

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.

AutoZone Pledge, est. 1986

Dear Customers, AutoZoners, and Stockholders:

It is an honor for me, on behalf of our 55,000 AutoZoners across North America, to write this letter and update you on our progress in 2007. For the year, we delivered what we characterize as a solid year, and I believe we are well positioned for continued growth heading into fiscal 2008.

In last year's letter, I mentioned that we would continue "Living the Pledge!" in 2007. Our Pledge represents the things we do in every store, every day. We understand that knowledgeable AutoZoners, taking care of their customers and their stores, who have the best merchandise, will naturally lead to our key point of focus—always putting customers first!

Being an AutoZoner is more than being an employee of AutoZone. It's having a passion for our business, our customers, our culture and each other. It's about being an integral part of a high performance team. Recently, we held our National Sales Meeting in Memphis to celebrate the year's accomplishments and challenge each other to strive for new heights in fiscal 2008. We took time to congratulate everyone on our industry-leading EPS growth, 13.6%, and industry-leading Return on Invested Capital, 22.7%; however, we did not spend a tremendous amount of time on specific financial expectations for fiscal 2008. Instead, we focused on the importance of executing the key elements outlined in our Pledge. We recognize that our customers have many choices to fulfill their automotive needs, and we must give them compelling reasons to choose AutoZone. In addition, our AutoZoners feel confident they have all the necessary tools to succeed. We have significantly improved parts coverage, we have implemented great new technological innovations, our stores look better than they have in years and, most importantly, we have terrific AutoZoners.

So why the excitement as we head into fiscal 2008?

Our Retail business, which currently represents 84% of our overall sales, continues to provide significant opportunities for growth. While challenges have existed in the macro-environment, we feel our efforts over the last two years have positioned us well as we head into fiscal 2008. Retail remains our #1 strategic priority.

In fiscal 2006, we reset the sales floors in virtually our entire domestic store base, over 3,200 stores. We completed this task in an amazing twelve-week period for a fraction of our initial cost estimates. Additionally, we intensified our focus on customer service, training, store maintenance and other important elements of our value proposition. To make sure our efforts were resonating with our customers, we developed a new process to consistently measure customer satisfaction, an Internet-based survey that efficiently receives feedback from our customers. We have seen our customer satisfaction scores increase in each of the last two years since the implementation of this new measurement process. Specifically, we have seen improvements in customer responses to the layouts of our stores, product assortment and most importantly, in overall customer service levels.

In fiscal 2007, we completed another large merchandising initiative. We added over \$70 million of new, mainly late-model, hard parts to our product assortment. This inventory was added to allow us to say "yes" more frequently to our Retail and Commercial customers. These parts additions represented the largest additions to our stores this decade. We aggressively began implementing individual category assortments early in the first quarter of the year and finished in the fourth quarter. When we were finished, we managed to complete merchandise line reviews on every single category, the first time this



AutoZone celebrated the opening of its 4,000th store this past year.

was accomplished in many years! While we had miscues along the way, we were very pleased with the overall results. We have learned from our efforts in 2007 and will continue to refine our merchandise assortments in 2008 and beyond.

We are also excited about the benefits we are beginning to see from the investment we have made in our AutoZoners. Over the last two years, we've conducted periodic WITTDJR® ("What It Takes To Do The Job Right") meetings. These meetings include all store AutoZoners and provide training on our culture, our products, our processes and other important topics. We consistently reinforce to all AutoZoners that we must differentiate ourselves from our competitors to give our customers a reason to "turn left across traffic to shop at AutoZone" when it would be easier to "turn right" into a competitor's parking lot. Our AutoZoners represent our greatest opportunity for differentiation, and having knowledgeable AutoZoners is critically important. We encourage our AutoZoners to receive industry certification, and I would like to congratulate all the ASE-certified AutoZoners. With over 7,000 certifications held by AutoZoners, we couldn't be prouder of these individuals and this important accomplishment. We believe this independent certification adds a sense of comfort to our customers so they know they're being helped by the best trained parts professionals in the business. In fiscal 2008, we believe continued focus on improving our AutoZoners' skills will allow us to always put our customers first!

We also made significant investments in technology in fiscal 2007. We implemented our new assortment planning software to improve the selection of the right part for the right location. And, we implemented our new Z-net™ software in all of our stores including our Mexico stores. Z-net™ leverages advances in technology and, in our

opinion, is clearly the most effective and efficient electronic parts catalog in the industry. With enhanced diagrams, built-in schematics on how to complete the repair, and even an ability to help customers understand the benefits between our good, better, and best product offerings, we are encouraged with the response we have received from our customers and AutoZoners. This new tool is very user friendly as evidenced by the fact that we implemented it in all of our domestic stores in one quarter. This was our single largest software implementation in many years and required the dedication and support from many AutoZoners. In recognition of their efforts, this team recently won the prestigious "Starter's Club Award." This award is given annually to a team of AutoZoners who creates a program or process that has a significant impact on AutoZone operations, growth or development. I congratulate the entire Z-net™ team for flawlessly implementing this terrific new AutoZone innovation.

