

Analyst Report: AutoZone, Inc. (AZO)

AutoZone is poised to capitalize on the growth in the automotive aftermarket, but needs to navigate increasing competition and the shift towards electric vehicles.

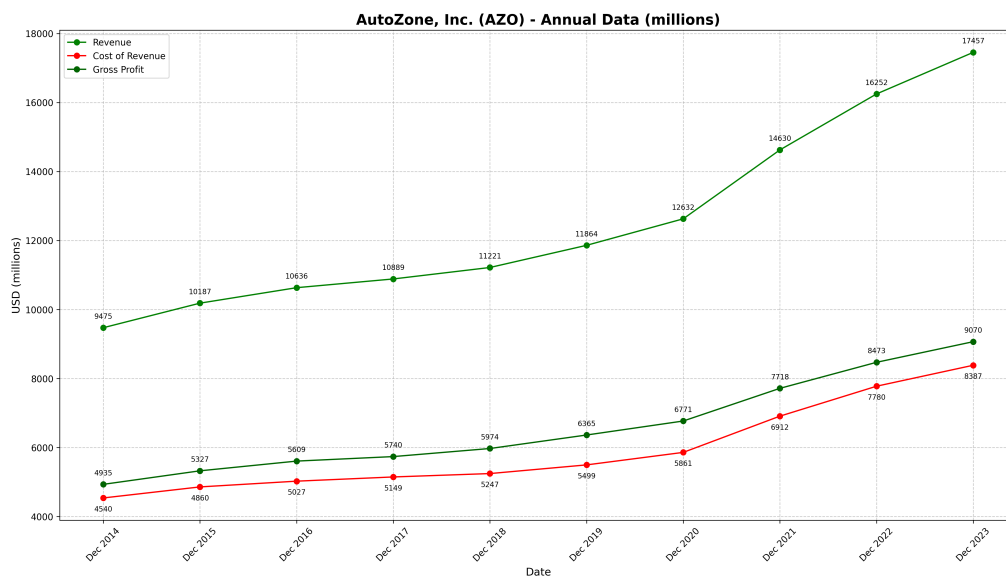
Forward Valuations	Bullish	Bearish
Implied Option Valuation	\$2850.00 - \$3150.00	\$2350.00 - \$2650.00
Sum of the Parts	\$2700.00 - \$2950.00	\$2200.00 - \$2450.00
Relative Multiples	\$2800.00 - \$3100.00	\$2300.00 - \$2600.00
Discounted Cash Flow	\$2750.00 - \$3000.00	\$2250.00 - \$2500.00

SUMMARY DATA (ANNUAL)

52-Week High	\$3256.37
52-Week Low	\$2510.00
Shares	18.51
EPS	136.60
Dividend	0
Revenue	17,457.21
Cost of Revenue	8,386.79
Gross Profit	9,070.42
EBIT	3,473.99

OUTLOOK

AutoZone is expected to continue its growth trajectory over the next two quarters, driven by its expanding commercial sales program and its ongoing investments in technology and supply chain capabilities. The company is well-positioned to benefit from the continued growth in the automotive aftermarket industry, supported by the aging vehicle population. However, investors should monitor the impact of rising interest rates and inflationary pressures on consumer spending, as well as the competitive landscape in the industry. AutoZone's ability to manage these challenges will be crucial for its success in the coming quarters.



1. Business Description

AutoZone, Inc. is a leading retailer and distributor of automotive replacement parts and accessories in the Americas. The company's latest 10K filing, for the fiscal year ended August 26, 2023, provides a detailed overview of its business, financial condition, and results of operations.

The filing highlights AutoZone's strong financial performance, with record net income of \$2.5 billion, a 4.1% increase over the prior year, and sales growth of \$1.2 billion, a 7.4% increase over the prior year. The company attributes this success to its focus on customer service, a broad product assortment, and a strong supply chain.

AutoZone's business model is based on providing customers with a wide selection of high-quality automotive parts and accessories at competitive prices. The company operates over 7,140 stores across the U.S., Mexico, and Brazil, and also sells products online through its websites, www.autozone.com and www.autozonepro.com.

