AutoZone Inc. (AZO) CEO Bill Rhodes on Q4 2019 Results - Earnings Call Transcript

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FQ4: 09-24-19 Earnings Summary

Press Release *10-K* *Slides*

EPS of $22.59 beats by $0.80 | Revenue of $3.99B (12.07% Y/Y) beats by $57.75M

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AutoZone, Inc. (NYSE:AZO) Q4 2019 Earnings Conference Call September 24, 2019 10:00 AM ET

Company Participants

Brian Campbell - VP, Treasurer, IR, and Tax

William C. Rhodes - Chairman, President and CEO

William T. Giles - EVP and CFO

Conference Call Participants

Seth Sigman - Credit Suisse First Boston

Simeon Gutman - Morgan Stanley

Zachary Fadem - Wells Fargo

Michael Lasser - UBS

Chris Horvers - JP Morgan

Bret Jordan - Jefferies

Scot Ciccarelli - RBC Capital Markets

Operator

Good morning and welcome to the AutoZone Conference Call. Your lines have been placed on listen-only until the question-and-answer session of the conference. Please be advised, today's call is being recorded. And if you have any objections, please disconnect at this time. This conference call will discuss AutoZone's Fourth Quarter Earnings Release. Bill Rhodes, the Company's Chairman, President and CEO will be making a short presentation on the highlights of the quarter.

The conference call will end promptly at 10:00 A.M. Central Time or 11:00 A.M. Eastern Time. Before Mr. Rhodes begins, the Company has requested that you listen to the following statements regarding the forward-looking statements.

Brian Campbell

Certain statements contained in this presentation constitute forward-looking statements that are subject to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements typically use words such as believe, anticipate, should, intend, plan, will, expect, estimate, project, position, strategy, seek, may, could, and similar expressions. These are based on assumptions and assessments made by our management in light of experience and perception of historical trends, current conditions, expected future developments and other factors that we believe to be appropriate. These forward-looking statements are subject to a number of risks and uncertainties including, without limitation, product demand, energy prices, weather, competition, credit market conditions, cash flows, access to available and feasible financing, future stock repurchases, the impact of recessionary conditions, consumer debt levels, changes in laws or regulations, war and the prospect of war, including terrorist activity, inflation, the ability to hire, train, and retain qualified employees, construction delays, the compromising of confidentiality, availability or integrity of information, including cyber attacks, historical growth rates, sustainability, downgrade of our credit ratings, damages to our reputation, challenges in international markets, failure or interruption of our information technology systems, origin and raw material cost of suppliers, impact of tariffs, anticipated impact of new accounting standards, and business interruptions. Certain of these risks are discussed in more detail in the Risk Factors section contained in Item 1A under Part 1 of this Annual Report on Form 10-K for the year ended August 25, 2018 and these risk factors should be read carefully.

Forward-looking statements are not guarantees of future performance and actual results, developments and business decisions may differ from those contemplated by such forward-looking statements and events described above and in the risk factors section could materially and adversely affect our business. Forward-looking statements speak only as of the date made. Except as required by applicable law, we undertake no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. Actual results may materially differ from anticipated results.

Operator

I would now like to turn the call over to Mr. Bill Rhodes. Please go ahead.

William C. Rhodes

Good morning and thank you for joining us today for AutoZone's 2019 fourth quarter conference call. With me today are Bill Giles, Executive Vice President and Chief Financial Officer; and Brian Campbell, Vice President, Treasurer, Investor Relations and Tax. Regarding the fourth quarter, I hope you have had an opportunity to read our press release and learn about the quarter's results. If not the press release along with slides complementing our comments today is available on our website www.autozone.com and clicking on Investor Relations link. Please click on Quarterly Earnings Conference Calls to see them.

To begin this morning, I want to thank all AutoZoners across the organization for their amazing efforts to deliver on our pledge. Most organizations have a vision and/or mission statement, we don't. We're unique, we have a pledge, a pledge to ourselves and more importantly to our customers where we are committed to delivering exceptional customer service where our AutoZoners' passion and willingness to go the extra mile allows us to deliver the kind of numbers we reported this morning. All credit goes to our dedicated AutoZoners.

Overall, we were pleased with our performance in Q4. This morning, we will review the major themes for the quarter, specifically we'll talk about our continued success with our commercial business, our monthly sales cadence, and regional performance, the impact tariffs had on this quarter's results both on retails and margins, and lastly we'll report on the success we had on our stated initiatives; customers first, commercial acceleration, omnichannel, leveraging [indiscernible] technology, and yes, we've got it inventory initiatives. Our commercial sales grew 21.1% year-over-year and 14.1% on a 16-week basis, and this was no easy task as we were up against a tougher Q4 comparison last year. It has been encouraging to see our two-year commercial comps build every quarter this year.

