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EDITED TRANSCRIPT

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

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PRESENTATION

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

Great. So just to keep the ball rolling today on time, next up, we have our last of the big 4 distributors, O'Reilly. O'Reilly operates over 5,000 stores across the U.S., 83 million shares at \$3.35 for an equity market cap of \$28 billion; net debt of \$3.2 billion, for an enterprise value of \$31 billion.

Today, speaking for O'Reilly, we have CEO, Greg Johnson; CFO, Tom McFall; and Senior Vice President of Finance, Jeremy Fletcher. Thanks, everyone, for being here.

Great. Just thank you once again for being here.

QUESTIONS AND ANSWERS

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

I think we'll start off with a very basic fundamental question. As I mentioned, you have over 5,000 stores across the U.S. supported by, I believe, 27 distribution centers, now that might change. Can you briefly discuss your customer base? And then, of course, most importantly, how your distribution centers are able to meet these customer needs?

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

Sure. So we do operate around 5,200 stores across the U.S., which, as you said, is serviced by 27 regional distribution centers. We announced on the last earnings call that we were opening our 28th DC next year. So our customer base is really split. We operate what we call a dual market strategy where we service both do-it-yourself customers, do-it-yourself customers are customers that come into our stores, perform their own repairs, buy the parts in our stores to repair their own vehicles. And then do-it-for-me side of the business, which is the other side. That's the automotive repair shops, maybe anything from a 1- or 2-bay small mom-and-pop operation to a 10-bay, 20-bay larger service organizations. So we try to service both sides of the business. We've done that successfully for years. We actually started out more on the professional side of the business, over 60 years ago and have evolved more towards the retail side. So our customer base really looks to us for maintenance type items and repair type items. So the regular service intervals, they -- some of those customers will come into our stores and acquire parts to do those services themselves, some of those customers will go to a professional installer to service their vehicles for them. Same thing on the repair side. If there's a failure, whether it's a brake failure or an engine part failure, most of those, more of those customers tend to go to the professional side of the business. But we do have a lot of DIY customers that do their own repairs as well.



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

Got it. And then just to hit some basics, whatever you can provide, the percentage of breakout between do-it-for-me and do-it-yourself, if you've ever provided an average ticket and then any breakdown between failure and maintenance, and if you have any accessory business.

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

I'm going to share it with -- let these guys answer some too.

Thomas G. McFall - *O'Reilly Automotive, Inc. - Executive VP of Finance, CFO & Principal Accounting Officer*

We're at 42% commercial and 58% retail, what -- we had been 50-50 before we bought CSK in Phoenix and they were highly retail. So that number continues to rise. Obviously, we'll sell parts to whoever would like to buy them. We'd like to be 60% wholesale and 60% retail to add up to 120%. So keep working on that.

For average ticket, we don't provide the average ticket. For us, that's an item that is -- can be challenging, can be misleading. We obviously, when we get a customer into a store, the way we get customers to come back and be loyal O'Reilly customers is to help solve their problems, right? And solving the problem means getting the right parts, getting the tools that they may need, let -- helping them test to figure out what's wrong with their car. So making sure we spell the complete job is a big focus of ours. But on the flip side of that, if you have a shop that is a great customer of yours and they're putting together a customer's car and we might have sold them \$300 worth of parts on a ticket and they need a bolt, they need a \$0.05 bolt to finish the job, we're going to hotshot the bolt out. So what we don't want to do is focus so much on transaction count that we're missing the -- solving our customers' problem.

From a maintenance standpoint, I know that AutoZone breaks out that statistic, what we'd tell you is 75% of the things that we sell are vehicle specific, means there's a part number for that vehicle, it's high concentration for us. Most of the items that aren't, tend to be commodity items, some wash and wax. Your question on performance-type items, it's interesting when you're out here and local people in Las Vegas say, "Oh, you're out here for SEMA." And I used to try to explain to them that I was out here for AAPEX, it's a lot bigger, but SEMA's flashier, right? Go and they have neat things and great displays. We sell some of that stuff. Most of that stuff used to be great on the catalogs, now it's great on the Internet. We'll sell some, but it's a small portion of our businesses.

