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# EDITED TRANSCRIPT

ORLY - O'Reilly Automotive Inc at Gabelli Automotive Aftermarket Symposium

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## CORPORATE PARTICIPANTS

**Gregory D. Johnson** *O'Reilly Automotive, Inc. - Co-President*

**Jeremy Adam Fletcher** *O'Reilly Automotive, Inc. - SVP of Finance and Controller*

**Thomas G. McFall** *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

## CONFERENCE CALL PARTICIPANTS

**Anna Carolina Jolly** *G. Research, LLC - Research Analyst*

## PRESENTATION

**Anna Carolina Jolly** - *G. Research, LLC - Research Analyst*

All right. So next up, we are excited to introduce O'Reilly Automotive. Headquartered in Springfield, Missouri, O'Reilly is one of the largest auto parts distributors, with about half of their \$9 billion exposed to the do-it-for-me segment and the other half to the do-it-yourself segment. O'Reilly has 90 million shares at about \$211 for a market cap of \$18.8 billion, net debt of \$2.6 billion for an enterprise value of \$21.4 billion, yes.

Participating in today's fire chat is Tom McFall, Executive Vice President and Chief Financial Officer; and Jeremy Fletcher, Senior Vice President and Controller.

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**Jeremy Adam Fletcher** - *O'Reilly Automotive, Inc. - SVP of Finance and Controller*

Greg Johnson.

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**Anna Carolina Jolly** - *G. Research, LLC - Research Analyst*

And Greg Johnson.

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**Jeremy Adam Fletcher** - *O'Reilly Automotive, Inc. - SVP of Finance and Controller*

Co-President.

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**Gregory D. Johnson** - *O'Reilly Automotive, Inc. - Co-President*

Co-President. No.

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**Thomas G. McFall** - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

Co-President, just for the record.

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**Jeremy Adam Fletcher** - *O'Reilly Automotive, Inc. - SVP of Finance and Controller*

Well, [you've lost it].

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**Thomas G. McFall** - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

Yes. So make sure we look pretty good, okay?

**Anna Carolina Jolly** - *G. Research, LLC - Research Analyst*

All right. Thanks for that. So welcome, everyone. Thank you for coming.

## QUESTIONS AND ANSWERS

**Anna Carolina Jolly** - *G. Research, LLC - Research Analyst*

I'm going to just start with a question that kind of makes sure that everyone has an understanding of the company. But you have nearly 5,000 stores in the U.S. Those are supported by 27 distribution centers. Can you briefly discuss your customer base, those customer needs and how your distribution system is able to meet those needs?

**Gregory D. Johnson** - *O'Reilly Automotive, Inc. - Co-President*

Yes, I'll take it.

**Thomas G. McFall** - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

Yes.

**Gregory D. Johnson** - *O'Reilly Automotive, Inc. - Co-President*

So yes, we currently operate just over 5,000 stores. We announced we opened our 5,000th store a couple weeks ago. We service our stores through a hub-and-spoke distribution system from our 27 distribution centers. So our distribution center service our stores 5 nights a week for replenishment. We also run some daily deliveries from both our distribution centers and our hub stores to add another layer of replenishment to our spoke stores.

**Anna Carolina Jolly** - *G. Research, LLC - Research Analyst*

Perfect. And, Tom?

**Thomas G. McFall** - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

When we talk about the things that drive our business, and Greg talked about the distribution, our business started really back supplying professional shops 60 years ago. We added the DIY business about 20 years ago. But in our industry, that investment in inventory close to the customer is paramount to our success. The professional business, they're looking to get the car on the rack, diagnose the problem, order the parts for the car and get paid and expecting delivery times in 30 to 45 minutes. On the do-it-yourself side of the business, our primary customer does not have extra vehicles. They've had a problem with their vehicle. They're work -- looking to repair that as quick as possible. If they're a daily commuter, they can't have it off the road. And they're also looking for technical assistance. So when we think about the things that drive our customer value, it's knowledge from a DIY side and parts availability on both sides of the business, which has become more and more critical as we have more vehicles, nameplates on the road, more models and more model-specific parts. So we've seen an explosion in the number of SKUs you have to carry to service a vehicle fleet.



