

The collective talents of AutoZoners drove yet another year of industry-leading performance for our Company!

Sales reached a record \$5.3 billion. Market share increased. Gross profit margins expanded. Net income grew 58 percent, and earnings per share rose 68 percent, excluding the fiscal 2001 nonrecurring charges. Cash flow from operations strengthened to \$739 million and exceeded our capital needs, allowing us to repurchase almost \$700 million of our stock. And, with concerted efforts to be disciplined with our investment of capital and to control our costs, return on invested capital reached an outstanding 19.8 percent!

Recognizing this exceptional performance and our positive outlook for the future, our stock appreciated 52 percent for the fiscal year ended August 31, making AutoZone one of the best-performing stocks in the S&P 500. Each of our three core businesses contributed to these outstanding results.

In our \$4.6 billion U.S. Retail business, same store sales rose 8 percent. In our stores, we generated excitement with a large assortment of quality parts, accessories and vehicle solutions. We added attractive merchandising displays and invested in compelling advertising to drive greater demand and strengthen our brand recognition. Our team adopted a category management process, which improved in-stock positions and identified new merchandising opportunities. We opened 102 new stores, broadening our reach to 44 states with a total of 3,068 U.S. stores. And, as always, AutoZoners offered trustworthy advice and curbside diagnostics to bring vehicle solutions to our customers.

In our \$532 million AZ Commercial business, we grew an outstanding 20 percent. We expanded our selection of hard parts and the number of AutoZone stores equipped to handle commercial orders. The Company dedicated a sales force to reach out to national customers, regional chains and independent automotive repair shops. ALLDATA—our premier professional diagnostic and repair software—also delivered record sales.

The beauty of our emerging commercial business is that within a short time, it has grown to over a half billion dollars in sales, requiring relatively little new investment. It capitalizes on our existing retail stores, our supply chain, our broad inventories, our ALLDATA relationships and our extensive geographic reach to drive incremental sales, profit and return on invested capital.

In Mexico, we furthered our presence by opening new stores. At year end, the Company operated 39 stores, mainly along the U.S. border—each incorporating our successful AutoZone format and customer service. To date, our Mexican stores are very successful. Expansion in Mexico will continue to be prudently paced.

Importantly, over the past two years, we added greater rigor to our financial disciplines. We reevaluated our entire real estate pipeline and raised our after-tax hurdle rate on all investments to 15 percent. This resulted in new stores starting out even stronger. Our team adopted an economic value based incentive program to focus managers on growing our business, while controlling costs and scrutinizing capital utilization. These changes help ensure that we expand with the goal of creating incremental shareholder value.

While pleased with this past year's performance, we are committed to driving an even more profitable future.

This is an exciting industry with incredible growth potential. According to the Federal Highway

Steve Odland
Chairman, President, and Chief Executive Officer



Administration, Americans are driving over 2.5 trillion miles per year. The number of older vehicles on the road is increasing. SUVs, mini-vans and light trucks are aging and becoming “our-kind-of-vehicles,” or OKVs. The number of people engaged in do-it-yourself (DIY) automotive activities is growing. Today, almost half of all U.S. households engage in DIY automotive maintenance and repairs.

An estimated \$60 billion in automotive maintenance goes unperformed each year,* and an estimated 25 million cars are driven with their check-engine lights on. Tapping these opportunities has the potential to significantly increase the size of our industry. We are eager to capture our share of that growth and more.

Our goal is to deliver strong, profitable growth and to sustain AutoZone as one of the best performing retailers in the United States.

It begins with our relentless focus on the customer. We understand vehicles, but more importantly, we understand drivers. Our customers need solutions—quality parts and trustworthy advice to get the job done right the first time, without frustrating guesswork.

Inside AutoZone stores are highly trained sales staffs ready to help with parts selection and parts pros ready to answer the most complicated of questions. Combined with our curbside diagnostic equipment and our on-line assistance at AutoZone.com, we believe we have the most responsive customer solutions system available.

But our relationship with the customer does not stop there. AutoZoners seek to inspire drivers to maintain their vehicles in the safest possible condition.

Our upbeat ads communicate—in English and in Spanish—the importance of automotive safety and reliability. Owning a car is a significant investment. We explain the role that routine maintenance, cleaning, waxing and tuning play in preserving vehicle longevity and value. Inside our stores, we create attention-getting product displays—“Zones”—that encourage maintenance and enhancement. Zones feature filters, waxes, polishes and products that upgrade aging vehicles, such as car mats and seat covers. Our stores also offer products that personalize vehicles and that improve the driving experience, such as hands-free-phone and other driving accessories. Overall, we are making AutoZone stores more exciting and productive than ever, with relevant merchandise for drivers and their cars.

We are in tune with commercial technicians, too. By offering a wide variety of quality parts and quick delivery, we are giving professionals what they want most—time. Our innovative hub-and-spoke store delivery system takes advantage of our national reach, while providing local sourcing. We think of it as delivering real-time vehicle solutions for commercial customers.

Beyond serving our customers, we look to serving our shareholders. Across our organization, we stress the importance of delivering profitable growth, not growth for growth's sake. Our people are encouraged to seek innovations and efficiencies of scale, to uncover ways to be more responsive to our customers and to better partner with our suppliers.

At the same time, we are committed to acting with the highest ethical standards, providing transparency in our reporting and working as hard as we can to drive long term shareholder value. We recognize that creating value is not a short term pursuit. It's ongoing. It requires a continuous commitment to innovative customer solutions, an unending focus on improving every aspect of our business, and a passion for delivering results.

Ultimately, we want to be the best and most exciting vehicle solutions supplier, bar none.

I am proud to have been a part of the AutoZone team these past couple of years. Our goal is to make you proud to be a part of our Company as we create future growth, enhance profitability and drive stronger cash flows, well into the future.

Steve Odland
Chairman, President, and Chief Executive Officer
Customer Satisfaction

Relentlessly creating the most exciting Zone for vehicle solutions!

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*SOURCE: Automotive Aftermarket Industry Association