



"We are focused on operating the Company to profitably grow sales, efficiently deploy capital, and optimize long-term shareholder value while maintaining the highest levels of ethics."

Dear Customers, AutoZoners and Shareholders:

Fiscal 2004 was another record year for AutoZone. We continued our string of reporting record earnings and earnings per share since becoming a public company back in 1991.

- We opened 201 net new stores in the U.S. and 14 new stores in Mexico;
- We grew our Commercial business 11% on top of 26% last year;
- We continued to improve our levels of service by almost doubling over the last two years the number of ASE-certified employees we have to help our customers with their needs; and
- We continued to expand the reach of our proprietary brands across product categories throughout the store.

Three years ago, we established a mission to increase shareholder value from its already high levels. We conducted extensive business analysis, developed a long-term strategic plan, and then implemented a series of operating plans.

The leadership of these plans continues to be driven by our CEO team (pictured on pages 4 & 5), comprised of the roughly 40 officers of the Company. As part of our new future, the CEO team created a vision for the Company: "Relentlessly creating the most exciting Zone for vehicle solutions!" This aspirational vision continues to drive us toward greater heights, as it exemplifies everything we have achieved and continue to strive toward.

AutoZone priorities

We established back in 2001 three priorities for our business:

- *Profitably expand the U.S. Retail business;*
- *Develop the U.S. Commercial business;*
- *Develop our business in Mexico.*

U.S. Retail: continuing to be our #1 priority

AutoZone's core business is built on supporting the Do-It-Yourself (DIY) customer, which according to the Automotive Aftermarket Industry Association is over \$35 billion in size and has grown at a compound annual growth rate of 4.3% over the past five years.* Equally important is the estimated \$60 billion* of routine maintenance that goes undone each year. We continue to see this as a great opportunity



ASE certifications validate the depth of our AutoZoners' knowledge and experience. It assures our customers that we offer trustworthy advice, and we know our parts and products.

to grow sales and, at the same time, to educate our customers about the opportunity to maintain their vehicles, improve safety, reduce breakdowns, increase fuel efficiency and reduce the risk of larger, more expensive repairs later.

We launched a new advertising campaign, “Get in the Zone,” capitalizing on the strength of the AutoZone brand name. This past year we’ve supplemented our ongoing radio campaign with new television campaigns. We continue to try new things and change things up to catch our customers’ attention. In addition, we significantly increased our advertising on Spanish language radio and television.

How have we fared? Simply put, wonderfully. We have taken U.S. Retail sales from \$4.1 billion a year to over \$4.7 billion in just 3 years. We now have 3,420 stores, as of August 28, 2004, in all 48 Continental United States delivering what has been and will continue to be the cornerstone of our business: Great Customer Service. Today, we have almost doubled the number of AutoZoners with ASE certification (Automotive Service Excellence) in our stores, as we will continue to focus on helping our customers complete the job right, the first time, with the right parts, at the right price!

While continuing to utilize radio and television to promote the “Get in the Zone” campaign, we have also begun to utilize circulars to reach our customers. We signed on to become the title-sponsor of the NASCAR/AutoZone Elite Division Racing Series to reach a dedicated audience of DIYers who today help make the sport the second most watched sport on television. AutoZone was proud to become this past year the sponsor of the AutoZone Liberty Bowl annual college football game.

We continued to introduce more proprietary product lines into our stores where we feel we can create the sole destination for some of America’s most trusted automotive brands: Valucraft, Duralast, and Duralast Gold. These introductions have allowed us to expand our Good/Better/Best product assortment across more merchandise categories, while at the same time extend our position as price leader in the industry.

We have begun to refresh our older AutoZone stores to make them even more productive profit machines. The act of refreshing stores entails not only improvements to the physical appearance, it also can involve resetting the merchandise layout to create an opportunity for similar merchandise categories to be located in close proximity.

We have also introduced our pay-on-scan initiative (POS) and made progress toward our goal of achieving 100% Accounts Payable to Inventory, thereby reducing working capital tied up in the business and allowing for more innovative products in the stores with a reduced level of risk. Today, our AP to Inventory ratio sits at 92%.

