Risk Factors Comparison 2023-10-24 to 2022-10-24 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

Our business is subject to a variety of risks and uncertainties. The risks and uncertainties described below could materially and adversely affect our business, financial condition, operating results, cash flows and stock price. The following information should be read in conjunction with the other information contained in this report and other filings that we make with the SEC. These risks and uncertainties are not the only ones we face. Our business could also be affected by additional factors that are presently unknown to us or that we currently believe to be immaterial to our business. Strategic and Operational Risks If demand for our products slows, then our business may be materially adversely affected. Demand for the products we sell may be affected by a number of factors we cannot control, including: ● the number of older vehicles in service. Vehicles seven years old or older are generally no longer under the original vehicle manufacturers' warranties and tend to need more maintenance and repair than newer vehicles. ● **the number of miles vehicles are driven. Higher vehicle mileage increases the need for maintenance and repair. Mileage levels may be affected by gas prices, ride sharing, weather conditions, and other factors. ●** rising fuel and energy prices. Increases in fuel and energy prices may cause our customers to defer purchases of certain of our products as they use a higher percentage of their income to pay for ~~gasoline~~ **fuel** and other energy costs and may drive their vehicles less, resulting in less wear and tear and lower demand for repairs and maintenance. ● the economy. In periods of declining economic conditions, including as a result of inflation, consumers may reduce their discretionary spending by deferring vehicle maintenance or repair. Additionally, such conditions may affect our customers' ability to obtain credit. During periods of expansionary economic conditions, more of our DIY customers may pay others to repair and maintain their vehicles instead of working on their own vehicles, or they may purchase new vehicles. ● the weather. Milder weather conditions may lower the failure rates of automotive parts, while ~~extended periods of rain and winter precipitation may cause our customers to defer maintenance and repair on their vehicles. Extremely~~ **extremely** hot or cold conditions may enhance demand for our products due to increased failure rates of our customers' automotive parts. **Extended periods of rain and winter precipitation may cause our customers to defer maintenance and repair on their vehicles.** Additionally, climate changes can create more variability in the short- term or lead to other weather conditions that could impact our business. ● technological advances. Advances in automotive technology, such as improved parts design **,** can result in cars needing maintenance less frequently and parts lasting longer. ● ~~the number of miles vehicles are driven annually. Higher vehicle mileage increases the need for maintenance and repair. Mileage levels may be affected by gas prices, ride sharing, weather conditions, and other factors. ●~~ prevalence of electric vehicles. Increased prevalence of electric vehicles, whether due to changes in consumer preferences or regulatory action ~~banning~~ **incentivizing** the ~~sale~~ **purchase** of **electric** ~~new internal combustion~~ vehicles, can result in less frequent parts failures and reduced need for parts. ● the quality of the vehicles manufactured by the original vehicle manufacturers and the length of the warranties or maintenance offered on new vehicles. ● restrictions on access to telematics and diagnostic tools and repair information imposed by the original vehicle manufacturers or by governmental regulation. These restrictions may cause vehicle owners to rely on dealers to perform maintenance and repairs. These factors could result in a decline in the demand for our products, which could adversely affect our business and overall financial condition. If we are unable to compete successfully against other businesses that sell the products that we sell, we could lose customers and our sales and profits may decline. The sale of automotive parts, accessories and maintenance items is highly competitive. See " Item 1. Business " above for additional information regarding our competitive environment. Although we believe we compete effectively, our competitors may have greater financial and marketing resources allowing them to sell merchandise at lower prices, larger stores with more merchandise, longer operating histories with deeper customer relationships, more frequent customer visits and more effective advertising. Online and multi- channel retailers often have lower operating costs and focus on delivery services, thereby offering customers faster, guaranteed delivery times and low- price or free shipping. In addition, because our business strategy is based on offering superior levels of customer service to complement the products we offer, our cost structure is higher than some of our competitors, which also puts pressure on our margins. Consumers are embracing shopping online, including through mobile applications. With the increasing use of digital tools and social media, and our competitors' increased focus on optimizing customers' online experience, our customers are quickly able to compare prices, product assortment, product availability and feedback from other customers before purchasing products. If we are unable to continue to manage in- stock inventory and costs, provide competitive delivery options, develop successful competitive strategies, including the maintenance of effective promotions, advertising and loyalty programs, develop and execute effective