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EDITED TRANSCRIPT

ORLY - O'Reilly Automotive Inc Analyst Day

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PRESENTATION

Mark Merz - *O'Reilly Automotive, Inc. - VP of IR, Financial Reporting and Planning*

Good morning, everyone. I'd like to welcome everyone here today and everyone who is listening offsite via webcast. My name is Mark Merz, and I would like to officially welcome everyone to our 2019 Analyst Day. Before I get started, I would like to read our forward-looking statement, part of it. We intend to be covered by, and we claim the protection of, the safe harbor provisions 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 and similar words. Forward-looking statements speak only to the day they were made, and we undertake no obligation to publicly update any forward-looking statements, whether result of new information, future events or otherwise, except as required by applicable law.

Okay. I'm going to get the day started today, we're going to talk a little bit about what our schedule is for the day, how it's going to progress. And then I'm going to hand it off to Eric Bird, and he's going to talk about one of the most important things, the most important thing that sets O'Reilly apart from every competitor that exists, and that's our culture. And Eric's going to do our culture statement for us today. So before we get started, a couple of rules. Everybody, I hope, had a chance to mingle a little bit with the management team for the last half hour. For the next 2 hours, we'll have about 1 hour or so of prepared comments from our management team, and then we'll have about 1 hour or so of Q&A. We'll end right at 10:30. And for those listening offsite, that's when the webcast portion of the day will end. After that, for those who are here, we'll take a short break, and then we'll go out and show you our distribution center. We're very, very proud of the most robust distribution center, our distribution network in our industry and this is a great opportunity to show it off and we'll show you how it works. After that, we'll come back into this room. We'll have a light lunch. Management team will be here, and you'll have an opportunity to visit with them. And then promptly at about 12 -- not at about 12, at 12, we will leave and we'll go to the 2 stores. And then the shuttles will head for the airport. So that's what today is going to be about. I know many of you have had the opportunity to visit and see an Analyst Day before. Today's event will be no different than prior year's. We don't use this as a day to present new guidance, to present new outlook, to present any new information. It's really a day for us to just to be able to tell our story. We think it's a great story. It's been very successful for us, and we're very proud to tell it. It's also an opportunity for you to come and meet with the management team. We don't go on the road that lot -- that much. We don't do a lot of marketing, because the management team likes to run the business. So this is just an opportunity for you to come and be able to meet with the management team and talk to them as well.

A couple of procedural things, everyone got a nametag when they came in. Please make sure you're wearing that nametag all over the course of the day while we're in this facility. I wouldn't want David's security team to escort you outside the building because they didn't know who you are. So please keep those nametags on. There are refreshments in the back, in the side room over there in that kitchen area, there's refreshments. And if anybody needs to use the restroom facilities, just go out this back door and make a left and says break room and the restroom facilities are right in there. So with that, I'll turn it over to Eric to give our culture statement. Thanks for coming, everyone.

Eric Bird - *O'Reilly Automotive, Inc. - External Reporting and Planning Manager*

Good morning, everybody. Thank you for coming this morning. I want to give our culture statement this morning. We open every meeting here at the company with a culture statement. And today, for our culture value -- I've chosen to speak on our culture value of commitment. The important thing we want to speak today is our commitment to our culture. Commitment to us means commitment to our culture, our team members and our customers. We recognize that this culture and our team members is what has given us our success and what will drive our success for years to come, so that's why we open every meeting with it. That's why every month, when we send out this team spirit, which is our corporate newsletter, you'll see right first page inside there, a culture talk given by one of our executive management team. So today, while you'll get to see a lot of interesting things from an operational perspective, how we run stores, the distribution center. I think one of the most important takeaways for you all is to be able to observe the commitment to our culture at every level of our organization from our management team here today, to the distribution center team here today, that's just done a fantastic job of hosting this event, and you'll get to see what they do out on the floor, to our team members in our stores as they serve our customers coming in every day. So with that, I'd like to turn things over to our CEO and Co-President, Greg Johnson. Thank you.

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

Thanks, Eric. Eric said that our culture is a very important component to our success, and it is. The other things that are very important to our success are our professional parts people in our stores every day and our "promote from within" philosophy. So I'm going to take just a moment this morning to introduce the team. A lot of the people up here most of you have seen before. You've talked to us on calls, you've seen us in the Analyst Day, you've seen us in the corporate office. There are a few that you're not familiar with or you haven't met. And I'm going to ask them to come up and tell you a little bit about their history with the company, tell their story, so you can kind of get a feel for the tenure of our leadership team. First, I'm CEO, most of you know me. I've met almost everyone in the room, Jeff Shaw is our Chief Operating Officer; Tom McFall is our CFO; Brad Beckham is our Executive Vice President of Store Operations & Sales. Jason Tarrant, if I could Jason to come up. Jason is our Senior VP of Western division store operations and sales. And I'd like for Jason just to take a minute or 2 and kind of tell you his story with the company.

Jason Lee Tarrant - *O'Reilly Automotive, Inc. - SVP of Western Store Operations & Sales*

Thanks, Greg. Well, good morning, and welcome to Denver. Again, my name is Jason Tarrant. I actually just had my 18th year anniversary. I started in 2001 in a small town of Northern California. I was currently -- at that time, a technician for a large bus barn for the city and got to know the local part store there at the time, which was actually Akron, part of CSK. And long story short, I stuck in on night -- weekends like so many of us in our company and to start kind of sweeping backroom and started selling parts and working free I was obviously somewhat familiar with the automotive industry at the time as a technician and had so many opportunities to grow and advance in the company and eventually ran stores there. And in 2006, I had a chance to move up to the Northwest in the Portland, Oregon market and take over a district as my first opportunity to really kind of set my feet and grow in leadership. And I did that for a handful of years. Until we were acquired in 2008 by -- thankfully, O'Reilly Auto Parts. And it's been a great story ever since. Had so many opportunities to grow. Ran a district there for a couple of years, and until all weighed and then spent a short stint on the sell side in leadership, until we opened an operational region there in '09 and took over that responsibility as a regional director and did that for a handful of years, until I had a chance to move back home and take on a larger operational region as I've proven myself and came back home to Northern California in Sacramento, where I'm still at today and did that for, again, a handful of years until 2015. And I had a chance to take over the Western division as a Divisional Vice President. And again, just had great opportunities in the company through expansion and working with good leadership. And at that point, I did that for, again, a couple more years until we expanded. And then my supervisor at the time who many of you probably have met, Keith Childers retired. And I was so, again, thankful to have the opportunity to work for a guy like that and taught me so much over the years. And at the beginning of 2018, I took over responsibility of my current role, which is Senior Vice President of the Western part of the country. And I currently have kind of the Western part of Texas, all the way up through, with the exception of Montana, everything through Alaska and Hawaii. So it's been a great journey, and I've had a great opportunity and just a great story about our "promote from within" philosophy. And I appreciate you guys being here and I look forward to good couple of hours and hope you enjoy. Thank you.

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

Thanks, Jason. Next is Jeremy Fletcher. I think most of you know Jeremy, he's somewhere in the back of the room. Jeremy is our SVP & Controller. So most of you know Jeremy. Next I want to introduce Brent Kirby. We talk a lot about "promote from within", and we are a company that creates opportunity for our team members by promoting from within. A couple of years ago, as we really started to focus heavily on omni, we realized that we just didn't have that knowledge and skill set in-house. So we started a process to try to find someone within retail that had omni experience, that was a proven leader in omni, and we ended up hiring Brent about a year ago. So I'll ask Brent to tell his story real quick.

Brent G. Kirby - *O'Reilly Automotive, Inc. - SVP of Omnichannel*

Sure. Thanks, Greg. Good morning, everyone. As Greg said, new to O'Reilly, been with O'Reilly about a year. Prior to that was almost 32 years with Lowe's companies. Started there in an entry-level role working my way through school, and worked my way up to store district regional, divisional leadership of stores. Also, led our professional sales, our in-home selling models, we developed that, our digital websites, digital properties, both B2C, B2B and then ran our supply chain, our global supply chain at Lowe's the last 2 years I was there. So had the opportunity to meet many of you in roles, various roles with Lowe's over the years and had the opportunity to join this team a year ago in a very exciting part of specialty retail. And I was really engaged by the culture and the passion of this leadership team and the opportunity that we have. So happy to be here with you today. Thanks for coming.

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

Thanks, Brent. Next is Diego Santillana. Diego was with us in San Antonio, but I'd like for Diego to come up and tell his story. He's our divisional Vice President for our Southwest division.

Diego Santillana - *O'Reilly Automotive, Inc. - VP Southwestern Division*

Good morning. As Greg said, my name is Diego Santillana. I have all of this area from Wyoming, all the way down to South Texas, so it's a little bit of a stretch. I've been with the company now 13 years. As you can see, I have 23 years of automotive experience, worked for a small parts company in Dallas, Texas, had the opportunity for -- we ended up getting bought out by a company called Autozone, ended up working for them for several years, and then came -- had the opportunity to come and work for O'Reilly Auto Parts. Since then, I've moved to El Paso, Texas, had the opportunity to open up a brand-new market out there and get the stores running. Today, we have a lot of stores, a lot of growth there in El Paso, Texas. Had the opportunity to become a regional manager out there in -- back in 2010, moved to San Antonio, Texas to take over that market as the company grew and as we opened up more stores, had the opportunity to helping more individuals, see a lot of individuals grow within the company. Here this afternoon, we're going to some stores, and we're going to talk a lot about that "promote from within" mentality. The opportunity for team members and individuals to grow within the company is really what makes O'Reilly great and what makes us successful and what's going to continue to make us successful going on in the future. So that's a little bit about me.

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

Thank you, Diego. You all met Mark. And Mark introduced himself early and kicked us off. Next is Thad Slicker. Is Thad in here? Okay, Thad is not in here. Thad is our regional director for this division of distribution. So Thad is responsible for 4 of our DCs, including the DC here in Denver where Thad will be helping lead the tour, the DC tour, so you can meet him there as well David Slape. David Slape is our DC manager here in Denver, and he'll be available on the tour as well. Last, our regional manager for this area is Keith Cox. I'd ask Keith to come up and tell us a little bit about his story.

Keith Cox - *O'Reilly Automotive, Inc. - Director Rocky Mountain Region*

Good morning, everyone. Actually, today, is my 20-year anniversary with this company. So thank you. I started out in Salt Lake City, part time working the -- just working the counter. It was not a career for me at the time, moved up to store manager with that company and that was as far as I felt I wanted to go with them. Then I moved down to -- back home to Las Cruces New Mexico in 2003 and ran a store there for a few years. And then when the acquisition came through because like I said, I was with Checker Auto. I saw a company that I could make a career out of because before it wasn't a career. And I told my supervisor and at the time Diego was one of my supervisors, that I'd like to start furthering my career. 2 years later, I moved up to Albuquerque, New Mexico, became a district manager. Ran that area for about 3 years. Then I moved to Farmington, New Mexico ran that area as a district manager for about 3 years. And then January 1, a couple of years ago, got the opportunity to move up to Denver and take the next step in my career as a regional manager. I cover all of Denver, pretty much most of Colorado, except for Colorado Springs and South. We've got stores in Kansas, Nebraska, Wyoming and one down in Utah. And I am living proof of our "promote from within" philosophy. Thank you.

