

AutoZone (AZO)

Earnings Update

Hold | Market Perform

James Musselman, Jenna Lindemann, Mark Dziadul | March 7, 2024



Overview

AutoZone is the leading retailer and distributor of automotive replacement parts and accessories in the Americas. Distribution is through 3 segments: Mega Hubs (Large part distribution Centers), Hubs (Part distribution center), and Satellites (Stores). AutoZone has a wide Economic moat through two segments. Connection and cost advantages of products to consumers through multiple hubs. And a trusted brand name.

AutoZone's **EPS** (Earnings Per Share) came in at **\$28.89**, beating analysts' expectations by **9%**, and **revenue** had a small **beat** ending in line with expectations at **\$3.86B (0.27%)**. The company said it benefited from higher merchandise profit margins, a non-cash last in, first out (LIFO) favorability, and reduced supply chain costs. They used the cash to then buy back shares.

Under its share repurchase program, AutoZone repurchased 84 thousand shares of its common stock at an average price per share of \$2,676, for a total investment of \$224 million. \$1.1 billion in Capital expenditures has been dedicated to developing new distribution centers. Two domestic distribution centers are currently under construction in the US, Chowchilla, California and New Kent, Virginia. And near completion of expanded distribution center internationally in Tepeji, Mexico. Additionally, a larger distribution center in Mexico is being relocated to the Monterrey distribution center.

The automotive parts retailer reported net sales of \$3.86B for the second quarter, an **increase of 5%** from the same period in FY2023. **Total company same-store sales**, or sales at domestic and international stores open at least one year, moved up **1.5%**. Net income came in at **\$515.03M** or \$28.89 per share in Q2, compared to \$476.5 million or \$24.64 per share in the corresponding period of last year. During the quarter, in line with their growth goals, AutoZone opened a net of 16 domestic stores, and added 6 stores in Mexico to finish with 751 stores, a 6.2% increase from the same time in FY23, and 4 stores in Brazil, ending with 108, a **33.3% increase in Brazil** since Q2 FY23.

Revenue in **domestic DIY** there was a **negative .3%** compared to 2.7% last year. This is due to the middle four weeks there were weather issues. The **domestic commercial grew 2.7%** in sales, but **below** expectations. The **International segment** was up **10.6%**.

AutoZone believes that the commercial business will get stronger and **growth rates will improve** within the year. Growth will remain in the single digits, but management is doing its best to get it to double digits. They also recently got a new **CEO** who used to be Vice President of marketing, merchandising, and supply chain, **Philip Daniele**.

AutoZone is the leading retailer and distributor of automotive replacement parts and accessories in the Americas. This is important because many of the cars on the market are used and need parts replaced. Based on the information AutoZone provided I chose an **8% growth rate**. I recommend we **Hold** our shares but keep an eye on it because it is **overvalued**.

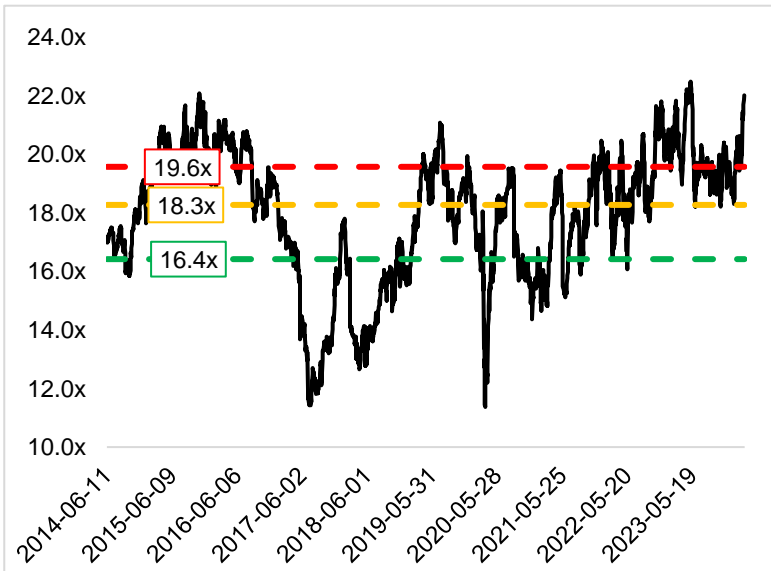
IOFS

Most of the metrics are within our threshold. The gross profit margin is improving due to supply chain issues improving. The obligation ratio has increased to 5 years due to debt. Leases are increasing due to store expansions. AutoZone is continuing to repurchase shares, which is lowering the number of shares outstanding.