digital and omni- channel strategies or otherwise compete effectively, or if our competitors develop more effective strategies, we could lose customers and our sales and profits may decline. We may not be able to sustain our historic rate of sales growth. We have increased our store count in the past five fiscal years, growing from 6, ~~029~~ **202 stores at August 25, 2018, to 7, 140** stores at August 26, ~~2017, to 6, 943 stores at August 27, 2022~~ **2023** , a compounded annual growth rate of three percent. Additionally, we have increased annual revenues in the past five fiscal years from $ ~~10~~ **11** . ~~9~~ **2** billion in fiscal ~~2017~~ **2018** to $ ~~16~~ **17** . ~~3~~ **5** billion in fiscal ~~2022~~ **2023** , with a compounded annual growth rate of ~~eight~~ **nine** percent. Annual revenue growth is driven by increases in same store sales, the opening of new stores and the development of new commercial programs. See " Item 7, Management' s Discussion and Analysis of Financial Condition and Results of Operations " for further discussion of same store sales. We open new stores only after evaluating customer buying trends and market demand / needs, all of which could be adversely affected by persistent unemployment, wage cuts, small business failures ~~and~~ **,** microeconomic conditions unique to the automotive industry **and our ability to expand into international markets** . Same store sales are impacted both by customer demand levels and by the prices we are able to charge for our products, which can also be negatively impacted by economic pressures. If we cannot profitably increase our market share in the commercial auto parts business, our sales growth may be limited. Although we are a leading distributor of automotive parts and other products in the commercial market, we must effectively compete against national ~~and~~ **,** regional **and local** auto parts chains, independently owned parts stores, wholesalers, jobbers ~~and~~ **, repair shops, auto dealers,** online retailers **and others** in order to increase our commercial market share. Although we believe we compete effectively in the commercial market on the basis of customer service, merchandise quality, selection and availability, price **, delivery times** , product warranty, distribution locations and the strength of our AutoZone brand name, trademarks and service marks, some automotive aftermarket participants have been in business for substantially longer periods of time than we have, and as a result have developed long- term customer relationships and have large available inventories. If we are unable to profitably develop new commercial customers, our sales growth may be limited. 15Our business depends upon hiring, training and retaining qualified employees **, including members of management and other key personnel** . We believe much of our brand value lies in the quality of the approximately ~~112~~ **119** , 000 AutoZoners employed in our stores, distribution centers, store support centers and ALLDATA. Our workforce costs represent our largest operating expense, and our ability to meet our labor needs while controlling labor costs is subject to numerous external factors, including market pressures with respect to prevailing wage rates and unemployment levels. Our business is also subject to employment laws and regulations, including those related to minimum wage, benefits and scheduling requirements. In addition, the implementation of potential regulatory changes relating to overtime exemptions and benefits for certain employees under federal and state laws could result in increased labor costs to our business and negatively impact our operating results. We compete with other retail businesses for many of our associates in hourly positions, and these positions have historically had high turnover rates, which can lead to increased training and retention costs, particularly in a competitive labor market. We cannot be assured that we can continue to hire, train and retain qualified employees at current wage rates since we operate in a competitive labor market, and there are currently significant inflationary and other pressures on wages. In the U. S., there has been an increase in workers exercising their right to form or join a union, both generally and in the retail industry **. Further, the National Labor Relations Board (NLRB) has issued decisions making it easier for employees to organize** . Although none of our employees are currently covered by collective bargaining agreements, there can be no assurance that our employees will not elect to be represented by labor unions in the future. If a significant portion of our work force were to become unionized, our culture and operating model could be challenged by inserting a third party between our current terrific relationships between our leaders and hourly AutoZoners. Further, our labor costs could increase **,** and our business could be negatively affected by other requirements and expectations that could change our company culture, decrease our flexibility and disrupt our business. Further, our responses to any union organizing efforts could negatively impact how our brand is perceived by customers and AutoZoners and have adverse effects on our business and financial results. If we are unable to hire, properly train and retain qualified AutoZoners, we could experience higher employment costs, reduced sales, losses of customers and diminution of our brand or company culture, which could adversely affect our earnings. If we do not maintain competitive wages or benefit packages, our customer service could suffer due to a declining quality of our workforce **,** or, alternatively, our earnings could decrease if we increase our wage rates. A violation or change in employment and labor laws (including changes in existing employment benefit programs such as health insurance) could have a material adverse effect on our results of operations, financial condition and cash flows. **Our future success depends on the skills and experience of our management and other key personnel. The unexpected loss of the services of any such persons could adversely affect our operations. There can be no assurance that our succession planning, retention or hiring efforts will be successful. Failure to attract and retain qualified personnel in key roles could adversely affect our operations.