CASE 30

Autozone, Inc.

On February 1, 2012, Mark Johnson, portfolio manager at Johnson & Associates, an asset management company, was in the process of reviewing his largest holdings, which included AutoZone, an aftermarket auto-parts retailer. AutoZone shareholders had enjoyed strong price appreciation since 1997, with an average annual return of 11.5% (**Exhibit 1**). The stock price stood at $348, but Johnson was concerned about the recent news that Edward Lampert, AutoZone's main shareholder, was rapidly liquidating his stake in the company.

Since 2004, AutoZone shareholders had received large distributions of the company's cash flows in the form of share repurchases. When a company repurchased its own shares, it enhanced earnings per share by reducing the shares outstanding, and it also served to reduce the book value of shareholders' equity (see AutoZone financial statements in **Exhibits 2, 3, 4,** and **5**). Johnson felt that Lampert was likely a driving force behind AutoZone's repurchase strategy because the repurchases started around the time Lampert acquired his stake and accelerated as he built up his position. Now that Lampert was reducing his stake, however, Johnson wondered if AutoZone would continue to repurchase shares or if the company would change its strategy and use its cash flows for initiating a cash dividend or reinvesting the cash in the company to grow its core business. In addition, given its large debt burden (**Exhibit 6**), AutoZone could choose to repay debt to improve its credit rating and increase its financial flexibility.

With AutoZone potentially changing its strategy for the use of its cash flows, Johnson needed to assess the impact of the change on the company's stock price and then decide whether he should alter his position in the stock.

The Auto Parts Business

Aftermarket auto-parts sales were split into the Do-It-Yourself (DIY) and Do-It-For-Me (DIFM) segments. In the DIY segment, automobile parts were sold directly to vehicle

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This case was prepared by Justin Brenner (MBA '12) under the supervision of Kenneth Eades, Paul Tudor Jones Research Professor of Business Administration. It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. The character of Mark Johnson and the Johnson & Associates company are fictional.

owners who wanted to fix or improve their vehicles on their own. In the DIFM segment, automobile repair shops provided the parts for vehicles left in their care for repair. DIY customers were serviced primarily through local retail storefronts where they could speak with a knowledgeable sales associate who located the necessary part. DIFM service providers, because of their expertise in repairing vehicles, generally did not require storefront access or the expertise of a sales associate. DIFM customers, however, were concerned with pricing, product availability, and efficient product delivery.

Sales in both segments were strongly related to the number of miles a vehicle had been driven. For the DIY segment, the number of late-model cars needing repair was also a strong predictor of auto-parts sales. As the age of a car increased, more repairs were required, and the owners of older cars were more likely to repair these senior vehicles themselves (**Exhibit 7**).

The number of miles a car was driven was affected by several economic fundamentals, the most important of which was the cost of gasoline. The number of older cars on the road increased during those times when fewer consumers bought new cars. New car purchases were subject to the same general economic trends applicable to most durable goods. As a result, in periods of strong economic growth and low unemployment, new car sales increased. Conversely, when the economy struggled and unemployment was high, fewer new cars were purchased and older cars were kept on the road longer, requiring more frequent repairs.

Overall, when the economy was doing well, gas prices and new car sales both increased, decreasing both the number of older cars on the road and the amount of additional mileage accumulated. When the economy did poorly, gas prices and new car sales were more likely to be depressed, increasing the utilization of older cars and their mileage. Because of these dynamics, auto-parts sales, especially in the DIY segment, were somewhat counter-cyclical.

The auto-parts business consisted of a large number of small, local operations as well as a few large, national retailers, such as AutoZone, O'Reilly Auto Parts, Advance Auto Parts, and Pep Boys. The national chains had sophisticated supply-chain operations to ensure that an appropriate level of inventory was maintained at each store while managing the tradeoff between minimizing inventory stock outs and maximizing the number of stock-keeping units (SKUs). This gave the large, national retailers an advantage because customers were more likely to find the parts they wanted at one of these stores. Counterbalancing the inventory advantage, however, was the expertise of sales associates, which allowed the smaller, local stores to enhance the customer service experience in DIY sales.

Recent Trends

In 2008, the U.S. economy had gone through the worst recession since the Great Depression, and the recovery that followed had been unusually slow. As a result, the auto-parts retail business enjoyed strong top-line growth. The future path of the U.S. economy was still highly uncertain as was the potential for a disconnect between GDP growth and gas price increases and between gas prices and miles driven. Furthermore, as auto-parts retailers operated with high-gross margins and significant fixed costs, profits varied widely with the level of sales, making the near-term earnings in the auto-parts retail segment particularly difficult to predict.