For the quarter we grew 15.7% and 13.4% on a comparable 52 week basis. This growth represented roughly $350 million more in sales versus last year. Our team did a great job on our commitment to growing this business during 2019. While we remain smaller than many of our peers in absolute sales volume, our growth rate has been very robust growing more than three times the industry growth rate. This growth has come from a combination of many initiatives that have been in development for years including inventory assortment improvements, hub and mega hub expansions, the ever strengthening reputation of the Duralast brand across our professional customer base, technology enhancements, increased engagement of our very strong store operating teams, and tremendous efforts on the part of our entire selling organization to artfully and effectively convey our value proposition.

We also grew our sales per store at a higher clip than we have in the past. Although we are averaging fewer program openings now as approximately 85% of our stores have a program, their productivity has increased steadily. For the quarter, we averaged our highest weekly sales productivity ever at $10,700 per program. And we grew our sales with mature customers at a substantially improved growth rate this year versus previous years indicating our offerings, products, coverage, service, and beyond are improved and have been recognized and rewarded by our customers. Additionally, we grew our up and down the street business faster for the quarter and the year than the overall growth of our commercial business indicating these improvements are being rewarded across all different types of customers. And with more hub stores, improved salesmanship, and product assortment, we have a very solid foundation that we can continue to build on into the future. Congratulations again to our entire organization for their efforts on delivering a great performance in commercial for 2019. Their intense focus on growing this business is absolutely working.

Regarding our domestic DIY business, while generating positive same-store sales for the quarter, our performance was clearly impacted by slower month of May and a slower first half of the quarter on a two-year basis followed by nice acceleration in the second half. Retail remains a very solid predictable story for us as it is definitely a more mature customer segment than commercial but a steady revenue stream and substantial cash flow generator. In addition to May's weaker performance we saw underperformance out West and across the Southwest. Additionally, we didn't experience the same level of heat, particularly in the first half of our quarter as normal and our heat-related categories' performance was certainly softer this quarter.

Finally, we saw some weakness in certain strong Hispanic markets. While it is very difficult to objectively quantify, we have seen this at certain times in the past in select markets when immigration issues are front and center. With the data we have available to us, our DIY share was flat this quarter while commercial grew very nicely. For the fiscal year, we gained share. While our retail business is far more mature than our commercial business, we were pleased with our performance in Q4 and remain optimistic about the New Year and beyond. Our optimism comes from the inventory availability and staffing initiatives that we have in place. Our constant focus on enhancing the customer service experience is making a difference. We believe the wage adjustments we made last October will continue to help us attract and retain high quality talent that can continue to provide WOW! Customer Service. It is important to remember the high touch nature of this business and the vital role our highly knowledgeable AutoZoners play to help our customers maintain and enhance their vehicles.

Regarding tariffs, on last quarter's call, we went into extensive detail on the lack of SKU to SKU inflation we have experienced historically because products are introduced into our assortments at very low scale; and as they scale, per unit cost decreased due to efficiencies. This is quite visibly evident by our unrecorded substantial LIFO negative reserve. We also noted last quarter that because of the earlier tariffs, we had experienced a small amount of inflation, a departure from the norm due to tariffs. As the new tariffs have been introduced, we have begun to pass those costs on to our customers. As these costs can be significant up to 25% currently on a product and since we use weighted average costing and the costs roll in over time, we have been implementing many of these retail increases in waves attempting to make it less burdensome on our customers. This has resulted in SKu-to-SKU inflation increases higher than last quarter, but still quite manageable. We have not experienced material changes in our gross margins as a result of tariffs, but our prices to our customers have and will continue to increase.

Turning to our omnichannel efforts, we continue to invest in our strategy to enhance the customer shopping experience by meeting them when, where, and how they want to shop. We have initiatives in place to improve our in-store systems and websites autozone.com, autozonepro, mobile, and ALLDATA. We're investing heavily in the system to support these shopping patterns. We continue to see growth in website traffic and rapid growth in ship to home, next day delivery, and buy online and pick up in store. While representing a very small percentage of our business substantially below 5%, we are pleased with how the customer is embracing all of our offerings.

Last quarter, we discussed our next day delivery program that allows customers in over 85% of U.S. markets to order as late as midnight in some markets and receive their products at their home the very next day. We continue to expand to more markets, and I would be remiss if I didn't say we are working diligently to further enhance our digital capabilities with our commercial customers as well. The improvements with the online commercial offering will be ongoing as we know we have ample opportunities which once addressed will allow us to make deeper inroads with certain customers that have not bought from us in the past and will allow us to further grow our business with existing customers, many of which are the more sophisticated shops.

While ship to home, ship to home next day, buy online and pick up in store, and commercial customer ordering are all showing growth and traffic to our online sites is continuing to increase, for our retail business, we continue to see customers primarily doing lots of research online and then coming into the store to receive that trustworthy advice, to have help with the Fix Finder or Loan-A-Tool and host of other services that simply cannot be duplicated online prior to making the sale.

Regarding our initiatives, we have invested more on our AutoZoners, inventories, and systems with the objective of improving customer-facing interactions. We believe our execution is improving as we intensify our focus on the customer. Regarding our annual operating theme for 2019, Drive for Excellence, we push for a relentless focus on what matters to our customers; exceptional service, fast deliveries, high quality parts and products, flawless execution of changes in product assortments, in-store merchandising, and on and on, some of the areas that we didn't execute so well on in 2008. As part of this initiative, we have challenged our store leadership teams to reduce redundant or non-customer facing activities. While we have identified opportunities to improve the effectiveness of our AutoZoners, we have much additional work to do in 2020. By removing these tasks, we know we can improve our levels of service. This will continue to be a major focus for us next year.

