

MCINTIRE INVESTMENT INSTITUTE

AT THE UNIVERSITY OF VIRGINIA



Long – Dorman Products (NASDAQ: DORM)



Marshall Masterson | 3/28/13



DORMAN PRODUCTS

- Business Overview
- Thesis Points
- Risks
- Conclusion



STOCK PERFORMANCE – 3/25/13

NASDAQ: DORM -- \$36.86 as of 3/25/13



PE: 20.31

52 Week: 21.93 – 38.45

EPS: 1.81

Market Cap: 1.34B

Beta: 1.22

PEG Ratio: 0.60127

D/E: 0.0

FCF: 16.67 million



DORMAN PRODUCTS

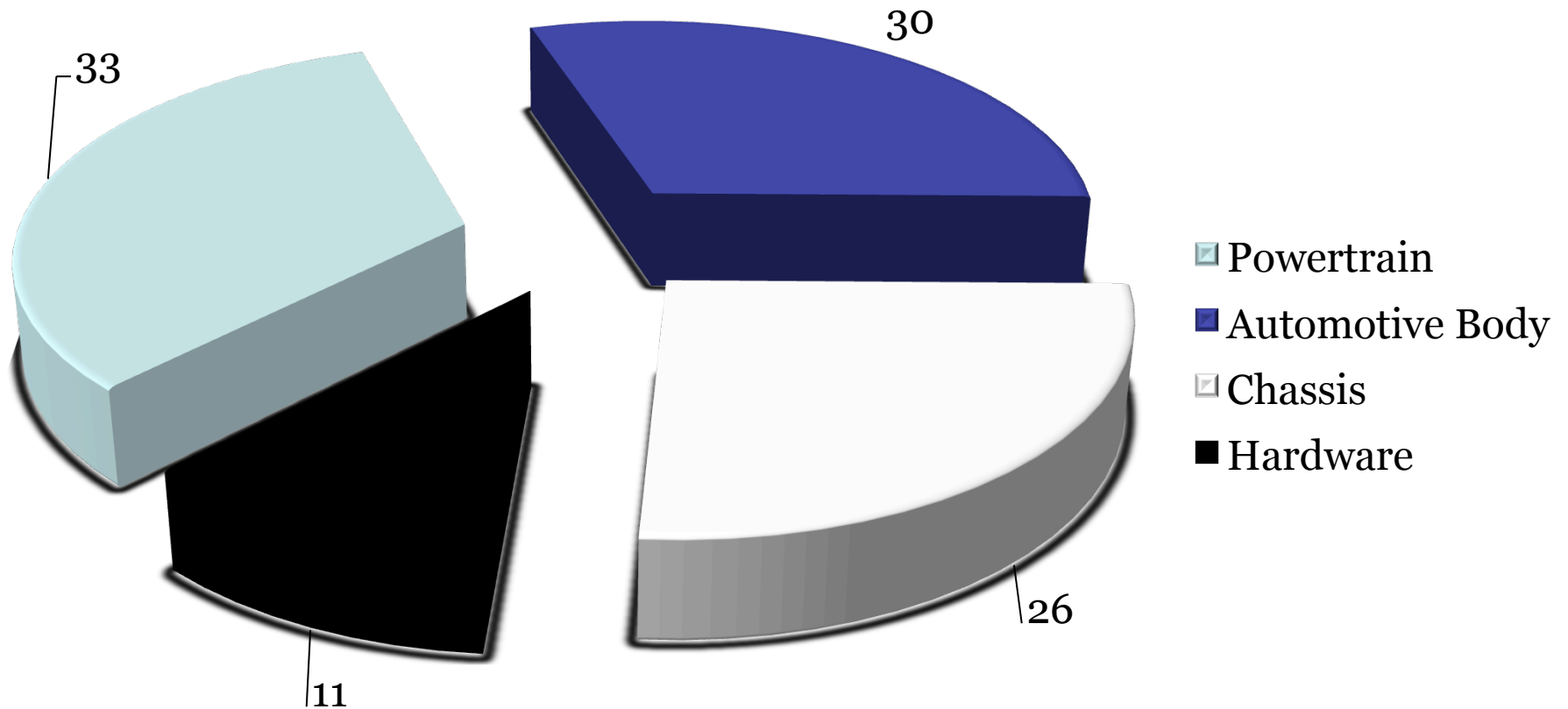
- Founded in 1978
- Supplier of automotive and light truck replacement parts, fasteners, and service line products for the automotive aftermarket
- Design, engineer and market 133,000 SKUs
- Nine sub-brands