** Inability to acquire and provide quality merchandise at competitive prices could adversely affect our sales and results of operations. We are dependent upon our domestic and international vendors continuing to supply us with quality merchandise at competitive prices and payment terms. If our merchandise offerings do not meet our customers' expectations, or our customers have a negative perception of our merchandise regarding quality, innovation and safety, we could experience lost sales, increased costs and exposure to legal and reputational risk. In those circumstances, it may be difficult and costly for us to rebuild our reputation and regain the confidence of our customers. All of our vendors must comply with applicable product safety laws, and we are dependent on them to ensure that the products we buy comply with all safety and quality standards. Events that give rise to actual, potential or perceived product safety concerns could expose us to government enforcement action or private litigation, result in ~~costly~~ **16costly** product recalls and other liabilities and lead to reputational harm and loss of customer confidence. To the extent our suppliers are subject to added government regulation of their product design and / or manufacturing processes, the cost of the merchandise we purchase may rise. Furthermore, our vendors are impacted by global economic conditions which in turn impact our ability to source merchandise at competitive prices. For example, inflation, rising interest rates and disruption to the global supply chain have negatively impacted costs and inventory availability and may continue to have a negative impact on future results and profitability. Credit market and other macroeconomic conditions could also have a material adverse effect on the ability of our global and domestic suppliers to finance and operate their businesses. **If** ~~16If we experience transitions with~~ any of our significant vendors ~~, or if they~~ experience financial difficulties **, business disruptions** or ~~otherwise~~ are unable to deliver merchandise to us on a timely basis, or at all, we could have product shortages in our stores that could adversely affect customers' perceptions of us and cause us to lose customers and sales. Disruptions in our supply chain and other factors affecting the distribution of our merchandise could adversely impact our business. A disruption to our supply chain ~~and~~ **or** distribution network could adversely affect our ability to receive and distribute inventory in a timely manner, which could result in low inventory availability, lost sales, increased supply chain costs and loss of customer loyalty, among other things. Such disruptions may result from damage or destruction of our distribution centers **,** ~~or~~ **our** ~~may be the result of~~ **ability to attract and retain qualified drivers, costs associated with maintaining or operating our fleet or** macroeconomic conditions impacting the broader supply chain industry at large. For example, in recent years, ports, rails and domestic long- hauls in the U. S. and elsewhere have been negatively impacted by capacity constraints, congestion and delays, periodic labor disputes, security issues, weather- related events, and natural disasters, which have been further exacerbated by the COVID- 19 pandemic and other factors beyond our control. Our business and competitive position may be negatively impacted if we are unable to successfully mitigate the impacts of such disruption to our supply chain or if we are unable to manage such disruptions more effectively than our competitors. **We are subject to** ~~Risks~~ **risks** associated with products sourced outside the U. S. We directly imported approximately ~~15~~ **16** % of our purchases in fiscal ~~2022~~ **2023** , but many of our domestic vendors directly import their products or components of their products. Changes to the price or flow of these goods for any reason, such as civil unrest or acts of war, currency fluctuations, disruptions in maritime lanes, port labor disputes, economic conditions and instability in the countries in which foreign suppliers are located, the financial instability of suppliers, suppliers' failure to meet our standards, issues with labor practices of our suppliers or labor problems they may experience (such as strikes, stoppages or slowdowns, which could also increase labor costs during and following the disruption), the availability and cost of raw materials to suppliers, increased import duties or tariffs, merchandise quality or safety issues, shipping and transport availability and cost, increases in wage rates and taxes, transport security, ~~inflation and other factors relating to the suppliers and the countries in which they are located or from which they import, often are beyond our control and could adversely affect our operations and profitability. In addition, the~~ foreign trade policies, ~~tariffs and other impositions on imported goods,~~ trade sanctions ~~imposed on certain countries~~ , import limitations on certain types of goods or of goods containing certain materials from other countries **, port labor agreements, inflation** and other factors relating to ~~foreign trade~~ **the suppliers** and **the countries in which they are