

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2019**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**O'REILLY AUTOMOTIVE, INC.**

**(Exact name of registrant as specified in its charter)**

**Missouri**

(State or other jurisdiction  
of incorporation or organization)

**000-21318**

Commission file  
number

**27-4358837**

(I.R.S. Employer  
Identification No.)

**233 South Patterson Avenue**

**Springfield, Missouri 65802**

(Address of principal executive offices, Zip code)

**(417) 862-6708**

(Registrant's telephone number, including area code)

**Not applicable**

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on which Registered
Common Stock \$0.01 par value	ORLY	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Emerging growth company ☐  
Non-accelerated filer ☐ Smaller reporting company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: Common stock, \$0.01 par value - 75,658,897 shares outstanding as of October 28, 2019.

**O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**FORM 10-Q**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2019**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>PART I - FINANCIAL INFORMATION</b>	<b>2</b>
ITEM 1 - FINANCIAL STATEMENTS (UNAUDITED)	2
Condensed Consolidated Balance Sheets	2
Condensed Consolidated Statements of Income	3
Condensed Consolidated Statements of Shareholders' Equity	4
Condensed Consolidated Statements of Cash Flows	5
Notes to Condensed Consolidated Financial Statements	6
ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	16
ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	25
ITEM 4 - CONTROLS AND PROCEDURES	25
<b>PART II - OTHER INFORMATION</b>	<b>26</b>
ITEM 1 - LEGAL PROCEEDINGS	26
ITEM 1A - RISK FACTORS	26
ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	26
ITEM 6 - EXHIBITS	27
<b>SIGNATURE PAGES</b>	<b>28</b>

**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share data)

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
	<b>(Unaudited)</b>	<b>(Note)</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 42,804	\$ 31,315
Accounts receivable, net	224,033	192,026
Amounts receivable from suppliers	76,107	78,155
Inventory	3,348,631	3,193,344
Other current assets	32,914	48,262
Total current assets	3,724,489	3,543,102
Property and equipment, at cost	6,053,306	5,645,552
Less: accumulated depreciation and amortization	2,182,599	2,058,550
Net property and equipment	3,870,707	3,587,002
Operating lease, right-of-use assets	1,908,931	—
Goodwill	808,259	807,260
Other assets, net	60,338	43,425
Total assets	<u>\$ 10,372,724</u>	<u>\$ 7,980,789</u>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 3,606,571	\$ 3,376,403
Self-insurance reserves	75,158	77,012
Accrued payroll	104,161	86,520
Accrued benefits and withholdings	87,386	89,082
Income taxes payable	100,472	11,013
Current portion of operating lease liabilities	308,726	—
Other current liabilities	298,380	253,990
Total current liabilities	4,580,854	3,894,020
Long-term debt	3,703,628	3,417,122
Operating lease liabilities, less current portion	1,642,178	—
Deferred income taxes	117,551	105,566
Other liabilities	162,294	210,414
Shareholders' equity:		
Common stock, \$0.01 par value:		
Authorized shares - 245,000,000		
Issued and outstanding shares –		
75,727,781 as of September 30, 2019, and		
79,043,919 as of December 31, 2018	757	790
Additional paid-in capital	1,259,544	1,262,063
Retained deficit	(1,094,082)	(909,186)
Total shareholders' equity	166,219	353,667
Total liabilities and shareholders' equity	<u>\$ 10,372,724</u>	<u>\$ 7,980,789</u>

Note: The balance sheet at December 31, 2018, has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statements.

See accompanying Notes to condensed consolidated financial statements.

**O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)  
(In thousands, except per share data)

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Sales	<b>\$ 2,666,528</b>	<b>\$ 2,482,717</b>	<b>\$ 7,667,010</b>	<b>\$ 7,221,471</b>
Cost of goods sold, including warehouse and distribution expenses	<b>1,243,998</b>	<b>1,166,962</b>	<b>3,596,903</b>	<b>3,415,820</b>
Gross profit	<b>1,422,530</b>	<b>1,315,755</b>	<b>4,070,107</b>	<b>3,805,651</b>
Selling, general and administrative expenses	<b>886,167</b>	<b>830,607</b>	<b>2,590,884</b>	<b>2,418,507</b>
Operating income	<b>536,363</b>	<b>485,148</b>	<b>1,479,223</b>	<b>1,387,144</b>
Other income (expense):				
Interest expense	<b>(35,858)</b>	<b>(31,582)</b>	<b>(104,687)</b>	<b>(90,661)</b>
Interest income	<b>656</b>	<b>669</b>	<b>1,813</b>	<b>1,838</b>
Other, net	<b>732</b>	<b>1,416</b>	<b>4,667</b>	<b>2,609</b>
Total other expense	<b>(34,470)</b>	<b>(29,497)</b>	<b>(98,207)</b>	<b>(86,214)</b>
Income before income taxes	<b>501,893</b>	<b>455,651</b>	<b>1,381,016</b>	<b>1,300,930</b>
Provision for income taxes	<b>110,600</b>	<b>89,500</b>	<b>314,890</b>	<b>276,800</b>
Net income	<b>\$ 391,293</b>	<b>\$ 366,151</b>	<b>\$ 1,066,126</b>	<b>\$ 1,024,130</b>
<i>Earnings per share-basic:</i>				
Earnings per share	<b>\$ 5.14</b>	<b>\$ 4.54</b>	<b>\$ 13.77</b>	<b>\$ 12.50</b>
Weighted-average common shares outstanding – basic	<b>76,172</b>	<b>80,593</b>	<b>77,415</b>	<b>81,939</b>
<i>Earnings per share-assuming dilution:</i>				
Earnings per share	<b>\$ 5.08</b>	<b>\$ 4.50</b>	<b>\$ 13.63</b>	<b>\$ 12.36</b>
Weighted-average common shares outstanding – assuming dilution	<b>76,969</b>	<b>81,410</b>	<b>78,220</b>	<b>82,841</b>

See accompanying Notes to condensed consolidated financial statements.

**O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(Unaudited)  
(In thousands)

**For the Three Months Ended September 30, 2019**

	<b>Common Stock</b>		<b>Additional Paid-In Capital</b>	<b>Retained Deficit</b>	<b>Total</b>
	<b>Shares</b>	<b>Par Value</b>			
<b>Balance at June 30, 2019</b>	<b>76,690</b>	<b>\$ 767</b>	<b>\$ 1,258,930</b>	<b>\$(1,115,015)</b>	<b>\$ 144,682</b>
Net income	—	—	—	391,293	391,293
Issuance of common stock under employee benefit plans, net of forfeitures and shares withheld to cover taxes	11	—	3,523	—	3,523
Net issuance of common stock upon exercise of stock options	52	1	8,774	—	8,775
Share based compensation	—	—	5,212	—	5,212
Share repurchases, including fees	(1,025)	(11)	(16,895)	(370,360)	(387,266)
<b>Balance at September 30, 2019</b>	<b>75,728</b>	<b>\$ 757</b>	<b>\$ 1,259,544</b>	<b>\$(1,094,082)</b>	<b>\$ 166,219</b>

**For the Nine Months Ended September 30, 2019**

	<b>Common Stock</b>		<b>Additional Paid-In Capital</b>	<b>Retained Deficit</b>	<b>Total</b>
	<b>Shares</b>	<b>Par Value</b>			
<b>Balance at December 31, 2018</b>	<b>79,044</b>	<b>\$ 790</b>	<b>\$ 1,262,063</b>	<b>\$ (909,186)</b>	<b>\$ 353,667</b>
Cumulative effective adjustment from adoption of ASU 2016-02	—	—	—	(1,410)	(1,410)
Net income	—	—	—	1,066,126	1,066,126
Issuance of common stock under employee benefit plans, net of forfeitures and shares withheld to cover taxes	36	—	11,576	—	11,576
Net issuance of common stock upon exercise of stock options	233	3	28,700	—	28,703
Share based compensation	—	—	15,540	—	15,540
Share repurchases, including fees	(3,585)	(36)	(58,335)	(1,249,612)	(1,307,983)
<b>Balance at September 30, 2019</b>	<b>75,728</b>	<b>\$ 757</b>	<b>\$ 1,259,544</b>	<b>\$(1,094,082)</b>	<b>\$ 166,219</b>

**For the Three Months Ended September 30, 2018**

	<b>Common Stock</b>		<b>Additional Paid-In Capital</b>	<b>Retained Deficit</b>	<b>Total</b>
	<b>Shares</b>	<b>Par Value</b>			
<b>Balance at June 30, 2018</b>	<b>80,988</b>	<b>\$ 810</b>	<b>\$ 1,247,837</b>	<b>\$ (863,657)</b>	<b>\$ 384,990</b>
Net income	—	—	—	366,151	366,151
Issuance of common stock under employee benefit plans, net of forfeitures and shares withheld to cover taxes	13	—	3,224	—	3,224
Net issuance of common stock upon exercise of stock options	277	2	24,552	—	24,554
Share based compensation	—	—	4,653	—	4,653
Share repurchases, including fees	(932)	(9)	(14,439)	(270,745)	(285,193)
<b>Balance at September 30, 2018</b>	<b>80,346</b>	<b>\$ 803</b>	<b>\$ 1,265,827</b>	<b>\$ (768,251)</b>	<b>\$ 498,379</b>

**For the Nine Months Ended September 30, 2018**

	<b>Common Stock</b>		<b>Additional Paid-In Capital</b>	<b>Retained Deficit</b>	<b>Total</b>
	<b>Shares</b>	<b>Par Value</b>			
<b>Balance at December 31, 2017</b>	<b>84,302</b>	<b>\$ 843</b>	<b>\$ 1,265,043</b>	<b>\$ (612,840)</b>	<b>\$ 653,046</b>
Net income	—	—	—	1,024,130	1,024,130
Issuance of common stock under employee benefit plans, net of forfeitures and shares withheld to cover taxes	47	—	10,799	—	10,799
Net issuance of common stock upon exercise of stock options	692	7	47,344	—	47,351
Share based compensation	—	—	14,113	—	14,113
Share repurchases, including fees	(4,695)	(47)	(71,472)	(1,179,541)	(1,251,060)
<b>Balance at September 30, 2018</b>	<b>80,346</b>	<b>\$ 803</b>	<b>\$ 1,265,827</b>	<b>\$ (768,251)</b>	<b>\$ 498,379</b>

See accompanying Notes to condensed consolidated financial statements.