Finally, we were pleased to open 163 new AutoZone stores across the United States and Puerto Rico to finish the year with 3,933 domestic stores. We continue to believe we can open new stores at a mid-single digit growth rate, and we continue to see opportunities for new store expansion across virtually all of our markets. In addition, we continue to invest in our existing stores in order to ensure that they are up to our standards. We're very proud to be able to walk into a twenty-year-old AutoZone store today and feel confident that it represents the AutoZone brand well.

Commercial, our Second Growth Priority

We are very excited by the substantial growth opportunity our Commercial business represents and believe the ongoing investments we've made in our Commercial business to profitably grow sales will pay dividends in the new fiscal year.

Bill Rhodes
Chairman, President and CEO
Customer Satisfaction



At the end of fiscal 2007, there were 2,182 AutoZone stores across the country meeting or exceeding the expectations of professional technicians on a daily basis. Additionally, our parts coverage is better than it's ever been! By adding over \$70 million in incremental, mainly late model, hard parts coverage to our stores, we are positioned to say "yes" more often to both our Commercial and Retail customers.

Our continued focus on developing cutting edge technology has helped us to more effectively identify our best Commercial customers, improve customer retention, and identify additional growth strategies.

Two years ago, we enhanced our systems to provide improved information on every Commercial transaction. With this information, we were able to isolate unprofitable sales and better understand which customers we were able to service most efficiently. With this new information, we challenged our Commercial Specialists to focus primarily on those customers that we could consistently satisfy. The formula was not difficult: we focused our Commercial programs on fewer customers, typically those that are physically closer to our stores, where revenue growth potential was significant and where we could fulfill on our promise of fast delivery.

Additionally, we challenged ourselves to think more like a best-in-class business-to-business distributor and less like a pure retailer. Since our inception back in 1979, we have focused on Retail customers. However, the Commercial business is different. Commercial customers expect a different level of service from their suppliers. Specifically, they expect consistent execution on parts delivery and a commitment from us to help them grow their business. We've listened intently to these important customers. During the year, we embarked on building a "world class"

sales culture. The sales approach in a direct sales business is vastly different from a pure Retail business. We must ensure that our Commercial sales team has the training, processes, and tools necessary to effectively communicate our value proposition and differentiate AutoZone as the preferred supplier. We are in the early stages of this endeavor, but we are excited by our initial progress. In an effort to build stronger relationships with our customers, we moved our credit processing operation in house, where we knew we could significantly improve the service. We initiated a test store program that has become the standard operating platform for all our Commercial programs. We've expanded our efforts to add the right sales staff across the much of the country. We've created sales and marketing collateral that provide a compelling message for our outside sales team to communicate. And, we've improved our timeliness of delivery.

Most important to our growth objectives is sustained profitability. We are very excited to have increased our operating profits within our Commercial program this past year, and we believe we're well positioned to grow our Commercial business this upcoming year.

We understand the significant opportunity this business represents. We are using a methodical approach to develop a compelling value proposition for our Commercial customers. We are pleased with the progress we made in fiscal 2007, and we are optimistic about fiscal 2008. I would like to thank our entire organization for their commitment to this important priority.

Mexico, our Third Growth Priority

With 123 stores across twenty Mexican states, we couldn't be prouder of our wonderful AutoZoners in these stores. We're proud to say we'll celebrate our ninth year of business in Mexico this December! We continue to believe



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growth opportunities exist for years to come in Mexico; however, we will continue to grow prudently and profitably as we expand our infrastructure, concurrent with our store expansion plans.

The Future

As I mentioned at the outset, we delivered solid performance in fiscal 2007; however, solid is not good enough for AutoZone or AutoZoners. The past two years we've focused on "Living the AutoZone Pledge," and this year will be no different. This year's operating plan theme is based on the first line of our Pledge—Customers First!

We're making sure we have great AutoZoners providing great customer service. In fiscal 2008, we will focus on improving the in-store experience by helping our customers complete their transactions more quickly and easily while attracting and retaining the highest quality AutoZoners. We will continue our focus on enhancing our critically important culture where all AutoZoners feel valued and have opportunities to achieve or surpass their own career aspirations.

We are focused on improving our inventory productivity and related sales performance through continual training of our store AutoZoners and ongoing refinement of our category management process.

And, we're committed to growing our Commercial business in fiscal 2008. We're committed to building and enhancing a sales culture designed to satisfy the demanding needs of our professional customers.

Most importantly, we are committed to being diligent stewards of your capital. We enjoy the highest Return on Invested Capital, 22.7%, of any direct competitor in our

industry, and we remain committed to this metric as a measurement of our efficiency regarding investment decisions. As we begin this year, we certainly are aware of the many challenges facing our customers. We understand the pressures, for example, that high gas prices can have on our customers' abilities to afford to maintain and enhance their vehicles. However, we also continue to believe AutoZone provides an opportunity for Retail and Commercial customers to find quality products at the right prices to satisfy their needs.

As we have said before, our past success and future achievements will be built on exceeding our customers' expectations. And we are determined to do that by focusing on the basics. We cannot, and will not, take for granted our customers' patronage.

In summary, AutoZone continues to have an incredible business model built on a strong foundation of disciplined processes focused on delivering great customer service. We are confident we will continue to be successful. We look forward to updating you on our continued success well into the future.

In closing, I would personally like to thank our entire team of AutoZoners, all 55,000 of them, for their commitment to our customers and our great company.

Sincerely,

Bill Rhodes
Chairman, President and CEO
Customer Satisfaction