

AutoNation, Inc. (AN)

\$58.17 (As of 08/24/20)

Price Target (6-12 Months): **\$67.00**

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:A

Value: A

Growth: A

Momentum: C

Summary

AutoNation's diversified product mix and multiple streams of income reduce its risk profile and bode well for top and bottom-line growth. Strong footprint, large dealer network and store expansion efforts are expected to drive long term profitability. The company's focus on customer-based brand extension strategy bode well. Further, enhanced digital solutions will boost AutoNation's sales. The firm's cost cut efforts amid coronavirus woes are likely to aid margins. AutoNation is targeting to operate below 69% SG&A as a percentage of gross profit, below its 71%-73% range over the last several years. Strong balance sheet of the firm with low leverage and high liquidity is another positive. Considering the tailwinds, AutoNation warrants a bullish stance at the moment.

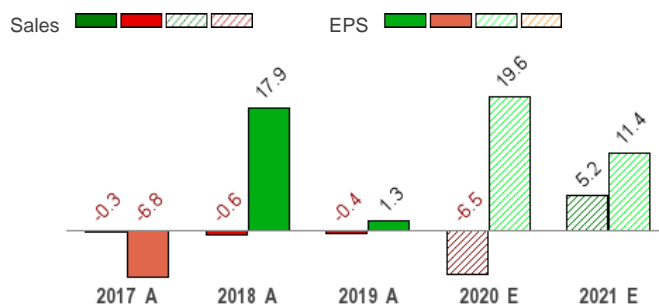
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$59.39 - \$20.59
20 Day Average Volume (sh)	866,376
Market Cap	\$5.1 B
YTD Price Change	19.6%
Beta	1.60
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Retail and Whole Sales
Zacks Industry Rank	Top 1% (1 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	291.7%
Last Sales Surprise	12.2%
EPS F1 Est- 4 week change	22.8%
Expected Report Date	11/03/2020
Earnings ESP	5.2%
P/E TTM	12.1
P/E F1	10.7
PEG F1	4.2
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,972 E	5,072 E	5,618 E	5,737 E	20,995 E
2020	4,667 A	4,533 A	5,201 E	5,499 E	19,953 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	\$1.50 E	\$1.41 E	\$1.60 E	\$1.64 E	\$6.06 E
2020	\$0.91 A	\$1.41 A	\$1.46 E	\$1.68 E	\$5.44 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 08/24/2020. The reports text is as of 08/25/2020.

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.

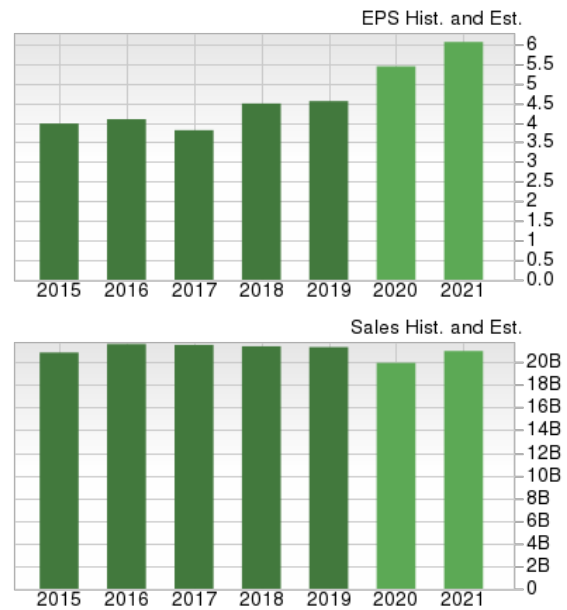
As of Dec 31, 2019, AutoNation owns and operates 325 new vehicle franchises. The company's stores offer vehicle maintenance, repair, and collision repair services, which are available only at franchised dealerships and customer-pay service work. The core brands offered by the company are — Toyota, Ford,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