**O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(In thousands)

	<b>For the Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Operating activities:</b>		
Net income	\$ 1,066,126	\$ 1,024,130
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, equipment and intangibles	200,382	193,318
Amortization of debt discount and issuance costs	2,898	2,557
Deferred income taxes	12,383	17,234
Share-based compensation programs	16,578	15,144
Other	5,830	6,304
Changes in operating assets and liabilities:		
Accounts receivable	(38,892)	(32,799)
Inventory	(154,986)	(129,214)
Accounts payable	228,943	194,069
Income taxes payable	90,383	4,460
Other	60,031	46,816
Net cash provided by operating activities	1,489,676	1,342,019
<b>Investing activities:</b>		
Purchases of property and equipment	(481,207)	(350,461)
Proceeds from sale of property and equipment	5,479	3,353
Investment in tax credit equity investments	(17,988)	—
Other	661	(716)
Net cash used in investing activities	(493,055)	(347,824)
<b>Financing activities:</b>		
Proceeds from borrowings on revolving credit facility	2,192,000	1,745,000
Payments on revolving credit facility	(2,404,000)	(2,046,000)
Proceeds from the issuance of long-term debt	499,955	498,660
Payment of debt issuance costs	(3,991)	(3,923)
Repurchases of common stock	(1,307,983)	(1,251,060)
Net proceeds from issuance of common stock	39,077	58,955
Other	(190)	(2,156)
Net cash used in financing activities	(985,132)	(1,000,524)
Net increase (decrease) in cash and cash equivalents	11,489	(6,329)
Cash and cash equivalents at beginning of the period	31,315	46,348
Cash and cash equivalents at end of the period	\$ 42,804	\$ 40,019
<b>Supplemental disclosures of cash flow information:</b>		
Income taxes paid	\$ 218,386	\$ 256,949
Interest paid, net of capitalized interest	110,014	102,025

See accompanying Notes to condensed consolidated financial statements.

**O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)  
September 30, 2019

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements of O'Reilly Automotive, Inc. and its subsidiaries (the "Company" or "O'Reilly") have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2019, are not necessarily indicative of the results that may be expected for the year ended December 31, 2019. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

**NOTE 2 – FAIR VALUE MEASUREMENTS**

The Company uses the fair value hierarchy, which prioritizes the inputs used to measure the fair value of certain of its financial instruments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The Company uses the income and market approaches to determine the fair value of its assets and liabilities. The three levels of the fair value hierarchy are set forth below:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2 – Inputs other than quoted prices in active markets included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Unobservable inputs for the asset or liability.

*Financial assets and liabilities measured at fair value on a recurring basis:*

The Company invests in various marketable securities with the intention of selling these securities to fulfill its future unsecured obligation under the Company's nonqualified deferred compensation plan. See Note 8 for further information concerning the Company's benefit plans.

The Company's marketable securities were accounted for as trading securities and the carrying amount of its marketable securities were included in "Other assets, net" on the accompanying Condensed Consolidated Balance Sheets as of September 30, 2019, and December 31, 2018. The Company recorded an increase in fair value related to its marketable securities in the amounts of \$0.2 million and \$1.0 million for the three months ended September 30, 2019 and 2018, respectively, which were included in "Other income (expense)" on the accompanying Condensed Consolidated Statements of Income. The Company recorded an increase in fair value related to its marketable securities in the amounts of \$3.9 million and \$1.6 million for the nine months ended September 30, 2019 and 2018, respectively, which were included in "Other income (expense)" on the accompanying Condensed Consolidated Statements of Income.

The tables below identify the estimated fair value of the Company's marketable securities, determined by reference to quoted market prices (Level 1), as of September 30, 2019, and December 31, 2018 (in thousands):

September 30, 2019					
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	
Marketable securities	\$ 29,934	\$ —	\$ —	\$	29,934

  

December 31, 2018					
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	
Marketable securities	\$ 25,493	\$ —	\$ —	\$	25,493

*Non-financial assets and liabilities measured at fair value on a nonrecurring basis:*

Certain long-lived non-financial assets and liabilities may be required to be measured at fair value on a nonrecurring basis in certain circumstances, including when there is evidence of impairment. These non-financial assets and liabilities may include assets acquired

in a business combination or property and equipment that are determined to be impaired. As of September 30, 2019, and December 31, 2018, the Company did not have any non-financial assets or liabilities that had been measured at fair value subsequent to initial recognition.

*Fair value of financial instruments:*

The carrying amounts of the Company's senior notes and unsecured revolving credit facility borrowings are included in "Long-term debt" on the accompanying Condensed Consolidated Balance Sheets as of September 30, 2019, and December 31, 2018. See Note 4 for further information concerning the Company's senior notes and unsecured revolving credit facility.

The table below identifies the estimated fair value of the Company's senior notes, using the market approach. The fair value as of September 30, 2019, and December 31, 2018, was determined by reference to quoted market prices of the same or similar instruments (Level 2) (in thousands):

	September 30, 2019		December 31, 2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Senior Notes	\$ 3,628,628	\$ 3,882,575	\$ 3,130,122	\$ 3,116,046

The carrying amount of the Company's unsecured revolving credit facility approximates fair value (Level 2), as borrowings under the facility bear variable interest at current market rates.

The accompanying Condensed Consolidated Balance Sheets include other financial instruments, including cash and cash equivalents, accounts receivable, amounts receivable from suppliers and accounts payable. Due to the short-term nature of these financial instruments, the Company believes that the carrying values of these instruments approximate their fair values.

### NOTE 3 – LEASES

*Operating lease commitments:*

The Company leases certain office space, retail stores, distribution centers and equipment under long-term, non-cancelable operating leases. Lease components are not accounted for separately from nonlease components. Leases generally include renewal options and some include options to purchase, provisions for percentage rent based on sales and/or incremental step increase provisions. The exercise of renewal options is typically at the Company's sole discretion and all operating lease expense is recognized on a straight-line basis over the lease term. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The Company rents or subleases certain surplus real estate to third parties. Right-of-use assets and corresponding operating lease liabilities are recognized for all leases with an initial term greater than 12 months.

See Note 11 for further information concerning the Company's adoption of Accounting Standard Codification 842 - Leases.

The following table summarizes Total lease cost for the three and nine months ended September 30, 2019, which was primarily included in "Selling, general and administrative expenses" on the accompanying Condensed Consolidated Statements of Income (in thousands):

	For the Three Months Ended September 30, 2019	For the Nine Months Ended September 30, 2019
Operating lease cost	\$ 80,767	\$ 239,672
Short-term operating lease cost	1,103	4,707
Variable operating lease cost	19,538	56,801
Sublease income	(1,062)	(2,995)
<b>Total lease cost</b>	<b>\$ 100,346</b>	<b>\$ 298,185</b>

The following table summarizes other lease related information for the nine months ended September 30, 2019:

	For the Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of operating lease liabilities:	
Operating cash flows from operating leases (in thousands)	\$ 237,055
Right-of-use assets obtained in exchange for new operating lease liabilities (in thousands)	\$ 153,046
Weighted-average remaining lease term - operating leases	10.4 years
Weighted-average discount rate - operating leases	4.2%



The following table identifies the future minimum lease payments under all of the Company's operating leases for each of the next five years, and in the aggregate thereafter, and reconciles to the present value of the "Operating lease liabilities, less current portion" included in the accompanying Condensed Consolidated Balance Sheet as of September 30, 2019 (in thousands):

	September 30, 2019		
	Related Parties	Non-Related Parties	Total
October 1, 2019 to December 31, 2019	\$ 1,188	\$ 70,629	\$ 71,817
2020	3,988	312,634	316,622
2021	3,521	286,047	289,568
2022	2,763	261,998	264,761
2023	2,540	231,473	234,013
Thereafter	3,543	1,246,605	1,250,148
Total operating lease payments	<b>17,543</b>	<b>2,409,386</b>	<b>2,426,929</b>
Less: present value discount	1,896	474,129	476,025
Total operating lease liabilities	<b>15,647</b>	<b>1,935,257</b>	<b>1,950,904</b>
Less: current portion of operating lease liabilities	4,215	304,511	308,726
<b>Operating lease liabilities, less current portion</b>	<b>\$ 11,432</b>	<b>\$ 1,630,746</b>	<b>\$ 1,642,178</b>

The Company leases certain land and buildings related to 74 of its O'Reilly Auto Parts stores under fifteen- or twenty-year operating lease agreements with entities that include one or more of the Company's affiliated directors or members of an affiliated director's immediate family. Generally, these lease agreements provide for renewal options for an additional five years at the option of the Company, and the lease agreements are periodically modified to further extend the lease term for specific stores under the agreements. Lease payments under these operating leases totaled \$1.2 million and \$3.6 million for the three and nine months ended September 30, 2019, respectively. The Company believes that the lease agreements with the affiliated entities are on terms comparable to those obtainable from third parties.

The future minimum lease payments under the Company's operating leases, in the table above, do not include potential amounts for percentage rent and other variable operating lease related costs and have not been reduced by expected future minimum sublease income under non-cancelable subleases, which was approximately \$19.1 million as of September 30, 2019. The present value discount component of the future minimum lease payments under the Company's operating leases, in the table above, was primarily calculated using the Company's incremental borrowing rate based on information available at the lease commencement or modification date; for leases that commenced prior to January 1, 2019, the incremental borrowing rate used was as of January 1, 2019. When the implicit rate of a lease is available, the implicit rate is used in the calculation and not the Company's incremental borrowing rate.

## NOTE 4 – FINANCING

The following table identifies the amounts included in “Long-term debt” on the accompanying Condensed Consolidated Balance Sheets as of September 30, 2019, and December 31, 2018 (in thousands):

	September 30, 2019	December 31, 2018
Revolving Credit Facility, weighted-average variable interest rate of 2.942%	\$ 75,000	\$ 287,000
\$500 million, 4.875% Senior Notes due 2021, effective interest rate of 4.950% <sup>(1)</sup>	498,977	498,371
\$300 million, 4.625% Senior Notes due 2021, effective interest rate of 4.644% <sup>(2)</sup>	299,456	299,244
\$300 million, 3.800% Senior Notes due 2022, effective interest rate of 3.845% <sup>(3)</sup>	298,852	298,574
\$300 million, 3.850% Senior Notes due 2023, effective interest rate of 3.851% <sup>(4)</sup>	299,005	298,821
\$500 million, 3.550% Senior Notes due 2026, effective interest rate of 3.570% <sup>(5)</sup>	496,587	496,240
\$750 million, 3.600% Senior Notes due 2027, effective interest rate of 3.619% <sup>(6)</sup>	744,327	743,868
\$500 million, 4.350% Senior Notes due 2028, effective interest rate of 4.383% <sup>(7)</sup>	495,332	495,004
\$500 million, 3.900% Senior Notes due 2029, effective interest rate of 3.901% <sup>(8)</sup>	496,092	—
Long-term debt	<u>\$ 3,703,628</u>	<u>\$ 3,417,122</u>

<sup>(1)</sup> Net of unamortized discount of \$0.5 million as of September 30, 2019, and \$0.7 million as of December 31, 2018, and debt issuance costs of \$0.6 million as of September 30, 2019, and \$0.9 million as of December 31, 2018.