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**Anna Carolina Jolly** - *G. Research, LLC - Research Analyst*

And obviously, O'Reilly is kind of seen as the best-in-class distributor. Can you talk about what you think differentiates yourself from the -- from your competitors to kind of gain that first call from the do-it-for-me? And, I guess, second to that, when you are competing in the do-it-for-me space, is it against those big 4 that we often -- or, big other 3 that we often talk about or more large regional players?

**Jeremy Adam Fletcher** - *O'Reilly Automotive, Inc. - SVP of Finance and Controller*

Keep them (inaudible).

**Gregory D. Johnson** - *O'Reilly Automotive, Inc. - Co-President*

Yes, so let's -- I'll take the second part of your question first. It's a combination of the big 4. But what goes unnoticed quite often is a lot of these regional 2-step distributors that are out there that are regional players that are very, very strong in some of the markets we play in. So it's a combination of the big 4 and these smaller regional players.

**Thomas G. McFall** - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

As far as what makes us different, that's going to be great if there was a single answer to that, right. Here's the one thing we do. Of course, if there was just one thing you did, then everybody would replicate what you did, but it's a combination. It's investing in the right systems and infrastructure to have great availability over a long period of time. That's a tangible item. The thing that really sets us apart is our ability to go execute and take care of customer service, and that's always been a big part of our culture. As David O'Reilly said to us years ago, "What business we are in?" People would say, "The auto parts business." But we're really in the customer service business. People have a problem. Their car is broken. Or I'm running a business to repair broken cars; I need to get solved. It's how can we be a great partner to solve that problem, to get that customer back on the road from both a quality of part, availability of part and knowledge that we can share with that customer to help them solve their problem.

**Anna Carolina Jolly** - *G. Research, LLC - Research Analyst*

Great. And you might need to correct the statistics a little, but I think it's something like 90% of your store base meets 5x delivery a week. When you look across your competitors, including those regional players and the big 4, are they doing the same thing? Or is that a -- specific to O'Reilly?

**Thomas G. McFall** - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

That's your -- (inaudible)...

**Gregory D. Johnson** - *O'Reilly Automotive, Inc. - Co-President*

No, no, we -- yes. It's actually over 90% get 5 -- most -- I would say over 98% of our stores get 5 night-a-week deliveries. And in addition to that, as I said in the first question, a significant portion of our stores would get additional deliveries during the day either through hub stores or our distribution network. So that's on top of our nightly replenishment work. Our competitors, some of them have tried to mirror that and have backed off of that. I think, generally speaking, our competitors would touch those stores' replenishment less frequently, more close to 2 to 3 times a week.



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**Anna Carolina Jolly** - *G. Research, LLC - Research Analyst*

Okay. So you've experienced difficult comps year-to-date, as has the majority of the industry. That's after 5% in 2016 and another positive 7.5% in 2015. Can you discuss some of the industry trends that led you there? Previously, we had heard that your [fulfillment rates] and your in-stock rates probably helped you take share. Do you think you're still continuing to take share?

**Thomas G. McFall** - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

Well, I think it's been a tough comp year. I think the thing that we tell this group is we've all -- all of us have been in the auto parts industry for a long time. For me, it's 20 years. And there have been good years and there have been less good years. This would be a less good year. But the things that underpin our business remain good. We have a good employment rate, and we've got growing miles driven. So things that are going to make our business good, wear and tear on cars, money in consumers' pockets, those are good. But we're facing headwinds right. So we've got 2 mild winters and the winters 2 years in a row, which has hurt demand. We've had -- we've talked about, other retailers have talked about disruption in our -- has been at customer base, which is a great DIY customer base for us. We've got vehicle SAAR years that were light from The Great Recession that are rolling into kind of their first major repair cycles, 6 to 11 years. That's creating some headwind. We have very difficult compares from the last 2 to 3 years like you said. So we've had outsized years, and this year's a little bit slower. But when we look at our -- the future of our business, we really don't see it's a different trajectory based on one difficult year. Sure.

**Unidentified Analyst**

Five or so years ago, before I got, wally tipped by Carolina, and was looking at you, you laid out a growth trajectory for your stores in the U.S. that showed you had -- I believe, it was a number of states that had up to, call it, 200 stores per state that you can add. We're 5 years later, and you've been growing. We just saw one of your primary competitors make an acquisition in Europe. What's your thought for store saturation in the U.S.? And then potentially, could you look outside of your core U.S. market for acquisitive growth?