- ▲ The company's diversified product mix and multiple streams of income bode well. Markedly, these factors reduce its risk profile. The company generates income from businesses including used and new vehicle retail, finance, insurance, as well as parts and services. The diversified portfolio positions it well for top and bottom-line growth. Used vehicle business is especially a bright spot amid economic slowdown concerns as consumers are getting more inclined toward used vehicles rather than splurging on new cars.
- ▲ Strong footprint, large dealer network and store expansion efforts along with brand extension strategy and alliances bode well. AutoNation plans to build at least 20 additional stores over the next three years, which bodes well for long term prospects. 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 USA stand-alone pre-owned vehicle sales and service centers. Further, enhanced digital solutions will help AutoNation to further boost profitability and market presence.
- ▲ In response to the uncertainty caused by the coronavirus pandemic, AutoNation initiated a series of cost savings throughout the enterprise, including substantial staffing adjustments, capex reduction, compensation cuts and drawdowns on revolving credit facilities. The focus on cost discipline is anticipated to provide some respite amid the financial crisis. AutoNation is targeting to operate below 69% SG&A as a percentage of gross profit, below its 71%-73% range over the last several years.
- ▲ Strong balance sheet of the firm with low leverage and high liquidity is another positive. At the end of Q2, the company had excess of \$1.6 billion of liquidity, up from \$1.2 billion at the end of first quarter of 2020. Moreover, the company's times interest earned ratio of 3.25 is favorable to the industry ratio of 2.72. Also, the firm's debt-to-capital ratio stands at 0.40, lower than its industry's 0.49.

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

Risks

- Highly cyclic nature of the auto industry is a major concern. Amid economic slowdown, people are more likely to put off big-ticket purchases like cars, which may affect the earnings of the firm. Coronavirus scare and concerns regarding economic slowdown may weigh on the near term prospects of the auto retailer.
 - Despite coronavirus woes, the company is not pulling back on store expansion. While the company's store expansion plans is likely to boost long term growth, it may strain the near term financials of the firm. As it is, unprecedented challenges amid coronavirus have prompted the company to suspend its existing share-repurchase program until further notice.
 - AutoNation competes with publicly and privately-owned dealerships, along with Internet-based vehicle brokers. Some of its competitors are larger, and have greater financial and marketing resources. AutoNation's finance and insurance business faces strong competition from various financial institutions, and other third parties. Rising competition— especially in the used car market owing to the fragmented nature of the industry— and increasing price transparency can result in lower selling prices, thereby affecting the company's profits.
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Last Earnings Report

AutoNation Q2 Earnings Top Estimates, Up Y/Y

AutoNation reported second-quarter 2020 adjusted earnings of \$1.41 per share, which beat the Zacks Consensus Estimate of 36 cents. Higher-than-expected revenues from new and used vehicle sales led to the outperformance. Precisely, revenues from new and used vehicles came in at \$2.26 billion and \$1.32 billion, surpassing the Zacks Consensus Estimate of \$1.97 billion and \$1.01 billion, respectively.

The bottom line also increased from the year-ago quarter's \$1.20 per share on the back of operational efficiency. SG&A expenses came in at \$547.9 million, lower than \$637 million in the prior-year quarter.

During the reported quarter, AutoNation's revenues amounted to \$4,533 million compared with \$5,343.8 million recorded in the prior-year period. However, the top line surpassed the Zacks Consensus Estimate of \$4,039 million.

Same-store revenues and gross profit decreased 13.8% and 9.4% year over year to \$4,532.6 million and \$795.2 million, respectively.

During the quarter under review, new-vehicle revenues declined 18.4% year over year to \$2,261.3 million. Used-vehicle revenues also fell 4% from the year-ago figure to \$1,324.5 million. Revenues from the parts and service business slid 23.5% from the prior-year quarter to \$689.9 million. Net revenues in the finance and insurance business amounted to \$246.4 million, down 3.4% from the prior-year quarter.

Despite coronavirus woes, the company is not pulling back on store expansion. Importantly, AutoNation announced planned expansion of stand-alone pre-owned vehicle sales and service centers in the United States. It plans to build at least 20 additional stores over the next three years. The automotive retailer has sharpened focus on ramping up digital capabilities in response to the changing buying behaviors of consumers amid the pandemic.