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

And then since we just have this inevitable conversation these days around new channels in your market, can you just briefly review the barriers to entry you believe you have as it regards to the business and then between do-it-for-me and do-it-yourself?

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

Sure. So kind of split that again between DIY and DIFM. On the DIFM side it -- the moat is more broad on the DIFM side because of primarily the immediacy of need. A lot of the times people don't understand how important it is for these repair shops to have their parts to complete the job very, very quickly. The technicians in the repair shop are paid by the job, and all the repair shops want to have the best technicians in town working for their shops. And the way they do that is they keep their technicians busy. And if a job pays 4-hour labor rate and a technician can do that in 2 hours, he can get another job and increase his pay. That's what the technicians want as they go to work for these repair shops. And when that when the shops start a job, more often than not, they don't know what parts they need to complete that job. They know what customer is telling them is wrong with the car and they may know what they need to complete the first part of the job. Until they get into that job and get the vehicle torn down, they really don't know what they need. So to -- in order to keep turning those base, it's very, very important that they've got a supplier that can get those parts to them very quickly. And generally, the expectation for that would be somewhere around 30 minutes or less to have those parts delivered. So that's a big, big moat on the DIFM side. On the DIY side, I think the DIY consumers that are buying parts on the Internet, a lot of people think it's only price, but there's also a timing component there as well. That immediacy of need exists for the DIY customers, just like it does



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for the DIFM customers. And a lot of times, we get questions about price transparency online and if -- and yes, it's true that a lot of times you can find a part online that's a national branded part for a lower cost than what we offer it for, but when you look across all the product offerings we have, if that customer is looking for a specific part to fix his car, his or her car, we're going to have a very competitively priced product. It may not be the same brand, but the average consumer that's buying products online to do their own repairs is typically economically challenged and they're looking for a price point. And whether they start that transaction online or in our store, we've got a very competitively priced product that's a high-quality product, often it's a private label or proprietary brand.

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

Great. And still looks as if 50% of the market is smaller regional players, but then you have these big 4 competitors, one of which you are, then you have the other 3.

Thomas G. McFall - *O'Reilly Automotive, Inc. - Executive VP of Finance, CFO & Principal Accounting Officer*

That's how we like to refer to them too. The other 3.

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

The other 3. However -- and this year especially, it looks like everyone's rebounded, but you're still able to outperform on a comp level, so almost outperforming about 2%. Can you talk about what you think you have? What is your edge that enables you to do that?

Jeremy Adam Fletcher - *O'Reilly Automotive, Inc. - Senior VP of Finance & Controller*

Yes, really, I think it's a couple of things. We've talked to distribution which continues to be an advantage for us. Parts availability, as Greg mentioned, is really the key to providing great customer service, particularly on the professional side of the business. And our tiered regional distribution network that's supported by hub stores means that the vast majority of our stores have access to an inventory outside of just what is stocked within their stores on a multiple times a day basis either from a hub store or from a supporting DC. So that's key. Really, that, along with a lot of other tools, are -- the impact of those things are magnified by the people that we have in our stores, the tenure of our team members, our parts knowledge and the structure from a management standpoint at that store level really drives a culture that has customers service ingrained in it and leverages to make sure that we're doing things to get parts to our customers faster, getting them the right thing that they need so that they can cut down our repeated trips. Working hard to source throughout our entire channel in order to be able to provide that. So those really are the things that we view in the marketplace that are the competitive advantages that we have, things are difficult so copy by our competitors.

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

Great. And then it also seems, I mean, to expand on your point, but you guys have had this amazing distribution network for many, many years, and it sounds a lot like your competitors have now, in the last 3 years, said we're going to expand ours and grow ours. Can you just talk about that? But then also, you mentioned on your last call a couple of distribution initiatives, talk about those as well.

