

AutoNation, Inc. (AN)

\$43.55 (As of 07/14/20)

Price Target (6-12 Months): **\$50.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 07/13/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: D

Summary

AutoNation plans to be focused on its core business, while diversifying its brand-extension strategy and alliances. AutoNation aims to synergize network and create an efficient core business. The firm's digital efforts to boost sales bode well. It is expected to roll out its digital F&I component which will likely be part of a broader data-powered digital platform. In response to the uncertainty caused by coronavirus, AutoNation initiated a series of cost savings throughout the enterprise, including staffing adjustments and compensation cuts. It has started to witness recoveries across all business lines from the declines seen in March, as states continue to ease the shelter-in-place strategies and begin reopening processes, which were imposed due to the coronavirus outbreak. As such, the stock warrants a bullish stance at the moment.

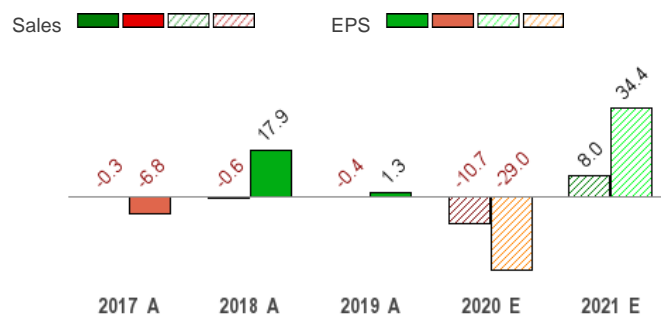
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$53.19 - \$20.59
20 Day Average Volume (sh)	714,147
Market Cap	\$3.8 B
YTD Price Change	-10.5%
Beta	1.47
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Retail and Whole Sales
Zacks Industry Rank	Top 1% (3 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	30.0%
Last Sales Surprise	2.5%
EPS F1 Est- 4 week change	4.5%
Expected Report Date	07/23/2020
Earnings ESP	127.2%
P/E TTM	9.5
P/E F1	13.5
PEG F1	5.3
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,892 E	4,842 E	5,381 E	5,487 E	20,566 E
2020	4,667 A	3,969 E	4,948 E	5,322 E	19,049 E
2019	4,982 A	5,344 A	5,461 A	5,549 A	21,336 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.09 E	\$0.93 E	\$1.20 E	\$1.22 E	\$4.34 E
2020	\$0.91 A	\$0.23 E	\$0.89 E	\$1.25 E	\$3.23 E
2019	\$1.05 A	\$1.20 A	\$1.18 A	\$1.31 A	\$4.55 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/14/2020. The reports text is as of 07/15/2020.

Overview

Incorporated in Delaware in 1991, AutoNation, Inc. is the largest automotive retailer in the United States. The company also offers vehicle maintenance and repair services, vehicle parts, extended service contracts, vehicle protection products, and other aftermarket products. In addition, it arranges financing for vehicle purchases through third-party sources.

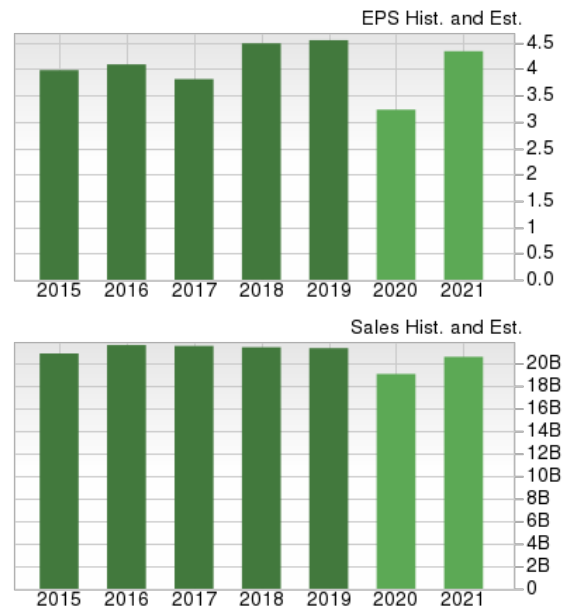
As of Dec 31, 2019, AutoNation owns and operates 325 new vehicle franchises. The company's stores offer vehicle maintenance, repair, and collision repair services, which are available only at franchised dealerships and customer-pay service work. The core brands offered by the company are — Toyota, Ford, Honda, General Motors, FCA US, Mercedes-Benz, Nissan, BMW and Volkswagen.

