

AutoZone, Inc.(AZO)

\$1,073.25 (As of 02/05/20)

Price Target (6-12 Months): **\$1,138.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 05/22/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: C

Summary

Continued sales growth in both retail DIY and commercial DIFM businesses is boosting the AutoZone's performance. Store expansion initiatives, fast delivery and high-quality products are improving the company's top-line growth. AutoZone's focus on expansion of the favorably located core business and development of the supply-chain network bode well. The company's omnichannel efforts to improve customer shopping experience strong share buyback program are boosting investors' confidence. However, high capital and operating expenses which are further expected to rise over the next few years may dent the firm's margins. Tariff impact on auto parts from China, and looming tariff conflicts from Japan and European Union are also headwinds. As such, investors are recommended to wait for a better entry point.

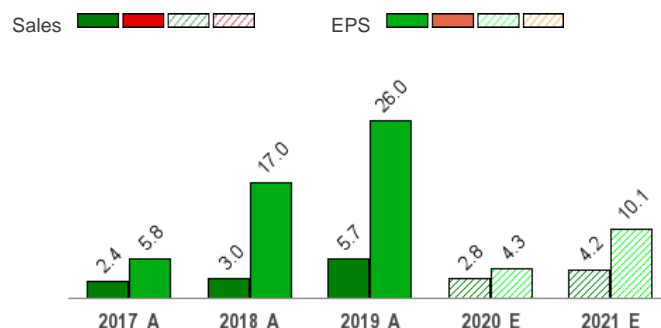
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$1,274.41 - \$860.00
20 Day Average Volume (sh)	238,553
Market Cap	\$25.6 B
YTD Price Change	-9.9%
Beta	0.63
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Retail and Wholesale - Parts
Zacks Industry Rank	Bottom 15% (218 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,907 E	2,687 E	3,019 E	4,038 E	12,709 E
2020	2,793 A	2,583 E	2,914 E	3,907 E	12,201 E
2019	2,642 A	2,451 A	2,783 A	3,988 A	11,864 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$15.70 E	\$12.99 E	\$18.53 E	\$25.16 E	\$72.80 E
2020	\$14.30 A	\$11.90 E	\$16.87 E	\$22.91 E	\$66.14 E
2019	\$13.47 A	\$11.49 A	\$15.99 A	\$22.59 A	\$63.43 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 02/05/2020. The reports text is as of 02/06/2020.

Overview

AutoZone, Inc. is one of the nation's leading specialty retailers and distributor of automotive replacement parts and accessories in the United States. It operates in the Do-It-Yourself retail, Do-It-for-Me auto parts and products markets.

As of Nov 23, 2019, the Company had 5,790 stores in the United States; 606 in Mexico; and 37 in Brazil. Thus, the total store count as of the date stood at 6,433. Each store offers wide-ranging products for cars, sport utility vehicles, vans and light trucks, including new and remanufactured automotive hard parts, maintenance items, accessories, and non-automotive products.

Beside opening and acquiring stores, the company divests stores in markets that are less profitable as well as shift stores to existing ones. In fiscal 2019, it opened 209 stores and relocated two to prevailing ones.

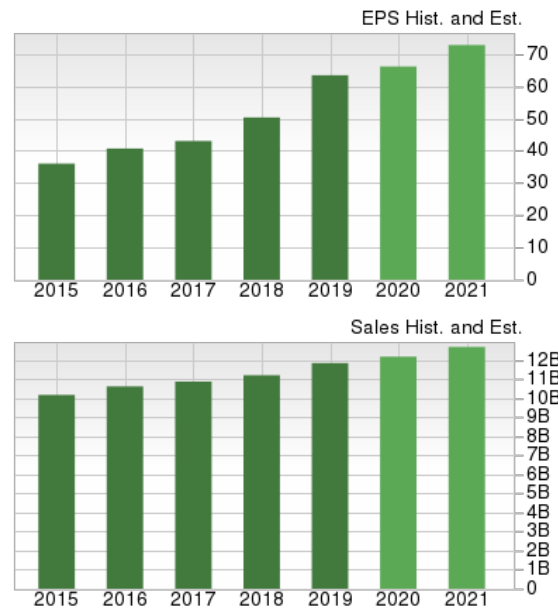
AutoZone selects and purchases merchandise from store support centers situated at Memphis, TN; Monterrey, Mexico; and Sao Paulo, Brazil. Also, it has office in Shanghai, China, to support its sourcing efforts in Asia.

Apart from providing automotive products, it also has many commercial sales programs, which provides commercial credit, and delivers parts and other products to local repair garages, dealers and service stations.

Additionally, AutoZone sells the ALLDATA brand's automotive diagnostic and repair software through www.alldata.com and www.alldatadiy.com. This offers comprehensive factory-correct repair information to DIY customers along with ALLDATA repair subscription.

The company has online presence to sell automotive hard parts, maintenance items, accessories and non-automotive products through its website www.autozone.com. For commercial customers, it has www.autozonepro.com to make purchases.