The auto-parts retail business experienced more competition as national retailers continued to expand their operations. Most of their expansion was at the expense of local retailers, but competition between major national retailers was heating up. If the economy strengthened and the auto-parts retail business was negatively affected by the replacement of older cars with new ones, competition between large, national retailers could make a bad situation worse.

Linked to high levels of industry competition and the expansion of the major retailers was the possibility that growth would eventually hit a wall if the market became oversaturated with auto-parts stores. Despite this concern, by 2012, AutoZone[1] management had stated that it was not seeing any signs of oversaturation, implying that expansion opportunities still remained.

The industry was also seeing an increase in sales via online channels as consumers enjoyed the flexibility of purchasing online and either picking up at the most convenient location or having their order delivered to their doorstep. Given the high operating leverage provided by selling through online channels, especially given the preexisting supply chains that already were built for storefront operations, as well as the growth in this channel, the national retail chains continued to invest in their online solutions and looked at that channel for future earnings growth.

Finally, another trend was the expansion of the large, U.S. auto-parts retailers into adjacent foreign markets, such as Mexico, Canada, and Puerto Rico. Thus far, the national retail companies were successful using this strategy, but their ability to continue to succeed and prosper in these markets, as well as in new, attractive locations such as Brazil, was not yet a reality.

AutoZone

AutoZone's first store opened in 1979 under the name Auto Shack in Forrest City, Arizona. In 1987, the name was changed to AutoZone, and the company implemented the first electronic auto-parts catalog for the retail industry. Then, in 1991, after four years of steady growth, AutoZone went public and was listed on the New York Stock Exchange under the ticker symbol AZO.

By 2012, AutoZone had become the leading retailer of automotive replacement parts and accessories in the United States, with more than 65,000 employees and 4,813 stores located in every state in the contiguous United States, Puerto Rico, and Mexico. AutoZone also distributed parts to commercial repair shops. In addition, a small but growing portion of AutoZone sales came through its online channel.

From the beginning, AutoZone had invested heavily in expanding its retail footprint via both organic and inorganic growth. It had also developed a sophisticated hub-and-feeder inventory system that kept the inventories of individual stores low as well as reduced the likelihood of stock outs. The expansion of its retail footprint had driven top-line revenue growth. AutoZone's success in developing category-leading distribution capabilities had resulted in both the highest operating margin for its industry and strong customer service backed by the ability of its distribution network to supply stores with nearly all of the AutoZone products on a same-day basis (**Exhibit 8**).

[1] AutoZone Q1 2012 Earnings Call—"I haven't seen a market yet that was so saturated yet that we were challenged economically," Bill Rhodes, AutoZone chairman, president, and CEO.

AutoZone's management focused on after-tax return on invested capital (ROIC) as the primary way to measure value creation for the company's capital providers. As a result, while AutoZone management invested in opportunities that led to top-line revenue growth and increased margins, it also focused on capital stewardship. What resulted was an aggressively managed working capital at the store level through the efficient use of inventory as well as attractive terms from suppliers.

Starting in 1998, AutoZone had returned capital to its equity investors through share repurchases. Although share-repurchase programs were common among U.S. companies, the typical result was a modest impact on shares outstanding. AutoZone's consistent use of share repurchases, however, had resulted in a significant reduction of both the shares outstanding and the equity capital. In particular, shares outstanding had dropped 39% from 2007 to 2011, and shareholders' equity had been reduced to a negative $1.2 billion in 2011. The repurchases had been funded by strong operating cash flows and by debt issuance. The net result was that AutoZone's invested capital had remained fairly constant since 2007, which, combined with increased earnings, created attractive ROIC levels (**Exhibit 9**).

Operating Cash Flow Options

While AutoZone had historically repurchased shares with operating cash flow, Mark Johnson felt that Edward Lampert's reduced stake in the company could prompt management to abandon repurchases and use the cash flows for other purposes. For example, AutoZone could distribute cash flows through cash dividends, reinvest the cash flows back into the core business, or use the funds to acquire stores. The company could also invest further in its operational capabilities to stay on the leading edge of the retail auto-parts industry. Finally, given a negative book-equity position and a continually growing debt load, AutoZone might consider using its cash flows to pay down debt to increase its future financial flexibility.

