



AutoZone Inc. (AZO)

Updated March 3rd, 2020 by Eli Inkrot

Key Metrics

Current Price:	\$1,051	5 Year CAGR Estimate:	6.7%	Market Cap:	\$25.2 B
Fair Value Price:	\$990	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	N/A
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.2%	Dividend Payment Date:	N/A
Dividend Yield:	0.0%	5 Year Price Target	\$1,455	Years Of Dividend Growth:	N/A
Dividend Risk Score:	NA	Retirement Suitability Score:	NA	Last Dividend Increase:	N/A

Overview & Current Events

After opening its first store on July 4th, 1979, AutoZone has grown into the leading retailer and distributor of automotive replacement parts and accessories with more than 6,000 stores in the U.S., Puerto Rico, Mexico and Brazil. AutoZone carries new and remanufactured parts, maintenance items and accessories for cars, SUVs, vans and light trucks. This \$25 billion market cap company generated \$11.9 billion in sales and \$1.6 billion in profits last year.

AutoZone grew its earnings-per-share at a double-digit rate for 41 consecutive quarters until early 2017, executing its expansion in an exemplary way while benefitting from the fragmented status of its market. While AutoZone has kept growing for years, it still has a very small share of the total commercial market allowing ample room for future growth.

When the double-digit earnings-per-share growth streak ended in early 2017, the market feared that Amazon was disrupting the business model of AutoZone, as the online giant had announced that it would become more aggressive in auto parts. However, AutoZone has kept growing at a fast pace and has so far proven the market's concerns overblown.

On March 3rd, 2020 AutoZone reported Q2 fiscal year 2020 results for the period ending February 15th, 2020.

(AutoZone's fiscal year ends the last Saturday in August.) For the quarter AutoZone reported sales of \$2.5 billion, representing a 2.6% increase compared to the year ago period, with domestic same store sales declining -0.8%. Net income increased 1.6% to \$299.3 million. Meanwhile, net income per share increased 7.8% to \$12.39, as a result of a significantly lower share count. AutoZone repurchased 267,000 shares during the quarter for \$314.8 million.

AutoZone opened 25 new stores in the U.S., 2 in Mexico and 1 in Brazil, for a total store count of 6,461.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$14.97	\$19.47	\$23.48	\$27.79	\$31.57	\$36.03	\$40.70	\$44.07	\$51.28	\$63.43	\$66.00	\$96.98
DPS	---	---	---	---	---	---	---	---	---	---	---	---
Shares¹	45.1	40.1	37.0	34.3	32.3	30.7	29.1	27.8	25.7	24.0	24.0	18.0

AutoZone has put together a tremendous record over the past decade, with earnings-per-share growing at an exceptional 18%+ average compound growth rate. This record was achieved by a variety of factors coming together. On the top-line, revenue has grown by 5.7% per annum – a solid pace, but nowhere near the rate of earnings-per-share improvement. This growth was fueled by an expanding net profit margin – moving from under 10% to over 13% - to go along with a historic share repurchase program. This program effectively halved the share count from over 50 million in 2009 to under 25 million today, allowing shareholder results to grow at a much faster pace than business results.

Moving forward we expect more of the same. As the company does not pay a dividend, the share repurchase program will continue to be an important driver in overall growth. In addition, new store openings will continue to push the top line of the business. With that said, the company is now much larger and growing off a higher base. Moreover, future economic declines may stymie growth to a greater degree than in the past as the number of new store openings declines as a percentage of the total. Taking these items collectively, we are forecasting 8% intermediate-term growth.

¹ In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	11.4	13.7	15.1	14.1	15.7	17.4	18.8	15.6	13.0	14.8	15.9	15.0
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Over the past decade shares of AutoZone have traded with an average P/E ratio of about 15 times earnings. We consider this to be a reasonable starting multiple, considering the company's strong history and growth prospects. With shares currently trading near 16 times our expectation for next year's earnings, this implies the potential for a small valuation headwind over the intermediate term.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	---	---	---	---	---	---	---	---