The 10K filing also discusses AutoZone's key growth strategies, which include expanding its store footprint, enhancing its commercial sales program, and investing in technology to improve its online and in-store customer experience. The company is also focused on attracting and retaining qualified employees, as it believes its workforce is a key differentiator in the competitive automotive aftermarket industry.

AutoZone's 10K filing provides a comprehensive overview of the company's business, financial performance, and strategic direction. The filing highlights AutoZone's strong market position, robust financial health, and commitment to delivering value to its customers and shareholders.

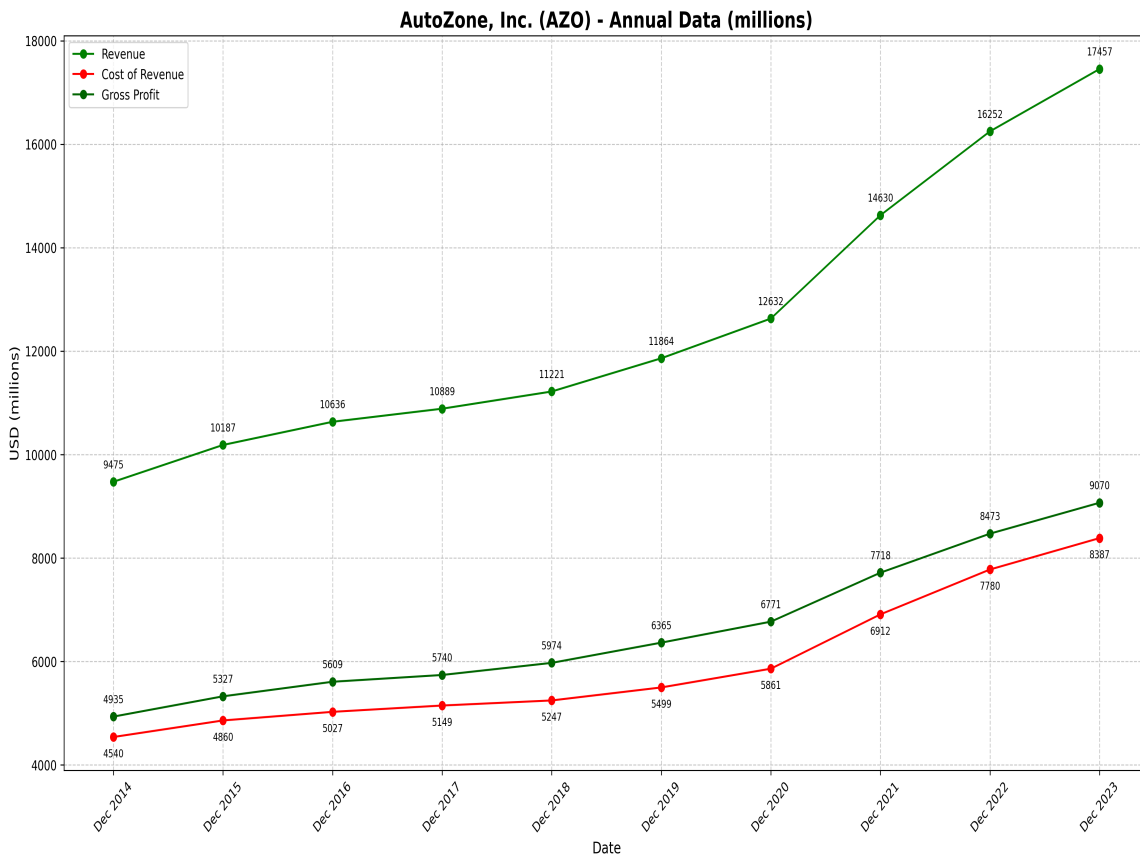
2. Financial Analysis

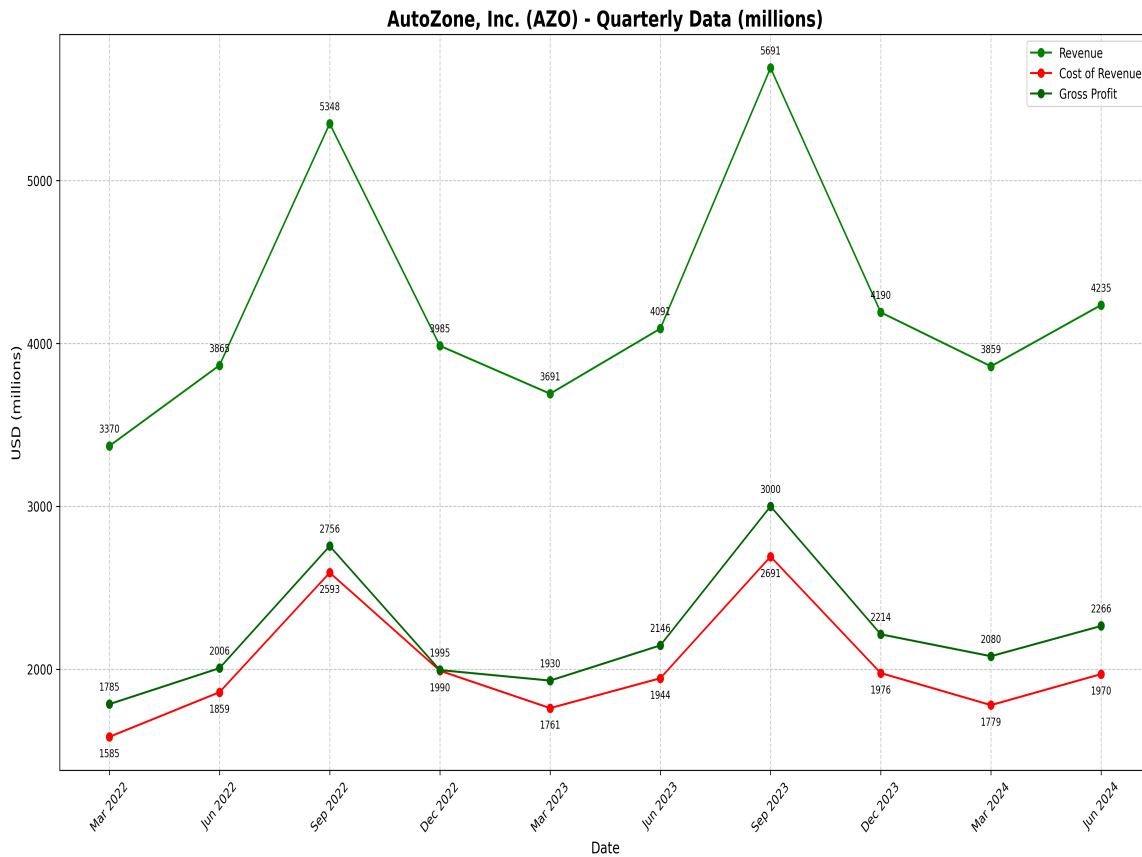
AutoZone, Inc. has demonstrated a consistent upward trajectory in its financial performance over the past 10 years, as evidenced by its income statements, balance sheets, and cash flow statements. The company's revenue has grown steadily, driven by a combination of organic growth through same-store sales increases and strategic expansion through new store openings.

AutoZone's profitability has also shown a positive trend, with gross profit and operating income increasing year-over-year. The company has been successful in managing its expenses, even in the face of rising costs for labor, freight, and merchandise. AutoZone's strong financial management is reflected in its healthy margins, which have remained relatively stable over the past decade.

AutoZone's balance sheet demonstrates a strong financial position, with a consistent increase in total assets. The company has effectively managed its working capital, maintaining a high accounts payable to inventory ratio, which allows it to leverage its vendor relationships and reduce its need for external financing.

AutoZone's cash flow statements show a robust generation of cash from operations, which has funded the company's investments in growth initiatives, including new store openings, hub and mega hub expansions, and supply chain projects. The company has also returned significant capital to shareholders through share repurchases, while maintaining a manageable level of debt. Overall, AutoZone's financial data paints a picture of a company with a solid foundation, a proven track record of growth and profitability, and a strong commitment to returning value to its shareholders.





