

AutoZone, Inc.(AZO)

\$1,209.07 (As of 08/21/20)

Price Target (6-12 Months): **\$1,267.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 05/22/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: A

Summary

AutoZone's store-expansion initiatives, omni-channel efforts to improve customer shopping experience and high-quality products are boosting the company's market share. In response to the uncertainty caused by the coronavirus outbreak, AutoZone has initiated a series of cost-saving initiatives, including substantial staffing adjustments. However, AutoZone has already warned investors that the coronavirus-induced disruption might dent demand for its products, in turn, hurting earnings and revenue prospects in the near term. Amid the growing uncertainty, AutoZone has also suspended its share-buyback program. High SG&A and operating expenses, which are expected to rise over the next few years, might dent AutoZone's margins. Its high debt levels also remain a concern. Hence, investors are recommended to wait for a better entry point.

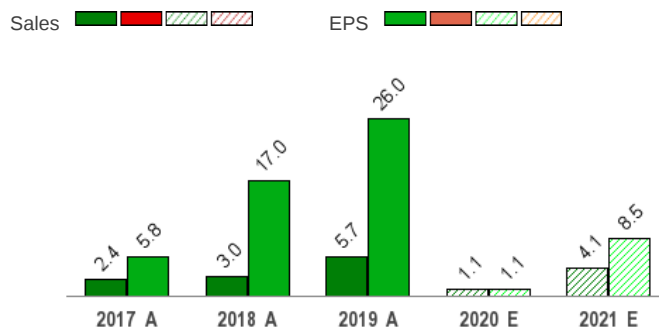
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$1,274.41 - \$684.91
20 Day Average Volume (sh)	172,139
Market Cap	\$28.2 B
YTD Price Change	1.5%
Beta	0.91
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Retail and Wholesale - Parts
Zacks Industry Rank	Top 2% (5 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.1%
Last Sales Surprise	2.4%
EPS F1 Est- 4 week change	1.7%
Expected Report Date	09/22/2020
Earnings ESP	5.8%

P/E TTM	19.0
P/E F1	18.9
PEG F1	1.6
P/S TTM	2.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,901 E	2,599 E	2,952 E	4,090 E	12,486 E
2020	2,793 A	2,514 A	2,779 A	3,972 E	11,999 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	\$15.20 E	\$12.12 E	\$16.91 E	\$24.29 E	\$69.53 E
2020	\$14.30 A	\$12.39 A	\$14.39 A	\$22.82 E	\$64.10 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 08/21/2020. The reports text is as of 08/24/2020.

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.

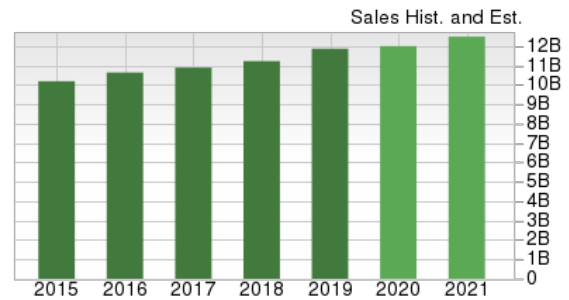
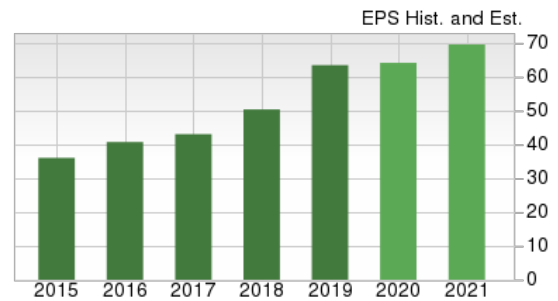
AutoZone selects and purchases merchandise from store support centers situated at Memphis, TN; Monterrey, Mexico; and Sao Paulo, Brazil. Also, it has office in Shanghai, China, to support its sourcing efforts in Asia.

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 has been 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. The company's omni-channel efforts to improve customer shopping experience are reaping profits. Notably, it recently initiated a curb-side pick-up option to bolster sales amid the coronavirus-led lockdown. AutoZone's initiatives to enhance in-store systems and website traffic bode well for sales growth. Ship-to-home next day, buy online, pick-up in stores and commercial customer ordering are picking pace, driving traffic to the company's online site.

AutoZone's fast deliveries, omnichannel efforts to improve customer shopping experience, high-quality products and supply-chain network bode well.

▲ 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 and urgent. Inventory-assortment improvements, technological advancements, solid reputation of the Duralast brand across the professional customer base and greater engagement from store-operating teams are supporting the company's growth.

