

FINANCIAL HIGHLIGHTS

<i>(in millions, except per share data)</i>	FOR THE YEARS ENDED DECEMBER 31,				
	1 9 9 8	1 9 9 7	1 9 9 6	1 9 9 5	1 9 9 4
Revenue	\$ 16,118.2	\$ 9,177.9	\$ 5,633.1	\$ 4,354.5	\$ 3,312.9
Income (loss) from continuing operations before extraordinary charge	334.6	64.6	(51.0)	.9	29.4
Net income (loss)	499.5	439.7	(6.7)	34.6	57.6
Basic earnings (loss) per share:					
Continuing operations	\$.74	\$.16	\$ (.16)	\$ —	\$.14
Discontinued operations36	.93	.24	.13	.13
Extraordinary charge	—	—	(.10)	—	—
Net income (loss)	\$ 1.10	\$ 1.09	\$ (.02)	\$.13	\$.27
Diluted earnings (loss) per share:					
Continuing operations	\$.71	\$.15	\$ (.16)	\$ —	\$.14
Discontinued operations35	.87	.24	.13	.13
Extraordinary charge	—	—	(.10)	—	—
Net income (loss)	\$ 1.06	\$ 1.02	\$ (.02)	\$.13	\$.27
Total assets	\$ 13,925.8	\$ 10,196.2	\$ 6,567.6	\$ 5,208.1	\$ 3,212.6
Revenue earning vehicle debt	4,377.9	4,172.1	3,380.4	2,961.2	1,829.2
Long-term debt, net of current maturities	555.9	306.6	325.3	251.1	165.1
Shareholders' equity	5,424.2	3,484.3	1,419.9	789.0	427.4

See Notes 2, 4, 7, 11 and 12 of Notes to Consolidated Financial Statements for discussion of business combinations, notes payable and long-term debt, shareholders' equity, restructuring and other charges and discontinued operations and their effect on comparability of year-to-year data.

A Letter to Shareholders

Dear Fellow Shareholder:

In less than three years, AutoNation, Inc. has grown from a concept into the nation's largest provider of automotive retail and rental products and services. By nearly every measure, 1998 was an outstanding year for the Company.

- *Revenue increased 76 percent to \$16 billion*
- *Operating income increased 131 percent to \$535 million*
- *Earnings per share grew 97 percent to \$.71*

You will also notice that we have changed our name from Republic Industries, Inc. to AutoNation, Inc. We believe the AutoNation name more



effectively communicates our single-minded focus on the automotive retail and rental businesses.

Our goal now – as it has been every year since 1995 – is to create customers for life. We believe we are well on our way toward achieving this goal.

Despite our successes, there is one measure by which 1998 was *not* a good year: our share price. As one analyst said, “The Company remains most impressive, yet a most frustrating stock.” We agree –

we are frustrated too. Why? Because we believe our share price deserves to be much higher given our outstanding results.

What are we doing to improve our share price? First, we are working hard to ensure that the investment community

understands our business plan. Second, we are repurchasing shares of our stock when we have appropriate opportunities. Last and most important, we are delivering superior financial results. We believe that these efforts ultimately will be reflected in our share price.

To ensure that we are meeting our goals, we are dedicated to delivering solid performance in each of our lines of business.

In the AutoNation Retail Group, our initiatives for 1999 include:

- ***Strengthening our network of nearly 400 franchised dealerships.*** AutoNation owns many of the finest franchised automotive dealerships in the nation. We will continue to implement a wide range of profit-building initiatives in the dealerships while leveraging the synergies that are already in place.
- ***Increasing same-store sales.*** By providing greater value and enhancing the customer experience, we will sell more vehicles and related products and services at our franchised dealerships and AutoNation USA megastores.
- ***Expanding margins.*** Because of the economies of scale we enjoy in our key markets, we can reduce the costs associated with selling vehicles and providing services to our customers. These economies

will enable us to increase store-level pre-tax operating margins while being the low-price provider to customers.

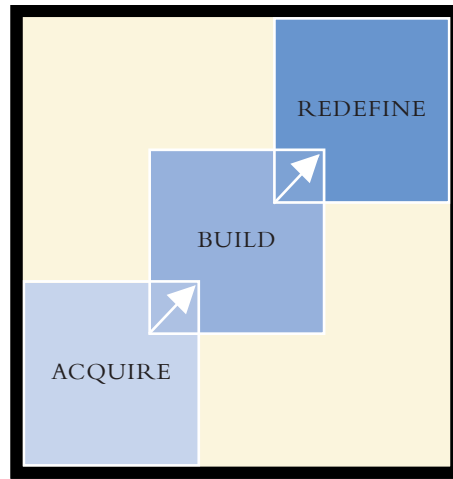
- ***Securing a leadership position in e-commerce.*** We have created the foundation necessary to be at the forefront of automotive electronic commerce. We sold more than \$100 million worth of vehicles via the Internet during the fourth quarter of 1998, and we expect sales via e-commerce to exceed \$500 million in 1999.
- ***Expanding customer-friendly practices.*** In Denver, we converted all of our franchised dealerships into a single network branded “AutoNation USA.” To date, our “Mile-High Project” has proven it is possible to change a century-old way of doing business; customers have reacted enthusiastically to their purchase and service experiences. Denver results reinforce our belief in a long-term strategy

of unifying our retail locations under a single brand and a common one-price, no-haggle selling process.

