

# AutoZone (AZO)

Earnings Update

Hold | Underperform

Ryker, Justin, Jaiden, Jenna, Logan | March 16, 2025



## Overview (Ryker)

- AutoZone operates over 7,000 stores across the US, Mexico, and Brazil. These are reinforced by hubs and mega-hubs (Which act as high-volume stores and distribution centers), providing a structural advantage in inventory availability, speed delivery, and cost savings.
- The majority of AutoZone's business comes from selling replacement parts for vehicle repairs (Batteries, brakes, alternators, starters) and maintenance (Oil changes, spark plugs, wiper blades). These are largely a non-discretionary expense that remains stable regardless of economic conditions, allowing Azo to benefit from steady demand.
- AutoZone makes up 5% of the \$110B US commercial auto parts market share, giving it substantial room to expand, leveraging its speed, inventory, and service to drive long-term revenue and margin growth.

## Results (Justin)

- Revenue missed by 0.73%.
- Earnings per share (EPS) missed by 3.75%.
- The misses for both revenue and earnings were due to tariffs and pressure from the foreign currency movement.

## Key Performance Indicators (Jaiden)

- 5.3% decline from the previous year in net income
- 2.4% year-over-year increase in net sales
- Operating and selling, general, and administrative (SG&A) expenses rose by 6%, impacting profitability

## Guidance (Ryker)

- 19 mega-hub stores are expected to be opened over the next 2 quarters as part of its long-term strategy to expand inventory availability and improve delivery speeds.
- Capex is estimated to exceed \$1b FY25 (again), which will be spent on accelerated store growth (Including targeting 100 new international stores primarily in Mexico and Brazil), supply chain improvements, and technology investments.
- FY 2025, if current FX rate should, expect a \$365 million hit to revenue, \$118 million hit to EBIT, and \$4.82 per share impact on EPS for the full year. This is primarily due to a weaker Mexican peso (Tariffs leading to depreciation) and Brazilian real (Inefficient fiscal policies leading to depreciation).

## IOFS (Jenna)

<i>In Millions Except Per Share Data</i>	2015-08	2016-08	2017-08	2018-08	2019-08	2020-08	2021-08	2022-08	2023-08	2024-08	TTM	Threshold
Revenue	\$ 10,187	\$ 10,636	\$ 10,889	\$ 11,221	\$ 11,864	\$ 12,632	\$ 14,630	\$ 16,252	\$ 17,457	\$ 18,490	\$ 18,673	
Cost of Goods Sold	\$ 4,860	\$ 5,027	\$ 5,149	\$ 5,247	\$ 5,499	\$ 5,861	\$ 6,912	\$ 7,780	\$ 8,387	\$ 8,673	\$ 8,753	
Gross Profit	\$ 5,327	\$ 5,609	\$ 5,740	\$ 5,974	\$ 6,365	\$ 6,771	\$ 7,718	\$ 8,473	\$ 9,070	\$ 9,817	\$ 9,920	
Gross Margin %	52%	53%	53%	53%	54%	54%	53%	52%	52%	53%	53%	> 40%
Selling, General, & Admin. Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
% of Gross Profit	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	< 30%
EBITDA	\$ 2,225	\$ 2,360	\$ 2,407	\$ 2,162	\$ 2,593	\$ 2,821	\$ 3,358	\$ 3,719	\$ 3,984	\$ 4,350	\$ 4,194	
Depreciation, Depletion and Amortization	\$ 270	\$ 297	\$ 323	\$ 345	\$ 370	\$ 397	\$ 408	\$ 442	\$ 498	\$ 550	\$ 438	
% of Gross Profit	5%	5%	6%	6%	6%	6%	5%	5%	5%	6%	4%	< 10%
Operating Income	\$ 1,953	\$ 2,060	\$ 2,080	\$ 1,811	\$ 2,216	\$ 2,418	\$ 2,945	\$ 3,271	\$ 3,474	\$ 3,789	\$ 3,745	
Operating Margin %	19%	19%	19%	16%	19%	19%	20%	20%	20%	20%	20%	> 20%
Interest Expense	\$ 152	\$ 150	\$ 158	\$ 180	\$ 192	\$ 207	\$ 201	\$ 198	\$ 318	\$ 463	\$ 485	
% of Operating Income	8%	7%	8%	10%	9%	9%	7%	6%	9%	12%	13%	< 35%
EBIT	\$ 1,955	\$ 2,063	\$ 2,084	\$ 1,816	\$ 2,224	\$ 2,423	\$ 2,950	\$ 3,277	\$ 3,486	\$ 3,800	\$ 3,756	
Tax Rate %	36%	35%	33%	18%	20%	22%	21%	21%	20%	20%	20%	
Net Income	\$ 1,160	\$ 1,241	\$ 1,281	\$ 1,338	\$ 1,617	\$ 1,733	\$ 2,170	\$ 2,430	\$ 2,528	\$ 2,662	\$ 2,607	
Net Margin %	11%	12%	12%	12%	14%	14%	15%	15%	14%	14%	14%	> 10%
Shares Outstanding (Diluted Average)	32.2	30.5	29.1	27.4	25.5	24.1	22.8	20.7	19.1	17.8	17.2	
EPS (Diluted)	\$ 36.03	\$ 40.70	\$ 44.07	\$ 48.77	\$ 63.43	\$ 71.93	\$ 95.19	\$ 117.19	\$ 132.36	\$ 149.55	\$ 148.94	