Regarding our inventory initiatives in the spirit of our Yes, We've Got It initiative we continue expanding our hub store network. At the end of the quarter we had 35 mega hub stores and 100 hubs -- 170 hub stores for a total of 205 locations with significantly expanded parts assortments. For the year we opened an incremental 11 mega hubs. We have consistently seen both our DIY and commercial sales expanding markets where hub or mega hubs are added and we will continue to grow the number of hubs. Last quarter we announced that our ultimate target is to have between 70 to 90 mega hubs open across the United States. We have some ways to go and it'll take us a few years to build this out. As a reminder, both our hubs and mega hubs are focused on making available additional coverage to the local markets meaning adding skews that would not have been available locally in our network before. Both the inventory and the hub store initiatives are designed to enhance our ability to meet our customer's needs for coverage and immediacy.

Along with improving our local parts availability and assortment we continue to manage this organization to provide exceptional service for our customers, provide our AutoZoners with a great place to work with opportunities for advancement, and ensure we do it on a long-term profitable basis to provide strong returns for our shareholders. We remain focused on the importance of going the extra mile to fulfill our customer's needs regardless of how difficult the request.

In regard to our initiatives for 2019 in customers first we have been making technology investments to improve our electronic catalog and point of sale systems to ensure the customer has an efficient and seamless, frictionless transaction. We believe our current and future technology investments will improve our competitive position. We will make our AutoZoners more knowledgeable and more efficient and ultimately will lead to sales growth across all of our businesses. While these investments are adding to both operating expense and capital expenditures, we are committed to further investments in 2020 to improve the customer shopping experience. Our expectation is our business will experience ongoing acceleration in technology investments for the mid to long-term. We spent more on development in 2019 than ever before by a wide margin and we remain committed to improving the technology around helping customers in 2020.

Regarding commercial acceleration, we have been investing in systems to help AutoZoners sell more efficiently and customers conduct business with us easier. While we said on last quarter's call most of these initiatives won't be rolled out until late calendar 2019 or even later. Our focus on increasing the engagement of the broader store team and focusing on existing customers is absolutely paying off today. In summary we are pleased with our performance and remain encouraged with our industry strength in both DIY and DIFM and our prospects for the new fiscal year. We believe macro factors such as relatively low gas prices and increasing miles driven remain largely in our favor and we remain committed to growing our market share in both our DIY and commercial businesses.

Now let me provide a little more detail on the quarter. For the quarter total auto parts sales increased 11.9% in total and we're up 5.2% excluding the additional week of sales, and our domestic same store sales were up 3%. Regionally our Northeastern, Midwestern, and Mid Atlantic markets representing roughly 28% of our store base performed better than the remaining markets. For our fiscal year we opened 209 new stores including 55 internationally and a 152 net new domestic commercial programs. We closed no stores for the year. During the quarter we opened 86 new stores in the U.S. and our commercial business opened 62 net new programs. Currently 85% of our domestic stores have a commercial program and the vast majority of our international stores have a commercial program.

During the quarter we continue to expand in Mexico opening 28 new stores and surpassing the 600 store mark in Mexico, an amazing accomplishment for our team in Mexico. We also opened 10 new stores in Brazil this quarter finishing with 35. We should once again highlight another strong performance and return on invested capital as we were able to finish our fourth quarter at 35.7%. We continue to be pleased with this metric as it is one of the best in all of hard lines retailing. However our primary focus has been and continues to be that we ensure every incremental dollar of capital that we deploy in this business provides an acceptable return well in excess of our cost of capital. It is important to reinforce that we will always maintain our diligence regarding capital stewardship as the capital we invest is our investors capital.

Before I pass the discussion over to Bill Giles to talk about our financial results I'd like to again thank and reinforce how appreciative we are of our AutoZoners efforts to again deliver solid results for fiscal 2019. Now I will turn it over to Bill Giles. Bill.

William T. Giles

Thanks Bill and good morning everyone. To start this morning let me take a few moments to talk more specifically about our domestic retail, commercial, and international results. For the quarter total auto parts sales which includes our domestic retail and commercial businesses, our Mexico and Brazil stores increased 11.9%. However, excluding the extra week of sales total auto parts was up 5.2%. For the trailing 52 weeks ended, total sales for AutoZone store was $1,809,000 this is up from an average of $1, 778,000 at Q4 ending last year. Total commercial sales increased 21.1% but increased 14.1% on a 16 week basis. In the quarter commercial represented 22% of our total sales and grew approximately $103 million over last year's Q4 on a 16 week basis.