- ***Expanding strong manufacturer relationships.*** We believe that AutoNation’s framework agreements and strong relationships with automobile manufacturers provide a distinct competitive advantage. In addition to our joint venture with Ford Motor Company in Rochester, New York, we will seek to develop other initiatives with key manufacturers.
- ***Improving operations at AutoNation USA megastores.*** While the megastores generate significant interest and attention, they represent less than 10 percent of our total revenue. As with any retail concept in the formative stages, the AutoNation USA megastore model must be refined in order to succeed. So far, consumer reaction to the

2. Build these franchised automotive dealerships into a national retail network.

1. Acquire the best franchised automotive dealerships in the nation.



3. Redefine the customer experience by changing the sales and service processes to better serve customers' needs.

AutoNation Growth Model

Our strategic model for building our automotiveretail business follows a three-step plan.

megastores' one-price, no-haggle selling process has been very positive, but we need to generate greater profit per location. We are taking steps to accomplish this by integrating megastore operations into our existing district management structure to lower costs, leverage vehicle inventories and achieve economies of scale. We are also adding franchised automotive dealerships to certain megastore locations. We believe the sale and service of new vehicles will stimulate increased traffic and drive incremental revenue at these megastore

locations. We're confident these actions will generate positive results in 1999 and beyond.

In the AutoNation Rental Group, our initiatives for 1999 include:

- *Consolidating business functions at our vehicle rental operations.* We anticipate better operating results from the consolidation of common administrative and back-lot functions at National Car Rental and Alamo Rent-A-Car. Our goal is to have two strong vehicle rental brands, supported by a single administrative organization.

- *Leveraging the Global Odyssey Operating System.* This state-of-the-art system will help improve operating margins through a more efficient reservations system and better fleet utilization, enabling us to gain greater market share. The rollout of Global Odyssey at National Car Rental will be followed by its introduction at Alamo Rent-A-Car.

- *Building the National Car Rental, Alamo Rent-A-Car and CarTemps USA brands.* Each of our three rental brands has a distinct brand identity.

Attention will be focused on building brand awareness and loyalty with each company's customer base through improved marketing and customer service initiatives.

AutoNation's management is dedicated to making our Company the leader in the automotive retail, rental and service businesses. We are planning for continued growth during 1999 and are focusing our resources and capabilities on our core business units. The major initiatives cited above, and the many projects and tasks that support them, will help us achieve shareholder value by "winning customers for life."



H. Wayne Huizenga
*Chairman and
Co-Chief Executive Officer*

We are building the first national automotive retail brand and strengthening the recognition of our vehicle rental brands. As we do so, we believe investors will recognize just how promising the prospects are for AutoNation, Inc.

One last point: despite the Company's tireless efforts, the Internal Revenue Service decided not to rule on our proposal to distribute the Company's shares of Republic Services, Inc. to shareholders of AutoNation, Inc. on a tax-free basis. Therefore, in March 1999, the Company's Board of Directors



Steven R. Berrard
Co-Chief Executive Officer

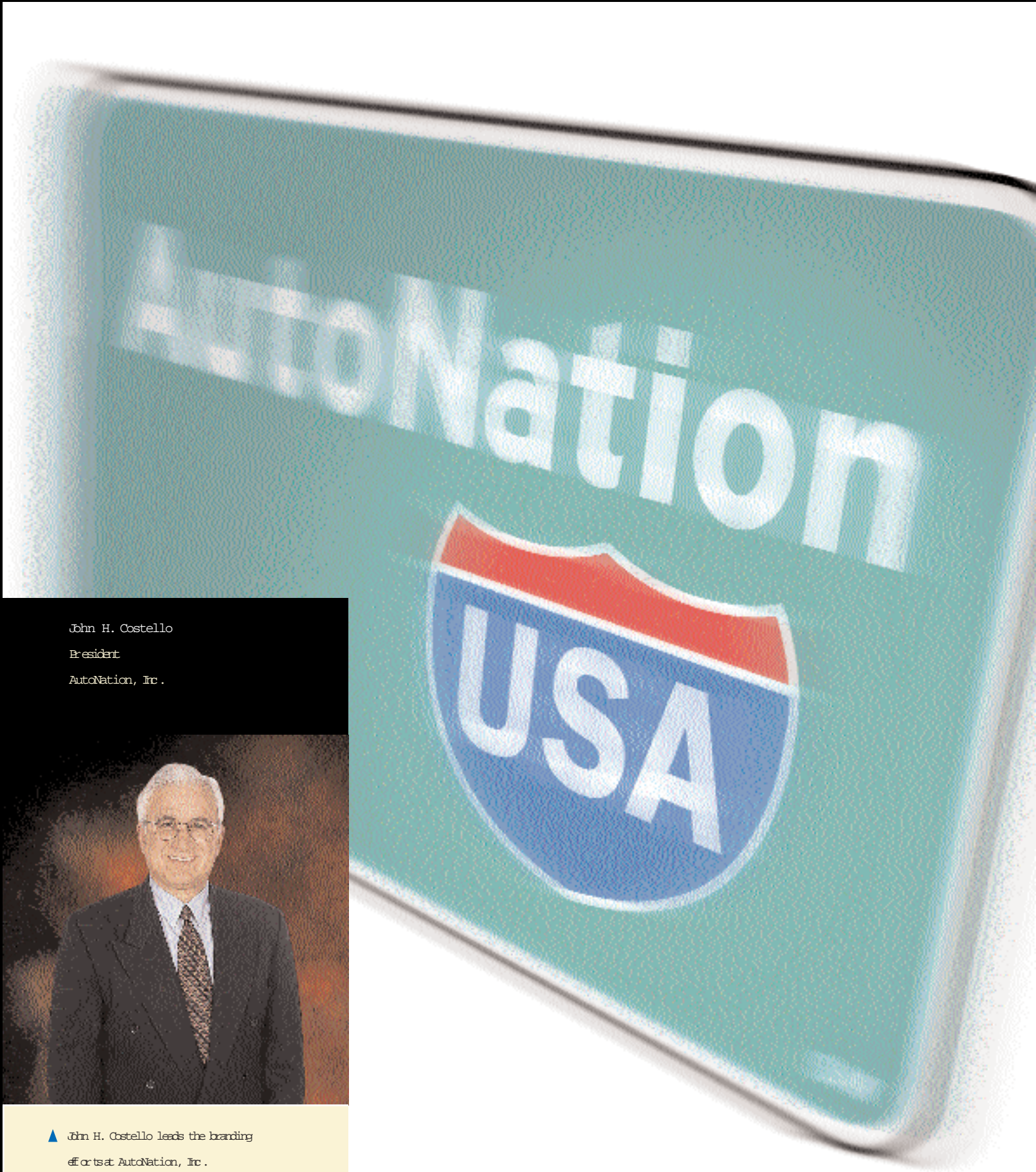
voted to sell all of the Company's remaining shares of Republic Services. Proceeds from the sale will be reinvested in the Company's core automotive retail and rental businesses and used to retire debt.