**Thomas G. McFall** - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

Well, I'll answer the domestic question. You answer the international.

**Gregory D. Johnson** - *O'Reilly Automotive, Inc. - Co-President*

Sure.

**Thomas G. McFall** - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

So domestically, we continue to see growth in markets that we've been in for a long time. Like Texas continues to be a great market to -- for us to open. We're somewhere in the 6,000 to 6,500 stores probably. Part of that will depend on the growth of the industry. Part of it will depend on consolidation. Obviously, like when we went out and bought Bond, that didn't add stores to the population of parts stores. So maybe that doesn't count too much against the 6,000. But that's something we continue to evaluate. We still see a great growth path in front of us for the next 5 years, but we're a company that has been successful growing greenfield and through acquisition. It's something we continue to look at.

**Unidentified Analyst**

So it's not something that is so far -- or so close where it's becoming a concern that you'll eventually reach some horizon that store growth is difficult?



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**Thomas G. McFall** - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

Greg was going to answer to that.

**Gregory D. Johnson** - *O'Reilly Automotive, Inc. - Co-President*

Yes, I mean, it is. I mean, if you look at 1,000, to 1,500 additional stores at a run rate of around 200 stores a year, that's not an extremely long runway. So we have looked at acquisition targets outside of the U.S., and we'll continue to do so and look for that right acquisition, that's the right fit, the right size. Initially, and we've said this before, initially probably, it would be adjacent to U.S. borders, North or South, or maybe a Caribbean island, something like that.

**Anna Carolina Jolly** - *G. Research, LLC - Research Analyst*

And you're currently at about, I believe, 1.9x net debt to our next year's EBITDAR expectations. Are you maintaining that 2.25x? Or would you be willing to take that up if you found something more interesting?

**Thomas G. McFall** - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

Well, we don't measure our debt on one -- any one particular metric. Did I get that quote right from you know?

**Anna Carolina Jolly** - *G. Research, LLC - Research Analyst*

Sure.

**Thomas G. McFall** - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

Okay. We set our target of 2.25x back in 2011 when we first issued our first bond. Since that time, we haven't gotten up to the range of 2.25x. So we finally have made it to the range. Over that time, some of our competitors have shown that maybe a different metric is acceptable. We're going to manage our debt levels conservatively. We want to make sure that we maintain our investment-grade rating. That said, to the extent that the rating agencies feel comfortable at a number higher than 2.25x, we'll investigate that.

**Anna Carolina Jolly** - *G. Research, LLC - Research Analyst*

Great. And I guess we've talked about acquisitions. But just in general, given industry trends, such as dealerships and telematics, complexity, increased interest in omnichannel, can you talk about company-specific initiatives that you're looking to drive the business going forward?

**Thomas G. McFall** - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

Well, luckily, our industry moves really slow. So telematics continues to be an area that has a lot of focus, and we firmly believe that, that data that's gathered from those vehicles is the property of the owner, and they should get the ability to send that data where they want. When we look long term, the aftermarket -- professional side of the aftermarket exists because there are not enough dealerships to service the vehicle fleet and -- outside of convenience and cost and all those other things that the aftermarket has as an advantage. And we and our suppliers will be working together to make sure that installers have the tools they need in the aftermarket to continue to repair vehicles and service the vehicle fleet in a cost-effective and efficient way.



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**Anna Carolina Jolly** - *G. Research, LLC - Research Analyst*

And then also, I guess, talking about trends, there's been some industry commentary that it almost seems as if the do-it-yourself market is outperforming the do-it-for-me market. Can you talk a little about what you're seeing in the independent repair channel and why that might be?

**Jeremy Adam Fletcher** - *O'Reilly Automotive, Inc. - SVP of Finance and Controller*

I think one of the dynamics that you see at play a little bit, and Tom referenced it earlier when we talk about the pressure that we've seen this year, is to the extent that the vehicle population of cohort that saw some soft sales during The Great Recession is rolling into the repair cycle, that 6 to 11 years, it's going to have a little bit more of a disproportionate impact on the DIFM side of the channel primarily as a result of the fact that when cars first enter those -- that first major maintenance cycle, it's more of a professional repair than a car that's 12, 13, 14, 15 years old, which is going to remain a little bit more heavily on the DIY side. So I think that dynamic is at play more so than you would normally expect in a just normal soft year.

