

AutoNation, Inc. (AN)

\$34.01 (As of 03/13/20)

Price Target (6-12 Months): **\$36.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/29/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: B

Summary

Beside adding distribution and collision centres, AutoNation aims to synergize network and create an efficient and strengthened core business. For the long haul, increasing free cash flows and decreasing long-term debt will help the company indulge in buyback programs and make further investments. The company also focuses on customer-based brand extension strategy. In sync with the plan, it reportedly inked a multi-year deal with Waymo to support the latter's autonomous vehicle program. However, decline in the sale of new vehicles, owing to industry weakness and huge availability of off-lease used vehicles, is a concern. Further, high costs associated with the company's investment in their brand extension strategy remains a headwind. Also, rising investments and SG&A expenses will likely hurt AutoNation's bottom line.

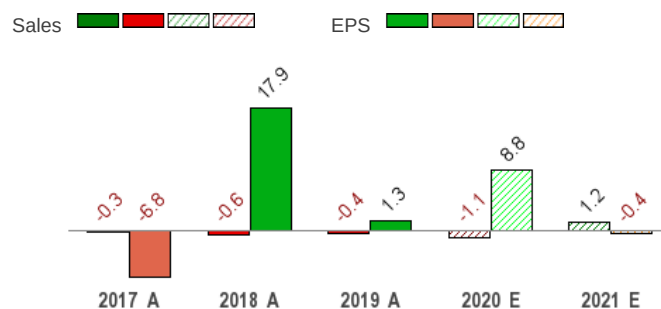
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$53.19 - \$31.25
20 Day Average Volume (sh)	777,065
Market Cap	\$3.0 B
YTD Price Change	-30.1%
Beta	0.92
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Retail and Whole Sales
Zacks Industry Rank	Top 23% (57 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	13.9%
Last Sales Surprise	-0.4%
EPS F1 Est- 4 week change	1.5%
Expected Report Date	04/24/2020
Earnings ESP	-3.8%
P/E TTM	7.2
P/E F1	6.9
PEG F1	2.7
P/S TTM	0.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,115 E	5,443 E	5,528 E	5,614 E	21,369 E
2020	5,103 E	5,415 E	5,516 E	5,599 E	21,109 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	\$1.25 E	\$1.45 E	\$1.32 E	\$1.46 E	\$4.93 E
2020	\$1.09 E	\$1.33 E	\$1.22 E	\$1.31 E	\$4.95 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 03/13/2020. The reports text is as of 03/16/2020.

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.

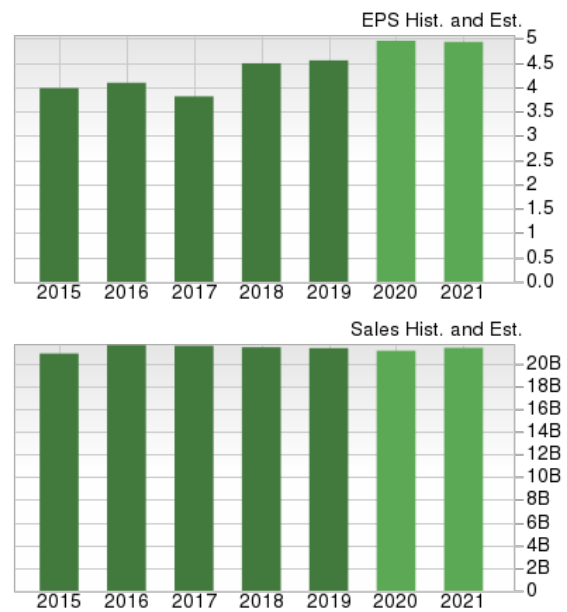
As of Dec 31, 2019, AutoNation owns and operates 325 new vehicle franchises. The company's stores offer vehicle maintenance, repair, and collision repair services, which are available only at franchised dealerships and customer-pay service work. The core brands offered by the company are — Toyota, Ford, 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 their future for their brand extension strategy and strategic alliances. The company aims to synergize network and create an efficient and strengthened core business. As the prices of new car prices are increasing faster than consumers' paychecks, demand for used-cars are growing and AutoNation seems poised to capitalize on the trend.
- ▲ Free cash flow for AutoNation has shown an upward trend, while the long-term debt has been decreasing over the past few quarters. This would give the company an opportunity to indulge in buyback programs and make further investments, improving its long-term prospects.
- ▲ AutoNation is focusing on customer-based brand extension strategy. This includes expansion of AutoNation-branded collision centres and automotive auctions and AutoNation USA stand-alone pre-owned vehicle sales and service centres. Further, the company has reportedly inked a multi-year deal with Waymo, a self-driving technology company, to support the latter's autonomous vehicle program. The company will provide strategic capabilities to enhance the life of Waymo's vehicles in the United States. Additionally, AutoNation will offer its Phoenix, AZ, customers with a Waymo to move around the city while their vehicles are serviced at AutoNation dealerships.