As of Aug 31, 2019, the company had roughly 96,000 employees, of which 58% consisted of full-time employees. Out of the total count, 90% are employed at the AutoZone stores or in direct field supervision. Further, 5% of those work at distribution centers while 5% work at store support and other functions.



Reasons To Buy:

- ▲ AutoZone's net sales are positively impacted by the growing market presence of DIY retail and commercial businesses. Store expansion initiatives, fast delivery and high-quality products are improving the company's market share as well as aiding in top-line growth. Notably, the firm's strong share buyback program is boosting investors' confidence.
- ▲ AutoZone is focusing on expansion of the favorably located core business and development of the supply-chain network. This will enable it to offer products at the local level, wherein customer demand is immediate. Inventory assortment improvements, technological advancements, strong reputation of the Duralast brand across the professional customer base and greater engagement from store operating teams are enabling the company to come to fruition.
- ▲ The company's omnichannel efforts to improve customer shopping experience are reaping profits. AutoZone's initiatives to enhance in-store systems and website traffic bode well for sales growth. Ship-to-home next day, buy online, pickup in store and commercial customer ordering are picking pace, increasing traffic to the company's online site.

AutoZone's fast deliveries, high-quality products and supply-chain network are likely to increase sales. Moreover, the company's frequent share repurchases enhance shareholder value.

Reasons To Sell:

- ▼ High capital and operating expenses are concerning for the company. It expects capital and operating expenses to rise over the next few years on opening of distribution centers, mega hubs and stores; technology investments; along with accelerated wage pressure. Further, the company's technology investments to improve electronic catalogue involves capital expenditure.
- ▼ AutoZone is increasing the frequency of deliveries to its stores to three or five times a week from once. While the company expects this strategy to be advantageous in the long term, its implementation is leading to gross margin headwinds of around 15–20 basis points every quarter due to higher supply chain costs. This headwind is expected to continue until the completion of the roll-out.
- ▼ Tariff impact on auto parts from China, and looming tariff conflicts from Japan and European Union may eat into some of the profits of the firm.

Cost headwinds related to the opening of distribution centers and increasing the frequency of deliveries to stores are concerns for AutoZone.

Last Earnings Report

AutoZone Earnings & Revenue Surpass Estimates in Q1

AutoZone, Inc. has reported earnings of \$14.30 per share in the first quarter of fiscal 2020 (ended Nov 23, 2019), up from the prior-year quarter's figure of \$13.47. Further, the figure surpassed the Zacks Consensus Estimate of \$13.69. Net income edged down 0.3% year over year to \$350.3 million.

In the reported quarter, net sales increased 5.7% year over year to \$2,793 million. The top line also beat the Zacks Consensus Estimate of \$2,760.7 million.

Domestic commercial sales totaled \$621.5 million, up from the \$546.9 million recorded in the year-ago quarter. Domestic same-store sales (sales at stores open at least for a year) were up 3.4% year over year, driven by improved performances of DIY and commercial businesses.

Gross profit increased to \$1,501.1 million from the prior-year quarter's \$1,417.4 million. Operating profit also went up to \$500 million from the \$487.8 million registered in the year-ago period.

Store Opening & Inventory

During the reported quarter, AutoZone opened 18 stores in the United States, two in Mexico and two in Brazil. It exited the quarter with 5,790 stores in the United States, 606 in Mexico and 37 in Brazil. The total store count was 6,433 as of Nov 23.

AutoZone's inventory improved 9.1% year over year in the reported quarter, aided by store openings and increased product placement. At the end of the quarter, inventory per location was \$694,000, up from the year-ago figure of \$658,000.

Financials and Share Repurchases

AutoZone had cash and cash equivalents of \$158 million as of Nov 23, 2019, down from \$252 million as of Nov 17, 2018. Total debt amounted to \$5,287.3 million, marking an increase from \$5,156 million as of Nov 17, 2018.

In the fiscal first quarter, AutoZone repurchased 403,000 shares for \$450 million at an average price of \$1,116 per share. At the end of this period, the company had shares worth \$1.3 billion remaining in the current repurchase authorization.

Outlook

The company expects to meet or exceed customer needs across all channels, backed by its initiatives to improve inventory availability and drive DIY sales. AutoZone is also aimed at boosting its operating earnings and cash flow, and utilize its balance sheet and capital effectively.

Quarter Ending **11/2019**

Report Date	Dec 10, 2019
Sales Surprise	1.17%
EPS Surprise	4.46%
Quarterly EPS	14.30
Annual EPS (TTM)	64.37

Valuation

AutoZone's shares are down 9.9% in the year-to-date period and up 22.1% over the trailing 12-month period, respectively. Stocks in the Zacks Automotive - Retail and Wholesale – Parts industry and the Zacks Auto-Tires-Trucks sector down 7% and up 8.6%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 15.2% and 20.9%, respectively.

The S&P 500 index is up 2.3% and 21% in the year-to-date period and over the past year, respectively.

The stock is currently trading at 15.55X forward 12-month earnings, which compares to 16.99X for the Zacks sub-industry, 24.73X for the Zacks sector and 18.89X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.35X and as low as 10.41X, with a 5-year median of 16.27X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$1,138 price target reflects 16.49X forward 12-month earnings.