AutoNation's business is divided into three operating segments — Domestic (accounted for about 32.4% of the company's revenues in 2019), Import (31.4%) and Premium Luxury (36.2%).

The Domestic segment includes stores that sell vehicles manufactured by General Motors, Ford and Fiat Chrysler; whereas the Import segment comprises stores that sell vehicles manufactured by Toyota, Honda, Nissan, Hyundai and others.

The Premium Luxury segment includes stores that sell vehicles manufactured by Daimler (Mercedes Benz division), BMW, Toyota (Lexus division), Audi and others. Its diversified set of automotive retail franchises supports the automotive retailer's business, which is sensitive to macroeconomic conditions.

In 2019, new vehicle sales generated 52.3% of revenues, used vehicle sales accounted for 25.6%, parts and services (also referred as "customer care") added 16.9%, finance & insurance (also referred to as "customer financial services") constituted 4.7%, and other revenues accounted for 0.5%. In terms of gross profit, the largest contributor was parts and services with 46%, followed by finance & insurance with 29%, new vehicle with 14.3%, and used-vehicle with 10.4%.



Reasons To Buy:

- ▲ AutoNation plans to continue to focus on the core business, while diversifying its brand extension strategy and alliances. The company aims to synergize network and create an efficient core business. It is focusing on customer-based brand extension strategy. This includes the expansion of AutoNation-branded collision centres and automotive auctions, and AutoNation USA stand-alone pre-owned vehicle sales and service centres.
- ▲ In response to the uncertainty caused by the coronavirus pandemic, AutoNation initiated a series of cost savings throughout the enterprise, including substantial staffing adjustments, compensation cuts and drawdowns on revolving credit facilities. AutoNation has delayed more than \$50 million worth of planned capital expenditures through the second quarter and cut its advertising expenditures by around 50%, along with reduction of discretionary expenses amid the coronavirus crisis. The focus on cost discipline is anticipated to provide some respite amid the financial crisis. The company currently has in excess of \$1.4 billion of liquidity, including more than \$750 million of cash and approximately \$650 million of availability under its revolving credit facility, giving it a strong position in terms of cash.
- ▲ AutoNation's focus on digital ramp up bode well. In first-quarter 2020, 45% of vehicle sales originated from AutoNation website, up from the 30% of sales originations in 2019. The company linked with two digital companies in 2018, including its collaboration with Fair to provide a new digital experience that enables consumers to get access to certain used and certified pre-owned vehicles, all on their mobile device. It also invested \$50 million in Vroom, an online used-vehicle retailer in the same year. Moreover, AutoNation is expected to roll out its digital F&I component which will likely be part of a broader data-powered digital platform.
- ▲ AutoNation has started to witness recoveries across all business lines from the declines seen in March, as states continue to ease the shelter-in-place strategies and begin reopening processes, which were imposed due to the coronavirus outbreak. The trend is likely to continue. Improving used vehicle environment and production ramp up by the OEMs are likely to drive sales, going forward.

AutoNation's brand extension strategy of investing in technology, and adding distribution and collision centres will drive sales.

Risks

- Coronavirus has crippled the auto industry, and will lead to decline in sales and production, hurting the automotive retailer. The pandemic has impacted AutoNation's operations in the United States due to stay-at-home orders in line with the nationwide campaign addressing the crisis. Such unprecedented challenges have prompted the company to suspend its existing share-repurchase program until further notice. Weak consumer sentiment amid the pandemic is likely to hurt the near-term prospects of AutoNation.
 - As of Mar 31, 2020, the company's non-vehicle debt amounted to \$2.52 billion, up from \$2.43 billion as of Mar 31, 2019. Its long-term debt-to-capital ratio stands at 0.46, higher than its industry's 0.42. A high total debt-to-capital ratio often indicates that a firm may not be able to generate enough cash to satisfy its debt obligations. Moreover, the company's times interest earned ratio of 1.95 is unfavorable to the industry ratio of 2.72.
 - Industry weakness in major markets has significantly hurt vehicle demand for both new and used vehicles, and led to lower footfall at stores. Though the company has taken initiatives to revive vehicle sales, the downtrend is expected to continue in the coming quarters. Notably, in first-quarter 2020, new-vehicle revenues declined 8.6% year over year to \$2.28 billion and used-vehicle revenues fell 6.8% from the year-ago figure to \$1.25 billion. High competition levels also act as headwinds. The company also competes with several public and private companies that operate numerous automotive retail stores or collision centres and franchised dealers.
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Last Earnings Report

AutoNation Q1 Earnings & Revenues Surpass Estimates

AutoNation reported first-quarter 2020 adjusted earnings of 91 cents per share, which beat the Zacks Consensus Estimate of 70 cents on the back of higher-than-expected revenues. However, the reported figure declined from the year-ago quarter's \$1.05 per share. Heightened coronavirus woes and the enforcement of stay-at-home orders — especially in March — dented vehicle demand, in turn hurting the automotive retailer's year-over-year performance.