▲ In response to the uncertainties caused by the coronavirus pandemic, AutoZone has initiated a series of cost-saving initiatives throughout the enterprise, including substantial staffing adjustments and addition to revolving credit facilities. The focus on cost discipline is anticipated to provide some respite amid the financial crisis. Notably, the company had a solid cash position of \$509.12 million as of May 9, 2020, up from \$174.1 million as of May 4, 2019.

Reasons To Sell:

- ▼ Coronavirus has hit the auto sector hard, with factory closures, low footfall at dealerships and supply-chain distortions. Auto parts retailer, AutoZone, is likely to bear the brunt of the shrinking demand of vehicle purchases as the pandemic has dented consumer sentiment. The firm has already warned that coronavirus is likely to put pressure on its revenues and earnings. Amid the pandemic-led uncertainties, the company has also suspended stock buybacks, dampening investors' confidence.
- ▼ The company's total debt amounted to \$5,418.3 million as of May 9, 2020, marking an increase from \$5,151.9 million as of May 4, 2019. Its total debt-to-capital ratio stands at 1.25, higher than the industry's 0.81. A high total debt-to-capital ratio often indicates that a firm might not be able to generate enough cash to satisfy its debt obligations. Moreover, the company's times interest earned ratio of 11.08 is unfavorable to the industry ratio of 13.79. Further, tariff impact on auto parts from China, and looming tariff conflicts from Japan and European Union are expected to clip the company's profits.
- ▼ High operating and SG&A expenses are concerning for AutoZone. It expects 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, AutoZone's technology investments to improve electronic catalogue involve capital expenditure. Notably, the company's operating expenses were \$998.97 million during third-quarter fiscal 2020, marking an increasing from the \$944.5 million recorded in the year-ago period, due to around \$75 million of costs incurred in response to the pandemic. AutoZone expects to incur approximately \$25 million in additional coronavirus-related expenses in the fourth quarter of fiscal 2020.

Coronavirus is likely to put pressure on AutoZone's upcoming revenues and earnings.

Last Earnings Report

AutoZone Q3 Earnings and Sales Surpass Estimates

AutoZone delivered earnings of \$14.39 per share in the third quarter of fiscal 2020 (ended May 9, 2020), down from the prior-year quarter figure of \$15.99. The reported figure, however, surpassed the Zacks Consensus Estimate of \$13.82. Net income declined 15.5% year over year to \$342.9 million.

In the fiscal third quarter, net sales slid 0.14% year over year to \$2.78 billion. Yet, the top line surpassed the Zacks Consensus Estimate of \$2.72 billion.

Domestic commercial sales totaled \$573.8 million, down from the \$614.8 million recorded in the year-ago quarter. Domestic same-store sales (sales at stores open at least for a year) edged down 1% year over year.

Gross profit decreased to \$1,490.6 million from the prior-year quarter's \$1,492 million. Operating profit also went down to \$491.7 million from the \$547.5 million registered in the year-ago period.

Store Opening & Inventory

During the fiscal third quarter, AutoZone opened 21 stores in the United States, two in Mexico and none in Brazil. It exited the quarter with 5,836 stores in the United States, 610 in Mexico and 38 in Brazil. The total store count was 6,484 as of May 9, 2020.

AutoZone's inventory improved 2.7% year over year in the reported quarter on store openings and increased product placement. At the end of the quarter, inventory per location was \$685,000, down from the year-ago figure of \$688,000.

Financials and Share Repurchases

AutoZone had cash and cash equivalents of \$509.12 million as of May 9, 2020, up from \$174.1 million as of May 4, 2019. Total debt amounted to \$5,418.3 million as of May 9, 2020, marking an increase from \$5,151.9 million as of May 4, 2019.

In the fiscal third quarter, AutoZone repurchased 156,000 shares for \$166.1 million at an average price of \$1,064 per share. At the end of this period, the company had shares worth \$796 million remaining in the current repurchase authorization. However, the company temporarily suspended its share-repurchase program on the coronavirus scare.

Quarter Ending 05/2020

Report Date	May 26, 2020
Sales Surprise	2.36%
EPS Surprise	4.12%
Quarterly EPS	14.39
Annual EPS (TTM)	63.67

Valuation

AutoZone's shares are up 1.5% in the year-to-date period and 13.3% over the trailing 12-month period, respectively. Stocks in the Zacks Automotive - Retail and Wholesale – Parts industry and the Zacks Auto-Tires-Trucks sector up 5.2% and 36.6%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 19.1% and 62.7%, respectively.

The S&P 500 index is up 5.5% and 18.5% in the year-to-date period and over the past year, respectively.

