THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

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

EVENT DATE/TIME: NOVEMBER 05, 2019 / 9:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

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

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

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

PRESENTATION

Unidentified Analyst

So last but not least, certainly, of the large -- of the large aftermarket distributors, we have O'Reilly Automotive, 1 of the top 4 -- top largest distributors in the U.S. Just want to say how lucky we are to hear from the CEOs and CFOs of these distributors and O'Reilly today.

So thank you for being here. O'Reilly has over 5,400 stores across the U.S. and just entered Mexico, which I'm sure we'll hear about. 77 million shares at $4.37 for an equity market cap of $34 billion. And joining us from O'Reilly today is CFO, Tom McFall; VP of Finance, Jeremy Fletcher.

Well, and...

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

We made Mark Merz play at the...

Unidentified Analyst

Mark Merz.

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

Mark Merz, our VP of Investor Relations.

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

We should keep it up for the whole thing.

Unidentified Analyst

Same thing.

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

No, that's not.

Unidentified Analyst

All right. Thank you, guys, so much for being here.

Just to start, let's kind of do an overview of the business, kind of your overall store base and who are your customers and how do you win that customer?

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

Okay. I'll start. Mark, you can fill in. So approximately mid-40% of our business is professional, continues to change it, and the remainder is do-it-yourself. Our business is comprised of providing auto parts to people who fix their cars. It's a very stable business based on the number of miles driven. When you look at our business trends, busiest time of the year is February/March through October, that's when our DIY customers can get out and work on their cars. It's hard to get them to work on their cars unless they have to during the December month. Professional customer much more consistent because they're working inside on -- your vehicle in their shop.

So when we look at the business trends here as of late, and then we look longer -- maybe longer term would be that the DIY side of our business is the more cyclical side of our business. Those customers are out there repairing their vehicles because they can't afford to have someone repair them for them. So you -- that lower-end demographic tends to be more challenged in tougher economic times. Right now, we're seeing a little bit of pressure because of rising prices.

Professional customers, their end consumer is going to the shop to have their vehicle fixed tend to be a higher demographic, less impacted. So when we look over the cycles of our industry, really good years or good DIY years, softer years in our industry are softer DIY years with a pretty consistent professional business.

When we look -- and I know our competitors were here earlier today. We look at the market share on the DIY side, much more consolidated than the big players and the mass merchants. On the professional side, much more fragmented business with a lot of historic WBs that brought really good businesses, providing parts to professional installers because of speed of delivery, quality people, great relationships, tend to be family businesses, but they still control a huge portion of the business. And that's why you see us and our other public competitors able to grow our professional side faster because it's more fragmented.

QUESTIONS AND ANSWERS

Unidentified Analyst

Great. And then just can you talk about your exposure to those 2 different segments that you brought up and then also, I guess, how you might have to serve them slightly differently?

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

I'm sorry, how we might?

Unidentified Analyst

Serve them, sorry.

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

Serve them, differently. Okay. So the exact split is -- what's the split, Mark?

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

We are 43-57, 43% commercial.

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

Okay. So commercial customer would be someone who is -- that's their job. They install parts. They fix cars for an end consumer. The opportunity there, what they're looking for is, they don't know what vehicles are going to come in during that day, but once they get the vehicle up on the lift, take the tires off, determine what that vehicle needs to be repaired, their main goal is to get the parts to do that job as soon as possible.

When you look at the professional installer, their biggest cost is not the parts that go on the car, it's the technician's time. And technicians are paid by the job. And the better the shop, the better the technicians. Or maybe it's the better shops have the better technicians. So they're going to get paid $400 to do a certain job is the labor on it. The sooner they get the parts, sooner they can get it done, the more money the mechanic makes. So getting the right parts quickly to the shops helps them make more money, helps them turn their bays, collect their money, pay their technicians better. So that's a big focus of what we do.

If you look and you wanted to go up and start a repair shop, today, we could sell you all the equipment and the software that you would need to open the shop, and we offer that support. We offer a number of training programs and the things that we do to help the shops be successful, wide variety of shops from single-bay gas station shops to huge chains that run 1,000 stores and everything in between.

The thing that, I guess, I would communicate to you is, just like on our side of the business, on the professional side of the business, different shops compete in different ways. There's going to be the shop out there that the way they get their customers is they're the cheapest in town. That's not going to be a great match for us as a supplier.

We want to focus on shops that are value add, that drive their business by fixing harder repairs, have great technicians so that the things that we do and the costs that we incur to make sure we have great service is really what's driving their business. And ultimately, those shops end up making more money because somebody can always be cheaper.

But we work hard with our shops to help them be successful. A lot of the independent shops, they're great mechanics, and it's a mechanic that came from a dealership that started his own shop. They tend to be great mechanics but not great businesspeople, and that's our opportunity to help them with technology, training, extend credit, provide great parts to help them make money.

