

**AutoZoners always put customers first!**  
**We know our parts and products.**  
**Our stores look great!**  
**We've got the best merchandise at the right price.**



## Dear Customers, AutoZoners, and Stockholders:

It is always an honor for me, on behalf of over 57,000 AutoZoners across North America, to update you on our progress in 2008 and our continuing opportunities for 2009 and beyond. You will notice a different approach to our Annual Report this year. We decided that our Annual Report should reflect our focus on sustainability and cost

consciousness. As a result, we have chosen to shorten our Annual Report and to print it on recycled paper using inks that are biodegradable. While this is only a small example, AutoZone has undertaken a concerted effort to, wherever economically viable, introduce sustainability into our daily business practices. For example, many would be surprised to learn that we recycle over 15,700 tons of cardboard every year. We are also very focused on reducing our energy consumption through the use of different energy management efforts. For example, in 2008 we focused on reducing fuel consumption through efforts to develop more efficient routes, and deploying auxiliary power units (generators) for our heavy duty tractor fleet. Our future focus will continue to be good stewards of the environment as well as good stewards for our stockholders by leveraging new technologies.

### Summary of 2008 results

I am very proud of the results our organization delivered again in 2008 including record sales and earnings per share, while improving upon our industry-leading ROIC, which now sits at 24.0%. Additionally, we generated record Operating Cash Flow of \$921 million. We also continued our consistent approach to opening new stores with 159 net new stores in the United States. Since the start of the decade, just 8 short years, we've opened approximately 1,300 new domestic stores expanding our square footage by over 50%. Additionally, our team in Mexico opened 25 new stores this year, finishing with 148 stores. Back in 2000, we only had six stores in all of Mexico. We believe this consistent store development strategy is appropriate and our domestic store growth mirrors U.S. industry growth. We also were proud to bring on line our eighth domestic distribution facility this past year. Located in Hazelton, Pennsylvania, we believe this new state of the art facility will dramatically improve our delivery efficiency and service levels to our Northeast/New England based stores. While the expansion of our

brand continues, we're very proud of our consistent approach to managing financial risk across our entire business model. We have consistently generated returns on capital expenditures that are significantly greater than our average cost of capital. This management team continues to commit to all our stockholders and bondholders that we will be good stewards of the capital you have entrusted to us.

Our merchandising efforts during 2008 were focused around growing our Duralast, Duralast Gold, and Valucraft lines of merchandise. Our brands, developed earlier this decade and continuously refined, have created a very real and important point of differentiation from our competitors. Both our Retail and Commercial customers continue to tell us they are impressed with our quality and price offerings. We also added over \$180 million in new merchandise to our stores over this past year to keep ourselves at the forefront of product offerings in the automotive aftermarket industry, ensuring we meet the demand needs of our customers. We have expanded our importing efforts, where appropriate, to reduce our product acquisition cost. One recent example is our exclusive line of Duralast Gold Cmax ceramic brake pads. This is a highly differentiated high quality brake pad program and it is only available at AutoZone! We believe innovations like this create real differentiation from our competition and our customers agree. We also expanded on our hub store network, finishing with 138 hub stores. These stores, specifically designed to supplement inventory for harder to find parts, carry approximately double the number of parts available at the average AutoZone store. We will continue to enhance our utilization of this network in 2009 to optimize slower turning inventory across our store base, while allowing us to offer superior parts coverage to both our Retail and Commercial customers.



Finally, the cornerstone of our culture is our Pledge. The second line of our Pledge states “We know our parts and products.” We call this delivering “Trustworthy Advice.” In order to deliver trustworthy advice, our AutoZoners must be highly trained. While many companies talk about providing customer service that exceeds expectations, we live it. We understand what well trained, highly motivated AutoZoners can mean to both our customers and the financial health of our business. At the end of the day, people buy parts and products from people—not stores. Simply stated, our business is a people business. Others can offer similar products in similar environments, but they can’t offer the trustworthy advice our AutoZoners deliver every day. From our electronic parts catalog, Z-net®, introduced last year, to practicing our WITTDJR® (what it takes to do the job right) and GOTTCa! (go out to the customer’s automobile), we will continue to invest in our most important asset, our AutoZoners.

While we do not provide financial guidance on our business, we can promise everyone that providing great customer service will be at the top of our list as long as we’re in this business.



customers get the best performance from their vehicle as well as receive a compelling value proposition. By focusing on providing services, like free testing, free repair instructions from our exclusive Z-net® system, complimentary Loan-a-Tool® program, and lifetime warranties, we believe that we’re creating a compelling value proposition that our customers need and require. Today, there are more seven year old and older vehicles on the roads than ever before, vehicles we call OKVs (our kind of vehicles). We believe that our product offering is very well suited to meet the needs of the vehicles and their drivers. The second very important macro indicator of the health of our industry, miles driven, is currently providing a headwind. Over the last year, miles driven in the United States have declined—a decline not seen in this country in two decades. We believe the key contributors to this decline have been higher prices for gasoline and the overall uncertainty in the economic environment at large. So, while all these older vehicles offer great opportunities for us, the lower levels of miles driven and the more difficult economic environment have presented challenges. Historically, we’ve performed consistently in good as well as bad macro economic times. While we cannot control the macro environment, we believe our operating plan is appropriate for the upcoming year’s challenges.