AutoNation's brand extension strategy of investing in technology, and adding distribution and collision centres will drive sales. Increasing free cash flow will support its investment.

Reasons To Sell:

- ▼ Industry weakness in major markets and huge availability of off-lease used vehicles are resulting in the sales decline of new-vehicle units. Although the company has been taking initiatives to revive new-vehicle sales, the downtrend is expected to continue in coming quarters as well.
- ▼ AutoNation faces pressure in new units in the industry as a whole. The company is expected to heavily invest in their brand extension. The high cost associated with the investment adds to its woes. The company also competes with several public and private companies that operate numerous automotive retail stores or collision centres and franchised dealers.
- ▼ AutoNation is bearing the brunt of increasing SG&A expenses over the past few quarters. Its continued investment in the brand-extension strategy, along with expenses related to salary and store compensations, commissions, and advertising, are hurting gross profit.

AutoNation's new-vehicle unit sales decline due to huge availability of off-lease used vehicles is a headwind, along with rise in expenses.

Last Earnings Report

AutoNation's Q4 Earnings & Sales Top Estimates

AutoNation delivered fourth-quarter 2019 adjusted earnings of \$1.31 per share, beating the Zacks Consensus Estimate of \$1.15. The reported figure was also higher than the year-ago quarter's \$1.10 per share. The upside was mainly aided by increased income across all segments.

During the reported quarter, AutoNation's revenues amounted to \$5,549 million compared with the \$5,412 million recorded in the prior-year quarter. However, the top-line figure missed the Zacks Consensus Estimate of \$5,571 million.

In the quarter, same-store gross profit increased 5.6% year over year to \$895.6 million, driven by growth in all business segments— new vehicles, used vehicles, customer care and customer financial services. Net income from continuing operations was \$157.7 million compared with \$92.9 million reported in fourth-quarter 2018.

During the reported quarter, new-vehicle revenues declined 1.3% year over year to \$3.02 billion. Used-vehicle revenues rose 10.9% to \$1.34 billion from the year-ago quarter's figure. Revenues in the parts and service business gained 2.7% to \$891.3 million from that reported in fourth-quarter 2018. Net revenues in the finance and insurance business amounted to \$265.4 million, up 8.1% from the prior-year quarter.

Segmental Details

Revenues in the Domestic segment declined 4.5% year over year to \$1.67 billion. The segment's income increased 19.2% to \$65.2 million in the September-December quarter. The segment comprises stores that sell vehicles manufactured by General Motors, Ford and FCA US.

Revenues in the Import segment fell 1.4% to \$1.62 billion. Nevertheless, the segment's income rose 13.4% to \$77.7 million in the reported quarter. The segment consists of outlets that sell vehicles manufactured primarily by Toyota, Honda 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 increased 8.7% to \$2.06 billion. Segmental income jumped 23.1% to \$112.5 million in the reported quarter.

Balance Sheet and Capex

AutoNation's cash and cash equivalents were \$42 million as of Dec 31, 2019, compared with \$48.6 million as of Dec 31, 2018. The company's inventory was valued at \$3.3 billion as of Dec 31, 2019, compared with \$3.65 billion in the prior-year period.

At the end of the fourth quarter, non-vehicle debt was \$2.1 billion compared with \$2.6 billion in the prior-year quarter. At the end of the quarter, capital expenditure was \$87.3 million compared with \$122 million in the year-earlier quarter.

Quarter Ending **12/2019**

Report Date	Feb 11, 2020
Sales Surprise	-0.39%
EPS Surprise	13.91%
Quarterly EPS	1.31
Annual EPS (TTM)	4.74

Valuation

AutoNation's shares are down 30.1% in the year-to-date period and up 1% over the trailing 12-month period. Stocks in the Zacks Automotive - Retail and Whole Sales industry and the Zacks Auto sector are down 34.3% and 19.1%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 9.3% and 8.9%, respectively.

The S&P 500 index is down 15.5% in the year-to-date period and down 3.2% in the past year.

The stock is currently trading at 6.85X forward 12-month earnings, which compares to 6.52X for the Zacks sub-industry, 8.93X for the Zacks sector and 15.74X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.05X and as low as 6.62X, with a 5-year median of 10.57X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$36 price target reflects 7.26X F12M.

