

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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended July 17, 2021

☐ **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

(State or other jurisdiction of incorporation or organization)

54-2049910

(I.R.S. Employer Identification No.)

2635 East Millbrook Road, Raleigh, North Carolina 27604

(Address of principal executive offices) (Zip Code)

(540) 362-4911

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock, \$0.0001 par value	AAP	New York Stock Exchange

Not Applicable

(Former name, former address and former fiscal year, if changed since last report).

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 Regulation 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 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.

filer	Large accelerated	☒	Accelerated filer	☐
			Smaller reporting	
	Non-accelerated filer	☐	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 August 20, 2021, the number of shares of the registrant's common stock outstanding was 63,000,741 shares.

	<u>Page</u>
NOTE REGARDING FORWARD LOOKING STATEMENTS	1
PART I.	
FINANCIAL INFORMATION	
Item 1.	
Condensed Consolidated Financial Statements of Advance Auto Parts, Inc. and Subsidiaries (unaudited)	2
Condensed Consolidated Balance Sheets	2
Condensed Consolidated Statements of Operations	3
Condensed Consolidated Statements of Comprehensive Income	3
Condensed Consolidated Statements of Changes in Stockholders' Equity	4
Condensed Consolidated Statements of Cash Flows	6
Notes to the Condensed Consolidated Financial Statements	7
Item 2.	
Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3.	
Quantitative and Qualitative Disclosures About Market Risk	21
Item 4.	
Controls and Procedures	21
PART II.	
OTHER INFORMATION	
Item 1.	
Legal Proceedings	23
Item 1A.	
Risk Factors	23
Item 2.	
Unregistered Sales of Equity Securities and Use of Proceeds	23
Item 6.	
Exhibits	24
SIGNATURE	25

NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements herein are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are usually identifiable by words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “intend,” “likely,” “may,” “plan,” “position,” “possible,” “potential,” “probable,” “project,” “should,” “strategy,” “will,” or similar language. All statements other than statements of historical fact are forward-looking statements, including, but not limited to, statements about our strategic initiatives, operational plans and objectives, and future business and financial performance, as well as statements regarding underlying assumptions related thereto. Forward-looking statements reflect our views based on historical results, current information and assumptions related to future developments. Except as may be required by law, we undertake no obligation to update any forward-looking statements made herein. Forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those projected or implied by the forward-looking statements. They include, among others, factors related to the timing and implementation of strategic initiatives, the highly competitive nature of our industry, demand for our products and services, complexities in our inventory and supply chain, challenges with transforming and growing our business and factors related to the current global pandemic. Please refer to “Item 1A. Risk Factors.” of our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”), as updated by our subsequent filings with the SEC, for a description of these and other risks and uncertainties that could cause actual results to differ materially from those projected or implied by the forward-looking statements.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	<u>July 17, 2021</u>	<u>January 2, 2021</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 809,287	\$ 834,992
Receivables, net	803,880	749,999
Inventories	4,428,115	4,538,199
Other current assets	180,589	146,811
Total current assets	6,221,871	6,270,001
Property and equipment, net of accumulated depreciation of \$2,301,277 and \$2,189,165	1,472,467	1,462,602
Operating lease right-of-use assets	2,441,652	2,379,987
Goodwill	994,140	993,590
Intangible assets, net	665,193	681,127
Other assets	43,402	52,329
	<u>\$ 11,838,725</u>	<u>\$ 11,839,636</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 3,807,293	\$ 3,640,639
Accrued expenses	608,846	606,804
Other current liabilities	483,206	496,472
Total current liabilities	4,899,345	4,743,915
Long-term debt	1,033,686	1,032,984
Non-current operating lease liabilities	2,091,171	2,014,499
Deferred income taxes	365,978	342,445
Other long-term liabilities	146,980	146,281
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, nonvoting, \$0.0001 par value	—	—
Common stock, voting, \$0.0001 par value	8	8
Additional paid-in capital	818,126	783,709
Treasury stock, at cost	(1,973,371)	(1,394,080)
Accumulated other comprehensive loss	(23,283)	(26,759)
Retained earnings	4,480,085	4,196,634
Total stockholders' equity	3,301,565	3,559,512
	<u>\$ 11,838,725</u>	<u>\$ 11,839,636</u>

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

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

	Twelve Weeks Ended		Twenty-Eight Weeks Ended	
	July 17, 2021	July 11, 2020	July 17, 2021	July 11, 2020
Net sales	\$ 2,649,415	\$ 2,501,380	\$ 5,979,785	\$ 5,199,262
Cost of sales , including purchasing and warehousing costs	1,460,164	1,404,666	3,305,608	2,929,815
Gross profit	1,189,251	1,096,714	2,674,177	2,269,447
Selling, general and administrative expenses	944,323	833,869	2,177,120	1,928,177
Operating income	244,928	262,845	497,057	341,270
Other, net:				
Interest expense	(8,306)	(13,422)	(19,497)	(25,665)
Other income (expense), net	1,143	3,117	5,979	(2,872)
Total other, net	(7,163)	(10,305)	(13,518)	(28,537)
Income before provision for income taxes	237,765	252,540	483,539	312,733
Provision for income taxes	59,069	62,580	118,913	79,185
Net income	<u>\$ 178,696</u>	<u>\$ 189,960</u>	<u>\$ 364,626</u>	<u>\$ 233,548</u>
Basic earnings per common share	\$ 2.76	\$ 2.75	\$ 5.59	\$ 3.38
Weighted-average common shares outstanding	64,745	69,118	65,284	69,154
Diluted earnings per common share	\$ 2.74	\$ 2.74	\$ 5.55	\$ 3.37
Weighted-average common shares outstanding	65,210	69,294	65,720	69,350

Condensed Consolidated Statements of Comprehensive Income
(In thousands) (Unaudited)

	Twelve Weeks Ended		Twenty-Eight Weeks Ended	
	July 17, 2021	July 11, 2020	July 17, 2021	July 11, 2020
Net income	\$ 178,696	\$ 189,960	\$ 364,626	\$ 233,548
Other comprehensive (loss) income:				
Changes in net unrecognized other postretirement costs, net of tax of \$25, \$26, \$44 and \$3	(70)	(73)	(124)	(7)
Currency translation adjustments	(1,747)	7,669	3,600	(9,363)
Total other comprehensive (loss) income	(1,817)	7,596	3,476	(9,370)
Comprehensive income	<u>\$ 176,879</u>	<u>\$ 197,556</u>	<u>\$ 368,102</u>	<u>\$ 224,178</u>

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

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

Twelve Weeks Ended July 17, 2021							
	Common Stock		Additional Paid-in Capital	Treasury Stock, at Cost	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount					
Balance, April 24, 2021	65,439	\$ 8	\$ 799,934	\$ (1,577,727)	\$ (21,466)	\$ 4,300,818	\$ 3,501,567
Net income	—	—	—	—	—	178,696	178,696
Total other comprehensive loss	—	—	—	—	(1,817)	—	(1,817)
Restricted stock units and deferred stock units vested	21	—	—	—	—	—	—
Share-based compensation	—	—	17,331	—	—	—	17,331
Stock issued under employee stock purchase plan	6	—	869	—	—	—	869
Repurchases of common stock	(2,004)	—	—	(395,644)	—	—	(395,644)
Cash dividends declared	—	—	—	—	—	571	571
Other	37	—	(8)	—	—	—	(8)
Balance, July 17, 2021	<u>63,499</u>	<u>\$ 8</u>	<u>\$ 818,126</u>	<u>\$ (1,973,371)</u>	<u>\$ (23,283)</u>	<u>\$ 4,480,085</u>	<u>\$ 3,301,565</u>