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

Great. Thanks, Keith. Okay. As Mark said, a lot of what we're going to talk about here today is very similar to what we talked about in prior years at Analyst Day. No really new bright and shiny objects to talk about, with the exception of, Brent's is going to share some new information on some of our omni initiatives. So let's get into the presentation itself.

First, company overview. Some information on our company itself. As of the end of the second quarter, we operate 5,344 stores across 47 states across the U.S. We operate 27 -- 350-ish of those stores are hub stores or super hub stores, we also operate 27 distribution centers, and we'll be opening our 28th DC in the fourth quarter of this year, which Jeff will speak more to you in his presentation. We employee over 81,000 team members in our stores, distribution centers and corporate offices. Last 12 months, our trailing 12-month sales as of the end of the first -- or second quarter was $9.8 billion. Our market cap as of July 29 was $30 billion. And our DIY, DIFM split is about 57% DIY, 43% DIFM, not much movement in that over the past couple of years.

Year-to-date 2019 results, comparable store sales increase of 3.3% for the first half of the year on top of a 4% comparable store sales increase for the same period last year resulting in a 2-year stack of 7.3%. Gross margin was 52.9% compared to 52.5% in 2018, 18.9% operating margin. First half of the year, we opened 105 net new stores, and we remain on track to hit our 200 store opening mark by the end of the year. We generated $8.56 in diluted earnings per share, generated $541 million of free cash flow and repurchased $921 million worth of O'Reilly stock under our share repurchase program.

Shift gears a little bit, talk about industry drivers. The biggest contributor or driver for demand in our industry continues to be total miles driven. And one of the things -- the reason that miles driven continues to grow in our country is because lack of a comprehensive mass transit system. A

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lot of you come from Metropolitan cities, New York, Boston, Chicago, other areas, where there is a mass transit -- public mass transit system and a lot of -- all of you probably use those. But across the block of the U.S., that's just not the case. Consumers depend on their automobiles to get them to work, to get them to the grocery store, wherever they need to go. So they have to make sure their automobiles continue to function.

Over the last 20 years, we've seen a 23% increase in miles driven from 1998 to 2018. So that's significant. If you look at the chart, the blue line represents fuel prices during that time and the green bars represent miles driven. So you'll notice the dip from 2008 to 2013 during the recession, when unemployment was a little higher, where fuel prices were higher. Consumers were watching their discretionary spend, probably not taking vacations as much and thus, miles driven was down during that period of time. Since then, growth in annual miles driven has grown back to a more historical trend. And thus far, in 2019, we've seen about a 1% increase in miles driven.

Industry drivers, more on industry drivers. The top part of this slide really demonstrates the SAAR of light-vehicle sales in the blue line and the shaded bars represent light-vehicle population. The growing SAAR in new car sales is representative of consumer confidence. And as long as new car sales continue to grow and scrap rates maintain stable, we feel like that the vehicle population will continue to grow as well. Vehicles are just engineered better than they have been in the past. They're lasting longer. On the bottom of this chart, you see the light-vehicle age. It continues to grow, but it grows at a relatively slow pace, a CAGR of 1.8% over the last 10 years. Our expectation is for average vehicle age to continue to grow for the foreseeable future.

A little bit about our industry landscape, the automotive aftermarket. On the top part of this -- and many of you have seen this chart before, on the top part of this chart, on the dark green line represents the number of auto part stores operating in the U.S. That's been relatively stable over the last 10 years. It's been mid-35,000s, it peaked to 37,000 last year in 2018. But what really has changed over that period of time is the ownership percentage of these top 10 chains. So this represents a lot of consolidation is taking place in our industry. And these top 10 chains have continued to change and evolve. There's a big gap between the top 3 when you drop down below that. And then the bottom half is a lot fewer stores in the top 10 than it would have been 15 or 20 years ago. Again, that's a result of a tremendous amount of consolidation within our industry.

On the lower side of this slide, the automotive aftermarket as a whole, from the Auto Care Association is about a $297 billion industry. We feel like that our addressable market is somewhere between $90 billion and $100 billion. So if you look at all the components that make up that $297 billion, it includes professional share of labor on the professional side, which we don't get any of that business, tire sales, we don't sell tires. DIY and professional. So when you factor out and you factor the professional down to a wholesale valuation and DIY, that gets us in a range of $90 billion to $100 billion. So there's a lot of runway for us. There's a lot of entitlement out there, and we feel good about our growth opportunities.

Talk a little bit about branding. We talk about this every year. We continue to grow the number of products we have in our proprietary brands. Talking about proprietary brands, if you go back 12, 15 years and looked at our proprietary brands. Our proprietary brands were private-label brands at that time were more entry-level in nature. They were more entry-level on the good side of our good-better-best range. But over the years, we have expanded our proprietary product offering to where there's a value component within our proprietary brands. There's also premium product within our proprietary brands. So it's really more broad than it's ever been. Also, some of our proprietary brands were one time national brands. If you looked at Murray air conditioning products, that used to be a national brand. We now own the rights for that brand, the same with Precision. So those are now our brands that no one can sell from us. They're recognized national brands and they're recognized as O'Reilly proprietary brands as well. Also, the other proprietary brands you see here are recognized as premium brands. You look at Super Start batteries. The consumer knows that, that Super Start battery is O'Reilly battery, and it was time to replace that battery, then you take it back to O'Reilly Auto Parts.

So historically, the proprietary brands probably were more for the DIY customer. But over the years, proprietary brands are being sold to both DIY and DIFM customers. On the bottom of our slide are just some of our national brands, some of our oil brands, Wix, Gates have been -- they have been brands that are since we started in 1957, Bosch. There's many more. We just put some select brands down there. And in each of these categories, there would be a private-level entry equivalent product. Gates, would have a MasterPro belt. Wix would have a MicroGard filter, for example, to give that consumer options within the good-better-best levels of our product offering. Proprietary brands make up over 45%, it's pretty close to 46% of our total sales today.

Industry-leading parts availability is one of our biggest competitive advantages. When you talk about inventory life cycle management, really, if you look at the life of a product, look at that demand curve, it looks like a bell curve. So the product, a new car comes out, a new vehicle comes out and as you enter the maintenance cycle, demand for maintenance-type products starts to grow. And then you get -- you have maintenance and failure items that grow and at some point that peaks and starts to taper off. When you get a vehicle that's been out there on the road for 10, 11 years, and it's on its second or third ownership cycle, some of that demand will drop off. So the challenge that we face and we feel we're very good at, is ramping up our inventory position during the building phase of that demand and then ramping down on the back side. So for example, a new product comes out to market, a maintenance-type product for a new car, say, oil filters, motor oil, the things that occur first from a maintenance standpoint. We'll get those products into our DCs and as we see them filters down to our hub stores and eventually down to our stores through the peak of that life cycle. As we start to see us coming down the back side of that life cycle, demand for those products drops, then we start pushing that product back up the supply chain, back into our hub stores and eventually, into our DCs to make room for products that are entering the demand curve. So we do a really nice job there.

Our inventories are tailored to each store. I don't think there is 2 stores out there that has the same exact inventory. Our inventory management team looks at vehicle and operation, or VIO data, for every zip code around our stores and we custom tailor our inventories to our stores. We also allow our store managers to adjust that inventory based on their customer needs. If they have a customer that has a fleet of wide-duty vehicles that they're maintaining, we have to make sure we have all the products available there at the store to maintain that fleet.

Maximize inventory investment. It's continual evaluation, like I said, of managing that good-better-best cycle. That's what I was talking about, about on the lead outside of the demand curve and the backside. We have to make sure that we got that right mix. During the front end and as you hit that peak, we're probably going to have good-better-best products available for that application. As that -- as you get down the back side of that demand cycle and that vehicle may become 10 years old, for example, and be on its second or third owner, we may not see the need to keep that best or that better product even in our stores. We still have it available in the hubs, but that customer is typically more likely to buy the lower-cost solution because that vehicle has been on the road longer.

We maintain relationships with multiple suppliers. We've done that for years from a risk mitigation standpoint. So we may have a category like batteries or rotating electrical or breaks, some of our larger categories that in our private label or proprietary box, we got multiple suppliers for that. So if one supplier is not shipping well for a given SKU, we can back up and have supplier B fill in to make sure that we maintain a high fill rate on those products. So it also helps us leverage competitors from a pricing standpoint.

And then the vendor financing program, we've been very successful there. We ended the second quarter with 107%, and we'll continue to focus on our vendor financing program. Our inventory deployment strategy is one of the keys to our success. I think we were better than anyone in the industry with deploying inventory across the supply chain. Our 27 strategically-placed DCs at the top level of our supply chain is just a tremendous competitive advantage for us. That inventory deployment strategy not only helps us be successful from a brick-and-mortar standpoint, it also allows us to deploy that inventory across the nation to make us successful from an omni-channel or e-commerce standpoint.

So with that, I'll turn the program over to Brent.

Brent G. Kirby - *O'Reilly Automotive, Inc. - SVP of Omnichannel*

Thanks, Greg. And as Greg mentioned, we are -- we have some very distinct strategic strengths at O'Reilly, professional parts knowledge and parts availability. And as we look at the omni-channel opportunity for our company to continue to improve that brand journey, we're evolving just like customers are evolving. We're evolving to meet both our professional and our do-it-yourself customers on their terms, with solutions that meet their specific needs, whether they visit a store, call or click. And as we do that, we continue to really peel back what does that inventory availability look like for customers. Because we know that 2/3 of our bottom line pickup in-store activity on the B2C side comes from customers that make the purchase and then make a trip to our store. So there's a high correlation there. And more customers are going online to do research before they make the trip to the store. So we want to make that the best experience it can be. So we've been looking and working to utilize a lead to that across our supply chain. As the customer shops us online, we want to let them know when that part will be available at the store or available to be shipped to their home. We also know that as customers come in the store they want a simple, seamless experience as they interact with us in the store environment. So we prototyped and tested a new pickup area. And we've been really pleased with the results from that test, and we'll be rolling that test out across the chain in the back half of this year.

As we've looked for time-definite fulfillment options, we know that customers shop more and have more brand confidence when they have the confidence around the part they need to get their car back on the road. So we've added language to our website around when the product is specifically available. Order in x minutes and have by x day or x time, which is new. We've added that this year and we've seen great response from customers as we've done that. We're also upgrading our back-end shipping software, we're in the process of doing that now to give more reliable estimates to customers and rate shop carriers on the back end of that experience as well. And as Greg mentioned, the 27 DCs are a strategic advantage for us. We've also enabled shipping parcel orders from those 27 DCs in the last 12 months. So we're really excited about the opportunity that, that brings for us as we move forward.

