



## Dear Customers, AutoZoners and Stockholders,

On behalf of our more than 81,000 AutoZoners, I am honored to update you on our progress during fiscal 2015 and to review our opportunities for 2016 and beyond. The operating theme for AutoZone in 2016 is "LIVE the Pledge". And, in many ways, this has been a continual theme for the last decade. Ten years ago, we made a very intentional shift to intensify our focus on leveraging our unique and powerful culture: our single largest point of differentiation. Our Pledge is one of the primary and most visible aspects of our culture. We must put customers first, know our parts and products, ensure our stores look great, and offer the best merchandise at the right price. Ten years ago when we enhanced our focus on our culture, our operating theme was "LIVE the Pledge". Sometimes "something old is new again" and we can never reinforce the importance of our culture enough. Our current team didn't invent this powerful culture. We inherited it from the leaders that came before us, but we take our role of constantly nurturing and evolving our culture extremely seriously. We recently celebrated AutoZone's 36th anniversary and it has been a remarkable 36 years! 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. In addition to creating a world class business, they had an objective to create tremendous opportunities for AutoZoners to far surpass their wildest career aspirations. Today, that vision has resulted in a \$10 billion enterprise that is highly profitable with very strong financial returns. We now have stores in 49 U.S. States, the District of Columbia, Puerto Rico, Mexico and Brazil. ALLDATA has expanded to Canada and Europe and we have opened a sourcing office in China. We have also expanded our offering to include both retail and commercial; on-line through [autozone.com](http://autozone.com), [autozonepro.com](http://autozonepro.com), [alldata.com](http://alldata.com), [alldatadiy.com](http://alldatadiy.com), and [autoanything.com](http://autoanything.com); and with this year's acquisition of Interamerican Motor Corporation (IMC), we now have a business solely focused on import parts. Most importantly, we have more than 81,000 very talented, highly engaged, passionate, customer-focused AutoZoners who have tremendous opportunities to serve customers and build and enhance their careers. I would say our Founders had a great vision, and that vision is alive and well today.

## What's Different

While our story is one of evolution, not revolution, we are excited about our possibilities heading into fiscal 2016. We will be continuing our focus on our inventory availability initiatives in 2016. This continuing effort is different than in past years. For several years, we focused on making small refinements to our business model. In 2015, we became more aggressive. We believed we could be successful with our ongoing strategies, but we saw an opportunity to grow sales in certain categories and customer segments that we had only been gradually growing. We recognized that this would require incremental capital investments and a higher expense structure, but we believed this was a chance to not only make sure we're keeping up with our industry peers, but continuing to lead. We tested and placed more product in our stores, taking our inventories per store up materially over the last year and half. We tested a more frequent replenishment model, utilizing our distribution centers. By the end of 2015, we were servicing about 1,000 of our 5,000 plus U.S. stores with multiple times per week distribution center deliveries. This focuses on improving our in-stock position of our core store-stocked product. We also expanded or built five "Mega Hubs". While our very successful 176 Hub stores carry a more extensive line of hard parts inventory than their surrounding stores, usually twice the number of skus, the Mega Hubs carry an even more extensive assortment, in some cases twice what a hub store carries. While 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. We have been extensively testing both increased delivery frequency and Mega Hubs for approximately two years and we recently reached a decision that both will become an important part of our supply chain strategy for the future. We expect that the majority 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 need to add two or three additional distribution centers to our existing eight domestic facilities. These distribution center additions will be completed over a few years and, once completed, will reduce drive times to stores in many markets, where distances were just too far for multiple deliveries per week. It will take a few years to completely implement all aspects of these changes, but we will begin aggressive implementation in fiscal 2016. We believe these well-planned and tested initiatives can improve both our Retail and Commercial businesses. While we will face cost headwinds to implement these initiatives, we are excited by their sales potential. Customers in our test markets are already recognizing our improvements, and results are showing we're making the right moves.

Secondly, during September 2014, we acquired IMC. IMC is the second largest distributor of OE quality import replacement parts in the United States. With its extensive line of original equipment brands for almost all European and Asian cars, we believe the IMC business itself has strong prospects and having access to these products will also benefit both our retail and commercial customers. We opened three new IMC locations this past year, and we expect to open a handful of additional branches in 2016. While we are rapidly expanding this business, we will continue to experience cost headwinds. We are very excited about IMC's growth potential in future years.

Thirdly, in fiscal 2015, we also continued with our international store growth, now operating 441 stores in Mexico and a handful of stores in Brazil. We expect that number to grow in 2016. We also are growing our ALLDATA software offering internationally, and expect that to be a continuing focus in 2016.

Lastly, we are expanding our fast-growing internet offerings. Utilizing our autozone.com, autozonepro.com and autoanything.com websites, we believe we are well positioned to serve our customers however they elect to interact with us. In 2016, we will continue our focus on both expanding 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 small in absolute terms. However, over time, as mobile shopping intensifies, it will only expand. We have to stay out in front in this sector of our industry. Our customers expect us to offer this shopping convenience and additional avenues for trustworthy advice to maintain, enhance or repair their vehicle.

We are proud of what we've accomplished this past year: record sales, profits, profits per share, and cash flow generation. But we continue to have opportunities as we must continue to enhance our offerings to meet our customers where, when and how they want to interact with us. Looking forward, 2016 will be a busy year for us as we have many growth opportunities.

We believe Fiscal 2015 lays a strong foundation for an even better year in 2016. 2015 was a year of testing and studying. In fiscal 2016, we will begin executing our new initiatives. We continued to increase our investments in our information systems infrastructure. This aggressive investment will help build upon and improve what we believe to be the best systems in our industry.