During the reported quarter, AutoNation's revenues amounted to \$4,667 million compared with \$4,981.8 million recorded in the prior-year period. However, the top line surpassed the Zacks Consensus Estimate of \$4,555 million.

Same-store revenues and gross profit decreased 4.9% and 3% year over year to \$4,659.6 million and \$812.4 million, respectively.

During the reported quarter, new-vehicle revenues declined 8.6% year over year to \$2.28 billion. Used-vehicle revenues also fell 6.8% from the year-ago figure to \$1.25 billion. Revenues from the parts and service business remained unchanged from the prior-year level of \$876 million. Net revenues in the finance and insurance business amounted to \$235.8 million, down 0.3% from the prior-year quarter.

Segmental Details

Revenues in the Domestic segment declined 5.4% year over year to \$1.48 billion. The segment's income also decreased 3.7% year over year to \$54.1 million in the January-March quarter. The segment comprises stores that sell vehicles manufactured by General Motors, Ford and FCA US.

Revenues in the Import segment were down 9% from the prior-year quarter to \$1.36 billion. The segment's income also declined 9.2% year over year to \$65.9 million in the reported quarter. The segment consists of outlets that sell vehicles manufactured primarily by Toyota, Honda, Subaru, Hyundai and Nissan.

The Premium Luxury segment comprises stores that sell retail vehicles manufactured by Mercedes-Benz, BMW, Lexus, Jaguar Land Rover and Audi. Sales in the segment fell 6.8% from a year ago to \$1.61 billion. Segmental income also slipped 4.9% year over year to \$80.2 million in the reported quarter.

Financials & Share Buyback

AutoNation's cash and cash equivalents were \$411 million as of Mar 31, 2020 compared with \$42 million on Dec 31, 2019. The company's inventory was valued at \$3.67 billion as of Mar 31, 2020 compared with \$3.71 billion in the prior-year period. At first quarter-end, non-vehicle debt was \$2.52 billion compared with \$2.43 billion in the comparable prior-year period. Capital expenditure during the quarter amounted to \$30 million.

During the quarter, it bought back 2.5 million shares for an aggregate purchase price of \$80 million. As of May 8, 2020, the firm had \$139 million remaining under the share repurchase authorization. However, amid coronavirus-led uncertainty and financial crisis, AutoNation has suspended the share repurchase program.

Quarter Ending **03/2020**

Report Date	May 11, 2020
Sales Surprise	2.47%
EPS Surprise	30.00%
Quarterly EPS	0.91
Annual EPS (TTM)	4.60

Valuation

AutoNation's shares are down 10.4% in the year-to-date period and up 5.2% over the trailing 12-month period. Stocks in the Zacks Automotive - Retail and Whole Sales industry and the Zacks Auto sector are down 13% and up 16.4%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 4.5% and 27.1%, respectively.

The S&P 500 index is down 1.7% in the year-to-date period and up 5.4% in the past year.

The stock is currently trading at 11.38X forward 12-month earnings, which compares to 11.05X for the Zacks sub-industry, 27.84X for the Zacks sector and 22.45X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.95X and as low as 4.56X, with a 5-year median of 10.46X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$50 price target reflects 13.05X F12M.

The table below shows summary valuation data for AN:

Valuation Multiples - AN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.38	11.05	27.84	22.45
	5-Year High	14.95	13.29	27.84	22.45
	5-Year Low	4.56	6.45	8.2	15.25
	5-Year Median	10.46	9.97	9.9	17.52
EV/EBITDA TTM	Current	4.89	6.6	11.47	11.72
	5-Year High	9.62	9.71	11.54	12.86
	5-Year Low	3.56	4.63	6.94	8.25
	5-Year Median	6.84	7.35	9.27	10.87
P/S F12M	Current	0.19	0.18	0.86	3.51
	5-Year High	0.36	0.25	0.86	3.51
	5-Year Low	0.1	0.11	0.49	2.53
	5-Year Median	0.2	0.18	0.61	3.02

