3%.

Operating income for 2018 was \$604.3 million, an increase of \$34.1 million from 2017. As a percentage of total sales, operating income was 6.3%, an increase of 22 basis points as compared to 2017, due to an increase in comparable store sales, continued material cost improvement and lower GPI integration and store closure and consolidation costs. Partially offsetting these improvements, we incurred an increase in supply chain costs, higher bonus, an increase in costs relating to our transformation plan and an increase in spending related to our new marketing campaign. Inventories as of December 29, 2018 increased \$194.1 million, or 4.7%, as compared to 2017. This increase was driven by our implementation of demand-based assortment, higher purchases to ensure future replenishment



capabilities throughout our supply chain and the additional Worlpac branches we opened in 2018.

We generated cash flow from operations of \$811.0 million during 2018, an increase of 35.0% compared to 2017, primarily due to improvements to working capital.

Provision for income taxes increased \$86.7 million to \$131.4 million in 2018 as compared to \$44.8 million in 2017 primarily due to a net \$143.8 million one-time tax benefit associated with the Act that was recorded in 2017, which was partially offset by the reduction of the federal tax rate from 35% to 21% due to the enactment of the Act.

Refer to “Results of Operations” and “Liquidity and Capital Resources” for further details on our results.

## Table of Contents

### Business Update

We continue to make progress on the various elements of our strategic business plan, which is focused on improving the customer experience and driving consistent execution for both Professional and DIY customers. To achieve these improvements, we have undertaken planned transformation actions to help build a foundation for long-term success across the entire company. These transformation actions include:

- Improvement of our common catalog of products across our Professional and DIY businesses — AAP, Carquest (“CQ”), Worldpac (“WP”) and Autopart International (“AI”) that was completed in the first half of 2018.

- Development of a demand-based assortment, leveraging purchase and search history from the common catalog, versus our existing push-down supply approach. This technology is a first step in moving from a supply-driven to a demand-driven assortment.

- Progress in the early development of a more efficient end-to-end supply chain to deliver our broad assortment.

- Continued movement towards optimizing our footprint by market to drive share, repurposing of our in-market store and asset base and optimizing our distribution centers.

- Creation of new Professional omni-channel capabilities to reach our customers in the manner that is most desirable for them, including the launch of MyAdvance.com, an interactive, easy-to-use, mobile-friendly platform where we have combined multiple online tools and capabilities into one place.

- Entered into strategic partnership with Walmart.com that we expect to enable us to reach a much broader group of DIY customers and help drive our DIY market share growth.

- Continued focus on Worldpac branch openings in 2018 to drive Professional growth while investing in online and digital to drive DIY improvements.

### Industry Update

Operating within the automotive aftermarket industry, we are influenced by a number of general macroeconomic factors, many of which are similar to those affecting the overall retail industry. These factors include, but are not limited to:

- Fuel costs

- Unemployment rates

- Consumer confidence

- Competition

- Changes in new car sales

- Miles driven

- Vehicle manufacturer warranties

- Average age of vehicles in operation

- Economic and political uncertainty

- Deferral of elective automotive maintenance and improvements in new car quality

While these factors tend to fluctuate, we remain confident in the long-term growth prospects for the automotive parts industry.

Table of Contents

## Results of Operations

The following table sets forth certain of our operating data expressed as a percentage of net sales for the periods indicated.

(in millions)	Year Ended						2018 vs.		2017 vs.	
	December 29, 2018		December 30, 2017		December 31, 2016		2017 \$	Basis Points	2016 \$	Basis Points
Net sales	\$9,580.6	100.0 %	\$9,373.8	100.0 %	\$9,567.7	100.0 %	\$206.8	—	\$(193.9)	—
Cost of sales	5,361.1	56.0	5,288.7	56.4	5,311.8	55.5	72.4	(46 )	(23.0 )	90
Gross profit	4,219.4	44.0	4,085.0	43.6	4,255.9	44.5	134.4	46	(170.9 )	(90 )
SG&A	3,615.1	37.7	3,514.8	37.5	3,468.3	36.3	100.3	24	46.5	125
Operating income	604.3	6.3	570.2	6.1	787.6	8.2	34.1	22	(217.4 )	(215 )
Interest expense	(56.6 )	(0.6 )	(58.8 )	(0.6 )	(59.9 )	(0.6 )	2.2	4	1.1	—
Other income, net	7.6	0.1	8.8	0.1	11.1	0.1	(1.3 )	(2 )	(2.3 )	(2 )
Provision for income taxes	131.4	1.4	44.8	0.5	279.2	2.9	86.7	89	(234.5 )	(244 )
Net income	\$423.8	4.4 %	\$475.5	5.1 %	\$459.6	4.8 %	\$(51.7 )	(65 )	\$15.9	27

Note: Table amounts may not foot due to rounding.