**Unidentified Analyst**

And the follow-up to that, if -- and we're going back 6, 7 years now, but there's about a 3-year period where that was a tailwind for you. I heard -- we heard yesterday that that may be troughing now, but it would stand to reason to me that, that would be about a 3-year headwind going forward, too, and this would probably be year 1. Is that the right way to think about it?

**Jeremy Adam Fletcher** - *O'Reilly Automotive, Inc. - SVP of Finance and Controller*

It's hard to be quite that specific in how to think about it. If you really were to go back and to look at the dynamics of how that would play in, you would have said, well, we would have started to see a headwind last year, even like the year previous to that. It's not such a definitive sweet spot that it's -- it shows up in the overall demand in the industry so significantly. And the counterbalance to that has been and will continue to be that as vehicles are better engineered, they're better manufactured today, they can stay on the road longer. And the scrap rates in our industry have been very stable, and there continues to be a very good economic incentive for consumers to repair their cars late into the vehicle's life cycle. So that continues to lead to an increase in the average age to support demand further on into the life. And I think what we're seeing now is that's been more offset so that we don't see the positive from that. But then as we start to cycle out of the vehicle dynamics that we've seen, we'll probably not see quite as prolonged a period of time where we see that pressure because we've got the counterbalance of the benefits that we see from vehicle population.

**Anna Carolina Jolly** - *G. Research, LLC - Research Analyst*

I think there's a question there.

**Unidentified Analyst**

Do we have a microphone for us? Okay. Right up, right there. Thanks, [Sean].

**Unidentified Analyst**

There's a question coming from [Francis]. If we go back, so now with O'Reilly anyway, it's actually (inaudible) comes from that, when there were a large number of independent warehouse distributors and a few people had (inaudible). I mean, you probably have to own a distributor (inaudible) a lot of industries. And at that point, in a less sophisticated world, prices went up every year. They went up 2%, 3%, and that goes through a series of (inaudible). Good for you, good for the manufacturer the consumer is not that price sensitive. And so, I mean, there's not a lot of obviously (inaudible). It was a couple of percent more. In the interim, what's happened is you've become more sophisticated, really (inaudible) who checks



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prices all the time and is constantly eating [along] your manufacturers as you (inaudible), you can correct me if I'm wrong, than trying to put pricing down. Hasn't that sort of created an environment not just to you, NAPA, (inaudible) big guys (inaudible)? Hasn't that always made it impossible to get prices up (inaudible)?

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**Thomas G. McFall** - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

What I would tell you is over the last 5 years, we've been in an unusual position in our industry where we all need to generate comp gross margin dollars, I mean, cover our cost, grow our profitability. We've been able to achieve that through lowering acquisition costs, through scale, through sourcing, through private label. So what you've seen is a static per-unit price over the last 4 or 5 years, and I think that across our industry, that that's been a pretty consistent theme. As we get closer to the end of the opportunity to use scale and efficiency and sourcing to drive down acquisition costs and we start to see inflation come into our supplier base, we're going to see rising prices to us, right. Because the first thing we do is if a supplier comes to us and says, "Hey, it's tough. I need a 5% price increase in the parts I sell to you." First thing we're going to say is, "No." Then we're going to send them away, and they're going to come back and say, "No, no, really, we've got materials or we've got labor or we've got health or we've got usually interest rate issues," although that hasn't happened in a long time. So eventually, we will take the price increase, assuming that we can take that price increase to The Street, because if we're getting that increase, then everybody else should be getting that increase. If we don't see everybody else come up in price, then we'll start looking for a new supplier. But typically, what you'll see is that price increase for whatever that product is, is driving the whole industry, and that's where you start to see prices go up. So when we see inflation, we will all react and have been good as an industry of passing on inflationary costs to the end consumer. A great example is like oil. So oil goes up and down. It's pretty transparent of what the cost is to everybody, and you see those prices come through pretty quickly. Battery is another great example. That is a huge portion to the extent that the practice for pricing batteries is value-add plus a lead flow. So we have been successful in raising those prices as inflationary prices come through. Where we haven't seen a lot of success is just, say, well, we'd like to make 5% more on this product. No cost changes, no market changes. We're going to go out and lead on price. That typically is not a very successful route to go.