As of 07/14/2020

Industry Analysis Zacks Industry Rank: Top 1% (3 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Asbury Automotive Group, Inc. (ABG)	Outperform	1
Group 1 Automotive, Inc. (GPI)	Outperform	1
Lithia Motors, Inc. (LAD)	Outperform	1
Penske Automotive Group, Inc. (PAG)	Outperform	1
Sonic Automotive, Inc. (SAH)	Outperform	1
Americas CarMart, Inc. (CRMT)	Neutral	2
CarMax, Inc. (KMX)	Neutral	3
Rush Enterprises, Inc. (RUSHA)	Neutral	3

Industry Comparison Industry: Automotive - Retail And Whole Sales				Industry Peers		
	AN	X Industry	S&P 500	GPI	KMX	SAH
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Neutral	Outperform
Zacks Rank (Short Term)	1	-	-	1	3	1
VGM Score	B	-	-	C	A	B
Market Cap	3.80 B	1.55 B	21.89 B	1.30 B	14.90 B	1.63 B
# of Analysts	7	3	14	3	5	4
Dividend Yield	0.00%	0.36%	1.86%	1.68%	0.00%	1.05%
Value Score	A	-	-	A	A	B
Cash/Price	0.11	0.11	0.07	0.02	0.08	0.12
EV/EBITDA	5.53	6.06	12.84	6.06	19.60	6.66
PEG Ratio	5.25	4.28	2.92	4.91	2.29	NA
Price/Book (P/B)	1.37	1.35	3.06	1.11	4.16	2.25
Price/Cash Flow (P/CF)	6.50	6.40	11.89	4.87	13.52	7.86
P/E (F1)	13.48	15.16	21.54	10.51	28.35	15.32
Price/Sales (P/S)	0.18	0.23	2.27	0.11	0.82	0.16
Earnings Yield	7.42%	6.61%	4.38%	9.51%	3.52%	6.51%
Debt/Equity	0.84	0.84	0.76	1.18	4.15	1.63
Cash Flow (\$/share)	6.70	8.38	6.94	14.63	6.76	4.83
Growth Score	C	-	-	D	A	D
Hist. EPS Growth (3-5 yrs)	3.84%	14.01%	10.85%	10.50%	13.75%	3.89%
Proj. EPS Growth (F1/F0)	-29.01%	-28.57%	-9.64%	-37.94%	-39.55%	-6.60%
Curr. Cash Flow Growth	2.81%	6.74%	5.51%	8.93%	7.77%	20.48%
Hist. Cash Flow Growth (3-5 yrs)	2.53%	8.47%	8.55%	6.43%	9.70%	5.19%
Current Ratio	0.95	1.15	1.30	0.91	2.85	1.06
Debt/Capital	45.57%	46.87%	44.46%	54.17%	80.58%	61.95%
Net Margin	0.60%	1.72%	10.54%	1.38%	3.45%	-0.94%
Return on Equity	13.97%	14.15%	15.75%	16.32%	18.00%	13.54%
Sales/Assets	1.99	1.69	0.54	2.21	0.89	2.55
Proj. Sales Growth (F1/F0)	-10.72%	-6.10%	-2.52%	-10.67%	-10.08%	-6.10%
Momentum Score	D	-	-	F	D	A
Daily Price Chg	6.04%	4.86%	1.60%	7.08%	4.66%	8.25%
1 Week Price Chg	12.57%	3.17%	-0.41%	2.23%	-1.15%	6.14%
4 Week Price Chg	7.66%	4.16%	-0.71%	2.31%	-5.20%	21.27%
12 Week Price Chg	50.59%	60.94%	15.18%	58.27%	43.68%	154.50%
52 Week Price Chg	4.51%	-0.32%	-6.45%	-13.42%	5.74%	60.68%
20 Day Average Volume	714,147	246,007	2,246,780	289,300	1,649,894	495,361
(F1) EPS Est 1 week change	4.48%	4.48%	0.00%	-0.20%	0.00%	19.37%
(F1) EPS Est 4 week change	4.48%	6.00%	0.00%	-0.20%	20.20%	92.76%
(F1) EPS Est 12 week change	1.95%	4.66%	-6.22%	11.45%	-13.49%	67.46%
(Q1) EPS Est Mthly Chg	-1.99%	4.23%	0.00%	5.56%	124.68%	50.69%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	C
Momentum Score	D
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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