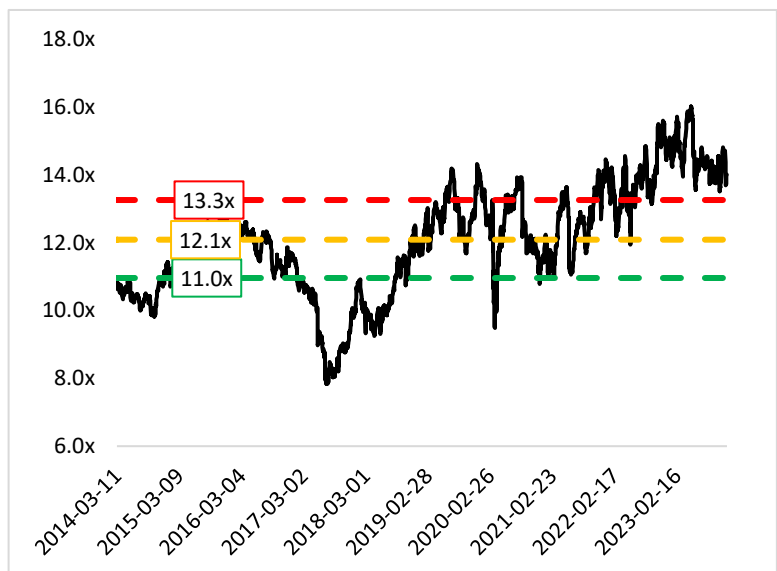
	2014-08	2015-08	2016-08	2017-08	2018-08	2019-08	2020-08	2021-08	2022-08	2023-08	TTM	Trend	Th
IOFS													
Revenue	\$ 9,475	\$ 10,187	\$ 10,636	\$ 10,889	\$ 11,221	\$ 11,864	\$ 12,632	\$ 14,630	\$ 16,252	\$ 17,457	\$ 17,831		Predictable?
Gross profit	\$ 4,935	\$ 5,327	\$ 5,609	\$ 5,740	\$ 5,974	\$ 6,365	\$ 6,771	\$ 7,718	\$ 8,473	\$ 9,070	\$ 9,439		Predictable?
Operating Income	\$ 1,830	\$ 1,953	\$ 2,060	\$ 2,080	\$ 1,811	\$ 2,216	\$ 2,418	\$ 2,945	\$ 3,271	\$ 3,474	\$ 3,673		Predictable?
Net Income	\$ 1,070	\$ 1,160	\$ 1,241	\$ 1,281	\$ 1,338	\$ 1,617	\$ 1,733	\$ 2,170	\$ 2,430	\$ 2,528	\$ 2,621		Predictable?
Free Cash Flow	\$ 892	\$ 1,082	\$ 1,142	\$ 1,017	\$ 1,558	\$ 1,632	\$ 2,262	\$ 2,897	\$ 2,539	\$ 2,144	\$ 2,060		Predictable?
EBIT	\$ 1,832	\$ 1,955	\$ 2,063	\$ 2,084	\$ 1,816	\$ 2,224	\$ 2,423	\$ 2,950	\$ 3,277	\$ 3,486	\$ 3,685		Predictable?
EBITDA	\$ 2,083	\$ 2,225	\$ 2,360	\$ 2,407	\$ 2,162	\$ 2,593	\$ 2,821	\$ 3,358	\$ 3,719	\$ 3,984	\$ 4,080		Predictable?
Dividend Yield %	0	0	0	0	0	0	0	0	0	0	0		Predictable?
Gross Margin	52.1%	52.3%	52.7%	52.7%	53.2%	53.7%	53.6%	52.8%	52.1%	52.0%	52.9%		>40%
Operating Margin	19.3%	19.2%	19.4%	19.1%	16.1%	18.7%	19.1%	20.1%	20.1%	19.9%	20.6%		>20%
Net Margin	11.3%	11.4%	11.7%	11.8%	11.9%	13.6%	13.7%	14.8%	14.9%	14.5%	14.7%		>10%
FCF Margin	9.4%	10.6%	10.7%	9.3%	13.9%	13.8%	17.9%	19.8%	15.6%	12.3%	11.6%		>10%
D&A/ Gross Profit	5.1%	5.1%	5.3%	5.6%	5.8%	5.8%	5.9%	5.3%	5.2%	5.5%	4.2%		<60%
R&D/ Gross Profit	0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		<60%
SG&A/ Gross Profit	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		<80%
SBC/ Revenue	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.5%	0.5%		<5%
Capex/ Net Income	42.0%	42.3%	40.2%	43.2%	39.0%	30.7%	26.4%	28.6%	27.7%	31.5%	0.350121706		<25%
Dividend Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		<60%
Shares Outstanding	33.9	32.2	30.5	29.1	27.4	25.5	24.1	22.8	20.7	19.1	17.8		Decreasing?
Returns %													
ROE	10000.0	10000.0	10000.0	10000.0	10000.0	10000.0	10000.0	10000.0	10000.0	10000.0	10000.0		>15%
ROTE	Negative Tangi	Negative Tang	Negative Tang	Negative Tang	Negative Tang	Negative Tang	Negative Tang	Negative Tang	Negative Tang	Negative Tang	Negative Tang		>15%
