



< Dear Customers, AutoZoners and Shareholders:

The definition of insanity is doing the same thing over and over, and expecting different results.”— Attributed to Benjamin Franklin

At AutoZone, we relentlessly establish all targets to focus on our customers, AutoZoners and shareholders. We believe that we need to do things differently and innovatively every day to drive improved results. We are determined to test new ideas in every area of our business, in order to not only meet, but exceed the expectations of our most demanding critics...ourselves.

Fiscal 2003 proved to be another year of record performance for our company! The hard work, innovative spirit and uncompromising drive of AutoZoners set us apart, once again.

Sales grew to a record \$5.5 billion. Operating margins expanded from 14.5 percent to 16.8 percent. Net income rose 20.9 percent and earnings per share increased 33.5 percent to \$5.34 per share. Income growth combined with effective asset management led to a record 23.4 percent after-tax return on invested capital. Operations generated just under \$700 million in cash flow, enabling us to open 160 new U.S. AutoZone stores and to repurchase over 12 million shares of our stock, while maintaining robust coverage ratios and investment-grade credit ratings.

For shareholders, our strong financial results translated to a 23.4 percent return on invested capital in fiscal 2003 and ranked us among the top-performing companies in our industry and among the top-performing retailers in the nation. We made significant strides in advancing our position in both the retail and commercial markets. Each of our three core businesses contributed to these results.

In our U.S. Retail Business, we achieved a record \$4.6 billion in sales. Same store sales were unchanged following fiscal 2002's incredibly strong 8 percent growth. We maintained the larger customer base established in the prior year, while we were able to increase our average transaction size. We now have 3,219 stores across 48 continental states.

In our emerging \$670 million AZ Commercial business, sales to professional repair shops advanced a remarkable 27 percent. Taking advantage of the national reach, extensive inventories and efficient supply chain of our AutoZone stores, AZ Commercial drove incremental sales, income and return on invested capital, with minimal added capital. Sales for ALLDATA also hit a record level in fiscal 2003, as we provided over 50,000 professional technicians with the most comprehensive automotive diagnostic and repair software available.

In Mexico, we opened ten additional stores in fiscal 2003, bringing our total count to 49 AutoZone stores, primarily along the U.S. border. Each features our signature store format and attentive customer service.

All and all, it was an outstanding year. Much was accomplished. But in many ways, fiscal 2003 was just another milestone in our long-term journey leveraging our strategic advantage. We have only begun to scratch the surface of the tremendously profitable growth potential in the vehicle solutions market. The opportunities ahead are as compelling as ever. Nearly \$60 billion* of routine automotive maintenance goes unperformed each year. An estimated 25 million cars** are on the road with an activated check engine light. Our goal is

to break this maintenance inertia. Capturing even a portion of the market's latent demand has the potential to significantly increase our industry and market share.

Automotive trends also bode well for continued growth. The number and age of cars on the road are increasing, as is the number of miles being driven. SUVs, vans and light trucks, which have dominated new car sales the past five years, are beginning to move out of warranty cycles and into repair cycles—becoming “our-kind-of-vehicles.” Almost half of all U.S. households are engaging in do-it-yourself automotive maintenance and repairs.* Embedded within each of these statistics are opportunities for us to bring in new customers and drive future growth.

*AAIA 2003/2004 Factbook

**internal research

We are inspiring do-it-yourselfers to maintain their vehicles with memorable, upbeat advertising. It reminds folks of the importance of routine maintenance to ensure the reliability, safety and longevity of their vehicles. By broadcasting in both English and Spanish on national radio and television, we are extending our advertising reach—with an ever-present eye toward heightening demand.

We continue to expand our national presence and plan to open about 195 retail stores in the upcoming year. Importantly, we have identified thousands of additional U.S. sites for potential future expansion.

Our challenge is to harness the industry's incredible potential. For us, it is not a matter of following the competition. Creation of shareholder value is a matter of innovating and challenging the status quo—moving from what is to what could be.