<sup>(2)</sup> Net of unamortized discount of \$0.1 million as of September 30, 2019, and December 31, 2018, and debt issuance costs of \$0.4 million as of September 30, 2019, and \$0.6 million as of December 31, 2018.

<sup>(3)</sup> Net of unamortized discount of \$0.4 million as of September 30, 2019, and \$0.5 million as of December 31, 2018, and debt issuance costs of \$0.8 million as of September 30, 2019, and \$1.0 million as of December 31, 2018.

<sup>(4)</sup> Net of unamortized discount of less than \$0.1 million as of September 30, 2019, and December 31, 2018, and debt issuance costs of \$1.0 million as of September 30, 2019, and \$1.2 million as of December 31, 2018.

<sup>(5)</sup> Net of unamortized discount of \$0.6 million as of September 30, 2019, and December 31, 2018, and debt issuance costs of \$2.8 million as of September 30, 2019, and \$3.1 million as of December 31, 2018.

<sup>(6)</sup> Net of unamortized discount of \$1.0 million as of September 30, 2019, and \$1.1 million as of December 31, 2018, and debt issuance costs of \$4.7 million as of September 30, 2019 and \$5.1 million as of December 31, 2018.

<sup>(7)</sup> Net of unamortized discount of \$1.2 million as of September 30, 2019, and \$1.3 million as of December 31, 2018, and debt issuance costs of \$3.5 million as of September 30, 2019, and \$3.7 million as of December 31, 2018.

<sup>(8)</sup> Net of unamortized discount of less than \$0.1 million as of September 30, 2019, and debt issuance costs of \$3.9 million as of September 30, 2019.

### *Unsecured revolving credit facility:*

On April 5, 2017, the Company entered into a credit agreement (the “Credit Agreement”). The Credit Agreement provides for a \$1.2 billion unsecured revolving credit facility (the “Revolving Credit Facility”) arranged by JPMorgan Chase Bank, N.A., which is scheduled to mature in April 2022. The Credit Agreement includes a \$200 million sub-limit for the issuance of letters of credit and a \$75 million sub-limit for swing line borrowings under the Revolving Credit Facility. As described in the Credit Agreement governing the Revolving Credit Facility, the Company may, from time to time, subject to certain conditions, increase the aggregate commitments under the Revolving Credit Facility by up to \$600 million, provided that the aggregate amount of the commitments does not exceed \$1.8 billion at any time.

As of September 30, 2019, and December 31, 2018, the Company had outstanding letters of credit, primarily to support obligations related to workers’ compensation, general liability and other insurance policies, in the amounts of \$39.1 million and \$35.1 million, respectively, reducing the aggregate availability under the Credit Agreement by those amounts.

Borrowings under the Revolving Credit Facility (other than swing line loans) bear interest, at the Company’s option, at either an Alternate Base Rate or an Adjusted LIBO Rate (both as defined in the Credit Agreement) plus an applicable margin. Swing line loans made under the Revolving Credit Facility bear interest at an Alternate Base Rate plus the applicable margin for Alternate Base Rate loans. In addition, the Company pays a facility fee on the aggregate amount of the commitments under the Credit Agreement in an amount equal to a percentage of such commitments. The interest rate margins and facility fee are based upon the better of the ratings assigned to the Company’s debt by Moody’s Investor Service, Inc. and Standard & Poor’s Ratings Services, subject to limited exceptions. As of September 30, 2019, based upon the Company’s current credit ratings, its margin for Alternate Base Rate loans was 0.000%, its margin for Eurodollar Revolving Loans was 0.900% and its facility fee was 0.100%.

The Credit Agreement contains certain covenants, including limitations on subsidiary indebtedness, a minimum consolidated fixed charge coverage ratio of 2.50:1.00 and a maximum consolidated leverage ratio of 3.50:1.00. The consolidated fixed charge coverage ratio

includes a calculation of earnings before interest, taxes, depreciation, amortization, rent and non-cash share-based compensation expense to fixed charges. Fixed charges include interest expense, capitalized interest and rent expense. The consolidated leverage ratio includes a calculation of adjusted debt to earnings before interest, taxes, depreciation, amortization, rent and non-cash share-based compensation expense. Adjusted debt includes outstanding debt, outstanding stand-by letters of credit and similar instruments, five-times rent expense and excludes any premium or discount recorded in conjunction with the issuance of long-term debt. In the event that the Company should default on any covenant (subject to customary grace periods, cure rights and materiality thresholds) contained in the Credit Agreement, certain actions may be taken, including, but not limited to, possible termination of commitments, immediate payment of outstanding principal amounts plus accrued interest and other amounts payable under the Credit Agreement and litigation from lenders. As of September 30, 2019, the Company remained in compliance with all covenants under the Credit Agreement.

*Senior notes:*

On May 20, 2019, the Company issued \$500 million aggregate principal amount of unsecured 3.900% Senior Notes due 2029 (“3.900% Senior Notes due 2029”) at a price to the public of 99.991% of their face value with U.S. Bank National Association (“U.S. Bank”) as trustee. Interest on the 3.900% Senior Notes due 2029 is payable on June 1 and December 1 of each year, beginning on December 1, 2019, and is computed on the basis of a 360-day year.

The Company has issued a cumulative \$3.7 billion aggregate principal amount of unsecured senior notes, which are due between 2021 and 2029, with UMB Bank, N.A. and U.S. Bank as trustees. Interest on the senior notes, ranging from 3.550% to 4.875%, is payable semi-annually and is computed on the basis of a 360-day year. None of the Company’s subsidiaries is a guarantor under the senior notes. Each of the senior notes is subject to certain customary covenants, with which the Company complied as of September 30, 2019.

## **NOTE 5 – WARRANTIES**

The Company provides warranties on certain merchandise it sells with warranty periods ranging from 30 days to limited lifetime warranties. The risk of loss arising from warranty claims is typically the obligation of the Company’s suppliers. Certain suppliers provide upfront allowances to the Company in lieu of accepting the obligation for warranty claims. For this merchandise, when sold, the Company bears the risk of loss associated with the cost of warranty claims. Differences between supplier allowances received by the Company, in lieu of warranty obligations and estimated warranty expense, are recorded as an adjustment to cost of sales. Estimated warranty costs, which are recorded as obligations at the time of sale, are based on the historical failure rate of each individual product line. The Company’s historical experience has been that failure rates are relatively consistent over time and that the ultimate cost of warranty claims to the Company has been driven by volume of units sold as opposed to fluctuations in failure rates or the variation of the cost of individual claims.

The Company’s product warranty liabilities are included in “Other current liabilities” on the accompanying Condensed Consolidated Balance Sheets as of September 30, 2019, and December 31, 2018. The following table identifies the changes in the Company’s aggregate product warranty liabilities for the nine months ended September 30, 2019 (in thousands):

Warranty liabilities, balance at December 31, 2018	\$	52,220
Warranty claims		(74,467)
Warranty accruals		76,731
<b>Warranty liabilities, balance at September 30, 2019</b>	<b>\$</b>	<b>54,484</b>

## **NOTE 6 – SHARE REPURCHASE PROGRAM**

In January of 2011, the Company’s Board of Directors approved a share repurchase program. Under the program, the Company may, from time to time, repurchase shares of its common stock, solely through open market purchases effected through a broker dealer at prevailing market prices, based on a variety of factors such as price, corporate trading policy requirements and overall market conditions. The Company’s Board of Directors may increase or otherwise modify, renew, suspend or terminate the share repurchase program at any time, without prior notice. As announced on November 13, 2018, and May 31, 2019, the Company’s Board of Directors each time approved a resolution to increase the authorization amount under the share repurchase program by an additional \$1.0 billion, resulting in a cumulative authorization amount of \$12.8 billion. Each additional authorization is effective for three years, beginning on its respective announcement date.

The following table identifies shares of the Company's common stock that have been repurchased as part of the Company's publicly announced share repurchase program for the three and nine months ended September 30, 2019 and 2018 (in thousands, except per share data):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Shares repurchased	1,025	932	3,585	4,695
Average price per share	\$ 377.85	\$ 306.22	\$ 364.84	\$ 266.48
Total investment	\$ 387,255	\$ 285,183	\$ 1,307,947	\$ 1,251,013

As of September 30, 2019, the Company had \$693.5 million remaining under its share repurchase program. Subsequent to the end of the third quarter and through November 6, 2019, the Company repurchased an additional 0.1 million shares of its common stock under its share repurchase program, at an average price of \$393.84, for a total investment of \$34.8 million. The Company has repurchased a total of 76.0 million shares of its common stock under its share repurchase program since the inception of the program in January of 2011 and through November 6, 2019, at an average price of \$159.13, for a total aggregate investment of \$12.1 billion.

#### NOTE 7 – REVENUE

The table below identifies the Company's revenues disaggregated by major customer type for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Sales to do-it-yourself customers	\$ 1,473,514	\$ 1,408,140	\$ 4,244,689	\$ 4,053,137
Sales to professional service provider customers	1,151,721	1,040,728	3,303,987	3,058,127
Other sales and sales adjustments	41,293	33,849	118,334	110,207
Total sales	<u>\$ 2,666,528</u>	<u>\$ 2,482,717</u>	<u>\$ 7,667,010</u>	<u>\$ 7,221,471</u>

As of September 30, 2019, and December 31, 2018, the Company had recorded a deferred revenue liability of \$4.8 million and \$4.3 million, respectively, related to its loyalty program, which were included in "Other liabilities" on the accompanying Condensed Consolidated Balance Sheets. The Company recognized deferred revenue related to its loyalty program in the amounts of \$4.0 million and \$4.3 million for the three months ended September 30, 2019 and 2018, respectively, which were included in "Sales" on the accompanying Condensed Consolidated Statements of Income. The Company recognized deferred revenue related to its loyalty program in the amount of \$11.8 million for each of the nine months ended September 30, 2019 and 2018, which were included in "Sales" on the accompanying Condensed Consolidated Statements of Income.

See Note 5 for information concerning the expected costs associated with the Company's assurance warranty obligations.

#### NOTE 8 – SHARE-BASED COMPENSATION AND BENEFIT PLANS

The Company recognizes share-based compensation expense based on the fair value of the grants, awards or shares at the time of the grant, award or issuance. Share-based compensation includes stock option awards issued under the Company's employee incentive plans and director stock plan, restricted stock awarded under the Company's employee incentive plans and director stock plan and stock issued through the Company's employee stock purchase plan.

##### *Stock options:*

The Company's stock-based incentive plans provide for the granting of stock options for the purchase of common stock of the Company to directors and certain key employees of the Company. Options are granted at an exercise price that is equal to the closing market price of the Company's common stock on the date of the grant. Director options granted under the plans expire after seven years and are fully vested after six months. Employee options granted under the plans expire after ten years and typically vest 25% per year, over four years. The Company records compensation expense for the grant-date fair value of the option awards evenly over the vesting period or the minimum required service period.