The stock is currently trading at 17.42X forward 12-month earnings, which compares to 19.95X for the Zacks sub-industry, 25.19X for the Zacks sector and 22.85X 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 15.96X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$1,267 price target reflects 18.25X 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	17.42	19.95	25.19	22.85
	5-Year High	20.35	21.39	25.62	22.85
	5-Year Low	10.41	12.6	8.2	15.25
	5-Year Median	15.96	17.75	9.9	17.58
EV/EBITDA TTM	Current	13.9	26.67	16.64	12.89
	5-Year High	14.4	26.95	16.47	12.89
	5-Year Low	7.82	15.89	6.94	8.25
	5-Year Median	11.59	21.39	9.35	10.91
P/S F12M	Current	2.26	2.01	0.98	3.71
	5-Year High	2.42	2.08	0.98	3.71
	5-Year Low	1.23	1.23	0.49	2.53
	5-Year Median	1.97	1.81	0.61	3.05

As of 08/21/2020

Industry Analysis Zacks Industry Rank: Top 2% (5 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Advance Auto Parts, Inc. (AAP)	Outperform	1
O'Reilly Automotive, Inc. (ORLY)	Outperform	1
Standard Motor Products, Inc. (SMP)	Outperform	2
Genuine Parts Company (GPC)	Neutral	3
Group 1 Automotive, Inc. (GPI)	Neutral	1
LKQ Corporation (LKQ)	Neutral	3
U.S. Auto Parts Network, Inc. (PRTS)	Neutral	3
Autoliv, Inc. (ALV)	Underperform	5

Industry Comparison Industry: Automotive - Retail And Wholesale - Parts				Industry Peers		
	AZO	X Industry	S&P 500	AAP	GPC	ORLY
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	1	3	1
VGM Score	A	-	-	A	A	B
Market Cap	28.23 B	22.84 B	23.62 B	10.79 B	13.46 B	34.09 B
# of Analysts	10	9	14	10	4	11
Dividend Yield	0.00%	0.00%	1.65%	0.64%	3.39%	0.00%
Value Score	B	-	-	B	B	C
Cash/Price	0.02	0.05	0.07	0.12	0.07	0.03
EV/EBITDA	13.73	15.83	13.29	13.97	12.48	17.69
PEG Ratio	1.55	1.92	3.03	1.82	13.11	1.52
Price/Book (P/B)	NA	4.87	3.11	2.90	4.69	57.88
Price/Cash Flow (P/CF)	14.86	15.34	12.69	13.16	11.43	20.91
P/E (F1)	18.92	20.90	21.51	19.57	19.67	22.23
Price/Sales (P/S)	2.34	1.73	2.43	1.12	0.74	3.18
Earnings Yield	5.30%	4.80%	4.46%	5.11%	5.08%	4.50%
Debt/Equity	-4.84	2.52	0.76	0.88	1.21	9.81
Cash Flow (\$/share)	81.35	16.94	6.93	11.86	8.16	22.02
Growth Score	B	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	14.38%	14.06%	10.44%	-1.61%	5.17%	19.02%
Proj. EPS Growth (F1/F0)	1.05%	1.46%	-5.53%	-2.58%	-16.65%	15.80%
Curr. Cash Flow Growth	15.07%	7.52%	5.20%	7.27%	10.00%	4.97%
Hist. Cash Flow Growth (3-5 yrs)	8.49%	9.09%	8.52%	-0.81%	6.64%	11.32%
Current Ratio	0.94	1.20	1.33	1.44	1.22	0.95
Debt/Capital	NA%	80.58%	44.50%	46.83%	54.83%	90.75%
Net Margin	12.90%	8.81%	10.13%	4.71%	-1.06%	14.45%
Return on Equity	-91.18%	16.39%	14.67%	14.78%	21.67%	490.94%
Sales/Assets	1.00	0.93	0.51	0.83	1.27	0.98
Proj. Sales Growth (F1/F0)	1.14%	1.60%	-1.54%	2.05%	-13.16%	8.24%
Momentum Score	A	-	-	B	A	A
Daily Price Chg	0.46%	0.00%	-0.15%	-0.84%	1.15%	-0.36%
1 Week Price Chg	1.17%	2.61%	1.09%	4.40%	1.95%	-0.35%
4 Week Price Chg	3.48%	4.35%	1.64%	5.22%	5.45%	2.79%
12 Week Price Chg	5.36%	12.09%	6.72%	12.76%	10.64%	11.43%
52 Week Price Chg	11.79%	16.99%	1.00%	13.53%	3.86%	20.45%
20 Day Average Volume	172,139	602,785	1,873,576	1,008,835	685,078	602,785
(F1) EPS Est 1 week change	0.43%	0.49%	0.00%	22.05%	0.00%	0.55%
(F1) EPS Est 4 week change	1.74%	13.02%	1.79%	24.31%	16.81%	24.98%
(F1) EPS Est 12 week change	4.73%	15.58%	3.35%	24.63%	18.81%	27.57%
(Q1) EPS Est Mthly Chg	2.23%	14.46%	0.42%	28.55%	37.68%	26.68%

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	B
Growth Score	B
Momentum Score	A
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.