Twelve Weeks Ended July 11, 2020							
	Common Stock		Additional Paid-in Capital	Treasury Stock, at Cost	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount					
Balance, April 18, 2020	69,101	\$ 8	\$ 749,723	\$ (960,150)	\$ (51,535)	\$ 3,798,983	\$ 3,537,029
Net income	—	—	—	—	—	189,960	189,960
Total other comprehensive income	—	—	—	—	7,596	—	7,596
Restricted stock units and deferred stock units vested	42	—	—	—	—	—	—
Share-based compensation	—	—	10,029	—	—	—	10,029
Stock issued under employee stock purchase plan	6	—	783	—	—	—	783
Repurchases of common stock	(10)	—	—	(1,442)	—	—	(1,442)
Cash dividends declared (\$0.25 per common share)	—	—	—	—	—	(17,436)	(17,436)
Balance, July 11, 2020	<u>69,139</u>	<u>\$ 8</u>	<u>\$ 760,535</u>	<u>\$ (961,592)</u>	<u>\$ (43,939)</u>	<u>\$ 3,971,507</u>	<u>\$ 3,726,519</u>

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

Twenty-Eight Weeks Ended July 17, 2021							
	Common Stock		Additional Paid-in Capital	Treasury Stock, at Cost	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount					
Balance, January 2, 2021	66,361	\$ 8	\$ 783,709	\$ (1,394,080)	\$ (26,759)	\$ 4,196,634	\$ 3,559,512
Net income	—	—	—	—	—	364,626	364,626
Total other comprehensive income	—	—	—	—	3,476	—	3,476
Restricted stock units and deferred stock units vested	248	—	—	—	—	—	—
Share-based compensation	—	—	33,591	—	—	—	33,591
Stock issued under employee stock purchase plan	19	—	869	—	—	—	869
Repurchases of common stock	(3,166)	—	—	(579,291)	—	—	(579,291)
Cash dividends declared (\$1.25 per common share)	—	—	—	—	—	(81,175)	(81,175)
Other	37	—	(43)	—	—	—	(43)
Balance, July 17, 2021	<u>63,499</u>	<u>\$ 8</u>	<u>\$ 818,126</u>	<u>\$ (1,973,371)</u>	<u>\$ (23,283)</u>	<u>\$ 4,480,085</u>	<u>\$ 3,301,565</u>

Twenty-Eight Weeks Ended July 11, 2020							
	Common Stock		Additional Paid-in Capital	Treasury Stock, at Cost	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount					
Balance, December 28, 2019	69,232	\$ 8	\$ 735,183	\$ (924,389)	\$ (34,569)	\$ 3,772,848	\$ 3,549,081
Net income	—	—	—	—	—	233,548	233,548
Total other comprehensive loss	—	—	—	—	(9,370)	—	(9,370)
Restricted stock units and deferred stock units vested	179	—	—	—	—	—	—
Share-based compensation	—	—	23,838	—	—	—	23,838
Stock issued under employee stock purchase plan	15	—	1,518	—	—	—	1,518
Repurchases of common stock	(287)	—	—	(37,203)	—	—	(37,203)
Cash dividends declared (\$0.50 per common share)	—	—	—	—	—	(34,889)	(34,889)
Other	—	—	(4)	—	—	—	(4)
Balance, July 11, 2020	<u>69,139</u>	<u>\$ 8</u>	<u>\$ 760,535</u>	<u>\$ (961,592)</u>	<u>\$ (43,939)</u>	<u>\$ 3,971,507</u>	<u>\$ 3,726,519</u>

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

Advance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(In thousands) (Unaudited)

	Twenty-Eight Weeks Ended	
	July 17, 2021	July 11, 2020
Cash flows from operating activities:		
Net income	\$ 364,626	\$ 233,548
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	135,311	135,221
Share-based compensation	33,591	23,838
Loss and impairment of long-lived assets	5,887	1,801
Provision for deferred income taxes	23,425	4,581
Other, net	970	940
Net change in:		
Receivables, net	(53,301)	(55,055)
Inventories	111,952	67,894
Accounts payable	165,666	(108,860)
Accrued expenses	17,041	145,228
Other assets and liabilities, net	(29,009)	(926)
Net cash provided by operating activities	<u>776,159</u>	<u>448,210</u>
Cash flows from investing activities:		
Purchases of property and equipment	(129,573)	(140,105)
Purchase of an indefinite-lived intangible asset	—	(230)
Proceeds from sales of property and equipment	1,857	305
Net cash used in investing activities	<u>(127,716)</u>	<u>(140,030)</u>
Cash flows from financing activities:		
Proceeds from borrowing on revolving credit facility	—	500,000
Payment on revolving credit facility	—	(500,000)
Proceeds from issuances of senior unsecured notes, net	—	498,240
Dividends paid	(97,971)	(39,017)
Proceeds from the issuance of common stock	869	1,518
Repurchases of common stock	(579,291)	(37,203)
Other, net	(48)	(5,815)
Net cash (used in) provided by financing activities	<u>(676,441)</u>	<u>417,723</u>
Effect of exchange rate changes on cash	<u>2,293</u>	<u>(3,066)</u>
Net (decrease) increase in cash and cash equivalents	<u>(25,705)</u>	<u>722,837</u>
Cash and cash equivalents, beginning of period	<u>834,992</u>	<u>418,665</u>
Cash and cash equivalents, end of period	<u><u>\$ 809,287</u></u>	<u><u>\$ 1,141,502</u></u>
Non-cash transactions:		
Accrued purchases of property and equipment	\$ 6,391	\$ 9,594

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

Advance Auto Parts, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

1. Nature of Operations and Basis of Presentation

Advance Auto Parts, Inc. and subsidiaries is a leading automotive aftermarket parts provider in North America, serving both professional installers (“professional”) and “do-it-yourself” (“DIY”) customers. The accompanying condensed consolidated financial statements have been prepared by us and include the accounts of Advance Auto Parts, Inc., its wholly owned subsidiaries, Advance Stores Company, Incorporated (“Advance Stores”) and Neuse River Insurance Company, Inc., and their subsidiaries (collectively referred to as “Advance,” “we,” “us” or “our”).

As of July 17, 2021, we operated a total of 4,748 stores and 215 branches primarily within the United States, with additional locations in Canada, Puerto Rico and the U.S. Virgin Islands. In addition, as of July 17, 2021, we served 1,306 independently owned Carquest branded stores across the same geographic locations served by our stores and branches in addition to Mexico and various Caribbean islands. Our stores operate primarily under the trade names “Advance Auto Parts,” “Carquest” and “Autopart International,” and our branches operate under the “Worldpac” trade name.