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

Sure. So as I said, we started out in the business over 60 years ago servicing primarily the professional customer. So our distribution centers -- as we built out our distribution network, we've done that contiguously to provide overnight service to our customers. It's really the way we've always operated our business. Our competitors, there's a lot more SKUs today. The SKU count continues to grow, the complexity of vehicles continues to grow, and it's more important than ever to have inventory positioned at the right levels in the supply chain. And our teams have done a really nice job of leveraging our 27 distribution centers over 300 hub stores and our spoke stores to where we have inventory availability more frequently



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than even overnight delivery. So if you look at our distribution model, we deliver parts nightly to all of our stores 5 nights a week. And then our stores -- over 90% of our stores have access to inventory beyond that replenishment, either from a hub store or a distribution center multiple times a day, more often than not, and over weekends as well.

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

Great. And then to touch on your comp from this quarter, you more year-to-date, you've really averaged across about 4% that's relative to maybe 1.5% last year. Can you tell us about the inputs there and what's been driving that growth and what you think about that going forward?

Thomas G. McFall - O'Reilly Automotive, Inc. - Executive VP of Finance, CFO & Principal Accounting Officer

Yes, so last year was a little bit of a rougher year when we were here. To kind of echo what Jeremy and Greg have said, we've executed the same business model for a long time. We have the people and the assets in place in the systems to support a very customer-centric business. Every day we try to get better and -- but the net -- we didn't have the need to truly change our business model. So we have a lot of people that we've grown in our industry -- in the industry and at our company to execute our business model, and that effectiveness really is a difference maker for us. When we look at last year, last year demand in our industry was down, primarily driven by 2 mild winters in a row which didn't create wear-and-tear on vehicles. Also, the years from The Great Recession where the SAAR was down, those vehicle years started to enter our do-it-for-me market. And when we look at last year, the do-it-for-me was more pressured -- or performance of the do-it-for-me versus our expectations was lower than the do-it-yourself. And in our industry, a tremendous difference in the year-to-year comps is how that customer feels about themselves, what the level of underperformed or unperformed maintenance is, and we saw people pushing those jobs off. Flash forward to this year, a more normal weather cycle, more normal wear-and-tear. That vehicle headwind from the lighter SAARs coming in. I think last year was the trough year when we look at the math, it should be a tailwind going forward as we continue to see the vehicle population grow in age, which is a positive for us. When we look at our results so far this year, the professional side of the business is outpacing the DIY side of the business. And there's concern, and we talked about it on our call of our entry-level DIY customer, the real lowest demographic, being pressured. We're seeing price increases from commodities and tariffs in our business and it's going to raise the average ticket. The average ticket is already going up because of the technical changes as cars had become more advanced, the parts have become more expensive, but with commodity and tariffs raising prices further, we're expecting to see that low-end consumer defer more. When you look at the professional side of the business, higher end demographic, somebody who is able to pay somebody to fix their vehicle, but we don't expect to see the customer transaction headwind there, but on the DIY side of the business, that's a concern for our industry.

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

Great. Brian?

Brian William Nagel - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

Yes. In the past when you've had recovery from softer weather? My recollection is that it wasn't just a 1-year thing, that 2 soft winters in a row almost makes for 2 -- the potential for 2 good winters in a row. Can you just talk about what your expectations are? I don't love talking about weather, but fact of the matter is, it matters.

Thomas G. McFall - O'Reilly Automotive, Inc. - Executive VP of Finance, CFO & Principal Accounting Officer

What we would tell you is that when we look at the industry information, the do-it-yourself is a 1.5% to 3% grower because of the technical nature of the vehicles, because of the aging of the population, the professional business is a 2% to 4%, 4.5% grower. So we expect 2.5% to 3% annual increase in our industry, and then our job is to continue to take market share and consolidate the market to grow beyond that. That's been our long-term goal for a long time. We'll give guidance here in our next call, but I would guess it'll be pretty consistent with what you've seen us communicate from our long-term plans going forward. We always plan for a normal winter and normal summer, so there will be some additional



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considerations this year when we look at the 15% tariffs that are supposed to kick in, in January, and that could have a meaningful impact on our industry and our business, so we will see what happens with that.