Dividends versus Share Repurchases

Assuming that AutoZone decided to distribute some of its operating cash flows to shareholders, the company had the choice of distributing the cash through dividends, share repurchases, or some combination of the two. Dividends were seen as a way to provide cash to existing shareholders, whereas only those shareholders who happened to be selling their shares would receive cash from a share-repurchase program. On the other hand, dividends were taxed at the shareholder level in the year received, whereas if a share-repurchase program succeeded in increasing the share price, the nonselling shareholders could defer paying taxes until they sold the stock.[2]

Dividends were also generally considered to be "sticky," meaning that the market expected a company to either keep its dividend steady or raise it each year.

[2] Current tax laws did allow for most dividends to be taxed at the same long-term capital gains rates, although this was not always the case, and the tax law regarding dividends was not certain going forward.

Because of this mindset, the implementation of a dividend or an increase of the dividend was usually interpreted by the market as a positive signal of the firm's ability to earn enough to continue paying the dividend far into the future. Conversely, any decrease in the dividend was normally viewed by the market as a very negative signal. Therefore, the stock price tended to change according to the dividend news released by the firm, which would be favorable for AutoZone shareholders so long as management was able to continue or increase the dividend each year.

Share repurchases were not viewed as sticky by the market because the amount of the repurchase often varied each year. The variance in the shares purchased might be caused by economic headwinds or tailwinds or differences in the quantity and size of investment opportunities that management believed would create shareholder value. Also, share repurchases were seen by some as a way to signal management's belief that the stock was undervalued and thus represented a good investment for the company.

Some companies chose to return shareholder capital through both dividends and share repurchases. In most of these cases, the company provided a stable but relatively small cash dividend and then repurchased shares at varying levels according to the circumstances each year. The benefit of this approach was to give shareholders the benefit of a sticky dividend while also receiving the price support of share repurchases.

Organic Growth

AutoZone could consider using its operating cash flow to increase the number of new stores it opened each year. Although the retail auto-parts industry was competitive and relatively mature, AutoZone's CEO had recently indicated that he did not see oversaturation of retail auto-parts stores in any of the company's markets.[3] Therefore, AutoZone could seize the opportunity to expand more rapidly, and perhaps preempt competition from gaining a foothold in those markets.

Rapid expansion came with a number of risks. First, Johnson was not sure that AutoZone had the managerial capacity to expand that swiftly. The company's growth in recent years had been substantial, as were the returns on investment, but it was not apparent if further growth would necessarily continue to create value. In addition, Johnson reasoned that the best retail locations were already covered, and that remaining areas would have lower profitability. This could be exacerbated if AutoZone expanded into areas that were less well served by its distribution network.

Johnson thought that there were some very attractive overseas investment opportunities, as evidenced by successful store openings in Mexico and Puerto Rico. AutoZone's 2011 annual report indicated work was underway to expand into Brazil over the next several years.[4] The company could increase its global presence by aggressively opening multiple stores in Brazil and other international locations. Hasty expansion into foreign markets, however, brought with it not only the risks of rapid store expansion, but also the difficulties inherent in transferring and translating the domestically successful supply model.

[3]See footnote 1.

[4]AutoZone annual report, 2011.

Growth by Acquisition

Johnson noted that in 1998 AutoZone had acquired over 800 stores from competitors and reasoned that another way to swiftly increase revenues would be for AutoZone to acquire other auto-parts retail stores. While this strategy would require some postmerger integration investment, such stores would be productive much more quickly than greenfield stores and shorten the return time on AutoZone's investment. This was an interesting strategy, but Johnson also knew that industry consolidation (**Exhibit 10**) had removed most of the viable takeover targets from the market; therefore it was unclear whether a merger of two of the large players would be allowed by the U.S. Department of Justice.

Debt Retirement

A final consideration was whether AutoZone might use part or all of its operating cash flows to retire some of the debt that the company had accumulated over the years. Much of the debt had been used to fund the share repurchases, but with a negative book-equity position and such a large debt position, Johnson wondered whether it was prudent to continue adding debt to the balance sheet. If AutoZone ran into trouble, it could struggle under the strain of making the interest payments and rolling over maturing debt. At some point, it was conceivable that AutoZone could lose its investment-grade credit rating,[5] which would only make future debt financing more difficult to secure and more expensive.