The accounting policies followed in the presentation of interim financial results are consistent with those followed on an annual basis. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), have been condensed or omitted based upon the Securities and Exchange Commission (“SEC”) interim reporting principles. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for 2020 as filed with the SEC on February 22, 2021.

The accompanying condensed consolidated financial statements reflect all normal recurring adjustments that are necessary to present fairly the results for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the operating results to be expected for the full year. Our first quarter of the year contains sixteen weeks. Our remaining three quarters consist of twelve weeks.

2. Significant Accounting Policies

Revenues

The following table summarizes disaggregated revenue from contracts with customers by product group:

	Twelve Weeks Ended		Twenty-Eight Weeks Ended	
	July 17, 2021	July 11, 2020	July 17, 2021	July 11, 2020
Percentage of Net sales, by product group:				
Parts and batteries	65%	66%	66%	66%
Accessories and chemicals	21%	22%	21%	21%
Engine maintenance	12%	11%	12%	12%
Other	2%	1%	1%	1%
Total	100%	100%	100%	100%

3. Inventories

Inventories are stated at the lower of cost or market. We used the last in, first out (“LIFO”) method of accounting for approximately 89% of inventories as of July 17, 2021 and 88% of inventories as of January 2, 2021. Under the LIFO method, our Cost of sales reflects the costs of the most recently purchased inventories, while the inventory carrying balance represents the costs for inventories purchased in the twenty-eight weeks ended July 17, 2021 and prior years. We recorded an increase to Cost of sales of \$39.0 million and \$3.1 million for the twelve weeks ended July 17, 2021 and July 11, 2020 and an increase to Cost of sales of \$42.2 million and \$11.9 million for the twenty-eight weeks ended July 17, 2021 and July 11, 2020 to state inventories at LIFO.

Advance Auto Parts, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

An actual valuation of inventory under the LIFO method is performed by us at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on our estimates of expected inventory levels and costs at the end of the year.

Inventory balances were as follows:

<i>(in thousands)</i>	July 17, 2021	January 2, 2021
Inventories at first in, first out ("FIFO")	\$ 4,314,884	\$ 4,382,779
Adjustments to state inventories at LIFO	113,231	155,420
Inventories at LIFO	<u>\$ 4,428,115</u>	<u>\$ 4,538,199</u>

4. Intangible Assets

Our definite-lived intangible assets include customer relationships and non-compete agreements. Amortization expense was \$7.2 million and \$7.3 million for the twelve weeks ended July 17, 2021 and July 11, 2020 and \$16.9 million and \$17.0 million for the twenty-eight weeks ended July 17, 2021 and July 11, 2020.

5. Receivables, net

Receivables, net consist of the following:

<i>(in thousands)</i>	July 17, 2021	January 2, 2021
Trade	\$ 554,107	\$ 449,403
Vendor	242,701	278,180
Other	17,342	34,345
Total receivables	814,150	761,928
Less: Allowance for doubtful accounts	(10,270)	(11,929)
Receivables, net	<u>\$ 803,880</u>	<u>\$ 749,999</u>

6. Long-term Debt and Fair Value of Financial Instruments

Long-term debt consists of the following:

<i>(in thousands)</i>	July 17, 2021	January 2, 2021
4.50% Senior Unsecured Notes due December 1, 2023	\$ 193,113	\$ 192,990
1.75% Senior Unsecured Notes due October 1, 2027	346,122	345,854
3.90% Senior Unsecured Notes due April 15, 2030	494,451	494,140
Total long-term debt	<u>\$ 1,033,686</u>	<u>\$ 1,032,984</u>
Fair value of long-term debt	<u>\$ 1,121,000</u>	<u>\$ 1,145,000</u>

Fair Value of Financial Assets and Liabilities

The fair value of our senior unsecured notes was determined using Level 2 inputs based on quoted market prices. The carrying amounts of our cash and cash equivalents, receivables, accounts payable and accrued expenses approximate their fair values due to the relatively short-term nature of these instruments.

Advance Auto Parts, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

Bank Debt

As of July 17, 2021 and January 2, 2021, we had no outstanding borrowings, \$1.0 billion of borrowing availability and no letters of credit outstanding under our unsecured revolving credit facility (the “Credit Agreement”).

As of July 17, 2021 and January 2, 2021, we had \$100.0 million of bilateral letters of credit issued separately from the Credit Agreement, none of which were drawn upon. These bilateral letters of credit generally have a term of one year or less and primarily serve as collateral for our self-insurance policies.

We were in compliance with financial covenants required by our debt arrangements as of July 17, 2021.

Senior Unsecured Notes

Our 4.50% senior unsecured notes due December 1, 2023 (the “2023 Notes”) were issued in December 2013 at 99.69% of the principal amount of \$450.0 million. The 2023 Notes bear interest at a rate of 4.50% per year payable semi-annually in arrears on June 1 and December 1 of each year.

On April 16, 2020, we issued \$500.0 million aggregate principal amount of senior unsecured notes (the “Original Notes”). The Original Notes were issued at 99.65% of the principal amount of \$500.0 million, are due April 15, 2030 and bear interest at 3.90% per year payable semi-annually in arrears on April 15 and October 15 of each year.

On July 28, 2020, we completed an exchange offer whereby the Original Notes in the aggregate principal amount of \$500.0 million, which were not registered under the Securities Act of 1933, as amended (the “Securities Act”), were exchanged for a like principal amount of 3.90% senior unsecured notes due 2030 (the “Exchange Notes” or “2030 Notes”), which have been registered under the Securities Act. The Original Notes were substantially identical to the Exchange Notes, except that the Exchange Notes are registered under the Securities Act and are not subject to the transfer restrictions and certain registration rights agreement provisions applicable to the Original Notes.

On September 29, 2020, we issued \$350.0 million aggregate principal amount of senior unsecured notes (the “2027 Notes”). The 2027 Notes were issued at 99.67% of the principal amount of \$350.0 million, are due October 1, 2027 and bear interest at 1.75% per year payable semi-annually in arrears on April 1 and October 1 of each year. In connection with the 2027 Notes offering, we incurred \$2.9 million of debt issuance costs. Our 2023 Notes, 2027 Notes and 2030 Notes are collectively referred to herein as our “senior unsecured notes.”

Pursuant to a cash tender offer that was completed on September 29, 2020, we repurchased \$256.3 million of our 2023 Notes with the net proceeds from the 2027 Notes. In connection with this tender offer, we incurred charges relating to tender premiums and debt issuance costs of \$30.5 million and \$1.4 million.

Debt Guarantees

We are a guarantor of loans made by banks to various independently owned Carquest-branded stores that are our customers totaling \$26.7 million and \$23.6 million as of July 17, 2021 and January 2, 2021. These loans are collateralized by security agreements on merchandise inventory and other assets of the borrowers. The approximate value of the inventory collateralized by these agreements is \$65.5 million and \$57.5 million as of July 17, 2021 and January 2, 2021. We believe that the likelihood of performance under these guarantees is remote.