We have learned a tremendous amount. We will not stop trying, and we will learn from our mistakes and capitalize on our wins. We will continue to keep the pedal down and never just do the same thing over and over.



Steve Odland
Chairman, President, and CEO
Customer Satisfaction



“The definition of insanity is doing the same thing over and over, and expecting different results.”

—Attributed to Benjamin Franklin



Members of the CEO team make it all happen



Our goal continues to be to optimize shareholder value. We started three years ago with a Return on Invested Capital (ROIC) of 13%, and I'm proud to tell our shareholders we finished 2004 at over 25%.



Commercial: continued significant growth opportunities

The other part of the vehicle repair and maintenance business is the Commercial or Do-It-For-Me (DIFM) market. This market is estimated by the AAIA to be over \$47 billion annually*, and growing at a five-year compound annual growth rate of 4.5%.* AutoZone is far newer to this market than the DIY segment, and has grown its revenues to approximately \$750 million annually from over \$400 million back in 2001!



We expanded the program from 1,400 stores back in 2001 to over 2,200 stores today.



We hired Commercial Specialists in our stores dedicated to our professional technician customers to help them with their needs.



We hired an outside sales force of about 150 AutoZoners to call on both current and prospective professional customers to expand selling opportunities.



We developed 118 Hub stores and connected them to our satellite network over the last 3 years in order to fulfill the critical parts needs of both our DIFM and DIY customers. These stores allow us to provide the most expeditious delivery of quality parts to replenish satellites and to service repair technicians.



We created strategic alliances with large Commercial customers who have recognized the critical advantages AutoZone has in this sector: a national store footprint, an extensive parts selection, a speedy 30-minute or less delivery window, and consistent, low prices on parts across the entire country.

Finally, we have ALLDATA. It is *the* premier provider of automotive diagnostic and repair information to the professional technician. With over 50,000 subscribers today, and an opportunity to expand the offering into a full suite of service products, this software provides us a valuable competitive advantage in the continued development of this professional installer market.

Our leadership team is comprised of about 40 talented individuals. We could not have accomplished so much in such a short period of time without the energy and leadership of this entire group. This team will not rest on its past accomplishments. We owe it to our customers, fellow AutoZoners, and Shareholders to seek to continually push the boundaries in order to optimize long-term value.

AutoZone has significant opportunity to gain market share in a segment where the top three players are estimated to hold only a 17% market share! Additionally, in our ongoing efforts to maximize shareholder value, Commercial is highly accretive to our ROIC as it requires little capital investment, and leverages AutoZone's pre-existing stores and distribution system.*

Mexico: consistent growth, future potential

Our third priority continues to be the development of stores in Mexico. We have grown from 6 stores back in 2000 to 63 stores as of the end of fiscal 2004. We now have opened both an in-country distribution center in Nuevo Laredo and a new store support center in Monterrey, Mexico to support our growth. The opportunity in Mexico continues to be driven by a higher average age of vehicles on the road than in the U.S. and a fragmented competitive base. Our stores in Mexico are unique to the Mexican automotive aftermarket landscape as most competition is poorly capitalized and dedicated to very specific lines of products and services. Our customers have embraced the AutoZone culture and, as in the U.S., look to our stores as their one-stop destination for all their vehicle solutions.

We will continue to open stores in Mexico over time.

We will focus on investments that exceed a 15% after-tax return on invested capital

This past year we generated over \$500 million in cash flow before share repurchases versus \$399 million back in fiscal 2001, while almost doubling our return on capital to an industry-leading 25.1%. Additionally, since the inception of the share buy-back program, the Company has repurchased over half its outstanding shares at an average cost of \$45. We have maintained our debt relative to our cash flow, and continue to be one of the only investment-grade-credit companies in our industry.

F2004 was not an easy year from a sales perspective. We saw our comp store sales performance slow as customers became challenged in the last quarter by the higher price of gasoline. But, despite this, we maintained customer service and delivered increased profitability.

In summary, we proudly are the clear leader in an exciting and growing industry. We will continue to push to profitably grow sales. We have a clear plan for the future and a strong team to execute it. We are focused on operating AutoZone to take care of our customers and AutoZoners, and optimize long-term shareholder value at the highest level of ethics and corporate governance.

Best regards,

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