ROIC	26.8	27.2	28.6	28.8	29.7	34.6	28.1	26.9	27.9	28.4	30.8		>15%
ROCE	64.5	61.6	56.5	49.6	41.2	51.1	38.7	38.6	47.4	49.2	47.7		>15%
ROA	14.9	14.9	14.9	14.3	14.4	16.8	14.3	15.0	16.3	16.2	16.4		>15%
ROC	-144068.9	-170113.9	-178728.6	-142812.5	-152008.8	-171354.0	-87766.3	-179712.4	-353851.6	-434956.4	#DIV/0!		>15%
Leverage & Liquidity													
LT Debt	4142	4625	4924	5081	5006	5206	8015	7903	8960	10586	2902		
ST Debt	181	0	0	0	0	0	0	0	0	0	0		
PF Stock	0	0	0	0	0	0	0	0	0	0	0		
Leases*7	256	284	314	337	366	394	2039	2286	2354	2409	0		
Pension SF	#CALCULATION?										#CALCULATION?		
Cash	\$ 124	\$ 175	\$ 190	\$ 293	\$ 218	\$ 176	\$ 1,751	\$ 1,171	\$ 264	\$ 277	\$ 304		
Obligation Ratio ⁽¹⁾	4.2x	4.1x	4.1x	4.0x	3.9x	3.4x	4.8x	4.2x	4.5x	5.0x	1.0x		<5
Cash/ Revenue	1.3%	1.7%	1.8%	2.7%	1.9%	1.5%	13.9%	8.0%	1.6%	1.6%	1.7%		
Per Share Data													
Revenue	\$ 279.66	\$ 316.32	\$ 348.85	\$ 374.63	\$ 409.17	\$ 465.28	\$ 524.30	\$ 641.68	\$ 783.88	\$ 913.85	\$ 970.26		Predictable?
Owners Earnings	\$ 28.33	\$ 34.80	\$ 39.53	\$ 37.86	\$ 47.58	\$ 64.64	\$ 92.12	\$ 136.26	\$ 130.54	\$ 118.48	\$ 124.65		Predictable?
Earnings	\$ 31.57	\$ 36.03	\$ 40.70	\$ 44.07	\$ 48.77	\$ 63.43	\$ 71.93	\$ 95.19	\$ 117.19	\$ 132.36	\$ 142.02		Predictable?
Operating Cash Flow	\$ 39.59	\$ 48.84	\$ 53.83	\$ 54.04	\$ 75.86	\$ 83.48	\$ 112.90	\$ 154.33	\$ 154.88	\$ 153.94	\$ 159.94		Predictable?
Free Cash Flow	\$ 26.33	\$ 33.61	\$ 37.47	\$ 34.98	\$ 56.81	\$ 64.02	\$ 93.90	\$ 127.06	\$ 122.45	\$ 112.24	\$ 110.67		Predictable?
Dividends	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		Predictable?
Book Value	\$ (50.21)	\$ (55.49)	\$ (61.39)	\$ (51.32)	\$ (59.06)	\$ (71.30)	\$ (37.56)	\$ (85.04)	\$ (185.03)	\$ (243.60)	\$ (279.42)		Predictable?
Tangible Book Value	\$ (61.59)	\$ (68.28)	\$ (76.94)	\$ (67.29)	\$ (71.20)	\$ (84.12)	\$ (50.51)	\$ (99.36)	\$ (200.86)	\$ (260.54)	\$ (279.42)		Predictable?
Valuation													
P/E	17.1x	19.9x	18.2x	12.0x	15.7x	17.4x	16.6x	16.3x	18.1x	19.1x	22.0x		
P/S	1.9x	2.3x	2.1x	1.4x	1.9x	2.4x	2.3x	2.4x	2.7x	2.8x	3.2x		
P/FCF	20.5x	21.3x	19.8x	15.1x	13.5x	17.2x	12.7x	12.2x	17.3x	22.6x	28.1x		
P/B	-	-	-	-	-	-	-	-	-	-	-		
PEG	0.8x	1.2x	1.3x	1.0x	1.8x	2.2x	1.8x	1.2x	0.9x	0.9x	1.0x		
EV/EBIT	11.8x	13.5x	12.8x	9.4x	13.5x	14.2x	14.2x	13.5x	15.1x	16.0x	15.3x		