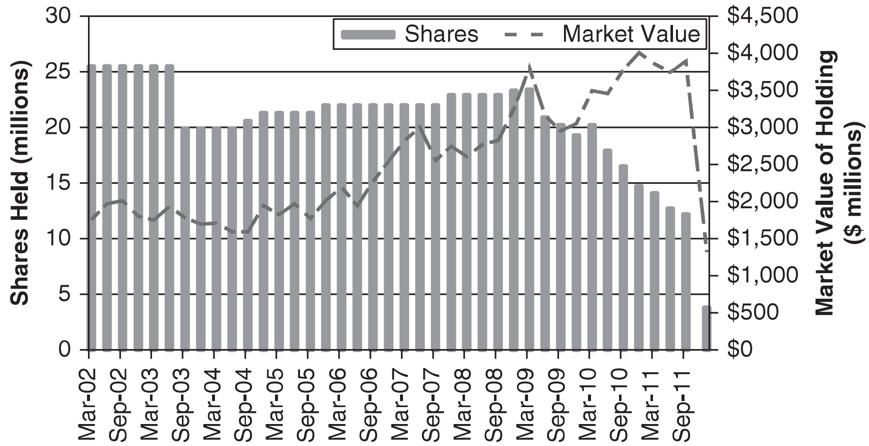
The Decision

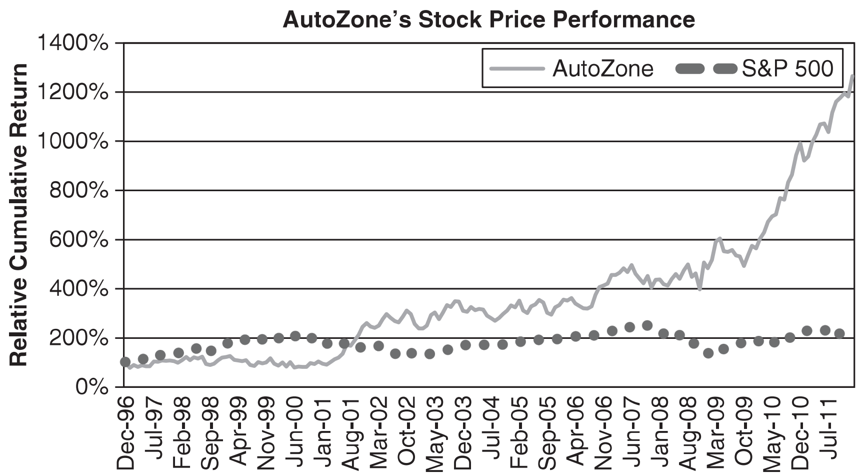
Johnson had to decide what to do with his AutoZone investment. He was impressed with the company's history of strong shareholder returns and its leading position in the industry. Still, he wondered if Lampert's reduced influence and the potential for less favorable economic trends for auto-parts retailers were enough uncertainty for him to consider selling some or all of his position in the stock. As an analyst, Johnson's first consideration regarding the value of a company was to determine how well management was using the operating cash flow to maximize value for shareholders. Based on the ROIC (**Exhibit 9**), AutoZone was earning high returns on the capital invested in the company, which was undoubtedly the primary driver of stock returns. The extent to which share repurchases had contributed to the stock's performance, however, was less clear.

How would the market react to the news that AutoZone was reducing or eliminating its share repurchases after years of consistently following that strategy? Did the market view AutoZone's share repurchases as a cash dividend or was it indifferent about whether cash flows were distributed by repurchasing shares or paying a cash dividend? In any case, Johnson wondered if any move away from repurchasing shares after so many years might cause the stock price to fall, regardless of how the cash flows were ultimately spent. Or would AutoZone's stock price continue to appreciate as it had in the past so long as it continued to produce strong cash flows?

[5]Moody's and S&P had consistently assigned investment-grade ratings of Baa and BBB, respectively, for AutoZone's senior unsecured debt.

EXHIBIT 1 | Edward Lampert's Position in AutoZone





Data Source: Bloomberg.