DORMAN PRODUCTS

- 85 percent of products sold are under the Dorman Products brand name
- Products are sold primarily through:
 - Automotive aftermarket retailers
 - Warehouse distributors
 - Specialty markets
 - Salvage yards
- Majority of products fall within “Repair” Segment

DORMAN PRODUCTS BREAKDOWN OF NET SALES

Sales by Category



CUSTOMER VALUE PROPOSITION

- Main customers include:
 - Retail
 - Traditional
- Aftermarket supplier of original equipment, “formerly dealer only,” parts
 - Originally available at only OEMs and salvage yards

ORIGINAL EQUIPMENT MANUFACTURER PRODUCTS

Examples of products marketed by Dorman Products:

- Intake Manifolds
- Exhaust Manifolds
- Oil Cooler Lines
- Window Regulators
- Radiator Fan Assemblies
- Power Steering Pulleys
- Harmonic Balancers
- Tire Pressure Monitor Sensors
- Keyless Entry Devices



HOW IS DORMAN DIFFERENT FROM THE COMPETITION?

- First mover
- Innovator
- Virtually no debt
- No parts manufacturing
- Physical products and kits
 - No training to technicians
- Large product variety with a “pull” emphasis
- Competes with the OE Dealers, not with other aftermarket players



MISPERCEPTION

Wall Street thinks that Dorman Products is a Sell. Here's why:

- People will buy new cars as economic conditions improve
- Majority of revenues from five major customers
 - Since they are prone to softness in revenue, so is Dorman
- Insiders have been selling

THESIS

1

- Dorman Products generates strong operating cash flows and has good financials

2

- Trends in the U.S. point toward continued growth in the automotive aftermarket industry

3

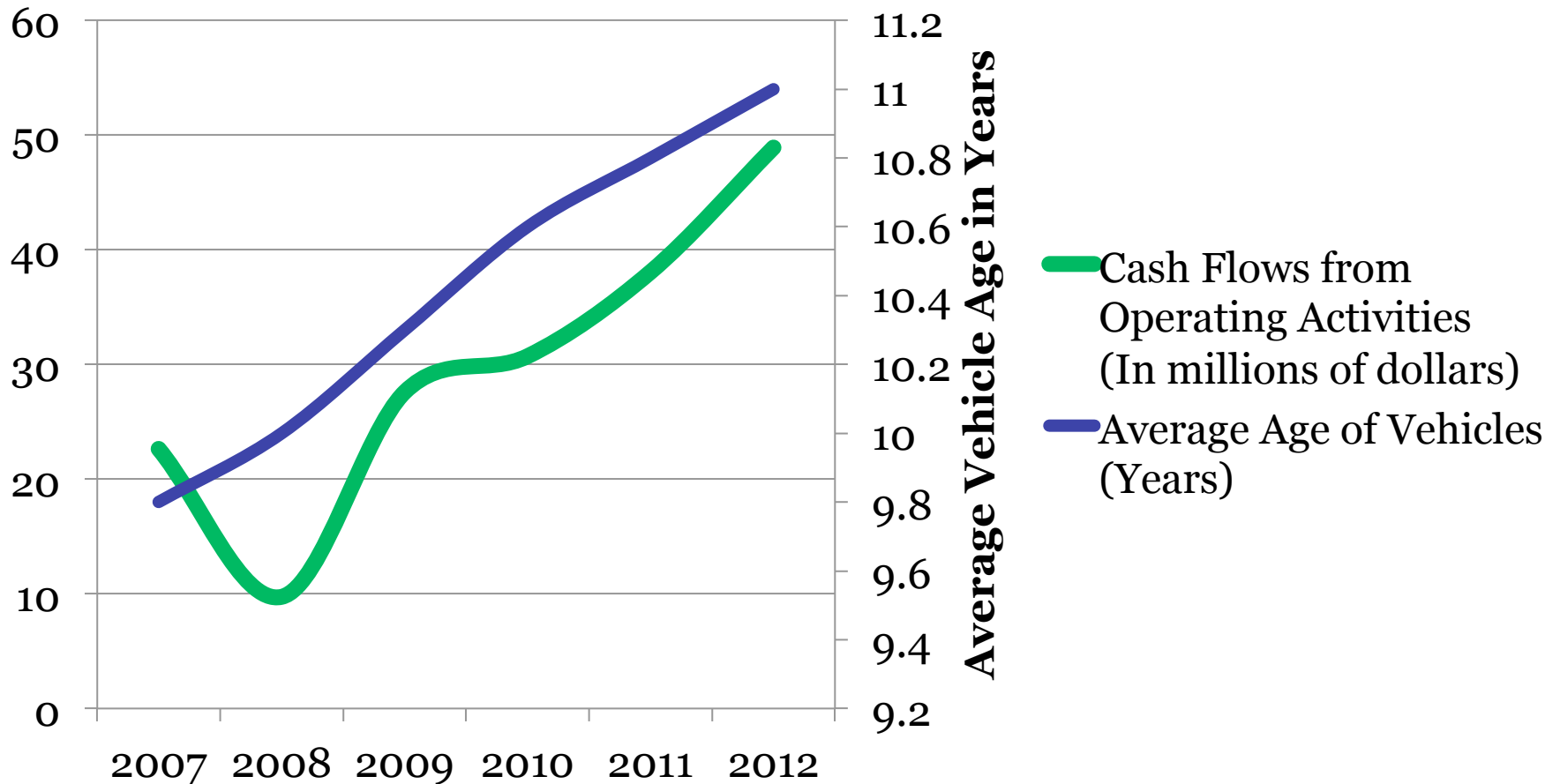
- The product development team sources new ideas by using knowledge of parts with high failure rates