A great deal of hard work remains. But we have assembled some of the most respected and talented professionals in the automotive industry. We remain focused on our mission and goals and on building a successful customer-focused Company. We thank you, our shareholders and employees, for your continued support.



Harris W. Hudson
Vice Chairman

March 31, 1999



John H. Costello
President
AutoNation, Inc.



▲ John H. Costello leads the branding efforts at AutoNation, Inc.

The Importance of Brand

The name of our company has changed from Republic Industries, Inc. to AutoNation, Inc. We believe the AutoNation name more effectively communicates our single-minded focus. Republic Industries competed in very attractive, but dissimilar, businesses – solid waste, automotive retail and automotive rental. With the pending sale of our waste division, we are focused solely on the opportunities in the automotive retail and rental industries. Our new name reflects that focus.

Of greater importance, our new name symbolizes our commitment to making “AutoNation” the pre-eminent brand in automotive retail, rental and service. Our goal is to achieve this status among customers, employees and shareholders. We believe there are significant advantages in having a strong brand:

Customers. A strong brand can make AutoNation a compelling first choice for our customers when they are considering purchasing a new or used vehicle or when their vehicle requires service. A strong corporate brand also supports our three strong vehicle rental companies.

In simple terms, our brand is a promise to our customers. It is a shorthand way of saying, “You know what to expect when you do business with us. We stand behind our products and services.” We want consumers to know that the AutoNation brand stands for trust, innovation, value and service. Our goal is to put our customers first, whether they buy, rent or service a vehicle with us.

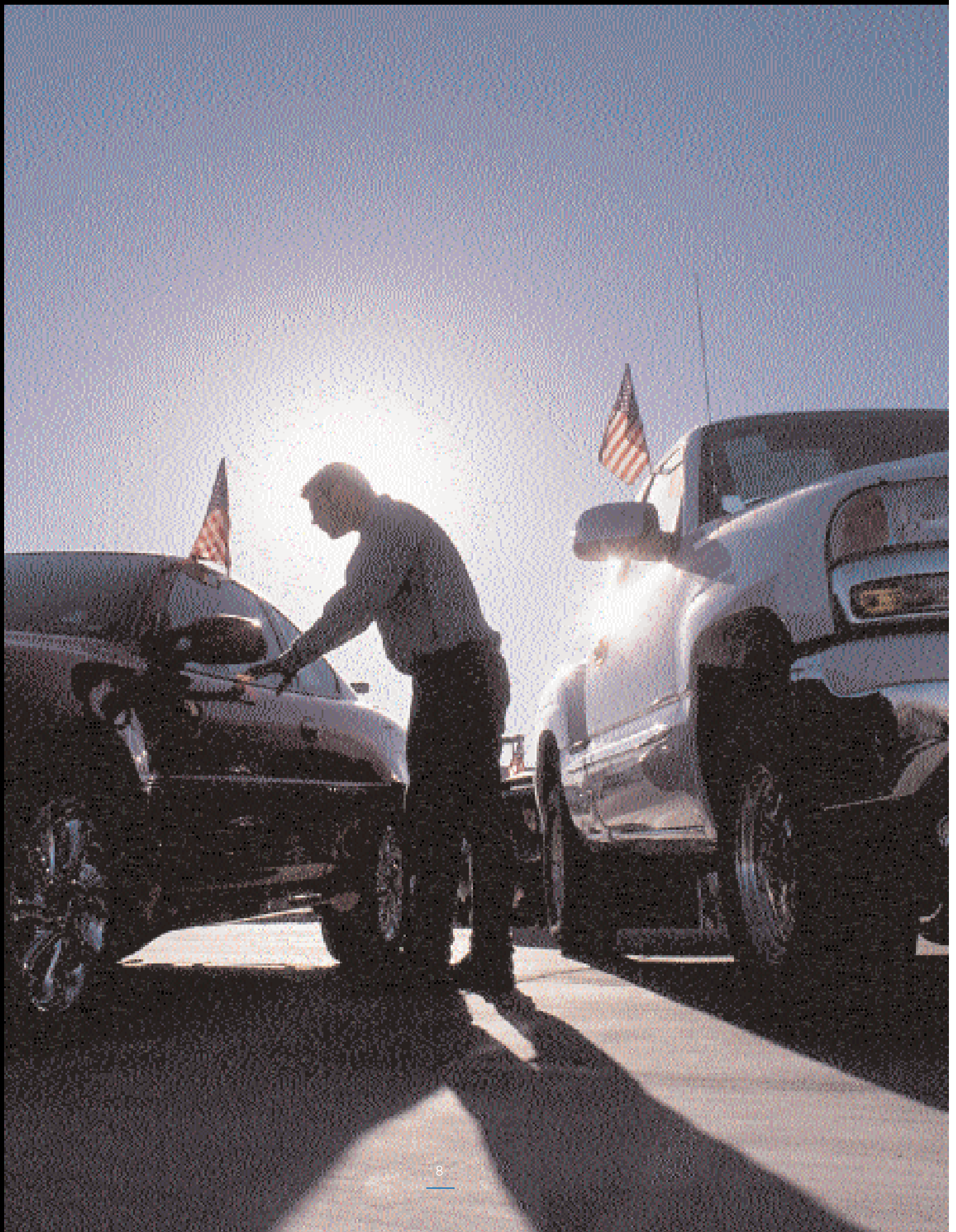
We believe we have an outstanding opportunity to build AutoNation into a unique brand that connects strong local entrepreneurs with a powerful national presence. This can provide real competitive leverage and lead to increased revenue, greater market share and earnings growth. Our ownership of some of the leading franchised automotive dealerships and vehicle rental companies gives us an excellent start. The next step is to build the AutoNation brand.