We are excited to highlight for the quarter our domestic commercial sales averaged $10,700 in average weekly sales per program, the highest quarterly average weekly sales in our history. This was an increase of 10.6% from last year's $9,700 and average weekly sales per program for our fourth quarter, a very strong acceleration. For the quarter sales were $2.5 billion, a great result. We now have our commercial program in 4,893 stores or 85% of our domestic stores. As Bill mentioned earlier we remain committed to gaining market share with our commercial customers and we are encouraged by the initiatives we have in place and feel we can further growth sales and market share.

Our Mexico stores continued to perform well. We opened 28 new stores during the fourth quarter ending the quarter with 604 stores. Whenever I visit our stores in Mexico I'm always impressed by our talented team and how well they have executed our model and in particular embraced our culture. It's always an inspiring visit. Regarding Brazil we now operate 35 stores. Our team in Brazil opened an impressive 15 stores in fiscal 2019 off a base of only 20 stores at the beginning of the year. This took tremendous efforts especially on hiring, training, and developing our newest AutoZoners. Our performance continues to improve and we remain optimistic about the long-term future of this market. While we cannot claim success yet as we are incurring an annual operating loss, this market has the potential to be much larger than Mexico. So while challenging, the potential size of the market is significant.

Gross margin for the quarter was 53.4% of sales down 20 basis points from last year's fourth quarter. The decrease in gross margin was primarily attributable to the lower margin of goods sold primarily from the shift in mix of two more commercial business during the quarter. While our accelerated pace of commercial growth is weighed on our overall gross margin rate we continue to see opportunities to lower our costs through direct sourcing. While we see opportunities to increase our gross margin rate, we should encourage folks to buy similar to recent trends with the pressure from the mix shift to commercial. I do want to stress we remain committed to taking cost out of our business where appropriate and feel we can make improvements from here. Our primary focus has always been growing absolute gross profit dollars in our total auto parts segment and we've been pleased with our growth driven by the acceleration we've experienced in commercial.

SG&A for the quarter was 33.8% of sales lower by 316 basis points from last year's fourth quarter. Last year however we had a large expense for termination of our pension plan. Excluding this $130 million charge from last year's numbers our operating expenses this year were higher than last year but in line with our expectations at the beginning of the quarter. Operating expenses for the quarter were up 7.6% on an adjusted basis up -- 0.7%.

On the cost front we highlighted on the last few quarters conference calls the investments we have made specifically wage rates and technology for this fiscal year. The deleverage for this quarter was primarily driven by our planned domestic store payroll investments and continuing IT investments which negatively impacted operating expenses. For the quarter we want to remind financial milers that SG&A dollars will be up similarly as a growth percentage to this past quarter as we began the wage rate investments in the later part of Q1 last year.

EBIT for the quarter was $780 million. Our EBIT margin was 19.6%. Interest expense for the quarter was $61.2 million up from Q4 a year ago with the main difference the extra week. We are planning interest in the $44 million range in the first quarter of fiscal 2020 versus $39 million last year Q1. Our higher forecasts in last year includes our costs associated with the bond issuance we had this past April. Debt outstanding at the end of the quarter was $5.2 billion or approximately $200 million above last year's Q4 ending balance of 5 billion. Our adjusted debt level metric finished the quarter at 2.5 times EBITDAR while in any given quarter we may increase or decrease our leverage metric based on management's opinion regarding debt and equity market conditions. We remain committed to both our investment grade rating and our capital allocation strategy and share repurchases are an important element of that strategy.

For the quarter our tax rate was 21.45% and benefited approximately 105 basis points in our rate from stock options exercised during the quarter. Excluding this benefit our rate was 22.5%. For the first quarter of fiscal year 2020 we are modeling 23.5% before any assumption on credits due to stock option exercises. Because we cannot effectively predict this activity we remain committed to reporting what the stock option benefits mean to the cumulative tax rate.

Net income for the quarter was $565.2 million up 41.2% over last year. Our diluted share count of 25 million was down 6.1% from last year's fourth quarter. The combination of these factors drove earnings per share for the quarter to $22.59 up 50.4% over the prior year's fourth quarter. Now adjusting for the extra week this year and the pension expense taken in the fourth quarter of last year earnings per share grew 13%.

Relating to the cash flow statement for the fourth quarter we generated $842 million of operating cash flow. Net fixed assets were up 4.3% versus last year. Capital expenditures for the quarter totaled $182 million and reflected the additional expenditures required to open 124 net new stores this quarter. Capital expenditures on existing stores, hub, and mega hub remodels or openings work on development of new stores for upcoming quarters and information technology investments. With the new stores open we finished this past quarter with 5,772 stores in 50 states and this is Columbia and Puerto Rico and St. Thomas. 604 stores in Mexico and 35 in Brazil for a total AutoZone store count of 6,411. Depreciation totaled $118.8 million for the quarter versus last year's fourth quarter expense of $108 million. This is generally in line with the recent quarter growth rates.

We repurchased $692 million of AutoZone stock in the fourth quarter versus $665 million in last year's quarter. At quarter end we had $477 million remaining under our share buyback authorization and our leverage metric was 2.5 times. Again I want to stress we managed through appropriate credit ratings and not any one metric. The metric we report is meant as a guide only as each trading firm has its own criteria. We continue to view our share repurchase program as an attractive capital deployment strategy.

