



Retail Earnings Reports Reveal Growth Opportunities

These two retailers have a long history of improving profits and taking market share. This week's [Long Ideas](#) are AutoZone Inc. (AZO: \$1,421/share) and The TJX Companies, Inc. (TJX: \$67/share).

[Learn more about the best fundamental research](#)

We leverage more [reliable fundamental data](#), proven in The Journal of Financial Economics¹, with qualitative research to highlight these firms whose stocks present excellent risk/reward.

Figure 1: Long Idea Performance: From Date of Publication Through 5/25/2021

Company	Ticker	Earnings Date	Overperformance vs. S&P 500*
AutoZone Inc.	AZO	5/25/2021	31%
The TJX Companies	TJX	5/19/2021	2%

Sources: New Constructs, LLC

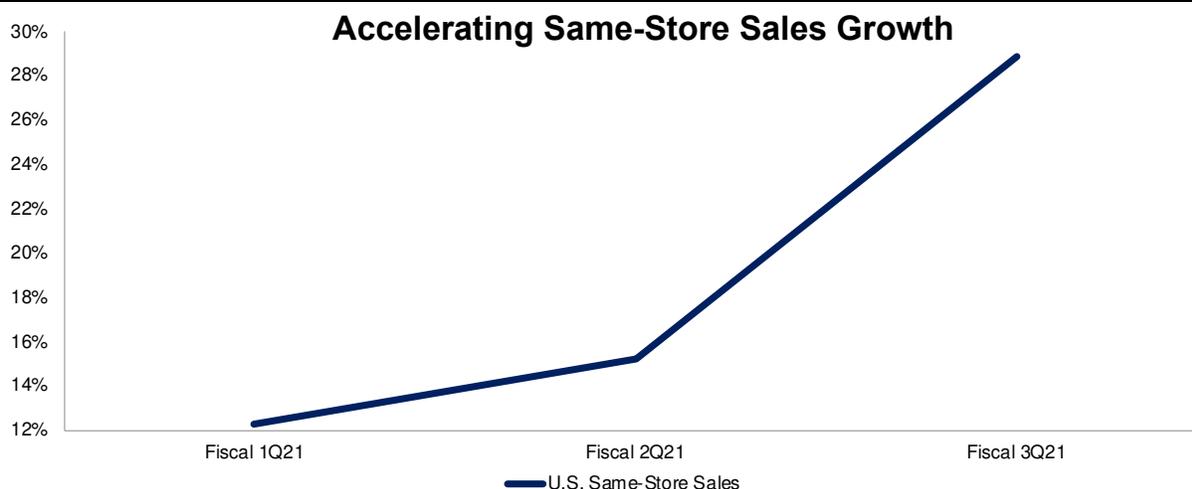
*Measured from the date of publication of each respective original report. Dates can be seen in each company section below. Performance represents price performance and is not adjusted for dividends.

Despite Large Gains, AutoZone Looks Cheap With 86%+ Upside

We made AutoZone a Long Idea in [November 2018](#). Since then, the stock has outperformed the S&P 500 by 31%. We reiterated the stock in [November 2020](#) and since then, the stock has outperformed the S&P 500 by 1%. Below, we show what we learned from its latest earnings release and why the stock still has more upside.

What's Working: The increased interest in automotive do-it-yourself (DIY) helps drive AutoZone's strong U.S. same-store sales. Since fiscal 1Q21, the rate of year-over-year (YoY) sales improved from 12% in fiscal 1Q21 to nearly 30% in fiscal 3Q21, per Figure 2.

Figure 2: AutoZone's U.S. Same-Store Sales YoY Growth



Sources: New Constructs, LLC and company filings.

¹ Our reports utilize our Core Earnings, a more reliable measure of profits, as demonstrated in [Core Earnings: New Data & Evidence](#), a paper by professors at Harvard Business School (HBS) & MIT Sloan published by the Journal of Financial Economics.



AutoZone has increased its share of its U.S. total addressable market (TAM), the [U.S. automotive parts](#) market, in each of its last three fiscal years through above average sales growth. In fiscal 2020, AutoZone's U.S. same-store sales grew 7% compared to U.S. market growth of less than 1%.