The table below identifies stock option activity under these plans during the nine months ended September 30, 2019 (in thousands, except per share data):

	Shares	Weighted-Average Exercise Price
Outstanding at December 31, 2018	1,860	\$ 178.57
Granted	191	363.43
Exercised	(233)	123.26
Forfeited	(21)	261.28
<b>Outstanding at September 30, 2019</b>	<b>1,797</b>	<b>\$ 204.41</b>
<b>Exercisable at September 30, 2019</b>	<b>1,185</b>	<b>\$ 159.01</b>

The fair value of each stock option award is estimated on the date of the grant using the Black-Scholes option pricing model. The Black-Scholes model requires the use of assumptions, including the risk free rate, expected life, expected volatility and expected dividend yield.

- *Risk-free interest rate* – The United States Treasury rates in effect at the time the options are granted for the options' expected life.
- *Expected life* – Represents the period of time that options granted are expected to be outstanding. The Company uses historical experience to estimate the expected life of options granted.
- *Expected volatility* – Measure of the amount, by which the Company's stock price is expected to fluctuate, based on a historical trend.
- *Expected dividend yield* – The Company has not paid, nor does it have plans in the foreseeable future to pay, any dividends.

The table below identifies the weighted-average assumptions used for grants awarded during the nine months ended September 30, 2019 and 2018:

	For the Nine Months Ended September 30,	
	2019	2018
Risk free interest rate	2.34%	2.61%
Expected life	5.9 Years	6.0 Years
Expected volatility	25.0%	23.9%
Expected dividend yield	—%	—%

The following table summarizes activity related to stock options awarded by the Company for the three and nine months ended September 30, 2019 and 2018 (in thousands, except per share data):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Compensation expense for stock options awarded	\$ 4,590	\$ 4,084	\$ 13,709	\$ 12,424
Income tax benefit from compensation expense related to stock options	1,143	1,010	3,415	3,074

The weighted-average grant-date fair value of options granted during the nine months ended September 30, 2019, was \$105.47 compared to \$75.45 for the nine months ended September 30, 2018. The remaining unrecognized compensation expense related to unvested stock option awards at September 30, 2019, was \$36.5 million, and the weighted-average period of time over which this cost will be recognized is 2.7 years.

*Other share-based compensation plans:*

The Company sponsors other share-based compensation plans: an employee stock purchase plan (the "ESPP"), which permits all eligible employees to purchase shares of the Company's common stock at 85% of the fair market value, an employee incentive plan, which provides for the award of shares of restricted stock to certain of the Company's affiliated directors, that vest evenly over three years and are held in escrow until such vesting has occurred, and a director stock plan, which provides for the award of shares of restricted stock to the Company's independent directors, that vest evenly over three years and are held in escrow until such vesting has occurred. The fair value of shares issued under the ESPP is based on the average of the high and low market prices of the Company's common stock

during the offering periods, and compensation expense is recognized based on the discount between the fair value and the employee purchase price for the shares sold to employees. The fair value of shares awarded under the employee incentive plan and director stock plan is based on the closing market price of the Company's common stock on the date of the award, and compensation expense is recorded evenly over the vesting period or the minimum required service period.

The table below summarizes activity related to the Company's other share-based compensation plans for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Compensation expense for shares issued under the ESPP	\$ 622	\$ 569	\$ 1,831	\$ 1,689
Income tax benefit from compensation expense related to shares issued under the ESPP	155	141	456	418
Compensation expense for restricted shares awarded	351	339	1,038	1,031
Income tax benefit from compensation expense related to restricted awards	\$ 87	\$ 84	\$ 258	\$ 255

*Profit sharing and savings plan:*

The Company sponsors a contributory profit sharing and savings plan (the "401(k) Plan") that covers substantially all employees who are at least 21 years of age and have completed one year of service. The Company makes matching contributions equal to 100% of the first 2% of each employee's wages that are contributed and 25% of the next 4% of each employee's wages that are contributed. An employee generally must be employed on December 31 to receive that year's Company matching contribution, with the matching contribution funded annually at the beginning of the subsequent year following the year in which the matching contribution was earned. The Company may also make additional discretionary profit sharing contributions to the plan on an annual basis as determined by the Board of Directors. The Company did not make any discretionary contributions to the 401(k) Plan during the three or nine months ended September 30, 2019 or 2018. The Company expensed matching contributions under the 401(k) Plan in the amounts of \$7.5 million and \$6.3 million for the three months ended September 30, 2019 and 2018, respectively, which were included in "Selling, general and administrative expenses" on the accompanying Condensed Consolidated Statements of Income. The Company expensed matching contributions under the 401(k) Plan in the amounts of \$20.1 million and \$18.2 million for the nine months ended September 30, 2019 and 2018, respectively, which were included in "Selling, general and administrative expenses" on the accompanying Condensed Consolidated Statements of Income.

*Nonqualified deferred compensation plan:*

The Company sponsors a nonqualified deferred compensation plan (the "Deferred Compensation Plan") for highly compensated employees whose contributions to the 401(k) Plan are limited due to the application of the annual limitations under the Internal Revenue Code. The Deferred Compensation Plan provides these employees with the opportunity to defer the full 6% of matched compensation, including salary and incentive based compensation that was precluded under the Company's 401(k) Plan, which is then matched by the Company using the same formula as the 401(k) Plan. An employee generally must be employed on December 31 to receive that year's Company matching contribution, with the matching contribution funded annually at the beginning of the subsequent year following the year in which the matching contribution was earned. In the event of bankruptcy, the assets of this plan are available to satisfy the claims of general creditors. The Company has an unsecured obligation to pay, in the future, the value of the deferred compensation and Company match, adjusted to reflect the performance, whether positive or negative, of selected investment measurement options chosen by each participant during the deferral period. The liability for compensation deferred under the Deferred Compensation Plan was \$29.9 million and \$25.5 million as of September 30, 2019, and December 31, 2018, respectively, which was included in "Other liabilities" on the accompanying Condensed Consolidated Balance Sheets. The Company expensed matching contributions under the Deferred Compensation Plan in the amount of less than \$0.1 million for each of the three months ended September 30, 2019 and 2018, which were included in "Selling, general and administrative expenses" on the accompanying Condensed Consolidated Statements of Income. The Company expensed matching contributions under the Deferred Compensation Plan in the amount of \$0.1 million for each of the nine months ended September 30, 2019 and 2018, respectively, which were included in "Selling, general and administrative expenses" on the accompanying Condensed Consolidated Statements of Income.



## NOTE 9 – EARNINGS PER SHARE

The following table illustrates the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2019 and 2018 (in thousands, except per share data):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Numerator (basic and diluted):</b>				
Net income	\$ 391,293	\$ 366,151	\$ 1,066,126	\$ 1,024,130
<b>Denominator:</b>				
Weighted-average common shares outstanding – basic	76,172	80,593	77,415	81,939
Effect of stock options <sup>(1)</sup>	797	817	805	902
Weighted-average common shares outstanding – assuming dilution	76,969	81,410	78,220	82,841
<b>Earnings per share:</b>				
Earnings per share-basic	\$ 5.14	\$ 4.54	\$ 13.77	\$ 12.50
Earnings per share-assuming dilution	\$ 5.08	\$ 4.50	\$ 13.63	\$ 12.36
<b>Antidilutive potential common shares not included in the calculation of diluted earnings per share:</b>				
Stock options <sup>(1)</sup>	207	650	214	232
Weighted-average exercise price per share of antidilutive stock options <sup>(1)</sup>	\$ 360.80	\$ 264.65	\$ 360.36	\$ 268.22

<sup>(1)</sup> See Note 8 for further information concerning the terms of the Company's share-based compensation plans.

For the three and nine months ended September 30, 2019 and 2018, the computation of diluted earnings per share did not include certain securities. These securities represent underlying stock options not included in the computation of diluted earnings per share, because the inclusion of such equity awards would have been antidilutive.

Subsequent to the end of the third quarter and through November 6, 2019, the Company repurchased an additional 0.1 million shares of its common stock under its share repurchase program, at an average price of \$393.84, for a total investment of \$34.8 million.

## NOTE 10 – LEGAL MATTERS

O'Reilly is currently involved in litigation incidental to the ordinary conduct of the Company's business. The Company accrues for litigation losses in instances where a material adverse outcome is probable and the Company is able to reasonably estimate the probable loss. The Company accrues for an estimate of material legal costs to be incurred in pending litigation matters. Although the Company cannot ascertain the amount of liability that it may incur from any of these matters, it does not currently believe that, in the aggregate, these matters, taking into account applicable insurance and accruals, will have a material adverse effect on its consolidated financial position, results of operations or cash flows in a particular quarter or annual period.

## NOTE 11 – RECENT ACCOUNTING PRONOUNCEMENTS

In February of 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). Under ASU 2016-02, an entity is required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July of 2018, the FASB issued ASU No. 2018-11, "Leases (Topic 842): Targeted Improvement" ("ASU 2018-11"), to provide an additional, optional transition method for adopting ASU 2016-02, which allows for an entity to choose to apply the new lease standard at adoption date and recognize a cumulative-effective adjustment to the opening balance of retained earnings in the period of adoption, while comparative periods presented will continue to be in accordance with current U.S. GAAP Topic 840. For public companies, Topic 842 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. The Company adopted this new guidance with its first quarter ending March 31, 2019, using the additional, optional transition method, the package of transitional practical expedients relating to the

identification, classification and initial direct costs of leases commencing before the effective date of Topic 842, the transitional practical expedient for the treatment of existing land easements and the practical expedient to make an accounting policy election, by class of underlying asset, to not separate nonlease components from lease components; however, the Company did not elect the hindsight transitional practical expedient. The Company made an accounting policy election to not apply recognition requirements of the guidance to short-term leases. Due to the adoption of this new guidance, the Company recognized right-of-use assets and lease liabilities of \$1.9 billion and \$2.0 billion, respectively, on the accompanying Condensed Consolidated Balance Sheets as of September 30, 2019. The difference between the right-of-use assets and lease liabilities on the accompanying Condensed Consolidated Balance Sheet was primarily due to the accrual for straight-line rent expense. The Company made an adjustment to opening "Retained Deficit" on the accompanying Condensed Consolidated Balance Sheet in the amount of \$1.4 million, net of the deferred tax impact, related to the adoption of this new guidance. With the adoption of this new guidance, the Company's favorable lease assets and unfavorable lease liabilities, from a previous acquisition, were eliminated through an adjustment to opening "Operating lease, right-of-use assets" on the accompanying Condensed Consolidated Balance Sheet. The adoption of this new guidance did not have a material impact on the Company's results of operations, cash flows, liquidity or the Company's covenant compliance under its existing credit agreement.