The table below shows summary valuation data for AN:

Valuation Multiples - AN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	6.85	6.52	8.93	15.74
	5-Year High	16.05	13.9	11.75	19.34
	5-Year Low	6.62	6.52	8.23	15.18
	5-Year Median	10.57	9.97	9.88	17.42
EV/EBITDA TTM	Current	5.12	5.76	9.23	10.05
	5-Year High	10.03	9.71	11.37	12.87
	5-Year Low	5.01	5.62	6.97	8.31
	5-Year Median	7.03	7.5	9.34	10.78
P/S F12M	Current	0.14	0.13	0.54	2.9
	5-Year High	0.36	0.25	0.76	3.44
	5-Year Low	0.14	0.13	0.5	2.54
	5-Year Median	0.21	0.18	0.62	3

As of 03/13/2020

Industry Analysis Zacks Industry Rank: Top 23% (57 out of 253)



Top Peers

Americas Car-Mart, Inc. (CRMT)	Outperform
Group 1 Automotive, Inc. (GPI)	Outperform
Penske Automotive Group, Inc. (PAG)	Outperform
Asbury Automotive Group, Inc. (ABG)	Neutral
CarMax, Inc. (KMX)	Neutral
Lithia Motors, Inc. (LAD)	Neutral
Sonic Automotive, Inc. (SAH)	Neutral
Rush Enterprises, Inc. (RUSHA)	Underperform

Industry Comparison Industry: Automotive - Retail And Whole Sales				Industry Peers		
	AN Neutral	X Industry	S&P 500	GPI Outperform	KMX Neutral	SAH Neutral
VGM Score	B	-	-	A	C	A
Market Cap	3.04 B	1.06 B	19.05 B	950.67 M	11.30 B	774.61 M
# of Analysts	6	4	13	3	8	5
Dividend Yield	0.00%	0.63%	2.31%	2.32%	0.00%	2.20%
Value Score	B	-	-	A	B	A
Cash/Price	0.01	0.03	0.05	0.02	0.04	0.03
EV/EBITDA	4.68	4.97	11.57	5.85	18.85	4.38
PEG Ratio	2.67	1.21	1.68	0.85	1.02	NA
Price/Book (P/B)	0.96	1.03	2.56	0.77	3.08	0.83
Price/Cash Flow (P/CF)	5.08	4.71	10.18	3.54	11.49	3.77
P/E (F1)	6.87	6.87	14.94	4.27	12.38	6.25
Price/Sales (P/S)	0.14	0.15	2.02	0.08	0.57	0.07
Earnings Yield	14.55%	14.55%	6.67%	23.42%	8.08%	15.99%
Debt/Equity	0.60	0.60	0.70	1.31	4.07	1.04
Cash Flow (\$/share)	6.70	7.44	7.01	14.63	6.02	4.83
Growth Score	B	-	-	A	D	A
Hist. EPS Growth (3-5 yrs)	3.94%	14.88%	10.85%	10.37%	15.43%	2.43%
Proj. EPS Growth (F1/F0)	8.86%	13.96%	5.99%	10.91%	8.57%	9.89%
Curr. Cash Flow Growth	2.81%	6.74%	6.15%	8.93%	18.60%	20.48%
Hist. Cash Flow Growth (3-5 yrs)	2.53%	7.71%	8.52%	6.43%	10.83%	5.19%
Current Ratio	0.86	1.14	1.24	1.04	2.43	0.98
Debt/Capital	37.33%	40.93%	42.57%	56.68%	80.28%	50.85%
Net Margin	2.11%	2.11%	11.64%	1.43%	4.40%	1.38%
Return on Equity	14.46%	15.42%	16.74%	17.00%	24.53%	12.96%
Sales/Assets	2.00	1.70	0.54	2.25	1.00	2.54
Proj. Sales Growth (F1/F0)	-1.06%	1.85%	3.54%	-0.44%	6.27%	5.03%
Momentum Score	B	-	-	D	B	D
Daily Price Chg	3.50%	5.07%	8.21%	1.71%	1.94%	5.20%
1 Week Price Chg	-1.26%	-4.49%	-0.67%	-4.32%	-2.65%	-9.64%
4 Week Price Chg	-28.94%	-29.79%	-22.67%	-47.15%	-30.03%	-42.66%
12 Week Price Chg	-33.50%	-40.39%	-20.46%	-50.76%	-29.96%	-42.89%
52 Week Price Chg	3.41%	-16.94%	-10.79%	-15.62%	14.16%	31.22%
20 Day Average Volume	777,065	233,833	3,061,271	325,275	1,466,036	541,684
(F1) EPS Est 1 week change	0.03%	0.00%	0.00%	-0.95%	0.00%	-0.88%
(F1) EPS Est 4 week change	1.50%	0.00%	-0.32%	5.59%	0.00%	-1.02%
(F1) EPS Est 12 week change	3.19%	0.00%	-0.65%	7.89%	-2.51%	-1.02%
(Q1) EPS Est Mthly Chg	-8.26%	-1.74%	-0.62%	-4.61%	0.00%	-2.94%

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	B
Growth Score	B
Momentum Score	B
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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