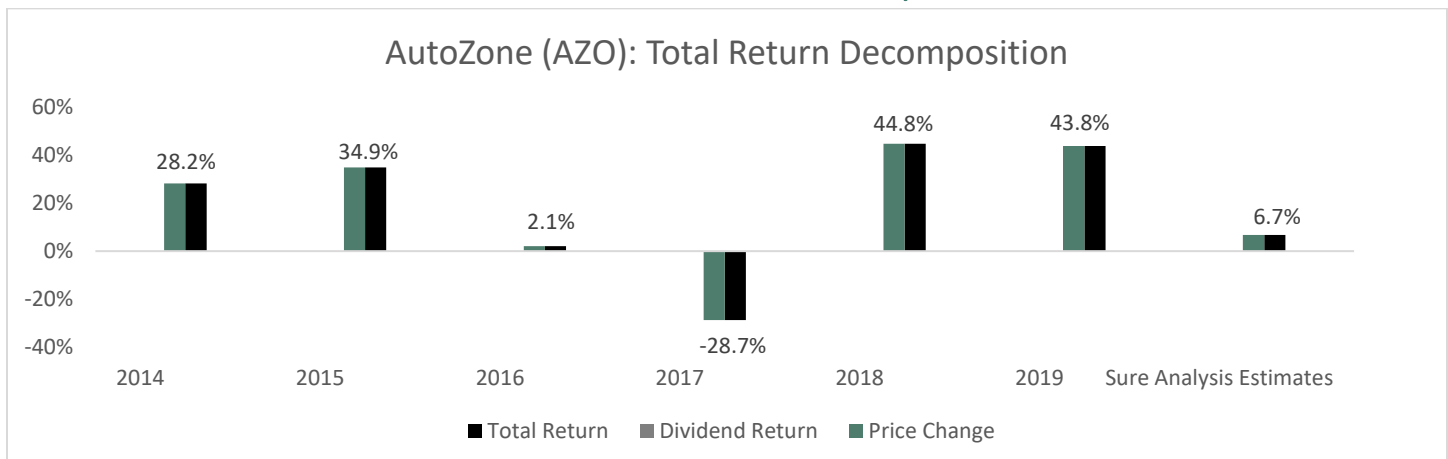
AutoZone has proven to be recession-resistant thanks to the nature of its business. During rough economic periods, the sales of new cars fall significantly, causing the average age of cars to increase. This favors the business of AutoZone. In the Great Recession, when most companies saw their earnings plunge, AutoZone grew its earnings-per-share by 18% in 2008 and another 17% in 2009. It is remarkable that AutoZone was one of the few companies that continued to repurchase their shares in the Great Recession. Thanks to its depressed stock price, it reduced its share count by -24% in just two years. This is a testament to the quality of its management, which has maintained its buyback program regardless of economic conditions and has reduced the share count by -75% in the last 16 years.

As of the most recent report AutoZone held \$153 million in cash, \$5.2 billion in current assets (87% of which was inventory) and \$12.9 billion in total assets against \$5.8 billion in current liabilities and \$14.6 billion in total liabilities. Total debt stood at \$5.5 billion against ~\$1.6 billion in annual underlying earnings power.

Final Thoughts & Recommendation

Shares are down -17% since our last update. Previously AutoZone put together a terrific growth record as a result of strong top-line growth, margin improvement and a historic share repurchase program. In the future these items can continue to propel the company's results, but each component is a bit harder to formulate given the now much larger base. Moving forward we are forecasting 6.7% annual return potential, stemming from 8% growth which could be offset by a small valuation headwind. We rate shares as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	7363	8073	8604	9148	9475	10187	10636	10889	11221	11864
Gross Profit	3712	4119	4432	4741	4935	5327	5609	5740	5974	6365
Gross Margin	50.4%	51.0%	51.5%	51.8%	52.1%	52.3%	52.7%	52.7%	53.2%	53.7%
SG&A Exp.	2392	2625	2803	2968	3105	3374	3548	3660	4163	4149
D&A Exp.	192	196	212	227	251	270	297	323	345	
Operating Profit	1319	1495	1629	1773	1830	1953	2060	2080	1811	2216
Operating Margin	17.9%	18.5%	18.9%	19.4%	19.3%	19.2%	19.4%	19.1%	16.1%	18.7%
Net Profit	738	849	930	1016	1070	1160	1241	1281	1338	1617
Net Margin	10.0%	10.5%	10.8%	11.1%	11.3%	11.4%	11.7%	11.8%	11.9%	13.6%
Free Cash Flow	892	973	853	1010	896	1084	1145	1020	1558	
Income Tax	422	475	523	571	593	642	672	645	299	414

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	5572	5870	6266	6892	7497	8102	8600	9260	9347	9896
Cash & Equivalents	98	98	103	142	124	175	190	293	218	176
Accounts Receivable	126	141	161	172	201	248	288	281	258	
Inventories	2305	2466	2628	2861	3140	3422	3632	3882	3944	4319
Goodwill & Int. Ass.	303	303	303	368	368	392	453	444	312	
Total Liabilities	6310	7124	7814	8579	9119	9804	10387	10688	10867	9896
Accounts Payable	2433	2756	2927	3308	3609	3864	4096	4169	4409	4865
Long-Term Debt	2908	3352	3768	4187	4323	4625	4924	5081	5006	0
Shareholder's Equity	-739	-1254	-1548	-1687	-1622	-1701	-1788	-1428	-1520	-1714
D/E Ratio	-3.94	-2.67	-2.43	-2.48	-2.67	-2.72	-2.75	-3.56	-3.29	0.00

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	13.6%	14.8%	15.3%	15.5%	14.9%	14.9%	14.9%	14.3%	14.4%	16.8%
ROIC	33.1%	39.8%	43.1%	43.1%	41.1%	41.3%	41.0%	37.7%	37.5%	182.6%
Shares Out.	45.1	40.1	37.0	34.3	32.3	30.7	29.1	27.8	25.7	25.5
Revenue/Share	149.33	185.15	217.13	250.06	279.66	316.32	348.85	374.63	409.2	465.28
FCF/Share	18.10	22.32	21.51	27.62	26.45	33.66	37.55	35.08	56.81	

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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