located or from which they** ~~port~~ **import** ~~labor agreements~~ **, often** are beyond our control **and could adversely affect our operations and profitability** . These and other factors affecting our suppliers and our access to products could adversely affect our business and financial performance. As we or our domestic vendors increase ~~our imports~~ **the importation** of merchandise **or components** from foreign vendors, ~~the~~ **these** risks **are likely to** ~~associated with these imports will also~~ increase. Our ability to grow depends in part on new store openings, existing store remodels and expansions and effective utilization of our existing supply chain and hub network. Our continued growth and success will depend in part on our ability to open and operate new stores and expand and remodel existing stores to meet customers' needs on a timely and profitable basis. Accomplishing ~~our new and existing~~ store **development and** expansion goals will depend upon a number of factors, including the ability to **identify** ~~partner with developers~~ and ~~landlords to~~ obtain suitable sites for new and expanded stores **in a timely manner and** at acceptable costs, the hiring and training of qualified personnel and the integration of new stores into existing operations. There can be no assurance we will be able to ~~achieve~~ **17achieve** our store expansion goals, manage our growth effectively, successfully integrate the planned new stores into our operations or operate our new, remodeled and expanded stores profitably. In addition, we extensively utilize our hub network, our supply chain and our logistics management techniques to efficiently stock our stores. We have made, and plan to continue to make, significant investments in our supply chain to improve product availability and product assortment, fulfill evolving consumer product demands and keep up with our long- term store expansion goals. If we fail to effectively utilize our existing hubs and / or supply chains, or if our investments in our supply chain initiatives, including directly sourcing some products from outside the U. S., do not provide the anticipated benefits, we could experience sub- optimal inventory levels in our stores or increases in our operating costs, which could adversely affect our sales volume and / or our margins. ~~17Our~~ -- **Our** success in international operations is dependent on our ability to manage the unique challenges presented by international markets. The various risks we face in our U. S. operations generally also exist when conducting operations in and sourcing products and materials from outside of the U. S., in addition to the unique costs, risks and difficulties of managing international operations. Our expansion into international markets may be adversely affected by local laws and customs, U. S. laws applicable to foreign operations, and political and socio- economic conditions **as well as our general ability to compete effectively and provide superior customer service regardless of distance, language and cultural differences** . Risks inherent in international operations also include potential adverse tax consequences, potential changes to trade policies and trade agreements, compliance with the Foreign Corrupt Practices Act and local anti- bribery and anti- corruption laws, greater difficulty in **obtaining and** enforcing intellectual property rights, challenges to identify and gain access to local suppliers, and possibly misjudging the response of consumers in foreign countries to our product assortment and marketing strategy. In addition, our operations in international markets are conducted primarily in the local currency of those countries. Since our Consolidated Financial Statements are denominated in U. S. dollars, amounts of assets, liabilities, net sales, and other revenues and expenses denominated in local currencies must be translated into U. S. dollars using exchange rates for the current period. As a result, foreign currency exchange rates and fluctuations in those rates may adversely impact our financial performance. Business interruptions may negatively impact our operating hours, operability of our computer and other systems, availability of merchandise and otherwise have a material negative effect on our sales and our business. Business interruptions including war or acts of terrorism, political or civil unrest, unusual or severe weather conditions ~~(including due to the impacts of climate change or otherwise)~~ such as hurricanes, tornadoes, windstorms, fires, earthquakes and floods, public health crises and other disasters or the threat of any of them, may negatively impact the hours and operations of our stores, distribution centers, store support centers or sourcing offices; may negatively impact our supply chain and distribution network; and may impede our ability to source quality merchandise domestically and outside of the U. S. on favorable terms. In the event commercial transportation is curtailed or substantially delayed, we may have difficulty transporting merchandise to our distribution centers and stores resulting in lost sales and / or a potential loss of customer loyalty. Transportation issues could also cause us to cancel purchase orders if we are unable to receive merchandise in our distribution centers. It is not possible to predict all events or circumstances which may negatively disrupt our business in a significant manner, and the near- term and long- term impacts of such disruptions on our business, demand for our products and our growth initiatives will vary significantly based on the facts and circumstances of each such disruption. Furthermore, such business interruptions could cause additional negative impacts of which we are not currently aware or magnify other risks associated with our business and