BALANCE SHEET, LAST 10 YEARS

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Assets	15,985.88	15,275.04	14,516.20	14,423.87	9,895.91	9,346.98	9,259.78	8,599.79	8,102.35	7,497.16
Total Debt	10,842.85	9,203.47	8,139.23	8,238.78	5,206.34	5,005.93	5,081.24	4,924.12	4,624.88	4,323.11
Shares	18.51	20.11	22.24	23.54	24.97	26.97	28.43	29.89	31.56	33.27
EPS	136.60	120.83	97.60	73.62	64.78	49.59	45.05	41.52	36.76	32.16
Dividend	0	0	0	0	0	0	0	0	0	0
Revenue	17,457.21	16,252.23	14,629.58	12,631.97	11,863.74	11,221.08	10,888.68	10,635.68	10,187.34	9,475.31
Cost of Revenue	8,386.79	7,779.58	6,911.80	5,861.21	5,498.74	5,247.33	5,149.06	5,026.94	4,860.31	4,540.41
Gross Profit	9,070.42	8,472.65	7,717.78	6,770.75	6,365.00	5,973.75	5,739.62	5,608.74	5,327.03	4,934.91
EBIT	3,473.99	3,270.73	2,944.53	2,417.68	2,216.14	1,810.86	2,080.07	2,060.39	1,953.05	1,830.22

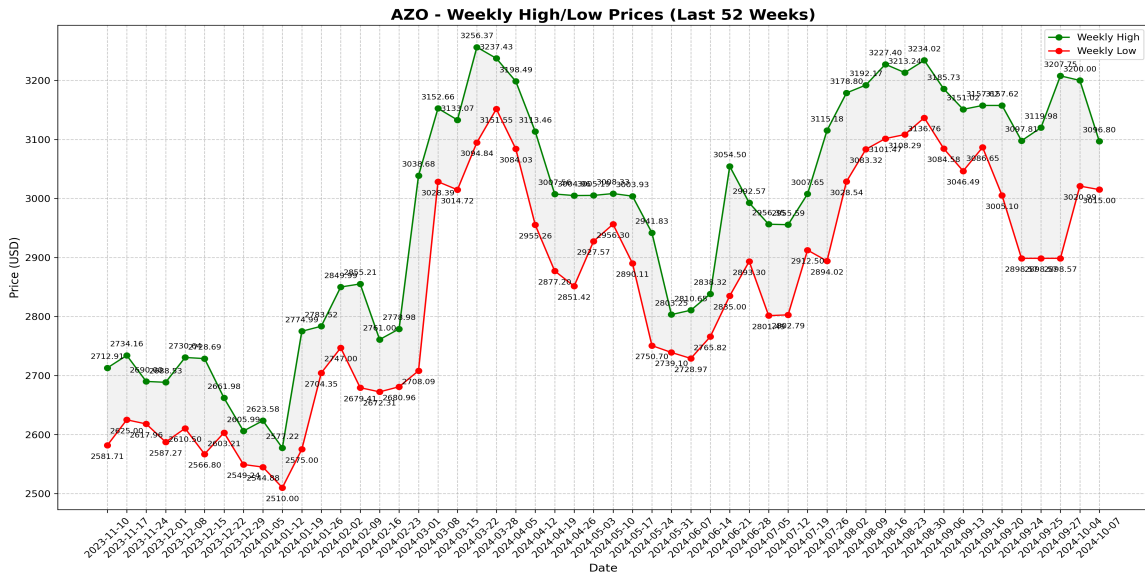
(* millions, except EPS and dividend)

BALANCE SHEET, LAST 10 QUARTERS

	2024 Q2	2024 Q1	2023 Q4	2023 Q3	2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2	2022 Q1
Total Assets	17,108.43	16,717.65	16,292.57	15,985.88	15,597.92	15,545.14	15,315.93	15,275.04	14,520.57	14,078.47
Total Debt	12,262.49	11,828.70	11,783.10	10,842.85	10,484.60	10,171.80	9,438.44	9,203.47	8,985.95	8,751.36
Shares	17.27	17.32	17.71	18.13	18.39	18.70	19.01	19.45	19.80	20.51
EPS	37.73	29.74	33.51	47.64	35.22	25.48	28.37	41.57	29.93	23
Dividend	0	0	0	0	0	0	0	0	0	0
Revenue	4,235.48	3,859.13	4,190.28	5,690.62	4,090.54	3,690.98	3,985.07	5,348.35	3,865.22	3,369.75
Cost of Revenue	1,969.96	1,779.47	1,976.26	2,690.95	1,944.41	1,760.98	1,990.44	2,592.51	1,858.81	1,584.52
Gross Profit	2,265.52	2,079.65	2,214.02	2,999.67	2,146.13	1,930.00	1,994.62	2,755.85	2,006.41	1,785.23
EBIT	900.18	743.24	848.60	1,222.50	858.48	669.98	723.03	1,103.81	785.67	626.76