On the DIY side of the business, that customer again is doing the repair because they can't afford to take it to a shop. Now there are enthusiasts out there that just like to work on cars, but that's a small segment of the population. People are doing it because they've got to get their car running. I've got one car. I got it. That's my way I get to work, got to get it fixed today. So what we do there is -- and we're going to have competitive prices, but we're going to do all kinds of services to help them. We're going to do diagnostic to help them figure out what's wrong with the vehicle, either on car in the store, depending on what the part is. We'll loan them tools to help them do the repair.

But that's an opportunity for us to provide that value. And what you see on the DIY customers, they average shop 3 or 4 times a year. It's not like a grocery store. You come in all the time. So -- and what you'll see if you stand in one of our stores is they're going to come in and look for a certain person, quite often. Because Jeremy has helped me make that repair in the past, help me diagnose the issue, made sure if I needed -- got all the parts I needed, made sure if I needed special tools that they were made available. So that's kind of the general difference between the two.

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

The thing that I would add to that is as distinct as those sides of the businesses are, the real advantage, I think, that we have and the thing that we've been very, very successful at over the course of time is that there are a lot of similarities in the things that create value for customers on both sides of the business. And I think you heard those types of things in the response that Tom had. The biggest one associated with that is having that professional parts person there that understands the job and what the needs are, understands those jobs, the applications, the fixes that are having to happen and understands the inventory that's required to get that and can access that inventory and get it to our customers in an effective way. That is a guided process.

For our professional shops, it's making sure that you can get the right part out to them quickly. But you need somebody on the other end of that call, when a professional shop calls in to -- that understands the shop knows the parts, can be efficient, quicken that net competency is a big key to providing value to our shops, and you get the same benefit from having that very knowledgeable and well-trained professional parts person when a DIY customer walks in and has to have that help and support at the counter. And I think one of the key store successes historically has been that you can leverage that knowledge in both sides of the business and be very successful.

Unidentified Analyst

Great. So now that we kind of understand the business model, from 2014 to 2018, O'Reilly generated high double-digit annual earnings growth. Can you talk about the financial model that drives that growth and potentially any specific case that might affect that going forward?

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

Sure. So over the last -- flashback to 2017 and the prior 7, 8 years, our industry was quite different than what you normally see in retail. So normally, you help support your growing costs with some top-line inflation in same SKU sales to make your operating profits go up. Over 6- or 7- or 8-year period, with the bigger chains getting bigger, gaining scale and then also the opportunity to source products in lower-cost countries, we were able to push down our acquisition costs significantly. So we didn't have -- so when acquisition costs are going down, nobody was jumping up and down to raise prices.

So what you saw was same-SKU inflation was not a tailwind in sales. But because we were buying better, we were generating comp gross margin dollars, which are key to any retailer, by reducing our acquisition cost, and you saw gross margins go up a lot. So that created big opportunities to improve our operating profit percentage.

Now we flash-forward to a more inflationary period, and we've also done a very good job as an industry of reducing costs probably about as low as they can go, although there's always opportunities. So now that we're seeing inflationary pressures both health care, wages, tariffs, those prices are getting pushed through into both Professional and DIY costs. So we're seeing same-SKU inflation, maintaining our gross margin percentage and driving comp gross margin dollars that way. But it's not as impactful on the percent of sales.

Unidentified Analyst

And then lastly on earnings growth on -- of some share repurchases as well [again].

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

Yes. So we really started our buyback program in 2011, the first point at which we went to an unsecured debt structuring. It made some sense for us to look at how, on a net basis, we were financing the business. Ultimately, we have the benefit of being in a business that generates a significant amount of cash every year. And our priorities have been and continue to be to reinvest that back in the business and earn high rates of return for our shareholders. And so that the hierarchy there, and you've heard it from us before, but it's the same we're going to invest back in our existing stores, making sure that we've got good stores and right inventory to continue to take care of our customers, execute our model and grow comps.

And then beyond that, we look at greenfield, which continues to be very successful for us and acquisitions that we can add into that. Ultimately, with the incremental cash that we've generated, we felt that it had been, and we've been successful at returning that to shareholders through our buyback program, something that, from our perspective, a consistency of being able to do it over the course of time is what I think makes it valuable.

We don't significantly fluctuate it based upon how the business going, and it continues to be something that we think enhances the value of our shareholders as we generate more cash, then we find opportunities to invest in our business.

Unidentified Analyst

Okay.

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

And when we look historically, we've created a tremendous amount of value for our shareholders by opening stores and acquiring chains and consolidating the market. That said, we don't want to open more stores when we can open great stores. And we don't want to do any acquisitions that aren't good deals for us. So to the extent that we're unable to deploy the cash we generate through those 2 things and maintain our existing store base with investments that have the right ROI, we'll continue to buy back shares.

Unidentified Analyst

And then since you briefly touched on it, the tariff. Can you just talk about the time line in which they were implemented, when they kind of hit your P&L? And then this quarter, you -- I believe you talked about 2% to 3% inflation? And can you discuss that?