operations. ~~Our~~ **18Our** failure to protect our **brand and** reputation could have **an** ~~a material~~ adverse effect on our **relationships with our customers, employees, suppliers, vendors** ~~brand~~ -- **and** ~~name~~ **other stakeholders, thereby negatively impacting sales** and profitability. We believe our continued strong sales growth is driven in significant part by our AutoZone and private label brand names **and our positive reputation with customers, employees, suppliers, vendors and other stakeholders** . The value in our brand names **and reputation,** and their continued effectiveness in driving our sales growth is dependent to a significant degree on our ability to maintain our reputation for safety, high product quality, friendliness, WOW! Customer service, trustworthy advice, integrity and business ethics. ~~Any negative~~ **Negative incidents can erode trust and confidence quickly, and adverse** publicity about ~~these~~ **us could damage our brand and reputation, undermine our customers' confidence in us, reduce demand for our products and services, affect our ability to recruit and retain employees, attract regulatory scrutiny, and impact our relationships with suppliers and vendors. Further, our actual or perceived response or lack of response to social, political, environmental** or other **sensitive** ~~areas involving our business, including our response or lack thereof to external events involving civil unrest, social justice, and political~~ issues, whether or not based in fact, could damage our reputation and may result in reduced demand for our merchandise. **Customers are** ~~The increasing use of technology~~ also **increasingly using** ~~poses a risk as customers are able to quickly compare products and prices and use~~ social media to provide feedback **and information about our Company, our products and services** in a manner that is rapidly and broadly disseminated. Our brand and reputation could be negatively impacted if negative sentiment about the Company, whether or not based on fact, is shared ~~over social media~~ **and distributed in such a manner** . ~~18Failure~~ -- **Failure** to comply with ethical, social, product, labor, environmental and anti- corruption standards could also jeopardize our reputation and potentially lead to various adverse actions by consumer or environmental groups, employees or regulatory bodies. Damage to our reputation or loss of consumer confidence for any of these or other reasons could have a material adverse effect on our results of operations and financial condition, as well as require additional resources to rebuild our reputation. Information Technology, Cybersecurity and Data Privacy Risks We rely heavily on information technology systems for our key business processes. Any damage to, failure of, or interruption in these systems could have a material adverse impact on our business and operating results. We rely extensively on information technology systems, some of which are managed or provided by third- party service providers, to collect, analyze, process, store, manage, transmit and protect key business processes, transactions and data, such as sales data, customer data, employee data, demand forecasting, merchandise ordering, inventory replenishment, supply chain management, payment processing, order fulfillment and more. Delays in the maintenance, updates, upgrading, or patching of these systems, applications or processes could adversely impact their effectiveness or could expose us to security and other risks. Our systems and the third- party systems with which we interact are subject to damage, failure or interruption due to various reasons such as: power or other critical infrastructure outages, facility damage, physical theft, telecommunications failures, malware, security incidents, malicious cyber- attacks, including the use of malicious codes, worms, phishing, spyware, denial of service attacks and ransomware, natural disasters and catastrophic events, inadequate or ineffective redundancy measures; and design or usage errors by AutoZoners, contractors or third- party service providers. Although we seek to effectively maintain and safeguard our systems and our data and we seek to ensure our third- party service providers effectively maintain and safeguard their systems and our data, such efforts are not always successful. As a result, we or our service providers ~~could experience, and on occasion~~ have experienced ~~,~~ **and are likely to again experience** one or more errors, interruptions, delays or cessations of service impacting the integrity or availability of our information technology infrastructure. While such incidents have not been material to date, any future incident could significantly disrupt our operations and key business processes, result in the impairment or loss of critical data, be costly and resource- intensive to remedy; harm our reputation and relationship with customers, AutoZoners, vendors and other stakeholders; and have a material adverse impact on our business and operating results. In addition, our information technology systems, infrastructure and personnel require substantial investments, such as replacing existing systems, some of which are older, legacy systems that are less flexible and efficient, with successor systems; making changes to existing systems, including the migration of applications to the cloud; maintaining or enhancing legacy systems that are not currently being replaced; or designing or cost- effectively ~~acquiring~~ **19acquiring** new systems with new functionality. These efforts can result in significant potential risks, including failure of the systems to operate as designed, potential loss or corruption of data, cost overruns, or implementation delays or errors, and may result in operational challenges, security