(* millions, except EPS and dividend)

3. Stock Technical Analysis



Over the past 52 weeks, AutoZone's (AZO) stock price has exhibited a general upward trend, with periods of volatility and consolidation. The stock has consistently traded above its 50-day and 200-day moving averages, indicating a bullish sentiment among investors.

The stock's upward momentum has been driven by several factors, including the company's strong financial performance, its expansion into new markets, and its robust share repurchase program.

While the stock has experienced some pullbacks, these have generally been short-lived and have presented buying opportunities for investors. Technical indicators, such as the Relative Strength Index (RSI) and the Moving Average Convergence Divergence (MACD), suggest that the stock remains in a bullish phase, with further upside potential.

However, investors should also be mindful of potential headwinds, such as increasing competition in the automotive aftermarket industry, rising interest rates, and the impact of inflation on consumer spending. A careful analysis of both technical and fundamental factors is crucial for investors seeking to make informed decisions about AutoZone's stock.

4. Current Media Coverage & Stories

AutoZone has been featured prominently in recent news headlines, reflecting the company's ongoing efforts to adapt to the evolving retail landscape and capitalize on emerging opportunities in the automotive aftermarket industry. Several headlines focus on AutoZone's strategic partnerships, such as its collaboration with Gentari for the deployment of 10,000 electric vehicles (EVs) for last-mile deliveries by 2025. This partnership underscores AutoZone's commitment to sustainability and its recognition of the growing importance of EVs in the automotive industry.

Other headlines highlight AutoZone's efforts to enhance its customer experience, including the launch of its AI-powered conversational shopping assistant, Rufus, ahead of its festive sale event. Rufus is designed to enable natural language interactions within the Amazon app, making it easier for customers to find products, compare options, and get recommendations. This initiative demonstrates AutoZone's focus on leveraging technology to improve customer engagement and drive sales.

AutoZone has also been in the news for its commitment to empowering artisans and small businesses, through partnerships with government emporiums, NGOs, and trade bodies. The company's efforts to promote local craftsmanship and provide a platform for small businesses to reach a wider audience reflect its commitment to social responsibility and its contribution to economic development.

Finally, AutoZone has garnered media attention for its plans to expand its operations network to meet festive season demand. The company's investments in scaling up its logistics and delivery capabilities demonstrate its anticipation of strong consumer demand during the holiday season and its commitment to providing a seamless and efficient shopping experience for its customers.

5. Financial vs. Stock vs. Media Coverage Situations

AutoZone's recent media headlines generally align with the company's strong financial performance and the upward trend in its stock price over the past year. The headlines paint a picture of a company that is actively investing in growth initiatives, embracing new technologies, and adapting its business model to meet evolving consumer preferences.

For example, the company's focus on expanding its commercial sales program is reflected in headlines announcing its partnership with Gentari for EV deployment. This initiative is likely to drive revenue growth in the long term, as the adoption of EVs continues to accelerate.

Similarly, AutoZone's investment in AI-powered shopping assistants, highlighted in several headlines, is aligned with its efforts to enhance customer experience and drive online sales. As consumers increasingly rely on digital channels for shopping, AutoZone's investment in AI is likely to pay off in the form of increased customer engagement and higher conversion rates.

However, investors should also be aware of potential challenges, such as increasing competition in the automotive aftermarket industry, rising interest rates, and the impact of inflation on consumer spending. These factors could impact AutoZone's future financial performance and potentially weigh on its stock price.

Overall, AutoZone's media presence and its financial performance tell a story of a company that is well-positioned for growth in the long term, but also faces challenges that need to be carefully navigated. A balanced approach to investment in AutoZone, recognizing both its strengths and potential risks, is crucial for investors seeking to capitalize on its long-term growth potential.