Searching content. Content is key for a customer during research online. And we recognize that in our industry, with the huge amount of SKUs, we have to be best-in-class at content and we have to be best-in-class at helping that customer find the part that they need for their specific application to get their car back on the road. So we've been doing a lot of work here to improve that content. We've been working with our suppliers, we've been working with our merchandising team, our electronic catalog team to make sure that we have a rich visual content and images that customers need when they're looking for equipment and alignment of different pieces of the part on the website. We're also looking at specific fitment and specification information for those parts and how customers shop those parts. And in many cases, we are rewriting it and ensuring by category and by part type that we have this specific information and descriptions that the customers need to make the selection and the information that's going to search well, again, across Google and other search engines to improve that experience. We also have added machine learning as we're beginning to tune our search for our retail website. We did this late last year, and we continue to see our null search results go down and irrelevant search results go down as we continue to tune these dials to improve the experience for customers shopping us through this channel first.

This is an example of some of the experience improvements that we've added this year to our B2C website, oreillyauto.com and you can see some examples here, you can see a rich visual spinning image of an alternator that gives the customer the opportunity to go in and manipulate the image themselves, to zoom in on different pieces of the fitment that they need to see. You see the branding of one of our proprietary brands, Ultima, that Greg mentioned a minute ago. We've also added this next day eligible badging if the part comes back that it's available next day in their location, the customer's geofence location or the store that they've logged into at standard ground rates. We've added that to the website as well. We've also added the consistency that I talked about around specification information and fitment information in the copy right below.

We've seen some great results here with customers engaging with the new design of the B2C site. And we're excited about what we've seen here. Customers need support, whether it's a customer or professional customer calling us on First Call Online using our professional website or a retail customer on our oreillyauto.com website, we know they need support. And we started adding -- we've had voice support, toll-free voice support for both websites for many years. And we continue to optimize how we support customers through both to these digital properties. Last fall, we added chat experience to oreillyauto.com and we continue to see great engagement, the time we're furthering its chat the more customers engage with us, and they have specific questions about parts, fitment, availability of the product to get their car back on the road, and we've continued to expand that. We added chat messaging capability earlier this year that allows for an asynchronous conversation, just like a text message. So a customer can check in and check out of that conversation with us as they're fixing their car or seeking the answers that they need. We've seen great engagement there.

We're also using machine learning and bots to engage customers on the website, to route -- properly route their request and to handle off hours request that we get from our customers, knowing that customers are shopping oreillyauto.com 24/7, 365 days a year. We're continuing to improve the customer experience by listening more intently to our customers, both retail and professional. And we just did a voice-of-the-customer framework to enable customers to give us real-time feedback on the satisfaction with their specific interaction and brand sentiment satisfaction over time for oreillyauto.com, for firstcallonline.com as well as our store channel and our chat and voice channels. So we're going to be able to be more responsive to customers and to prioritize the information and the fixes that they're looking for to complete that brand journey in a satisfactory way and give them a great brand experience. This slide really speaks to the fact that the store is the center of our omni-channel nucleus. You've heard us talk about the power of the store, the power of the store team, the professional parts knowledge, parts availability that we have at our stores. And you'll get to see that later on today on the tour. But we also recognize that as customers continue to evolve, this outer ring becomes more and more important and how they engage us and may engage us before they ever come into our store for the information they need. So we're thinking about this as an ecosystem with the store at the nucleus. And when we talk about omni-channel, it really is for our professional customers. It's how they engage with firstcallonline.com and our professional field sales team of revs that are out calling on the shops and working with them there to meet their needs. But for that retail customer, it's how they're engaging with us on a oreillyauto.com, are they getting the information they need, are they seeing the pricing and availability they need, are they getting the content, fitment and application information they need, and we're working to provide that, and we're working to support them through chat and voice support as well as they make that journey. We're really excited about the opportunity here and look forward to sharing more as we continue on this journey. Now I'd like to turn it over to Jeff Shaw.

Jeff M. Shaw - *O'Reilly Automotive, Inc. - Co-President & COO*

Thank you, Brent. Well, good morning, everyone. It's a pleasure to speak with you this morning. Brad and I would like to spend a few minutes this morning discussing the operations side of our business and talk a little bit about the O'Reilly business model. Now our goal at store operations has always been to execute our mission statement of being the dominant auto part supplier in all of our market areas. Now those are tall words. But it's what we focus on and work hard at every day in all of our stores across the country. Now there is several areas that we feel are competitive advantages for us and we'll review and expand a little on each of those. Firstly, on our dual-market strategy; next, our industry-leading parts availability. I'll talk a little bit about our growth focus and then Brad will cover our culture-driven leadership and topnotch customer service as well as expand a little on our First Call program.

So first, our dual-market strategy. Now we've been committed to our dual-market strategy for over 35 years now, and we have a proven track record of success serving both the DIY customer and the professional customer. And by us targeting both sides of the business, it allows us to expand in all sizes of markets, from the small rural market to the large metro market. And most importantly, to be able to run profitable stores in those markets. So it also leverages our strategically-located distribution network that you've heard Greg talk about, across the country. Now that's really a requirement of doing business for the professional customer, but it benefits our DIY customers as well. Now we've always expected our store managers to take ownership of their customer service levels, equally driving and supporting the DIY and the professional side of their business. On the professional side of their business, they are supported by a sales force of almost 800 team members out there calling on customers every day in all of our markets across the country. And really, the quality of service that it takes to support our professional customers, our professional parts people, now that benefits our retail customers as well.

Next, our industry-leading parts availability. In today's competitive business environment, parts availability is truly critical to our success. And with our company evolving from a very traditional background, high inventory availability is really always been a requirement of doing business for us. So we now have 27 strategically located DCs across the country. These DCs stock an average of 156,000 SKUs and all of our DCs are linked to what we call regional DCs, which carry over 175,000 SKUs. Our DCs deliver stock orders to our stores 5 nights a week with our own dedicated fleet of 780 over-the-road trucks. Now over 90% of our stores receive multiple deliveries a day from either their servicing DC or their local hub store. And these stores receive weekend service as well.

Now to supplement our DC network, as you heard Greg mention earlier, we have 350 hub stores located across the country, deploying that hard-to-find inventory even closer to our customers. You've heard us mention on the last couple of earnings calls that we have 3 new DC projects currently underway and I thought I might provide a little bit of detail on each one of those. The first is Twinsburg, Ohio. Now Twinsburg is a ground-up facility that will have the capacity to service approximately 300 stores. We plan to open it toward the end of this year, servicing in the neighborhood of 175 stores. Next is Lebanon, Tennessee. Now Lebanon will be a re-lo for our existing Nashville DC, and it will also allow us to consolidate our Knoxville DC and turn that into a super hub in the local market. Now Lebanon also has the capacity to service around 300 stores and we plan to open it in the first half of next year, servicing in the neighborhood of 195 solutions.

And finally, Horn Lake, Mississippi which is just south of Memphis. Now Horn Lake is an existing facility, and it will have an initial capacity of 250 stores, and we plan to open it in the back half of next year, servicing around 170 stores.

So before I turn it over to Brad, I want to talk a little bit about our store growth. Now we have a very long track record of aggressive greenfield growth year-over-year. And this year, as Greg mentioned, we plan to open 200 new stores as well as converting 20 of the Bennett stores into new O'Reilly locations, which we completed at the end of last quarter.

THOMSON REUTERS

Now as I mentioned earlier, with our network of strategically-located DCs, we now have the ability to open stores all across the country without overloading our store ops team in any one given area. And what that really means is that we just have more time to recruit and develop our new store teams, which helps our new stores hit the ground running.

Now we've also grown by acquisitions over the years, but we've always been a very opportunistic and strategic buyer. And this may be old news to many of you, but just a quick history of our key acquisitions over the years. So in 1998, we acquired Hi/LO Auto Supply based in Houston, Texas, effectively doubling the size of our company back then. And then in 2001, we acquired Mid-State based in Nashville, and that gave us a presence and distribution in the Southeast to start our expansion there. We followed that up in 2005 with the acquisition of Midwest Auto Supply based up in Minneapolis. Once again, giving us a footprint and distribution to start our growth in the upper midwest. And then really the big one in 2008 when we basically doubled the size of our company again with the acquisition of CSK. Now, CSK gave us a solid footprint on the West Coast and the ability to really ramp up expansion out west. Then in 2012, we acquired the VIP Auto stores based up in Maine and followed that up in 2016 with the acquisition of Bond Auto Parts, which increased our footprint up in the Northeast. And then at the end of last year, we acquired Bennett Auto Supply based down in South Florida, and we've effectively merged and converted all those stores in the first half of this year.

So when you look at the slide here, there are several untapped domestic markets, mainly up in the Northeast that we'll continue to grow in as well as over time, explore international expansion.

So with that, I'll turn it over to Brad to finish up on the business model.