AutoZone's growing commercial supplier business also helps drive the firm's market share gains. In fiscal 2020, AutoZone's U.S. commercial sales accounted for 22% of total sales, up from 20% in fiscal 2018. In fiscal 3Q21, the firm's commercial sales grew 44% YoY.

AutoZone's growth is likely to continue as [used car sales](#) remain strong and vehicles on the road keep getting older. The [average U.S. vehicle](#) on the road was 11.9 years old in 2020, which is up from 11.7 years in 2018. [Conventional vehicles](#) in the U.S. are expected to increase by 36 million (13% of 2020 U.S. fleet) from 2020 to 2030.

Lastly, and key to AutoZone's ability to create lasting shareholder value, the firm compensates its executives with annual cash incentives linked to return on invested capital (ROIC) objectives. There is a [strong correlation between improving ROIC and increasing shareholder value](#), which is exactly what AutoZone's focus on ROIC has helped deliver. AutoZone's ROIC improved from 23% in fiscal 2016 to 28% over the TTM while [economic earnings](#) rose from \$1.1 billion to \$1.7 billion over the same time.

What's Not Working: The emerging electric vehicle (EV) market is less of a threat than most investors think. While it is true that EVs have fewer parts and lower maintenance costs, their maintenance costs are only 26% lower than conventional vehicles². Furthermore, it will likely take years for the U.S. fleet to transition from conventional to EVs. EVs are currently less than 1% of the U.S. fleet, and are [projected](#) to make up just 35% of the U.S. fleet by 2035.

Another threat to AutoZone's impressive ROIC is its focus on growing its commercial business. Commercial sales traditionally are lower margin than retail/DIY sales, which means the firm's outstanding record of ROIC growth could be in jeopardy if it is unable to offset lower margins with higher [invested capital turns](#).

Priced for Permanent Profit Decline: AutoZone's price-to-economic book value (PEBV) ratio is 0.7. This ratio implies that the market expects AutoZone's profits to permanently decline by 30%.

Below, we use our [reverse discounted cash flow \(DCF\) model](#) to analyze the expectations for future growth in cash flows baked into AutoZone's current share price.

In this scenario, we assume AutoZone performs as follows during fiscal 2021-2030:

- net operating profit after tax (NOPAT) margin falls to 15% (five-year average vs. 16% TTM) and
- revenue falls by 2% (vs. consensus expectations for a CAGR of +5%) compounded annually.

In this scenario, AutoZone's NOPAT falls 4% compounded annually over the next decade and the stock is worth \$1,421/share today – equal to the current price. [See the math behind this reverse DCF scenario](#). For reference, AutoZone grew NOPAT by 9% compounded annually over the past two decades.

Shares Could Reach \$2,600 or Higher: If we assume AutoZone performs as follows during fiscal 2021-2030:

- NOPAT margin falls to 15%,
- revenue grows by 5% (equal to consensus expectations) from fiscal 2021-2023, and
- revenue grows by 3% (below its 10-year CAGR of 6%) each year thereafter through fiscal 2030, then

