



Dear Customers, AutoZoners and Stockholders,

On behalf of more than 87,000 AutoZoners, I am excited to update you on our progress during fiscal 2017 and to review our plans for 2018 and beyond. For 2018, AutoZone is continuing the 2017 operating theme: "YES! We've Got It". Being able to say "YES" to customers has always been at the core of what we do. We are focused on continued enhancements to our capabilities in 2018 to effectively deploy our inventory assortment to AutoZone stores across the U.S., Mexico, and Brazil even better than ever, allowing more AutoZoners to say "YES" to more customers

This past year marked AutoZone's 38th anniversary and I am as excited about our future today as when I had the privilege of becoming AutoZone's Chief Executive back in 2005. We continue to set the standard for great service in clean, well-lit, well-merchandised stores in convenient locations. Our vision has always been centered on the customer: getting them what they need to do the job right so they can get back on their way. With AutoZone stores in 50 U.S. States, the District of Columbia, Puerto Rico, Mexico and Brazil, and our ALLDATA, AutoAnything and IMC businesses, we will continue to expand and enhance our offerings to both retail and commercial customers.

We have more than 87,000 of the very best people in our industry, our AutoZoners. It continues to be our responsibility to create terrific career opportunities for all AutoZoners. We embrace diversity as one of our Values, to make sure we provide tremendous opportunities for growth and advancement to both current and future AutoZoners. I am proud of what we have accomplished to help AutoZoners achieve their goals and we will continue to improve. By focusing on developing our AutoZoners' skills and talents, and always saying "Yes! We've Got It" to our customers, we are constantly strengthening our founder's great vision and we are positioned well for continued future success.

Providing the right inventory availability and assortment to meet our customers' changing demands has been an ongoing theme for AutoZone since the Company's inception back in 1979. With such a large and diverse car and truck population across North and South America, we need to carry even more products to meet our customers' needs. We are opening more distribution centers, more mega hubs, more hubs, and working to determine the optimal frequency of delivery from our distribution centers (DCs). In 2017 alone, we opened two new distribution centers: one in the U.S. and one in Mexico. We also have another DC in the U.S. under construction plus one other in the process of being expanded. Additionally, we opened four more hub stores, finishing fiscal year 2017 with 186, and added five more mega hub stores, finishing the year with 16 in operation. Along with our increase in availability, we've continued to expand the frequency of deliveries our U.S. stores receive in an effort to improve our "in-stock". Across our approximately 6,000 U.S. and Mexico stores, we are increasing availability using our DCs, mega hub and hub locations to both reduce out-of-stocks and add coverage. This expanded parts coverage is allowing us to say, "Yes! We've Got it," more than ever. We are committed to having the availability of parts to meet or exceed our customers' expectations.

Fiscal 2017 was a more challenging year for AutoZone than we had expected. While we never take our business for granted, the additional challenge was primarily due to two occurrences. First, the delay in timing for income tax refunds issued by the U.S. government negatively impacted sales. While 2016's refund season began at the end of January, this year it did not begin until the end of February. Although we assumed we'd "earn back" lost sales from the tax refund delay during the spring selling season, it did not happen. Secondly, the mild winter experienced across much of the Northeastern and Midwestern markets continued for a second straight year. Our business performs well when temperatures become extreme, because extreme cold or heat causes parts to fail. Mild temperatures simply don't have the same impact. For a second straight year, mild temperatures caused sales to underperform during the winter and spring seasons in traditional parts categories that typically do well in winter months. While facing these headwinds, we continued with our phased inventory availability implementation, distribution center initiatives, new store openings, and investments in our internet businesses. Throughout the year, the data available to us shows we continue to gain share, and we believe we are better positioned to grow our business in 2018 because of what we accomplished in 2017.

What's Different

While our story continues to be one of evolution, not revolution, we are on solid footing heading into fiscal 2018. Assortment and availability are core to future sales growth. We have substantially expanded our breadth of parts coverage. With the best brand of products in the automotive aftermarket, Duralast, AutoZone has driven further into lines of coverage like never before. I can say today that our coverage and assortment have never been better. But, we know we must continue to improve further. That is why we opened two new distribution centers in fiscal 2017 with still a third under construction. Additional hub stores and mega hub locations make incremental choice available. We expect to take our expanded delivery network to even more locations this upcoming year. While our very successful 186 hub stores carry a more extensive line of hard parts inventory than their surrounding stores—usually twice the number of products—the mega hubs carry an even more extensive assortment, roughly twice what a hub store carries. Additional deliveries from distribution centers are focused on providing higher in-stock levels on products we stock in our stores, and the mega hubs are focused on increasing local market availability. We will expand or build up to 40 mega hubs to provide substantially broader inventory assortments to the vast majority of our domestic stores.