We continue to believe that our offering is as relevant today as it was when we opened our first store back on July 4th, 1979 in Forrest City, Arkansas. While we expect the economic environment to be challenging again in 2009, we believe we are positioned to continue to perform well by offering our customers great service and quality merchandise at the right price.

## Why we’re looking forward to 2009

### U.S. Retail

As the country’s largest Retailer of automotive aftermarket products, we look forward to the year ahead. Focusing on our basic building blocks of outstanding customer service, great value, and second-to-none parts availability, we believe we are well suited not only to maintain market share heading into our new year, but to grow it. How? Our customer surveys continue to highlight that our offerings are improving, year over year. This ongoing feedback loop from our customers points out our strengths, but also our opportunities. We consistently reinforce the positive behaviors and constantly work to improve our areas for opportunity. While service will continue to differentiate us, in difficult economic times like these, it is even more important that we ensure that we help our Retail



## U.S. Commercial



We continue to be excited by our growth opportunities in Commercial. As a relative newcomer to this business (our first Commercial program opened in 1996 over 17 years after our first Retail store), we continue to see tremendous opportunities to profitably grow in this very important sector of the automotive aftermarket. Our 2008 fiscal year marked a turning point in this business, where for the first time since 2004, we showed consistent growth in every quarter. For the year, we grew our sales in this sector by five percent (excluding the 53<sup>rd</sup> week). However, we still have a very

small share of the DIFM (do-it-for-me) market. At only 1.3% market share, we are keenly focused on capitalizing on the incredible opportunity this business represents. In the spring of 2007, we embarked on a journey to build a world class direct sales organization capable of competing at the highest level. And we believe we are well on our way to accomplishing that goal. During 2008, we completed a reorganization of our field sales organization that enabled us to deploy 40% more AutoZoners into roles with direct contact with our customers. Additionally, we developed and implemented professional sales training that equipped these AutoZoners with more sales tools than ever before.

As we have highlighted for each of the last two fiscal years, we are very focused on inventory availability and, as a result, we have added approximately \$300 million in new, mainly hard parts, inventory in just two short years. Our Commercial customers demand the latest model parts coverage (in some cases as new as the current model year) to repair cars. We are determined to build our product assortment to earn their business and their trust. Additionally, we are committed to providing these demanding customers with the best products at the right price. To meet their needs, we continue to enhance our offerings of the high quality Duralast and Duralast Gold products at compelling values.

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We are pleased with the progress we have made recently in our Commercial business, but we are not satisfied. This sector represents tremendous opportunities for us in 2009 and beyond. We are committed to continuing to refine our offerings and ensuring that we capitalize on this incredible opportunity.



## Mexico

With 148 stores across 26 Mexican states, we continue to be proud of the dedicated AutoZoners who have built this business. This December will mark the 10<sup>th</sup> anniversary of the opening of our first store, and we continue to believe growth opportunities exist for years to come in Mexico. However, we remain committed to growing this business prudently and profitably as we further develop our infrastructure, concurrent with our store expansion plans.



## The Future

As I mentioned at the outset, we were proud of our financial results in 2008. As the U.S. economy was challenged by many constraining factors, we executed well. However, we cannot be satisfied with our results. By all reasonable expectations, the economy will continue to be the story for 2009. As we cannot control these circumstances, we will continue to emphasize what we can control.

We will remain focused on providing great customer service. As we announced in our recent "National Sales Meeting," we'll be focused on "Great People, Great Service!" We remain committed to growing sales—both Retail and Commercial. We will also remain committed to improving inventory productivity through the refinement of our category management initiatives and improved utilization of our hub store network.

We will also remain determined to prudently manage your capital to optimize returns.

At our Annual Meeting of Stockholders in December, two of our directors will be retiring from our Board. On behalf of all of our AutoZoners and stockholders, I would like to take this opportunity to thank Dr. Gerry House and Charles Elson for their service to our great company over the years. I would also like to welcome our three new Board members: Bill Crowley, Bob Grusky and Lou Nieto.

In closing, I would personally like to thank all our AutoZoners for delivering another very fine year in 2008. Additionally, I'd be remiss if I didn't thank our vendor community for continuing to make AutoZone such a great success story. Most importantly, I would like to thank each of you for your dedication and commitment to making AutoZone what it is today—the nation's leading Retailer and a fast growing wholesaler of auto parts.

We look forward to updating you on our continued success well into the future.

Sincerely,



Bill Rhodes  
Chairman, President and CEO  
Customer Satisfaction