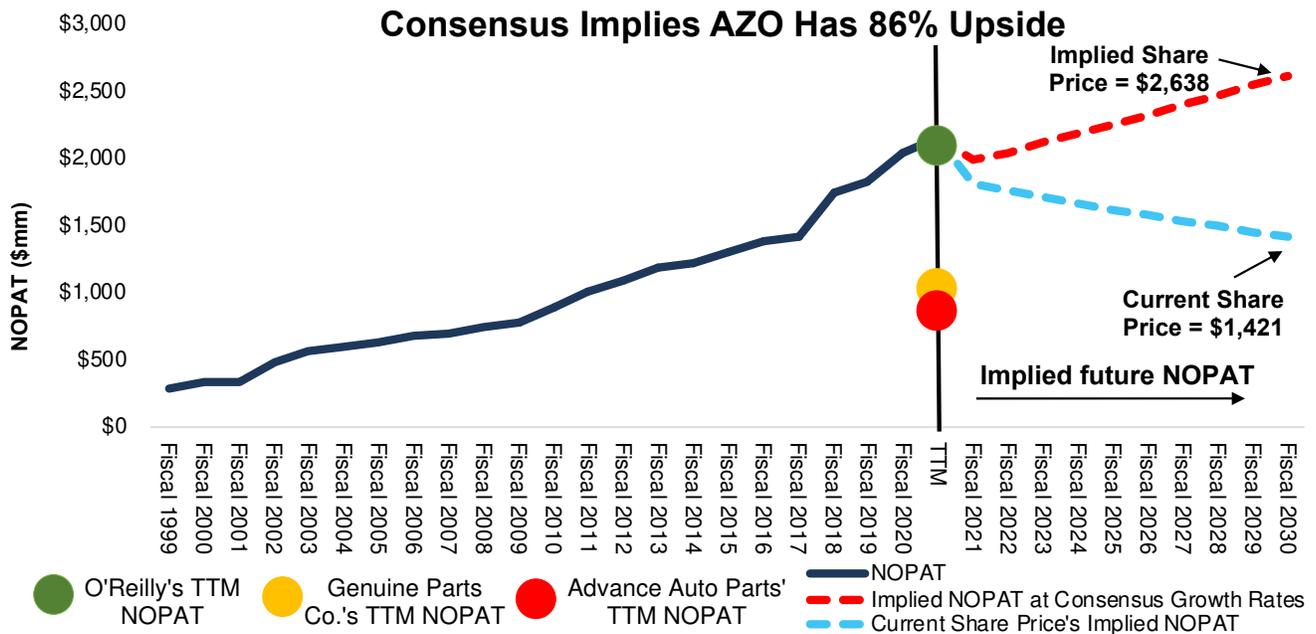
the stock is worth \$2,638/share today – 86% above the current price. [See the math behind this reverse DCF scenario](#). In this scenario, AutoZone grows NOPAT 3% compounded annually over the next decade.

Over the past decade, AutoZone grew NOPAT by 9% compounded annually. Should AutoZone grow profits closer to historical levels, the upside is even greater.

² A recent [AAA study](#) estimates the average annual maintenance costs for EVs is \$949 compared to \$1,279 for conventional vehicles.



Figure 3: AutoZone's Historical and Implied NOPAT: DCF Valuation Scenarios



Sources: New Constructs, LLC and company filings

TJX Companies: Still Has 33%+ Upside

We made TJX Companies a Long Idea in [April 2018](#). Since then the stock has outperformed the S&P 500 by 2%. However, since reiterating the pick in [March 2020](#), the stock has underperformed the S&P 500 by 26%. Despite its recent underperformance, we still like TJX's risk/reward.

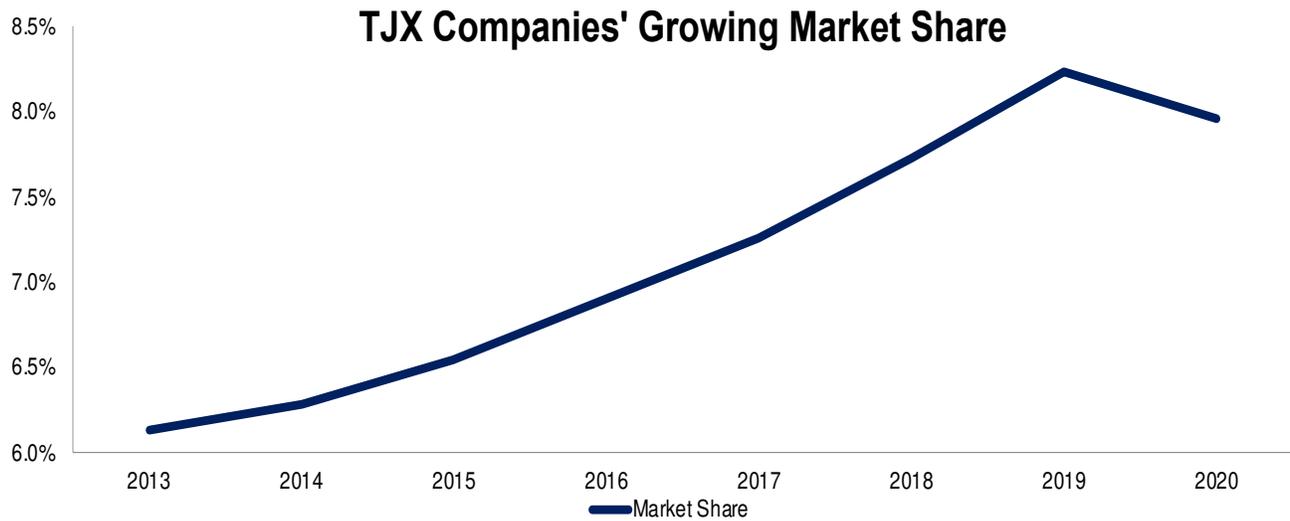
What's Working: As a brick-and-mortar retailer, the COVID-19 pandemic largely disrupted TJX Companies' fiscal 2021 business. However, as the firm reopens more of its stores, sales are quickly recovering. The firm's fiscal 1Q22 sales were up 129% YoY and up 9% from pre-pandemic levels in fiscal 1Q20.