## 2018 Compared to 2017

## Net Sales

Net sales for 2018 were \$9,580.6 million, an increase of \$206.8 million, or 2.2%, from net sales in 2017. This increase was primarily due to our comparable store sales growth of 2.3%. Our growth in comparable store sales was driven by an overall improvement across our business in 2018, growth in our Professional and Canadian businesses, increased sales in several product categories and strong spring and summer selling seasons, partially offset by decreased sales in the winter season resulting from extreme cold temperatures.

## Gross Profit

Gross profit for 2018 was \$4,219.4 million, or 44.0% of net sales, as compared to \$4,085.0 million, or 43.6% of net sales, in 2017, an increase of 46 basis points. The increase in gross profit as a percentage of net sales was primarily the result of an improvement in inventory management related to utilizing inventory on hand and material cost optimization efforts, as well as a continued focus on productivity initiatives throughout the year. These improvements in margin were partially offset by increased supply chain costs due to higher fuel prices and transportation costs.

## SG&amp;A

SG&A for 2018 was \$3,615.1 million, or 37.7% of net sales, as compared to \$3,514.8 million, or 37.5% of net sales, for 2017, an increase of 24 basis points. This increase as a percentage of net sales was primarily due to costs incurred in connection with our transformation plan, higher bonus and increased spending related to our new marketing campaign. Partially offsetting these costs were lower GPI integration and store closure and consolidation and insurance and claims expense in 2018 compared to the prior year, as well as a continued focus on expense management throughout the year.

## Income Taxes

Our effective income tax rate was 23.7% and 8.6% for 2018 and 2017. The increase in our effective tax rate for 2018 compared to 2017 was primarily related to the net tax benefit of \$143.8 million related to the Act that was recorded in 2017. This was partially offset by the reduction of the federal tax rate from 35% to 21% due to the enactment of the Act, which favorably impacted our Net income for 2018 by \$77.7 million, or \$1.05 per diluted share. During the third quarter of 2018 in conjunction with the completion of our 2017 U.S. income tax return, we identified a change in estimate to amounts previously recorded for the remeasurement of the net deferred tax liability and nonrecurring repatriation tax on accumulated earnings of foreign subsidiaries which resulted in a net tax benefit of \$5.7 million. Our accounting for the impact of the Act under Staff Accounting Bulletin No. 118 (“SAB 118”) was completed as of the third quarter of 2018.

## Table of Contents

### 2017 Compared to 2016

#### Net Sales

Net sales for 2017 were \$9,373.8 million, a decline of \$193.9 million, or 2.0%, over net sales for 2016. This decrease was primarily due to our comparable store sales decline of 2.0% and the portion of sales that did not transfer from stores that were consolidated. During 2017, we consolidated 16 stores and closed 50 stores, which was partially offset by the opening of 60 new stores. Our decline in comparable store sales was driven by a decrease in overall transactions in 2017 and mild summer weather conditions, which was partially offset by an increase in the average transaction value and favorable weather in the fourth quarter of the year that drove a stronger demand across the business.

#### Gross Profit

Gross profit for 2017 was \$4,085.0 million, or 43.6% of net sales, as compared to \$4,255.9 million, or 44.5% of net sales, in 2016, a decrease of 90 basis points. The decrease in gross profit as a percentage of net sales was primarily the result of higher supply chain costs driven by unfavorable commodity prices and the negative impact related to the continued inventory optimization efforts, partially offset by continued material cost improvement.

#### SG&A

SG&A for 2017 was \$3,514.8 million, or 37.5% of net sales, as compared to \$3,468.3 million, or 36.3% of net sales, for 2016, an increase of 125 basis points. This increase as a percentage of net sales was primarily due to costs incurred in connection with our transformation plan and higher customer facing costs including store labor and incentives and higher medical costs. Partially offsetting these costs were lower GPI integration and store closure and consolidation expenses in 2017 compared to the prior year and continued focus on expense management throughout the year.

#### Interest Expense

Interest expense for 2017 was \$58.8 million, as compared to \$59.9 million in 2016. The decrease in interest expense was due to lower outstanding balances of our credit facilities during 2017, as compared to 2016.

