

AutoZone, Inc.(AZO)

\$1,047.04 (As of 04/24/20)

Price Target (6-12 Months): **\$1,110.00**

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:B

Value: B

Growth: B

Momentum: D

Summary

AutoZone's store expansion initiatives, omnichannel efforts to improve customer shopping experience and high-quality products are improving the company's top-line growth. The automotive retailer's focus on expansion of the favorably located core business and development of the supply-chain network bode well. However, the company has already warned investors that coronavirus-induced disruption might dent demand for its products, in turn dimming earnings and revenue prospects in the near future. Amid the growing uncertainty, AutoZone has also called of its buyback program. Further, high capital and operating expenses which are further expected to rise over the next few years may dent the firm's margins. Its high debt levels also remain a concern. As such, investors are recommended to wait for a better entry point.

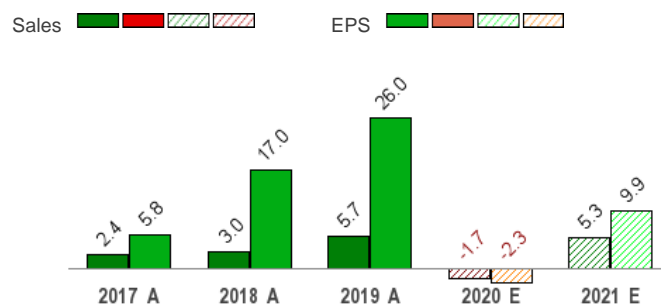
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$1,274.41 - \$684.91
20 Day Average Volume (sh)	310,305
Market Cap	\$24.5 B
YTD Price Change	-12.1%
Beta	0.75
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Retail and Wholesale - Parts
Zacks Industry Rank	Bottom 21% (199 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.4%
Last Sales Surprise	-2.6%
EPS F1 Est- 4 week change	-5.6%
Expected Report Date	05/19/2020
Earnings ESP	-18.8%
P/E TTM	16.0
P/E F1	16.9
PEG F1	1.4
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,816 E	2,618 E	2,924 E	3,909 E	12,289 E
2020	2,793 A	2,514 A	2,703 E	3,683 E	11,666 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	\$14.94 E	\$12.66 E	\$17.74 E	\$23.89 E	\$68.14 E
2020	\$14.30 A	\$12.39 A	\$14.30 E	\$20.54 E	\$61.98 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 04/24/2020. The reports text is as of 04/27/2020.

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.

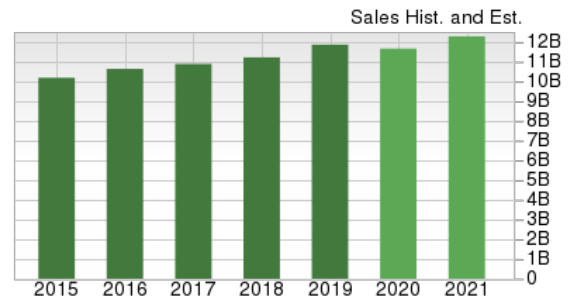
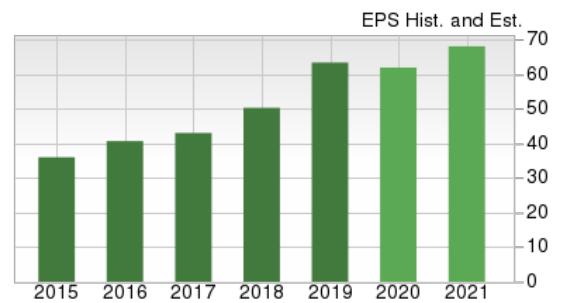
AutoZone selects and purchases merchandise from store support centers situated at Memphis, TN; Monterrey, Mexico; and Sao Paulo, Brazil. Also, it has office in Shanghai, China, to support its sourcing efforts in Asia.

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.
- ▲ 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, omnichannel efforts to improve customer shopping experience, high-quality products and supply-chain network bode well.

