

AutoZone Inc.

F2Q recap: Performance in the Northeast and Midwest drives revenue

Reiterate Rating: NEUTRAL | PO: 3,222.00 USD | Price: 2,924.00 USD

International segment strength leads performance

Autozone (AZO) reported its F2Q results (12 weeks ending February 10, 2024). Total company comp growth was 3.0%, and domestic comps of 0.3% was below BofAe 2.0% and consensus 1.3%. International comp grew 10.6% ex. FX. Total sales of \$3.859bn was above our estimate of \$3.858bn and consensus of \$3.844bn. Domestic commercial sales grew 2.7% YoY to \$980mn. AZO saw 270bp favorable performance in the Northeast and the Midwest vs. the remainder of the country. The company plans for a more normal weather pattern as it heads into the third quarter. Gross margin expanded 160bp to 53.9% (vs. BofAe 52.3% and consensus 53.0%). The increase in gross margin was driven by higher merchandise margins, non-cash LIFO favorability, and favorable supply chain costs. SG&A deleveraged 49bp to 34.6% (vs. BofAe 34.5% and consensus 34.8%), driven by domestic store payroll and investment in technology related initiatives. EPS of \$28.89 was above BofAe \$26.44 and consensus \$26.27. AZO opened 26 net new stores in F2Q, bringing the ending store count to 7191.

Mega hubs continue to drive commercial sales growth

AZO saw more discretionary pullback, particularly from the low-end consumer. Commercial sales growth continues to be driven by initiatives such as improved inventory availability and hub and mega-hub coverage. AZO expects ticket growth to return to more normalized levels in the 2-4% range as it gets further removed from higher inflation last year. Historically, the industry has maintained margin rates and increased margin dollars as costs increased. Following periods of higher inflation, the industry has not meaningfully reduced pricing to reflect lower costs. Miles driven are back to pre-pandemic levels, so AZO believes its DIY business will remain resilient for the remainder of FY24.

Balanced upside and downside potentials

Following the earnings beat, we're raising our 2024/2025/2026 estimates slightly. We're also raising our PO from \$3,110 to \$3,222 still based on 20x the average of our FY24 & FY25 EPS estimates and reiterate our Neutral rating to reflect the balanced upside and downside potentials. AZO has demonstrated a track record of market share gains, particularly in the professional/commercial channel, and the percentage of AZO's sales coming from the higher-growth commercial channel is growing each year.

Estimates (Aug) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	116.84	132.07	155.66	173.14	188.02
EPS Change (YoY)	23.1%	13.0%	17.9%	11.2%	8.6%
Consensus EPS (Bloomberg)			149.54	163.57	183.22
DPS	0	0	0	0	0
Valuation (Aug)					
P/E	25.0x	22.1x	18.8x	16.9x	15.6x
EV / EBITDA*	16.7x	15.6x	14.2x	13.6x	13.4x
Free Cash Flow Yield*	5.0%	4.2%	5.5%	5.8%	5.9%

* For full definitions of *IQmethod*SM measures, see page 5.

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Timestamp: 27 February 2024 01:06PM EST

27 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	3,110.00	3,222.00
2024E Rev (m)	18,684.8	18,685.6
2025E Rev (m)	19,535.3	19,535.5
2026E Rev (m)	20,426.0	20,425.5
2024E EPS	152.77	155.66
2025E EPS	169.75	173.14
2026E EPS	183.49	188.02

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Stock Data

Price	2,924.00 USD
Price Objective	3,222.00 USD
Date Established	27-Feb-2024
Investment Opinion	B-2-9
52-Week Range	2,277.88 USD - 2,855.21 USD
Mrkt Val (mn) / Shares Out (mn)	50,562 USD / 17.3
Free Float	99.7%
Average Daily Value (mn)	463.30 USD
BofA Ticker / Exchange	AZO / NYS
Bloomberg / Reuters	AZO US / AZO.N
ROE (2024E)	NA
Net Dbt to Eqty (Aug-2023A)	NA
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM AutoZone Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	37.3%	39.2%	37.9%	35.7%	35.5%
Return on Equity	NM	NM	NM	NM	NM
Operating Margin	20.1%	19.9%	20.7%	20.6%	20.0%
Free Cash Flow	2,539	2,144	2,797	2,919	2,999