## Summary of 2015 Results

During 2015, we had many successes. We exceeded \$10 billion in sales for the first time in our company's rich history, up 7.5% over fiscal year 2014, and we delivered \$36.03 in earnings per share, up 14.1% over 2014. We also:

- Expanded our domestic store base by a net 157 stores across 49 states and Puerto Rico
- Opened 296 net new Commercial programs, ending the year with commercial programs in 81% of our domestic store base
- Increased our presence in Mexico by 39 stores ending with 441 stores
- Opened two additional stores in Brazil, for a total of seven stores
- Significantly grew our on-line offerings at autozone.com, autozonepro.com and autoanything.com
- Acquired and began the expansion of IMC
- Opened 10 additional Hub stores, finishing the fiscal year with 176 Hubs (including five "Mega Hubs")
- Continued with our industry leading Return on Invested Capital (ROIC) reporting 31.2% for fiscal 2015
- Generated a record \$1.5 billion of Operating Cash Flow, up 13.7% over last year
- Repurchased more than \$1 billion in shares for the seventh consecutive year

Our success is directly attributable to our 81,000+ great AutoZoners and their commitment to customer service, our Pledge and Values.



## **We are looking forward to 2016!**

### **U.S. Retail**

We are the country's largest retailer of automotive aftermarket products with more than 5,100 stores across 49 United States. Our retail initiatives for 2015 were: (1) Great People Providing Great Service; (2) Commercial Growth; (3) Leveraging the Internet; (4) Leveraging Technology to improve the customer experience while optimizing efficiencies; and (5) Improving Inventory Availability.

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 always imperative we have great people providing great service. Technology continued to be a larger focus for our organization. We are 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 in 2014, we significantly increased our investment in this area again in 2015. We expect an increased level of investment for years to come.

As discussed above, we continued testing different inventory availability models in 2015. And on our year end earnings call, we discussed our detailed rollout plan for both more frequent weekly deliveries from our distribution centers to our stores and more Mega Hub openings. We expect to increase multiple deliveries per week to approximately another 1,000 domestic stores in 2016. We also plan to open additional Mega Hubs. This is in line with a multiple delivery per week plan to have a majority of our 5,000 domestic stores on multiple distribution center deliveries and to have approximately 25 total Mega Hub stores in operation over the next few years. While there are incremental delivery and warehousing costs to deliver more frequently, our testing has shown a sales lift that appropriately hurdles our internal rate of return model. We believe, with consumers driving more and gas prices down recently, the potential for Retail industry growth in 2016 is strong.

### **U.S. Commercial**

In fiscal 2015, our Commercial sales grew 13.1% over last year. This customer base remains highly fragmented, and we see tremendous opportunities to increase market share. We opened 296 net new programs this past year, and have opened an amazing 1,088 net new programs over the last three years. Currently, 26% of our Commercial programs are three years old or less. We now have the commercial program in 81% of our domestic stores and we see opportunities to continue to open additional programs and grow sales in our existing programs. In 2015, we intensified our focus on growing our "mature programs" and specifically our "mature customers". We made meaningful improvement in 2015 and will continue these efforts in 2016. Additionally, through our recent IMC acquisition, we believe we can provide a wider product assortment to our existing customers. We believe we are well positioned for growth in Commercial for 2016 and beyond.

### **International**

With over 440 locations across Mexico, and just a handful in Brazil, we continued our strategy of international store development during 2015. While our business model performed well this past 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 outside-the-U.S. business being done in Mexico, the Peso devalued 28% over our fiscal year. While a serious headwind to dollar profits in 2015, we managed the business well during the year. Also, we have focused on improving our information systems within our international operations. Our goal is to have all our stores across the world on the same platform. This is a challenging task since there are differing requirements for doing business in Brazil versus Mexico, for example. This common platform development will take a few years to complete. We have a well-developed business in Mexico and will continue to expand our presence there. In Brazil, we remain in test phase as we continue to work to develop a model that works well for our Brazilian customers and is financially viable. We made very encouraging progress in Brazil in 2015 but we aren't yet prepared to determine our long-term plans. We are excited about our International opportunities.

### **Digital Integration**

The Digital Integration concept was introduced at the beginning of fiscal 2014 and we continue to develop and refine our initiatives in this area. 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 views and look at our customers on a more holistic basis. We remain in the early stages of this initiative, but 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, and this will remain a key focus in 2016.

## Our Future

As mentioned in the opening, our operating theme for 2016 is “LIVE the Pledge.” This is a continuation of past years’ priorities. 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. In this vein, we are also taking the approach to never saying “no” to our customer’s requests. We are challenging ourselves in 2016 to do whatever it takes to fulfill our customers’ needs. Although this may be impossible to achieve completely due to all the different makes and models in the U.S. vehicle population, we are determined to raise our “yes percentage” to our customers.

For fiscal 2016, our 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) Improving Inventory Availability; and (5) “Yes! We’ve Got 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 36th consecutive quarter of double digit EPS growth. We are very pleased with this amazing accomplishment but past success does not equate to 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 business at an accelerated rate. Therefore, we look to routinely grow EBIT dollars in the low to mid-single digit range, or better in times of strength. And we will continue to leverage our historically strong cash flows to repurchase shares in order to grow our earnings per share into double digits. We will invest in initiatives that provide us with an appropriate return. Our Return on Invested Capital, at 31.2%, is one of the best in all of hardlines retailing. We will 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 2015. They have performed well in both good and more challenging times. They embrace our culture with an intense passion to provide our customers with an exceptional experience. As we begin 2016, we must continue to focus on our customers’ needs and exceed their expectations. We have an ambitious rollout schedule planned for multiple weekly inventory deliveries, and we expect to open more Mega Hub stores. 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 36 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