Company	Rating	Date
AutoZone	**Buy**	**01 June 2025**

North America
United States
Sector
Consumer Discretionary & Auto Parts

Price at June 01 2025 (USD)
$3,733.04
Price Target (USD)
$4,100.00

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The auto parts brand executing on its growth plan which is starting to bear fruit

AutoZone engages in the sale and distribution of automotive replacement parts and accessories. The company was created in 1979 and is well established in the US with 6,537 retail locations as of May 2025. AutoZone also has 838 stores in Mexico and 141 stores in Brazil, representing the company's focus in growing international revenues in two fragmented auto part markets. AutoZone sells in two main channels, DIY (do it yourself), and DIFM (do it for me). In the DIY channel, which consists of consumers looking to repair their vehicles, AutoZone is a clear leader where it is estimated ~75-80% of their total revenue comes from. DIFM, however, which is demand from mechanics and other repair services, is an underpenetrated market for AutoZone where competitors such as O'Reilly and Genuine Parts, through their NAPA brand, are clear leaders. DIFM is a key growth objective for AutoZone which believes they currently account for <5% of a $100B+ addressable market. These growth priorities have translated to increased capex as the company looks to add more presence and efficiency both domestically and internationally. New hubs and distribution centers are capital intensive projects but essential to improve service and cut down delivery times and broaden inventory to best capture the stable business of DIFM. Recent prints have shown strong international growth and strong US revenues further validating AutoZone's long term growth plan. The company is also benefiting from an old car fleet in the U.S. which in turn leads to more repairs and servicing needs. Resilient demand across cycles and this incoming structural demand tailwind bodes well for AutoZone's future earning potential. When valuing the company, I performed a DCF and Comparables analysis with a foundation of low single digit revenue growth in 2025 and mid-single digit growth over the next fiscal years. In my model, margins are compressed in the next two fiscal years with modest growth afterwards citing the near-term capital-intensive growth, possible tariff impacts, and long-term trend towards increased efficiency. Below is the summary of the competitors and valuation outputs. I used a slightly higher than forecasted multiple in 2026 for the comparables analysis, and slightly higher than historical average exit multiple for the exit multiple DCF method given my view that AutoZone has ample room to grow as it aims to gain share from O'Reilly in DIFM, along with a positive view towards revenue and operating dollar growth.

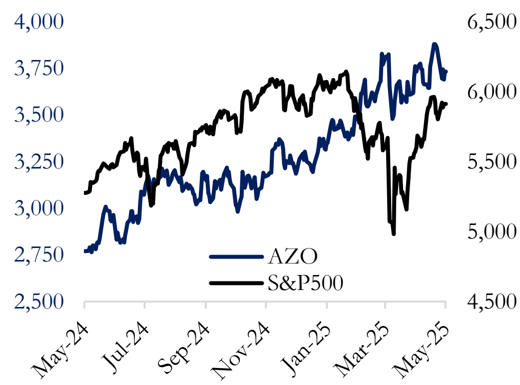
(USD millions)				P/E			EV/EVITDA		
Company	Ticker	Price($)	EV($M)	LTM	2025E	2026E	LTM	2025E	2026E
O'Reilly Auto	ORLY	1,367.50	85,785.0	33.5	31.2	27.7	20.1	21.8	20.2
Advance Auto	AAP	47.93	5,277.2	NM	26.0	14.7	6.0	11.8	9.3
Genuine Parts	GPC	126.52	23,256.1	20.8	16.3	14.8	9.8	11.5	10.7
LKQ Corp.	LKQ	40.47	16,081.2	15.1	11.5	10.6	7.2	9.4	8.9
CarParts.com	PRTS	0.88	51.8	NM	NM	NM	NM	NM	5.9
AutoZone	AZO	3,733.04	74,444.0	25.0	24.5	21.5	15.5	17.0	15.8

Key Inputs	
WACC	6.28%
Terminal growth	3.00%
Exit EV/EBITDA	15.75x
EV/EBITDA 26E	16.50x

Sources: CapIQ, FactSet

	Perpetuity	Exit Multiple	Comparables
EBITDA	n/a	5,575.3	4,604.7
EV	92,021.7	79,897.8	75,977.3
(-) Net Debt	12,217.6	12,217.6	12,217.6
EqV	79,804.1	67,680.2	63,759.7
EqV/share	$4,639.77	$3,934.90	$3,706.96
Up/(Downside)	*24.29%*	*5.41%*	*-0.70%*

Price performance



	1M%	3M%	6M%	12M%
AZO	-0.79	6.87	17.78	34.64
S&P 500	6.15	-0.72	-2.00	12.92

Key Stats

Ticker	AZO-US
52 Week Range	2,728.97 – 3,916.81
Market Cap (M)	62,431.4
Enterprise Value (M)	74,440.0
P/E (LTM)	25.0x
EV/EBITDA (LTM)	15.5x

Revenue by Business Unit

As of FY 2024

(USD millions)	Revenue	% Rev	%YoY
Auto Parts Stores	18,151.28	98.2	5.9
Other	338.99	1.8	8.6
Total	18,490.27	100.0	5.9

Revenue by Geography

As of FY 2024

(USD millions)	Revenue	% Rev	%YoY
United States	16,271.44	88.0	4.7
Mexico	2,033.93	11.0	16.5
Brazil	184.90	1.0	5.9