Next I'd like to update you on our inventory levels in total and on a per store basis. The company's inventory increased 9.5% over the same period last year driven by new stores and increased product placement. Inventory per location was 674,000 versus 636,000 last year and 688,000 last quarter. Net inventory defined as merchandise inventories of accounts payable on a per location basis was a negative $85,000 versus a negative $75,000 last year and a negative $58,000 last quarter. As a result accounts payable as a percent of gross inventory finished the quarter at 112.6%.

Finally as Bill previously mentioned our continued disciplined capital management approach resulted in return on invested capital for the trailing four quarters of 35.7%. We have and will continue to make investments that we believe will generate returns that significantly exceed our cost of capital. Now I'll turn it back to Bill Rhodes.

William C. Rhodes

Thank you Bill. We are pleased to report a solid fourth quarter and fiscal year. At 3% same store sales our fiscal 2019 was our best comping year since 2015. For the New Year we must continue to focus on executing at a high level which we believe can and has been a competitive advantage. To execute at a high level we have to consistently adhere to living the pledge. We cannot and will not take our eye off execution. While we study the external environment and react where appropriate we must stay committed to executing day in and day out on our game plan. Success will be achieved with an attention to detail and exceptional execution.

For 2020 we have a lot of deliverables from our IT initiatives and we will remain focused on simplifying our store AutoZoners workloads, to reduce clutter and unnecessary tests that get in the way of making the customer experience better for both the Do It Yourself customer and the professional customer. We believe our industry's fundamentals will remain strong as miles driven are expected to increase over the remainder of the year and while there's been many forecast otherwise the vehicle part has continued to age and the internal combustion engine remains the dominant vehicle of choice.

Before I conclude the call I want to take this opportunity to reflect on fiscal 2019. We were able to build on past accomplishments and deliver some impressive results. In recognition of the dedication, passion, and commitment of our AutoZoners I want to highlight what they as one very strong team delivered in 2019. Both retail and commercial experienced positive same store sales in every quarter. Our total sales grew by 5.7% on a 52 week basis and set an all time sales record at 11.9 billion.

Our commercial sales aggressively accelerated from 7.3% growth last year to 13.4% this year on a 52 week basis with growth in mature customer sales and productivity per program, the highest in our history. We made significant and meaningful investments in our tenured store hourly AutoZoners and it has improved our performance. Research confirms impressively that "more technicians choose Duralast parts" and we continue to leverage the power of the Duralast brand expanding into new categories or product types. On the back of a stellar performance of our mega hubs we expanded our vision of the future more than doubling the ultimate plans to 70 to 90 mega hubs.

We opened our 600th store in Mexico and we opened 15 new locations in Brazil off of a base at the beginning of the year of only 20. We continued to accelerate our investments in technology, leveraging technological enhancements in every facet of our business. Leveraging our very strong and predictable cash flow we repurchased a record $2 billion in AutoZone stock in fiscal 2019. Since inception in 1998 we have now repurchased a cumulative 21.4 billion and we have reduced our share count from a 152.1 million to 24 million. Most importantly our team has continued to live our pledge and leverage our unique and powerful culture to deliver exceptional service to our customers who rewarded us with incremental business.

I'd like to take this opportunity to again recognize and thank our team of talented, dedicated, passionate AutoZoners for what they do each and every day for our customers which expands opportunities for AutoZoners, allows us to support the communities we serve, and ultimately rewards our shareholders. We're excited about our balanced model for growth around domestic retail and commercial, international, online, and pick up in-store. We believe our hubs and mega hubs, Mexico, Brazil, ALLDATA and digital can all grow their top line this upcoming year. To execute at a high level we must adhere to living the pledge, we cannot and we will not take our eye off of execution. Success will be achieved with an attention to detail and thoughtful execution. Service has always been our most important cultural cornerstone and it will be long into the future. Now we would like to open up the call for questions.

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question is from Seth Sigman from Credit Suisse. Seth, your line is open.

Seth Sigman

Hey guys, good morning. Thanks for taking the question and congrats on the progress this quarter and for the year. I wanted to just follow-up on the point on the cadence in the quarter. You talked about some challenges earlier in the quarter, and then obviously an improvement later in the quarter. Can you just clarify was that specific to DIY or did you also see that trend in commercial? And then as we think about that trend in the second half of the quarter, is that more representative of the run rate of the business and how we should be thinking about the first quarter here, thanks?

William C. Rhodes

Yeah, fantastic question, thank you. A couple of things; one, weather effects are always more exaggerated in the retail business at least for us at this stage in our development than they are in the commercial business. So commercial will see weather implications, but not nearly to the same extent that retail will see them. So, the ones that we were talking about specifically were more retail oriented. Part of what happened was we had a very late spring, and so May was particularly soft and then June was soft too not on a comp store basis because we had a really strong June the year before. We think July and August were much more normalized, and we hope that they are indicative of what we're going to experience in the first quarter. But we don't know what's going to happen with weather or other effects, but we feel very good about our performance in Q4.