EXHIBIT 2 | AutoZone Income Statement (August FY, in thousands of dollars, except ratios and per-share data)

	Year ended				
	August 27, 2011	**August 28, 2010**	**August 29, 2009**	**August 30, 2008**	**August 25, 2007**
Net sales	$8,072,973	$7,362,618	$6,816,824	$6,522,706	$6,169,804
Cost of sales	3,953,510	3,650,874	3,400,375	3,254,645	3,105,554
Gross profit	4,119,463	3,711,744	3,416,449	3,268,061	3,064,250
SG&A	2,624,660	2,392,330	2,240,387	2,143,927	2,008,984
Operating profit	1,494,803	1,319,414	1,176,062	1,124,134	1,055,266
Interest expense, net	170,557	158,909	142,316	116,745	119,116
Income before income taxes	1,324,246	1,160,505	1,033,746	1,007,389	936,150
Income tax expense	475,272	422,194	376,697	365,783	340,478
Net income	**$848,974**	**$738,311**	**$657,049**	**$641,606**	**$595,672**
Wt. avg. shares for basic EPS	42,632	48,488	55,282	63,295	69,101
Effect of dilutive stock equivalents	971	816	710	580	743
Adj. wt. avg. shares for diluted EPS	43,603	49,304	55,992	63,875	69,844
Basic earnings per share	**$19.91**	**$15.23**	**$11.89**	**$10.14**	**$8.62**
Diluted earnings per share	**$19.47**	**$14.97**	**$11.73**	**$10.04**	**$8.53**
Other information:					
EBIT	$1,494,803	$1,319,414	$1,176,062	$1,124,134	$1,055,266
Depr. & Amort.	196,209	192,084	180,433	169,509	159,411
EBITDA	$1,691,012	$1,511,498	$1,356,495	$1,293,643	$1,214,677
EBITDA/Interest	9.9x	9.5x	9.5x	11.1x	10.2x

Data Source: AutoZone annual reports.

EXHIBIT 3 | AutoZone Balance Sheet (August FY, in thousands of dollars)

	August 27, 2011	August 28, 2010	August 29, 2009	August 30, 2008	August 25, 2007
Assets					
Current assets:					
Cash and cash equivalents	$97,606	$98,280	$92,706	$242,461	$86,654
Accounts receivable	140,690	125,802	126,514	71,241	59,876
Merchandise inventories	2,466,107	2,304,579	2,207,497	2,150,109	2,007,430
Other current assets	88,022	83,160	135,013	122,490	116,495
Deferred income taxes	—	—	—	—	—
Total current assets	2,792,425	2,611,821	2,561,730	2,586,301	2,270,455
Property and equipment:					
Land	740,276	690,098	656,516	643,699	625,992
Buildings and improvements	2,177,476	2,013,301	1,900,610	1,814,668	1,720,172
Equipment	994,369	923,595	887,521	850,679	780,199
Leasehold improvements	275,299	247,748	219,606	202,098	183,601
Construction in progress	184,452	192,519	145,161	128,133	85,581
Gross property and equipment	4,371,872	4,067,261	3,809,414	3,639,277	3,395,545
Less: Accumulated depreciation and amortization	1,702,997	1,547,315	1,455,057	1,349,621	1,217,703
Net property and equipment	2,668,875	2,519,946	2,354,357	2,289,656	2,177,842
Goodwill	302,645	302,645	302,645	302,645	302,645
Deferred income taxes	10,661	46,223	59,067	38,283	21,331
Other long-term assets	94,996	90,959	40,606	40,227	32,436
Total assets	**$5,869,602**	**$5,571,594**	**$5,318,405**	**$5,257,112**	**$4,804,709**
Liabilities and Stockholders' Deficit					
Current liabilities:					
Accounts payable	$2,755,853	$2,433,050	$2,118,746	$2,043,271	$1,870,668
Accrued expenses and other	449,327	432,368	381,271	327,664	307,633
Income taxes payable	25,185	25,385	35,145	11,582	25,442
Deferred income taxes	166,449	146,971	171,590	136,803	82,152
Short-term borrowings	34,082	26,186	—	—	—
Total current liabilities	3,430,896	3,063,960	2,706,752	2,519,320	2,285,895
Long-term debt	3,317,600	2,882,300	2,726,900	2,250,000	1,935,618
Other long-term liabilities	375,338	364,099	317,827	258,105	179,996
Stockholders' deficit:					
Common stock, par: $0.01/share	441	501	579	636	713
Additional paid-in capital	591,384	557,955	549,326	537,005	545,404
Retained earnings	(643,998)	(245,344)	136,935	206,099	546,049
Accumulated other comprehensive loss	(119,691)	(106,468)	(92,035)	(4,135)	(9,550)
Treasury stock, at cost	(1,082,368)	(945,409)	(1,027,879)	(509,918)	(679,416)
Total stockholders' equity	(1,254,232)	(738,765)	(433,074)	229,687	403,200
Total liabilities and stockholders' equity	**$5,869,602**	**$5,571,594**	**$5,318,405**	**$5,257,112**	**$4,804,709**
Shares issued	44,084	50,061	57,881	63,600	71,250
Shares outstanding	40,109	45,107	50,801	59,608	65,960
Other information:					
Capital lease obligations	86,656	88,280	54,764	64,061	55,088

Data Source: AutoZone annual reports.