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

Great. And before we touch on those tariffs, you did call out the gas price, I think, in one of your last few calls now around \$2.85 on average across the U.S. Can you just talk about -- it sounds like you do think that's a risk but you haven't -- have you seen that in actual numbers? And at what point, at what price do you think that might actually affect demand going forward?

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

We don't really think there's a target price that when fuel hits this given price, consumers stop spending. What we've seen over the years is, if fuel ramps up at a steady pace over a reasonable period of time, consumers will try to adjust their spending habits and budget accordingly. Where fuel really pressure sales more so is these unpredicted spikes where you just have over a short period of time, you have spikes in fuel prices and consumers start to panic. So we don't say there's a -- we don't say it's \$3.50 or \$4 a gallon or anything like that. It's more the rate of price change and the predictability and the ability for the consumer to really plan their budget.

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

Right. And so I guess talking about that rate in price increases, you did touch on the tariff. Can you talk about what you've seen so far? Any thoughts you have on the potential of January impact and the historical ability to pass those prices on?

Thomas G. McFall - *O'Reilly Automotive, Inc. - Executive VP of Finance, CFO & Principal Accounting Officer*

So we saw some tariffs come in, in June and the industry has act rationally. Many more of our products were covered in the September tariffs -- saw one back there. So -- but the supply chain is long, right? So we're trying to figure out what that cost is, what the blended cost is, what the options are to reduce the impact of tariffs. We have inventory, suppliers have inventory. So we're negotiating what that's going to look like. We would expect to see many more price increases in the fourth quarter than we've seen in 5 years. So we will have to manage those as an industry. The tariffs are just a price increase, right? Whether it would be interest rates or wages, health care, it's an input cost that raised prices. Because of the things we sell are things that are not -- they are things people need to keep their vehicles running. We've been historically very successful in passing on price, to the extent that we do sell some accessories and maintenance products, those are items that people can defer and we'll see some deferral there. The failure, if you turn the key and the car doesn't run, those parts, we are very successful in passing price on. So you look at that blend, we have a very high confidence that the things that we sell, people really don't want to buy, they have to buy, so we'll be able to pass on those prices.

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

Great.

Jeremy Adam Fletcher - *O'Reilly Automotive, Inc. - Senior VP of Finance & Controller*

The point maybe to add to that as well is from a competitive standpoint, the tariffs really impact the entire industry in similar ways. The parts that we source from China are the parts that are sourced by most and all in the industry from those locations. So there's not a dynamic shift that causes anyone to be disadvantaged and we don't feel like we would be, which puts everyone on the same playing field in the same way that price increases have affected industry in the past.



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

Great.

Unidentified Analyst

Going back to the growth, shouldn't we be seeing a faster core growth this year after certain (inaudible) and if we average out the comp of 2% or 3% then that continue should be (inaudible)?

Thomas G. McFall - *O'Reilly Automotive, Inc. - Executive VP of Finance, CFO & Principal Accounting Officer*

Well, if we look at 2 years, we would be below 3. What we would tell you is, if you look at 5 or 6 or 7 years, that it's not. Our industry, because the base vehicle populations, 240 million vehicles that are an average of 11 years old, it's a very long cycle industry. The parts that we sell we'll continue to sell for the same parts through 3 repair cycles that might be 5 years apart. So to slice the date of that narrow to us doesn't make sense. When we look at how we're doing this year, we didn't really put any inflation into our expectations and we've had some inflation, and that's driven part of the improvement over what we had given then as our beginning of the year guidance. And part of it is just we're seeing a stronger professional business than we'd planned.

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

Great. And then you did, just talking about leveraging your comps, you've talked about 3%, 3.5% growth in SG&A. Can you talk about the investments you're making and your initiatives there?