Employees. A strong brand can also help make AutoNation a preferred place to work. Although we sell, rent and service vehicles, we are essentially a company committed to providing a superior experience for our customers.

The key to accomplishing this is to attract, motivate and retain the best people in the automotive industry. A powerful brand can serve this purpose.

Everyone at AutoNation, Inc. “owns” the brand, and each of us knows that building a brand requires more than advertising campaigns or exciting promotions. The brand image is also a reflection of how we answer the telephone, handle customers’ service needs and greet them when they arrive at our showrooms or rental counters. In service centers, it’s about fixing their vehicles right the first time, every time. In rental, it’s getting customers into the vehicles they want and quickly on their way.

Shareholders. A strong brand can make AutoNation an attractive investment. Developing a strong brand position can lead to greater customer satisfaction, brand loyalty and customer retention. These all lead to increased revenue, greater market share and earnings growth, which in turn impact shareholder value. Our goal is to build shareholder value by creating customers for life. AutoNation, Inc. represents our commitment to build the next great retail brand.



AutoNation Retail Group

AutoNation, Inc. has a well-defined, well-financed and well-managed plan to improve the operation of two of the most inefficient retail segments left in the United States – the \$310 billion new vehicle segment and the \$370 billion used vehicle segment of the automotive industry. We are convinced that Americans, who rank the process of purchasing a vehicle near the bottom of most surveys, will turn to retail locations that eliminate the sales hassle, improve vehicle selection, provide value in the purchase and financing experiences and ensure high quality after-market service.

AutoNation is the largest retailer of new and used vehicles in the nation. Our AutoNation Retail Group revenue increased by 107 percent to \$12.7 billion in 1998, during which we sold 530,000 new and used vehicles.

Even though we are already the nation's largest automotive retailer, our share of the total U.S. automotive retail market is only about 1.5 percent. AutoNation is a relatively new company in a highly fragmented industry. Our growth opportunity is huge.

Since automotive retail sales began some 100 years ago, the process has often alienated customers. Contributing

factors include high-pressure sales tactics, difficulty in assessing a fair price and inconsistent service experiences. We are working to change this generations-old retail model. This will not happen quickly and certainly will not be easy. However, we believe consumers want change and that AutoNation is uniquely positioned to provide the best automotive buying and ownership experiences in the industry.

THREE-STEP GROWTH MODEL

Our strategic model for building our automotive retail business follows a three-step model:

- Acquire the best franchised automotive dealerships in the nation.
- Build these franchised automotive dealerships into a national retail network.
- Redefine the customer experience by changing the sales and service processes to better serve customers' needs.

In just over two years, we have worked to execute the plan successfully, believing that AutoNation's resources and employee talent could accomplish what has not been done previously in the industry. To succeed, we plan to:

Acquire the best franchised automotive dealerships. AutoNation has acquired many of the finest franchised automotive dealerships in some of the fastest-growing markets in the United States. The objective of our acquisition strategy is to be the leading automotive retailer in every market in which we operate. Currently, we own dealerships in 28 markets. We will continue making acquisitions in 1999, particularly in our existing markets. We are continuing to focus our acquisition strategy on the preeminent franchised automotive dealerships that sell the most popular vehicle brands.

Build a retail network. In 1998, we progressed to the second level of our strategic model – building a strong retail network. We have organized our franchised automotive dealerships and AutoNation USA megastores into districts, and further organized market clusters within these districts. Our 10 automotive retail districts are organized to leverage the strengths of our franchised automotive dealerships and AutoNation USA megastores. We are now exploiting the combined resources of each district to reduce costs, become the low-price provider and build greater market share. The district structure leverages economies of scale in advertising, inventory sharing, cross-selling and a number of other retail functions.

A New Concept in Retail Sales

The launch of Denver's "Mile-High Project" was a high point of 1998.

