AutoZone, Inc. (AZO):

Analysis Report

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Financial Capstone Course

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Introduction and Background (Part 1):

AutoZone is probably best known in the US for its large chain of retail stores selling replacement auto parts, auto accessories, auto tools, and related merchandise. As of February 2011, the firm had 4,425 retail stores in the continental US and 249 stores in Mexico (AutoZone, 2011). AZO competes primarily with O'Reilly Automotive (ORLY), Advance Auto Parts (AAP), and The Pep Boys (PBY) in the specialty retail sector. It should be noted that CarQuest, owned by General Parts, Inc., is significant private competitor (Hoovers, 2011). Thanks to a history of very aggressive growth and acquisition, AZO is the largest among these, with ORLY not far behind in terms of market capitalization. AZO's growth has outpaced its rivals in recent years. It has met great success with its retail "DIY" outlets, with its commercial sales to local repair garages, with its private-label line of replacement parts, and with its online sales through

the Autozone.com website.

AutoZone's progress to becoming the largest publicly-held replacement auto parts supplier in the US can only be described as very impressive. Joseph Hyde III opened his first store in 1979 with the name "Auto Shack." The opening in



Forrest City, AR followed Hyde's ventures in other specialty retail areas, including drug stores, supermarkets, and sporting goods retailers. All of these ventures were opened under the umbrella of his family's public business, Malone & Hyde. Mr. Hyde focused on quality control, knowledgeable staff, and long retail hours, all aimed at the "do-it-yourself" customer. Stores were clean and bright, and the firm sought to locate in areas where car repair was most likely done by owners or part-timers. Mr. Hyde had also sat on the board at Wal-Mart and sought to

emulate the very efficient distribution model he saw there. Early growth was exponential, and within five years the "Auto Shack" was in 13 states with over 200 stores (Gale Group, 2011).

In 1984, the firm's leaders saw their stock as undervalued and took the firm private with the help of Kohlberg Kravis Roberts & Company, which received a large ownership share as payment. In 1986, Auto shack was the first to offer a lifetime warranty on a wide array of products and began market research to roll out private-label products. In 1987, Mr. Hyde sold all parts of the family business except for Auto Shack, marking the first time that the auto parts operation stood on its own. At this time, the name was changed to AutoZone and the store count reached 390 (AutoZone, 2011).

The company continued aggressive expansion and marketing, and by the time of the firm's IPO in April 1991, AZO had 592 stores and a good line of private-label replacement products. New benchmarks came and went: \$1 billion in sales in 1992, 1000 stores in 1995, 1500 stores in 1997. AZO purchased ALLDATA, an automotive diagnostic software firm, and began commercial sales in 1996. Joseph Hyde retired as CEO in 1997, having already built an incredible auto parts empire. In 1998, AZO opened 275 new stores and three major acquisitions added 715 stores, for an incredible 990 new stores in just one year (Gale Group, 2011).

This explosive expansion, although fueled by debt, continues into the new century, giving AZO a substantial position in the market and in is many acquisition negotiations. AZO is expanding into Mexico, has launched a string of very successful marketing campaigns, opened the Autozone.com e-commerce site, and continues to form new partnerships with complementing operations. Setbacks from hurricane Katrina and the current recession have proved relatively minor, and AZO's growth has made it the current leader in the industry.

Part 2: Ratio Analysis (Chart in Appendix 1):

In selecting 17 relevant financial ratios, I have chosen a few ratios from each major type: Liquidity, Asset Management, Debt Management (or Leverage), Profitability, Growth, and Market Value. The chart in Appendix 1 breaks down AZO's metrics relative to two main competitors (AAP and ORLY), the industry (Retail – Auto Parts and Services), and the sector (Cyclical Consumer Goods and Services). Note that I will not be using PBY for comparison due to PBY's much smaller market cap and its involvement in the auto repair business. CarQuest, of course, is a private firm and its financial metrics are not available. AAP and ORLY are, operationally, very similar to AZO and have similar market caps. Also note that industry and sector aggregate data is from Reuters, that all figures reflect prices and data available as of the market close on Friday, December 9, 2011, and that AAP has been paying out a small dividend, which would push up its valuation just a bit.