Jeremy Adam Fletcher - *O'Reilly Automotive, Inc. - Senior VP of Finance & Controller*

Yes, so we've talked at times in the past of how we manage our SG&A, what our expectation would be in a normal comp year as far as leveraging. 2018 has presented a little bit of a different dynamic for us because of the Tax Reforms and Jobs Act because as a domestic-only retailer, we were a pretty significant beneficiary of tax reform, and felt like it was appropriate at -- coming into 2018 to reinvest some of those dollars back into the business, really in areas that would enhance customer service, either through store level wages and benefits or through investments in technology at the store level which would give our teams tools to better serve our customers. So that was part of our expectation around our SG&A per store growth of 3% to 3.5% since we came into 2018 and we've really executed on that plan and feel comfortable from a position standpoint that we are doing all of the things that are necessary to ensure that we've got the professional parts people in our stores, the team members and have the technical knowledge, that have the customer service skills that are essential to being able to provide outstanding service to our customers and making sure that we win their business. Ultimately, we have viewed those investments as something that -- you know, we call them investments, they are built into our cost structure but that kind of step function change in '18 was because of our opportunities under the new tax law and really view it in that way.

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

Great. And it wouldn't be aftermarket day if we didn't bring up e-commerce. Yes. So really, earlier, we heard, I think it was from suppliers or AASA that a lot of the e-commerce initiatives, our future is in the B2B market. So can you talk about what that means? And then also just what you're doing around your own e-commerce initiatives?



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

Well, B2B e-commerce is certainly not new to the industry. We have a very strong B2B platform before we had a B2C platform. Frankly, we've had a B2B, it started off with a dumb terminal in our installer shops that they just connected via modem to our systems of corporate office. And that's evolved over the years. And our B2B platform is very, very strong. It will compete with any B2B platform out there. It has created price transparency in the industry so we have to remain on our game, and the big thing we have to continue to do is provide the highest level of service possible every day, and that's kind of who we are, that's what our customers see us as.

As far as initiatives on B2C, that's one of our big priorities for 2018 and beyond. We've spent a lot of time this year working on content and search, and things that relate to improved search that a lot of people wouldn't pick up on, myself included, things like product reviews online, things like that. So we continue to work very hard and very diligently to improve our online performance and our platform. Our website's improved. We continue to make quarterly improvements to our website. And want to -- we want to be a strong player in the e-commerce world.

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

And then lastly, just a couple of questions on capital allocation. I think you guys have about 2.2x net debt times EBITDAR, we can all check that. I have you doing over \$1 billion in free cash flow and then to hit your target, the target -- potential target 2.5x, there's even more cash there. Can just talk about your growth opportunities? You talked about expanding your geographic footprint, not just by the additional 200 stores, but potentially internationally, talk about your thoughts there.

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

Do you want to take the first part?

Thomas G. McFall - *O'Reilly Automotive, Inc. - Executive VP of Finance, CFO & Principal Accounting Officer*

No, go ahead Jeremy.

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

Someone.

Jeremy Adam Fletcher - *O'Reilly Automotive, Inc. - Senior VP of Finance & Controller*

Yes, so from a growth standpoint, yes, we did, on our last call, announce that our plan to open 200 to 210 new stores in 2019. From a capital allocation standpoint, our priority continues to be the same from a strategic standpoint that it has been for the last several years. And that is, our first use of capital is reinvestment back in our stores to make sure that we've got the appropriate tools, the inventory, to maintain the look and feel of the stores of that we can continue to have the physical plan and the inventory we need to drive comps. Moving past that, organic growth has been a very consistent driver of our growth for a long period of time, an ability to open stores across a distribution network that, we've already talked about today of over 27 DCs and covers most of the footprint of the United States, has allowed us to be very opportunistic and selective in how we identify new store sites and get good teams in place to do that, at the same time that we continue to have expansion opportunities in markets in the Northeast and further south into Florida, which will continue to be a priority. Coupled with that, we've historically been very successful at acquiring companies and integrating them into O'Reilly, and those are things that we continue to be very opportunistic about and are interested in those opportunities that we can get a good return on capital. And that has included, as we've discussed, interest in having non-U. S. stores in Canada or Mexico, and that process of identifying a partner there has been something that we've talked about is a priority for us moving forward. So really, all of those things are how we think about allocating capital and then really with what we generate above and beyond that, the share



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repurchase program, we feel like has been a very consistent and effective means to return excess capital that we generate that we can't allocate on the rest of the factors we've talked about.