Brad W. Beckham - *O'Reilly Automotive, Inc. - EVP of Store Operations & Sales*

Thanks, Jeff. Good morning, everybody. Let's see if I can see this monitor here. If we haven't talked about culture enough and I know a lot of you have heard us talk about our culture for a really -- for a long time, for really decades and over the years as we continue to grow. Our culture continues to be the -- while it's intangible, there is a lot of things behind that, more so than just being a banner on the wall or values on the wall. I'm certain that while I've never worked for anybody but O'Reilly in my career, I'm certain that every company out there has culture values, has a mission statement, culture documented that -- to tell my story just a little bit. I started with O'Reilly back in 1996 in Oklahoma. We were kind of in a 4-state market. Had a couple of hundred stores and started out 17 years old. And like Jason sweeping floors and putting up for aids and stock and driving the delivery truck and working the counter. And when I think about really what is stated here, when I think about our culture and ownership, promoting from within, the passion we have when it comes to winning, execution of our business model, Jeff talked about our dual-market strategy. But then when I think about fundamentals, when we talk about our mission statement and being the dominant auto part supplier in all the markets. And we talk about strong desire to win. That's in a very humble way that was instilled in us -- by the O'Reilly family over the decades and Ted Wise and Greg Henslee that a lot of you knew and onto Greg and Jeff, is -- that's in a very humble manner. I mean, we take our competitors -- we have a lot of respect for every one of our competitors. A lot of you know our public competitors and then the tough competition that we have when it comes to the professional side of the business that are a lot of companies out there one market at a time, that own the far majority of the share on the professional side in the U.S. But when we talk about winning, I think that's misunderstood sometimes along with our mission statement. When we talk about those things internally, that is about helping other people win. When I think back to, again, when I started the first week I was on the job, I didn't know the O'Reilly family. I didn't know our district manager. I for sure didn't know our regional manager. We had 3 regional managers back then. Now we have 63 that Jeff -- Jeff was my regional manager in Oklahoma. And I sure didn't know Jeff. All I knew was the team that I went to work for. And when I think back 23 years ago, in that first week, these things were instilled in me by that store manager and that store team, and I immediately knew that I had a career path with our "promote from within" philosophy. And the other thing I knew is that they took a ton of pride and passion in competing and making sure that we were not taking one single customer or one team member on that team for granted. And those were things that while I really didn't know or appreciate back then, were instilled in them by the O'Reilly family and Ted and all the people that have ran our company up until this point. When I think about fundamentals, I would guess that any companies that you interact with or maybe a sports coach that somebody likes or whatever the case may be that has a true legacy of performance and execution and something greater than just competing or winning, that's what I think about. The best leaders I've ever worked around, especially at O'Reilly, when it comes to fundamentals, we don't get bored with the fundamentals. And they may be a little bit boring or repetitive, the best leaders, the best coaches, the best athletes, when it comes to people, inspiring and motivating people, it's about the fundamentals. It's about mastering the fundamentals and wearing them out every single day and not taking the one customer in our world or one team member that's on our team for granted. We talk tremendously about our "promote from within" philosophy. And while that may seem somewhat minute to some of you maybe to the point of question a little bit from a talent standpoint. But what we've always been able to do and what I always learned from Jeff and Ted and the O'Reilly family is that what we really do is we identify with raw talent, guys and gals that have a true passion to help other people win, they have that ability to motivate and inspire and get people bought into something greater than themselves. And that gets back to our culture and a story and something to really build their career on that has a greater good than just selling auto parts or just related selling or things that happen in our stores every day that honestly, team members, these days, especially as new generations come in, they can get that stuff working for anybody. I mean, there is not a successful retailer or wholesaler or anybody out there, larger, small that doesn't have buzzwords around driving ticket averages or driving sales, hitting goals and all those things. But I remember early on in my career, Charlie O'Reilly reminding us at a meeting that -- it may have been when we hit $1 billion in revenue. And he said, let's make sure we don't get caught up in all those zeros because those happen, those happened one customer and one team member at a time. Well, let's remember how we got to this point. We can't live in the past, but let's remember how we got here. And that's -- those basic fundamentals, when it comes to taking care of customers. And in our world, that -- in my world every day, I own store operations, I own our sales team. And when I think about the 3 Senior Vice President, it's Jason Tarrant. He has 2 counterparts, one is in the center part of the country and another one on the East Coast. They all have the same story that Jason does. And when it comes to growing up in the business, one of them is a 28-year guy in the center part of the country, all that is with O'Reilly. Jason, again, we had the fortune of acquiring Jason and a few other key people that are even in the room from CSK, and they really already had the O'Reilly culture, they just didn't have the support from their company and their leaders. And so that's been a great fit. The same thing for Robert Dumas on the East Coast. Robert has been with us since the acquisition of Mid-State in 2001, grew up in the wholesale business. And you end up with a leadership team that absolutely has been in every single one of the roles in the stores. And so while we have worked harder on making sure that they're not overcapacity, that we're promoting the right people that have all the intangibles, they can take the next step and not promote somebody further than their capacity and ability to motivate, inspire, develop people, build teams, build customer relationships, reduce turnover and all the things that we -- the fundamentals that we focus on, the blocking and tackling in our business every single day. We have to work very hard at that to make sure as we promote from within, that what we end up with is we have somebody that has a true passion for our business and parts. And while a lot of us in this room may think retail is retail, our business is a little bit different. And of course, I -- this is all I've ever worked in, but the parts business, it takes having leadership in place that has the credibility that's been there and done that. And when Jason or when one of the 11 Division Vice Presidents, Diego's 10 counterparts, when we're in the stores, it's not a white glove and entourage and coming through there picking them a part. If we have an image issue or we have a sales issue or we have an execution point that's just not where it needs to be, we're working the counter with them. Because somewhere all the way up to me, owning all this, extreme ownership. I have failed. I -- we failed to execute through people, maybe having the new leader in place, but maybe has too many stores, has too bigger of a responsibility than they should. And everything rolls up to us. And we know what they go through every day. And so our job really and the O'Reilly family always instilled this in us that we run our company from the bottom up. Meaning from the counter, from the entry-level team members, drivers that face our customers, our professional customers more than anybody in the company, to our parts specialists, to our assistant store managers, to our store managers they don't work rolled up to me. We work every day and making sure they have the support they need. And as all of you know, we have a -- as an operator, I'll have a lot of excuses. At O'Reilly, we have -- we're very fortunate to work for a great leadership team that understands all our strengths as markets change, as competitors change, we've got to get better. We have to continue to get better on the supply chain front, on the omni front. And in my world, we have to continue to get better on the leadership front. Competitions are -- again, we have great respect for our competitors. Honestly, over my 23 years, the -- for lack of better way of saying it, the strong had survived and the weak had gone away. And I grew up in Oklahoma, deer hunting and a big buck in the woods, it doesn't get big and old by being slow and stupid. We have great competitors. We -- when I think about AutoZone, Advance Carquest, NAPA, GPC, all the small competitors that that we compete against in every one of our markets, a lot of them that you don't even know on the wholesale side, the White Brothers in Atlanta, the Auto-Wares in the Michigan markets, the faster 100 cars, the Parts Authority, Eastern, all those companies similar to Bond and Bennett. One market at a time add up to over 50% of the professional share in the U.S. on the professional side of the business. So we have a tremendous opportunity there, but it all happens through people. We have a great business model. We have a great supply chain. We're very focused on omni, Brent, myself and my team working on really that vision and what that looks like and making sure that we can turn all our strengths from the past into continued tailwinds for the future. As things change, we adapt, we all have to get better in the way that we interact with team members and customers and saying, but again, that all happens. It all happens through people and execution of those basic fundamentals.

Most of this what I'm going to talk about here, it actually applies to both sides of our business. A lot of what is documented here came from the O'Reilly family. Some of you may even heard Jeff tell the story that he was at a strategic planning meeting prior to my time. And we were a little bit off, trying to get a little bit maybe cute or fancy about how we were looking at some changes we need to make. And David O'Reilly stopped the meeting and really talked about, well, let's not reinvent the wheel. While we're in the parts business and we're talking about a lot of great things, truly, we're in the customer service business. And the definition of customer service has absolutely changed throughout my career. Meaning that, customer expectations are higher than ever. Team member expectations are higher than ever with our "promote from within" that we talked about, with millennials, with Gen Z, we have a lot of work to do to make sure that we continue to be that much better of a place to work, because again, all these things happen. They happen through people.

Market entitlement, a lot of you heard us over the years talk about entitlement. That is our word for share. Meaning we're entitled to 100% of the auto parts business in every one of our markets. And the way that we look at that, what are we entitled to can be summed up in one word in my world and that's all. Now when we look at the way we go after share, it's very strategic. It's very -- in a very disciplined way. But we have always performed the way we performed through execution and keeping our eye on that entire pie. Not if you were to talk to our operators, which we won't talk to you about, about goals and things like that. We don't decide we're going to grow a percentage or 2% or whatever. We really don't look at it that way. You can talk to these guys about planning and all that. But in our world, all they know is that we're doing -- if we're doing $2 million out of the store. But Autozone's doing $2.5 million. And advance has a $2 million store and we -- WORLDPAC is doing $2 million, and White Brothers has a $200 million -- $2 million store, on and on. But some of that is our entitlement, that's that piece of the pie. And obviously, that's tough these days when it comes to being that much better and having things in place to make sure that we're executing on all those things. Professional parts people, you've heard us talk about, friendliest part store in town. Out hustle out service those are all things that came from Charlie O'Reilly himself that are more than just words on a piece of paper. It's more about what's behind that. And when we talk to our teams, what that truly means to helping our customers win. Meaning, making sure that on the retail side, if we have a soccer mom that's in a jam and we've got to get her the right part, even if we have to go outside our network. When you see us say never say no. That's a big part of what we do. In '96, I don't remember a lot about what I was told when I was onboarded, but I remember my store manager saying that there's a -- not a lot of ways you can lose your job around here. But saying no to a customer is one of them. And that stuck with me throughout my time, growing up with the company and still sits with me and our management team today that we just -- we never say no. And that becomes a bigger and bigger execution challenge as we get bigger. But again, back to the fundamentals, we wear things out every single day.

On the professional side, a lot of those things that I just talked about, they absolutely apply to the professional side of the business, just like the retail side. As Jeff talked about, our store managers, they own both sides of this business. They own everything that happens in those 4 walls. As most of you know, the professional side of the business, that's where we came from. That's where the O'Reilly family founded our company in Missouri on independent jobbers and as things evolved, the professional itself. And that's what -- that's really our bread and butter and how our company was founded and built. And it wasn't even necessarily by design that we got more and more into retail. It's more one of those things that, hey, we have great parts availability -- obviously way before my time, great parts availability, great parts people, even back in the day in the '60s and on in the '70s, a retail customer couldn't even buy from us. They would go to a shop and we would sell it to the shop out of our respect for the installer that our business was built on back then. And that really carried up until the point that AutoShack back then and Autozone now, bigger box-type retailers that were in the Midwest, whether an Empasco or Montgomery Ward, we saw an opportunity that, hey, we have great parts availability. We have great parts people. Why not sell retail. And really, retail has always been a great way for us to not only sell retail at a better gross margin, but also support our wholesale business. I mean, retail enables us, especially as time goes on, in supply chain, inventory availability, investments continue to be more and more important that retail side actually helps us fund what it takes to continue to be a better and better professional provider. And as most of you know, we were really 50-50. Even though we talked about the model 50-50, we were pretty much 50-50 from a revenue standpoint. Until we bought CSK, and we didn't lose any wholesale. It's just all the proportion that we had inherit in the retail business and the retail volumes on the West Coast from CSK. So that was kind of how we ended up a little bit more retail-hefty, but we continue to get stronger and stronger when it comes to really both sides of the business as we've learned from great competitors and continue to figure out ways to do things better and better internally.

Key programs we have up here. We have a great team, again, promoted from within to really understand when you talk about helping other people win when it comes to the shops and the garages. We have a lot of great competitors out there that have a lot of great programs. It's easy for us to get caught up and having programs to drive a metric or check a box on our spreadsheet where we totally focus around our programs. So all our programs are built around the shop owner. It's really not about us at that point. It's about how are we going to help the independent garage continue to get better and grow. The OE dealers do a better and better job of parts and service. The national and regional accounts continue to consolidate, and the independent garage, though they're very, very strong, a lot of them, as they get to the third and fourth generation, it's easy for them to maybe not be investing in technology. We're investing in making sure they have the best technicians in those bays or whatever the case may be that gets lost through generations of handoff with independent garages. And it's up to us to be that consultant and make sure that everything we build around our programs here is helping them run a better business for the future. And that's why that inventory availability, and here is just kind of getting a car off the rack, meaning service levels on the professional side. That's why that's so critical is because -- is, most of you know, the shop owners, they're only as good as the technicians that they employ. And the only way those technicians are productive and, in turn, make a good living is to turn those bays, get that part fast and turn that bay. If that doesn't happen, the better technicians are going to go somewhere -- they're going to go to an OE dealer. They're going to go to a national account. They're going to go to another independent garage, just keeping up with those things and not waiting for a day or 2 for a part to get shipped in because they're trying to drive their profit on price or whatever the case may be. The best independent owners know that they got to turn those bays and keep that technician rolling or they roll their toolbox down the street to somebody else and that's not good for their future. And so again, all this that we do is built around -- even to the point of understanding their labor standards, what it really means, to our delivery service. Obviously, one of our cultural values is safety. When we talk about delivery times, that's not about the route. I mean, the route's the route, and we're very precise when it comes to how fast we need to be for every customer in a certain geography. It's all about the efficiencies in the store, and you'll see some things this afternoon that we work very hard on, that we work on every day to have those faster delivery times through really the inefficiency we can have in our stores, really small inches and in seconds, they'd add up to helping that shop get the car off the rack to that soccer mom that needs to get her van back, and that's really what drives our business on the professional side.