Reasons To Sell:

- ▼ Coronavirus has taken a toll on the auto sector, with factory closures, low footfall at dealerships and supply chain distortions. Auto parts retailer, AutoZone, is likely to bear the brunt of falling demand of vehicle purchases as the pandemic has dented consumer sentiments. The firm has already warned that coronavirus is likely to put pressure on the firm's upcoming revenues and earnings. Amid the virus-led uncertainty, the company has also suspended stock buybacks, dampening investors' confidence.
- ▼ The company's total debt was around \$5.45 billion at the end of fiscal second-quarter 2020. The metric increased from \$5.11 billion recorded in the year-ago period and \$5.21 billion recorded at the end of fiscal 2019. Its total debt-to-capital ratio stands at 126.45%, higher than its industry's 79.71%. 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.
- ▼ 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. 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.

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

Last Earnings Report

AutoZone Reports Mixed Q2 Results

AutoZone, Inc. has reported earnings of \$12.39 per share in the second quarter of fiscal 2020 (ended Feb 15, 2020), up from the prior-year quarter figure of \$11.49. Further, the reported figure surpassed the Zacks Consensus Estimate of \$11.87. Net income inched up 1.6% year over year to \$299.3 million.

In the reported quarter, net sales increased 2.6% year over year to \$2,513.7 million. However, the top line missed the Zacks Consensus Estimate of \$2,580 million.

Domestic commercial sales totaled \$556.9 million, up from the \$514.6 million recorded in the year-ago quarter. Domestic same-store sales (sales at stores open at least for a year) edged down 0.8% year over year.

Gross profit increased to \$1,366 million from the prior-year quarter's \$1,325.1 million. Operating profit also went up to \$407.9 million from the \$400 million registered in the year-ago period.

Store Opening & Inventory

During the fiscal second quarter, AutoZone opened 25 stores in the United States, two in Mexico and one in Brazil. It exited the quarter with 5,815 stores in the United States, 608 in Mexico and 38 in Brazil. The total store count was 6,461 as of Feb 15, 2020.

AutoZone's inventory improved 7% 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 \$713,000, up from the year-ago figure of \$690,000.

Financials and Share Repurchases

AutoZone had cash and cash equivalents of \$152.97 million as of Feb 15, 2020, down from \$195.66 million as of Feb 9, 2019. Total debt amounted to \$5,451.5 million, marking an increase from \$5,111.2 million as of Feb 9, 2019.

In the fiscal second quarter, AutoZone repurchased 267,000 shares for \$314.8 million at an average price of \$1,180 per share. At the end of this period, the company had shares worth \$962 million remaining in the current repurchase authorization.

Quarter Ending **02/2020**

Report Date	Mar 03, 2020
Sales Surprise	-2.55%
EPS Surprise	4.38%
Quarterly EPS	12.39
Annual EPS (TTM)	65.27

Recent News

AutoZone Halts Buyback, Provides ETO Benefits to Employees

On **Apr 7**, AutoZone announced its decision to temporarily suspend the stock buyback program to conserve cash amid coronavirus-led uncertainty. AutoZone is implementing stringent cleaning regimens, imposing restrictions on access to stores, introducing curbside pickup options and taking other steps to keep workplaces safe for employees. The company also announced new Emergency-Time Off (ETO) benefit enhancement for employees and restructured credit arrangements to assure liquidity. This additional bank of hours, 80 hours for full-time and up to 40 hours for part-time employees in the United States and Puerto Rico, was created to extend benefits for the overall wellbeing of employees amid the coronavirus pandemic. AutoZone recently closed the 364-day senior unsecured revolving credit facility with a principal amount of \$750 million, following the sale of five-year and 10-year senior notes totaling \$1.25 billion on Mar 26. The company has \$1.9 billion available under the existing \$2-billion multi-year credit facility. This apart, the recent series of transactions boosted the firm's financial flexibility.

Valuation

AutoZone's shares are down 12.1% in the year-to-date period and up 2.4% 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 15.8% and 14.6%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 5.5% and 8.8%, respectively.

The S&P 500 index is down 12% and 4.2% in the year-to-date period and over the past year, respectively.