As you can see, several metrics have been highlighted for emphasis. But starting at the top, notice the liquidity ratios of AZO are very low. A quick ratio of 1.0 and a current ratio of 1.5 are generally desirable. The wide difference between the current ratio and the quick ratio of all three firms is due to the huge inventory of auto parts required in this business. Note that inventory cannot quickly be converted to cash to pay short-term obligations, hence the importance of the quick ratio. Although a low quick ratio is common among the firms, it is still a weakness. And AZO is the lowest here, meaning that AZO is the least able to satisfy current obligations with cash on hand. This is a dangerous situation.

Moving to asset management, we can see that AZO is roughly in line with its peers. It should be noted that the low inventory turnover reflects the large inventory carried by the firms, and the respectable asset turnover figure reflects the fact that, compared to the industry and sector, this particular "sub-industry" requires relatively few fixed assets.

And now we come to debt management. AZO has negative equity of roughly \$1.25 billion. So, the debt-to-equity figure is negative and the interest coverage ratio is lower than its peers, despite AZO's superior revenue. Not only that, but for the last few quarters, equity has been falling over *10% per quarter*, even as shares outstanding have also been falling, roughly 3% per quarter. So why in the world is a firm with negative equity and terrible liquidity issues burning capital to buy back stock? The insider transaction available from Yahoo Finance brings forth some powerful evidence. In the last six months, there have been 41 insider transactions, all of them sales, totaling 1.97 million shares, 12.9% of the insiders' position. Further, in the last reported quarter, institutions have reduced their exposure by 17.8%, or 3.63 million shares. Mergent Online reports that, for the past 24 months, the value of stock sold via direct transactions by insiders has dwarfed the value of stock purchased by a factor of 39 times. A chart with further information is available in Appendix 2: Insider Transactions

It seems that the insiders of the firm are opening up the corporate checkbook to cash themselves out of the casino at these great stock prices – prices which they achieved through large and possibly unsustainable leverage. These perpetual approvals of additional stock repurchases are cause for concern (Reuters, 2011). Below is a stock chart of AZO over the last five years from Yahoo Finance.



Stock purchases, or course, reduce the supply of stock in the market, boosting the price. Many shareholders no doubt expect this activity to continue, expecting that AZO will continue to use all available cash on hand from operations to finance more stock repurchases, but eventually it will simply not be possible. AZO is increasing its fixed borrowing costs, increasing its leverage and dependence on the debt markets, and decreasing its fiscal viability. If this continues, AZO may find its stock fall precipitously in response to solvency concerns after only a few bad revenue months.

Moving on to profitability, notice that AZO outpaces its rivals, the industry, and the sector in several key metrics, demonstrating much stronger net profit margin, return on assets, and return on investment figures. This is impressive, and has no doubt made possible the debt load which AZO currently bears.

AZO is no slouch when it comes to growth, either. The figures given for capital spending growth don't completely do justice to AZO, as it prefers to grow with major acquisitions (usually involving large amounts of debt). Likewise, the large EPS growth figure is likely influenced by the shrinking denominator in the ratio – the pool of common stock outstanding. For now, the sales are at least growing, but it must be said that ORLY is a much stronger player in this section of the chart.

