



AutoZone, Inc., is the largest specialty retailer of automotive aftermarket products in the United States. The company sells to "do-it-yourself" (DIY) customers, as well as to commercial customers that cater to the "do-it-for-me" (DIFM) market.

Name	Ticker	Growth	Dividend	D + G
AutoZone, Inc.	AZO	10.00%	0.00%	10.00%

Highlights:

The company does not expect a headwind from price deflation, and in fact, continues to see meaningful inflation across the industry, even as the recently lowered IEEPA tariffs on China (to 10% from 20%) are expected to result in lower product costs. Management noted the industry does not typically experience price deflation, and we note the auto part retailers have a long history of rational pricing. Furthermore, even if certain competitors were to lower prices, management does not expect a significant competitive headwind, as product availability and speed of delivery remain the more important drivers of commercial market share. In relation to the lower IEEPA tariffs, management sees the lower product costs as being a margin tailwind as prices are not expected to lower, but cautioned that the associated margin impact will take time to flow through their P&L.

AZO has consistently utilized FCF plus incremental debt to aggressively repurchase shares. Specifically, AZO has spent >\$38.5B since the company's buyback inception in 1998, repurchasing >100% of the outstanding shares. Buybacks no longer provide the same level of EPS accretion as in prior years but will remain a hallmark of AZO's shareholder-friendly capital allocation strategy.

Bull Case:

- **Leading Consolidator in a Defensive Growth Sector** - Auto aftermarket demand is primarily needs-based and supported by growth in miles driven and a large pool of aging vehicles. The industry benefits from pricing power, and structural moats (immediacy of need, "speed to shop", high SKU intensity/complexity) help insulate the sector from digital disruption. Big picture, superior scale drives share in auto aftermarket, so AZO is well positioned to continue consolidating what is still a fragmented industry via steady comps and accelerated new store openings.
- **Revving Up the Store Growth Engine** - AZO is targeting ~500 openings per year by FY '28 (~5% unit growth), an acceleration from 304/350-360 in FY '25/FY '26E (and ~200/year on average over the last decade). While ramping the pace of U.S. openings to ~300 per year is an ambitious goal, we are bullish on the international white space opportunity (particularly Mexico). Importantly, we expect AZO to remain focused on ROI over sheer growth.
- **Watching Deferral, But Better DIY Macro Backdrop on the Horizon** - While we acknowledge some potential near-term deferral of bigger ticket DIY jobs as same-SKU inflation continues to build (2.8%/4.8% in Q4 '25/Q1 '26; likely builds a few points from here), pricing should still be a net positive to comps and help bridge the gap to CY '26 when ~\$150B of stimulus hits consumers' pocketbooks.

Bear Case:

- **Threat from Online Ecommerce Businesses to take "DIY" market share/ pressure margins** - Price is typically the primary consideration of "DIY" clients. Tech capabilities across retailers have improved and ecommerce sellers have targeted brick and mortar shops (AZO/ORLY) with aggressive pricing. While AZO has navigated the increased competition given their economies of scale and distribution network, "DIY" is the cash cow and market share loss would hurt our outlook. Greater than 95% of vehicle sales and repair services are conducted in person, positive for AZOs 6,785 locations/ mega hubs.
- **Faster than Expected Rebound in Supply Chain issues increases threat of flooding new cars onto the market, driving prices down** - New and used car prices have surged following the pandemic related supply chain crunch. We expect the supply chain issues to last longer than the market perceives, however a rapid improvement in supply chain distribution (and cheap credit) could flood the market with cars, pushing prices lower, making maintaining used cars less attractive than buying new/ used.
- **Evolving Vehicle Technology** - Changes in technology used by OEMs on future vehicles could result in less frequent repairs, parts lasting longer, or elimination of certain repairs.

In Summary:

AZO is a best-in-class operator with a proven track record of creating shareholder value throughout all market cycles. AZO's robust free cash flow generation, share repurchases, and supply chain/tech innovation positions AZO to grow their top line and market share while maintaining attractive margins into the future. We believe AZO's continued success in the DIY/DIFM area will drive market share gains along with improved parts coverage and availability. "DIFM" mix has a 5-year improvement of 400bps to 23% of sales, leading longer term to greater gross profits and faster sales growth. Given the current growth, profitability profile and history of strong management execution of AZO, we believe the current valuation of 18x NTM earnings (~4 turn discount to the S&P 500) could create a strong return profile looking ahead.

**Disclosures**

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