In June of 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). Under ASU 2016-13, businesses and other organizations are required to present financial assets, measured at amortized costs basis, at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis, such as trade receivables. The measurement of expected credit loss will be based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. For public companies, ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. The Company will adopt this guidance beginning with its first quarter ending March 31, 2020. The application of this new guidance is not expected to have a material impact on the Company's consolidated financial condition, results of operations or cash flows.

In January of 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). ASU 2017-04 eliminates the second step in the previous process for goodwill impairment testing; instead, the test is now a one-step process that calls for goodwill impairment loss to be measured as the excess of the reporting unit's carrying amount over its fair value. For public companies, ASU 2017-04 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period, and requires prospective adoption, with early adoption after January 1, 2017. The Company early adopted this guidance beginning with its first quarter ending March 31, 2019. The application of this new guidance did not have a material impact on the Company's consolidated financial condition, results of operations or cash flows.



## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Unless otherwise indicated, “we,” “us,” “our” and similar terms, as well as references to the “Company” or “O’Reilly,” refer to O’Reilly Automotive, Inc. and its subsidiaries.

In Management’s Discussion and Analysis, we provide a historical and prospective narrative of our general financial condition, results of operations, liquidity and certain other factors that may affect our future results, including

- an overview of the key drivers of the automotive aftermarket industry;
- recent developments within our Company;
- our results of operations for the three and nine months ended September 30, 2019 and 2018;
- our liquidity and capital resources;
- any contractual obligations, to which we are committed;
- our critical accounting estimates;
- the inflation and seasonality of our business; and
- recent accounting pronouncements that may affect our Company.

The review of Management’s Discussion and Analysis should be made in conjunction with our condensed consolidated financial statements, related notes and other financial information, forward-looking statements and other risk factors included elsewhere in this quarterly report.

### **FORWARD-LOOKING STATEMENTS**

We claim the protection of the safe-harbor for forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You can identify these statements by forward-looking words such as “estimate,” “may,” “could,” “will,” “believe,” “expect,” “would,” “consider,” “should,” “anticipate,” “project,” “plan,” “intend” or similar words. In addition, statements contained within this quarterly report that are not historical facts are forward-looking statements, such as statements discussing, among other things, expected growth, store development, integration and expansion strategy, business strategies, future revenues and future performance. These forward-looking statements are based on estimates, projections, beliefs and assumptions and are not guarantees of future events and results. Such statements are subject to risks, uncertainties and assumptions, including, but not limited to, the economy in general, inflation, tariffs, product demand, the market for auto parts, competition, weather, risks associated with the performance of acquired businesses, our ability to hire and retain qualified employees, consumer debt levels, our increased debt levels, credit ratings on public debt, governmental regulations, information security and cyber-attacks, terrorist activities, war, the threat of war and the ability to successfully complete the acquisition of Mayasa on a timely basis. Actual results may materially differ from anticipated results described or implied in these forward-looking statements. Please refer to the “Risk Factors” section of our annual report on Form 10-K for the year ended December 31, 2018, and subsequent Securities and Exchange Commission filings for additional factors that could materially affect our financial performance. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

### **OVERVIEW**

We are a specialty retailer of automotive aftermarket parts, tools, supplies, equipment and accessories in the United States. We are one of the largest U.S. automotive aftermarket specialty retailers, selling our products to both do-it-yourself (“DIY”) customers and professional service providers – our “dual market strategy.” Our stores carry an extensive product line consisting of new and remanufactured automotive hard parts, maintenance items, accessories, a complete line of auto body paint and related materials, automotive tools and professional service provider service equipment. Our extensive product line includes an assortment of products that are differentiated by quality and price for most of the product lines we offer. For many of our product offerings, this quality differentiation reflects “good,” “better,” and “best” alternatives. Our sales and total gross margin dollars are highest for the “best” quality category of products. Consumers’ willingness to select products at a higher point on the value spectrum is a driver of sales and profitability in our industry. Our stores also offer enhanced services and programs to our customers, including used oil, oil filter and battery recycling; battery, wiper and bulb replacement; battery diagnostic testing; electrical and module testing; check engine light code extraction; loaner tool program; drum and rotor resurfacing; custom hydraulic hoses; professional paint shop mixing and related materials; and machine shops.

Our strategy is to open new stores to achieve greater penetration into existing markets and expansion into new, contiguous markets. We typically open new stores either by (i) constructing a new facility or renovating an existing one on property we purchase or lease and stocking the new store with fixtures and inventory; (ii) acquiring an independently owned auto parts store, typically by the purchase of substantially all of the inventory and other assets (other than realty) of such store; or (iii) purchasing multi-store chains. We plan to open 200 net, new stores in 2019 and will net an additional 20 stores, as we merged 13 of the acquired 33 Bennett Auto Supply, Inc. (“Bennett”)

stores into existing O'Reilly stores during 2019. We plan to open approximately 180 net, new stores in 2020, in addition to the involvement of our Teams in completing the acquisition of Mayasa, as noted in Recent Developments. We believe our investment in store growth will be funded with the cash flows expected to be generated by our existing operations and through available borrowings under our existing unsecured revolving credit facility. During the three months ended September 30, 2019, we opened 76 stores and did not close any stores and, as of that date, operated 5,420 stores in 47 states.

Operating within the retail industry, we are influenced by a number of general macroeconomic factors including, but not limited to, fuel costs, unemployment rates, consumer preferences and spending habits, and competition. We have ongoing initiatives aimed at tailoring our product offering to adjust to customers' changing preferences, and we also have initiatives focused on marketing and training to educate customers on the advantages of ongoing vehicle maintenance, as well as "purchasing up" on the value spectrum.

We believe the key drivers of current and future demand for the products sold within the automotive aftermarket include the number of U.S. miles driven, number of U.S. registered vehicles, new light vehicle registrations, average vehicle age and unemployment.

- **Number of Miles Driven** – The number of total miles driven in the U.S. influences the demand for repair and maintenance products sold within the automotive aftermarket. In total, vehicles in the U.S. are driven approximately three trillion miles per year, resulting in ongoing wear and tear and a corresponding continued demand for the repair and maintenance products necessary to keep these vehicles in operation. According to the Department of Transportation, the number of total miles driven in the U.S. increased 0.4%, 1.2% and 2.4% in 2018, 2017 and 2016, respectively, and through August of 2019, year-to-date miles driven increased 0.9%. We would expect to continue to see modest improvements in total miles driven in the U.S., supported by an increasing number of registered vehicles on the road, resulting in continued demand for automotive aftermarket products.
- **Number of U.S. Registered Vehicles, New Light Vehicle Registrations and Average Vehicle Age** – The total number of vehicles on the road and the average age of the vehicle population heavily influence the demand for products sold within the automotive aftermarket industry. As reported by The Auto Care Association, the total number of registered vehicles increased 8.1% from 2008 to 2018, bringing the number of light vehicles on the road to 272 million by the end of 2018. For the year ended December 31, 2018, the seasonally adjusted annual rate of light vehicle sales in the U.S. ("SAAR") was approximately 17.5 million, and for 2019, the SAAR is estimated to be approximately 17.2 million, contributing to the continued growth in the total number of registered vehicles on the road. In the past decade, vehicle scrappage rates have remained relatively stable, ranging from 4.4% to 5.7% annually. As a result, over the past decade, the average age of the U.S. vehicle population has increased, growing 20.6%, from 9.7 years in 2008 to 11.7 years in 2018. We believe this increase in average age can be attributed to better engineered and manufactured vehicles, which can be reliably driven at higher mileages due to better quality power trains and interiors and exteriors, and the consumer's willingness to invest in maintaining these higher-mileage, better built vehicles. As the average age of vehicles on the road increases, a larger percentage of miles are being driven by vehicles that are outside of a manufacturer warranty. These out-of-warranty, older vehicles generate strong demand for automotive aftermarket products as they go through more routine maintenance cycles, have more frequent mechanical failures and generally require more maintenance than newer vehicles. We believe consumers will continue to invest in these reliable, higher-quality, higher-mileage vehicles and these investments, along with an increasing total light vehicle fleet, will support continued demand for automotive aftermarket products.
- **Unemployment** – Unemployment, underemployment, the threat of future joblessness and the uncertainty surrounding the overall economic health of the U.S. have a negative impact on consumer confidence and the level of consumer discretionary spending. Long-term trends of high unemployment have historically impeded the growth of annual miles driven, as well as decrease consumer discretionary spending, both of which negatively impact demand for products sold in the automotive aftermarket industry. The U.S. unemployment rate was 3.9% as of December 31, 2018, and as of September 30, 2019, the U.S. unemployment rate decreased to 3.5%. We believe total employment should remain at healthy levels supporting the trend of modest growth of total miles driven in the U.S. and the continued demand for automotive aftermarket products.

We remain confident in our ability to gain market share in our existing markets and grow our business in new markets by focusing on our dual market strategy and the core O'Reilly values of hard work and excellent customer service.

## RECENT DEVELOPMENTS

After the close of business on December 31, 2018, we completed an asset purchase of Bennett, a privately held automotive parts supplier operating 33 stores and a warehouse in Florida. Beginning January 1, 2019, the operations of the acquired Bennett locations were included in the Company's store count, consolidated financial statements and results of operations.

As announced on August 20, 2019, the Company entered into a definitive stock purchase agreement with the shareholders of Mayoreo de Autopartes y Aceites, S.A. de C.V. ("Mayasa"), headquartered in Guadalajara, Jalisco, Mexico, under which O'Reilly will acquire all of the outstanding shares of Mayasa and affiliated entities. The stock purchase is expected to be completed in the fourth quarter of this

year, subject to customary closing conditions and regulatory approvals. Mayasa operates five distribution centers that support 20 company owned stores and over 2,000 independent jobber locations throughout Mexico.

## RESULTS OF OPERATIONS

### Sales:

Sales for the three months ended September 30, 2019, increased \$184 million or 7% to \$2.67 billion from \$2.48 billion for the same period one year ago. Sales for the nine months ended September 30, 2019, increased \$446 million or 6% to \$7.67 billion from \$7.22 billion for the same period one year ago. Comparable store sales for stores open at least one year increased 5.0% and 3.9% for the three months ended September 30, 2019 and 2018, respectively. Comparable store sales for stores open at least one year increased 3.9% and 4.0% for the nine months ended September 30, 2019 and 2018, respectively. Comparable store sales are calculated based on the change in sales for stores open at least one year and exclude sales of specialty machinery, sales to independent parts stores and sales to Team Members. Online sales, resulting from ship-to-home orders and pickup in-store orders, for stores open at least one year, are included in the comparable store sales calculation.