Finally, we come to the market value metrics. It is often said that almost any firm, no matter how poorly-run, is a value at the right price. AZO's P/E ratio is a bit pricier than AAP, and AAP pays a dividend while AZO does not. AAP also has a positive net worth with comparable figures down the chart. AAP is a smaller player overall, but it is tough to recommend AZO, with its debt problems, over AAP, which is priced cheaper. ORLY has the highest P/E, but it is likely warranted. ORLY has very little debt and is growing very well. It also has the size to rival AZO; it may be well positioned to pick up the pieces when and if AZO has some form of

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meltdown. The other two metrics echo the same theme. AZO offers a bargain on the sales metric, but not so much on the book value metric. You can see in the middle of the chart that AAP is not as efficient with its assets as AZO, and not as debt-free as ORLY, but it does offer a dividend. Considering ORLY's growth, it's easy to see it as value-priced here, despite the highest P/E of the group. AZO, of course, has fairly expensive revenue and a negative book value. On the basis of AZO's negative equity and ORLY's growth and solvency, it is tough to see AZO's sales at 1.58 as a better deal than ORLY's at 1.77. ORLY is quite strong here. AZO is no doubt performing, but it is enslaved to its creditors, relying on cheap financing. It has very little cash on hand and may not survive the next storm without significant restructuring.

The P/E and P/B ratios tend to be more expensive than the industry and sector, probably reflecting the stability of this sub-industry. Replacement auto parts is often referred to as "counter-cyclical," meaning that people are more likely to fix up old cars and less likely to buy new cars in a recession. In the current economic climate, that is good for this crowd. *Part 3: Financial Benchmarking (Chart in Appendix 2):*

In evaluating AZO relative to its peers and industry, I have assigned a relative weight to each ratio category and divided the "points" equally among the ratios of each group. The weights assigned are subjective, reflecting the perceived importance of each aspect of the business. Though AZO does have a few stores in Mexico, all three firms are primarily engaged in the same business, and all three have the vast majority of their operations in the United States. Therefore, I wanted to keep subjective adjustments to a minimum in this benchmarking test, but I have allowed one subjective category, which I labeled "business risk." Here, the goal was to account for the fact that this line of business is inherently less variable than the overall market thanks to the "counter-cyclical" nature, and for the fact that AAP faces slightly more business risk as a smaller player with less market power than the other two. I have also removed the sector data, as it was apparent that so many sector metrics are not relevant to the business at hand. The industry data remains. Please see the chart in Appendix 2 for the details.

Our benchmark score of 46.81 reflects AZO's strengths and weaknesses. On the one hand, AZO is a performer. AZO has very strong profitability and growth metrics, often the best in the test. However, AZO is overleveraged and without a rainy-day fund. AZO is like a tech stock from the days of the NASDAQ bubble. Perhaps somebody forgot how that story ended. *Part 4: Real Options*

AZO currently has several real options on the table, and has in fact been developing a wide assortment of real options over the years via its acquisitions. One of the most obvious involves its operation in Mexico. Currently, the operation is going quite well. But it continues to operate on a year-to-year basis. Certainly when the expansion into Mexico began, it was an experiment – an experiment with a positive payoff, but an experiment nonetheless. AZO maintained the option to pull out and the option to expand, two options which Mexico retains today. In this sense, Mexico represents an exercised expansion option, as well as a current contraction and expansion (switching) option. Fortunately, the business case is strong in Mexico. Relative to the US, the median standard of living is lower, the average car is older, and so the demand for replacement auto parts per running automobile will be greater. Add to this the fact that Mexico had very little in the way of an established auto parts chain before AZO arrived. This market is likely to grow in the future, and AZO currently enjoys the "first mover" advantage. Given AZO's demonstrated affinity for acquisitions, AZO will likely continue to assimilate smaller, non-affiliated stores in desirable areas.