TJX Companies' brick-and-mortar strategy is buoyed by the popular bargain hunting experience it offers customers. The firm leverages unique supply opportunities to curate an appealing inventory mix filled with brand name items at low prices. TJX Companies' opportunistic sourcing model and customer experience creates a competitive advantage that is difficult to profitably replicate online. Additionally, recent bankruptcies by other retailers could help the firm in the near term source cheap inventory from recently defunct operations.

The firm's successful business model has led to years of market share gains. TJX Companies' share of its U.S. TAM, which includes [clothing, accessories, furniture, and home furnishings](#), grew from 6% in calendar 2013 to 8% in calendar 2020.



Figure 4: TJX Companies Share of U.S. TAM From Calendar 2013 - 2020



Sources: New Constructs, LLC, company filings & Federal Reserve Economic Data.

While TJX Companies’ share of its U.S. TAM slightly fell in calendar 2020, we believe this is primarily the result of 24% of its stores being closed during fiscal 2021 and a very limited online sales presence (less than 3% of fiscal 2020 sales). Despite the temporary closure of so many stores, TJX Companies’ share of the U.S. home furnishing market was unchanged YoY in calendar 2020.

Furthermore, TJX Companies’ U.S. operations weathered the economic downturn better and took market share away from off-price competitors Ross Stores (ROST) and Burlington Stores (BURL). TJX Companies’ U.S. revenue fell 20% YoY in fiscal 2021 compared to 21% for Burlington Stores and 22% for Ross Stores over the same time.

Before the pandemic, TJX Companies delivered 24 consecutive years of same-store sales growth. Though that streak is no longer intact, looking forward, TJX Companies has plenty of growth opportunities. With the increase in work-from-home and growing interest from first-time home buyers, TJX Companies’ home goods segment is positioned for continued sales growth. Additionally, fiscal 1Q22 open-only same-store sales³ grew 40% YoY. TJX Companies also has plenty of opportunity to grow by opening new stores. In the countries in which it operates, the firm estimates it can open an additional 1,600 stores, or 34% of its 4,639 stores at the end of fiscal 1Q22.

What’s Not Working: While other stores with a developed omnichannel business, such as [Walmart](#) (WMT), [Williams-Sonoma](#) (WSM), and [Target](#) (TGT), grew sales during the pandemic, TJX Companies faced large temporary store closures. With its reliance on the brick-and-mortar model, the firm had little opportunity to engage in business while its stores were shuttered.

The firm still faces temporary store closures, with 14% of its stores temporarily closed in fiscal 1Q22. However the firm expects that just 3% of its stores will be closed in fiscal 2Q22. If stores do not open as soon as the firm expects, sales in 2Q22 could disappoint.

Longer term, [ReportLinker](#) expects global fashion ecommerce sales to grow by 16% compounded annually through 2025. The growing [prevalence](#) of online apparel sales could change consumer behavior and pose a long-term threat to TJX Companies’ treasure hunt offering. However, we believe TJX Companies gives customers a unique experience that online platforms cannot replicate.