ROE %	-68%	-69%	-90%	-88%	-94%	-197%	-121%	-69%	-58%	-56%	10000%	> 15%
ROC %	40%	40%	35%	38%	46%	37%	63%	94%	76%	62%	-58%	> 15%

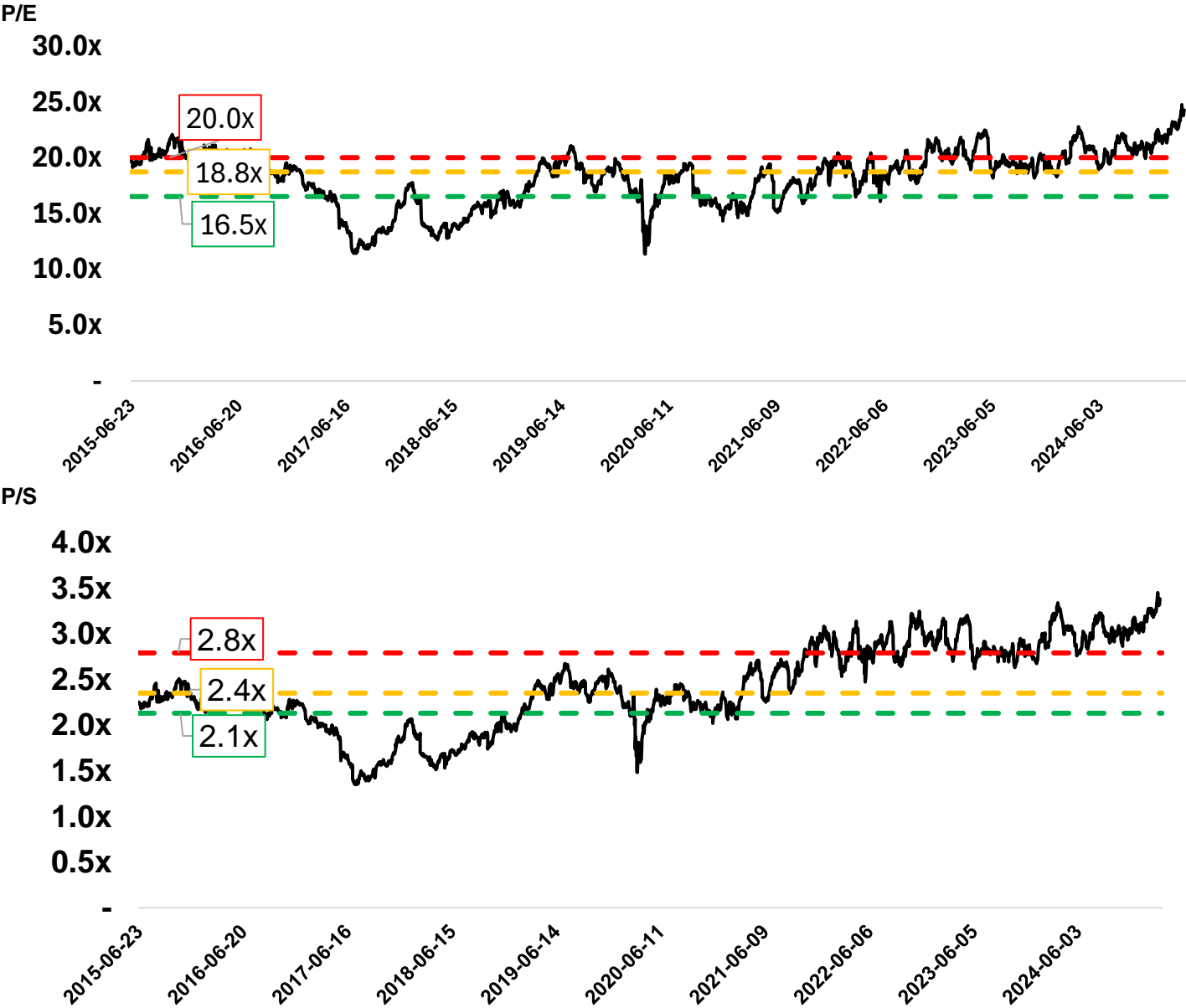
Net Income	\$ 1,160	\$ 1,241	\$ 1,281	\$ 1,338	\$ 1,617	\$ 1,733	\$ 2,170	\$ 2,430	\$ 2,528	\$ 2,662	\$ 2,607	
Capital Expenditure	\$ 491	\$ 499	\$ 554	\$ 522	\$ 496	\$ 458	\$ 622	\$ 672	\$ 797	\$ 1,073	\$ 1,084	
% of Net Income	42%	40%	43%	39%	31%	26%	29%	28%	32%	40%	42%	< 50%
Free Cash Flow	\$ 1,082	\$ 1,142	\$ 1,017	\$ 1,558	\$ 1,632	\$ 2,262	\$ 2,897	\$ 2,539	\$ 2,144	\$ 1,931	\$ 1,901	
FCF Margin %	11%	11%	9%	14%	14%	18%	20%	16%	12%	10%	10%	> 10%
Purchase of Business	\$ 76	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Dividends Per Share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Dividend Payout Ratio	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	< 60%