The following table presents the components of the increase in sales for the three and nine months ended September 30, 2019 (in millions):

	Increase in Sales for the Three Months Ended September 30, 2019 Compared to the Same Period in 2018	Increase in Sales for the Nine Months Ended September 30, 2019, Compared to the Same Period in 2018
<b>Store sales:</b>		
Comparable store sales	\$ 122	\$ 275
Non-comparable store sales:		
Sales for stores opened throughout 2018, excluding stores open at least one year that are included in comparable store sales	15	84
Sales for stores opened throughout 2019 and sales from the acquired Bennett stores	42	87
Decline in sales for stores that have closed	(2)	(8)
<b>Non-store sales:</b>		
Includes sales of machinery and sales to independent parts stores and Team Members	7	8
<b>Total increase in sales</b>	<b>\$ 184</b>	<b>\$ 446</b>

We believe the increased sales achieved by our stores are the result of store growth, the high levels of customer service provided by our well-trained and technically proficient Team Members, superior inventory availability, including same day and over-night access to inventory in our regional distribution centers, enhanced services and programs offered in our stores, a broader selection of product offerings in most stores with a dynamic catalog system to identify and source parts, a targeted promotional and advertising effort through a variety of media and localized promotional events, continued improvement in the merchandising and store layouts of our stores, compensation programs for all store Team Members that provide incentives for performance and our continued focus on serving both DIY and professional service provider customers.

Our comparable store sales increase for the three months ended September 30, 2019, was driven by an increase in average ticket for both DIY and professional service provider customers and positive transaction counts, comprised of positive transaction counts for professional service provider customers, partially offset by slightly negative transaction counts for DIY customers. Our comparable store sales increase for the nine months ended September 30, 2019, was driven by an increase in average ticket for both DIY and professional service provider customers, partially offset by slightly negative transaction counts, which was comprised of negative transaction counts for DIY customers, offset by positive transaction counts for professional service provider customers. The improvements in average ticket values for the three and nine months ended September 30, 2019, were the result of the increasing complexity and cost of replacement parts necessary to maintain the newer population of vehicles and increased selling prices on a SKU-by-SKU basis, as compared to the prior year. The increased complexity and replacement costs are a result of the current population of better-engineered and more technically advanced vehicles that require less frequent repairs, as the component parts are more durable and last for longer periods of time, which creates pressure on customer transaction counts. However, when repairs are needed, the cost of replacement parts is, on average, greater, which benefits average ticket values. The increase in selling prices on a SKU-by-SKU basis was driven by increases in acquisition costs of inventory, which were passed through in market prices. Transaction counts for the nine months ended September 30, 2019, as compared to the same period in the prior year, were also negatively impacted by wetter, cooler than normal temperatures in many of our markets.

during the first half of 2019. DIY transaction counts continue to be impacted by an inflationary environment, resulting in an increased deferral of vehicle maintenance and repairs over the short-term.

We opened 76 and 181 net, new stores during the three and nine months ended September 30, 2019, respectively, compared to opening 43 and 171 net, new stores for the three and nine months ended September 30, 2018, respectively. In addition, on January 1, 2019, we began operating 33 acquired Bennett stores, and during the nine months ended September 30, 2019, we merged 13 of these acquired Bennett stores into existing O'Reilly locations and rebranded the remaining 20 Bennett stores as O'Reilly. As of September 30, 2019, we operated 5,420 stores in 47 states compared to 5,190 stores in 47 states at September 30, 2018. We anticipate total new store growth to be 200 net, new store openings in 2019, as well as 20 net, additional stores from the Bennett acquisition. We anticipate total new store growth to be approximately 180 net, new store openings in 2020.

#### Gross profit:

Gross profit for the three months ended September 30, 2019, increased 8% to \$1.42 billion (or 53.3% of sales) from \$1.32 billion (or 53.0% of sales) for the same period one year ago. Gross profit for the nine months ended September 30, 2019, increased 7% to \$4.07 billion (or 53.1% of sales) from \$3.81 billion (or 52.7% of sales) for the same period one year ago. The increases in gross profit dollars for the three and nine months ended September 30, 2019, were primarily the result of new stores and the increase in comparable store sales at existing stores. The increases in gross profit as a percentage of sales for the three and nine months ended September 30, 2019, were due to a benefit from selling through inventory purchased prior to recent industry-wide acquisition cost increases and corresponding selling price increases. Beginning in the last six months of 2018, inventory acquisition costs in our industry increased, as a result of tariffs on products imported from China and other increases in supplier input costs; these cost increases were passed through in higher retail and wholesale prices in our industry. We determine inventory cost using the last-in, first-out ("LIFO") method, but have, over time, seen our LIFO reserve balance exhausted, as a result of cumulative historical acquisition cost decreases. Our policy is to not write up inventory in excess of replacement cost, and accordingly, we are effectively valuing our inventory at replacement cost.

#### Selling, general and administrative expenses:

Selling, general and administrative expenses ("SG&A") for the three months ended September 30, 2019, increased 7% to \$886 million (or 33.2% of sales) from \$831 million (or 33.5% of sales) for the same period one year ago. SG&A for the nine months ended September 30, 2019, increased 7% to \$2.59 billion (or 33.8% of sales) from \$2.42 billion (or 33.5% of sales) for the same period one year ago. The increases in total SG&A dollars for the three and nine months ended September 30, 2019, were the result of additional Team Members, facilities and vehicles to support our increased sales and store count. The decrease in SG&A as a percentage of sales for the three months ended September 30, 2019, was principally due to leverage of store operating costs on strong comparable store sales growth, partially offset by wage pressures and other variable costs, driven by a low unemployment, inflationary environment, and increased spending on omnichannel and technology initiatives. The increase in SG&A as a percentage of sales for the nine months ended September 30, 2019, was principally due to wage pressures, other variable costs, driven by a low unemployment, inflationary environment, and increased spending on omnichannel and technology initiatives.

#### Operating income:

As a result of the impacts discussed above, operating income for the three months ended September 30, 2019, increased 11% to \$536 million (or 20.1% of sales) from \$485 million (or 19.5% of sales) for the same period one year ago. As a result of the impacts discussed above, operating income for the nine months ended September 30, 2019, increased 7% to \$1.48 billion (or 19.3% of sales) from \$1.39 billion (or 19.2% of sales) for the same period one year ago.

#### Other income and expense:

Total other expense for the three months ended September 30, 2019, increased 17% to \$34 million (or 1.3% of sales) from \$29 million (or 1.2% of sales) for the same period one year ago. Total other expense for the nine months ended September 30, 2019, increased 14% to \$98 million (or 1.3% of sales) from \$86 million (or 1.2% of sales) for the same period one year ago. The increases in total other expense for the three and nine months ended September 30, 2019, were the result of increased interest expense on higher average outstanding borrowings.

#### Income taxes:

Our provision for income taxes for the three months ended September 30, 2019, increased 24% to \$111 million (or 4.1% of sales) from \$90 million (or 3.6% of sales) for the same period one year ago. Our provision for income taxes for the nine months ended September 30, 2019, increased 14% to \$315 million (or 4.1% of sales) from \$277 million (or 3.8% of sales) for the same period one year ago. Our effective tax rate for the three months ended September 30, 2019, was 22.0% of income before income taxes, compared to 19.6% for the same period one year ago. Our effective tax rate for the nine months ended September 30, 2019, was 22.8% of income before income taxes, compared to 21.3% for the same period one year ago. The increases in our provision for income taxes for the three and nine months ended September 30, 2019, were the result of higher taxable income and lower excess tax benefits from share-based compensation. The

increases in our effective tax rate for the three and nine months ended September 30, 2019, were the result of lower excess tax benefits from share-based compensation.

#### Net income:

As a result of the impacts discussed above, net income for the three months ended September 30, 2019, increased 7% to \$391 million (or 14.7% of sales) from \$366 million (or 14.7% of sales) for the same period one year ago. As a result of the impacts discussed above, net income for the nine months ended September 30, 2019, increased 4% to \$1.07 billion (or 13.9% of sales) from \$1.02 billion (or 14.2% of sales) for the same period one year ago.

#### Earnings per share:

Our diluted earnings per common share for the three months ended September 30, 2019, increased 13% to \$5.08 on 77 million shares from \$4.50 on 81 million shares for the same period one year ago. Our diluted earnings per share for the nine months ended September 30, 2019, increased 10% to \$13.63 on 78 million shares from \$12.36 on 83 million shares for the same period one year ago.

### **LIQUIDITY AND CAPITAL RESOURCES**

Our long-term business strategy requires capital to open new stores, fund strategic acquisitions, expand distribution infrastructure, operate and maintain existing stores and may include the opportunistic repurchase of shares of our common stock through our Board-approved share repurchase program. The primary sources of our liquidity are funds generated from operations and borrowed under our unsecured revolving credit facility. Decreased demand for our products or changes in customer buying patterns could negatively impact our ability to generate funds from operations. Additionally, decreased demand or changes in buying patterns could impact our ability to meet the debt covenants of our credit agreement and, therefore, negatively impact the funds available under our unsecured revolving credit facility. We believe that cash expected to be provided by operating activities and availability under our unsecured revolving credit facility will be sufficient to fund both our short-term and long-term capital and liquidity needs for the foreseeable future. However, there can be no assurance that we will continue to generate cash flows at or above recent levels.

The following table identifies cash provided by/(used in) our operating, investing and financing activities for the nine months ended September 30, 2019 and 2018 (in thousands):

	<b>For the Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Liquidity:</b>		
Total cash provided by/(used in):		
Operating activities	\$ 1,489,676	\$ 1,342,019
Investing activities	(493,055)	(347,824)
Financing activities	(985,132)	(1,000,524)
Net increase (decrease) in cash and cash equivalents	\$ 11,489	\$ (6,329)
Capital expenditures	\$ 481,207	\$ 350,461
Free cash flow <sup>(1)</sup>	\$ 995,410	\$ 958,584

<sup>(1)</sup> Calculated as net cash provided by operating activities, less capital expenditures and excess tax benefit from share-based compensation payments for the period.

#### *Operating activities:*

The increase in net cash provided by operating activities during the nine months ended September 30, 2019, compared to the same period in 2018, was primarily due to an increase in income taxes payable and increased operating income. The increase in income taxes payable was due to the timing and amount of our quarterly estimated tax payments, which benefited from investments in renewable energy projects that generate investment tax credits.

#### *Investing activities:*

The increase in net cash used in investing activities during the nine months ended September 30, 2019, compared to the same period in 2018, was the result of an increase in capital expenditures. The increase in capital expenditures was related to our distribution expansion projects, the timing of property acquisitions, closings and construction costs for new stores and technology investments during the current period, as compared to the same period in the prior year.

*Financing activities:*

The decrease in net cash used in financing activities during the nine months ended September 30, 2019, compared to the same period in 2018, was attributable to a higher level of net borrowings during the current period, as compared to the same period in the prior year, partially offset by a higher level of repurchases of our common stock in the current period, as compared to the same period in the prior year.