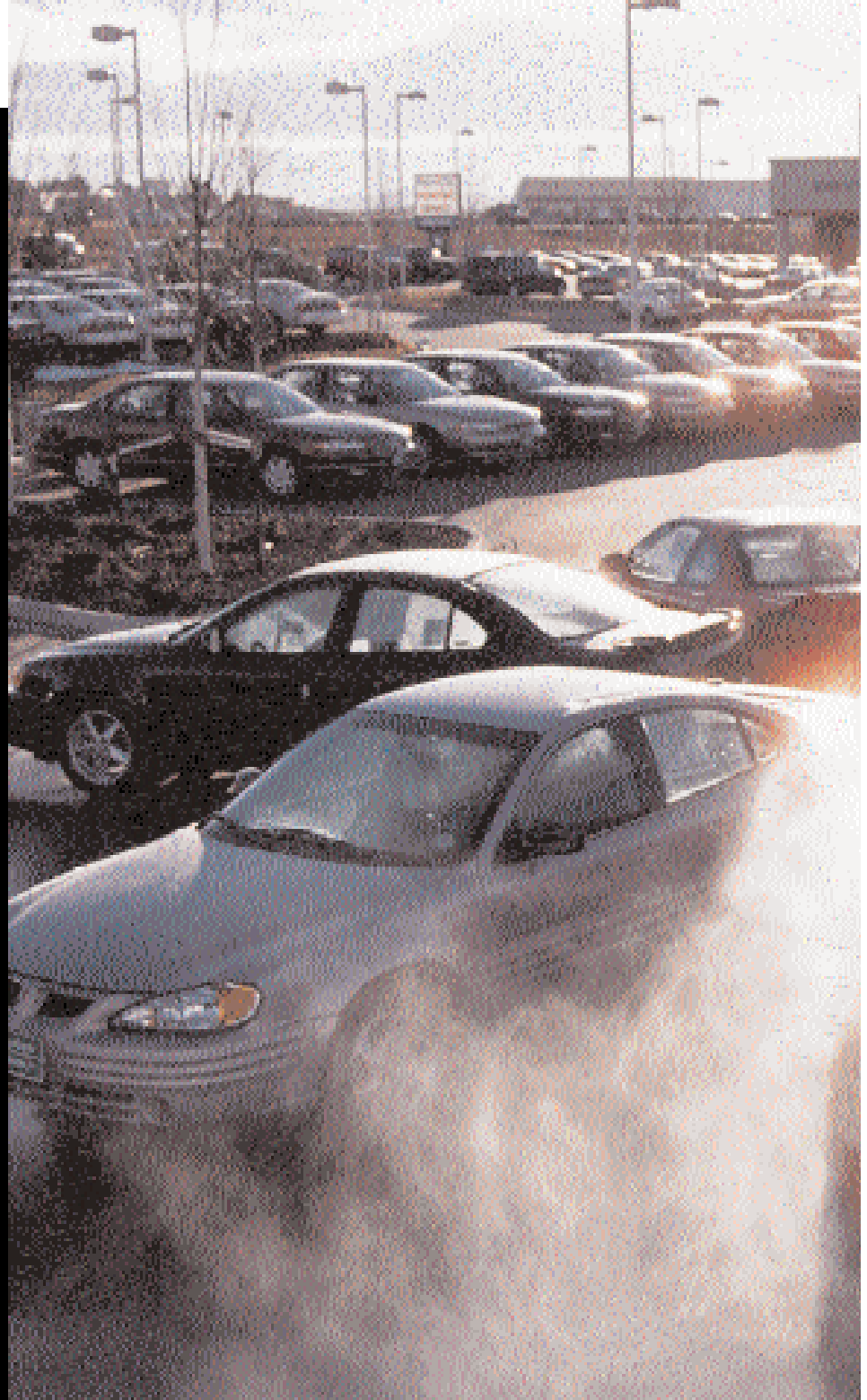
The project brought our 17 Denver franchised automotive dealerships together under a single brand name: AutoNation USA. The dealerships converted to a one-price, no-haggle selling process and implemented many of the customer-friendly initiatives popularized in our AutoNation USA megastores.

At the same time, the dealerships joined forces to deliver a powerful brand name advertising message in this growing market. The results?

"We've experienced a tremendous improvement in awareness for the brand and a significant increase in sales at the dealerships," says Mike Maroone, President of the AutoNation Retail Group. "Customers are enthusiastic about the AutoNation buying and ownership experience."

Eight weeks after the launch of the advertising, 73 percent of consumers polled said they intended to shop at AutoNation when considering a vehicle purchase. Asked to identify an automotive retailer in Denver, more than 40 percent named AutoNation - results four times greater than for any other automotive retailer, including those who have been advertising in the market for years.

"We're anxious to see these kinds of results in other markets," Maroone says.



AutoNation USA



Michael E. Maroone
President
AutoNation Retail Group



▲ AutoNation employees take great pride in presenting well-maintained, spotless new vehicles to our customers.

▶ John Elway (center) discusses the importance of customer satisfaction with two sales associates.



Our districts are led by some of the best retailers in the automotive industry – entrepreneurs who joined AutoNation to help lead the transformation of automotive retail. The district structure supports the franchised automotive dealerships and AutoNation megastores and places the day-to-day decision making authority in the local market, close to the customer.

The district structure also provides opportunities for our franchised automotive dealerships to share best practices. We are also sharing people, vehicle and parts inventories, service and collision assignments and administrative operations. We are increasing pre-tax operating margins as a result. In fact, many of our dealers have pre-tax operating margins twice that of the average dealer in the industry.

In this highly competitive business, we will succeed as the low-price provider – delivering every product and service our customers require at the lowest possible price. Not only are we making the purchase and service experiences more customer focused, we are bringing value-added benefits to our customers.

Redefine the customer experience. In each of our districts, we are focused on utilizing a network of stores to increase revenue, build greater market share, grow earnings and deliver superior customer service. In our Denver district, we are also focused on the third part of the strategy – redefining the customer experience. Through initiatives such as the one-price, no-haggle, customer-focused network of dealerships, AutoNation has changed forever the automotive retail experience for customers in Denver.

FRANCHISED AUTOMOTIVE DEALERSHIPS

During 1998, AutoNation acquired 181 franchised automotive dealerships, and since the beginning of 1999, we have acquired seven more. We now own over 380 franchised automotive dealerships representing 39 manufacturer brands.

For the year, we improved our store-level pre-tax operating margins to an industry-leading 3.8 percent from 2.9 percent in 1997. We believe there are still tremendous opportunities to further expand pre-tax margins in 1999 and beyond.

Our dealers are excited about their roles in the biggest opportunity in automotive retail – distinguishing AutoNation from competitors by redefining the sales, service and ownership experiences. Together, we have ambitious goals for maximizing our opportunities.