Seth Sigman

Of course, okay. And then you did mention that prices have started to increase, can you guys give us a sense of the impact it may have had on comps this quarter. And in general, how is the consumer responding in your view. I know you talked about raising prices in waves, but if you could talk about how you're seeing the consumer respond initially, that would be helpful? Thank you.

William T. Giles

Yes, so far, I would say that we're seeing a good response from the consumers, and I think that the merchandising organization is doing a great job of kind of measuring these increases in as they roll through our weighted average cost. And so, it's still early days, and so I would say that we haven't seen a significant impact from a sales perspective or from a margin perspective necessarily from the tariffs, but we'll continue to monitor and continue to manage it that way going forward.

Seth Sigman

Okay, great. Thanks guys.

William C. Rhodes

Thank you.

Operator

Thank you, Seth. And our next question is from Simeon Gutman from Morgan Stanley. Simeon Gutman your line is open.

Simeon Gutman

Thanks, good morning. So, I wanted to ask first on gross margin. I have two related questions. So, Bill Giles, I think you mentioned that our gross margins should be similar going forward I think to recent trends, and I think you also said you want to make improvement. So, can you reconcile those two and then in terms of the time frame that we should extrapolate that, is that for Q1 or is that for the whole year? And then as tariffs roll in, does it make it harder to show improvement in that trend line or it all depends on the elasticity?

William T. Giles

Well, that's a good question. Let me try to unpack that a little bit. We always believe that we have opportunity to improve our gross margin. We're always looking for opportunities to improve sourcing so that we can lower our cost. And then as Bill mentioned before, we recognize that the Duralast brand is an incredibly strong brand and there are further opportunities for us to continue to roll that across other categories as we continue to evolve that brand. Secondly, I would say that I'm thinking more on a shorter-term basis and not trying to extrapolate out the entire year, but as we continue to accelerate our commercial business at a double-digit rate, that's going to continue to apply pressure on gross margin. So that's kind of the way we're thinking about it, and the impact this quarter was around 20 basis points or so. So, we're all about growing the business, we're all about gross margin dollars and EBIT growth, and that's our primary focus, and we'll let the margin -- we will continue to manage the margin hard and we'll continue to look for opportunities to reduce cost. But as our commercial business grows, that will continue to put a little pressure on our absolute gross margin rate.

Simeon Gutman

Got it, okay, that's helpful. My follow-up is on SG&A and I guess trading profit for growth maybe. So you stepped up a lot in fiscal 2019 and you seem to be getting a pretty good return. And you've invested on a steady pace over time. Are you debating whether it makes sense to spend even at a higher rate and trade a little more profit for growth?

William T. Giles

I would say that the investments that we've made have been very specific and very targeted. So, our investments to this point have been on wage adjustments that we believe were appropriate and we believe we're getting benefit from those wage adjustments. As we move forward, we recognize that we will continue to have some wage pressure mostly from regulatory activity that is taking place across the country. So, we recognize that wages will continue to be a little bit of a pressure point, maybe not as high as it was when we proactively invested in wages. And then technology and that's a smaller component, but it's still an investment. And so, those are the specific areas and we will continue to invest in technology, and as Bill mentioned in our prepared remarks, last year was probably one of the highest years we've spent on technology, and we expect to continue to invest even more in technology as we move forward. So those are the two areas, and yes, you're right, we will play in the environment that we are in and sales have been strong and we've been able to manage our way through that and continue to generate earnings results.

Simeon Gutman

Okay, thank you.

Operator

Thank you and our next question is from Zach Fadem from Wells Fargo. Zach, your line is open.

Zachary Fadem

Hey, good morning. First one on the commercial growth, curious if you could speak a little more about the makeup of the growth in the quarter, what would you attribute to new commercial programs and then on the comp component to what extent would you categorize the growth as independent mom and pop versus national or regional accounts and maybe could speak to some of the puts and takes here around the various customer categories?

William C. Rhodes

Yeah, terrific question. First of all we were very excited about the growth that we had in the commercial business across all different customer segments. I did say in our prepared remarks that the up and down the street customer which are those small mom and pops grew at a faster rate than the rest of the commercial business. And we want to make that point clear to make sure you know that this is a widespread growth. Our growth in mature customer sales I also said was at an all time high level. So we were very excited about how it came across different markets, different customer segments just across the board which tells us that all the different things that we're working on from getting our store managers and district managers more engaged to the hub initiatives that we've had, to the inventory initiatives that they're all working in tandem which is exactly what we were hopeful of.

Zachary Fadem

Got it, and on the investments you called out for 2020 curious if you could speak a little more about what you're doing differently versus the investments in 2019? And Bill on your SG&A comment I just want to confirm that that we should think about SG&A growth up in the seven and halfish range similar to what we saw this quarter on a 52 week basis. And if there's any extra commentary that you would add on cadence or duration of that spending in 2020?