#### Income Taxes

Income tax expense for 2017 was \$44.8 million, as compared to \$279.2 million for 2016. Our effective income tax rate was 8.6% and 37.8% for 2017 and 2016. The decrease in our effective tax rate for 2017 compared to 2016 was primarily due to a net \$143.8 million benefit related to the Act.

#### Reconciliation of Non-GAAP Financial Measures

“Management’s Discussion and Analysis of Financial Condition and Results of Operations” includes certain financial measures not derived in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Non-GAAP financial measures should not be used as a substitute for GAAP financial measures, or considered in isolation, for the purpose of analyzing our operating performance, financial position or cash flows. We have presented these non-GAAP financial measures as we believe that the presentation of our financial results that exclude (1) non-operational expenses associated with the integration of GPI and store closure and consolidation; (2) non-cash charges related to the acquired GPI intangible assets; (3) transformation expenses under our strategic business plan; and (4) nonrecurring impact of the Act, is useful and indicative of our base operations because the expenses vary from period to period in terms of size, nature and significance and/or relate to the integration of GPI

and store closure and consolidation activity in excess of historical levels. These measures assist in comparing our current operating results with past periods and with the operational performance of other companies in our industry. The disclosure of these measures allows investors to evaluate our performance using the same measures management uses in developing internal budgets and forecasts and in evaluating management's compensation. Included below is a description of the expenses we have determined are not normal, recurring cash operating expenses necessary to operate our business and the rationale for why providing these measures is useful to investors as a supplement to the GAAP measures.

Table of Contents

GPI Integration and Store Closure and Consolidation Expenses—We acquired GPI in 2014 and are progressing in our multi-year plan to integrate the operations of GPI with AAP. Due to the size of the acquisition, we consider these expenses to be outside of our base business. Therefore, we believe providing additional information in the form of non-GAAP measures that exclude these costs is beneficial to the users of our financial statements in evaluating the operating performance of our base business and our sustainability once the integration is complete. In addition to integration expenses, we incur store closure and consolidation expenses that consist of expenses associated with our plans to convert and consolidate the Carquest stores acquired from GPI. While periodic store closures are common, these closures represent a significant program outside of our typical market evaluation process. We believe it is useful to provide additional non-GAAP measures that exclude these costs to provide investors greater comparability of our base business and core operating performance. We also continue to have store closures that occur as part of our normal market evaluation process and have not excluded the expenses associated with these store closures in computing our non-GAAP measures.

Transformation Expenses—We expect to recognize a significant amount of transformation expenses over the next several years as we transition from integration of our AAP/CQUS businesses to a plan that involves a more holistic and integrated transformation of the entire Company, including WP and AI. These expenses will include, but not be limited to, restructuring costs, store closure costs and third-party professional services and other significant costs to integrate and streamline our operating structure across the enterprise. We are focused on several areas throughout Advance, such as supply chain and information technology.

U.S. Tax Reform—On December 22, 2017, the Act was signed into law. The Act amends the Internal Revenue Code of 1986 by, among other things, permanently lowering the corporate tax rate to 21% from the existing maximum rate of 35%, implementing a territorial tax system and imposing a one-time repatriation tax on deemed repatriated earnings of foreign subsidiaries. During the third quarter of 2018, and in conjunction with the completion of our 2017 U.S. income tax return, we identified a change in estimate, in accordance with SAB 118, to amounts previously estimated for the remeasurement of the net deferred tax liability and nonrecurring repatriation tax on accumulated earnings foreign subsidiaries.

We have included a reconciliation of this information to the most comparable GAAP measures in the following table.

(in thousands, except per share data)	Year Ended	
	December 2018	December 30, 2017
Net income (GAAP)	\$423,847	\$ 475,505
Cost of sales adjustments:		
Transformation expenses	6,740	—
SG&A adjustments:		
GPI integration and store closure and consolidation expenses	7,360	26,207
GPI amortization of acquired intangible assets	38,018	39,477
Transformation expenses	93,767	50,425
Other income adjustment <sup>(1)</sup>	—	(8,878 )
Provision for income taxes on adjustments <sup>(2)</sup>	(36,274 )	(40,748 )
Impact of the Act, net	(5,665 )	(143,756 )
Adjusted net income (Non-GAAP)	\$527,793	\$ 398,232
Diluted earnings per share (GAAP)	\$5.73	\$ 6.42
Adjustments, net of tax	1.40	(1.05 )
Adjusted EPS (Non-GAAP)	\$7.13	\$ 5.37

(1)

The adjustment to Other income for 2017 relates to income recognized from an indemnification agreement associated with the acquisition of GPI.

- (2) The income tax impact of non-GAAP adjustments is calculated using the estimated tax rate in effect for the respective non-GAAP adjustments.