H. Scott Barrett
Senior Vice President
Information Technology

e-commerce

The Internet has become an integral part of the vehicle buying process for many consumers. And just as our goal is to be the leading automotive retailer in our markets, we also intend to be the leading on-line retailer. To meet that goal, we have developed websites at each of our franchised automotive dealerships and we have created a proprietary system to manage Internet leads on a national basis. Consumers using our sites can execute a comprehensive electronic transaction, including inventory scanning, price, payment calculations, financing and delivery scheduling.

AutoNation has developed an e-commerce sales force of specially trained Internet Sales Consultants based at each of the Company's franchised automotive dealerships and AutoNation USA megastores. These consultants use "Compass," a proprietary software program, to track and service Internet sales leads. Compass can alert an Internet Sales Consultant by pager as soon as an inquiry is received. That allows rapid response times to e-commerce inquiries. Unlike the Internet lead-generators, we "own" the lead from the moment the prospective buyer clicks onto one of our sites until the moment a vehicle is purchased.

Looking forward, AutoNation intends to introduce a series of e-commerce innovations aimed at keeping the Company in the forefront of this exciting retail channel.

AUTONATION USA MEGASTORES

The Company opened nine AutoNation USA megastores during 1998 and acquired Driver's Mart Worldwide, Inc., the franchisor of eight Driver's Mart used vehicle locations which were subsequently rebranded AutoNation USA. The total number of megastores at the end of 1998 was 42. Three more have been opened in 1999, bringing the total to 45 megastores in 13 states.

AutoNation USA megastores' 1998 revenue increased to \$1.3 billion, from \$638 million in 1997. However, we are not pleased because the megastores were only profitable during one quarter of 1998. The megastore business concept is only a little over two years old. From the very beginning we knew that to be successful in the long run, the megastores would need to be continually refined, based on changing marketplace conditions and research findings. That is what we have been doing and are continuing to do today.

We believe that the megastores will ultimately be a financial success. To that end, we are modifying the concept in order to generate higher sales and service volumes and to increase earnings. At the same time, we will preserve the retail experience customers have said they prefer overwhelmingly.

During 1999, a number of the megastore sites will be reconfigured to add franchised automotive dealerships. We believe franchised dealerships, selling new vehicles and providing service on some of the finest automotive real estate sites in the nation, will be successful. The reconfiguration process will continue into 2000.

In addition, we integrated the franchised dealerships and megastores in our retail districts and have made significant strides in adjusting our inventory to the dynamics of today's changing marketplace. We are further coordinating the vehicle supply chain and consolidating the inventories of our franchised dealerships and megastores into a shared-sourcing operation.

Other actions include ongoing standardization of store processes to utilize best practices and additional training programs for store general managers and their management teams.



Kevin P. Westfall

President

AutoNation Financial Services

AutoNation Financial Services (ANFS) is the captive finance company of AutoNation, Inc., and is dedicated exclusively to providing financial products and services to customers of AutoNation's franchised automotive dealerships and megastores. In 1998, its first full year of operations, ANFS had nearly 62,000 customers and almost \$1 billion in managed assets.

The financial services segment is a major profit center in the automotive industry. Over 75 percent of customers elect to finance their vehicle purchase at the dealership. ANFS significantly enhances the Company's profitability by retaining quality vehicle financing opportunities within AutoNation. ANFS also supports the overall mission of retaining customers for life through its innovative financing programs.

The range of ANFS products includes retail and lease financing, secondary customer referral programs, vehicle protection and maintenance programs and insurance products. Having its own in-house finance company allows AutoNation to maintain the quality and consistency of the financial products and processes offered in its network of automotive retailers.

With its focus exclusively on AutoNation retailers, ANFS concentrates its efforts on improving service through technology. Its state-of-the-art electronic credit application system allows retailers to electronically enter customer credit applications and to receive responses in minutes. ANFS is also expanding its services to include Internet alternatives for customers.

Financial Services

Skeptics may say these actions suggest that the megastore concept does not work. We disagree. Research shows that the concept has been embraced by customers. Once they experience the benefits of one-price, no-haggle shopping, the vast majority of customers surveyed say they will return and buy another vehicle from AutoNation USA.

That's why we developed the AutoNation USA megastores. We re-engineered the entire automotive sales process to put the customer in control. This process has to do with trust, innovation, value and service. That's the AutoNation USA megastore way, and it's not changing – it's expanding.

MILE-HIGH PROJECT

In Denver, our franchised automotive dealerships set out to redefine the customer experience, the third step of our strategic model. The dealers took many of the customer-friendly innovations that we piloted in our megastores and applied them to our franchised dealerships in Denver.

We launched the AutoNation USA retail brand in Denver in December 1998. At the same time, the sales and service processes of the 17 franchised dealerships were transformed, significantly enhancing the customer experience.

To date, we have seen a substantial increase in customer traffic and consumer reaction has been very positive. Our one-price, no-haggle sales process

and customer-friendly service demonstrates that the AutoNation USA brand is based on a powerful value proposition.

But the Mile-High Project is more than just a one-price, no-haggle sales process. Our Denver dealerships feature common sales, service and operating practices. Our dealers instituted identical vehicle guarantees, consistent service processes, uniform pricing and hours of operation, standardized training for all employees, a consolidated customer service call center and a consolidated Internet site. We also coordinated all dealership operations under a single district management structure.

Other innovations include touch-screen kiosks that allow customers to browse Denver-wide inventories, appraisals for trade-ins that are valid at all our Denver locations, a menu-driven finance and insurance selling system and a three-day, 150-mile refund policy on all vehicles.

Customers have reacted enthusiastically to Denver initiatives such as our launch of a “fix it fast or it's free” guarantee on scheduled light maintenance and the offer of a guarantee on repair work for 12 months or 12,000 miles.