EXHIBIT 4 | AutoZone Statement of Cash Flows (August FY, in thousands of dollars)

	Year ended				
	August 27, 2011	**August 28, 2010**	**August 29, 2009**	**August 30, 2008**	**August 25, 2007**
Cash flows from operating activities:					
Net income	$848,974	$738,311	$657,049	$641,606	$595,672
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization of property and equipment	196,209	192,084	180,433	169,509	159,411
Amortization of debt origination fees	8,962	6,495	3,644	1,837	1,719
Income tax benefit from exercise of stock options	(34,945)	(22,251)	(8,407)	(10,142)	(16,523)
Deferred income taxes	44,667	(9,023)	46,318	67,474	24,844
Share-based compensation expense	26,625	19,120	19,135	18,388	18,462
Other	—	—	—	—	—
Changes in operating assets and liabilities:					
Accounts receivable	(14,605)	782	(56,823)	(11,145)	20,487
Merchandise inventories	(155,421)	(96,077)	(76,337)	(137,841)	(160,780)
Accounts payable and accrued expenses	342,826	349,122	137,158	175,733	186,228
Income taxes payable	34,319	12,474	32,264	(3,861)	17,587
Other, net	(6,073)	5,215	(10,626)	9,542	(1,913)
Net cash provided by operating activities	**1,291,538**	**1,196,252**	**923,808**	**921,100**	**845,194**
Cash flows from investing activities:					
Capital expenditures	(321,604)	(315,400)	(272,247)	(243,594)	(224,474)
Purchase of marketable securities	(43,772)	(56,156)	(48,444)	(54,282)	(94,615)
Proceeds from sale of marketable securities	43,081	52,620	46,306	50,712	86,921
Acquisitions	—	—	—	—	—
Disposal of capital assets	3,301	11,489	10,663	4,014	3,453
Net cash used in investing activities	**(318,994)**	**(307,447)**	**(263,722)**	**(243,150)**	**(228,715)**
Cash flows from financing activities:					
Net proceeds from commercial paper	134,600	155,400	277,600	(206,700)	84,300
Net proceeds from short-term borrowings	6,901	26,186	—	—	—
Proceeds from issuance of debt	500,000	—	500,000	750,000	—
Repayment of debt	(199,300)	—	(300,700)	(229,827)	(5,839)
Net proceeds from sale of common stock	55,846	52,922	39,855	27,065	58,952
Purchase of treasury stock	(1,466,802)	(1,123,655)	(1,300,002)	(849,196)	(761,887)
Income tax benefit from exercise of stock options	34,945	22,251	8,407	10,142	16,523
Payments of capital lease obligations	(22,781)	(16,597)	(17,040)	(15,880)	(11,360)
Other	(17,180)	—	(15,016)	(8,286)	(2,072)
Net cash used in financing activities	**(973,771)**	**(883,493)**	**(806,896)**	**(522,682)**	**(621,383)**
Effect of exchange rate changes on cash	553	262	(2,945)	539	—
Net (decrease) increase in cash and cash equivalents	(674)	5,574	(149,755)	155,807	(4,904)
Cash and cash equivalents at beginning of year	98,280	92,706	242,461	86,654	91,558
Cash and cash equivalents at end of year	$97,606	$98,280	$92,706	$242,461	$86,654
Supplemental cash flow information:					
Interest paid, net of interest cost capitalized	$155,531	$150,745	$132,905	$107,477	$116,580
Income taxes paid	$405,654	$420,575	$299,021	$313,875	$299,566
Assets acquired through capital lease	$32,301	$75,881	$16,880	$61,572	$69,325