7. Leases

Substantially all of our leases are for facilities and vehicles. The initial term for facilities is typically 5 years to 10 years, with renewal options at 5 year intervals, with the exercise of lease renewal options at our sole discretion. Our vehicle and equipment leases are typically 3 years to 5 years. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Advance Auto Parts, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

Operating lease liabilities consist of the following:

<i>(in thousands)</i>	July 17, 2021	January 2, 2021
Total operating lease liabilities	\$ 2,553,804	\$ 2,477,087
Less: Current portion of operating lease liabilities	(462,633)	(462,588)
Noncurrent operating lease liabilities	\$ 2,091,171	\$ 2,014,499

The current portion of operating lease liabilities is included in Other current liabilities in the accompanying condensed consolidated balance sheets.

Total lease cost is included in Cost of sales and Selling, general and administrative expenses (“SG&A”) in the accompanying condensed consolidated statements of operations and is recorded net of immaterial sublease income. Total lease cost is comprised of the following:

<i>(in thousands)</i>	Twelve Weeks Ended		Twenty-Eight Weeks Ended	
	July 17, 2021	July 11, 2020	July 17, 2021	July 11, 2020
Operating lease cost	\$ 124,184	\$ 119,707	\$ 286,169	\$ 281,512
Variable lease cost	34,195	30,856	77,720	74,392
Total lease cost	\$ 158,379	\$ 150,563	\$ 363,889	\$ 355,904

The future maturity of lease liabilities are as follows:

<i>(in thousands)</i>	July 17, 2021
Remainder of 2021	\$ 279,364
2022	490,926
2023	458,656
2024	388,181
2025	341,696
Thereafter	944,059
Total lease payments	2,902,882
Less: Imputed interest	(349,078)
Total operating lease liabilities	\$ 2,553,804

As of July 17, 2021, our operating lease payments include \$79.7 million related to options to extend lease terms that are reasonably certain of being exercised and exclude \$124.3 million of legally binding minimum lease payments for leases signed, but not yet commenced.

The weighted-average remaining lease term and weighted-average discount rate for our operating leases are 7.0 years and 3.4% as of July 17, 2021. We calculated the weighted-average discount rates using incremental borrowing rates, which equal the rates of interest that we would pay to borrow funds on a fully collateralized basis over a similar term.

Advance Auto Parts, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

Other information relating to our lease liabilities is as follows:

<i>(in thousands)</i>	Twenty-Eight Weeks Ended	
	July 17, 2021	July 11, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 275,358	\$ 305,079
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 284,295	\$ 219,954

8. Warranty Liabilities

The following table presents changes in our warranty reserves:

<i>(in thousands)</i>	Twenty-Eight Weeks Ended	Fifty-Three Weeks Ended
	July 17, 2021	January 2, 2021
Warranty reserve, beginning of period	\$ 14,120	\$ 36,820
Additions to warranty reserves	5,341	14,907
Reduction and utilization of reserve	(16,835)	(37,607)
Warranty reserve, end of period	<u>\$ 2,626</u>	<u>\$ 14,120</u>

9. Share Repurchase Program

On April 19, 2021, our Board of Directors authorized an additional \$1.0 billion share repurchase program. This new authorization was incremental to the \$700.0 million share repurchase program that was authorized by our Board of Directors in November 2019. Our share repurchase program permits the repurchase of our common stock on the open market and in privately negotiated transactions from time to time.

During the twelve weeks ended July 17, 2021, we repurchased 2.0 million shares of our common stock at an aggregate cost of \$393.0 million, or an average price of \$197.52 per share, in connection with our share repurchase program. During the twelve weeks ended July 11, 2020, we purchased no shares of our common stock under the share repurchase program. During the twenty-eight weeks ended July 17, 2021 and July 11, 2020, we repurchased 3.1 million and 0.2 million shares of our common stock under our share repurchase program. The shares repurchased in connection with our share repurchase program during the twenty-eight weeks ended July 17, 2021 and July 11, 2020 were at an aggregate cost of \$563.4 million and \$29.0 million, or an average price of \$183.57 and \$128.36 per share. We had \$868.8 million remaining under our share repurchase program as of July 17, 2021.

Advance Auto Parts, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

10. Earnings per Share

The computation of basic and diluted earnings per share are as follows:

<i>(in thousands, except per share data)</i>	Twelve Weeks Ended		Twenty-Eight Weeks Ended	
	July 17, 2021	July 11, 2020	July 17, 2021	July 11, 2020
Numerator				
Net income applicable to common shares	\$ 178,696	\$ 189,960	\$ 364,626	\$ 233,548
Denominator				
Basic weighted-average common shares	64,745	69,118	65,284	69,154
Dilutive impact of share-based awards	465	176	436	196
Diluted weighted-average common shares ⁽¹⁾	65,210	69,294	65,720	69,350
Basic earnings per common share	\$ 2.76	\$ 2.75	\$ 5.59	\$ 3.38
Diluted earnings per common share	\$ 2.74	\$ 2.74	\$ 5.55	\$ 3.37

⁽¹⁾ For the twelve weeks ended July 17, 2021, there were no restricted stock units (“RSUs”) that were anti-dilutive. For the twenty-eight weeks ended July 17, 2021, 3,670 RSUs were excluded from the diluted calculation as their inclusion would have been anti-dilutive. For the twelve and twenty-eight weeks ended July 11, 2020, 159 thousand and 326 thousand RSUs were excluded from the diluted calculation as their inclusion would have been anti-dilutive.

11. Share-Based Compensation

During the twenty-eight weeks ended July 17, 2021, we granted 201 thousand time-based RSUs, 63 thousand market-based RSUs and 124 thousand Stock Options. The general terms of the time-based, performance-based and market-based RSUs are similar to awards previously granted by us. We grant options to purchase common stock to certain employees under our 2014 Long-Term Incentive Plan. The options are granted at an exercise price equal to the closing market price of Advance's common stock on the date of the grant, expire after 10 years and vest one-third annually over three years. We record compensation expense for the grant date fair value of the option awards evenly over the vesting period.

The weighted-average fair values of the time-based and market-based RSUs granted during the twenty-eight weeks ended July 17, 2021 were \$177.77 and \$204.97 per share. For time-based RSUs, the fair value of each award was determined based on the market price of our stock on the date of grant adjusted for expected dividends during the vesting period, as applicable. The fair value of each market-based RSU was determined using a Monte Carlo simulation model.

The weighted-average fair values of stock options granted during the twenty-eight weeks ended July 17, 2021 was \$47.19 per share. No stock options were granted in the twelve weeks ended July 17, 2021. The fair value was estimated on the date of grant by applying the Black-Scholes option-pricing valuation model.

Total income tax benefit related to share-based compensation expense for the twelve and twenty-eight weeks ended July 17, 2021 was \$4.4 million and \$8.2 million. Total income tax benefit related to share-based compensation expense for the twelve and twenty-eight weeks ended July 11, 2020 was \$2.5 million and \$6.0 million. As of July 17, 2021, there was \$87.5 million of unrecognized compensation expense related to all share-based awards that is expected to be recognized over a weighted-average period of 1.6 years.

ITEM 2. 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 the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended January 2, 2021 (filed with the SEC on February 22, 2021), which we refer to as our 2020 Form 10-K, and our condensed consolidated financial statements and the notes to those statements that appear elsewhere in this report.

