



Dear Customers, AutoZoners and Stockholders,

On behalf of our more than 84,000 AutoZoners, I am honored to update you on our progress during fiscal 2016 and to review our opportunities for 2017 and beyond. The operating theme for AutoZone in 2017 is "YES! We've Got It" and focuses on our inventory availability initiatives. And, as you'd expect, we are planning enhanced product availability to drive sales growth in 2017 and beyond. In many ways, availability has been a continual theme for more than a decade. As far back as fiscal 2000, we opened our first hub store with the objective of adding more unique products to the local marketplace. Over time, that theme has evolved and been drastically expanded. At the end of fiscal 2016, we had 182 hub stores across the U.S. and we have created a subset of hubs, called mega hubs, which carry even more inventory than traditional hubs. We've also been aggressively investing in our distribution center network (DCs), with two additional domestic DCs expected to open in the next three years. This will take our domestic DC count to 10. Along with our increase in availability, we've expanded our deliveries to many of our U.S. stores. We're now delivering multiple times per week from our DCs to approximately 1,900 of our nearly 5,300 U.S. stores. In 2017, we expect to expand this increase in weekly deliveries to another approximate 1,000 U.S. stores. We believe expanding availability of parts to our stores will allow us to meet or exceed our customers' expectations. With a very competitive domestic marketplace, being able to say "Yes" will allow us to service the needs of our customers better.

Fiscal 2016 was a more challenging year for AutoZone than previous years in many ways. While it is easy to measure due to our domestic same store sales results being below the previous year, I say this more because of all the initiatives either under development or in the implementation phase. Our phased inventory availability implementation, distribution center initiatives, foreign currency pressures on both the Mexico and Brazilian businesses, gasoline price fluctuations, expansion of our Interamerican Motor (IMC) business acquired in 2015, investments in our internet businesses (AutoZone.com, AutoAnything, and ALLDATA) and the opening of our foreign buying office in China kept us very busy. While certainly taxing to the organization, I couldn't be more pleased with how our team responded to each opportunity or challenge. We are better positioned today to grow our business because of what we accomplished in 2016.

This past year marked AutoZone's 37th anniversary and I feel our future is as bright as back in 1979, when Pitt Hyde, our Founder, and his team embarked on this journey in the automotive aftermarket. They set the standard for great service in clean, well-lit, well-merchandised stores in convenient locations. Today, that vision has resulted in a \$10+ billion multi-country enterprise with years of growth potential ahead. Along with AutoZone stores in 50 U.S. States, the District of Columbia, Puerto Rico, Mexico and Brazil, ALLDATA has expanded into Mexico and grown its business in Europe. We also expanded our product offerings to retail and commercial customers, both online through autozone.com, autozonepro.com, imcparts.net, alldata.com, alldatadiy.com and autoanything.com, as well as through IMC's import parts. Most importantly, we have more than 84,000 of the very best people in our industry. I feel it is absolutely our leaders' responsibility to create terrific career opportunities for all AutoZoners. We want to develop a legacy at AutoZone where every AutoZoner has a chance to advance to their fullest potential. To that end, in 2016, we launched our new "diversity and inclusion initiative" to make sure all AutoZoners have tremendous opportunities for growth and advancement. I am proud of what we have accomplished to this point, but we have significant opportunities to improve further. I want to make sure AutoZone continues to create as much opportunity for our AutoZoners (employees) as it does in servicing our customers. In fact, they go hand in hand. With our AutoZoners' continued development, we will only become a better organization by being able to say "YES! We've Got It." Our Founders had a great vision, and that vision is alive and well today. We owe it to them to grow to even further heights. We have positioned ourselves well for continued future success.