*Unsecured revolving credit facility:*

On April 5, 2017, the Company entered into a credit agreement (the “Credit Agreement”). The Credit Agreement provides for a five-year \$1.20 billion unsecured revolving credit facility (the “Revolving Credit Facility”) arranged by JPMorgan Chase Bank, N.A., which is scheduled to mature in April 2022. The Credit Agreement includes a \$200 million sub-limit for the issuance of letters of credit and a \$75 million sub-limit for swing line borrowings. As described in the Credit Agreement governing the Revolving Credit Facility, the Company may, from time to time, subject to certain conditions, increase the aggregate commitments under the Revolving Credit Facility by up to \$600 million, provided that the aggregate amount of the commitments does not exceed \$1.80 billion at any time.

As of September 30, 2019, we had outstanding letters of credit, primarily to support obligations related to workers’ compensation, general liability and other insurance policies, in the amount of \$39 million, reducing the aggregate availability under the Credit Agreement by that amount. As of September 30, 2019, we had outstanding borrowings under the Revolving Credit Facility in the amount of \$75 million.

*Senior Notes:*

On May 20, 2019, we issued \$500 million aggregate principal amount of unsecured 3.900% Senior Notes due 2029 (“3.900% Senior Notes due 2029”) at a price to the public of 99.991% of their face value with U.S. Bank National Association (“U.S. Bank”) as trustee. Interest on the 3.900% Senior Notes due 2029 is payable on June 1 and December 1 of each year, beginning on December 1, 2019, and is computed on the basis of a 360-day year.

We have issued a cumulative \$3.65 billion aggregate principal amount of unsecured senior notes, which are due between 2021 and 2029, with UMB Bank, N.A. and U.S. Bank as trustees. Interest on the senior notes, ranging from 3.550% to 4.875%, is payable semi-annually and is computed on the basis of a 360-day year. None of our subsidiaries is a guarantor under our senior notes.

*Debt covenants:*

The indentures governing our senior notes contain covenants that limit our ability and the ability of certain of our subsidiaries to, among other things, create certain liens on assets to secure certain debt and enter into certain sale and leaseback transactions, and limit our ability to merge or consolidate with another company or transfer all or substantially all of our property, in each case as set forth in the indentures. These covenants are, however, subject to a number of important limitations and exceptions. As of September 30, 2019, we were in compliance with the covenants applicable to our senior notes.

The Credit Agreement contains certain covenants, including limitations on indebtedness, a minimum consolidated fixed charge coverage ratio of 2.50:1.00 and a maximum consolidated leverage ratio of 3.50:1.00. The consolidated fixed charge coverage ratio includes a calculation of earnings before interest, taxes, depreciation, amortization, rent and non-cash share-based compensation expense to fixed charges. Fixed charges include interest expense, capitalized interest and rent expense. The consolidated leverage ratio includes a calculation of adjusted debt to earnings before interest, taxes, depreciation, amortization, rent and non-cash share-based compensation expense. Adjusted debt includes outstanding debt, outstanding stand-by letters of credit and similar instruments, five-times rent expense and excludes any premium or discount recorded in conjunction with the issuance of long-term debt. In the event that we should default on any covenant contained within the Credit Agreement, certain actions may be taken, including, but not limited to, possible termination of commitments, immediate payment of outstanding principal amounts plus accrued interest and other amounts payable under the Credit Agreement and litigation from our lenders.

We had a consolidated fixed charge coverage ratio of 5.25 times and 5.43 times as of September 30, 2019 and 2018, respectively, and a consolidated leverage ratio of 2.15 times and 2.01 times as of September 30, 2019 and 2018, respectively, remaining in compliance with all covenants related to the borrowing arrangements.

The table below outlines the calculations of the consolidated fixed charge coverage ratio and consolidated leverage ratio covenants, as defined in the Credit Agreement governing the Revolving Credit Facility, for the twelve months ended September 30, 2019 and 2018 (dollars in thousands):

	For the Twelve Months Ended September 30,	
	2019	2018
GAAP net income	\$ 1,366,483	\$ 1,326,445
Add: Interest expense	136,155	117,455
Rent expense <sup>(1)</sup>	334,249	312,793
Provision for income taxes	407,690	351,209
Depreciation expense	263,311	252,392
Amortization expense	2,690	1,271
Non-cash share-based compensation	21,610	19,710
Non-GAAP EBITDAR	<u>\$ 2,532,188</u>	<u>\$ 2,381,275</u>
Interest expense	\$ 136,155	\$ 117,455
Capitalized interest	12,079	8,670
Rent expense	334,249	312,793
Total fixed charges	<u>\$ 482,483</u>	<u>\$ 438,918</u>
Consolidated fixed charge coverage ratio	5.25	5.43
GAAP debt	\$ 3,703,628	\$ 3,174,327
Stand-by letters of credit	39,104	36,984
Discount on senior notes	3,723	4,498
Debt issuance costs	17,649	16,175
Five-times rent expense	1,671,245	1,563,965
Non-GAAP adjusted debt	<u>\$ 5,435,349</u>	<u>\$ 4,795,949</u>
Consolidated leverage ratio	2.15	2.01

<sup>(1)</sup> The table below outlines the calculation of Rent expense and reconciles Rent expense to Total lease cost, per Accounting Standard Codification 842 ("ASC 842"), adopted and effective January 1, 2019, the most directly comparable GAAP financial measure, for the nine and twelve months ended September 30, 2019 (in thousands):

Total lease cost, per ASC 842, for the nine months ended September 30, 2019	\$ 298,185
Less: Variable non-contract operating lease components, related to property taxes and insurance, for the nine months ended September 30, 2019	44,531
Rent expense for the nine months ended September 30, 2019	<u>253,654</u>
Add: Rent expense for the three months ended December 31, 2018, as previously reported prior to the adoption of ASC 842	80,595
Rent expense for the twelve months ended September 30, 2019	<u>\$ 334,249</u>

The table below outlines the calculation of Free cash flow and reconciles Free cash flow to Net cash provided by operating activities, the most directly comparable GAAP financial measure, for the nine months ended September 30, 2019 and 2018 (in thousands):

	For the Nine Months Ended September 30,	
	2019	2018
Cash provided by operating activities	\$ 1,489,676	\$ 1,342,019
Less: Capital expenditures	481,207	350,461
Excess tax benefit from share-based compensation payments	13,059	32,974
Free cash flow	<u>\$ 995,410</u>	<u>\$ 958,584</u>



Free cash flow, the consolidated fixed charge coverage ratio and the consolidated leverage ratio discussed and presented in the tables above are not derived in accordance with United States generally accepted accounting principles (“GAAP”). We do not, nor do we suggest investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, GAAP financial information. We believe that the presentation of our free cash flow, consolidated fixed charge coverage ratio and consolidated leverage ratio provides meaningful supplemental information to both management and investors and reflects the required covenants under the Credit Agreement. We include these items in judging our performance and believe this non-GAAP information is useful to investors as well. Material limitations of these non-GAAP measures are that such measures do not reflect actual GAAP amounts. We compensate for such limitations by presenting, in the tables above, a reconciliation to the most directly comparable GAAP measures.

*Share repurchase program:*

In January of 2011, our Board of Directors approved a share repurchase program. Under the program, we may, from time to time, repurchase shares of our common stock, solely through open market purchases effected through a broker dealer at prevailing market prices, based on a variety of factors such as price, corporate trading policy requirements and overall market conditions. Our Board of Directors may increase or otherwise modify, renew, suspend or terminate the share repurchase program at any time, without prior notice. As announced on November 13, 2018, and May 31, 2019, our Board of Directors each time approved a resolution to increase the authorization amount under our share repurchase program by an additional \$1.00 billion, resulting in a cumulative authorization amount of \$12.75 billion. Each additional authorization is effective for a three-year period, beginning on its respective announcement date.

The following table identifies shares of our common stock that have been repurchased as part of our publicly announced share repurchase program for the three and nine months ended September 30, 2019 and 2018 (in thousands, except per share data):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Shares repurchased	1,025	932	3,585	4,695
Average price per share	\$ 377.85	\$ 306.22	\$ 364.84	\$ 266.48
Total investment	\$ 387,255	\$ 285,183	\$ 1,307,947	\$ 1,251,013

As of September 30, 2019, we had \$693 million remaining under our share repurchase program. Subsequent to the end of the third quarter and through November 6, 2019, we repurchased 0.1 million additional shares of our common stock under our share repurchase program, at an average price of \$393.84, for a total investment of \$35 million. We have repurchased a total of 76.0 million shares of our common stock under our share repurchase program since the inception of the program in January of 2011 and through November 6, 2019, at an average price of \$159.13, for a total aggregate investment of \$12.09 billion.

## CONTRACTUAL OBLIGATIONS

There have been no material changes to the contractual obligations, to which we are committed, since those discussed in our Annual Report on Form 10-K for the year ended December 31, 2018.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of our financial statements in accordance with GAAP requires the application of certain estimates and judgments by management. Management bases its assumptions, estimates, and adjustments on historical experience, current trends and other factors believed to be relevant at the time the condensed consolidated financial statements are prepared. There have been no material changes in the critical accounting estimates since those discussed in our Annual Report on Form 10-K for the year ended December 31, 2018.

## INFLATION AND SEASONALITY

We have been successful, in many cases, in reducing the effects of merchandise cost increases principally by taking advantage of supplier incentive programs, economies of scale resulting from increased volume of purchases and selective forward buying. To the extent our acquisition costs increased due to base commodity price increases industry-wide, we have typically been able to pass along these increased costs through higher retail prices for the affected products. As a result, we do not believe inflation has had a material adverse effect on our operations.

To some extent, our business is seasonal primarily as a result of the impact of weather conditions on customer buying patterns. While we have historically realized operating profits in each quarter of the year, our store sales and profits have historically been higher in the second and third quarters (April through September) than in the first and fourth quarters (October through March) of the year.



## RECENT ACCOUNTING PRONOUNCEMENTS

In February of 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). Under ASU 2016-02, an entity is required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July of 2018, the FASB issued ASU No. 2018-11, “Leases (Topic 842): Targeted Improvement” (“ASU 2018-11”), to provide an additional, optional transition method for adopting ASU 2016-02, which allows for an entity to choose to apply the new lease standard at adoption date and recognize a cumulative-effective adjustment to the opening balance of retained earnings in the period of adoption, while comparative periods presented will continue to be in accordance with current U.S. GAAP Topic 840. For public companies, Topic 842 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. We adopted this new guidance with our first quarter ending March 31, 2019, using the additional, optional transition method, the package of transitional practical expedients relating to the identification, classification and initial direct costs of leases commencing before the effective date of Topic 842, the transitional practical expedient for the treatment of existing land easements and the practical expedient to make an accounting policy election, by class of underlying asset, to not separate nonlease components from lease components; however, we did not elect the hindsight transitional practical expedient. We made an accounting policy election to not apply recognition requirements of the guidance to short-term leases. Due to the adoption of this new guidance, we recognized right-of-use assets and lease liabilities of \$1.9 billion and \$2.0 billion, respectively, on the accompanying Condensed Consolidated Balance Sheets as of September 30, 2019. The difference between the right-of-use assets and lease liabilities on the accompanying Condensed Consolidated Balance Sheet was primarily due to the accrual for straight-line rent expense. We made an adjustment to opening “Retained Deficit” on the accompanying Condensed Consolidated Balance Sheet in the amount of \$1.4 million, net of the deferred tax impact, related to the adoption of this new guidance. With the adoption of this new guidance, our favorable lease assets and unfavorable lease liabilities, from a previous acquisition, were eliminated through an adjustment to opening “Operating lease, right-of-use assets” on the accompanying Condensed Consolidated Balance Sheet. The adoption of this new guidance did not have a material impact on our results of operations, cash flows, liquidity or covenant compliance under our existing credit agreement.