Impact of COVID-19 on Our Business

During the ongoing COVID-19 pandemic, we have continued prioritizing protecting the health and safety of our team members and customers; driving financial performance by preserving our cash position, scrutinizing planned spending and prioritizing various initiatives; and ensuring that our team will emerge even stronger following the completion of the pandemic. We have continued to take additional measures to help ensure the health and safety of our team members and customers, including the continuation of social distancing practices, sanitation practices, the use of health check screenings and offering contactless delivery.

Government imposed restrictions and stay at home orders related to the pandemic occurred during the first half of 2020. These contributed to negative impacts to demand, primarily during the last six weeks of the sixteen weeks ended April 18, 2020. However, as the remainder of 2020 progressed, we experienced a significant improvement in demand, particularly in our DIY omnichannel business. This has continued in the twenty-eight weeks ended July 17, 2021, driven by external factors such as multiple rounds of government stimulus, consumers' increased use of personal vehicles and other factors that may have contributed to an increase in DIY automotive projects. In the second quarter of 2021, we began to see improvement in our professional business as well, partially driven by the macro economic factors mentioned prior and the continued reopening of businesses throughout the U.S. In addition, we believe the execution of prioritized internal initiatives, including our new marketing campaign and providing a variety of shopping choices for customers with our Advance Same Day® options, as well as improved store execution, all contributed to the improvement in demand. We have also continued to make progress on the development of our key supply chain initiatives, including cross-banner replenishment and our single warehouse management system.

Despite the increase in Net sales during the twelve and twenty-eight weeks ended July 17, 2021, the COVID-19 pandemic remains an evolving situation. We continue to actively monitor developments that may cause us to take further actions that alter our business operations as may be required by federal, state or local authorities or that we determine are in the best interests of our team members, customers, suppliers and stockholders.

Management Overview

Net sales increased 5.9% in the second quarter of 2021 compared with the same period in the prior year, primarily driven by an increase in comparable store sales resulting from growth in our professional business. We experienced positive comparable store sales in every region, with the West, Northeast and Florida regions having the strongest growth.

We generated diluted earnings per share ("diluted EPS") of \$2.74 during our second quarter of 2021 compared with \$2.74 for the comparable period of 2020. When adjusted for the following non-operational items, our adjusted diluted earnings per share ("Adjusted EPS") for the twelve weeks ended July 17, 2021 and July 11, 2020 were \$3.40 and \$2.95.

	Twelve Weeks Ended		Twenty-Eight Weeks Ended	
	July 17, 2021	July 11, 2020	July 17, 2021	July 11, 2020
Transformation expenses	\$ 0.13	\$ 0.11	\$ 0.53	\$ 0.30
General Parts International, Inc. ("GPI") amortization of acquired intangible assets	\$ 0.08	\$ 0.07	\$ 0.17	\$ 0.16
LIFO impacts	\$ 0.45	\$ 0.03	\$ 0.48	\$ 0.12

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 Second Quarter Financial Results

A high-level summary of our financial results for the second quarter of 2021 includes:

- Net sales during the second quarter of 2021 were \$2.6 billion, an increase of 5.9% compared with the second quarter of 2020, primarily driven by an increase in comparable store sales of 5.8%, led by a strong recovery in our professional business.
- Gross profit margin for the second quarter of 2021 was 44.9% of Net sales, an increase of 104 basis points compared with the second quarter of 2020. This increase was primarily due to improvements in category management initiatives, including strategic sourcing, strategic pricing and owned brand expansion, partially offset by increased LIFO related expenses, inflationary costs within supply chain and unfavorable channel mix.
- SG&A expenses for the second quarter of 2021 were 35.6% of Net sales, an increase of 231 basis points compared with the second quarter of 2020. This unfavorable impact was primarily driven by higher incentive compensation within our professional business, wage inflation within store labor, higher delivery costs associated with professional delivery and normalized hours of operation compared to the prior year. These costs were partially offset by a year over year decrease in COVID-19 related expenses.

Business and Risks 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 strategic initiatives to help build a foundation for long-term success across the organization, which include:

- Continued development of a demand-based assortment, leveraging purchase and search history from our common catalog, versus our existing push-down supply approach.
- Advancement towards optimizing our footprint by market, including consolidating our Worldpac and Autopart International businesses, to drive share, repurpose our in-market store and asset base and streamline our distribution network.
- Continued evolution of our marketing campaigns, which focus on our customers and how we serve them every day with care and speed and the launch of the iconic DieHard® brand.
- Progress in the implementation of a more efficient end-to-end supply chain to deliver our broad assortment.
- Ongoing enhancement of Advance Same Day® Curbside Pick Up, Advance Same Day Home Delivery and our mobile application and e-commerce performance.
- Actively pursuing new store openings in 2021, including through lease acquisition opportunities as available and appropriate, in existing markets and new markets, as well as expansion of our independent Carquest network.

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. Refer to our 2020 Form 10-K, as updated by our subsequent filings with the SEC, and the “*Impact of COVID-19 on Our Business*” section included within this Form 10-Q.

Stores and Branches

Key factors 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. During the twenty-eight weeks ended July 17, 2021, 18 stores and branches were opened and 31 were closed or consolidated, resulting in a total of 4,963 stores and branches as of July 17, 2021, compared with a total of 4,976 stores and branches as of January 2, 2021.

Results of Operations

(\$ in millions)	Twelve Weeks Ended						\$	Basis Points			
	July 17, 2021			July 11, 2020							
Net sales	\$	2,649.4	100.0	%	\$	2,501.4	100.0	%	\$	148.0	—
Cost of sales		1,460.2	55.1			1,404.7	56.2			(55.5)	(104)
Gross profit		1,189.3	44.9			1,096.7	43.8			92.6	104
SG&A		944.3	35.6			833.9	33.3			(110.4)	(231)
Operating income		244.9	9.2			262.8	10.5			(17.9)	(126)
Interest expense		(8.3)	(0.3)			(13.4)	(0.5)			5.1	22
Other income, net		1.1	0.0			3.1	0.1			(2.0)	(8)
Provision for income taxes		59.1	2.2			62.6	2.5			3.5	27
Net income	\$	178.7	6.7	%	\$	190.0	7.6	%	\$	(11.3)	(85)

(\$ in millions)	Twenty-Eight Weeks Ended						\$	Basis Points			
	July 17, 2021			July 11, 2020							
Net sales	\$	5,979.8	100.0	%	\$	5,199.3	100.0	%	\$	780.5	—
Cost of sales		3,305.6	55.3			2,929.8	56.4			(375.8)	(107)
Gross profit		2,674.2	44.7			2,269.4	43.6			404.8	107
SG&A		2,177.1	36.4			1,928.2	37.1			(248.9)	68
Operating income		497.1	8.3			341.3	6.6			155.8	175
Interest expense		(19.5)	(0.3)			(25.7)	(0.5)			6.2	17
Other income (expense), net		6.0	0.1			(2.9)	(0.1)			8.9	16
Provision for income taxes		118.9	2.0			79.2	1.5			(39.7)	(47)
Net income	\$	364.6	6.1	%	\$	233.5	4.5	%	\$	131.1	161

Note: Table amounts may not foot due to rounding.