Dividend Yield %	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Repurchase of Stock	\$ 1,271	\$ 1,452	\$ 1,072	\$ 1,592	\$ 2,005	\$ 931	\$ 3,378	\$ 4,360	\$ 3,700	\$ 3,141	\$ 2,194	
Stock Based Compensation	\$ 41	\$ 40	\$ 38	\$ 44	\$ 43	\$ 45	\$ 56	\$ 71	\$ 93	\$ 106	\$ 109	
% of Revenue	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.5%	0.6%	0.6%	

Obligation Ratio	4.1x	4.1x	4.0x	3.9x	3.4x	3.6x	3.1x	3.6x	4.1x	4.4x	1.0x	< 5.0x
Short-Term Debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Long-Term Debt	\$ 4,625	\$ 4,924	\$ 5,081	\$ 5,006	\$ 5,206	\$ 5,513	\$ 5,270	\$ 6,122	\$ 7,669	\$ 9,024	\$ -	
Preferred Stock	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Pension Shortfall	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Leases x7	\$ 284	\$ 314	\$ 337	\$ 366	\$ 394	\$ 2,502	\$ 2,633	\$ 2,838	\$ 2,917	\$ 2,960	\$ 3,007	
Marketable Securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Cash and Cash Equivalents	\$ 175	\$ 190	\$ 293	\$ 218	\$ 176	\$ 1,751	\$ 1,171	\$ 264	\$ 277	\$ 298	\$ 301	