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**Anna Carolina Jolly** - *G. Research, LLC - Research Analyst*

All right. And then -- oh. And then as we talk about price, I guess the other part would be increasing prices due to the complexity of parts that we've heard a lot about over the past 2 days. Have you seen some price gains in response to that trend? But also, have you seen any effect as it pertains to your do-it-yourself business?

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**Thomas G. McFall** - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

So we're following the OEs, right. They design the cars and how they're going to operate. And there have been big pushes. Toyota started making a lot better cars than the '90s to have vehicles that are better at -- manufactured, better engineered and, if properly maintained, stay on the road a lot longer. Along with that has become -- parts have become more complex. So when we look at our average ticket increases, they're not driven by inflation, which we talked about, they're driven by replacement parts on newer cars become that much more advanced and that much more expensive. And we'd expect that trend to continue, and it's happened for over the last 10 to 15 years, where we have some pressure on our ticket count and then an increasing average ticket driven by that complexity.

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**Anna Carolina Jolly** - *G. Research, LLC - Research Analyst*

And so, I guess, moving on from that, the other thing we've talked a lot about today is there's a competitor in the space looking to vertically integrate the supply chain. We also heard maybe some allusion to suppliers somehow using either e-commerce or something, other aspects to go direct to the consumer. Have you seen any changes in response to that type of activity? And would that change any -- would that change how you strategically manage your business?





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**Thomas G. McFall** - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

So couple of questions there. We don't -- the whole vertical integration is problematic, right. We don't want to compete with our customers, and we don't expect our suppliers to compete with us. And Greg can provide some more details on that portion. The second part of the question was -- if you'd remind me, Caroline?

**Anna Carolina Jolly** - *G. Research, LLC - Research Analyst*

Well, have you seen any, I guess, changes in the industry as that's occurring? And if -- I mean, if it does change anything going forward, are you reviewing how you manage your business model?

**Thomas G. McFall** - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

We still feel very comfortable about our business model and the value that we're providing to the customers. I know that, that particular party has stated a lot of things of how they're going to change the industry. But you -- at the end of the day, availability and service to us are the key, and that's what we drive forward on. What we might do different, Greg?

**Gregory D. Johnson** - *O'Reilly Automotive, Inc. - Co-President*

On the omnichannel or -- oh, oh, yes, the vertical integration. Yes, we -- I can't -- I don't want to go into a lot of detail here. I think we all know who the elephant in the room is. And it's a tough position that we're in when you have a company that has the same ownership from a supplier standpoint, a peer relationship and a customer relationship. So we're taking that very seriously and trying to determine what our go-forward strategy is at all 3 levels.

**Anna Carolina Jolly** - *G. Research, LLC - Research Analyst*

Terrific.

**Unidentified Analyst**

If you could comment a little bit on your efforts on the omnichannel and why would a customer rather buy through your online channel other than another company?

**Gregory D. Johnson** - *O'Reilly Automotive, Inc. - Co-President*

Yes, we've got a huge focus on omnichannel right now, as you might suspect. As Tom mentioned earlier, some of the key components that make us successful in our store are our inventory deployment strategy and having that inventory available across not only 5,000 store channels but also hub stores and distribution centers. So that's a huge advantage for us, our inventory deployment strategy. The other thing that's a big advantage that Tom mentioned is our professional parts people in the stores. So when you walk into one of our stores, our counter people are going to make sure that not only you get the parts to complete the job that you came in to buy but also complete -- also, every piece that you might need to finish that part, be it tool, be it chemicals, what have you. Because we know a lot of our consumers may only have one car, and when they start a job on Saturday morning, they have to complete that job to get that car back on the road. They don't have the option of going back and forth to the auto parts store multiple times. So what we're trying to do is to replicate that in-store buying experience across all the channels. That's what's really going to differentiate us. We have to make not only the inventory availability piece, which is the easy part of it from an omnichannel perspective, but also that customer experience. So we want to become that site that has the professionals on the other end of the phone, on the other end of the computer, on the other end of the mobile access point, whether it's chat, however that customer decides to interact with us, be it in our store



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or online, we want to provide that same level of service and that same professional experience to them so they get all the parts they need to complete the job the first time.

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**Jeremy Adam Fletcher** - *O'Reilly Automotive, Inc. - SVP of Finance and Controller*

And you see evidence of that in our results. Really, 75%, 3:1 of our online orders are pick-up in store versus being shipped to home because it's that direct connection. They can come into the store, they can see it, they can talk to the store team member and confirm that this is really what they need, and they get it right away.