So I'll end with what Jeff started with. Being the dominant auto parts supplier in all of our markets. This is a lot more than just chasing share or, again, winning. This is really what -- this is a greater good behind our company that our team members buy into that we're going to be better for our team members and our customers than anybody else and this being just the end result of making a difference in other people's lives. Thanks.

Thomas G. McFall - *O'Reilly Automotive, Inc. - Executive VP & CFO*

Thanks, Brad. I love to follow Brad at these presentations. I followed him at Managers' Conference here in the winter in Dallas. And people walk away with the impression of Brad was great, that finance guy was fast.

So we're going to roll through these slides pretty quick. To echo something that Brad is too humble and down to earth to talk to you about, an example of how O'Reilly is different and why our stores perform better than our competitors. It was on full display yesterday, and we were out visiting stores, and they were super busy. And Brad and Jason and Diego are too humble and down to earth to admit that they're out there showing great leadership. The stores were busy, when there were more customers than there were team members on the counter. Those 3 guys, senior executives, run 500-plus stores each, are on the counter waiting on customers, all right? So it shows, the folks that run our business grew up in the parts business; two, hands-on leadership; and three, how every single customer is important. And those are the types of things that sets O'Reilly apart. So if you quiz any of them on the counter, you'll be amazed that you can't stump them.

So we'll take a few minutes on these slides, and then we'll get to Q&A.

Store and revenue growth, now you're seeing this one and seeing our guidance. Comparable store sales growth, able to generate positive comps in all types of environments, the profitable growth. It's not enough to just go out and open stores and gain business. We want to gain profitable, sustainable business, translates into earnings per share growth. So this one we'll take a few minutes on. And this shows our cash flow profile, able to generate solid cash flow in good markets and bad markets is that attention to profitable and sustainable through our commitment to be an investment-grade in our vendor financing program. We've been able to minimize our investment in net inventory and, continue to help, we invest in the business through a large CapEx investment every year. If we don't have the tools, we don't have the inventory, we don't have locations, we don't have the training that our teams need, we can't go out and grow that business. And then using the extra cash flow to return to shareholders via buyback, which, on the next slide, use of capital. In 2011, we added that third bullet when we started to buy back stock, but we are committed to continue to invest in our existing store base so that we have the tools and the infrastructure and distribution network, inventories at our stores and continue to dominate their markets.

Two, as Jeff talked about, we are going to be a consolidator in the industry. But so we're going to be rational in what we spend. It's easy to say acquisitions have been very successful for O'Reilly, but that's because we've turned down a lot and once that we have done we've put a tremendous amount of effort in. And then the third item to the extent that we have excess cash, we'll return it to shareholders via buyback, which has been a large program we added in 2011 when we became an investment-grade business.

And I think with that, I'm going to turn it back -- sorry, that we keep cutting in and out, I'm not sure why that is.

Mark Merz - *O'Reilly Automotive, Inc. - VP of IR, Financial Reporting and Planning*

Thanks, everybody. And now we'll spend the next hour on the Q&A. And I have to apologize, when I got up here earlier today, I actually didn't introduce myself. My name is Mark Merz. I know most of you, so I apologize as I didn't introduce myself.

This is Eric Bird. He's our Manager of External Reporting and Planning. Eric and I kind of head up the IR team here at O'Reilly. So if you ever have any questions whatsoever, anybody here in the room or anybody who's listening offsite, pick up the phone, call us, send us an e-mail, a part of our job is to take care of you.

Unidentified Participant

What is their job?

Mark Merz - *O'Reilly Automotive, Inc. - VP of IR, Financial Reporting and Planning*

We just do it when we're not quiet. When we're in a quiet period, we actually help run the finance department and the liabilities.

So what we're going to do, Eric can take that side of the room, I'm going to take this side of the room. If you just want to raise your hand, we'll bring the mic over to you, ask your questions in the mic, and then we'll take it back from you. And we'll just move back and forth throughout the room and try to catch everybody.

QUESTIONS AND ANSWERS

Mark Merz - *O'Reilly Automotive, Inc. - VP of IR, Financial Reporting and Planning*

Zack, it looks like you are the first one, so that's you, and Simeon we'll get you next.

Zachary Robert Fadem - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Zack Fadem, Wells Fargo. Can we dig into the do-it-for-me business in a little more detail? How is the size of the market provided among independent national regional chains, municipals, jobbers, et cetera? What does your mix look like there? And given the fragmentation, maybe we could talk about how the landscape is evolving there in terms of consolidation or competitive environment.

Brad W. Beckham - *O'Reilly Automotive, Inc. - EVP of Store Operations & Sales*

Zack, are you talking about the makeup of the shops versus the makeup of our DIFM competitors?

Zachary Robert Fadem - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Within do-it-for-me business. Just how do you pie that out?

Brad W. Beckham - *O'Reilly Automotive, Inc. - EVP of Store Operations & Sales*

Pie that -- our competitors are pied that...

Zachary Robert Fadem - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Customers.

Brad W. Beckham - *O'Reilly Automotive, Inc. - EVP of Store Operations & Sales*

Our customers, okay. Okay. Well, what I would say and hopefully, I'll get around to your question. The way that we've always gone to market is -- and it's a little bit different from some of the ways, some of our competitors go-to-market. We respect and not that there's a wrong or right way there is for us. But the way we've always gone to market on the professional side is that we -- when we were new to the market and we were very immature early on in that market, we actually, on purpose, go after the smaller accounts. There's a lot of, what we call, foundation accounts in a market and that could be even -- that could be a landscape company, it could be a construction company, it could be a very small use car lot. But there's a lot -- there's hundreds of those in most of our market even whether it be a rural or metro market, there's normally a couple of hundreds of those at least. And then you get into the independent garages that are really our bread-and-butter in so many ways. And then you get into the national level accounts, and you get into really the top-tier accounts if you can just kind of imagine a pyramid of accounts. And we, on purpose, don't go out and swing for the fence in terms of commitment to those big ones until we know that we have our infrastructure in place that we built a great team, that we can back it up from a service-level standpoint and that we have our DC runs, our availability from the hub DC, whatever the case may be. As all those things come together, we will start to, in a very disciplined way, target more up the chain, and quite frankly, a lot of times what we see, especially with some of our independent competitors, as they -- when we come to the market, they actually take some of those smaller accounts for granted and that was really how our company was founded. And so in a lot of cases we take that foundation out from under them and we build our foundation. And then as we go up the pecking order, that's when consolidation, especially some of the mom-and-pop part stores but there's -- to answer your question, in any given market, there's hundreds of these foundation accounts, and get into the mid-sized accounts that would be probably, I don't want to quote a number, but a good percentage of the core of the DIFM business in that market. And then you have the national regional accounts and the biggest independent garages in town that make up the kind of bread-and-butter largest-volume opportunity shops. And then with us, the other thing, too, is some of our competitors, like NAPA, being a very traditional competitor that we have tremendous amount of respect for, like us will go after not only the independent garage in that car and light truck opportunity, but we have offerings in our stores, Hubs, DCs where our teams go out and earn that construction business, the medium- and heavy-duty business, the paint, body and equipment business and some of our retail competitors not so much. And so there's also that whole other layer. So I kind of went around there, but that would be my best explanation.

Simeon Ari Gutman - *Morgan Stanley, Research Division - Executive Director*

Simeon Gutman, Morgan Stanley. I have a question on tariffs for whoever wants to answer. So far, to date, it seems like the industry's been pretty rational passing along prices, and it looks like gross margins have been preserved. What is the chance that we don't see gross margin? I think you're going assumption is that gross profit dollars maintain in the current tariff environment? And if not, what are the chance that gross profit dollars actually accelerate, meaning demand doesn't degrade from more tariff?

Thomas G. McFall - *O'Reilly Automotive, Inc. - Executive VP & CFO*

What we would tell you is that (inaudible). What we really need to focus on is maintaining our gross margin percentage. And I think that's been pretty consistent throughout the industry. So that's the focus when we look at these increases. Historically, when we've seen commodity prices or changes for different lines of products, our industry has worked quite rationally and we saw that in the tariffs to date and we expect will continue going forward. As far as the expense, Greg, do you want to...

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

Well, I want to see what his follow-up is on.

Simeon Ari Gutman - *Morgan Stanley, Research Division - Executive Director*

The follow-up is on any experience difference between DIY and DIFM to those different customer groups.

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

So help me understand the question there. Difference?

Simeon Ari Gutman - *Morgan Stanley, Research Division - Executive Director*

Yes. Is there any sensitivity to the end customers in do-it-yourself versus the mechanic who might be buying the part and passing it along to...

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

Sure, sure. So keep in mind, most of the time, the DIFM customer is doing more repair-type work, if automobile is broken, the automobile won't run, breaks, chassis, suspension and starters, whatever it takes to operate that vehicle. Those are typically not discretionary in nature. Now the DIFM customer also does oil changes, things like that, which are more discretionary in nature.

So what we've seen is on the DIY side of the business, the discretionary component for the DIY customer such as oil changes, things like that, that perhaps can be extended as they continue to see pressure either from price increases through tariff or inflation, they might extend those intervals a little bit, but most of our business is still nondiscretionary in nature. So that would be more of the DIFM side. And on the DIY side, for the products that are just repair products that, that customer has to get that part repaired so he can make it work the next day.

Michael Lasser - *UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines*

Great. Welcome to O'Reilly. Can you contrast your experience of O'Reilly's omnichannel capabilities to your past employer and contrast the market as well with one distinction being that there's a competitor out there, a couple of competitors out there that offer prices that are far lower than the traditional players do? And how do you see navigating that as you approach your job? And I have one follow-up question.