Furthermore, the firm does recognize a need to expand its online presence in a targeted way and expects to launch a Home Goods e-commerce channel in fiscal 2022. By focusing on higher-dollar ticket items from its home furnishings segment, the firm might be able to profitably replicate the online success of other home furnishings firms such as Williams-Sonoma.

³ TJX Companies’ open-only same-store sales measures the same-store sales of each day a store was open in fiscal 1Q22 compared to the same day in fiscal 1Q20, prior to the pandemic.



Current Price Assumes Very Slow Recovery: Below, we use our reverse DCF model to analyze the expectations for future growth in cash flows baked into TJX Companies' current stock price.

In this scenario, we assume TJX Companies performs as follows through fiscal 2031:

- NOPAT margin rises to 9% (3-year pre-pandemic average from fiscal 2018-2020) and
- revenue grows annually by 5% (vs. consensus expectations for CAGR of 18% from fiscal 2022-2024).

In this scenario, TJX Companies' NOPAT grows by 3% compounded annually from its pre-pandemic levels in fiscal 2020 to fiscal 2031 and the stock is worth \$67/share today – equal to the current price. [See the math behind this reverse DCF scenario.](#) For reference, TJX Companies grew NOPAT by 10% compounded annually from fiscal 2010 to fiscal 2020.

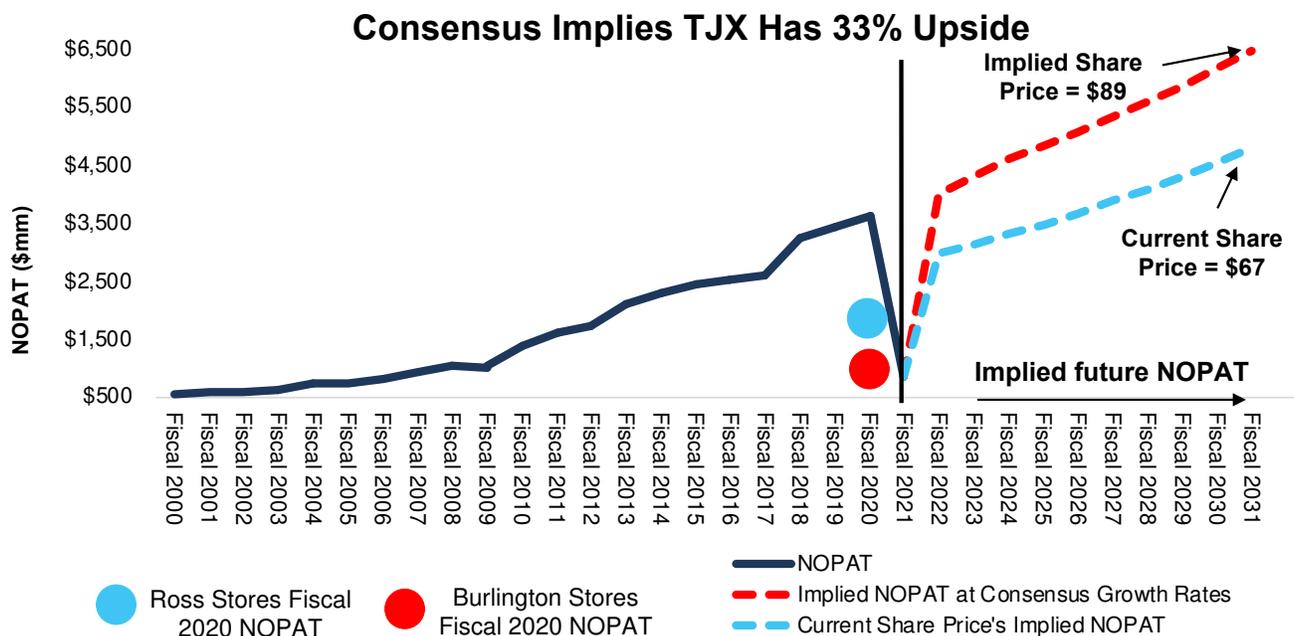
There's 33%+ Upside: If we assume, the firm performs as follows through fiscal 2031:

- NOPAT margin is 9%, and
- revenue grows by 18% compounded annually from fiscal 2022-2024 (equal to consensus estimate over same time) and
- revenue grows by 5% compounded annually from fiscal 2025-2031, which is below its 7% CAGR from fiscal 2010-2020, then

the stock is worth \$89/share today, or 33% above the current price. [See the math behind this reverse DCF scenario.](#)

In this scenario, TJX Companies' NOPAT grows by 5% compounded annually from its pre-pandemic levels in fiscal 2020 to fiscal 2031. For reference, from fiscal 2000-2020, TJX Companies grew NOPAT by 10% compounded annually. If TJX Companies' grows NOPAT in line with historical levels, the stock has even more upside.