A similar option exists with an entirely new market, China. Chinese consumers are demanding more and more automobiles, and the Chinese authorities are encouraging, even subsidizing this development (Balkan, 2011). Today's fastest-growing market for new cars will

be tomorrow's fastest-growing market for car parts. Buying an equity stake in a Chinese and/or Indian operation is a proven way to start, working in cooperation with an existing chain. In this way, AZO would acquire both the option to expand this partnership in the future if the trialperiod numbers make sense and the option to abandon the partnership if things do not work out. It is likely a good move for almost any public firm in the rich world to look into equity investments in the developing world, specifically China and India. The overwhelming majority of market growth in the coming century will be in this area, and the equities today are valued so cheaply relative to the rich world. Minority equity stakes are easy, cost-effective ways to create optionality here. Further, auto-parts retailing is not likely to grow much in the US. As the average car on the road becomes newer, it requires less maintenance and most repairs become more difficult for the shade-tree mechanic. The pie may actually begin shrinking in the coming decades.

One option that is at least worthy of mention would be a financial flexibility option. This would be the reissuance of the recently repurchased stock in order to reduce financing costs and operating leverage. We have previously discussed the hole AZO is digging for itself with respect to the repeating rounds of stock repurchase authorizations. Selling stock at these prices would bring in much-needed working capital to better negotiate cooperative partnerships or just to have a safety cushion on hand. After all, in a recession, cash is king. Unfortunately, this would likely bring the "high-flying" stock price back down to earth, and so the firm's insiders are unlikely to approve such a measure. We could also say that AZO's decision to burn billions in profits and working capital in these stock repurchases represents an exercised option, a choice that benefits past shareholders but not the enterprise as it stands today. The business as a going concern is much weaker as a result of this exercised option.

A fourth real option opportunity exists with respect to the development of fuel-saving technologies. As real fuel prices continue to climb, it is rational to expect this move into alternative technologies to continue. The current crop of applications involves the hybrid, electric, and fuel cell drivetrains, but there will certainly be new ideas and new methods as the field continues to develop. AZO has a significant option here to be the first-mover in the targeted marketing of goods and services to this market segment. AZO has the ability to research the fuel-saving products and modifications available both on conventional automobiles and on hybrid/electrics to offer consumer advice and to prominently display accessories, products, and services in stores. Current product ideas may include charging systems and upgrades, battery services and boosters, or mileage data acquisition devices. Even conversion kits for conventional gas and diesel engines to a partial-hybrid drivetrain, to alternative-fuel compatibility, etc. are realistic. The ideas are as young as the field, but the point is that AZO can certainly experiment with a few leading ideas for a trial period and see how the numbers look. Based on this feedback, AZO would have the option to expand or contract offerings. This is the essence of a real option, and in this case it may be quite valuable.

The final real option is arguably the most likely to occur. We know that AZO has a penchant for acquisitions. Well PBY, a firm with a market cap of \$585 million, is currently priced at 1.19x book value. PBY is not nearly as profitable as AZO, and in many ways it seems to be lumbering along, just waiting for a takeover. The size of the firm is much smaller than the AZO, ORLY, AAP group, and it does have a potentially messy vehicle repair business in the operation pulling down profitability metrics. AZO has clearly not been shy about gobbling up competitors, and in fact AZO did purchase 100 locations from PBY in a 1998 deal worth \$108 million (NY Times, 1998). Though PBY may be a bit overvalued for a firm barely breaking

even, the case can certainly be made for buying more locations from the competitor to strengthen retail presence in AZO's most promising markets.

Part 5: US Dollar Discussion

These days, no discussion of US business prospects is complete without a discussion on the impact of US Dollar volatility. And while the truth is that currency exchange facilities (be they exchange rates or capital limits) have never exactly been stable, even in the gold-standard days, unprecedented globalization has made this a relevant issue for even the most domestic firms. AZO conducts its business overwhelmingly in US Dollars; its retail locations sell products denominated in dollars and its labor, inventory, taxes, building costs, utilities, and other expenses are denominated in dollars. That being said, many of the parts these days are made overseas, so that introduces some risk into the equation.