control failures, reputational harm, and increased costs that could adversely affect our business operations and results of operations. Failure to maintain the security of sensitive personal information or other confidential information in our possession could subject us to litigation or regulatory enforcement action, cause reputational harm and cause us to incur substantial costs or have a material adverse impact on our business and financial condition. Our business, like that of most retailers, involves the collection, processing, storage and transmission **of large amounts** of personal information relating to our customers, suppliers and AutoZoners and confidential business information relating to AutoZone or other parties with which we do business. This information is handled by us as well as third- party service providers and vendors that provide us with various technology, systems, services and other resources that we use in connection with the handling of this information and in furtherance of our business objectives. Furthermore, we accept payments using a variety of methods, including credit, debit, electronic payments and gift cards, which present information security risks, and we may offer new payment options in the future presenting new risks of which we are currently unaware. ~~19While~~ -- **While** addressing vulnerabilities is a priority for us, the methods used to obtain unauthorized access are constantly evolving, increasing in frequency and sophistication, and ~~may~~ **can** be difficult to anticipate or detect for long periods of time. ~~There~~ -- **The** ~~can be no assurance that the~~ security measures we or our third- party service providers and vendors have in place today ~~or introduce in the future~~ in an effort to keep up with growing and evolving risks ~~will~~ **do not always** prevent or mitigate the impact of a cyber incident or provide us with sufficient visibility to determine if a cyber incident has occurred **, and there can be no assurance that such measures we introduce in the future will be**

sufficiently effective either . Failure to maintain the security of the personal and other confidential information to which we have access could lead to private litigation, regulatory enforcement actions and reputational harm, all of which would require extensive time and financial resources to resolve and could have a material adverse impact **on** our business and financial condition. While we have not experienced a material breach of our information systems or data to date, unauthorized parties have in the past ~~attempted~~ **gained access and exfiltrated data** , and will continue to attempt ~~,~~ to **do so** ~~gain access to, or disrupt the effectiveness of, these systems and data~~ as the result of a cyber- attack, employee misconduct, employee error, system **vulnerabilities or** compromises, fraud, hacking, phishing attempts, malware, ransomware, other malicious codes or other intentional or unintentional acts. Furthermore, hardware, software or other IT applications that we or a third party develop for our use **have contained and** may contain exploitable vulnerabilities, bugs or design defects or may involve other problems that could unexpectedly compromise information security. ~~For example, in connection with the COVID- 19 pandemic, public reports indicated there was a spike in cybersecurity attacks as shelter- in- place orders and work- from- home measures led businesses to increase reliance on virtual environments and communications systems, which had been the subject of increasing third- party vulnerabilities and security risks.~~ The cost to remediate and respond to a cyber incident involving unauthorized use, access, damage or loss of systems, data or other information could be significant. To the extent any cyber **incident involving** ~~- attack or intrusion in~~ our or one of our third- party service provider' s information systems results in the unauthorized access, loss, damage or misappropriation of information, we may be required **by** ~~under federal and state privacy laws~~ - **law** to notify impacted individuals and face substantial liability due to claims arising from customers, financial institutions, regulatory authorities, payment card issuers and others. We maintain insurance coverage that may protect us from losses or claims in connection with certain incidents; however, our insurance coverage may not be sufficient to cover significant losses in any particular situation. We are subject to a complex and evolving body of laws and regulations regarding data privacy and may face increased costs as a result of changes in, enforcement of, or the adoption of new laws and regulations. These costs may have a material adverse impact on our business and results of operations. The regulatory environment related to information security, data collection, processing and use, and data privacy is becoming increasingly rigorous and complex. Multiple states in the U. S. have passed **, and continue to pass,** data protection laws designed to provide new rights to consumers and, in some cases, employees. The potential effects of the various laws regulating the collection, processing, transfer and use of personal or protected information are far- reaching and may require significant time, resources and costs to comply, may require changes to our existing ~~practices~~ **20practices** and processes that are not advantageous to our business, and otherwise limit our ability to use data to provide a more personalized customer experience or as otherwise desired. In addition, failure to comply with applicable requirements by us or our business partners or third- party service providers or vendors could subject us to fines, sanctions, governmental investigations, lawsuits or reputational damage. Additionally, while we seek to