Table of Contents

## Liquidity and Capital Resources

## Overview

Our primary cash requirements necessary to maintain our current operations include payroll and benefits, inventory purchases, contractual obligations, capital expenditures, payment of income taxes and funding of initiatives under our strategic business plan. In addition, we may use available funds for acquisitions, to repay borrowings under our credit agreement, to periodically repurchase shares of our common stock under our stock repurchase programs and for the payment of quarterly cash dividends. Historically, we have funded these requirements primarily through cash generated from operations, supplemented by borrowings under our credit facilities and debt securities as needed. We believe funds generated from our expected results of operations, available cash and cash equivalents, and available borrowing capacity under our credit facility will be sufficient to fund our primary obligations for the next year.

## Capital Expenditures

Our primary capital requirements have been the funding of our investments in supply chain and information technology (“IT”), e-commerce and maintenance of existing stores. We lease approximately 84% of our stores.

Our capital expenditures were \$193.7 million in 2018, an increase of \$4.0 million from 2017. This increase in capital expenditures related to several IT projects, including our Finance enterprise resource planning tool, as well as investment in supply chain and store improvements.

Our future capital requirements will depend in large part on the timing or number of the investments we make on IT and supply chain network initiatives and existing stores and new store development (leased and owned locations) within a given year. In 2019, we anticipate that our capital expenditures related to such investments will range from \$250 million to \$300 million, but may vary with business conditions.

## Analysis of Cash Flows

The following table summarizes our cash flows from operating, investing and financing activities:

(in millions)	Year Ended		
	December 29, 2018	December 30, 2017	January 2, 2016
Cash flows provided by operating activities	\$811.0	\$ 600.8	\$523.3
Cash flows used in investing activities	(191.8 )	(178.6 )	(262.0 )
Cash flows used in financing activities	(263.9 )	(14.9 )	(217.1 )
Effect of exchange rate changes on cash	(5.7 )	4.5	0.3
Net increase in cash and cash equivalents	\$ 349.6	\$ 411.8	\$44.4

## Operating Activities

For 2018, net cash provided by operating activities increased \$210.2 million to \$811.0 million. The net increase in operating cash flows compared to the prior year was primarily driven by our focus on working capital management, including an increase in Accounts payable, partially offset by increases in Receivables, net and Inventories.

For 2017, net cash provided by operating activities increased \$77.5 million to \$600.8 million. This net increase in operating cash flow was primarily driven by the timing of payments within working capital. Our inventory balance as of December 30, 2017 decreased \$157.4 million, or 3.6%, over the prior year primarily driven by the focus on

inventory optimization across the Company.

## Table of Contents

### Investing Activities

For 2018, net cash used in investing activities increased by \$13.2 million to \$191.8 million compared to 2017. The increase in cash used in investing activities was primarily driven by an increase in capital expenditures related to several IT projects, including our Finance enterprise resource planning tool, as well as investments in supply chain, e-commerce and store improvements.

For 2017, net cash used in investing activities decreased by \$83.4 million to \$178.6 million compared to 2016. The decrease in cash used in investing activities was primarily driven by the decrease in cash used for purchases of property and equipment.

### Financing Activities

For 2018, net cash used in financing activities increased by \$249.0 million to \$263.9 million. This increase was primarily a result of returning cash to shareholders in the form of stock repurchases and dividends.

For 2017, net cash used in financing activities decreased by \$202.3 million to \$14.9 million. This decrease was primarily a result of lower net repayments on the revolving credit facility and term loan than in the prior year.

### Long-Term Debt

As of December 29, 2018, we had a credit rating from Standard & Poor's of BBB- and from Moody's Investor Service of Baa2. The current outlooks by Standard & Poor's and Moody's are both stable. The current pricing grid used to determine our borrowing rate under our revolving credit facility is based on our credit ratings. If these credit ratings decline, our interest rate on outstanding balances may increase and our access to additional financing on favorable terms may become more limited. In addition, it could reduce the attractiveness of certain vendor payment programs whereby third-party institutions finance arrangements to our vendors based on our credit rating, which could result in increased working capital requirements. Conversely, if these credit ratings improve, our interest rate may decrease.

On January 29, 2019, we notified Wells Fargo Bank, N.A., as trustee, of our intent to redeem all \$300.0 million aggregate principal amount of our outstanding 5.75% Notes due 2020. For detailed information refer to Note 7, Long-term Debt and Fair Value of Financial Instruments, of the Notes to the Consolidated Financial Statements included herein.