Brent G. Kirby - *O'Reilly Automotive, Inc. - SVP of Omnichannel*

Yes, sure. Michael, thanks for the question. Yes. I mean I think when we think about this segment, especially retail, it's very project-centric. It's very application-centric. It's very specific product knowledge and the project and the immediacy of need drive the auto parts business probably even more so than home improvement when I think about the comparison between the 2. Home improvement, I feel like there was a lot more discretionary. Certainly, commercial is a part of the business. But here it's a lot less discretionary, a lot more needs and occasion-based. So the immediacy of need is much more important and much more of an opportunity as well. I think O'Reilly has done a great job of building the supply chain, having the parts knowledge you've heard about today to compete effectively in that arena. I think the opportunity, when I think about omni, here, the store is still the center of the omnichannel ecosystem like I talked about here on the slide. I think the opportunity, especially with the retail customer, is they engage us. In many cases, they had to get to a store sometimes to get all the answers they needed. And I think we're doing everything we can to make that much more seamless as they engage us digitally. That's an opportunity, and we're moving towards that opportunity. But the prize is still the same. We get to say, "yes, we're selling the parts, we have the knowledge." When I think about the online pure-play competitors in this space, they don't have that. They don't offer that. They don't have the support. They don't have the local presence. They don't have the immediacy of need. They don't have the parts availability. And I think people need a combination of both in this space, and I think that's why we're very well positioned here.

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

Yes. I'd like to add to that a little bit. When you compare, you noted that retail -- or these online competitors, we called out a couple them, the price points were lower than ours. That's true when you compare national brand to national brand, they don't have the overhead, the cost structure that we have. But if you go out on an application-by-application look-up, you're looking up a sort of wiper blades for a car, you're looking up a starter for car, you're looking up a sort of brake pads for a car. What you'll find is in our proprietary brands, we're going to have a very competitively priced product out there that competes well with those e-commerce omni competitors.

Michael Lasser - *UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines*

And my follow-up is on proprietary brands and I'm going to extend it out a little bit and it's a follow-up on the tariff question. Since you've last reported list 4 has come into play. So can you quantify your overall exposure to like 1, 2, 3? And then how much more exposure in terms of your total receipts you have now that it was list 4 come into play? And are you in a more difficult position because 45% of new sales, presumingly a lot of those are coming from China, are direct imports?

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

Well, a couple of things. First, direct imports, we said somewhere between 30% and 40% are coming from China. So it's not quite 100% of what you'd see there. That's factor in some of those component level, some of that's finished product level. I'm not going to quantify the numbers around what the impact was to the first 3 rounds. Really, there was, we call it, 4 rounds because there were a couple of dates in the second round that impacted us. But what I'll tell you is our merchant team has been looking at -- this tariff document's a huge document. There's hundreds and thousands of tariff codes, HTC codes -- HTS codes, rather, out there. And our product managers and merchants have been waiting through that and then analyzing what the impact will be for round 4. And there's a lot of consumer electronics in there. And I think it's going to impact other markets, other segments more than it will ours. The components that we're seeing are things like nuts and bolts, fasteners, some AC, some air conditioning, battery chargers, some wire, just really low. It's going to be much less of an impact, Michael, on round 4 than we've seen in the prior rounds.

Christopher Michael Horvers - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Chris Horvers, JPMorgan. So jumping back to the demand elasticity question. You did a 4 comp last year with about 1 point less on pricing, and you're going to do a 4 comp this year. You're guiding to a 4 comp this year. So what's the difference, I guess, year-to-year? Because you're losing some volumes somewhere. So is it demand elasticity? Is it the weather just hasn't played out as well as it played out in 2018? How do you assess that difference?

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

Yes. I'll start that and then see if Brad or Tom wants to add on. I would say the biggest driver, when you look at this year versus last year first 2 quarters will be weather, we had -- especially in the second quarter. And I'm tired of -- we hate talking about weather, and we...

Christopher Michael Horvers - *JP Morgan Chase & Co, Research Division - Senior Analyst*

And I love talking about weather.

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

Yes. We hate talking about weather but at the end of the day, weather does impact our business. Weather in the winter defines how much breakage there is and what's the spring is going to be, that play out well for us. Weather in the spring and the timing of those repairs kind of define when that, especially the DIY, repair cycles come in. DIFM was stronger because it doesn't matter if it's raining outside, you can get your car to a shop. If you're doing the repairs yourself and it's raining or cool almost every weekend, I think some of those repairs have been deferred. So I think weather is a major contributor there. Tom, would you like to add to that?

Thomas G. McFall - *O'Reilly Automotive, Inc. - Executive VP & CFO*

So we're below the midpoint of our guidance thus far this year. And to Greg's point, weather items are the ones when we look at our higher performance by categories are the reasons for that. Your question on 4 last year, 4 this year, that's still the midpoint of our guide, what differences you're picking up more pricing. And I think we were pretty candid on that fourth quarter call when we set our guidance is that our low-end consumer on the DIY side is being pressured, right? So new accounts on the DIY side. We started to see some inflationary events second quarter last year and put some pressure on them with the new tariffs and the other cost inputs, the rising prices. We knew there was going to be pressure on DIY counts. One of the biggest count items is changing oil, right? That's also the most elastic items we do is people get stretched. They're going to continue to spread out those oil changes (inaudible) it impacts our customer count. We'll continue to do well on the hard part side. Professional side (inaudible) because those are starting to mature out of the (inaudible) DIY side becomes -- drive of more into the DIY side, which is also putting some pressure on the DIY counts. So I think we've been pretty straightforward on that answer, and it continues to be the same. The question is will the next round of tariffs put more pressure on those DIY customers. We see, in aggregate, at the beginning the year, the tariffs and the cost increases as a net positive where we pick up more average ticket then we have pressure on the DIY counts. And I think that kind of how it played out first half of the year, ex weather. When we look at the back half of the year, we're expecting that, that pressure is going to fully offset the rising prices. When we look long term here, our industry has been quite unusual in the fact that we have had same SKU inflation for 5 or 6 or 7 years as we've all generated comp gross margin dollars by reducing acquisition costs. So getting back to an environment of 1% to 1.5% top line tailwind from an average ticket increase and keeping gross profits the same, it's something, we think you'll see in our industry to help generate comp gross margin dollars which is more of a standard retail environment.

Christopher Michael Horvers - *JP Morgan Chase & Co, Research Division - Senior Analyst*

And so then as a follow-up to that. Is the -- I guess your experience in terms of the volume impact on the DIY side, has it been as you'd expected and consistent all year, and any early signs of this next level of tariff impact on volumes?

Thomas G. McFall - *O'Reilly Automotive, Inc. - Executive VP & CFO*

So we tell you that a lot of the commodity-type items and seasonal items are big DIY items. So there's been more pressure there because it hasn't been driven by the weather. When you look at spring cleanup, when you look at AC season, a lot of volume on the DIY side when weather cooperates, so that's in that mix. On the -- thus far, we talked about on the call that the price changes kind of rolled through over time, and things that are on the water don't count. We're working through our supply chain. So we're not going to comment on the current quarter, but it's going to come through during the quarter. It's not all hitting at one time.

Mark Merz - *O'Reilly Automotive, Inc. - VP of IR, Financial Reporting and Planning*

Go ahead, Mike.

Michael David Montani - *ISI Group Inc., Research Division - Former Research Analyst*

Just had two questions. One was for Greg and then one for Tom. So you all had alluded to on the DIY side, maybe coming in a little bit below expectations recently. Curious to get your updated thinking about what is like a normal DIY comp that we should think about for team O'Reilly? And how does that play into a long-term normal comp in aggregate? And then just had a follow-up for Tom.

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

Yes. So we said for a number of quarters, a number of years that we see more growth going forward on the DIFM side. Vehicles are more complex. Vehicles are -- the price point of repair parts is growing. So we expect that side to grow more quickly than DIY side. I would say -- as far as guidance for the DIY side of the business, we'd say somewhere 1 to 3 comp on that side of the business.

Michael David Montani - *ISI Group Inc., Research Division - Former Research Analyst*

Okay. And then if I could, just for Tom. Just several years ago, you all had a 19.8% EBIT margin. Just wanted to see if there's any way to think about that moving forward from the current 19-ish levels. Is it more likely to go higher or lower? And what are some of the key drivers that we should keep in mind that could either cause it to go higher or lower?

Thomas G. McFall - *O'Reilly Automotive, Inc. - Executive VP & CFO*

Okay. So we kind of talked about kind of growing comp gross margin dollars over the last 5 or 6 years in our industry by reducing acquisition costs and gross margin percentages went up, right? And our operating profits almost across the industry have increased. What we would tell you is that, that is not the answer. That's the result because our job up here is to generate increasing and sustainable operating profit dollar growth. So when we start talking about same SKU inflation, helping drive the top line and keeping the gross margin percentage the same to offset rising costs, you're going to see some pressure on the percentage but continue to generate more operating profit dollars. And that's really the focus for us. We're not going to give guidance beyond this year. But when we look at how is our business performing, we look at how we're doing in operating profit dollar growth, how are we looking -- doing on getting a good return on our shareholders' invested capital and different economic environments will present different challenges and opportunities to grow, improve those numbers that may not result in a percentage that you look at when the percentage went up. We look at when we bought CSK, for example, obviously return on invested capital went down and operating profits went down because they weren't as profitable as an entity as O'Reilly pre-CSK, but you see we were able to do with that long term. So we're going to make those decisions about how to generate better-operating profit dollar growth, return on invested capital and it may give you a different percentage.

Kate McShane

Just to go back to private label for a second. Can you talk about the penetration of private label between DIY and DIFM? And if you're seeing a more rapid adoption by DIFM for private label? And does your acquisition strategy include buying brands?

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

I'll take that one. First, I'll answer your last question first. Yes, brands are still very important to us. Brands are still very important to a lot of our DIFM customers. Some of the national brands have been around, like I said, WIX and Gates, for example, we've sold those brands since 1957, since we opened our doors, and they've been great partners for us. So we still value a lot of national brands. A lot of our DIFM customers demand national brands.

If you look back 12, 15 years ago, most of our proprietary brand sales probably skewed towards the DIY side of our business. Again, they were more entry-level in nature. Today, we've broadened that offering for proprietary brands to where they are both entry-level and premium brands, and our DIFM customers have accepted those. So there are a lot of instances where we have both offerings. We'll have a national brand and a proprietary brand that would be probably more good, better, more entry level. And then there are categories where we don't have a national brand at all. A national company like EastPenn batteries, for example, would make -- would be a supplier that would make some of our batteries. JCI would make some of our batteries as well. So that's an example where you got a national company, a national supplier that's manufacturing private label for us, proprietary brands, and we sell primarily proprietary brands in that category.

Thomas G. McFall - *O'Reilly Automotive, Inc. - Executive VP & CFO*

One thing I'd like to add, I guess we like to do things by committee at O'Reilly. And that's how the family ran it, and that's how we run now. And we have a product review board that has people from across the industry -- or across the organization from all the different disciplines and we talk about how we're going to manage our products and our brands.

So one of the things, I think, that we want to make sure we make a clear point on is when we look at rolling out a brand, we look at whether it's a national name brand or we're going to develop a house brand. We want to know what position that brand is going to be from the start, right? So when we look at national brands, we're going to roll them out as premium products. Is it the right one for us to sell? We have a lot of discussion before we change.