comply with these various laws as they take effect, many of the concepts are novel and rulemaking is not finalized. Given the short amount of time between finalized rulemaking and the dates these laws become effective and enforceable, there can be no assurance that compliance efforts taken by us in good faith will be sufficient, and we may be the subject of an investigation or enforcement action instituted by a state agency or other regulatory body. ~~20Indebtedness~~ -- **Indebtedness** , Financial and Market RisksWe are self- insured for certain costs associated with our operations and an increase in our insurance claims and expenses may have a material negative impact on us. We are self- insured up to certain limits for workers' compensation, employee group medical, general liability, product liability, property and automobile. The types and amounts of insurance may vary from time to time based on our decisions with respect to risk retention and regulatory requirements. Our reserves are established using historical trends and, where appropriate, using a third- party actuary to estimate costs to settle reported claims and claims incurred but not yet reported. Estimated costs are subject to a variety of assumptions and other factors including the severity, duration and frequency of claims, legal costs associated with claims, healthcare trends and projected inflation of related factors. Material increases in the number of insurance claims, changes to healthcare costs, accident frequency and severity, legal expenses and other factors could result in unfavorable difference between actual self- insurance costs and our reserve estimates. As a result, our self- insurance costs could increase which may adversely affect our business, results of operations, financial condition and cash flows. A downgrade in our credit ratings or a general disruption in the credit markets could make it more difficult for us to access funds, refinance our debt, obtain new funding or issue debt securities. Our short- term and long- term debt is rated investment grade by the major rating agencies. These investment- grade credit ratings have historically allowed us to take advantage of lower interest rates and other favorable terms on our short- term credit lines, in our senior debt offerings and in the commercial paper markets. To maintain our investment- grade ratings, we are required to meet certain financial performance ratios. A change by the rating agencies in these ratios, an increase in our debt, and / or a decline in our earnings could result in downgrades in our credit ratings. A downgrade in our credit ratings could limit our access to public debt markets, limit the institutions willing to provide credit facilities to us, result in more restrictive financial and other covenants in our public and private debt and would likely significantly increase our overall borrowing costs and adversely affect our earnings. Moreover, significant deterioration in the financial condition of large financial institutions during the Great Recession resulted in a severe loss of liquidity and availability of credit in global credit markets and in more stringent borrowing terms. We can provide no assurance that such similar events that occurred during the Great Recession will not occur again in the foreseeable future. Conditions and events in the global credit markets could have a material adverse effect on our access to short- term and long- term debt and the terms and cost of that debt. Legal and Regulatory RisksOur business, results of operations, financial condition and cash flows may be adversely affected by the adoption of new laws, changes to existing laws, increased enforcement activity or other governmental actions. We are subject to numerous federal, state and local laws and regulations, many of which are complex, frequently revised and subject to varying interpretations. These include laws governing employment and labor, wage and hour, environmental matters, proper handling and disposal of hazardous materials and waste, ~~healthcare~~ **employee benefits** , data privacy, cybersecurity **, safety** , the pricing and sale of goods, import and export compliance, transportation and logistics, consumer protection and advertising, among others. These laws may **change over time and may** differ ~~substantially~~ **21substantially** ~~in~~ **across** the areas where we operate. Although we have implemented policies and procedures to help ensure compliance with these laws, there can be no certainty that our employees and third parties with whom we do business will not take actions in violation of our policies or applicable laws. If we fail to comply with these laws, rules and regulations, or the manner in which they are interpreted or applied, we may be subject to governmental enforcement action or private litigation resulting in **restrictions on our business,** monetary penalties, reputational harm and increased costs of regulatory compliance. Any changes in regulations, the imposition of additional regulations, or the enactment of any new legislation, including tax legislation ~~such as the Inflation Reduction Act of 2022~~ , could have an adverse impact, directly or indirectly, on our financial condition and results of operations. We may also be subject to investigations or audits by governmental authorities and regulatory agencies as a result of enforcing existing laws and regulations or changes in enforcement priorities, which can occur in the ordinary course of business or may result from increased scrutiny from a particular agency or toward a particular industry. ~~21We~~ **We** may be adversely affected by legal, regulatory or market responses to global climate change. Climate change resulting from increased concentrations of carbon dioxide and other greenhouse gases in the atmosphere could present