CASH FLOW

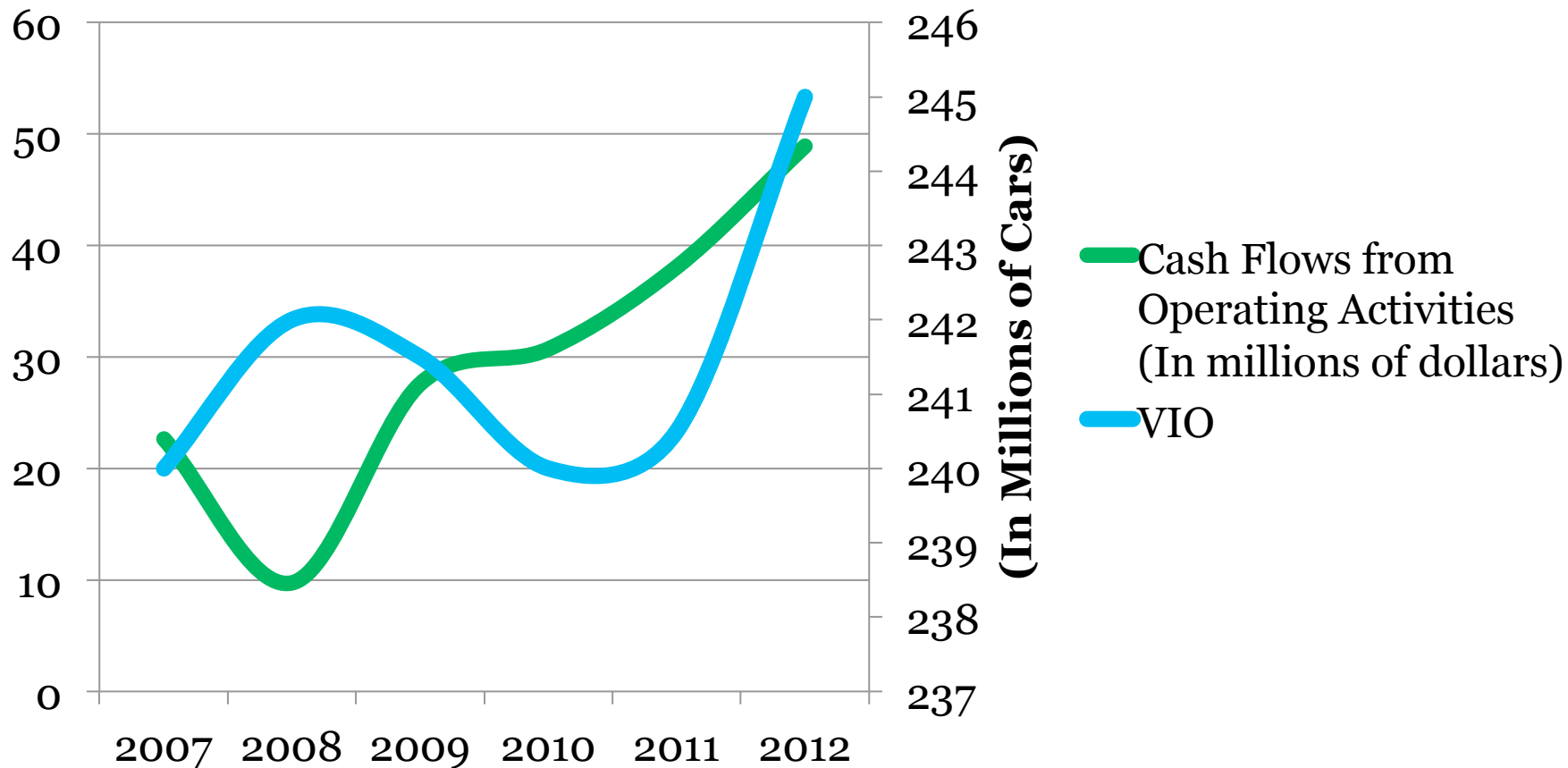
In 2012:

- \$48.9 million in cash flows from operations up from \$38 million in 2011
- Repayment of \$53.3 million in long-term debt
- Paid a special dividend of \$1.50 per share

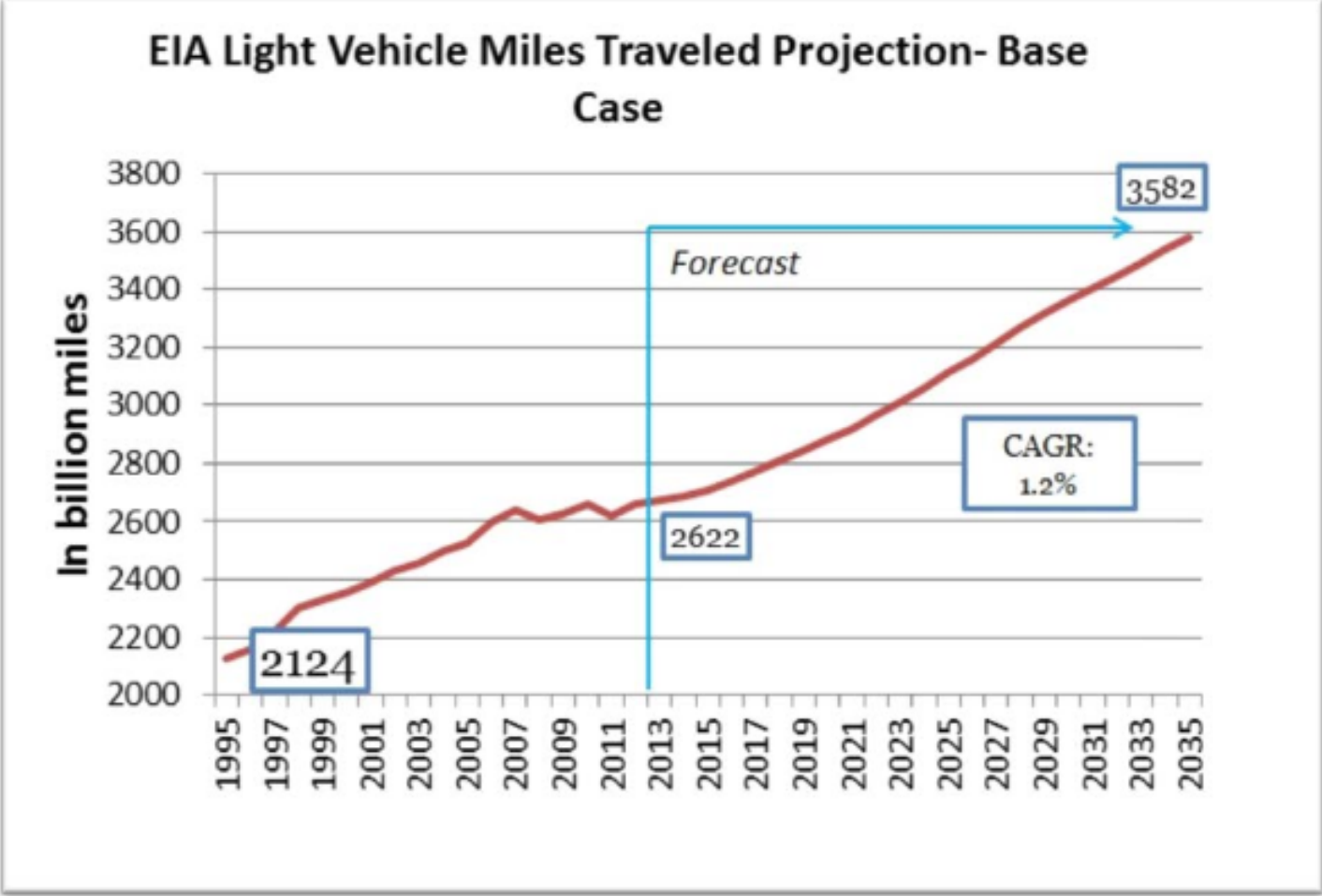
CASH FLOW VS. AVERAGE VEHICLE AGE



VEHICLES IN OPERATION VS. OPERATING PROFITS



FORECASTED MILES DRIVEN BY THE US ENERGY INFORMATION ADMINISTRATION (EIA)



THE FEEDBACK LOOP

- In-house staff
- Network for product suggestions
- Installer → Check Dorman → Complain
- The real competitors are the OE Dealers
- Systems are in place to alert customers about new products
 - Service Guide

CATALYSTS

- 2nd and 3rd quarter earnings releases
- Auto retailer earnings releases



RISKS

- Shelf space may not be available for new products
- Demand slows for aftermarket parts
- Increase in patent filings may adversely effect business
- New part failure rates decrease dramatically

- Initiate position at 3%
- Disclosure: I do not own shares in Dorman Products. Nor do I intend to initiate a position within the next 72 hours.

SUB-BRANDS

DORMAN®
OE Solutions™

- Automotive replacement parts, such as intake manifolds, exhaust manifolds, oil cooler lines, window regulators, harmonic balancers and radiator fan assemblies.

DORMAN® HELP!®