What's Different

While our story continues to be one of evolution, not revolution, we are very excited about our potential for fiscal 2017. We will be continuing our focus on our inventory availability initiatives. To that end, we will continue to expand distribution center deliveries to another 1,000 domestic stores. We expect to take our expanded delivery network to around 3,000 of our approximately 5,300 domestic stores. We also expect to build a handful of additional mega hubs in 2017. While our very successful 182 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, in some cases twice what a hub store carries. Where the additional distribution center deliveries are focused on providing higher in-stock levels on products we stock in our stores, the mega hubs are focused on increasing local market availability. Once our inventory availability efforts are fully implemented in the next few years, we expect about two-thirds of our stores will receive replenishment orders from our distribution centers three times per week or more in some cases, and we will expand or build more than 25 mega

hubs that will be able to provide substantially broader inventory assortments to the vast majority of our chain. In order to support these two initiatives, we will add two or three more domestic distribution centers to our existing eight facilities. The first two distribution center additions will be completed over the next three years and, once completed, will add more needed distribution capacity and will reduce drive times to stores in many markets, where distances were just too far for multiple deliveries per week. We believe these well-planned and tested initiatives are already improving sales to both our retail and commercial customers. While we will face cost headwinds to roll out these initiatives to our stores, we are excited by their sales potential.

Secondly, in fiscal 2016 we continued with our international store growth, opening 43 stores outside the U.S., and finishing with 483 stores in Mexico and eight stores in Brazil. We will open our 500th store in Mexico this upcoming year, and we can't wait to celebrate this wonderful accomplishment with all our AutoZoners. Our international earnings were negatively impacted by foreign currency headwinds this past year. Both the Mexican peso and the Brazilian real weakened relative to the U.S. dollar. This caused our reported earnings, in dollars, to be significantly less than they would have been otherwise. However, as the comparisons for 2017 will be easier, we look forward to continuing to grow in our international markets.

Thirdly, in fiscal 2016, we continued to expand IMC by opening six new branches. Acquired in 2015, IMC is 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 and having access to these products will also benefit both our retail and commercial customers. While growing this business, we have experienced cost headwinds, integration challenges and some growing pains, and, therefore, we must be deliberate during expansion. We see future opportunities for IMC branches to be opened in most large metropolitan markets. We are very excited about IMC's growth potential in future years.

Lastly, we are 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. We also plan on enhancing our business to business sites, including autozonepro.com, imcparts.net and alldata.com. In 2017, we will continue to focus on both increasing our online product offerings and improving the shopping experience. While this business is growing at a faster pace than our "brick and mortar" business, 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. As such, we will be delivering on their desires.

We are proud of what we've accomplished this past year: record sales, profits, profits per share and cash flow generation. However, we must continue to enhance our offerings to meet our customers where, when and how they want to interact with us. Looking forward, 2017 will be a busy year for us as we have many growth opportunities in front of us.

We believe fiscal 2016 laid a strong foundation for an even better year in 2017. Fiscal 2016 was a year of rolling out initiatives begun in late 2015. In fiscal 2017, we will look to complete most of these new initiatives. We will continue investing capital in our information systems infrastructure at increasing levels. These investments will help build upon and improve, what we believe to be, the best systems in our industry.

Summary of 2016 Results

During 2016, we had many successes. We exceeded \$10.6 billion in sales, up 4.4% over fiscal year 2015, and we delivered \$40.70 in earnings per share, up 13.0% over 2015. We also:

- Expanded our domestic store base by 156 stores across 50 states and Puerto Rico
- Opened 249 net new Commercial programs, ending the year with commercial programs in 83% of our domestic store base
- Increased our presence in Mexico by 42 stores ending with 483 stores
- Opened one additional store in Brazil, for a total of eight stores
- Significantly grew our online offerings at autozone.com, autozonepro.com and autoanything.com
- Continued our expansion of IMC, opening six new branches in 2016
- Opened six additional hub stores, finishing the fiscal year with 182 hubs (including 11 mega hubs)
- Continued with our industry leading Return on Invested Capital (ROIC) reporting 31.3% for fiscal 2016
- Generated a record \$1.6 billion of Operating Cash Flow, up 3.4% over last year
- Repurchased more than \$1B of our shares for the eighth consecutive year

Our success is directly attributable to our 84,000+ great AutoZoners and their commitment to customer service, our Pledge and Values and leveraging our unique and powerful culture.



We are looking forward to 2017!

U.S. Retail

We are the country's largest retailer of automotive aftermarket products with nearly 5,300 stores across the United States. Our initiatives for 2016 were: (1) Great People Providing Great Service; (2) Commercial Growth; (3) Leveraging the Internet; (4) Improving Inventory Availability; and (5) Yes! We've Got It!