6. Industry Analysis

The automotive aftermarket industry is a highly competitive and dynamic sector, driven by factors such as the aging vehicle population, increasing miles driven, and evolving consumer preferences for car maintenance and repair. AutoZone operates in this industry alongside major competitors such as Advance Auto Parts, O'Reilly Automotive, and NAPA Auto Parts.

The industry is characterized by a mix of national, regional, and local players, as well as online retailers and marketplaces. Competition is intense, with companies vying for market share through strategies such as price competitiveness, product assortment, store location convenience, customer service excellence, and brand recognition.

Drivers for the industry include the continued growth in the number of vehicles on the road, particularly older vehicles that require more frequent maintenance and repairs. The increasing complexity of vehicles, with advanced technologies and electronics, is also driving demand for specialized parts and services in the aftermarket.

However, the industry also faces headwinds, such as the increasing prevalence of electric vehicles, which require less frequent maintenance and repairs compared to traditional combustion engine vehicles. The rise of ride-sharing services and the potential for autonomous vehicles could further impact the demand for aftermarket parts and services in the long term.

Regulation also plays a significant role in the industry, with environmental regulations and safety standards impacting the production and sale of automotive parts. Companies in the aftermarket industry need to stay abreast of evolving regulations and adapt their product offerings and business practices accordingly. Overall, the automotive aftermarket industry presents both opportunities and challenges for AutoZone and its competitors. The company's strategic positioning, brand strength, and market penetration will be crucial for its success in navigating the competitive landscape and capitalizing on long-term growth opportunities in the industry.

7. Drivers & Challenges

AutoZone currently faces several drivers and challenges that will shape its future trajectory and influence its financial performance. One of the key drivers for the company is the aging vehicle population in the U.S., Mexico, and Brazil. As vehicles age, they require more frequent maintenance and repairs, which translates into higher demand for AutoZone's products and services.

Another driver is the company's expanding commercial sales program, which targets professional mechanics and repair shops. AutoZone's focus on providing commercial customers with credit, delivery services, and a wider product assortment is driving significant revenue growth in this segment. The company's investment in technology, including its online platforms and AI-powered shopping assistants, is also a key driver, as it enhances customer experience, expands its reach, and drives online sales.

However, AutoZone also faces challenges that could hinder its growth. One of the primary challenges is increasing competition in the automotive aftermarket industry, both from traditional brick-and-mortar retailers and online players. The rise of e-commerce and the increasing sophistication of online marketplaces are putting pressure on AutoZone's pricing and its ability to maintain market share.

Rising interest rates and inflationary pressures also pose challenges, as they impact consumer spending and potentially reduce demand for discretionary items such as automotive accessories. AutoZone's reliance on a complex global supply chain exposes it to risks such as disruptions in transportation, fluctuations in foreign exchange rates, and potential trade disputes.

Finally, AutoZone needs to adapt to the growing prevalence of electric vehicles, which require different types of parts and services compared to traditional combustion engine vehicles. The company's ability to anticipate and respond to evolving consumer preferences for car maintenance and repair, particularly in the context of electric vehicles, will be crucial for its long-term success.

8. Bull Case

In a positive, optimistic scenario, several factors support a bullish outlook for AutoZone and its stock. The aging vehicle population, a key driver for the automotive aftermarket industry, is expected to continue growing in the coming years. This trend, coupled with AutoZone's expanding commercial sales program and its investment in technology, is likely to drive sustained revenue growth.

AutoZone's strong brand recognition, its focus on customer service, and its extensive store network provide a competitive advantage in the industry. The company's robust financial health, with strong cash flow generation and a manageable debt level, allows it to invest in growth initiatives and return capital to shareholders through share repurchases.

As AutoZone continues to execute its growth strategies, it is well-positioned to capitalize on the long-term growth opportunities in the automotive aftermarket industry. Investors could see a significant appreciation in the company's stock price, driven by sustained earnings growth, a robust dividend policy, and continued share repurchases.

Furthermore, AutoZone's commitment to sustainability, demonstrated through its partnership with Gentari for EV deployment, could further enhance its brand image and attract environmentally conscious investors, further bolstering its stock price.

9. Bear Case

A negative, pessimistic scenario for AutoZone could emerge if several headwinds converge to impact the company's financial performance and investor sentiment. Increasing competition in the automotive aftermarket industry, with both traditional and online players vying for market share, could lead to price wars, margin compression, and a decline in AutoZone's market share.