### Stock Repurchases

On August 8, 2018, the Company's Board of Directors authorized a \$600 million stock repurchase program. Under this authorization, the Company repurchased 1.7 million shares of its common stock at an aggregate cost of \$272.8 million during 2018. We had \$327.2 million remaining under our stock repurchase program as of December 29, 2018.

Subsequent to December 29, 2018, we have repurchased 0.8 million shares of common stock at an aggregate cost of \$127.2 million through our stock repurchase program.

### Off-Balance-Sheet Arrangements

As of December 29, 2018, other than as disclosed in Note 7, Long-term Debt and Fair Value of Financial Instruments, of the Notes to the Consolidated Financial Statements included herein, we had no other off-balance-sheet arrangements. We include other off-balance-sheet arrangements in our Contractual Obligations table including operating lease payments and interest payments on our senior unsecured notes, revolving credit facility and letters of

credit outstanding.

22

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Table of Contents

## Contractual Obligations

In addition to our senior unsecured notes and revolving credit facility, we utilize operating leases as another source of financing. The amounts payable under these operating leases are included in our Contractual Obligations table. Our future contractual obligations related to long-term debt, operating leases and other contractual obligations as of December 29, 2018 were as follows:

Contractual Obligations	Total	Payments Due by Period			
		Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Long-term debt <sup>(1)</sup>	\$1,050,210	\$210	\$300,000	\$750,000	\$—
Interest payments	174,375	51,000	76,125	47,250	—
Operating leases <sup>(2)</sup>	2,876,275	520,541	898,707	619,586	837,441
Other long-term liabilities <sup>(3)</sup>	558,165	—	—	—	—
Purchase commitments <sup>(4)</sup>	101,516	35,276	34,520	31,720	—
	\$4,760,541	\$607,027	\$1,309,352	\$1,448,556	\$837,441

Note: For additional information refer to Note 7, Long-term Debt and Fair Value of Financial Instruments; Note 12, Income Taxes; Note 13, Lease Commitments; Note 14, Contingencies; and Note 15, Benefit Plans, of the Notes to the Consolidated Financial Statements included herein.

(1) Long-term debt represents the principal amount of our senior unsecured notes, which become due in 2020, 2022 and 2023.

We lease certain store locations, distribution centers, office space, equipment and vehicles. Our property leases generally contain renewal and escalation clauses and other concessions. These provisions are considered in our

(2) calculation of our minimum lease payments that are recognized as expense on a straight-line basis over the applicable lease term. Any lease payments that are based upon an existing index or rate are included in our minimum lease payment calculations.

(3) Includes the long-term portion of deferred income taxes and other liabilities, including self-insurance reserves for which no contractual payment schedule exists. As we expect the payments to occur beyond 12 months from December 29, 2018, the related balances have not been reflected in the “Payments Due by Period” section of the table.

(4) Purchase commitments include agreements to purchase goods or services that are enforceable, legally binding and specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Included in the table above is the lesser of the remaining obligation or the cancellation penalty under the agreement.

## Critical Accounting Policies

Our financial statements have been prepared in accordance with GAAP. Our discussion and analysis of the financial condition and results of operations are based on these financial statements. The preparation of these financial statements requires the application of accounting policies in addition to certain estimates and judgments by our management. Our estimates and judgments are based on currently available information, historical results and other assumptions we believe are reasonable. Actual results could differ materially from these estimates.

The preparation of our financial statements included the following significant estimates and exercise of judgment.

## Goodwill and Indefinite-Lived Intangible Assets

We evaluate goodwill and indefinite-lived intangibles for impairment annually as of the first day of our fourth quarter or whenever events or changes in circumstances indicate the carrying value of the goodwill or other intangible asset may not be recoverable. We test goodwill for impairment at the reporting unit level. Effective in the third quarter of 2017, we realigned our three geographic divisions, which included the operations of the stores operating under the Advance Auto Parts, Carquest and Autopart International trade names, into two U.S. geographic divisions. As a result of this realignment and change in the operating structure of its Carquest Independent and Carquest Canada businesses, we now have five operating segments. As each operating segment represents a reporting unit, goodwill was reassigned to the affected reporting units using a relative fair value approach.

## Table of Contents

Our detailed impairment testing involves comparing the fair value of each reporting unit to its carrying value, including goodwill. If a reporting unit's fair value has historically significantly exceeded its carrying value, then a risk-based market approach of determining the reporting unit's fair value is utilized. We use a valuation specialist to determine the fair value for the remaining reporting units. If the fair value exceeds carrying value, we conclude that no goodwill impairment has occurred. If the carrying value of the reporting unit exceeds its fair value, a second step is required to measure possible goodwill impairment loss.