The stock is currently trading at 14.82X forward 12-month earnings, which compares to 18.12X for the Zacks sub-industry, 16X for the Zacks sector and 19.83X 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 16.1X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$1,110 price target reflects 15.71X 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	14.82	18.12	16	19.83
	5-Year High	20.35	21.41	16	19.83
	5-Year Low	10.41	12.62	8.23	15.19
	5-Year Median	16.1	17.76	9.93	17.45
EV/EBITDA TTM	Current	12.35	20.59	9.17	10.37
	5-Year High	14.4	24.03	11.34	12.87
	5-Year Low	7.82	15.21	6.97	8.28
	5-Year Median	11.54	20.3	9.26	10.78
P/S F12M	Current	2	2.69	0.94	4.79
	5-Year High	2.42	2.69	0.94	4.79
	5-Year Low	1.23	1.15	0.5	2.54
	5-Year Median	1.98	1.7	0.62	3.01

As of 04/24/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (199 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Advance Auto Parts, Inc. (AAP)	Neutral	3
Genuine Parts Company (GPC)	Neutral	4
Group 1 Automotive, Inc. (GPI)	Neutral	3
LKQ Corporation (LKQ)	Neutral	3
O'Reilly Automotive, Inc. (ORLY)	Neutral	3
U.S. Auto Parts Network, Inc. (PRTS)	Neutral	3
Standard Motor Products, Inc. (SMP)	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	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	B	-	-	A	B	D
Market Cap	24.45 B	11.54 B	19.57 B	8.12 B	10.91 B	28.57 B
# of Analysts	10	8	14	9	6	9
Dividend Yield	0.00%	0.00%	2.2%	0.85%	4.21%	0.00%
Value Score	B	-	-	C	D	D
Cash/Price	0.01	0.03	0.05	0.05	0.03	0.00
EV/EBITDA	12.43	12.43	11.66	11.43	11.15	15.72
PEG Ratio	1.39	1.87	2.27	1.55	9.68	1.81
Price/Book (P/B)	NA	5.40	2.60	2.29	2.95	262.51
Price/Cash Flow (P/CF)	12.87	11.69	10.50	9.91	9.20	17.48
P/E (F1)	17.01	19.63	18.25	16.34	14.53	23.34
Price/Sales (P/S)	2.02	0.84	2.02	0.84	0.56	2.80
Earnings Yield	5.92%	4.47%	5.35%	6.12%	6.88%	4.29%
Debt/Equity	-4.64	1.06	0.72	0.78	0.98	56.35
Cash Flow (\$/share)	81.35	11.86	7.01	11.86	8.16	22.02
Growth Score	B	-	-	A	A	C
Hist. EPS Growth (3-5 yrs)	14.56%	15.11%	10.92%	-2.00%	5.50%	19.31%
Proj. EPS Growth (F1/F0)	-2.29%	-7.77%	-5.06%	-12.13%	-9.23%	-7.80%
Curr. Cash Flow Growth	15.07%	7.27%	5.92%	7.27%	10.00%	4.97%
Hist. Cash Flow Growth (3-5 yrs)	8.49%	9.09%	8.55%	-0.81%	6.64%	11.32%
Current Ratio	0.92	1.04	1.23	1.27	1.24	0.91
Debt/Capital	NA%	65.87%	43.90%	43.79%	49.54%	98.26%
Net Margin	13.42%	5.01%	11.32%	5.01%	3.20%	13.41%
Return on Equity	-95.47%	16.41%	16.60%	16.41%	22.79%	670.84%
Sales/Assets	1.07	1.00	0.55	0.87	1.34	0.96
Proj. Sales Growth (F1/F0)	-1.67%	-3.33%	-0.78%	-3.88%	-4.95%	-3.33%
Momentum Score	D	-	-	C	C	F
Daily Price Chg	4.11%	3.23%	1.38%	3.70%	2.64%	2.75%
1 Week Price Chg	5.42%	9.07%	0.42%	11.23%	4.16%	9.07%
4 Week Price Chg	18.31%	18.31%	5.63%	21.08%	9.31%	17.78%
12 Week Price Chg	-3.64%	-8.35%	-20.44%	-13.07%	-22.55%	-8.35%
52 Week Price Chg	0.45%	0.45%	-13.44%	-31.09%	-27.56%	1.27%
20 Day Average Volume	310,305	616,986	2,802,273	1,063,327	1,138,621	881,674
(F1) EPS Est 1 week change	0.00%	-0.77%	-0.10%	-0.77%	-0.35%	-2.98%
(F1) EPS Est 4 week change	-5.60%	-18.30%	-6.64%	-18.30%	-10.85%	-12.69%
(F1) EPS Est 12 week change	-6.29%	-17.16%	-11.78%	-20.22%	-13.63%	-17.16%
(Q1) EPS Est Mthly Chg	-13.85%	-31.73%	-10.38%	-32.97%	-23.17%	-30.50%

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	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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