A depreciation of the USD relative to other currencies would likely increase USD-costs for inventory and supplies, but other expenses would likely remain stable. A USD depreciation would also likely accompany economic growth in the United States, which may erode AZO's customer base a bit. An extreme USD depreciation, albeit unlikely, would force higher costs for almost all business inputs, but this could easily be countered by higher retail prices. It is important to note here AZO's impressive net profit margin of 9.96%, which leads its rivals. If the USD does depreciate, it would impact its competitors in similar fashion, forcing them to increase retail prices to maintain profitability. However, because of AZO's impressive margin, AZO has some space, some safety cushion, before such a forced retail price increase. This increases the odds that AZO will be able to increase prices at a time of its choosing, while many rivals may be forced into the situation. Of course, AZO's debt and liquidity levels indicate that, while AZO's rivals may be able to sustain some unprofitable periods, AZO is unlikely to whether such a storm without advance planning. On balance, these metrics would counteract each other somewhat in the event of a USD depreciation, but AZO's position as market leader does give it some "price setting" abilities.

In the event of a USD appreciation, inventory costs would likely fall and a slower national economy would be a boon to AZO's primary business. Remember that AZO does best in hard times, when car-owners choose to fix their own vehicles rather than paying a service station or purchasing a new vehicle. AZO would earn higher margins on items sold, and the lower margins of its competitors increase the odds that they would not be comfortable cutting prices for some time. There are a lot of things to like in a USD appreciation scenario, but overall, AZO's is not very sensitive to USD fluctuations. AZO is not taking any clear actions to hedge USD risk, as very little action is warranted in this case.

Part 6: Credit Market Discussion

AZO has made itself very dependent on credit; there is no doubt about this. This has resulted from repeated bouts of stock repurchases. While AZO's net profit margin is a lifesaver here, it cannot be denied that the stock would not be where it is if it were not for the easy money currently available in the credit markets. If access to capital for AZO were substantially reduced or made more costly, AZO would need to use profits to pay obligations, and possibly sell stock to finance operations. More stock purchases would be out of the question, though we may be seeing the limit of those endeavors now. And if such a reduction in access to easy credit came because of some large drop in firm profitability, well this could be devastating. AZO has a negative book value. Its only value right now, both to stockholders and bondholders, is its continued profitability. If AZO's profit margins falter, this may signal the beginning of the end, and it will surely be the end of a stock price over \$300. Credit access would dry up; evasive maneuvers would be necessary to satisfy obligations; distressed sale of assets or stock would be on the table; solvency concerns would be very real. Every time a bond comes due for AZO, it's

as if their profit margins alone enable them to dodge the bullet. AZO has put itself in a very risky situation in the view of this author, one which is likely not sustainable in the long term. At the present time, AZO is not dealing with this situation in any credible manner, which is a problem. *Part 7: Commodity Prices Discussion*

Like the US Dollar, AZO is not overtly impacted by fluctuations in commodity prices. These would likely accompany fluctuations in the currency, the implications of which have already been discussed. Commodity prices do impact raw material producers, which would impact replacement parts manufacturers, and so a commodity price rise would affect AZO a few steps down the chain. However, by the time AZO is buying the replacement parts, the vast majority of the cost of such parts is in the design and engineering of the parts – very little of AZO's inventory expense amounts to the raw material costs of the items for sale. After all, AZO is not selling raw steel, but highly-specialized and finely-tuned machinery for specific purposes.

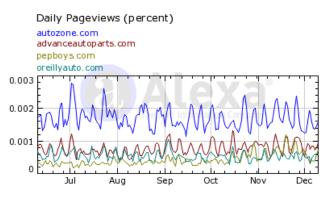
In terms of energy costs, there is some more exposure, as a fairly large portion of inventory cost is in the transportation of such goods. But we are still talking about minimal risk here, and the effects of rising inventory costs have been discussed. An inventory-cost increase would be borne by AZO's competitors as well. AZO has higher profitability and higher debt than its competitors, which likely amounts to a wash in terms of flexibility in dealing with higher inventory costs. One possible drawback of increasing oil prices would be that they may push consumers out of their older cars and into newer, more fuel-efficient models. While new cars are not necessarily more efficient than older cars, many customer vehicles were purchased during the era of low gas prices, and the new reality will likely drive consumers more up-market into showrooms than laterally or down-market into a 20-year-old Geo Metro. And given the success of "Cash for Clunkers," one or more episodes may be in the cards as well. This may erode the core business somewhat.