Our indefinite-lived intangible assets primarily consist of the Carquest and Worldpac brands are tested for impairment at the asset group level. Indefinite-lived intangibles are evaluated by comparing the carrying amount of the asset to the future discounted cash flows that the asset is expected to generate. If the fair value based on the future discounted cash flows exceeds the carrying value, we conclude that no intangible asset impairment has occurred. If the carrying value of the indefinite-lived intangible asset exceeds the fair value, we recognize an impairment loss.

We complete our impairment evaluations by combining information from our internal valuation analyses, considering other publicly available market information and using an independent valuation firm. We determine fair value using widely accepted valuation techniques, including discounted cash flows and market multiple analyses. These types of analyses require management to make assumptions as a marketplace participant would and to apply judgment to estimate industry economic factors and the profitability of future business strategies of our Company and our reporting units. These assumptions and estimates are a major component of the derived fair value of our reporting units. Critical assumptions include projected sales growth, gross profit rates, SG&A rates, working capital fluctuations, capital expenditures, discount rates, royalty rates and terminal growth rates. If actual results are not consistent with our estimates or assumptions, we may be exposed to an impairment charge that could be material.

### Inventory Reserves

Our inventory consists primarily of parts, batteries, accessories and other products used on vehicles that have reasonably long shelf lives. Although the risk of obsolescence is minimal, we consider whether we may have excess inventory based on our current approach for managing slower moving inventory. We establish reserves when the expected net proceeds are less than carrying value.

Future changes by vendors in their policies or willingness to accept returns of excess inventory, changes in our inventory management approach for excess and obsolete inventory or failure by us to effectively manage the life cycle of our inventory could require us to revise our estimates of required reserves and result in a negative impact on our consolidated statement of operations. A 10% difference in actual inventory reserves at December 29, 2018 would result in a change in expense of approximately \$9.5 million for 2018.

### Self-Insurance Reserves

Our self-insurance reserves consist of the estimated exposure for claims filed, claims incurred but not yet reported and projected future claims, and are established using actuarial methods followed in the insurance industry and our historical claims experience. Specific factors include, but are not limited to, assumptions about health care costs, the severity of accidents and the incidence of illness and the average size of claims. Generally, claims for automobile and general liability and workers' compensation take several years to settle. We classify the portion of our self-insurance reserves that is not expected to be settled within one year in long-term liabilities.

While we do not expect the amounts ultimately paid to differ significantly from our estimates, our self-insurance reserves and corresponding SG&A could be affected if future claim experience differs significantly from historical trends and actuarial assumptions. A 10% change in our self-insurance liabilities at December 29, 2018 would result in a change in expense of approximately \$15.4 million for 2018.

### Vendor Incentives

We receive incentives in the form of reductions to amounts owed and/or payments from vendors related to volume rebates and other promotional considerations. Many of these incentives are under agreements with terms in excess of one year, while others are negotiated on an annual basis or less. Volume rebates and vendor promotional allowances not offsetting in SG&A are earned based on inventory purchases and initially recorded as a reduction to inventory. These deferred amounts are included as a reduction to cost of sales as the inventory is sold.



## Table of Contents

Vendor promotional allowances provided as a reimbursement of specific, incremental and identifiable costs incurred to promote a vendor's products are included as an offset to SG&A when the cost is incurred if the fair value of that benefit can be reasonably estimated. Certain of our vendor agreements contain purchase volume incentives that provide for increased funding when graduated purchase volumes are met. Amounts accrued throughout the year could be impacted if actual purchase volumes differ from projected annual purchase volumes.

Similarly, we recognize other promotional incentives earned under long-term agreements as a reduction to cost of sales. However, these incentives are recognized based on the cumulative net purchases as a percentage of total estimated net purchases over the life of the agreement. Short-term incentives with terms less than one year are generally recognized as a reduction to cost of sales over the duration of the agreements.

Amounts received or receivable from vendors that are not yet earned are reflected as deferred revenue. Management's estimate of the portion of deferred revenue that will be realized within one year of the balance sheet date is included in Other current liabilities. Earned amounts that are receivable from vendors are included in Receivables, net except for that portion expected to be received after one year, which is included in Other assets, net. We regularly review the receivables from vendors to ensure they are able to meet their obligations. Historically, the change in our reserve for receivables related to vendor funding has not been significant.