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

Great. And then just on the potential acquisition opportunity or expansion into geographies, historically, it's looked like you are able to catch quite a bit of synergies when you do acquire into the market, and can you talk about that?

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

Yes, we would -- and that's one of the reasons that initially, we're looking outside the U.S. and in contiguous markets, north and south, because you will attain more synergies by doing that because it's a similar car park, a lot of the supplier base is the same, so we're able to leverage our size. Whereas maybe Europe and Asia, not so much the same. Within domestic acquisitions, we look at domestic acquisitions with a very, very fine-toothed comb, and we make sure we're paying a competitive price where we do have a positive ROI.

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

Great. And then just since -- oh, Mario.

Unidentified Analyst

I just got to ask, it sounds like you signed an NDA for a company recently.

No comment. Okay.

How much -- I was going to ask you, you saved about \$160 million cash on taxes this year.

Thomas G. McFall - *O'Reilly Automotive, Inc. - Executive VP of Finance, CFO & Principal Accounting Officer*

After taxes...

Unidentified Analyst

Well, you raised 21 plus versus 35 plus or minus on the state level, and that's the spread on your taxable income.

Thomas G. McFall - *O'Reilly Automotive, Inc. - Executive VP of Finance, CFO & Principal Accounting Officer*

It was about \$220 million.

Unidentified Analyst

Okay. I don't want to divide that by the number of shares to see what the impact was in the reduced share count. But you must have softened that impact by doing active dynamics that you talked about, more R&D and so on, we're finding that from a lot of companies. So how much did you put back into either -- so other aspects of the business that incrementally won't necessarily be there incrementally in 2019 over 2018?



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Thomas G. McFall - *O'Reilly Automotive, Inc. - Executive VP of Finance, CFO & Principal Accounting Officer*

Right. So what we would tell you is that when -- this is an unusual instance, right? Usually, in retail, if you have cost pressures, that just means the cost of what you're selling is going up also, and you keep that relation. This is an unusual situation where we had a lot of big retailers in the U.S. who were getting a huge tax break, labor markets were already tight, and they proactively said, "Hey, we have this extra cash flow that we're going to go out and permanently apply to wages." Now in a lot of cases, some of the big retailers, there's a couple of big retailers that set the low watermark. And whether they felt like it was the right thing to do, whether they felt like the government was going to raise wages all over and they could get out in front of it and take some credit for raising wages, they went out and set a new wage rate with these tax savings. So we have a year where we have cost savings -- we have cost savings in the bottom line, but all our expenses are going up without a driver on the top line. So that's really built into our cost structure now. The tax savings are there. The higher wages are there.

As on a go-forward basis, what we would expect us to get back to that normal relation where if you have cost pressures, the things that you're selling will go up and provide some top level tailwinds for you. What's -- what we've seen in our industry over time is we're able to pass along cost increases. So our expectation is that we will maintain our gross margin percentage. If we don't maintain our gross margin percentage, we're going to have operating profit compression because our expenses are going up. So just covering the gross margin dollar increases from tariffs will have an operator profit squeeze. So I would look for everyone in our industry to be rational. Yes, we have a high gross margin. We also have a dramatically slow turn in our industry. We've got to hold inventory a long time. And because of the thing that drives the vast majority of our sales, the immediacy of need, there's a tremendous amount of investment of ours and our suppliers in locations in inventory. So that gross margin has got to be there. If you look at our GM ROI, it's not significantly different than other industries, but we're turning at 1.4x as an industry. So why do we turn at 1.4x? Because there's a tremendous amount of cars that are on the road for a long time with a lot of nameplates, with a lot of parts, and the #1 thing that drives the sale is, do you have it for me now? So for all of those items, we will have that cost pressure built in.

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

Great. And we have run up against our time a lot of times, but thank you so much for being here. Great.

Thomas G. McFall - *O'Reilly Automotive, Inc. - Executive VP of Finance, CFO & Principal Accounting Officer*

Thank you.

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

Thank you.

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

We do have a gift for being here.



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