With regard to our domestic operations, we continue to study our Commercial business in order to find opportunistic ways to accelerate sales growth beyond the current, industry leading rate of 5.7%: the rate of growth we had during fiscal 2017. In addition, we continued to focus on growing sales at our IMC branches. Acquired in 2015, IMC and its 26 locations represent the second largest distributor of original equipment (“OE”) quality import replacement parts in the United States. With its extensive line of OE brands for most European and Asian cars, we believe IMC has strong prospects.

In fiscal 2017, we continued with our international store growth, opening 47 stores outside the U.S., and finishing with 524 stores in Mexico and 14 in Brazil. Our commitment to growing internationally is stronger today than ever, as we see our product and service offerings being well received by customers in these geographies.

We are also expanding our growing Internet offerings. Utilizing our consumer sites autozone.com and autoanything.com, we believe we are well positioned to serve our customers however they elect to interact with us. In 2018, we will continue to focus on both increasing our online product offerings and improving the shopping experience, including enhancing our business-to-business sites like autozonepro.com. While our Internet business is a key focus for future growth, it remains relatively small in sales volume. However, over time, as mobile shopping intensifies, it will expand. We have to stay out front in this sector of our industry. Our customers are demanding an ever-improving online shopping experience. And we intend to deliver.

We are proud of what we've accomplished this past year and we believe fiscal 2017 laid a strong foundation for an even better year in 2018. While fiscal 2017 was clearly a more challenging year for AutoZone, the initiatives begun are expected to drive sales for years to come. Lastly, we will continue investing capital in our information systems infrastructure at increasing levels, as these investments will be at the core of our customer interfacing efforts. Looking forward, 2018 will be a busy year for us as we have many growth opportunities ahead.

Summary of 2017 Results

During 2017, we had many successes. We recorded a record \$10.9 billion in sales, up 2.4% over fiscal year 2016, and we delivered a record \$44.07 in earnings per share, up 8.3% over 2016. We also:

- Opened our 6,000th store and had the honor to do so in our hometown of Memphis, Tennessee
- Expanded our domestic store base by 168 stores across 50 states and Puerto Rico
- Opened 202 net new Commercial programs, ending the year with commercial programs in 84% of our domestic store base

- Increased our presence in Mexico, celebrating our 500th store opening during the year and ending with 524 stores
- Opened six additional stores in Brazil, for a total of 14 stores
- Significantly grew our online offerings at autozone.com, autozonepro.com and autoanything.com
- Opened four additional hub stores, finishing the fiscal year with 186 hubs (including 16 mega hubs)

- Continued our relentless focus on Return on Invested Capital (ROIC), reporting 29.9% for fiscal 2017
- Generated \$1.6 billion of Operating Cash Flow
- Repurchased more than \$1 billion of our shares for the ninth consecutive year

Our success is directly attributable to our 87,000+ great AutoZoners and their commitment to living our Pledge and Values and leveraging our unique and powerful culture to say, “YES! We’ve Got It.”



We are looking forward to 2018!

U.S. Retail

We are the country's largest retailer of automotive aftermarket products with nearly 5,500 stores across the United States. Our initiatives for 2017 were: (1) Great People Providing Great Service; (2) Profitable Commercial Growth; (3) Leveraging the Internet; (4) Yes! We've Got It.; and, (5) Leveraging Information Technology.

The most significant initiative impacting U.S. Retail in 2017 was the further implementation of our inventory availability initiatives highlighted earlier, which we call "Yes! We've Got It." Many of our retail initiatives generally don't change significantly from year to year. Our Great People Providing Great Service initiative has been, and will continue to be, a constant because it is central to our culture. This initiative is focused on hiring, retaining, training and developing the best people in the industry. We also continued with our aggressive investments in technology this past year. We have committed to a multi-year approach to enhancing our systems, both hardware and software, to ensure our AutoZoners have the best, most reliable tools available. As a result, we significantly increased our investments in IT over the last five years. We expect an increased level of investment next year as well, as technology improvements will be part of our key priorities for years to come.

U.S. Commercial

In fiscal 2017, our Commercial sales grew 5.7% over last year. This customer base remains highly fragmented, and we see tremendous opportunities to increase market share. We opened 202 net new programs this past year and have opened 750 net new programs over the last three years. We now have commercial programs in 84% of our domestic store base with opportunities to continue to open additional programs and grow sales in our existing programs. In 2017, we intensified our focus on growing our "mature programs" and specifically our "mature customers." Despite challenges to our industry in 2017, we saw, as in previous years, our growth rates continue to outpace the overall industry. We believe we are well positioned for growth in Commercial for 2018 and beyond.