risks to our operations. For example, we have significant operations in California, where serious drought has made water less available and more costly and has increased the risk of wildfires. Changes in climate patterns leading to extreme heat waves or unusual cold weather at some of our locations can lead to increased energy usage and costs, or otherwise adversely impact our facilities and operations and disrupt our supply chains and distribution systems. Growing concern over climate change has led policy makers in the U. S. to consider the enactment of legislative and regulatory proposals that would impose mandatory requirements ~~on~~ **for reductions of** greenhouse gas **(GHG)** emissions. Such laws, if enacted, are likely to impact our business in a number of ways. For example, significant increases in fuel economy requirements, new federal or state restrictions on emissions of carbon dioxide or new federal or state incentive programs that may be imposed on vehicles and automobile fuels could adversely affect demand for vehicles, annual miles driven or the products we sell. We may not be able to accurately predict, prepare for and respond to new kinds of technological innovations with respect to electric vehicles and other technologies that minimize emissions. Compliance with any new or more stringent laws or regulations, or stricter interpretations of existing laws, could require additional expenditures by us or our suppliers. Our inability to appropriately respond to such changes could adversely impact our business, financial condition, results of operations or cash ~~flows~~ **flowsWe** ~~. Our reputation~~ may be ~~adversely affected if we are not able~~ **unable** to achieve **the goals and aspirations set forth in** our ~~Environmental~~ **environmental** , ~~Social~~ **social** ~~,~~ and ~~Governance~~ **governance** (ESG) **report, particularly with respect to the reduction of greenhouse** ~~goals~~ -- **gas (GHG) emissions, or otherwise meet the expectations of our stakeholders with respect to ESG matters** . Increasing governmental and societal attention to ESG matters, including expanding mandatory and voluntary reporting, and disclosure topics such as climate change, sustainability ~~(including with respect to our supply chain)~~ , natural resources, waste reduction, energy, human capital, and risk oversight could expand the nature, scope, and complexity of matters that we are required to control, assess, and report. We strive to deliver shared value through our business and our diverse stakeholders expect us to make progress in certain ESG priority issue areas. A failure or perceived failure to meet these expectations could adversely affect public perception of our business, employee morale or customer or shareholder support. ~~Our business~~ **We have announced certain aspirations and goals related to ESG matters** , ~~financial condition~~ **such as plans to reduce certain GHG emissions over time. Achievement of these aspirations** , ~~results~~ **targets, plans and goals is subject to numerous risks and uncertainties, many of which are outside of our control. These risks and uncertainties include, but are not limited to: our ability to successfully identify and implement relevant strategies on a timely and cost- effective basis; our ability to achieve the anticipated benefits and cost savings of such strategies and actions; and the availability and cost of existing and future technologies, such as alternative fuel vehicles,** ~~of~~ **off** ~~operations~~ **- site renewable energy,** and ~~cash flows~~ **other materials and components. It is possible that we** may be ~~affected by litigation~~ **unsuccessful in the achievement of our ESG goals, on a timely basis or at all, or that the costs to achieve those goals become prohibitively expensive** . ~~We~~ **Furthermore, our stakeholders may not be satisfied with our efforts or the speed at which we** are **progressing towards any** ~~involved in lawsuits, regulatory investigations, governmental and other legal proceedings arising out of the ordinary course of business. Such~~ **such aspirations** ~~matters involve significant expense~~ and **goals** ~~divert management' s attention and resources from other matters~~ . **A delay, failure** ~~The damages sought against us in these proceedings may be material and may adversely affect our~~ - **or** ~~business, results of~~ **perceived failure or delay to meet our goals and** ~~operations~~ **aspirations** ~~, financial condition and cash flows. General RisksSignificant changes in macroeconomic and geo- political factors~~ could adversely affect **public perception** ~~our financial condition and results~~ of ~~operations. Macroeconomic conditions impact both~~ our ~~customers and our suppliers. Moreover, the U. S. government continues to operate under historically large deficits and debt burden. Continued distress in global credit markets,~~ business ~~failures~~ , ~~civil unrest, inflation, rising interest rates, foreign exchange rate fluctuations, significant geo- political conflicts, proposed or additional tariffs, continued volatility in energy prices, the impact of a public health crisis or pandemic (such as COVID- 19), constraints on the global supply chain and other factors continue to affect the global economy. Moreover, rising energy prices could impact our~~ - **or we may lose shareholder support** ~~merchandise distribution, commercial delivery, utility and product costs~~ . **Certain challenges we face** ~~It is unclear how such factors could impact our business~~ in ~~the short term. Over a longer period of time, these~~ -- **the achievement of** ~~macroeconomic and geo- political conditions could adversely affect~~ our **ESG** ~~sales growth, margins and overhead. These could adversely affect our financial condition and operations.~~ 22