When we look at house brands, we say, "What are we going to position this brand to do?" So if we look at BrakeBest, for example. BrakeBest is positioned to be a good product where we deliver OE specs at the lowest possible price, and we're going to be focused on the DIY consumer there, okay? When we look at Murray, which is traditionally a national brand that we have acquired, when we rolled out those products, we said to ourselves, "This is going to be a product -- this is going to be a brand and an offering that is directed at the installer." So it started at a price point and a quality point that was a national name brand. So where you position the quality and price from the start of the brand is very important, all right? So we would have a difficult time taking BrakeBest and saying "Well, that's now our installer-grade product," where if you really looked at the installer-grade product. It's ThermoQuiet. So we have some different grades at BrakeBest, when we get into better, but it's how you position those brands, both price point and the quality of the product and then the service that's behind them.

Seth Mckain Basham - *Wedbush Securities Inc., Research Division - MD Of Equity Research*

Seth Basham with Wedbush. On the omnichannel initiatives, just a few follow-up questions there. In the past, you quantified some of the metrics like the growth rate online, the mix of sales that are coming online there to be picked up in the store, percentage of the country that's now available to get free next-day delivery. If you could provide an update on those, that would be helpful.

Brent G. Kirby - *O'Reilly Automotive, Inc. - SVP of Omnichannel*

Yes. So we don't really break down the percent of our business that's penetrated online from a retail perspective. What I can tell you, Seth, is we're continuing to see, as we've enabled some of the fulfillment on the back end and really taken a deeper look at our parcel availability and speed to market of getting that part to the customer that wants a parcel fulfillment, we continue to shorten those lead times down to percentages that are half the time at next-day rates, pretty much. But we're still looking at those numbers and looking at the ways that we can better open up our supply chain for that.

The thing that I would also tell you we're looking at, I mentioned the rate shopping software that we're putting in on the back end to make our parcel more efficient. So those are things that we're looking at. We want to make sure the consumer sees the value of what's available at next day ground. We also have expedited shipping that we're going to be offering as well.

So the other thing we also hear loud and clear from our customers is they want ship-to-store, and ship-to-store is something also that we're enabling from our DCs later this year. So we're looking at all of those different aspects of fulfillment through the digital channel. When you think about firstcallonline.com, we've talked a lot about a lot of that's coming again through our world-class supply chain, shotgun through a store, out to the shop and we give time-definite availability on that. We're working to do more of that on the retail side as well from a parcel and/or ship-to-store fulfillment. But we're not ready to talk about any percentages today other than to let you guys know that we're looking at that hard, and we're going to continue to make strides and improvement there.

Seth Mckain Basham - *Wedbush Securities Inc., Research Division - MD Of Equity Research*

Okay. Last related question there is just on promotional environment online. You guys have done testing, testing of different promotions. What have you learned that's most effective?

Brent G. Kirby - *O'Reilly Automotive, Inc. - SVP of Omnichannel*

Yes. So we continue to look at that, too, and that space in the automotive aftermarket. Again, we're surrounded in a space where a lot of our competitors run online-only offers. Therefore, we run online-only offers. But we continue to always rationalize those offers. And really, our position on that is we operate in a promotional environment. We're going to always assess that environment, and we're going to be competitive on the retail side. We're going to be competitive on the professional side. And we'll adjust our promotions as necessary to do that. But we're always looking at the environment.

Curtis Smyser Nagle - *BofA Merrill Lynch, Research Division - VP*

Curt Nagle, Bank of America. I guess, how should we think about the intensity of parts proliferation over the coming years relative to, say, the past 5 or 10 years? Do you think this gets better? Do you think it gets worse? And how does that position you competitively, presumably at an advantage, relative to your national and your smaller competitors?

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

So I don't -- obviously, I don't have a crystal ball there. But what I would tell you is the expectation is that from a parts proliferation and SKU standpoint, it would continue to grow. I mean, vehicles are getting more complex. I talk a lot about historical numbers, but a vehicle 10 years ago would have a fraction of the number of sensors that a new vehicle has. You're talking about crash avoidance, you're talking about (inaudible) and the system has to operate everything. 15 years ago, when you drove your vehicle and you pressed down the accelerator pedal, there was a cable that connected to the carburetor that controlled the fuel and air mixture going into the engine, for example. Today, it doesn't do this. Today, it's an electronic sensor on the pedal that sends an electronic signal to the fuel injection system to do that. So these vehicles are getting, one, they're more efficient by doing those things, but it also adds a tremendous number of sensors and electronic components, and I would expect that to continue.

As far as our competitors, as Brad said, we respect our competitors a great deal. All our competitors are facing the same challenges. And one of the advantages that we have is, when I spoke to our inventory performance strategy across 27 soon to be 28 DCs, being able to get those parts to market very quickly. But I know that our national competitors will be trying to do the same things.

Brad W. Beckham - *O'Reilly Automotive, Inc. - EVP of Store Operations & Sales*

Greg, the other thing I would say about that is that with the parts proliferation, is that cars stay on the road longer. You're stocking those parts longer in the supply chain. And one of the things that, I think, is lost at times maybe for sure from The Street side of things is that we're the only one of our competitors that places these facilities that have 150,000, 160,000, 170,000 SKUs. We spend quite a bit of money and capital putting in these DCs that are in the metro markets, where a lot of our competition historically has put their distribution in locations that are in rural markets where they get free land and tax breaks and a lot of those things. And while NAPA and the 2-step type independent competitors will have their warehouse with maybe 100,000 SKUs or whatever the case may be in the metro market, I think sometimes with us and our public competitors, there's a little confusion about the different levels of hubs and the fact that we really in these large metro markets have always had that advantage. And we have a lot of things in place to continue to make sure that we have that part closest to the customer. Same goes for any e-tailers that are trying to get in the space, where we have just decades of science. And the way that we built these inventories over the years not only having the part closest to the customer on the professional side but as last mile and retail changes, we continue to do things to have that part close from that aspect too. So that's going to be really important moving forward.

Daniel Robert Imbro - *Stephens Inc., Research Division - Research Analyst*

Dan Imbro from Stephens. I had a follow-up on competition and a second one for Tom. Just on the competitive landscape, obviously, your peers have improved both on DIY and DIFM. Are we seeing on a field level any change to your entitlement or market share yet? Or are you all still taking share from some of those smaller guys? And how much longer can that continue to where you all can grow without cannibalizing each other?

Jeff M. Shaw - *O'Reilly Automotive, Inc. - Co-President & COO*

Yes. I'll take that one. Look, there is -- it's a market-by-market case. I mean every market is different. What we experience in Denver is different from what we experience in Houston because of market maturity. As Brad talked about earlier, I mean on the DIFM side, it's a highly fragmented market. I mean the traditional players still control over 50% of the market. Now as Brad said, I mean those, the ones that are left are better operators. They're stronger. They're doing a lot of things right. But our focus every day is to be the best operator in whatever market we're in. We talk about macro and big picture, but I mean if you talk to our ISS or our store managers or our district managers, all that matters to them is that 3-mile radius around their store. And their goal is to be the best operator, the best parts store in that market to the professional customers and the DIY customers. And that's what we're focused on every day is out there providing our best possible service one customer at a time, both retail and professional.

Daniel Robert Imbro - *Stephens Inc., Research Division - Research Analyst*

Tom, just to follow-up earlier on your DIY and inflation comment. You talked about on the call, this is what you see in normal cycles. But last time we saw this grip a much higher level of actual retail inflation. So has something changed on the DIY side where that consumer is more sensitive than they used to be where 2% inflation is too much now?

Thomas G. McFall - *O'Reilly Automotive, Inc. - Executive VP & CFO*

Well, what we talked about was the cycle was an answer to a question from someone here, of when is O'Reilly -- is O'Reilly ever going to comp 6% again? That was the question. Thanks, yes. And the answer to the question was the professional side of our business tends to be more consistent, and the DIY side of the business is more cyclical. And great years for our industry are really good DIY years. Softer years in our industry are softer DIY years. So there's a lot of combination of miles driven, employment growth and wages, gas prices, weather that drive a lot of -- not a lot, volatility in the DIY side of the business because the difference between 1 and 3 is kind of on average, or 0 to 5 at some point isn't a huge variation. But those things kind of line up to drive more cyclical natures to the DIY side of the business. So that was what the question was answering. That's what the answer was to the question.

Charles J. Wittmann - *Sterling Capital Management LLC - Executive Director & Portfolio Manager*

Chip Wittmann from Sterling Capital. I'd just like to ask a strategic question, getting back to the pure-play online competitors. And I just wanted to know, if you looked out 3 to 5 years, how do you see that playing out?

Brent G. Kirby - *O'Reilly Automotive, Inc. - SVP of Omnichannel*

I'll start. These guys may want to jump in. I think there's going be online pure-play competitors in the space. Some are better than others. I think some will be here 3 to 5 years from now. I think some won't. I think they're going to struggle to offer what we have the ability to offer when you think about our local availability, the parts knowledge and the footprint that we have that serves us domestically. I think they're going to try to compete on price, but I think the customer's going to have a need that goes beyond price in many cases. As Greg said earlier, when Michael asked the question, we're very competitive on the good, better in terms of -- with our proprietary brands to compete there. And as we continue to get better, especially on the B2B side -- or I'm sorry, on the B2C side with our omnichannel offering and engaging customers as they engage digitally before they come to a store, we feel like we're in a very good position to compete with any and all competitors, both online pure plays as well as brick-and-mortar competitors.

Brad W. Beckham - *O'Reilly Automotive, Inc. - EVP of Store Operations & Sales*

A couple things that I would add to that just from a sheer operations perspective is one thing I think is lost at times as well is in '96, the year I started, one of the first persons -- leaders I met from Springfield, when we only had 200 stores was coming to my hometown where I had worked in a store to install an old bubble terminal in one of our shops. Us and GPC, being NAPA, we -- as far as the larger companies back then, we really led the charge on what B2B looked like in the automotive aftermarket. And we built our professional business by being in front of that and figuring out what it is our shops and our store teams needed to be more productive. And I would just say that, again, from an operator's perspective, competition is great. The years of my career that we were 5% and 6% comps, we don't learn near as much as we do when things are a little tough, whatever the case may be. And my job, no matter what's going on, is to make sure that we're continuing to get better. We're learning from the leadership standpoint, from an omni standpoint. I would just continue to say that like we've lead with B2B business with first call online and partnering with our shops. Some of that may put pressure on some of the weaker brick-and-mortar competitors as time goes on, but it's not going to be one of us. I mean we know where our focus needs to be around customer experience and bringing -- leading the charge from an omni standpoint and making sure that we're having that seamless transaction and really taking all the things that we built our company on. Professional parts people trusted it by, all the great brands, all the things that we talk, doing that seamless across all channels. And so my opinion is, and I obviously sound biased, is that we're positioned as good as anybody to continue to be a better and better omni supplier.