Valuation

Price to Earnings

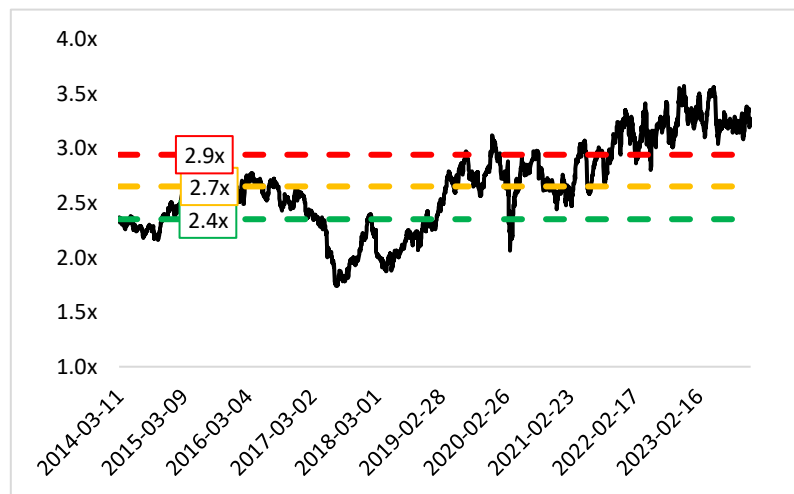


Price to Sales

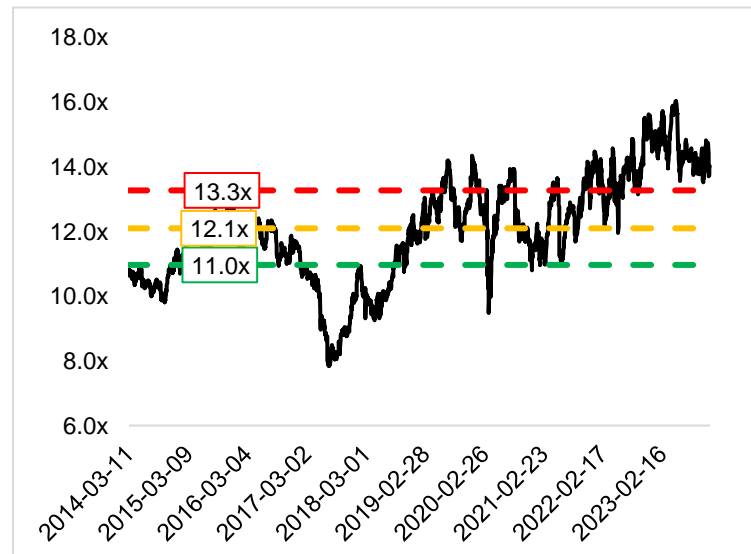


PB Ratio- no data from guru

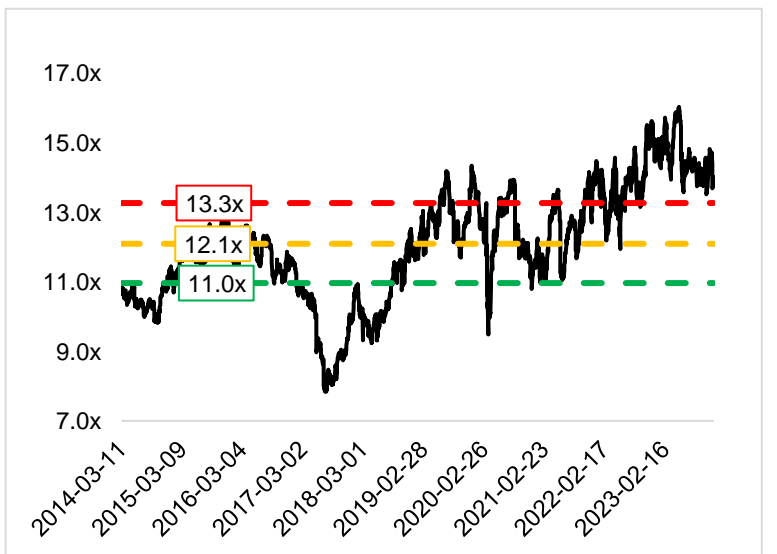
EV to Revenue



EV to EBITDA



EV to EBIT



Ticker: AZO												
Price: \$3,124.00												
5 Year Discounted Cash Flow												
								Total Return				
								P/E	Price	PV	5 YR	Annual
											Return	Return
Bear	EPS	Current	2024	2025	2026	2027	2028	16.0x	\$3,040.88	\$1,888.15	(2.7)%	(0.5)%
		\$142.02	\$150.54	\$159.57	\$169.15	\$179.30	\$190.05	18.0x	\$3,420.99	\$2,124.16	9.5%	1.8%
			6%	6%	6%	6%	6%	20.0x	\$3,801.10	\$2,360.18	21.7%	4.0%
Base	EPS	Current	2024	2025	2026	2027	2028	16.0x	\$3,338.78	\$2,073.12	6.9%	1.3%
		\$142.02	\$153.38	\$165.65	\$178.90	\$193.22	\$208.67	18.0x	\$3,756.13	\$2,332.26	20.2%	3.8%
			8%	8%	8%	8%	8%	20.0x	\$4,173.48	\$2,591.40	33.6%	6.0%
Bull	EPS	Current	2024	2025	2026	2027	2028	16.0x	\$3,659.59	\$2,272.32	17.1%	3.2%
		\$142.02	\$156.22	\$171.84	\$189.03	\$207.93	\$228.72	18.0x	\$4,117.04	\$2,556.36	31.8%	5.7%
			10%	10%	10%	10%	10%	20.0x	\$4,574.49	\$2,840.40	46.4%	7.9%

Total RoR Sensitivity				
		Est. EPS growth rate		
		6%	8%	10%
P / E	16.0x	(0.5)%	1.3%	3.2%
	18.0x	1.8%	3.8%	5.7%
	20.0x	4.0%	6.0%	7.9%