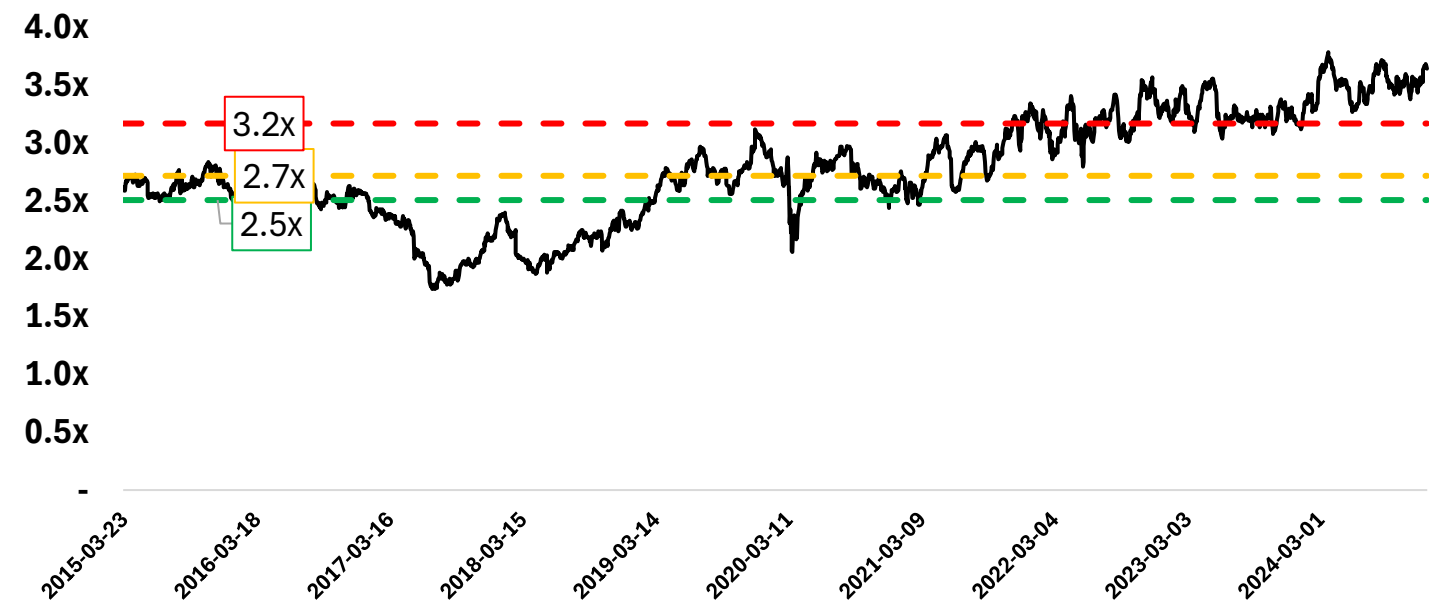
- They are below our requirement for Return on Equity, but this is due to knowing how much they need on hand and buying back stocks.
- They are now at 1 year to pay off the Obligation Ratio.
- The ROE number is incorrect for TTM and is currently the same as the previous year.
- They meet all of our other metrics.

Valuation (Logan)