And by advertising under a single brand name, we have developed significant brand awareness of AutoNation USA in Denver. We are further developing our brand through our Internet site which had over 100,000 visitor sessions in its first two months of operation. The site provides consumers access to information regarding the inventory of 3,500 vehicles available at our Denver dealerships.

In addition to improvements in sales and service volumes, we are also measuring our success in Denver by improving customer satisfaction scores. Improved customer satisfaction scores are a leading indicator that we are creating greater customer loyalty.

Our Denver business model should allow us to drive vehicle unit sales volume and reduce our fixed costs, leading to increased revenue, greater market share and earnings growth.

ROCHESTER AUTO COLLECTION

During 1998, the Company formed a joint venture with Ford Motor Company to operate its Ford and Lincoln-Mercury dealership network in Rochester, New York. Ford owns 51 percent of the joint venture; AutoNation owns the remaining 49 percent. We oversee the management of the retail operations of the joint venture dealerships, which collectively have been rebranded as the Rochester Auto Collection.

We are proud to be Ford's partner in this endeavor. The Rochester Auto Collection provides AutoNation an opportunity to showcase our capabilities and our retail model, which is based on providing a positive customer experience. AutoNation also has the opportunity to work with Ford to build a network of similarly franchised retailers in a single market, an experience which will also benefit the Company in other markets.



AutoNation Rental Group

Automotive rental is a \$24 billion global industry: \$16 billion in the U.S. and \$8 billion internationally. In the U.S., the business and leisure segments each represent 40 percent of the industry, with local/replacement making up the remaining 20 percent.

AutoNation's automotive rental businesses serve both the daily rental and the local/replacement segments of the marketplace. The daily rental needs of both business and leisure travelers are served by the National Car Rental and Alamo Rent-A-Car brands from a network of on-airport and near-airport locations across the United States and the world. The CarTemps USA brand serves the domestic local/replacement marketplace, operating in nearly 400 locations throughout the United States.

The AutoNation Rental Group's revenue increased 13 percent to \$3.5 billion in 1998. The Group operated an average worldwide fleet of 330,000 vehicles, one of the largest in the industry.

AutoNation began competing in the industry through its acquisitions of National Car Rental and Alamo Rent-A-Car. The Company further strengthened its market position through subsequent acquisitions of Value Rent-A-Car and Eurodollar Rent-A-Car.

The Company expanded into the local/replacement segment with its acquisitions of Spirit Rent-A-Car and Snappy Car Rental. Subsequently, Alamo Rent-A-Car absorbed the Value brand,

EuroDollar was absorbed by National Car Rental, and Spirit Rent-A-Car and Snappy Car Rental were rebranded as CarTemps USA.

The Company believes it now has a unique opportunity to achieve superior returns with two of the strongest brands in the daily vehicle rental industry and a strong competitor in the local/replacement industry. National Car Rental is known for catering to the needs of the business traveler, and Alamo Rent-A-Car is recognized for offering the best value to the price-sensitive leisure customer. CarTemps USA is the second-largest competitor in local/replacement rentals, the fastest-growing vehicle rental industry segment.



Robert L. Briggs
President
National Car Rental

Global Odyssey System

The continuing integration of administrative processes at National Car Rental and Alamo Rent-A-Car will be enhanced by the implementation of common information technology systems. The most significant of these systems is the AutoNation Rental Group's new, state-of-the-art Global Odyssey System.

The Global Odyssey System is now operating at National Car Rental, and conversion has begun at Alamo Rent-A-Car, with the goal of full integration by the end of 1999. Once Global Odyssey is the common platform for both brands, the AutoNation Rental Group can leverage technology to improve synergies in fleet management.

According to Bob Briggs, President of National Car Rental, Global Odyssey also controls such core business processes as reservations, rental and return processes and fleet maintenance. The system is also designed to provide more complete customer information than any other system in the industry.

Serving the Leisure Traveler

Alamo Rent-A-Car commissioned a comprehensive study of the leisure travel marketplace in 1998 to better understand the unique needs of the leisure renter. Using the study, Alamo Rent-A-Car examined how it could strengthen its leadership role in the leisure travel segment.

According to Karen Beard, President of Alamo Rent-A-Car, key locations will be remodeled to better serve the leisure traveler. The vehicle mix available will also be modified to include vehicles that leisure travelers prefer, such as convertibles, minivans and sport utility vehicles. Changing rooms, child play areas, restrooms equipped with baby-changing stations and sundry sales stations will be added.



Karen L. Beard
President
Alamo Rent-A-Car

NATIONAL CAR RENTAL AND ALAMO RENT-A-CAR: TWO STRONG BRANDS/ONE ORGANIZATION

Within North America, the Company intends to maximize the benefits of the brand equity that both National Car Rental and Alamo Rent-A-Car enjoy, while realizing significant economies of scale through the consolidation of certain overlapping administrative and back-lot functions. In order to consolidate these functions, the Company formed the North American Rental Group to manage both companies.

The North American Rental Group's individual business units – National Car Rental and Alamo Rent-A-Car – are responsible for brand performance and all activities directly affecting the customer and airport relations.

Because National Car Rental and Alamo Rent-A-Car enjoy distinct brand identities, a “two brands, supported by a common organization” business strategy will be used to leverage the strengths of each.

At the same time, we will reduce operating costs by having a single overhead structure, a shared fleet and common information technology.

CARTEMPS USA

The CarTemps USA brand was launched in January 1998 by consolidating the former Spirit Rent-A-Car, Snappy Car Rental and the local/replacement division of Alamo Rent-A-Car. Locations of the three rental companies and administrative activities were consolidated. By the end of 1998, CarTemps had opened 62 additional new local/replacement rental locations, bringing the total number of CarTemps USA locations to 388 in 40 states.