Net Sales

Net sales for the twelve weeks ended July 17, 2021 increased 5.9% compared with the same period of 2020, primarily driven by an increase in comparable store sales resulting from strong recovery in our Professional business. We experienced positive comparable store sales in every region, with the West, Northeast and Florida regions having the strongest growth. The Midwest, Central and Southeast regions had the lowest comparable store sales growth.

For the twenty-eight weeks ended July 17, 2021, Net sales increased 15.0% compared with the same period of 2020, primarily driven by a 15.6% increase in comparable store sales resulting from an increase in demand in our DIY business and a strong recovery of our professional business compared with prior year, which was significantly impacted by the COVID-19 pandemic.

We calculate comparable store sales based on the change in store or branch sales starting once a location has been open for 13 complete accounting periods (approximately one year) and by including e-commerce sales. Sales to independently owned Carquest stores are excluded from our comparable store sales. Acquired stores are included in our comparable store sales once the stores have completed 13 complete accounting periods following the acquisition date. We include sales from relocated stores in comparable store sales from the original date of opening.

Gross Profit

Gross profit for the twelve weeks ended July 17, 2021 was \$1,189.3 million, or 44.9% of Net sales, compared with \$1,096.7 million, or 43.8% of Net sales, for the twelve weeks ended July 11, 2020. This increase in Gross profit as a percentage of Net sales was primarily due to improvements in category management initiatives, including strategic sourcing, strategic pricing and owned brand expansion, partially offset by increased LIFO related expenses, inflationary costs within supply chain and unfavorable channel mix.

Gross profit for the twenty-eight weeks ended July 17, 2021 was \$2,674.2 million, or 44.7% of Net sales, compared with \$2,269.4 million, or 43.6% of Net sales for the twenty-eight weeks ended July 11, 2020. This increase in Gross profit as a percentage of Net sales was primarily due to improvements in net pricing, increases in vendor related funding and favorable channel mix, partially offset by increased LIFO related expenses.

As a result of changes in our LIFO reserve, an expense of \$39.0 million and \$3.1 million were included in the twelve weeks ended July 17, 2021 and July 11, 2020. An expense of \$42.2 million and \$11.9 million were included in the twenty-eight weeks ended July 17, 2021 and July 11, 2020.

Selling, general and administrative expenses

SG&A expenses for the twelve weeks ended July 17, 2021 were \$944.3 million, or 35.6% of Net sales, compared with \$833.9 million, or 33.3% of Net sales, for the twelve weeks ended July 11, 2020. This increase of 231 basis points compared with the second quarter of 2020 was primarily driven by higher incentive compensation within our professional business, wage inflation within store labor, higher delivery costs associated with professional delivery and normalized hours of operation compared to the prior year. These costs were partially offset by a year over year decrease in COVID-19 related expenses.

SG&A for the twenty-eight weeks ended July 17, 2021 was \$2,177.1 million, or 36.4% of Net sales, compared with \$1,928.2 million, or 37.1% of Net sales, for the twenty-eight weeks ended July 11, 2020. This decrease in SG&A as a percentage of Net sales was driven by fixed cost leverage, primarily related to payroll, lower insurance and claims related expenses attributable to our continued focus on safety and a year over year decrease in COVID-19 related expenses. The savings were partially offset by an increase in marketing expenses and third-party service contracts related to our information technology transformational plans.

Provision for income taxes

Our Provision for income taxes for the twelve weeks ended July 17, 2021 was \$59.1 million, compared with \$62.6 million for the twelve weeks ended July 11, 2020. Our effective tax rate was 24.8% for the twelve weeks ended July 17, 2021 and July 11, 2020.

Our Provision for income taxes for the twenty-eight weeks ended July 17, 2021 was \$118.9 million, compared with \$79.2 million for the twenty-eight weeks ended July 11, 2020. Our effective tax rate was 24.6% and 25.3% for the twenty-eight weeks ended July 17, 2021 and July 11, 2020.

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, including Adjusted net income and Adjusted EPS, 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) LIFO impacts; (2) transformation expenses under our strategic business plan; (3) non-cash amortization related to the acquired GPI intangible assets; and (4) other non-recurring adjustments are 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 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.

LIFO impacts — Beginning the first quarter of 2021, to assist in comparing our current operating results with the operational performance of other companies in our industry, the impact of LIFO on our results of operations is a reconciling item to arrive at non-GAAP financial measures.

Transformation expenses — Costs incurred in connection with our business plan that focuses on specific transformative activities that relate to the integration and streamlining of our operating structure across the enterprise, that we do not view to be normal cash operating expenses. These expenses include, but are not limited to the following:

- Restructuring costs - Costs primarily relating to the early termination of lease obligations, asset impairment charges, other facility closure costs and Team Member severance in connection with our voluntary retirement program and continued optimization of our organization.
- Third-party professional services - Costs primarily relating to services rendered by vendors for assisting us with the development of various information technology and supply chain projects in connection with our enterprise integration initiatives.
- Other significant costs - Costs primarily relating to accelerated depreciation of various legacy information technology and supply chain systems in connection with our enterprise integration initiatives and temporary off-site workspace for project teams who are primarily working on the development of specific transformative activities that relate to the integration and streamlining of our operating structure across the enterprise.

GPI amortization of acquired intangible assets — As part of our acquisition of GPI, we obtained various intangible assets, including customer relationships, non-compete contracts and favorable lease agreements, which we expect to be subject to amortization through 2025.

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

(in thousands, except per share data)	Twelve Weeks Ended		Twenty-Eight Weeks Ended	
	July 17, 2021	July 11, 2020	July 17, 2021	July 11, 2020
Net income (GAAP)	\$ 178,696	\$ 189,960	\$ 364,626	\$ 233,548
Cost of sales adjustments:				
Transformation expenses:				
Other significant costs	165	295	2,468	1,548
LIFO impacts ⁽¹⁾	39,042	3,111	42,189	11,948
SG&A adjustments:				
GPI amortization of acquired intangible assets	6,358	6,319	14,905	14,762
Transformation expenses:				
Restructuring costs	3,961	5,577	24,703	9,641
Third-party professional services	5,537	1,281	13,571	4,264
Other significant costs	2,032	2,962	5,914	12,122
Other income adjustment	—	—	(36)	—
Provision for income taxes on adjustments ⁽²⁾	(14,274)	(4,886)	(25,928)	(13,571)
Adjusted net income (Non-GAAP)	\$ 221,517	\$ 204,619	\$ 442,412	\$ 274,262
Diluted earnings per share (GAAP)	\$ 2.74	\$ 2.74	\$ 5.55	\$ 3.37
Adjustments, net of tax	0.66	0.21	1.18	0.58
Adjusted EPS (Non-GAAP)	\$ 3.40	\$ 2.95	\$ 6.73	\$ 3.95

⁽¹⁾ The twelve and twenty-eight weeks ended July 11, 2020 non-GAAP expenses have been adjusted to be comparable with our 2021 presentation.

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

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, funding of initiatives under our strategic business plan and other operational priorities. Historically, we have used available funds to repay borrowings under our credit facility, to periodically repurchase shares of our common stock under our stock repurchase program, to pay our quarterly cash dividends and for acquisitions; however, given uncertainties related to the COVID-19 pandemic, our future uses of cash may differ if our relative priorities, including the weight we place on the preservation of cash and liquidity, change. Typically, we have funded our cash requirements primarily through cash generated from operations, supplemented by borrowings under our credit facilities and notes offerings as needed. We believe funds generated from our expected results of operations, available cash and cash equivalents, and available borrowings under our credit facility will be sufficient to fund our obligations for the next year.