- Automotive replacement parts, including window handles, switches, door hardware, interior trim parts, headlamp aiming screws and retainer rings, radiator parts, battery hold-down bolts and repair kits, valve train parts and power steering filler caps.

DORMAN® TECHoice™

- A value line of automotive replacement parts, including mass air flow sensors, belt tensioners, and idler pulleys.

DORMAN® AutoGrade™

- A line of application specific and general automotive hardware that is a necessary element to a complete repair. Product categories include body hardware, general automotive fasteners, oil drain plugs, and wheel hardware.

DORMAN® Conduct-Tite!®

- A selection of electrical connectors, wire, tools, testers, and accessories.

DORMAN® FirstStop™

- Value priced technician quality brake and clutch program containing more than 8,500 SKU's.

DORMAN®
Symmetry®

- A line of home hardware and home organization products specifically designed for retail merchandisers.

DORMAN® Renew®

- A selection of remanufactured automotive replacement parts engineered from new replacement parts or renewed parts. Products include transfer case modules and instrument clusters.

DORMAN®
HD Solutions™

- A line of heavy duty aftermarket parts for class 4-8 heavy vehicles. Coverage includes coolant tubes, door handles and other body parts, fluid reservoirs, headlights and lighting, hood components, window regulators, and wiper transmissions.