Figure 5: TJ Maxx's Historical and Implied NOPAT: DCF Valuation Scenarios



Sources: New Constructs, LLC and company filings

Other Long Ideas That Recently Reported Earnings

Figure 6 shows two other Long Ideas that have recently reported calendar 1Q21 earnings along with their relative performance to the S&P 500.



Figure 6: More Long Ideas That Recently Reported Earnings: Through 5/25/2021

Company	Ticker	Date Published	Earnings Date	Outperformance vs. S&P 500*
Target Corporation	TGT	4/28/15	5/19/21	78%
Cracker Barrel Old Country Store	CBRL	4/29/20	5/25/21	12%

Sources: New Constructs, LLC

* Measured from the date of publication of each respective report. Performance represents price performance and is not adjusted for dividends.

This article originally published on [May 26, 2021](#).

Disclosure: David Trainer, Kyle Guske II, and Matt Shuler receive no compensation to write about any specific stock, sector, style, or theme.

Follow us on [Twitter](#), [Facebook](#), [LinkedIn](#), and [StockTwits](#) for real-time alerts on all our research.



It's Official: We Offer the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our “novel database” enables investors to overcome these flaws and apply [reliable](#) fundamental data in their research.
3. Our proprietary measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

Forthcoming in [The Journal of Financial Economics](#), a top peer-reviewed journal, [Core Earnings: New Data & Evidence](#) proves our Robo-Analyst technology overcomes material shortcomings in legacy firms’ data collection processes to provide superior [fundamental data](#), [earnings](#) models, and [research](#). More [details](#).

Key quotes from the paper:

- “[New Constructs’] *Total Adjustments* differs significantly from the items identified and excluded from Compustat’s adjusted earnings measures. For example... 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global’s (SPGI) Adjustments* individually.” – pp. 14, 1st para.
- “A final source of differences [between New Constructs’ and S&P Global’s data] is due to data collection oversights...we identified cases where Compustat did not collect information relating to firms’ income that is useful in assessing core earnings.” – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg’s in [Getting ROIC Right](#). See the [Appendix](#) for direct comparison details.

Key quotes from the paper:

- “...an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC.” – pp. 8, 5th para.
- “The majority of the difference...comes from New Constructs’ machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies.” – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts’ stock ratings outperform those from human analysts as shown in this [paper](#) from Indiana’s Kelley School of Business. Bloomberg features the paper [here](#).

Key quotes from the paper:

- “the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant.” – pp. 6, 3rd para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are [here](#).



DISCLOSURES

New Constructs®, LLC (together with any subsidiaries and/or affiliates, "New Constructs") is an independent organization with no management ties to the companies it covers. None of the members of New Constructs' management team or the management team of any New Constructs' affiliate holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk.

New Constructs' Stock Ownership Policy prevents any of its employees or managers from engaging in Insider Trading and restricts any trading whereby an employee may exploit inside information regarding our stock research. In addition, employees and managers of the company are bound by a code of ethics that restricts them from purchasing or selling a security that they know or should have known was under consideration for inclusion in a New Constructs report nor may they purchase or sell a security for the first two days after New Constructs issues a report on that security.

DISCLAIMERS

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs, nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that may be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

New Constructs' reports are intended for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to making any investment decision or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report may provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.

All material in this report is the property of, and under copyright, of New Constructs. None of the contents, nor any copy of it, may be altered in any way, copied, or distributed or transmitted to any other party without the prior express written consent of New Constructs. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of New Constructs. Copyright New Constructs, LLC 2003 through the present date. All rights reserved.