Share Repurchase Program

On April 19, 2021, our Board of Directors authorized an additional \$1.0 billion to our current share repurchase program. This authorization was incremental to the \$700.0 million that was authorized previously by our Board of Directors in November 2019.

During the twelve weeks ended July 17, 2021, we repurchased 2.0 million shares of our common stock at an aggregate cost of \$393.0 million, or an average price of \$197.52 per share, in connection with our share repurchase program. During the twelve weeks ended July 11, 2020, we purchased no shares of our common stock under the share repurchase program. During the twenty-eight weeks ended July 17, 2021 and July 11, 2020, we repurchased 3.1 million and 0.2 million shares of our common stock under our share repurchase program. The shares repurchased in connection with our share repurchase program during the twenty-eight weeks ended July 17, 2021 and July 11, 2020 were at an aggregate cost of \$563.4 million and \$29.0 million, or an average price of \$183.57 and \$128.36 per share. We had \$868.8 million remaining under our share repurchase program as of July 17, 2021.

Analysis of Cash Flows

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

(in thousands)	Twenty-Eight Weeks Ended	
	July 17, 2021	July 11, 2020
Cash flows provided by operating activities	\$ 776,159	\$ 448,210
Cash flows used in investing activities	(127,716)	(140,030)
Cash flows (used in) provided by financing activities	(676,441)	417,723
Effect of exchange rate changes on cash	2,293	(3,066)
Net (decrease) increase in Cash and cash equivalents	\$ (25,705)	\$ 722,837

Operating Activities

For the twenty-eight weeks ended July 17, 2021, Cash flows provided by operating activities increased by \$327.9 million to \$776.2 million compared with the same period of the prior year. The net increase in cash flows provided by operating activities compared with the prior year was primarily driven by the increased cash generated from operations and improvements in working capital. In the current year, working capital increased primarily due to a decrease in cash used by Accounts payable and as a result of a decrease in Inventories, partially offset by a decrease in cash provided by Receivables, net.

Investing Activities

For the twenty-eight weeks ended July 17, 2021, Cash flows used in investing activities decreased by \$12.3 million to \$127.7 million compared with the same period of the prior year. Cash used in investing activities for the twenty-eight weeks ended July 17, 2021 consisted primarily of purchases of property and equipment of \$129.6 million primarily driven by investments in supply chain and information technology as we remain focused on the complete back office integration throughout the enterprise.

Financing Activities

For the twenty-eight weeks ended July 17, 2021, Cash flows used in financing activities was \$676.4 million, a decrease of \$1,094.2 million compared with the same period of the prior year. The change over prior year was primarily attributable to the repurchase of \$563.4 million of common stock under our share repurchase program and dividends paid of \$98.0 million during the twenty-eight weeks ended July 17, 2021 compared with share repurchases of \$29.0 million of common stock under our share repurchase program and dividends paid of \$39.0 million for the twenty-eight weeks ended July 11, 2020. Additionally, we issued \$500 million in aggregate principal amount of senior unsecured notes during the twenty-eight weeks ended July 11, 2020.

Our Board of Directors has declared a quarterly cash dividend since 2006. Any payments of dividends in the future will be at the discretion of our Board of Directors and will depend upon our results of operations, cash flows, capital requirements and other factors deemed relevant by our Board of Directors. On August 10, 2021 we declared a regular cash dividend of \$1.00 per share to be paid on October 1, 2021 to all common stockholders of record as of September 17, 2021.

Long-Term Debt

As of July 17, 2021, 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 the Credit Agreement 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 be limited. In addition, declines 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.

For additional information on transactions entered into relating to Long-term debt during the twenty-eight weeks ended July 17, 2021, refer to Note 6, *Long-term Debt and Fair Value of Financial Instruments* of the Notes to the Condensed Consolidated Financial Statements included herein.

Critical Accounting Policies and Estimates

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.

During the twenty-eight weeks ended July 17, 2021, there were no changes to the critical accounting policies discussed in our 2020 Form 10-K. For a complete discussion of our critical accounting policies, refer to the 2020 Form 10-K.

Supplemental Guarantor Financial Information

The following is a description of the terms and conditions of the guarantees with respect to all senior unsecured notes for which Advance Auto Parts, Inc. ("Issuer") is an issuer or provides full and unconditional guarantee.

Certain 100% wholly owned domestic subsidiaries of the Issuer, including our Material Subsidiaries (as defined in the Credit Agreement) serve as guarantors ("Guarantor Subsidiaries") of our senior unsecured notes. The subsidiary guarantees related to our senior unsecured notes are full and unconditional and joint and several, and there are no restrictions on the ability of the Issuer to obtain funds from its Guarantor Subsidiaries. Certain of our wholly owned subsidiaries, including all of our foreign subsidiaries and captive insurance subsidiary, do not serve as guarantors of our senior unsecured notes ("Non-Guarantor Subsidiaries").

The following tables present summarized financial information for the Issuer and Guarantor Subsidiaries on a combined basis after elimination of (i) intercompany transactions and balances among the Issuer and the Guarantor Subsidiaries and (ii) equity in earnings from and investments in any subsidiaries that are a Non-Guarantor Subsidiary.

Summarized Financial Information

Balance Sheets

(in millions)	Issuer and Guarantor Subsidiaries	
	July 17, 2021	January 2, 2021
Assets		
Current assets ⁽¹⁾	\$ 5,638.7	\$ 5,796.3
Non-current assets ⁽²⁾	\$ 5,435.2	\$ 5,395.4
Liabilities		
Current liabilities	\$ 4,634.3	\$ 4,539.1
Intercompany payables, net due to Non-Guarantor Subsidiaries	\$ 237.0	\$ 290.7
Other non-current liabilities	\$ 3,487.9	\$ 3,401.7

(1) Current assets includes \$4,189.7 million and \$4,318.6 million of Inventories as of July 17, 2021 and January 2, 2021.

(2) Non-current assets includes \$1,570.8 million and \$1,585.9 million of Goodwill and Intangible assets, net as of July 17, 2021 and January 2, 2021.

Statements of Operations

(in millions)	Issuer and Guarantor Subsidiaries	
	Twenty-Eight Weeks Ended	Fifty-Three Weeks Ended
	July 17, 2021	January 2, 2021
Net sales	\$ 5,758.4	\$ 9,735.8
Gross profit	\$ 2,573.1	\$ 4,335.1
Operating income	\$ 518.3	\$ 687.8
Income before provision for income taxes	\$ 503.4	\$ 598.0
Net income	\$ 381.3	\$ 453.4

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no significant changes in our exposure to market risk since January 2, 2021. Refer to “Item 7A. Quantitative and Qualitative Disclosures about Market Risk” in our 2020 Form 10-K.

ITEM 4. 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 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 of our internal controls may vary over time.