But AZO does have a commanding position in the market, giving it a light edge here.

Another advantage in this context comes from AutoZone's success with its online outlet. Online merchandise generally has less transportation expense, as most items are distributed to large, centralized warehouses as opposed to a large number of small stores, and the shipping expenses from that point are easily transferred to the customer. On balance, no direct hedging is likely necessary here, unless such commodity price changes bring about a dynamic change in AZO's market, the effects of which cannot be anticipated. AZO is not taking any clear action with respect to commodity prices, as they are presently not a direct concern.

Part 8: Online Sales Discussion

AutoZone has posted its most impressive growth in the online arena, posting increases in online sales of 10% or more on a *quarterly* basis (Briggs, 2011).



This has dwarfed same-store growth for ordinary retail outlets and has been a marvel for followers of the industry. Generally, AZO's core business comes in response to automotive breakdowns. Because breakdowns tend to be unforeseen, and because time is generally of the essence in a breakdown, conventional wisdom has been that traditional stores should dominate this market. While this may be true, AZO has demonstrated demand for its online commerce and services. Though it presently accounts for only 2% of total sales, AutoZone.com has offered a huge array of parts for sale as well as services that complement the brick-and-mortar store presence. For example, AZO's website can help you locate the part you need at a retail location, can provide you literature, manuals, and diagrams to aid installation, and can even help in the diagnosis of the problem in the first place. The acquisition of ALLDATA has been an asset here.

Bringing the perceived mystery of auto repair to the masses in a user-friendly interface is a strategy very much in the vein of Steve jobs, and AZO has demonstrated superior traffic relative to rivals to show its success in the arena. According to Alexa estimates, AZO's 2.4 million daily page views and 310,000 daily visitors compares well with 2.8 million page views and 480,000 visitors for the websites of ORLY, AAP, and PBY *combined* (Alexa, 2011). This is an area in which AZO has very aggressively attempted to create "the" online car repair portal. Its rivals, by comparison, have not been nearly as aggressive in online promotion and have not matched AZO's feature-rich website. And as Google, Amazon, and Ebay will forever remind us, economies of scale are everything in the online realm.

Part 9: Conclusion and CAPM Value Estimate

So we have established that AutoZone is a performer. AutoZone has clearly outperformed its rivals in profitability and margin metrics. AutoZone has also accumulated large amounts of debt - at first



resulting from major acquisitions which made the company so formidable, but most recently magnified by many rounds of stock repurchases. AZO dominates the US auto parts and accessories market, has the best website in the business, and continues a valuable real option in Mexico. AZO is not greatly exposed to currency risk or commodity risk, but is very sensitive to credit risk as a result of its operating leverage.

And now we come to the question of value. Clearly the market sees value in the stock, as the past year has been quite a ride. We have already established that, in terms of assets and liabilities, the firm has a negative book value. But let us evaluate AZO's value as a going concern, using the CAPM model. Using perhaps the most fundamental formula in finance, let us plug AZO's values into $(E)R = R_f + B(R_m - R_f)$. Treasury bills are currently returning virtually zero interest, so our formula simplifies to $(E)R = B \times R_m$. Computed betas generally do vary as to the methodology used, but both Google Finance and Reuters give a value of 0.35, so that is the value we will be using. I have taken the annualized gain of the S&P over the last 30 years as a proxy for market return, so that we may best account for a wide variety of market conditions. This value works out to $((1255.19 / 124.82) \wedge (1/30)) - 1 = 8.0\%$. So, our $(E)R = 0.35 \times 8.0\% =$ 2.8%. This would be the return we expect on AZO at fair valuation.