### New Accounting Pronouncements

For a description of recently adopted and issued accounting standards, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements, see "Recently Issued Accounting Pronouncements" in Note 2, Significant Accounting Policies, of the Notes to the Consolidated Financial Statements included herein.

### Item 7A. Quantitative and Qualitative Disclosures about Market Risks.

We are subject to interest rate risk to the extent we borrow against our revolving credit facility as it is based, at our option, on adjusted LIBOR, plus a margin, or an alternate base rate, plus a margin. As of December 29, 2018 and December 30, 2017, we had no borrowings outstanding under our revolving credit facility.

Our financial assets that are exposed to credit risk consist primarily of trade accounts receivable and vendor receivables. We are exposed to normal credit risk from customers. Our concentration of credit risk is limited because our customer base consists of a large number of customers with relatively small balances, which allows the credit risk to be spread across a broad base. We have not historically had significant credit losses.

We are exposed to foreign currency exchange rate fluctuations for the portion of our inventory purchases denominated in foreign currencies. We believe that the price volatility relating to foreign currency exchange rates is partially mitigated by our ability to adjust selling prices. During 2018, 2017 and 2016, foreign currency transactions did not significantly impact net income.

### Item 8. Financial Statements and Supplementary Data.

See financial statements included in Item 15 "Exhibits, Financial Statement Schedules" of this annual report.

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

### Item 9A. Controls and Procedures.

## Disclosure Controls and Procedures

Disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) are our controls and other procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Internal controls over financial reporting, no matter how well designed, have inherent limitations, including the possibility of human error and the override of controls. Therefore, even

## Table of Contents

those systems determined to be effective can provide only “reasonable assurance” with respect to the reliability of financial reporting and financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness may vary over time.

### Evaluation of Disclosure Controls and Procedures

Our management evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures as of December 29, 2018. Based on this evaluation, our principal executive officer and our principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

### Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13(a) - 15(f) under the Exchange Act. Our internal control over financial reporting is a process designed under the supervision of our principal executive officer and principal financial officer, and effected by our Board of Directors, management and other personnel, to provide “reasonable assurance” regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with GAAP. Our internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide “reasonable assurance” regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

As of December 29, 2018, management, including our principal executive officer and principal financial officer, assessed the effectiveness of the Company’s internal control over financial reporting based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that our internal control over financial reporting as of December 29, 2018 is effective.

### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 29, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### Attestation Report of Registered Public Accounting Firm

Our internal control over financial reporting as of December 29, 2018 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, which also audited our Consolidated Financial Statements for the year ended December 29, 2018, as stated in their report included herein, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 29, 2018.

### Item 9B. Other Information.

Refer to discussion in Note 4, Exit Activities and Other Initiatives, of the Notes to the Consolidated Financial Statements included herein.

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

For a discussion of our directors, executive officers and corporate governance, see the information set forth in the sections entitled “Proposal No. 1 - Election of Directors,” “Corporate Governance,” “Meetings and Committees of the Board,” “Information Concerning Our Executive Officers,” “Audit Committee Report,” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our proxy statement for the 2019 annual meeting of stockholders to be filed with the SEC within 120 days after the end of the year ended December 29, 2018 (the “2019 Proxy Statement”), which is incorporated herein by reference.

Item 11. Executive Compensation.

See the information set forth in the sections entitled “Meetings and Committees of the Board,” “Compensation Committee Report,” “Compensation Discussion and Analysis,” “Additional Information Regarding Executive Compensation” and “Director Compensation” in the 2019 Proxy Statement, which is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

See the information set forth in the sections entitled “Equity Compensation Plan Information Table” and “Security Ownership of Certain Beneficial Owners and Management” in the 2019 Proxy Statement, which is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

See the information set forth in the sections entitled “Corporate Governance” and “Meetings and Committees of the Board” in the 2019 Proxy Statement, which is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

See the information set forth in the section entitled “2018 and 2017 Audit Fees” in the 2019 Proxy Statement, which is incorporated herein by reference.