The most significant initiative impacting retail in 2016 was the further implementation of our inventory availability initiatives highlighted earlier. 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 as it is imperative we have great people providing great service. 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. Building on our heightened investment in technology, we significantly increased our investment over 2015 in this area. We expect an increased level of investment next year as well, as technology improvements will be part of our core priorities for years to come.

U.S. Commercial

In fiscal 2016, our Commercial sales grew 7.1% over last year. This customer base remains highly fragmented, and we see tremendous opportunities to increase market share. We opened 249 net new programs this past year, and have opened 969 net new programs over the last three years. Currently, 22% of our Commercial programs are three years old or less. We now have the commercial program in 83% of our domestic stores base, and we see opportunities to continue to open additional programs and grow sales in our existing programs. In 2016, we intensified our focus on growing our "mature programs" and specifically our "mature customers." While 2016 proved to be a challenging year for our industry, with mild winter temperatures negatively affecting the Northeast, Middle Atlantic and Midwestern markets, we saw, as in previous years, our growth rates continue to outpace the overall industry. Additionally, through our IMC acquisition completed in 2015, we are now providing a wider product assortment to our existing customers. We believe we are well positioned for growth in Commercial for 2017 and beyond.

International

With over 480 stores across Mexico and just a handful in Brazil, we expanded our international store base in 2016. 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 devalued approximately 9% over our fiscal year. While exchange rates remained a challenge for us in 2016, we executed our ongoing store expansion strategy well. 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. This common platform development is taking on heightened importance in 2017, and is a part of the increase in our technology expenditures. While we have been doing business in Mexico for nearly two decades, we will expand our presence there for many more years. In Brazil, we have a much smaller presence with only eight stores, but as we continue to work to develop a model that works well for our Brazilian customers and for us financially, we expect to expand. We are planning to open a handful of new stores in Brazil over the course of 2017. We are excited about our ongoing International opportunities.

Digital Integration

This concept was introduced at the beginning of fiscal 2014 and remains a key priority for us. This 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. Our goal is to combine these customer views and use this data to help sell more effectively. By 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. Therefore, it is imperative our websites and mobile apps have a compelling offering to attract and retain customers. While this initiative is ongoing, we understand our challenges and see our opportunities. This promises to be an important part of our thinking on customer relationships for years to come. This remains a key focus in 2017.

Our Future

As mentioned in the opening, our operating theme for 2017 is “Yes! We’ve Got It.” We are focused on having the right inventory available at the right location every day. We believe both our multi-weekly delivery model and our mega hubs allow us to do just this. 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 2016 was a more challenging year in many more ways than expected, with milder weather impacting sales results, we continually invested in our AutoZoners, training and merchandise availability. We are challenging ourselves in 2017 to improve on our customer service efforts. We are determined to say “Yes” to our customers more in 2017.

This upcoming year’s key priorities are similar to last year. We will focus on: (1) Great People Providing Great Service; (2) Commercial Growth; (3) Leveraging the Internet; (4) Yes! We’ve Got It!; and (5) Leveraging IT. Our approach remains one of consistency where superior execution is a competitive differentiator. But, our approach must also evolve over time to meet and exceed our customers’ needs, and each of these efforts is focused on enhancing our operations to provide a superior experience for all of our customers. We have a solid business model that is built on delivering consistent financial results. This past quarter, we celebrated our 40th consecutive quarter of double digit EPS growth! While pleased with this amazing accomplishment, we understand we must continue to work hard to have future success. 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. In light of these plans, we look to routinely grow EBIT dollars in the mid-single digit range, or better in times of strength. We will continue to leverage our historically strong cash flows to repurchase shares in an effort to grow our earnings per share into double digits. We will continue to invest in initiatives that provide us with an appropriate return. Our ROIC, at 31.3%, is one of the best in all of hardlines retailing. We will also continue to be good stewards of capital as we understand the capital we deploy is your capital.

Lastly, I want to thank our AutoZoners for their dedication and hard work in 2016. Over the years, they have continued to execute our game plan exceptionally well. They embrace our culture and provide our customers with an exceptional experience. As we begin 2017, we must continue to focus on our customers’ needs and exceed their expectations. I would also like to thank our vendors for their ongoing commitment to our collective success. Finally, 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.

We have a wonderful culture that has been built over the past 37 years. While we have performed well in the past, we have to remain passionate about our Pledge, culture and values to earn our customers’ business. 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