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 July 17, 2021. 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.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our quarter ended July 17, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. 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. On February 7, 2020 the court granted in part and denied in part our motion to dismiss. The surviving claims are subject to discovery. On November 6, 2020 the court granted the plaintiff’s motion for class certification. We strongly dispute the allegations of the complaint and will continue to defend the case vigorously. On March 15, 2021, we moved for reconsideration of the order denying in part our motion to dismiss. This motion is pending before the court. On February 17, 2021, a derivative complaint filed on April 29, 2020 in the U.S. District Court for the District of Delaware was dismissed with prejudice. A second derivative claim filed on August 13, 2020 in the Delaware Court of Chancery was voluntarily dismissed on March 30, 2021.

ITEM 1A. RISK FACTORS

Please refer to “Item 1A. Risk Factors” found in our 2020 Form 10-K filed for the year ended January 2, 2021, as updated by our subsequent filings with the SEC, for risks that, if they were to occur, could materially adversely affect our business, financial condition, results of operations, cash flows and future prospects, which could in turn materially affect the price of our common stock.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth the information with respect to repurchases of our common stock for the quarter ended July 17, 2021:

	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 ⁽²⁾	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾ (in thousands)
April 25, 2021 to May 22, 2021	55	\$ 161.16	—	\$ 1,261,864
May 23, 2021 to June 19, 2021	1,168,593	\$ 196.18	1,154,910	\$ 1,035,202
June 20, 2021 to July 17, 2021	835,177	\$ 199.27	834,839	\$ 868,844
Total	<u>2,003,825</u>	\$ 197.47	<u>1,989,749</u>	

⁽¹⁾ The aggregate cost of repurchasing shares in connection with the net settlement of shares issued as a result of the vesting of restricted stock units was \$2.7 million, or an average price of \$189.73 per share, during the twelve weeks ended July 17, 2021.

⁽²⁾ On April 19, 2021, our Board of Directors authorized an additional \$1.0 billion share repurchase program. This new authorization was incremental to the \$700.0 million share repurchase program that was authorized by our Board of Directors in November 2019.

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Exhibit	Filing Date	
3.1	Restated Certificate of Incorporation of Advance Auto Parts, Inc., effective May 24, 2017.	10-Q	3.1	8/14/2018	
3.2	Amended and Restated Bylaws of Advance Auto Parts, Inc., effective August 12, 2020.	10-Q	3.2	8/18/2020	
22.1	List of the Issuer and its Guarantor Subsidiaries.				X
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
101.SCH	Inline XBRL Taxonomy Extension Schema Document.				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.				X
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document.				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.				X
104.1	Cover Page Interactive Data file (Embedded within Inline XBRL Documents and Included in Exhibit 101.)				

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ADVANCE AUTO PARTS, INC.

/s/ Jeffrey W. Shepherd

Jeffrey W. Shepherd
Executive Vice President, Chief Financial Officer

Date: August 24, 2021

List of the Issuer and its Guarantor Subsidiaries

As of July 17, 2021, the following subsidiaries of Advance Auto Parts, Inc. (the “Issuer”) guarantee the 4.50% senior unsecured notes due December 1, 2023 (the “2023 Notes”), the 1.75% senior unsecured notes due October 1, 2027 (the “2027 Notes”) and the 3.90% senior unsecured notes due April 15, 2030 (the “2030 Notes”), each issued by the Issuer:

Entity	Jurisdiction of Incorporation or Organization	2023 Notes	2027 Notes	2030 No
Advance Auto Parts, Inc.	Delaware	Issuer	Issuer	Issuer
AAP Financial Services, Inc.	Virginia	Guarantor	Guarantor	Guarant
Advance Auto Business Support, LLC	Virginia	Guarantor	Guarantor	Guarant
Advance Auto Innovations, LLC	Virginia	Guarantor	Guarantor	Guarant
Advance e-Service Solutions, Inc.	Virginia	Guarantor	Guarantor	Guarant
Advance Patriot, Inc.	Delaware	Guarantor	Guarantor	Guarant
Advance Stores Company, Incorporated	Virginia	Guarantor	Guarantor	Guarant
Advance Trucking Corporation	Virginia	Guarantor	Guarantor	Guarant
Autopart International, Inc.	Massachusetts	Guarantor	Guarantor	Guarant
B.W.P. Distributors, Inc.	New York	Guarantor	Guarantor	Guarant
Crossroads Global Trading Corp.	Virginia	Guarantor	Guarantor	Guarant
Discount Auto Parts, LLC	Virginia	Guarantor	Guarantor	Guarant
Driverside, Inc.	Delaware	Guarantor	Guarantor	Guarant
E-Advance, LLC	Virginia	Guarantor	Guarantor	Guarant
General Parts Distribution LLC	North Carolina	Guarantor	Guarantor	Guarant
General Parts International, Inc.	North Carolina	Guarantor	Guarantor	Guarant
General Parts, Inc.	North Carolina	Guarantor	Guarantor	Guarant
Golden State Supply LLC	Nevada	Guarantor	Guarantor	Guarant
GPI Technologies LLC	Delaware	Guarantor	Guarantor	Guarant
Lee Holdings NC, Inc.	Delaware	Guarantor	Guarantor	Guarant
MotoLogic, Inc.	Delaware	Guarantor	Guarantor	Guarant
Straus-Frank Enterprises, LLC	Texas	Guarantor	Guarantor	Guarant
Western Auto of Puerto Rico, Inc.	Delaware	Guarantor	Guarantor	Guarant
Western Auto of St. Thomas, Inc.	Delaware	Guarantor	Guarantor	Guarant
WORLDPAK Puerto Rico, LLC	Delaware	Guarantor	Guarantor	Guarant
WORLDPAK, Inc.	Delaware	Guarantor	Guarantor	Guarant
Worldwide Auto Parts, Inc.	California	Guarantor	Guarantor	Guarant

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Thomas R. Greco, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Advance Auto Parts, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 24, 2021

/s/ Thomas R. Greco

Thomas R. Greco

President and Chief Executive Officer and Director

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeffrey W. Shepherd, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Advance Auto Parts, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 24, 2021

/s/ Jeffrey W. Shepherd

Jeffrey W. Shepherd

Executive Vice President, Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Thomas R. Greco, certify, pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and 18 U.S.C. Section 1350, that, to my knowledge, the Quarterly Report on Form 10-Q of Advance Auto Parts, Inc. for the quarterly period ended July 17, 2021 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act and that the information contained in such Report fairly presents in all material respects the financial condition and results of operations of the Company. The foregoing certification is being furnished to the Securities and Exchange Commission as part of the accompanying Report.

Date: August 24, 2021

/s/ Thomas R. Greco

Thomas R. Greco

President and Chief Executive Officer and Director

I, Jeffrey W. Shepherd, certify, pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and 18 U.S.C. Section 1350, that, to my knowledge, the Quarterly Report on Form 10-Q of Advance Auto Parts, Inc. for the quarterly period ended July 17, 2021 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act and that the information contained in such Report fairly presents in all material respects the financial condition and results of operations of the Company. The foregoing certification is being furnished to the Securities and Exchange Commission as part of the accompanying Report.

Date: August 24, 2021

/s/ Jeffrey W. Shepherd

Jeffrey W. Shepherd

Executive Vice President, Chief Financial Officer