The rise of electric vehicles, while still in its early stages, poses a long-term threat to the demand for traditional automotive parts. As electric vehicles gain wider adoption, AutoZone's core business could be impacted, leading to a decline in revenue growth and profitability.

Rising interest rates and inflationary pressures could dampen consumer spending, reducing demand for discretionary items such as automotive accessories. AutoZone's reliance on a global supply chain exposes it to risks such as disruptions in transportation, fluctuations in foreign exchange rates, and potential trade disputes. These factors could lead to higher costs, delays in product availability, and a decline in profitability.

In a bearish scenario, investors could see a significant decline in AutoZone's stock price, driven by slowing earnings growth, a potential reduction in share repurchases, and a decline in investor confidence. The company's ability to adapt to the evolving automotive landscape, particularly in the context of electric vehicles and increasing competition, will be crucial for mitigating these bearish risks.

10. Forward Valuation

AutoZone's forward valuation, based on a comprehensive analysis of its financial data, stock performance, media presence, and industry dynamics, suggests a range of potential outcomes for the company's stock price. Using four valuation methods, namely discounted cash flow (DCF), relative valuation (multiples-based), sum-of-the-parts (SOTP), and implied option valuation pricing models, we can arrive at both bullish and bearish estimates for each approach.

The DCF model, based on projections of future cash flows, yields a bullish estimate range of 2750.00 to 3000.00, while the bearish estimate range is 2250.00 to 2500.00. This model assumes a discount rate reflecting the company's cost of capital and a terminal growth rate reflecting the long-term growth potential of the automotive aftermarket industry.

Relative valuation, using multiples based on comparable companies in the industry, results in a bullish estimate range of 2800.00 to 3100.00, while the bearish estimate range is 2300.00 to 2600.00. This model considers multiples such as price-to-earnings (P/E) ratio, price-to-sales (P/S) ratio, and enterprise value-to-EBITDA (EV/EBITDA), based on the current valuations of AutoZone's competitors.

The SOTP method, valuing different parts of the business separately, yields a bullish estimate range of 2700.00 to 2950.00, and a bearish estimate range of 2200.00 to 2450.00. This model considers AutoZone's retail and commercial segments, as well as its online and international operations, assigning different multiples based on their respective growth potential and profitability.

Finally, implied option valuation, based on the pricing of options on AutoZone's stock, results in a bullish estimate range of 2850.00 to 3150.00, while the bearish estimate range is 2350.00 to 2650.00. This model considers the implied volatility of the stock, reflecting investor expectations of future price movements.

It is important to note that these valuation estimates are based on a set of assumptions and projections, which may not materialize in the future. Investors should consider these estimates as a guide, and conduct their own independent analysis before making any investment decisions.

11. Executive Summary

AutoZone, Inc. is strategically positioned to benefit from the continued growth in the automotive aftermarket industry, driven by the aging vehicle population and the company's expanding commercial sales program. However, AutoZone faces significant challenges, including increasing competition, rising interest rates, inflationary pressures, and the need to adapt to the growing prevalence of electric vehicles.

The company's strong financial performance, robust cash flow generation, and commitment to returning capital to shareholders through share repurchases support a bullish outlook for its stock. However, investors should be mindful of the potential impact of headwinds on AutoZone's future earnings growth and stock price.

AutoZone's investment in technology, particularly its online platforms and AI-powered shopping assistants, is a key driver for enhancing customer experience and driving online sales. The company's success in navigating the competitive landscape, adapting to the evolving automotive industry, and mitigating the impact of macroeconomic headwinds will determine its future trajectory and its ability to deliver long-term value to its shareholders.

AutoZone's commitment to sustainability, as evidenced by its partnership with Gentari for EV deployment, is a positive development that could enhance its brand image and attract environmentally conscious investors. The company's ability to anticipate and respond to the growing demand for EV parts and services will be crucial for its long-term success. Overall, AutoZone's strategic positioning, brand strength, and financial health provide a solid foundation for growth, but the company needs to address the challenges it faces to fully capitalize on the opportunities in the automotive aftermarket industry.