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.3x	1.2x	1.3x	1.3x	1.2x
Asset Replacement Ratio	1.5x	1.6x	1.4x	1.4x	1.4x
Tax Rate	21.1%	20.2%	20.6%	20.6%	20.6%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	17.1x	11.3x	10.3x	11.6x	13.5x

Income Statement Data (Aug)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	16,252	17,457	18,686	19,535	20,426
% Change	11.1%	7.4%	7.0%	4.5%	4.6%
Gross Profit	8,473	9,070	9,897	10,191	10,532
% Change	9.8%	7.1%	9.1%	3.0%	3.4%
EBITDA	3,713	3,972	4,371	4,537	4,608
% Change	10.8%	7.0%	10.1%	3.8%	1.6%
Net Interest & Other Income	(192)	(306)	(375)	(347)	(303)
Net Income (Adjusted)	2,430	2,528	2,769	2,916	2,999
% Change	11.9%	4.1%	9.5%	5.3%	2.8%

Free Cash Flow Data (Aug)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	2,430	2,528	2,769	2,916	2,999
Depreciation & Amortization	442	498	508	518	528
Change in Working Capital	57	(206)	136	113	113
Deferred Taxation Charge	186	(26)	0	0	0
Other Adjustments, Net	97	146	104	106	108
Capital Expenditure	(672)	(797)	(720)	(734)	(749)
Free Cash Flow	2,539	2,144	2,797	2,919	2,999
% Change	-12.4%	-15.5%	30.5%	4.4%	2.7%
Share / Issue Repurchase	114	182	182	182	182
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	183	869	923	0	(500)

Balance Sheet Data (Aug)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	264	277	1,456	1,758	1,639
Trade Receivables	505	520	557	582	609
Other Current Assets	5,859	5,982	6,229	6,619	7,004
Property, Plant & Equipment	5,170	5,597	5,809	6,026	6,247
Other Non-Current Assets	3,477	3,610	3,610	3,610	3,610
Total Assets	15,275	15,986	17,661	18,594	19,109
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	8,588	8,512	8,931	9,460	9,984
Long-Term Debt	6,122	7,669	8,592	8,592	8,092
Other Non-Current Liabilities	4,103	4,155	4,155	4,155	4,155
Total Liabilities	18,814	20,336	21,678	22,207	22,231
Total Equity	(3,539)	(4,350)	(4,018)	(3,613)	(3,123)
Total Equity & Liabilities	15,275	15,986	17,661	18,594	19,109

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Retailing-Hardlines

Company Description

AutoZone is the nation's largest auto parts and accessories retailer, with 6,300 stores in the US, 740 stores in Mexico and 100 in Brazil as of fiscal year-end 2023. Founded in 1979, and listed on the NYSE as AZO in 1991, AutoZone sells automotive maintenance and repair parts as well as accessories, generating sales of more than \$17.5 billion in FY23. The company targets the retail DIY market and the commercial market. AZO stores are company-owned and operated.

Investment Rationale

AutoZone is the largest retailer within the auto parts industry, which has strong long-term industry fundamentals. AZO has experienced stronger sales growth than peers in both of its core customer channels (DIY and DIFM). In the coming quarters AZO will face more difficult YoY comparisons, slowing the pace of earnings growth, although we believe that this is priced in to shares.

Stock Data

Average Daily Volume 158,448

Quarterly Earnings Estimates

	2023	2024
Q1	27.45A	32.55A
Q2	24.64A	28.89E
Q3	34.12A	35.90E
Q4	46.46A	58.84E



Price objective basis & risk

AutoZone Inc. (AZO)

We value AutoZone at a PO of \$3222 based on 20x the average of our FY24 & FY25 EPS estimates. This is above AZO's 10-year pre-COVID average of 15x, which we think is warranted given the AZO's consistent market share gains in both the do-it-yourself (DIY) and Commercial/do-it-for-me (DIFM) channels.

Upside risks are 1) stronger-than-expected auto parts demand, 2) stronger operating leverage or gross margin expansion as costs contract, 3) larger market share gains than expected, 4) stronger FCF generation enabling share repurchases above our estimates.