Of course, because AZO has been burning cash to buy back stock, the cash flow numbers are very near zero. However, adjusting the cash flow numbers to take this influence out, we find a positive cash flow of \$4.57 billion over the last four years, yielding a four-year average of \$1.14 billion per year. Using net income from the annual income statements gives us a smaller four-year average figure of \$721 million per year. These figures yield us an enterprise value of (\$721M / 0.028) = \$25.75 billion on a net income basis and (\$1.14B / 0.028) = \$40.71 billion on a cash flow basis. Given that the market capitalization currently stands at \$12.97 billion, this would imply that the firm is very attractively valued.

However, I would point to several problems with this simplistic model. First of all, a beta of 0.35 does not capture, in the opinion of the author, the risk associated with the leverage currently being used. This value is perhaps due in very large part to the steady appreciation over the past year, which is no doubt due in large part to very gradually increasing leverage. That chart doesn't look too bad, either. It is almost as if this company has been designed to pass a test

such as the CAPM. Running the numbers again with a default beta of 1.0 gets us very close to the current market cap: \$14.25B on a cash flow basis and \$9.01B on a net income basis. In fact, running a simple stock screen and looking for other stocks with betas in the area of 0.35 results in a long list of utility companies and diversified holding firms. ORLY and AAP, both strong firms and with much more conservative financial structure, are around 0.5. PBY is around 1.7.

Based on the research done in this report, it seems that AZO is both a firm engineered to look good on Wall Street paper and a very strong profit-generator, and the executives do deserve a lot of credit for so successfully exploiting this segment. Nonetheless, very serious operating leverage concerns remain. AZO dominates its field and outmatches its rivals on many key return, profitability, and margin metrics. But the behavior of the insiders and the inexcusable debt both give this analyst pause. The sense that the stock price has been manipulated through increasing leverage and repeated stock purchases for the sake of a very attractive beta is tough to shake.

This is a very high-flying stock to be sure, but it seems that drastic stock selling due to liquidity concerns, mass profit taking, unsustainable stock repurchases, or even insolvency risks could be just around the corner. For this reason, I recommend taking a neutral / sell position. I wouldn't necessarily be short, as short-selling requires not only the right business conditions, but also a catalyst. We do not yet have a catalyst; AZO is still making lots of money. A long-dated put strategy, perhaps hedged by ORLY and AAP might be reasonable. I do think ORLY is the "best-of-breed" here, although AAP does have a much stronger online presence. Both firms compare reasonably well with many of AZO's metrics without the massive leverage. If you currently own AZO, I would sell. This kind of financial engineering magic can't go on forever.

	Stat Type	AZO	ORLY	AAP	Industry	Sector
For Comparson:						
Market Cap (\$ Billions)		12.94	10.40	5.09	N/A	N/A
Revenue (\$ Billions)	MRQ	1.92	1.54	1.46	N/A	N/A
Liquidity:						
Quick Ratio	MRQ	0.10	0.35	0.13	1.79	1.14
Current Ratio	MRQ	0.81	1.68	1.13	2.15	1.40
Asset Management:						
Inventory Turnover	TTM	1.63	1.46	1.55	16.74	4.57
Total Asset Turnover	TTM	1.42	1.10	1.73	1.05	0.45
Debt Management:						
Debt to Equity Ratio (%)	MRQ	-267.30	28.18	77.21	20.36	100.76
Interest Coverage Ratio	TTM	8.54	16.43	22.29	0.87	0.31
Profitability:						
Gross Margin (%)	5YA	50.31	46.72	48.05	38.72	24.05
Net Profit Margin (%)	5YA	9.96	6.90	5.10	9.63	3.77
Revenue per Employee	TTM	\$221,475	\$183,709	\$210,794	N/A	N/A
Return on Assets (%)	5YA	13.31	7.73	9.15	5.36	3.78
Return on Investment (%)	5YA	27.13	10.26	16.96	7.11	6.88
Growth:						
Sales Growth Rate (%)	5YA	6.30	21.42	6.80	0.35	9.91
EPS Growth Rate(%)	5YA	21.01	15.31	13.12	3.09	4.62
Cap. Spending Growth (%)	5YA	4.06	12.24	-1.59	-13.05	0.23
Market Value:						
Price/Earnings Ratio	TTM	16.09	22.47	14.65	12.33	10.51
Price/Sales Ratio	TTM	1.58	1.77	0.83	1.73	0.82
Price/Book Ratio	MRQ	-10.35	3.58	6.51	1.43	1.37
Stat Type:	5YA = I	ive-Year A				
	MRQ =	Most Rece				
	TTM =	Trailing Tw				