In June of 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”). Under ASU 2016-13, businesses and other organizations are required to present financial assets, measured at amortized costs basis, at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis, such as trade receivables. The measurement of expected credit loss will be based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. For public companies, ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. We will adopt this guidance beginning with our first quarter ending March 31, 2020. The application of this new guidance is not expected to have a material impact on our consolidated financial condition, results of operations or cash flows.

In January of 2017, the FASB issued ASU No. 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”). ASU 2017-04 eliminates the second step in the previous process for goodwill impairment testing; instead, the test is now a one-step process that calls for goodwill impairment loss to be measured as the excess of the reporting unit’s carrying amount over its fair value. For public companies, ASU 2017-04 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period, and requires prospective adoption, with early adoption after January 1, 2017. We early adopted this guidance beginning with our first quarter ending March 31, 2019. The application of this new guidance did not have a material impact on our consolidated financial condition, results of operations or cash flows.

## INTERNET ADDRESS AND ACCESS TO SEC FILINGS

Our Internet address is [www.OREillyAuto.com](http://www.OREillyAuto.com). Interested readers can access, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, through the Securities and Exchange Commission’s (“SEC”) website at [www.sec.gov](http://www.sec.gov) and searching with our ticker symbol “ORLY.” Such reports are generally available the day they are filed. Upon request, we will furnish interested readers a paper copy of such reports free of charge.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Unless otherwise indicated, “we,” “us,” “our” and similar terms, as well as references to the “Company” or “O’Reilly,” refer to O’Reilly Automotive, Inc. and its subsidiaries.

We are subject to interest rate risk to the extent we borrow against our unsecured revolving credit facility (the “Revolving Credit Facility”) with variable interest rates based on either a Base Rate or Eurodollar Rate, as defined in the credit agreement governing the Revolving Credit Facility. As of September 30, 2019, we had outstanding borrowings under our Revolving Credit Facility in the amount of \$75 million, at the weighted-average variable interest rate of 2.942%. At this borrowing level, a 0.25% increase in interest rates would have had an unfavorable annual impact on our pre-tax earnings and cash flows in the amount of \$0.2 million.

We invest certain of our excess cash balances in short-term, highly-liquid instruments with maturities of 90 days or less. We do not expect any material losses from our invested cash balances and we believe that our interest rate exposure is minimal. As of September 30, 2019, our cash and cash equivalents totaled \$43 million.

Our market risks have not materially changed since those discussed in our Annual Report on Form 10-K for the year ended December 31, 2018.

### **Item 4. Controls and Procedures**

#### **EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

As of the end of the period covered by this report, the management of O’Reilly Automotive, Inc. and Subsidiaries (the “Company”), under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures pursuant to Rule 13a-15(b) and as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (“the Exchange Act”). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company’s disclosure controls and procedures as of the end of the period covered by this report are functioning effectively to provide reasonable assurance that the information required to be disclosed by the Company, including its consolidated subsidiaries, in reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and is accumulated and communicated to management, including the Company’s Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### **CHANGES IN INTERNAL CONTROLS**

There were no changes in the Company’s internal control over financial reporting during the fiscal quarter ended September 30, 2019, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

O'Reilly Automotive, Inc. and its subsidiaries (the "Company" or "O'Reilly") is currently involved in litigation incidental to the ordinary conduct of the Company's business. The Company accrues for litigation losses in instances where a material adverse outcome is probable and the Company is able to reasonably estimate the probable loss. The Company accrues for an estimate of material legal costs to be incurred in pending litigation matters. Although the Company cannot ascertain the amount of liability that it may incur from any of these matters, it does not currently believe that, in the aggregate, these matters, taking into account applicable insurance and accruals, will have a material adverse effect on its consolidated financial position, results of operations or cash flows in a particular quarter or annual period.

### **Item 1A. Risk Factors**

As of September 30, 2019, there have been no material changes in O'Reilly Automotive, Inc. and its subsidiaries' risk factors since those discussed in our Annual Report on Form 10-K for the year ended December 31, 2018.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

O'Reilly Automotive, Inc. and its subsidiaries (the "Company") had no sales of unregistered securities during the nine months ended September 30, 2019. The following table identifies all repurchases during the three months ended September 30, 2019, of any of the Company's securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, by or on behalf of the Company or any affiliated purchaser (in thousands, except per share data):

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Programs</b>	<b>Maximum Dollar Value of Shares that May Yet Be Purchased Under the Programs <sup>(1)</sup></b>
July 1, 2019, through July 31, 2019	214	\$ 382.18	214	\$ 988,865
August 1, 2019, through August 31, 2019	644	372.98	644	758,778
September 1, 2019, through September 30, 2019	167	391.09	167	\$ 693,489
<b>Total as of September 30, 2019</b>	<b>1,025</b>	<b>\$ 377.85</b>	<b>1,025</b>	

- <sup>(1)</sup> Under the Company's share repurchase program, as approved by its Board of Directors, the Company may, from time to time, repurchase shares of its common stock, solely through open market purchases effected through a broker dealer at prevailing market prices, based on a variety of factors such as price, corporate trading policy requirements and overall market conditions. The Company's Board of Directors may increase or otherwise modify, renew, suspend or terminate the share repurchase program at any time, without prior notice. As announced on November 13, 2018, and May 31, 2019, the Company's Board of Directors each time approved a resolution to increase the authorization amount under the share repurchase program by an additional \$1.0 billion, resulting in a cumulative authorization amount of \$12.8 billion. Each additional authorization is effective for a three-year period, beginning on its respective announcement date. The authorization under the share repurchase program that currently has capacity is scheduled to expire on May 31, 2022. No other share repurchase programs existed during the nine months ended September 30, 2019.

Subsequent to the end of the third quarter and through November 6, 2019, the Company repurchased an additional 0.1 million shares of its common stock under its share repurchase program, at an average price of \$393.84, for a total investment of \$34.8 million. The Company has repurchased a total of 76.0 million shares of its common stock under its share repurchase program since the inception of the program in January of 2011 and through November 6, 2019, at an average price of \$159.13, for a total aggregate investment of \$12.1 billion.

**Item 6. Exhibits**

<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
3.1	Amended and Restated Articles of Incorporation of the Registrant, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated May 9, 2013, is incorporated herein by this reference.
3.2	Amended and Restated Bylaws of the Registrant, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated November 29, 2016, is incorporated herein by this reference.
4.1	Indenture, dated as of May 20, 2019, by and between O'Reilly Automotive, Inc. and U.S. Bank National Association, as Trustee, filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated as May 20, 2019, is incorporated herein by this reference.
4.2	First Supplemental Indenture, dated as of May 20, 2019, by and between O'Reilly Automotive, Inc. and U.S. Bank National Association, as Trustee, filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated May 20, 2019, is incorporated herein by this reference.
4.3	Form of Note for 3.900% Senior Notes due 2029, included in Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated May 20, 2019, is incorporated herein by this reference.
21.1	Subsidiaries of the Registrant, filed herewith.
31.1	Certificate of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certificate of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1 *	Certificate of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith.
32.2 *	Certificate of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith.
101.INS	iXBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	iXBRL Taxonomy Extension Schema.
101.CAL	iXBRL Taxonomy Extension Calculation Linkbase.
101.DEF	iXBRL Taxonomy Extension Definition Linkbase.
101.LAB	iXBRL Taxonomy Extension Label Linkbase.
101.PRE	iXBRL Taxonomy Extension Presentation Linkbase.
104	Cover Page Interactive Data File, formatted as Inline XBRL, contained in Exhibit 101 attachments.
*	Furnished (and not filed) herewith pursuant to Item 601(b)(32)(ii) of Regulation S-K.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### **O'REILLY AUTOMOTIVE, INC.**

November 6, 2019

\_\_\_\_\_  
Date

/s/ Gregory D. Johnson

\_\_\_\_\_  
Gregory D. Johnson  
Chief Executive Officer and Co-President  
(Principal Executive Officer)

November 6, 2019

\_\_\_\_\_  
Date

/s/ Thomas McFall

\_\_\_\_\_  
Thomas McFall  
Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

**Exhibit 21.1 - Subsidiaries of the Registrant****O'Reilly Automotive, Inc. and Subsidiaries**

<b>Subsidiary</b>	<b>State of Incorporation</b>
O'Reilly Automotive Stores, Inc.	Missouri
Ozark Automotive Distributors, Inc.	Missouri
Ozark Services, Inc.	Missouri
Ozark Purchasing, LLC	Missouri
O'Reilly Auto Enterprises, LLC	Delaware

In addition, six subsidiaries operating in the United States have been omitted from the above list, as they would not, considered in the aggregate as a single subsidiary, constitute a significant subsidiary as defined by Rule 1-02(w) of Regulation S-X.

One hundred percent of the capital stock of each of the above subsidiaries is directly or indirectly owned by O'Reilly Automotive, Inc.

**O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES**

**CERTIFICATIONS**

I, Gregory D. Johnson, certify that:

1. I have reviewed this report on Form 10-Q of O'Reilly Automotive, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2019

/s/ Gregory D. Johnson

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Gregory D. Johnson  
Chief Executive Officer and  
Co-President  
(Principal Executive Officer)

**O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES**

**CERTIFICATIONS**

I, Thomas McFall, certify that:

1. I have reviewed this report on Form 10-Q of O'Reilly Automotive, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2019

/s/ Thomas McFall

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Thomas McFall  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial and Accounting Officer)



**O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES**

O'REILLY AUTOMOTIVE, INC.  
CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Report of O'Reilly Automotive, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregory D. Johnson, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Gregory D. Johnson

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Gregory D. Johnson  
Chief Executive Officer

November 6, 2019

This certification is made solely for purposes of 18 U.S.C. Section 1350, and not for any other purpose. This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES**

O'REILLY AUTOMOTIVE, INC.  
CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Report of O'Reilly Automotive, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas McFall, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Thomas McFall

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Thomas McFall  
Chief Financial Officer

November 6, 2019

This certification is made solely for purposes of 18 U.S.C. Section 1350, and not for any other purpose. This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.