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**Anna Carolina Jolly** - *G. Research, LLC - Research Analyst*

Terrific. And we did have an online -- a pure-play online auto parts distributor speak this morning, and a lot of their focus has been on digital marketing and driving customers to the site. Even with a focus on omnichannel, is that -- are you driving those type of investments?

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**Thomas G. McFall** - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

We continue to make substantial investments. From our perspective, we want to interact with the customers the way that they want to be interacted with. So 20 years ago, everybody started their auto parts buying experience for a big job on the phone. Now people are starting on the phone, but they're typing instead of talking. So we continue to make big investments. And I think if you look back at our scripts for the last couple years when we talked about our SG&A growth, that's been a big portion of our SG&A growth, especially from a headquarters standpoint the last few years as we become more robust in our ability to develop and implement solutions quicker.

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**Anna Carolina Jolly** - *G. Research, LLC - Research Analyst*

Great. [Mario]?

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**Unidentified Analyst**

Yes. Tom, I don't want to ask this, but I will. Did you sign the NDA on the deal that Genuine Parts bought?

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**Thomas G. McFall** - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

I'm sure that if we did, we wouldn't be able to say that. What I would say is that, as Greg mentioned earlier, we take a hard look at everybody that sells auto parts. And if we could get the right deal with the right partners, we'd do most any deal. It's about getting the right deal and what's right for right. We've been successful integrating companies, pretty substantial companies, especially in relation to the -- our size over our history. But that starts with picking the right partners and paying the right price.

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**Anna Carolina Jolly** - *G. Research, LLC - Research Analyst*

Terrific. And then also, I -- at the Investor Day, you mentioned that your proprietary brands are growing faster than your national brand. Can you kind of talk about that transition, but also, given the change in all the global deals and negotiations, how you think about that now?



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**Gregory D. Johnson** - *O'Reilly Automotive, Inc. - Co-President*

I'll take the first half of that. So we do. We have seen a significant shift to proprietary brands. We like proprietary brands for a number of reasons. One, it gives us more flexibility to make sure we've got the absolutely right product in the box. The other thing proprietary brands does for us is we don't have to face online challenges with national pricing -- national brand pricing. When we buy proprietary brands, we typically, in our major categories, will have multiple suppliers for those brands. So it gives us the ability to have some built-in risk mitigation. Should a supplier have an issue shipping, have a manufacturing issue or something like that, we have a backup supplier built into the supply chain to fill those voids.

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**Anna Carolina Jolly** - *G. Research, LLC - Research Analyst*

Perfect. And then just last one really briefly. I think you went over your accounts payable-to-inventory ratio in your last call. I believe it was 1.06. But can you review -- I think there was a slight dip in that number, but can you review that number, what's happened? And then any potential trends, such as maybe increase in interest rates, that might affect that going forward?

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**Jeremy Adam Fletcher** - *O'Reilly Automotive, Inc. - SVP of Finance and Controller*

So I can take that one. In terms of why we've seen a little bit of a dip this year, it really just relates to the sales volumes that we've seen have been below our expectations. And then, obviously, the sales philosophy and the degree in which we turn our inventory impacts that. But we would expect to be reasonably stable at this level as we move forward, and you'd hope to make incremental gains. But that's yet to be determined. In terms of rising interest rates, for us and for our supplier base, that's really less of a function of what our dating and what our terms are as much as it is it becomes a component of their input costs. So as rates go up, it affects our suppliers just the same way that it would affect us. And our supplier financing programs are still pretty viable and good alternatives to our supplier base. But what we would see is that it becomes more expensive for them to do business in the same way that wage or raw materials inflation would be and that we would expect to see that flow through to us in pricing and in ways that Tom talked about earlier.

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**Anna Carolina Jolly** - *G. Research, LLC - Research Analyst*

Perfect, thank you. Well, we have surpassed the time. Thank you so much for being with us, and we do have a gift here for you.

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**Thomas G. McFall** - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

Thank you, everybody. We appreciate your time.

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**Jeremy Adam Fletcher** - *O'Reilly Automotive, Inc. - SVP of Finance and Controller*

Thank you.

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OCTOBER 31, 2017 / 8:00PM, ORLY - O'Reilly Automotive Inc at Gabelli Automotive Aftermarket Symposium

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