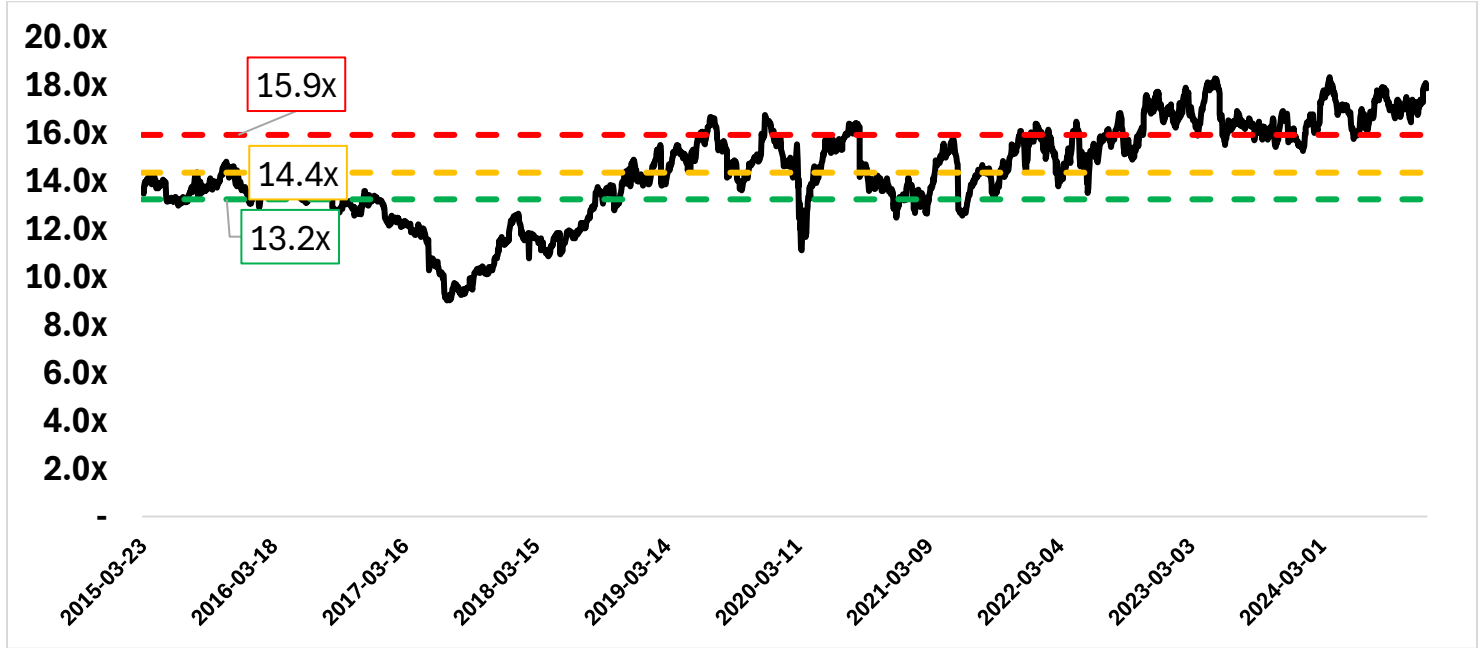
Value Bands:



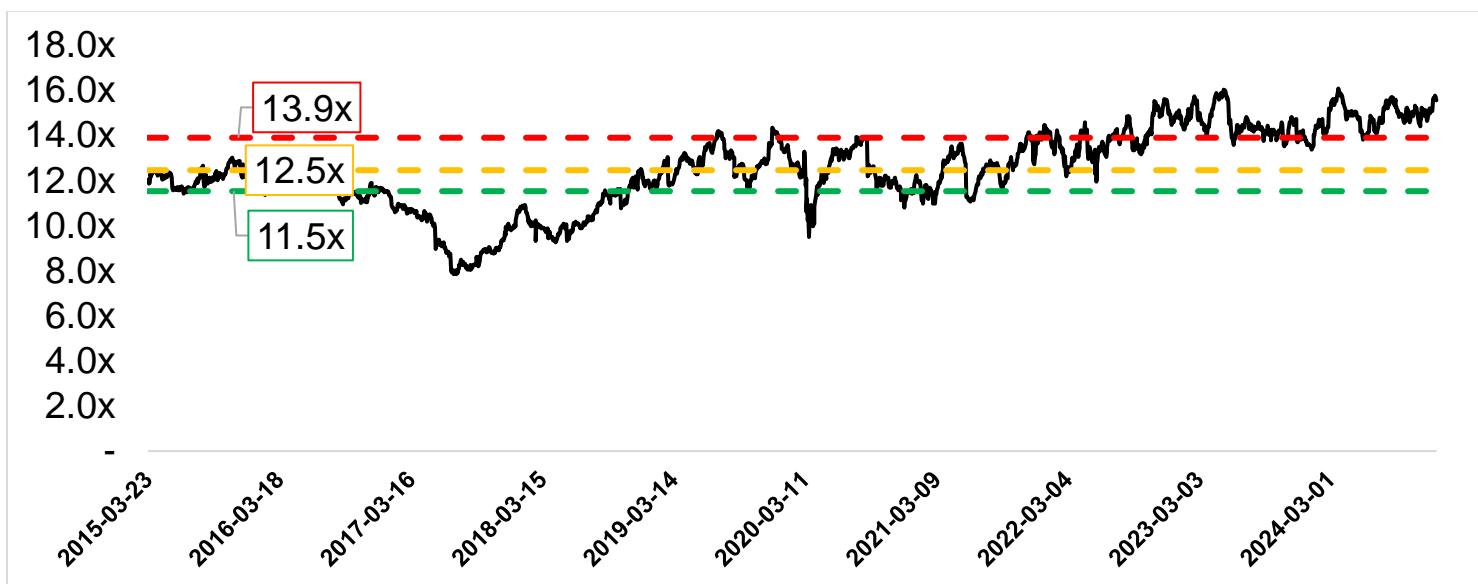
The P/B ratio for Autozone has had a negative P/B ratio since 2009.