Segmental Details

Revenues in the Domestic segment declined 13% year over year to \$1,486 million. The segment's income increased 24.6% year over year to \$82.1 million in the quarter under review. The segment comprises stores that sell vehicles manufactured by General Motors, Ford and FCA US.

Revenues in the Import segment were down 18.6% from the prior-year quarter to \$1,325.3 million. The segment's income was up 8.5% year over year to \$88.3 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 14.1% from a year ago to \$1,564.8 million. Segmental income also slipped 6.4% year over year to \$89.2 million in the reported quarter.

Financials

AutoNation's cash and cash equivalents were \$257.3 million as of Jun 30, 2020. The company's inventory was valued at \$2,432.3 million. At second quarter-end, non-vehicle debt was \$2,090.4 million, down from \$2,440.1 million in the comparable prior-year period. Capital expenditure during the quarter amounted to \$24.6 million. Amid coronavirus-led uncertainty and financial crisis, AutoNation has tapped brakes on the share repurchase program.

Quarter Ending **06/2020**

Report Date	Jul 23, 2020
Sales Surprise	12.24%
EPS Surprise	291.67%
Quarterly EPS	1.41
Annual EPS (TTM)	4.81

Recent News

AutoNation to Discontinue its Collision Parts Business

On **Aug 19**, announced the decision to shut down the aftermarket collision parts business by 2020-end. The move is in sync with the company's restructuring program to cut costs and optimize the business. The collision aftermarket parts business generated less than 1% of AutoNation's Parts and Service gross profit in first-half 2020. With coronavirus-led uncertainty and financial weakness, the firm remains focused on operational efficiency and closure of unprofitable businesses. It should be noted that AutoNation will incur \$52 million in charges — including \$12 million in cash — in the latter half of 2020 in connection with the discontinuation of the collision parts business.

Valuation

AutoNation's shares are up 19.6% in the year-to-date period and 22.5% over the trailing 12-month period. Stocks in the Zacks Automotive - Retail and Whole Sales industry and the Zacks Auto sector are up 16.1% and 37.2%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 34.3% and 63.4%, respectively.

The S&P 500 index is up 5.5% in the year-to-date period and 18.3% in the past year.

The stock is currently trading at 9.96X forward 12-month earnings, which compares to 10.79X for the Zacks sub-industry, 25.15X for the Zacks sector and 22.83X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.53X and as low as 4.56X, with a 5-year median of 10.44X.

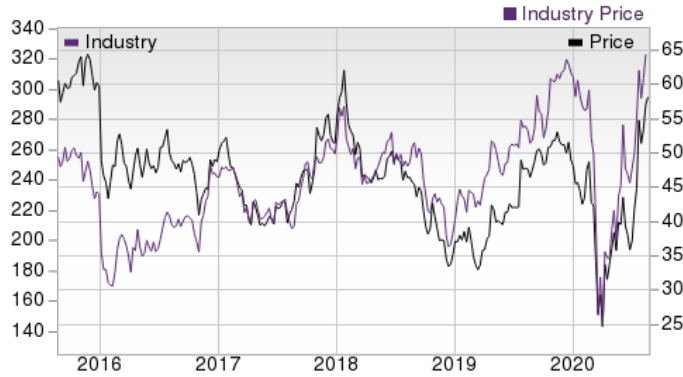
Our Outperform recommendation indicates that the stock will perform better than the market. Our \$67 price target reflects 11.47X F12M.

The table below shows summary valuation data for AN:

Valuation Multiples - AN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.96	10.79	25.15	22.83
	5-Year High	14.53	12.54	25.62	22.83
	5-Year Low	4.56	6.45	8.2	15.25
	5-Year Median	10.44	9.97	9.9	17.58
EV/EBITDA TTM	Current	6.6	8.57	16.64	12.89
	5-Year High	9.24	9.71	16.64	12.89
	5-Year Low	3.56	4.58	6.94	8.25
	5-Year Median	6.8	7.33	9.35	10.91
P/S F12M	Current	0.25	0.23	0.98	3.7
	5-Year High	0.33	0.24	0.98	3.7
	5-Year Low	0.1	0.11	0.49	2.53
	5-Year Median	0.2	0.18	0.61	3.05