Carolina Jolly

So I have 2. In previous years or the last couple of years, it sounded as if you had shown more interest or interest in entering international markets. I know there was a quick comment on it today. Can you just talk about any thoughts around that? And any changes you might have -- be thinking at this point, given your research?

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

I'll take that. Really, nothing has changed. We started talking about international 3 or 4 years ago. International markets are much more difficult to enter than new markets within the U.S. There's a -- we've learned a lot. We've talked about the markets that we were more likely to enter first, being Mexico, Canada, Caribbean Islands as opposed to more in Europe or Asia first. But what I would tell you is we are looking strategically at all of those markets. We're looking at whether we want to enter those markets greenfield or through strategic acquisitions. And we're learning. We don't have anything to announce to you today, but we continue to learn, and we continue to push. And our expectation is to be an international company in the not-too-distant future.

Carolina Jolly

And then the second question just regarding the retail side of the business. I'm a big fan of chat option. Have you seen -- do you see the chat option as a substitute for going into the store and asking your very experienced staff a question?

Brent G. Kirby - *O'Reilly Automotive, Inc. - SVP of Omnichannel*

Yes. So what we've seen so for with chat is that customers in this space need professional parts people and their knowledge. And what's been great about it is some of those chats have ended up in the customer taking a trip to the store. Some of those chats have ended in the customer transacting with us online for parcel fulfillment. So I would tell you, the chat has opened up the window to the brand and given customers that virtual pipeline into our professional parts people and their parts knowledge. So it's helping them no matter which channel they choose to transact in. So -- and the more we've enabled it, the more customers engaged with it, which is really encouraging to us because we know there's a market for it, and we're working to do more with that opportunity.

Brad W. Beckham - *O'Reilly Automotive, Inc. - EVP of Store Operations & Sales*

[Just a comment.] What I would say to that is when I think about a DIY customer or someone that is going to shop multi-channels, there's still so much of that need that just can't happen unless they're in the store, obviously, the timing being right them for all our in-store services. I hit a lot of our stores these days and I can't really visit a store that we're not out in the parking lot, truly helping somebody figure out what they have going on, whether it be a fuse, whether it be testing a battery, whether it be helping them test an alternator, whether it be any -- really, a lot of our in-store services. Another big in-store service that we provide is basically free rental tools, and those aren't always just hand tools. They're specialty tools. If somebody is doing a brake job, and they don't have the right socket or whatever the case may be, a lot of those in-store services play into that, too. And I would actually look at it, what you asked, the opposite. When I look across our 5,300 stores and almost 70,000 team members that are in those locations, the opportunity for chat for us is actually the opposite, meaning crowdsourcing opportunities and opportunities to take all these professional parts people that we have across the country and really help them from a lot of different angles across all channels. We may have somebody in the store that is in North Carolina that is -- loves VWs and has a lot of old VWs and really knows them inside and out. And we have an opportunity to help that customer that, whether it be online, whether it be our customer satisfaction department, chatting with somebody or whatever the case may be. Operationally, we're working with Brent and his team with a lot of initiatives that we're talking about, to make sure we're thinking about that globally and how that impacts the stores.

Michael Lasser - *UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines*

Michael Lasser, UBS. Tom, as you -- we still have 10 minutes for the Q&A session. As you plan your business for 2020, are you still expecting SG&A per store to grow in the 2.5% range? And then a follow-up. We're all so accustomed to see O'Reilly vastly outperform its competitors in terms of same-store sales growth and other financial metrics. In the last few years, that gap has narrowed. Is that because your competitors -- your big competitors have gotten better? Or is it more because the industry has gotten more consolidated and so there's just less share for O'Reilly to take in some of those fragmented areas?

Thomas G. McFall - *O'Reilly Automotive, Inc. - Executive VP & CFO*

So we're not going to give 2020 guidance. What I would tell you is that it doesn't look like wage growth is going to cool off anytime soon. And outside of the merchants (inaudible) that we pay (inaudible) to the extent that we can just do it (inaudible) this kind of elevated wage growth, we'll see elevated SG&A. I'll let these gentleman answer on question on the comp gap, some of the performance metrics and what we're seeing in the market. But also there's a lot of things that go into comps. There's the timing. There's the regional. There's the 2-year stack. There's the 3-year stack. The best way to put up a good comp in a quarter to put up a really bad comp the quarter before -- the previous year. But as far as performance vis-a-vis our competitor, I'll let these gentlemen answer.

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

Yes. I'd just say a couple of things. You, Tom, hit on most of it. You got to look at the timing of when we're announcing. That's a big part. Especially, as much seasonality as we've had, as much weather as we've had here the first part of this year. I mean we've had weeks that were very, very much stronger than the prior 2 weeks, for example, and the timing of when we all release our results is impacted by those weather patterns and the timing of those releases. And Tom's other point, which I can't help but reiterate is, you've obviously got to look beyond 1 year. Look at what we're comparing against versus what some of our competitors are comparing against from a stack standpoint.

Jeff M. Shaw - *O'Reilly Automotive, Inc. - Co-President & COO*

The only thing I would add is that, as Brad said, we obviously focus on all our competitors. We have the utmost respect for all our competitors in every market. There's a lot of talk about our publicly traded peers that, there again, there's a lot of good traditional operators in many of these bigger metro, even semi-metro markets that we compete against. And no doubt, we'd be kidding ourselves if we didn't think that everybody was getting tougher to survive. You've got to get better. If you don't get better, get sharper, execute better, you're going to go away. So I mean, everybody is focused on being a better operator. And we focus on it one customer and one market at a time and focus on being the best operator in each one of those markets. So...

Michael David Montani - *ISI Group Inc., Research Division - Former Research Analyst*

It's Mike Montani from Evercore. Just wanted to follow up on the store component for a moment. Is there a certainly a number of stores where you feel there would be saturation? Is that more like 6,000 or 7,000 stores? And is 200 stores per year domestically still the right way to think about things for the next few years?

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

Really, our guidance hasn't changed. I'll add there, Mike, we're saying, looking at what our competitors are looking at the markets, looking out over the next 10 years, we still think somewhere between 6,000, 6,500 stores is a good target number of U.S. domestic stores. And then of course, outside the U.S. borders, there's opportunities as well.

As far as -- like Tom says, we're not guiding to store count for 2020 today. But I would expect to see fairly consistent store growth plans, exclusive of acquisition. Like in the past, if we have a major acquisition, we may back that number off. But other than that, I would expect similar growth.

Brad W. Beckham - *O'Reilly Automotive, Inc. - EVP of Store Operations & Sales*

The other thing that I would say to that is that the gap in footprint that we have between, basically, Northern Virginia and up to the Boston market where we kind of skipped over some markets because of the acquisition of VIP's parts business and then Bond and installing the distribution center in Boston that you've been to. Generally speaking, when you look at that population and you look at that vehicle count, me as an operator, I mean that that's almost 1/3 of the population in the United States. And so we have a tremendous opportunity in that footprint from what we know from a share standpoint and our opportunities there, what we've learned in New England. And we have a great leadership team that kind of comes in from the Mid-Atlantic and down from New England that are ready to tackle those markets. Obviously, that all comes chicken or the egg with distribution and all those plans. That gap in footprint has tremendous opportunities on both sides of the business. It has more opportunities with national and regional accounts. We've always sometimes made the decision to not be as aggressive after some of the national accounts because we really can't commit to servicing them by store in a way that some of our competitors, NAPA, AutoZone, Advance can do so being -- having such density in that part of the country. So that last part we have is really an important part for us.

Simeon Ari Gutman - *Morgan Stanley, Research Division - Executive Director*

Okay. As a follow-up on market share and the current environment. Can you tell us what your market share is in some of your most mature markets outside of the home market? And in explaining this year's lower end of the range comp, is there any rhyme or reason to some markets where you have the most market share growing slower? Or has it been just a weather story and proportional to your -- across the country that way?

Jeff M. Shaw - *O'Reilly Automotive, Inc. - Co-President & COO*

I'll start with that, Simeon. I mean from what we've seen, looking at our regional -- district regional divisional performance, so far this year, as we've talked about on the calls, I mean, it really is a weather story. I mean it's just been where we've had the cold and snowy weather or the rainy weather, I mean we just haven't performed as well as we would have, especially on the DIY side of the business.

As far as the market share, I mean obviously, in the Midwest, we've been the longest. We probably have markets where we truly are a dominant supplier. We own the majority of that market. Markets where we're new, West Coast, Florida, the Northeast, we don't have as much share. But we see the opportunity to continue to grow that share, and you grow it one customer at a time. And we always evaluate business customers to understand if it's going to be good business for both of us. Not just good business for them, meaning profitability. I mean some customers, it's all about the price and they want the best price, the biggest rebate. And sometimes that just doesn't work for us to want to be a first call with that customer, and we're much happier being a strong second call and filling in and win that business over time with just good old solid service and relationships.

Brad W. Beckham - *O'Reilly Automotive, Inc. - EVP of Store Operations & Sales*

What else I'd say, Simeon, when you look at our most mature markets, my history with the company, starting out in Oklahoma and then going to Texas with Hi/LO and then going out East where I spent the majority of my career based out of Atlanta and being involved with our expansion out East and other acquisitions, me coming back to the old part of the company. I think most everybody in the room, while I can't speak directly to it, you'd be surprised, even in our most mature markets and how much share we still have out there on really both sides of the business. I mean Springfield, Missouri, where we've been since '57, we have 2 tough two-steppers right there in town that are tough competitors. And AutoZone is there, Advance isn't. But AutoZone came in that market and does a great job and they're a formidable competitor. In the oldest part of the company specifically, where we may not have as much DIFM opportunity, we're still -- we were behind 'Zone specifically. We have a ton of respect for the retailer that they are and the job they do. A lot of the markets in the old part of the company, where we have some stores that are 20, 30 years old. And while we're prideful and feel like we have a great, knowledgeable team, maybe we haven't done the best job with image and appearance. Even though a lot of the hardcore DIY customers may know our team and shop us, we may not be quite as inviting and be open to making sure that our image and appearance is truly grand-opening ready. And really, I can't -- when Jeff talked about the markets where we truly dominate, I mean I can literally count on one hand, even in our oldest division, the markets where we're truly the only parts store town. I mean, most of our mature markets, I mean, there's an AutoZone, there's Advance and/or Carquest. There's 1 or 2 independents, as you know. And so we still have a tremendous opportunity for share even in the oldest part of the company. And that just goes up in and around all the things on the East and West Coast.

Mark Merz - *O'Reilly Automotive, Inc. - VP of IR, Financial Reporting and Planning*

Okay. Well, that concludes the time that we've had for our Q&A and our prepared comments. I'd like to thank everyone who dialed in and listening on the webcast for joining us today. If you have any follow-up questions, again, feel free to reach out to me, Mark Merz, or Eric Bird and we'll be more than happy to get those answered. Thank you, everyone, for coming today. If everyone here in the room could just stay seated for just one minute and as we end the webcast.