William T. Giles

Yeah, I would say that the 7.5% is the right number to think about and give you more update as we move along through the year. But certainly for the next quarter that's the way I would be thinking about it. Relative to what we did last year and how we're thinking about it moving forward and as I said I think we'll continue to invest in wages much of it will be in response to regulatory pressures. And then we will continue to escalate some of our technology investments and they will occur both on the commercial side of the business and the retail side of the business. We have made some good investments on commercial in order to be able to be an easier place to do business with through our commercial customers and provide better service there. And we recognize that there are opportunities on the retail side as well to improve customer service through technology. And then obviously like any mature company we're also changing our legacy systems as we move along and we've had a big effort on that over the last couple of years.

Zachary Fadem

Got it, makes sense. Appreciate the time guys.

William C. Rhodes

Alright, thank you.

Operator

Thank you and our next question is from Michael Lasser from UBS. Michael, your line is open.

Michael Lasser

Good morning, thanks a lot for taking my questions. Bill Rhodes historically AutoZone has been mid single-digit operating income grower and buying back enough stock to get double-digit. Now your operating margin has been down [indiscernible] it sounds like between faster commercial growth and domestic investments we should have guarded expectations around the operating margin, were these the near-term. So is this still reasonable to expect that AutoZone can achieve this type of growth algorithm…?

William C. Rhodes

Yeah thanks, another great question Michael. If you look at it over time we had a remarkable streak I believe of 41 straight quarters where we grew at double-digit EPS growth. A lot of things have changed since that point in time while lot of things haven't changed. We still want to grow our EBIT in the low to mid single digits and with our share repurchase program we hope to push our growth close to if not over 10%. But I don't think we'll have another streak like we had, we had 41 straight quarters. But that's within the reasons of the model. As we grow commercial we will have without a doubt pressure on our gross margins and pressure on our EBIT margins and we are not focused on what is the overall operating model -- margin for the company, we're focused on what are we going to do to grow operating profit dollars at a reasonable growth rate and get very good returns on the capital that we deployed to get that growth rate.

Michael Lasser

And just a follow up to that, you mentioned that things have changed, when you're alluding to that you mean that the business is now being driven by commercial -- transparency if needed or it is both push up your gross margin, what exactly were you alluding about change?

William C. Rhodes

I would say that the changes are really the acceleration of our commercial business and so as we've seen that grow from a mid single-digit to high single-digits to low double-digit that's a significant component of the change certainly that we've seen in the past and that's what we expect in the future. So, from that perspective and back to your margin question is that that continues to put a little bit of pressure on margin but we're all about taking market share and growing the business and growing dollars. And so that's really where our primary focus is and so far we've executed on that on both fronts but particularly in commercial.

Michael Lasser

And Bill Giles can you clarify something for the investment community, there's been a lot of debate about the impact of price increases and inflation in response to tariffs with the skeptics being look the industry is growing fast as it has but it has been pushing forward to completion and more price increases, so the units aren't growing as fast or the consumer is not responding nearly as positive as it has been, so perhaps within that can you maybe quantify what impact your comp was from inflation and how do you respond to that point?

William T. Giles

Yeah, it is hard to tell a little bit on the inflation part of it. I mean there's absolutely a component of inflation that's baked into our comp store sales improvement whether or not that inflation resulted any pressure points from a demand perspective, it's hard to tell. So it's kind of two dimensional there. But look I would say that there is definitely a component of the same store sales that is somewhat driven by inflation but overall it was a healthy growth overall. And keep in mind also that our inventory return is a 1.3 so the costs are coming through at a relatively slow rate. And so we're increasing our retails as we're seeing that cost go through. So, it is a double edged sword. We wish inventory return was faster but in this particular case it's been a little bit of a benefit for us. So we've been able to kind of measurably improve our retail prices in order to offset those costs as we move along and we will continue to do that going forward. So it won't be as lumpy as increasing our retail prices all at once.

Michael Lasser

Thank you and good luck.

William T. Giles

Thank you.

Operator

Thank you and our next question is from Chris Horvers from JP Morgan. Chris, your line is open.

Chris Horvers

Thanks, good morning guys. Couple of follow-up questions here as you think about the commercial business and the strength that you saw in July and August would you classify this past summer at the end of the day to July and August period as normal and so there's no sort of headwind nor tailwinds as you think about what could happen over the this fall period? And more on the weather as you think about the fall, if we have sort of like a warmer September and October is that just -- does that really have any impact to the business given that it is sort of temperate or could that create a headwind to the business?

William C. Rhodes

I will start with the second part of it. The weather effects in our business are generally very muted in the fall. There's not a lot of rainfall that happens in the fall generally. The temperatures are maybe warmer than last year but they're not extreme temperatures that would put excess stress on our vehicle parts. So I don't think if we called out weather as a major initiative outside of hurricanes in the past. So if we get a hurricane like we did in Houston or in South Florida then that can be a bigger issue. And what was the first part of your question Chris.

Chris Horvers

How would you classify the weather this past summer, July-August, June, July?

William C. Rhodes

I don't think it had a big effect on our commercial business. As we went into and you were asking is there something coming headwind or tailwind, as we went into the fourth quarter the real question for us was how could we lap the accelerated growth that we had last year in Q4. That's really when our growth started to begin to grow or build and we will have the same impact in Q1, Q2, and Q3 where we will be up against stronger and stronger comps. But our momentum has been pretty consistent.