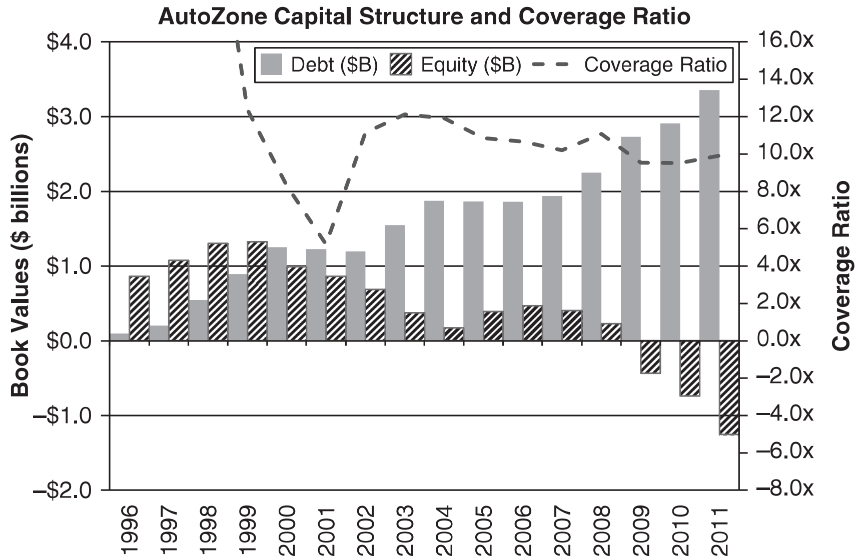
Data Source: AutoZone annual reports.

EXHIBIT 5 | AutoZone 2011 Statement of Stockholders' Equity (dollars in thousands)

(in thousands)	Common Shares Issued	Common Stock	Additional Paid-in Capital	Retained (Deficit) Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at August 28, 2010	50,061	501	$557,955	($245,344)	($106,468)	($945,409)	($738,765)
Net income				848,974			848,974
Pension liability adjustments, net of taxes of ($3,998)					(17,346)		(17,346)
Foreign currency translation adjustment					8,347		8,347
Unrealized loss adjustment on marketable securities, net of taxes of ($91)					(171)		(171)
Net losses on terminated derivatives					(5,453)		(5,453)
Reclassification of net losses on derivatives into earnings					1,400		1,400
Comprehensive income							835,751
Purchase of 5,598 shares of treasury stock						(1,466,802)	(1,466,802)
Retirement of treasury shares	(6,577)	(66)	(82,150)	(1,247,627)		1,329,843	—
Sale of common stock under stock options and stock purchase plan	600	6	55,840				55,846
Share-based compensation expense			24,794				24,794
Income tax benefit from exercise of stock options			34,945				34,945
Other				(1)			(1)
Balance at August 27, 2011	44,084	441	$591,384	($643,998)	($119,691)	($1,082,368)	($1,254,232)

Data Source: AutoZone annual reports.

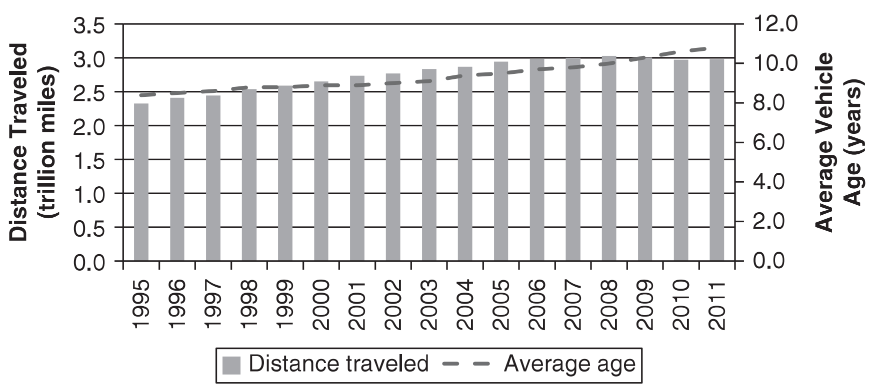
EXHIBIT 6 | AutoZone Capital Structure and Coverage Ratio



Note: Coverage ratio is defined as EBITDA divided by interest expense.

Data Source: AutoZone annual reports.