International

With 524 stores across Mexico and 14 in Brazil, we expanded our international store base in 2017. While our business model performed well last year, we were challenged by exchange rate fluctuations that hurt translation of local currency profits into their U.S. dollar equivalents. With the bulk of our international business in Mexico, the peso's weakness relative to the U.S. dollar caused a significant headwind to bottom line comparisons with fiscal 2016. While exchange rates remained a challenge for us in 2017, we continued with our ongoing store expansion strategy. Our deliberate store opening schedule is driven by our efforts to improve our information systems within our international operations. We believe having all our stores across the world on the same systems platform will allow improved execution. This is a challenging task since there are different requirements for doing business in Brazil versus Mexico, for example. While we have been doing business in Mexico for nearly two decades, we expect to continue expanding our presence there for many more years. In Brazil, we have a much smaller presence and added six new stores in 2017. As we continue to develop a model that works well for our Brazilian customers and for us financially, we expect to expand. We intend to open up to 10 new stores in Brazil in 2018. We are excited about our ongoing International opportunities.

Digital Integration

Our digital integration effort strives to leverage all our "digital assets" to both communicate with and sell more effectively to our customers. We have a wealth of data, content and customer relationships from AutoZone Retail and Commercial, ALLDATA, autozone.com, autozonepro.com, AutoAnything and IMC. By combining these customer views and mining our data further, we'll be able to learn more and improve upon having the right merchandise in the right locations for whenever and wherever our customers demand it. We must make sure our customers are "one click" from experiencing WOW! Customer Service in any way they wish to engage with us. As we strengthen this focus, we understand our challenges and see our opportunities. This will continue to be an important part of our thinking on customer relationships for years to come and will remain a key focus in 2018.

Our Future

Our 2018 operating theme “Yes! We’ve Got It” means we are focused on having the right inventory available at the right location every day. Having the parts customers demand, closer to where they need them, will continue to be the key to our success in the future. We have always understood there are choices our customers can make on where they shop, and we don’t take that for granted. Every customer interaction is an opportunity for us to surprise and delight, leading our customers to say “WOW!” or conversely, an opportunity for us to disappoint a customer – an unacceptable outcome. While 2017 was a challenging sales year due to the delayed income tax refund season and milder weather impacting failure related parts sales, we did not stop investing in merchandise availability, training and, most importantly, our AutoZoners. We are challenging ourselves in 2018 to improve on our customer service efforts. And, we are determined to say “YES” to our customers even more in 2018.

We have a solid business model that is built on delivering consistent financial results. As we think about the future, we intend to continue to grow new store square footage at an annual rate of three to four percent, and we expect to continue to grow our commercial sales at a rate faster than our retail sales. While we did not continue our streak of 41 consecutive quarters of double-digit EPS growth this past year, we are positioned for steady future growth. We will also continue to leverage our historically strong cash flows to repurchase shares to grow our earnings per share. Primarily, we will continue to invest in initiatives that provide us with an appropriate return. As our ROIC, at 29.9%, is one of the best in all of hardlines retailing, we are committed to being good stewards of capital as we understand the capital we deploy is your capital.

As I write this letter, I would be remiss to not comment on the horrible storms and natural disasters that occurred in recent months. I want to recognize the extraordinary efforts our AutoZoners made to help each other and our customers recover in Houston, Florida, Puerto Rico, Mexico and California. The efforts of our folks went above and beyond imaginable, and I’m proud to be a part of such a wonderful team that truly cares about people.

I want to thank all AutoZoners for their dedication and hard work in 2017. Over the years, our Company’s success is entirely due to their consistent commitments to going the extra mile to help our customers. They embrace our culture and provide our customers with an exceptional experience. I would also like to thank our vendors for their ongoing commitment to our collective success. Additionally, I would like to thank you, our stockholders, for the confidence you have placed in us by your decision to invest in our Company. We remain committed to managing your capital wisely, achieving an appropriate return on incremental projects and returning excess cash through an orderly share repurchase program.

I would also like to take a moment to thank Sue Gove, one of our board members, for her service over the last 12 years. She has decided not to stand for re-election at our upcoming stockholders’ meeting. She has been an invaluable contributor to the development of our strategies and has been a material contributor to our overall success. We wish her all the best in her future endeavors.

We have a wonderful culture that has been firmly built over the past 38 years. We remain passionate about our Pledge, Values, and culture to earn our customers’ business every day. I continue to believe our best days are ahead. Thank you for staying in the Zone with us for all these years!

We look forward to updating you on our continued success well into the future.

Sincerely,



Bill Rhodes
Chairman, President and CEO
Customer Satisfaction