Valuation Summary

Approach	Weight	Price
Perpetuity	33%	$4,639.77
Exit Multiple	33%	$3,934.90
Comparables	33%	$3,706.96
Weighted Price		$4,093.88
Target Price		**$4,100.00**
Current Price		$3,733.04
Upside		*9.67%*

Investment Thesis

Resilient Demand Across Cycles
Unlike auto sales from OEMs which are correlated to economic conditions, AutoZone does not rely on the same catalysts for demand. Where auto retailers need discretionary spending and a healthy consumer, AutoZone maintains consistent demand across market cycles. In expansionary periods, AutoZone benefits from more people driving and increased wear and tear on both old and new vehicles which boosts both DIY and DIFM repair needs. In recessionary periods, AutoZone benefits from consumers extending the life of their vehicles as they are unable to afford new ones. This phenomenon drives the demand for replacement parts and leads to more repairs and maintenance which was experienced during the GFC and COVID.

Structural Demand Tailwind
The longer a vehicle is on the road, the higher the chance it will need repairs and the higher the chance AutoZone generates revenue. According to S&P Global, as of 2024, the average age of cars and light trucks in the U.S. reached a record high 12.6 years which was up two months from 2023. With most OEM warranties lasting ~3-5 years, AutoZone thrives on post-warranty vehicle demand when owners seek more affordable repair options. The aging vehicle fleet is a tailwind for AutoZone which will benefit from structural demand. With uncertain macro conditions, consumers have been more inclined to extend the lives of their vehicles rather than purchase new models. With ~70% of vehicles in the U.S. over six years old according to S&P Global Mobility, AutoZone should see increased demand for parts and maintenance in the quarters and years to come.

International White Space
AutoZone is already a well-established staple within the U.S., but the company has a long runaway for growth internationally, in Mexico and Brazil. AutoZone has maintained their commitment to growing international revenue in two highly fragmented aftermarkets where the average age of vehicles is comparable to the U.S. AutoZone has invested in both countries with multiple new stores over the years and broke ground on a new distribution centre in Mexico in 2023. The company envisions opening around 1500 stores in Mexico long term, compared to the current store number of 838. The planned expansion will come with increased capex and slight margin impact as both countries ramp. Mexico expansion has benefited from a similar supply chain to the U.S. whereas there are more complexities in relation to Brazil growth. However, the revenue impact is beginning to be felt with international same store sales growth in the double digits over the last 4 fiscal years while total international sales only comprise ~12% of total revenue.

Share Potential in DIFM
Management has made it clear that DIFM is a high strategic growth priority. AutoZone believes it has <5% market share in an over $100B market, and compared to O'Rielly or NAPA, AutoZone is early in building scale. Although DIFM is a slightly lower margin business, it represents ~60-70% of aftermarket sales and is a more stable recurring revenue stream. To gain share, AutoZone has looked to increase its footprint, further develop their mega-hubs and distribution centres, all in an effort to improve service to target DIFM. Having these large hubs and DCs allows AutoZone to stock a wider variety of inventory close to end-users. AutoZone plans to reach 500 total hubs in the U.S. to further improve service and the company also regularly buys data to forecast demand. With a wider array of hubs comprised of a deep level of high-quality inventory with brands such as AutoZone's flagship Duralast, the company is well positioned to grow share in the largest untapped aftermarket sector and catch up to its competitors in this space.

ESG Factors

The biggest ESG factor that will impact AutoZone's business is the shift towards sustainability in transportation. According to the Alliance for Automotive Innovation, ~98% of vehicles on U.S. roads are powered by internal combustion engines (ICE). This bodes well for AutoZone which caters to the maintenance and repairs of ICE vehicles. However, the trend towards EV vehicles is growing and future regulations could only accelerate this adoption. In 2024, EVs accounted for ~10.2% of total new vehicle sales in the U.S. which was up from ~8% in 2023 and ~5.8% in 2022. Although ICE vehicles still dominate, EVs at their current pace, will slowly gain a larger share of total vehicles in the U.S. This in turn would reduce demand for ICE parts over time and impact inventory if demand for traditional parts decline or become irrelevant. The other impact of EVs is the lower maintenance needs on average. They generally require less maintenance, and according to Consumer Reports, EV owners spend 50% less on maintenance compared to ICE owners. EVs however, could bring new opportunities to AutoZone in the form of new product categories and a new aftermarket to compete in. Battery recycling and replacement will become a bigger portion of repairs and although EVs may need less service, at the end of the day, they will need repairs just like ICE vehicles.

The other impact from sustainable transportation is the push towards lowering the number of vehicles on the road. With the introduction of Uber, Lyft, and other ride sharing services, consumers have felt less of a need to own vehicles. We have seen evidence of lower driving rates in GenZ with more choosing to get their driver's licenses later than previous generations and in turn have lower car ownership rates. GenZ is also much more environmentally conscious than older generations which may be a factor behind avoiding driving. This trend is troubling for the auto industry as whole. For AutoZone, the key driver for sustained revenues is car park growth. The more cars on the road, the higher the potential revenue from repairs and maintenance. This phenomenon was experienced, although not in the same possible scale, during the GFC. The car park did not grow as fast as in the past since people were not in positions to buy new vehicles and total vehicle growth slowed. These scenarios have been rare in the past, but were very impactful for the business of auto parts dealers and OEMs. A sustained long-term trend of a decreasing TAM with respect to vehicles, would be a real risk to AutoZone's business.