As of 08/24/2020

Industry Analysis Zacks Industry Rank: Top 1% (1 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Asbury Automotive Group, Inc. (ABG)	Outperform	1
Americas CarMart, Inc. (CRMT)	Outperform	1
Lithia Motors, Inc. (LAD)	Outperform	1
Penske Automotive Group, Inc. (PAG)	Outperform	1
Rush Enterprises, Inc. (RUSHA)	Outperform	2
Sonic Automotive, Inc. (SAH)	Outperform	1
Group 1 Automotive, Inc. (GPI)	Neutral	1
CarMax, Inc. (KMX)	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	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	1	-	-	1	3	1
VGM Score	A	-	-	A	A	A
Market Cap	5.07 B	1.76 B	23.81 B	1.70 B	17.74 B	1.84 B
# of Analysts	7	4	14	3	5	5
Dividend Yield	0.00%	0.00%	1.64%	0.00%	0.00%	0.93%
Value Score	A	-	-	A	B	A
Cash/Price	0.05	0.06	0.07	0.04	0.07	0.06
EV/EBITDA	6.63	6.67	13.37	7.40	21.55	6.98
PEG Ratio	4.16	1.52	3.02	1.52	2.72	NA
Price/Book (P/B)	1.62	1.57	3.17	1.40	4.96	2.47
Price/Cash Flow (P/CF)	8.69	7.79	12.77	6.36	16.10	8.93
P/E (F1)	10.69	12.36	21.72	8.17	33.75	13.00
Price/Sales (P/S)	0.25	0.30	2.48	0.15	0.98	0.19
Earnings Yield	9.35%	8.09%	4.44%	12.24%	2.96%	7.70%
Debt/Equity	0.67	0.66	0.76	1.34	4.15	1.38
Cash Flow (\$/share)	6.70	7.56	6.93	14.63	6.76	4.83
Growth Score	A	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	4.16%	13.73%	10.41%	11.38%	13.75%	5.28%
Proj. EPS Growth (F1/F0)	19.47%	12.21%	-5.05%	4.18%	-39.51%	25.21%
Curr. Cash Flow Growth	2.81%	4.77%	5.20%	8.93%	7.77%	20.48%
Hist. Cash Flow Growth (3-5 yrs)	2.53%	8.31%	8.50%	6.43%	9.70%	5.19%
Current Ratio	0.92	1.12	1.33	1.03	2.85	0.99
Debt/Capital	40.07%	41.29%	44.50%	57.19%	80.58%	57.93%
Net Margin	1.51%	1.75%	10.13%	1.31%	3.45%	-0.94%
Return on Equity	14.20%	14.21%	14.66%	17.34%	18.00%	14.21%
Sales/Assets	1.97	1.78	0.51	2.09	0.89	2.51
Proj. Sales Growth (F1/F0)	-6.48%	-1.74%	-1.45%	-11.42%	-9.57%	-5.79%
Momentum Score	C	-	-	A	C	D
Daily Price Chg	0.12%	0.14%	1.32%	1.13%	1.76%	0.14%
1 Week Price Chg	1.89%	1.18%	-1.45%	-3.66%	2.46%	-2.42%
4 Week Price Chg	2.96%	3.88%	3.38%	5.71%	11.28%	3.88%
12 Week Price Chg	47.72%	43.71%	7.69%	49.13%	20.77%	68.77%
52 Week Price Chg	22.54%	18.30%	3.85%	25.19%	34.97%	60.42%
20 Day Average Volume	866,376	270,763	1,873,293	270,763	1,035,840	442,749
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.34%	0.00%
(F1) EPS Est 4 week change	22.82%	22.82%	1.00%	56.70%	0.05%	36.54%
(F1) EPS Est 12 week change	88.37%	79.54%	3.40%	67.53%	6.37%	169.76%
(Q1) EPS Est Mthly Chg	9.56%	9.56%	0.00%	15.06%	0.80%	47.27%

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	A
Momentum Score	C
VGM Score	A

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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