Downside risks: 1) AZO's competitors could consolidate the industry faster through acquisitions, knocking AZO out of the market leading position, 2) pricing pressure from online and discount retailers could be more acute than expected, particularly given AZO's overexposure to the DIY channel, 3) cost inflation (most notably wages) could accelerate faster than AZO is able to mitigate margin pressure through pricing or cost cutting.

Analyst Certification

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US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Arhaus, Inc	ARHS	ARHS US	Jason Haas, CFA
	Boot Barn	BOOT	BOOT US	Jason Haas, CFA
	Driven Brands	DRVN	DRVN US	Jason Haas, CFA
	Five Below Inc.	FIVE	FIVE US	Jason Haas, CFA
	Floor and Decor Holdings, Inc.	FND	FND US	Robert F. Ohmes, CFA
	Genuine Parts	GPC	GPC US	Jason Haas, CFA
	Lowe's Companies, Inc.	LOW	LOW US	Robert F. Ohmes, CFA
	Mattel	MAT	MAT US	Jason Haas, CFA
	Mister Car Wash	MCW	MCW US	Jason Haas, CFA
	Ollie's	OLLI	OLLI US	Jason Haas, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Jason Haas, CFA
	Petco	WOOF	WOOF US	Jason Haas, CFA
	PROG Holdings Inc	PRG	PRG US	Jason Haas, CFA
	Rollins Inc.	ROL	ROL US	Jason Haas, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Jason Haas, CFA
	The Home Depot, Inc.	HD	HD US	Robert F. Ohmes, CFA
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
NEUTRAL				
	AutoZone Inc.	AZO	AZO US	Jason Haas, CFA
	Hasbro	HAS	HAS US	Jason Haas, CFA
	Sonos, Inc.	SONO	SONO US	Jason Haas, CFA
	Williams-Sonoma	WSM	WSM US	Jason Haas, CFA
UNDERPERFORM				
	Advance Auto Parts, Inc.	AAP	AAP US	Jason Haas, CFA
	Best Buy Co., Inc.	BBY	BBY US	Robert F. Ohmes, CFA
	Snap-on	SNA	SNA US	Elizabeth L Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Whirlpool	WHR	WHR US	Jason Haas, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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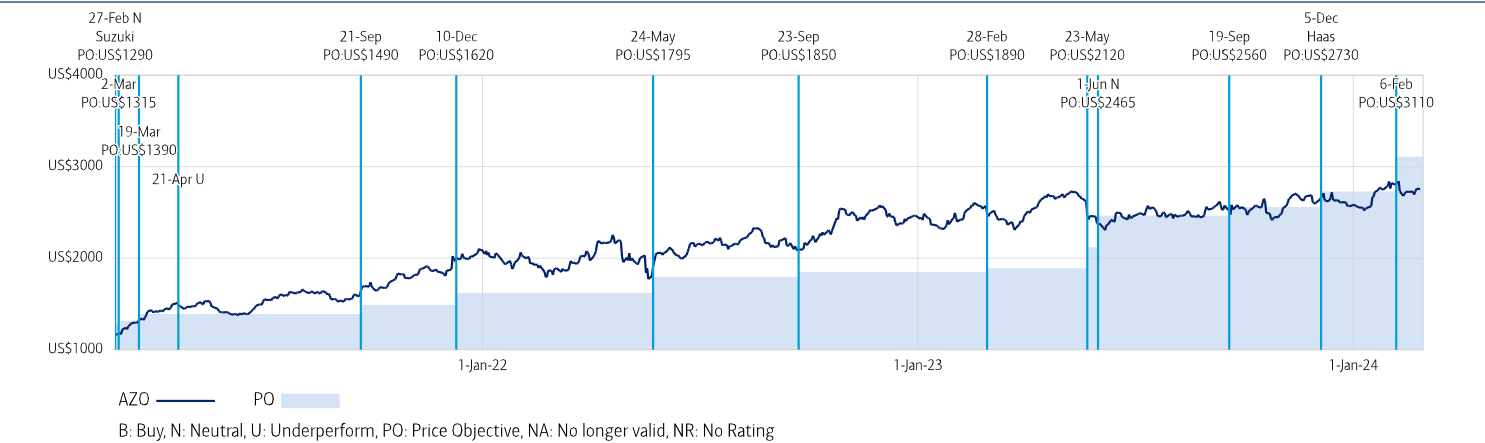
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AutoZone (AZO) Price Chart



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Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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