We are working relentlessly to make AutoZone the most exciting Zone for vehicle solutions. We expanded our “good-better-best” product selection to meet the varying needs of our diverse customer base. And, to ensure that our merchandising is the best in the industry—bar none—we are organizing our stores into vibrant Zones—the Battery Zone, the Parts Zone, the Truck Zone, the Oil Zone, and even the Check-out Zone for speedy transaction processing. Special attention-getting “Red Zones” feature popular new customization items such as seat covers, car mats and fun neon light kits, in addition to a wide array of filters, waxes, polishes and driving accessories. Truly, we are making our in-store experience more exciting, more innovative, more productive and more consumer-friendly than ever.

AutoZone is unrivaled in customer service and trustworthy advice. Helping customers find the best possible solutions to their automotive dilemmas is our number one priority. Whether in-store, curbside or on-line, we strive to have the best assistance, repair information and diagnostic tools available, taking the guesswork out of repairs. Our ability to diagnose problems and provide vehicle solutions continues to strengthen our customers' shopping experience, as does our complimentary “loan-a-tool” program. Our service just keeps getting better and better.

But innovation doesn't stop there. In our supply chain, we continually adapt the best inventory management practices available, from critical line reviews to expedient stock replenishment. We're not interested in stocking the most parts. We're interested in selling the most parts. That means having parts ready when customers need them. To this end, we built a “hub and spoke” system that is responsive to demand, delivering products and restocking shelves with an efficiency unparalleled in the industry. As a testament to its efficiency, this year, Midas Inc. asked us to distribute core parts to nearly 1,700 Midas shops across the country. Seeking best practices also led to our implementation of a new “pay-on-scan” initiative. It partners us with our suppliers to drive customer sales, while reducing expenses and improving working capital up and down the supply chain.

Innovation abounds in our AZ Commercial business, too. By dedicating a chain-account commercial sales force, we have begun to extend the benefits of one-stop shopping to professional technicians across the country. Leveraging the national reach, efficient inventory and “hub and spoke” system of our retail stores allows us to provide the most expeditious delivery of quality parts to repair technicians available in the marketplace today. And we are just getting started.

Challenging the status quo also has had a significant impact on our business disciplines. It led to the rigor of a 15 percent after-tax internal-rate-of-return hurdle rate for all discretionary investments, to the adoption of economic value-based management incentives, to the development of better strategic planning tools, and to the relentless pursuit of cost management. Our team is more financially driven than ever—focusing not on growth alone, but on growing shareholder value.

Recognizing the importance of strong corporate governance led to our early adoption of leading practices. Over two years ago we established an independent Board of Directors and annual elections, repealed our poison pill and adopted a code of conduct across the entire Company. In fiscal 2002, we enacted a “roll-up” certification where all members of our management team review and “sign on the dotted line” when it comes to the integrity of our financial information. In recognition of these practices, Institutional Shareholder Services recently ranked us in the top 5 of 5,000 companies for our responsible governance.

Clearly we’re not your ordinary vehicle solutions provider. We think differently. We go beyond parts and beyond the vehicle to reach out to customers—to be the best in the industry and beyond.

Does it make a difference? You bet it does. We’re in a Zone of our own—a zone we like to think of as the “Performance Zone.” And we’re determined to perform at the top of our game to deliver greater shareholder value well into the future.

I can promise you we never want to do the same old thing over and over again!

Best regards

Steve Odland
Chairman, President, and CEO
Customer Satisfaction

Relentlessly creating the most exciting

Zone for vehicle solutions!

40 members of the CEO team that make it all happen

“A relentlessly creative innovative spirit permeates our organization. Truly, this is our strategic advantage.”

Our leadership team is comprised of 40 talented individuals, who deeply believe there is a better way to do business and are emotionally committed to finding it. We’re not out to do what we have done in the past better. Instead, we’re raising the standards for exceptional performance and customer service—changing what we do, seeking innovations and incorporating the best business practices across every functional discipline. >