The table below shows summary valuation data for AZO:

Valuation Multiples - AZO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.55	16.99	24.73	18.89
	5-Year High	20.35	21.41	26.2	19.34
	5-Year Low	10.41	14.08	19.07	15.18
	5-Year Median	16.27	17.83	22.96	17.46
EV/EBITDA TTM	Current	12.65	22.01	15.29	11.95
	5-Year High	14.27	23.85	15.37	12.85
	5-Year Low	7.92	15.23	10.63	8.49
	5-Year Median	11.53	20.39	12.38	10.66
P/S F12M	Current	2.06	1.66	1.07	3.5
	5-Year High	2.42	1.96	1.1	3.5
	5-Year Low	1.23	1.23	0.8	2.54
	5-Year Median	1.98	1.71	0.91	3

As of 02/05/2020

Industry Analysis Zacks Industry Rank: Bottom 15% (218 out of 255)



Top Peers

Group 1 Automotive, Inc. (GPI)	Outperform
Advance Auto Parts, Inc. (AAP)	Neutral
Autoliv, Inc. (ALV)	Neutral
Genuine Parts Company (GPC)	Neutral
LKQ Corporation (LKQ)	Neutral
O'Reilly Automotive, Inc. (ORLY)	Neutral
U.S. Auto Parts Network, Inc. (PRTS)	Neutral
Standard Motor Products, Inc. (SMP)	Neutral

Industry Comparison Industry: Automotive - Retail And Wholesale - Parts				Industry Peers		
	AZO Neutral	X Industry	S&P 500	AAP Neutral	GPC Neutral	ORLY Neutral
VGM Score	C	-	-	A	A	A
Market Cap	25.57 B	16.01 B	24.26 B	9.49 B	14.24 B	31.72 B
# of Analysts	9	7	13	10	6	10
Dividend Yield	0.00%	0.00%	1.75%	0.18%	3.11%	0.00%
Value Score	C	-	-	B	C	C
Cash/Price	0.01	0.01	0.04	0.06	0.03	0.00
EV/EBITDA	12.80	17.81	14.19	13.72	12.25	17.81
PEG Ratio	1.33	1.47	2.04	1.40	3.09	1.49
Price/Book (P/B)	NA	3.60	3.31	2.83	3.89	190.81
Price/Cash Flow (P/CF)	13.19	16.26	13.70	13.04	13.35	21.16
P/E (F1)	16.23	17.64	19.17	15.19	16.39	21.08
Price/Sales (P/S)	2.13	0.98	2.67	0.98	0.74	3.12
Earnings Yield	6.16%	5.25%	5.22%	6.58%	6.10%	4.74%
Debt/Equity	-4.39	0.79	0.71	0.79	0.98	32.16
Cash Flow (\$/share)	81.35	10.51	6.92	10.51	7.34	19.81
Growth Score	C	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	14.35%	14.89%	10.80%	-3.47%	4.99%	19.58%
Proj. EPS Growth (F1/F0)	4.28%	11.12%	7.35%	13.69%	5.72%	11.21%
Curr. Cash Flow Growth	15.07%	18.30%	10.12%	18.30%	26.30%	22.44%
Hist. Cash Flow Growth (3-5 yrs)	8.49%	8.49%	8.55%	4.14%	5.65%	13.15%
Current Ratio	0.88	1.06	1.20	1.31	1.26	0.81
Debt/Capital	NA%	62.27%	42.91%	44.27%	49.51%	96.98%
Net Margin	13.45%	4.58%	11.79%	4.58%	4.14%	13.70%
Return on Equity	-96.87%	15.61%	17.21%	15.61%	23.20%	610.76%
Sales/Assets	1.14	1.00	0.54	0.91	1.38	0.99
Proj. Sales Growth (F1/F0)	2.84%	2.84%	4.15%	2.32%	1.78%	5.35%
Momentum Score	C	-	-	A	A	A
Daily Price Chg	2.19%	1.90%	1.40%	4.15%	2.76%	2.85%
1 Week Price Chg	-7.22%	-7.01%	-2.60%	-7.01%	-4.59%	-5.73%
4 Week Price Chg	-6.47%	-4.70%	1.96%	-10.54%	-3.35%	-2.94%
12 Week Price Chg	-8.64%	-5.08%	6.04%	-13.60%	-6.07%	-5.08%
52 Week Price Chg	23.64%	21.09%	16.68%	-12.85%	-4.40%	18.55%
20 Day Average Volume	238,553	841,576	1,966,046	1,085,239	675,411	597,913
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.19%
(F1) EPS Est 4 week change	-0.04%	-0.47%	0.00%	-0.49%	0.00%	-0.47%
(F1) EPS Est 12 week change	1.08%	0.08%	-0.08%	0.42%	-0.19%	0.08%
(Q1) EPS Est Mthly Chg	-0.07%	0.11%	0.00%	0.34%	0.00%	0.18%

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	C
Growth Score	C
Momentum Score	C
VGM Score	C

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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