Table of Contents

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1) Financial Statements

Audited Consolidated Financial Statements of Advance Auto Parts, Inc. and Subsidiaries for the years ended December 29, 2018, December 30, 2017 and December 31, 2016:

<u>Reports of Independent Registered Public Accounting Firm</u>	<u>29</u>
<u>Consolidated Balance Sheets</u>	<u>31</u>
<u>Consolidated Statements of Operations</u>	<u>32</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>32</u>
<u>Consolidated Statements of Changes in Stockholders' Equity</u>	<u>33</u>
<u>Consolidated Statements of Cash Flows</u>	<u>34</u>
<u>Notes to the Consolidated Financial Statements</u>	<u>35</u>

(2) Financial Statement Schedule

<u>Schedule II - Valuation and Qualifying Accounts</u>	<u>68</u>
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(3) Exhibits

<u>Exhibit Index</u>	<u>69</u>
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Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Advance Auto Parts, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Advance Auto Parts, Inc. and subsidiaries (the "Company") as of December 29, 2018 and December 30, 2017, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 29, 2018, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 29, 2018 and December 30, 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 29, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 29, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 19, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Charlotte, North Carolina  
February 19, 2019

We have served as the Company's auditor since 2002.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Advance Auto Parts, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Advance Auto Parts, Inc. and subsidiaries (the “Company”) as of December 29, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and financial statement schedule as of and for the year ended December 29, 2018, of the Company and our report dated February 19, 2019, expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become



inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Charlotte, North Carolina  
February 19, 2019

30

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Table of Contents

Advance Auto Parts, Inc. and Subsidiaries  
 Consolidated Balance Sheets  
 (in thousands, except per share data)

	December 29, 2018	December 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 896,527	\$ 546,937
Receivables, net	624,972	606,357
Inventories	4,362,547	4,168,492
Other current assets	198,408	105,106
Total current assets	6,082,454	5,426,892
Property and equipment, net of accumulated depreciation of \$1,918,502 and \$1,783,383	1,368,985	1,394,138
Goodwill	990,237	994,293
Intangible assets, net	550,593	597,674
Other assets, net	48,379	69,304
	\$ 9,040,648	\$ 8,482,301
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,172,790	\$ 2,894,582
Accrued expenses	623,141	533,548
Other current liabilities	90,019	51,967
Total current liabilities	3,885,950	3,480,097
Long-term debt	1,045,720	1,044,327
Deferred income taxes	318,353	303,620
Other long-term liabilities	239,812	239,061
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, nonvoting, \$0.0001 par value, 10,000 shares authorized; no shares issued or outstanding	—	—
Common stock, voting, \$0.0001 par value, 200,000 shares authorized; 75,831 shares issued and 72,460 outstanding at December 29, 2018 75,569 shares issued and 73,936 outstanding at December 30, 2017	8	8
Additional paid-in capital	694,797	664,646
Treasury stock, at cost, 3,371 and 1,633 shares	(425,954 )	(144,600 )
Accumulated other comprehensive loss	(44,193 )	(24,954 )
Retained earnings	3,326,155	2,920,096
Total stockholders' equity	3,550,813	3,415,196
	\$ 9,040,648	\$ 8,482,301

The accompanying notes to the consolidated financial statements  
 are an integral part of these statements.

Table of Contents

Advance Auto Parts, Inc. and Subsidiaries  
 Consolidated Statements of Operations  
 (in thousands, except per share data)

	Year Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Net sales	\$9,580,554	\$9,373,784	\$9,567,679
Cost of sales, including purchasing and warehousing costs	5,361,141	5,288,735	5,311,764
Gross profit	4,219,413	4,085,049	4,255,915
Selling, general and administrative expenses	3,615,138	3,514,837	3,468,317
Operating income	604,275	570,212	787,598
Other, net:			
Interest expense	(56,588)	(58,801)	(59,910)
Other income, net	7,577	8,848	11,147
Total other, net	(49,011)	(49,953)	(48,763)
Income before provision for income taxes	555,264	520,259	738,835
Provision for income taxes	131,417	44,754	279,213
Net income	\$423,847	\$475,505	\$459,622
Basic earnings per common share	\$5.75	\$6.44	\$6.22
Weighted average common shares outstanding	73,728	73,846	73,562
Diluted earnings per common share	\$5.73	\$6.42	\$6.20
Weighted average common shares outstanding	73,991	74,110	73,856

Consolidated Statements of Comprehensive Income  
 (in thousands)

	Year Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Net income	\$423,847	\$475,505	\$459,622
Other comprehensive (loss) income:			
Changes in net unrecognized other postretirement benefit costs, net of tax of \$103, \$126 and \$346	(294)	(194)	(534)
Currency translation adjustments	(18,945)	14,941	4,892
Total other comprehensive (loss) income	(19,239)	14,747	4,358
Comprehensive income	\$404,608	\$490,252	\$463,980

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Table of Contents

Advance Auto Parts, Inc. and Subsidiaries  
Consolidated Statements of Changes in Stockholders' Equity  
(in thousands, except per share data)

Common Stock		Additional Paid-in Capital	Treasury Stock, at cost	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Shares	Amount					