EV/EBIT



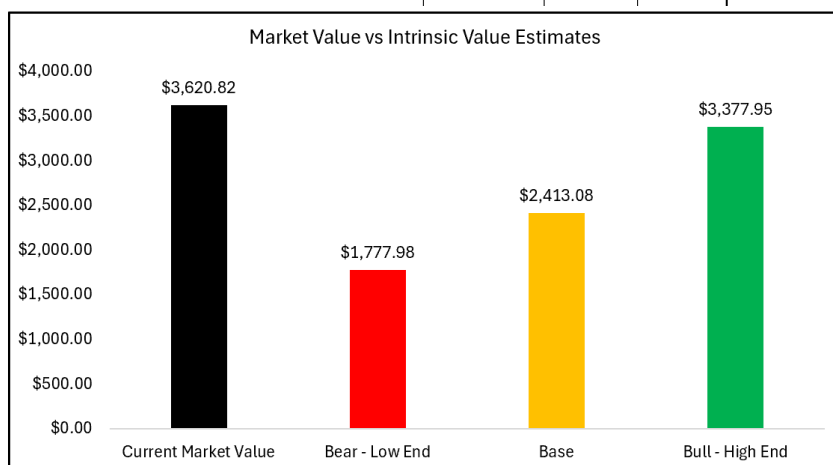
EV/EBITDA



## Valuation:

Ticker: AZO Price: \$3,620.82 Discount Rate: 11.0% Method: EPS Dividend Payout Ratio		5 Year Discounted Cash Flow										
							P/E	Total Return Price	Present Value	5 YR Return	Annual Return	Return + Dividends
Bear	EPS	2024-08	2025	2026	2027	2028	2029	16.0x	\$2,995.99	\$1,777.98	(17.3)%	(3.7)%
		\$149.55	\$155.53	\$161.75	\$169.84	\$178.33	\$187.25	18.0x	\$3,370.49	\$2,000.22	(6.9)%	(1.4)%
			4%	4%	5%	5%	5%	23.0x	\$4,306.74	\$2,555.84	18.9%	3.5%
Base	EPS	2024-08	2025	2026	2027	2028	2029	16.0x	\$3,614.38	\$2,144.96	(0.2)%	(0.0)%
		\$149.55	\$161.51	\$174.44	\$190.13	\$207.25	\$225.90	18.0x	\$4,066.17	\$2,413.08	12.3%	2.3%
			8%	8%	9%	9%	9%	23.0x	\$5,195.67	\$3,083.38	43.5%	7.5%
Bull	EPS	2024-08	2025	2026	2027	2028	2029	16.0x	\$3,959.69	\$2,349.88	9.4%	1.8%
		\$149.55	\$164.51	\$180.96	\$200.86	\$222.96	\$247.48	18.0x	\$4,454.65	\$2,643.62	23.0%	4.2%
			10%	10%	11%	11%	11%	23.0x	\$5,692.05	\$3,377.95	57.2%	9.5%

Total RoR Sensitivity				
		Est. EPS growth rate		
		4.6%	8.6%	10.6%
P/E	16.0x	(3.7)%	(0.0)%	1.8%
	18.0x	(1.4)%	2.3%	4.2%
	23.0x	3.5%	7.5%	9.5%



**Recommendation: Hold AutoZone.** Looking at what management has said, along with the macroeconomics (tariffs and the FX rate which have given AutoZone some headwinds), I expect the company to face slower growth for the next two years, with hopes of growth to pick up after these headwinds. AutoZone management has also emphasized they on focus on long-term growth, with expanding more internationally, focusing on customer service, reducing supply chain costs, which will help them grow market share and continue to grow. With these things in mind, AutoZone still meets our standards, while being overvalued, is still a hold.