Appendix 1: Financial Ratio Chart

Summary (Direct Transactions Only)	3 Months	6 Months	12 Months	24 Months	
Total Shares Bought	127,414	138,107	305,355	742,533	
Total Buy Value	14,894,116	16,134,351	30,872,852	59,495,897	
Total People Bought	10	19	21	22	
Total Buy Transactions	15	30	77	138	
Total Shares Sold	2,142,860	3,726,680	5,035,156	18,325,426	
Total Sell Value	691,377,675	1,156,884,931	1,342,122,919	2,309,666,658	
Total People Sold	15	16	23	26	
Total Sell Transactions	89	162	220	371	
End Date	09/11/2011	06/11/2011	12/11/2010	12/11/2009	

Appendix 2: Insider Transactions

	Stat Type	AZO	ORLY	ΑΑΡ	Industry	Max Score	AZO Score
For Comparson:	.,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,						00010
Market Cap (\$ Billions)		12.94	10.40	5.09	N/A		
Revenue (\$ Billions)	MRQ	1.92	1.54	1.46	N/A		
Liquidity (15):							
Quick Ratio	MRQ	0.10	0.35	0.13	1.79	7.50	1.25
Current Ratio	MRQ	0.81	1.68	1.13	2.15	7.50	0.00
Asset Management (10):							
Inventory Turnover	TTM	1.63	1.46	1.55	16.74	5.00	2.50
Total Asset Turnover	TTM	1.42	1.10	1.73	1.05	5.00	3.33
Debt Management (15):							
Debt to Equity Ratio (%)	MRQ	-267.30	28.18	77.21	20.36	7.50	0.00
Interest Coverage Ratio	TTM	8.54	16.43	22.29	0.87	7.50	2.50
Profitability (15):							
Gross Margin (%)	5YA	50.31	46.72	48.05	38.72	3.00	2.00
Net Profit Margin (%)	5YA	9.96	6.90	5.10	9.63	3.00	2.50
Revenue per Employee	TTM	\$221,475	\$183,709	\$210,794	N/A	3.00	2.00
Return on Assets (%)	5YA	13.31	7.73	9.15	5.36	3.00	3.00
Return on Investment (%)	5YA	27.13	10.26	16.96	7.11	3.00	3.00
Growth (15):							
Sales Growth Rate (%)	5YA	6.30	21.42	6.80	0.35	5.00	2.50
EPS Growth Rate(%)	5YA	21.01	15.31	13.12	3.09	5.00	5.00
Cap. Spending Growth (%)	5YA	4.06	12.24	-1.59	-13.05	5.00	3.33
Market Value (20):							
Price/Earnings Ratio	TTM	16.09	22.47	14.65	12.33	6.67	3.33
Price/Sales Ratio	TTM	1.58	1.77	0.83	1.73	6.67	2.22
Price/Book Ratio	MRQ	-10.35	3.58	6.51	1.43	6.67	0.00
Subjectives (10):							
Business Risk		Low	Low	Mod/Low	Mod.	10.00	8.33
	Total N	/lax Score:	100.00		AZO Sc	ore:	46.81

Appendix 3: Financial Benchmarking Chart

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