EXHIBIT 7 | Miles Driven and Average Vehicle Age



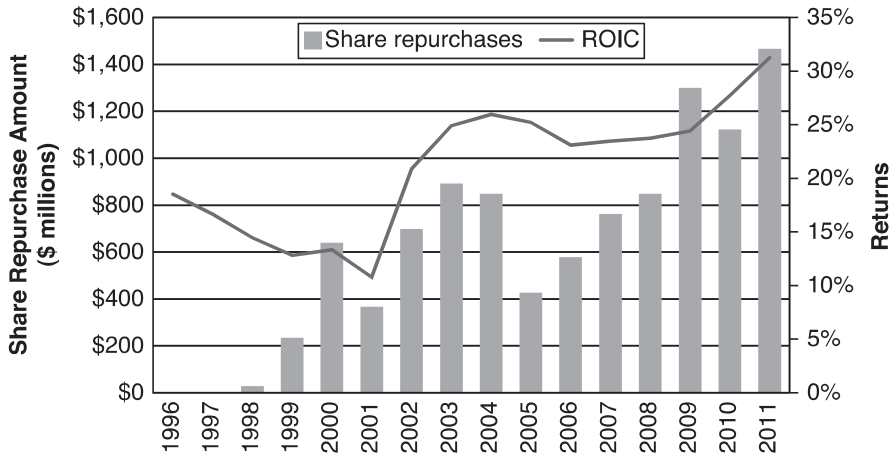
Data Source: U.S. Department of Transportation (miles driven) and, Polk Research (vehicle age).

EXHIBIT 8 | Merchandise Listing (as of October 17, 2011)

Failure	Maintenance	Discretionary
A/C Compressors	Antifreeze & Windshield Washer Fluid	Air Fresheners
Batteries & Accessories	Brake Drums, Rotors, Shoes & Pads	Cell Phone Accessories
Belts & Hoses	Chemicals, including Brake & Power	Drinks & Snacks
Carburetors	Steering Fluid, Oil & Fuel Additives	Floor Mats & Seat Covers
Chassis	Oil & Transmission Fluid	Mirrors
Clutches	Oil, Air, Fuel & Transmission Filters	Performance Products
CV Axles	Oxygen Sensors	Protectants & Cleaners
Engines	Paint & Accessories	Seat Covers
Fuel Pumps	Refrigerant & Accessories	Sealants & Adhesives
Fuses	Shock Absorbers & Struts	Steering Wheel Covers
Ignition	Spark Plugs & Wires	Stereos & Radios
Lighting	Windshield Wipers	Tools
Mufflers		Wash & Wax
Starters & Alternators		
Water Pumps		
Radiators		
Thermostats		

Data Source: AutoZone annual report.

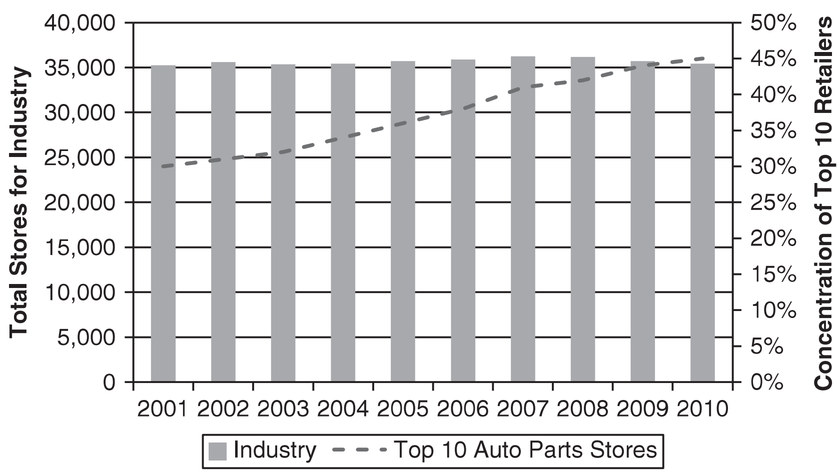
EXHIBIT 9 | Share Repurchases and ROIC 1996–2011



Note: ROIC is calculated as the sum of net income and tax-adjusted interest and rent expenses divided by the sum of average debt, average equity, six times rent expense (to approximate capitalizing rent), and average capital lease obligations.

Data Source: AutoZone annual reports.

EXHIBIT 10 | Aftermarket Auto Parts Industry Structure



Note: The top 10 companies (stores) as of August 2010: AutoZone (4,728), O'Reilly Auto Parts (3,657), Advance Auto Parts (3,627), General Parts/CARQUEST (1,500), Genuine Parts/NAPA (1,035), Pep Boys (630), Fisher Auto Parts (406), Uni-Select (273), Replacement Parts (155), and Auto-Wares Group (128).

Data Source: *AAIA Factbook* and SEC filings.