CarTemps USA is a strong strategic growth vehicle for the AutoNation Rental Group. After less than two years of operation, CarTemps USA is already a strong number two in the local/replacement rental category and is actively marketing itself as the logical alternative to the industry leader. CarTemps USA is aggressively opening

new offices, with approximately 100 planned for 1999, including expanding its presence within AutoNation's franchised dealership and megastore network.

INTERNATIONAL

The AutoNation Rental Group competes in the international market under both the National Car Rental and Alamo Rent-A-Car brands, with the majority of its overseas revenue generated in the United Kingdom. During 1998, the Company aggressively pursued the consolidation of operations under the common management of the International Rental Group organization. The International Group re-launched the EuroDollar vehicle rental business under the National Car Rental brand, integrated management of Alamo Rent-A-Car and EuroDollar and consolidated their vehicle fleets. Strategically, the international market should provide opportunities for increased revenue and earnings growth into the foreseeable future.



▲ National Car Rental and Alamo Rent-A-Car buses are in constant motion at airports around the United States - and around the world - delivering travelers to and from their rental vehicles.

▶ CarTemp's USA is building a network of offices nationwide to serve customers in the local/replacement segment of the vehicle rental industry.

■ Jeffrey J. Paréll
President
North American Rental Group

■■ William E. Lobeck
President
AutoNation Rental Group



A New View on Vehicle Rental Services

AutoNation's three vehicle rental companies have grown over the past year, and their brands have been strengthened to compete more effectively in their respective markets. As AutoNation Rental Group President William E. Lobeck planned for future growth, he determined that it would be vital to share resources and systems across the brands.

To assist in implementing this, Jeffrey Rarrell was appointed President of the newly formed North American Rental Group in 1998. Formerly President of National Car Rental, Rarrell was one of the driving forces behind National Car Rental's success in recent years. His new mission is to lead the integration efforts of the National Car Rental and Alamo Rent-A-Car brands.

Together, Lobeck, Rarrell and the entire AutoNation Rental Group are building systems that will reduce the Group's investment in inventory while maximizing revenue and vehicle usage rates. In addition, the Group has made improved fleet management a priority. The Global Odyssey System will also increase the Group's profitability.

Strategically, North American markets will provide modest revenue growth into the foreseeable future. But, when coupled with efficiencies realized through current and future integration efforts and benefits achieved through the use of increasingly sophisticated revenue management techniques, the growth of operating margins and profits should outpace revenue growth.

Revenue and earnings growth in the AutoNation Rental Group will come primarily from pricing, increased transactions, the further penetration of CarTemp USA into the local/replacement market and further expansion in international markets.



AutoNation Rental Group



◀ Alamo Rent-A-Car service representatives assist customers to get on their way at Los Angeles International Airport.

▼ An Internet Sales Consultant assists a customer in using an in-store kiosk in Denver.



◀ A finance and insurance specialist explains AutoNation Financial Services' financing options to a customer at Gene Evans Ford Union City, GA.

Customers for Life

AutoNation doesn't claim to have started the change in automotive retail. Over the past 20 years, that change has been influenced by many other retail categories and the development of such companies as WalMart, Home Depot, Staples, Best Buy and Blockbuster. These companies all offer consumer-friendly shopping environments with large selections at value prices.

But AutoNation is a pioneer in the automotive retail category. We believe automotive retail must respond to the idea that the customers' needs come first.

The automotive retail segment is ripe for change. The market is highly fragmented and there is no national automotive retail brand.

What AutoNation is setting in motion is no less than a shift in the balance of power in favor of the consumer. Research indicates that consumers definitely believe the automotive retail experience can and must improve:

- Most consumers dislike negotiating the price of a vehicle.
- The majority of those who buy from franchised automotive dealerships never return to the dealership for service or any other reason.
- Many consumers still buy used vehicles through the classified ads rather than from dealerships.

To address these concerns, AutoNation is delivering a new proposition to the vehicle-buying public. We're approaching automotive retail from the same premise that has proven to be successful in other retail categories: treat customers fairly, give them good value and they will return time and time again.

There is an old retail adage – we have many customers, but we serve them one at a time. We believe in that adage. A little over two years ago, we launched an automotive retail business based on the concept that customers should be treated the way we would like to be treated. We applied this concept to automotive retail and rental. And in just over two years, we can count more than two million customers who have purchased or rented vehicles from us.

When you listen to customers, and when you look at the business through the customers' eyes, you naturally think about how it feels to *buy* the product... *not* how to sell it. AutoNation is working to improve the image of the automotive retail business, selling more vehicles, generating more revenue and creating customers for life as we put more emphasis on the buying and ownership experiences and less on the selling experience. The bottom line is that customers don't want to be sold. They want help to buy what they need.

At traditional dealerships, the objective is to "close the sale." At AutoNation, our objective is to develop a lifelong

customer relationship. We want the initial vehicle sale to be just the *start* of a relationship filled with many additional transactions. Customer satisfaction and customer loyalty are the key components of this strategy.

Our customers for life philosophy is also part of the fabric of our automotive rental business. Repeat rentals happen only when the customer has been treated properly and feels that he or she is valued.

What are the potential benefits for AutoNation of our customers for life philosophy?

- Greater market share
- Increased revenue
- Earnings growth
- Improved customer satisfaction and retention
- Lower customer acquisition costs
- Increased customer referral opportunities

AutoNation is dedicated to the premise that it's better to build a customer for a lifetime than it is to sell to a customer one time.

We will succeed by staying focused on this premise.

23	39	40	41	42	43	67
Management's Discussion and Analysis	Consolidated Balance Sheets	Consolidated Statements of Operations	Consolidated Statements of Shareholders' Equity	Consolidated Statements of Cash Flows	Notes to Consolidated Financial Statements	Report of Independent Certified Public Accountants

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