Chris Horvers

So that's my follow up. So obviously May and June did have some moderating impact on your commercial comps but yet you did accelerate the stack. So how are you thinking about modeling that business going forward and your ability to sustain comp stacks against those harder comparisons or even potentially accelerate them, continue to accelerate them?

William C. Rhodes

I'll go back to one thing that I said earlier in the call and that is that the effects of weather in the commercial business are very small in comparison to the retail business. So I don't want you to think that May and June were very soft because they weren't in the commercial business, they were softer in the retail business but the commercial business has been strong every period of 2019. And what's in front of us we don't know. We don't give guidance but we feel very good about the level of execution that we have, we feel very good about the initiatives that we have in place. So far they worked really well.

Chris Horvers

Understood, best of luck.

William C. Rhodes

Alright, thank you.

Operator

Thank you and our next question is from Bret Jordan. Bret, your line is open.

Bret Jordan

Hey, good morning guys. I got a question on the tariff side as well but kind of a reversal. I guess we've seen some exclusions granted on one and two and do you have anything for sort of what that might be as far as alleviating some of the tariff pressures and how you might experience some rebating from suppliers who have taken price increases but we'll see those reversed?

William T. Giles

You know Bret to give you an honest answer I don't know the answer to that as far as I don't think it's significant necessarily. It certainly hasn't been something that we've talked about a lot. We have spent a lot of time here so I don't think it's a material number to us.

Bret Jordan

Okay and then a question on your accounts payable. Obviously we're getting north of a 110% on inventory. What's the upper bound on that, how high can you take that as you build the inventory balances?

William T. Giles

As we've talked about this in the last several quarters maybe year or so I think at some point in time we're trying to maintain that number at around that level. And so as we make investments in inventory and you heard Bill talk about it on hubs and mega hubs that we continue to open and that really helps drive a little bit of our overall inventory balance. But it does get inventory closer to the customer and it benefits both the retail and the commercial side of the business. So that's what puts pressure a little bit on the inventory and you've seen our inventory return go down slightly over time from 1.5, 1.4, 1.3 [ph]. And so our goal is really to kind of maintain that accounts payable to inventory balance at around that level. And we'll be able to -- may be able to improve it slightly but our objective is really to maintain it around that level.

Bret Jordan

Right, thank you.

Operator

Thank you and our next question is from Scot Ciccarelli from RBC Capital Markets. Scot, your line is open.

Scot Ciccarelli

Hey guys, Scot Ciccarelli. I know you have made a lot of changes to the commercial business over the last few years especially on the product availability side. I also know you got your store managers much more involved really over the last year in trying to cultivate some of those relationships. So operationally can you help us understand specifically how the store managers have become more involved on the commercial front and is that something that starts to slow now that you're kind of reaching the anniversary point of that or do you think you can maintain that double-digit growth rate in commercial because that's something that builds over time? Thanks.

William C. Rhodes

Thank you Scot. We believe that our store managers and our district managers are much more involved in the commercial business today than ever before. We started with our store managers beginning to make sales calls in the fourth quarter of last year and they're out making sales calls. But the real thing that they're doing is they're learning from the customer what's important to them and they're learning how we are executing it. When they get back to the store with their teams they can do what they do like nobody else. They can enhance our service for our customers. Before because they didn't have a direct connection to those commercial customers they really didn't know where our service advantages were and they didn't know where our service shortcomings were coming from. Now they have direct line of sight to that. I think we had a significant benefit out of that last year. I think we will continue to benefit from that for the next few years as some of them got very quickly -- got up to speed very quickly, others not so quickly. And they're all in different places on their understanding of the commercial business and their comfort with the commercial business.

Scot Ciccarelli

So, there should be a pretty long tail to it sounds like. I appreciate it, thanks.

William C. Rhodes

I would think so. It is the first time we've done it so we don't have empirical evidence that said that it has a three tail on it. But as I'm out in the stores and I'm talking to the commercial or to the store managers their level of knowledge is vastly different than it was 18 months ago. And that's what gets me excited.

Scot Ciccarelli

Got it, thanks Bill.

William C. Rhodes

Alright, thank you.

Operator

Thank you. There is no more time for the question-and-answer. I will turn the call over back to Mr. Bill Rhodes.

William C. Rhodes

Before we conclude the call I want to take a moment and call out that we are hosting our National Sales Meeting here in Memphis this week. This week we will be recognizing our company's very best performers and announce our new operating theme for the year. We will celebrate this past year's successes and focus on where we didn't meet our objectives. This week is for our field AutoZoners and we enthusiastically welcome them to our hometown of Memphis, Tennessee. As our business model continues to be solid and we're excited about the New Year we don't take anything for granted as we understand our customers have alternatives. We will continue to execute on our game plan but I want to stress that this is a marathon and not a sprint. As we continue to focus on the basics and focus on optimizing long-term shareholder value, we're confident AutoZone will continue to be successful. Thank you all very much for your interest in our company and for participating on today's call. Have a great day.

Operator

And that concludes today's conference. Thank you for your participation. You may now disconnect.