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

Yes. So we started to see the impact of tariffs really in our fourth quarter of last year of 2018. So in that, really, is the second round that it hit us more significantly. We saw those input costs and our suppliers pass those along to us. And that was a process that, over the course of several months, we worked with our supplier base and negotiated the extent to which we would see this come through because, whatever the top-line number from the tariff that we saw, that was a negotiation process because understanding the price that we paid our -- our suppliers includes items that include their profit and the cost they get to get -- that come to market. They didn't change with the tariffs. So worked hard to negotiate those costs in similar fashion of what we think we saw across the industry. And as we saw those increases come through, we took that to the Street and passed some of the prices to our customers.

Ultimately, we are in a space where our customers' demand is largely nondiscretionary. They need repairs in order to keep their vehicles on the road. And our ability to pass that on, it really reflects that the industry has been pretty rational. So we really started to see it last year, and then as we've seen incremental tariffs come through with the last round, really kind of recurring right at the beginning of our third quarter, the impact of that. A little bit more condensed this time through since it had been the -- we had worked through that process with our supplier base. So we saw the time line in which those changes happen a little bit quicker, but it did result in us kind of hitting a little bit of a high watermark from a same-SKU pricing standpoint as we had the full effect of all of the cumulative amount of tariffs that have come in, in our third quarter, and we'll start to compare against what we saw in the fourth quarter last year in this coming quarter.

Unidentified Analyst

Great. And then, I mean, you had gross margin profit expansion of 35 basis points. And I think a lot of this was in relation to that inflation -- can -- and you -- can you outlay the next -- the benefit that you would potentially estimate over the next 4 quarters?

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

Yes. So to talk a little bit about that. And we've -- I've talked publicly about it is we issued our last quarter results. We record our inventory on a LIFO basis. But because, historically, we've seen a lot of decreases within our acquisitions. Tom talked about that earlier. We're just in a position where we were in a -- would have been in a LIFO debit position and are effectively not going to write our inventory up past that LIFO cost.

So the net effect of that is, as we've seen those cost increases and we've passed those along, we get a benefit within our gross margin of the sell-through of all that existing running inventory that was at the lower cost previous to the tariff. So that was a positive to our gross margin this quarter and will be a positive to fourth quarter as well. We'll see some of that as we move into 2020, and it'll diminish quarter-by-quarter as we roll through that inventory that we've had on hand.

Unidentified Analyst

Great. So some good tailwinds there. But one thing I think we have talked about at the conference today, and something we're trying to understand is we've seen prices increase, not same-SKU inflation, but due to complexity in technology for the end customer, and now we're seeing additional price on the tariff. Do you see any pressure, especially on the do-it-yourself customer as they continue to face some of these higher costs?

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

We're going to read the transcripts later and see what everybody else answered, but we've been pretty consistent when we look at our cap -- we analyze the heck out of our sales in 15 different ways. And we continue to believe. I think we've been pretty clear in communicating that the low-end DIY consumer continues to be pressured, especially on items that they can stretch intervals on or defer. Those have been softer for us and have shown up in negative customer counts. And a lot of those cases, like the #1 traffic driver is changing your oil. You get a lot of volume, not a high ring. But we've seen a lot of pressure there since 2018 when we started to see some commodity pressures. So those items, items that don't necessarily have to be done, we're seeing deferral from the low-end DIY consumer.

Although wages are going up for that low, very low-end DIY consumer, they continue to be under pressure. And that's where we feel like we had seen DIY pressure counts -- customer transaction count pressure. We've been pretty consistent communicating that. I think others have a slightly different opinion. But back to my comment, and our years that are really, really good years, are really, really good DIY years. And then softer years -- softer DIY based on economy, job growth on a year-over-year basis, miles driven. And we feel like there's some pressure there that's made last year and this year okay DIY years.

Unidentified Analyst

Perfect. And so that's talking maybe potentially about deferred maintenance, but there's also potential trade down? Do you get a similar profit margin if the customer does go along that line of good, better, best?

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

So the answer to that is gross margin percentage is almost always best on a good product on a private-label product. But it doesn't have the gross margin dollars that a best product would have a branded product. So that's how we're trying to sell up the spectrum, and the percentages are nice, but the dollars are really nice.

Unidentified Analyst

Great. So we talked about the do-it-yourself market. I want to also talk about the do-it-for-me, the commercial. Because I do think that the industry misconception might be that, that it's a very consolidated market that the Big 4 have a large percentage of share, but I don't think that's necessarily the case. Can you just talk about your competition within the commercial side and where you do take share and where you do see that growth?

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

So over 50% of the professional business is done by WBs, regional chains, mom-and-pops because it's a relationship business. In most cases, these businesses have been family owned for a long time, so their inventory is already paid for, and they're run by good competitors. And if you go to any major metro market, there will be at least, on some sites, multiple WBs that -- from an investor standpoint, you wouldn't know about because they're not publicly traded. They don't have stores on Main Street. They're working out of warehouses off Main Street, [hot chat] and delivery.

We could go city by city. And if we were in Atlanta, and we ask a regional manager who's your biggest competitor on the professional side, you'd say, hands down, it's White Brothers. White Brothers has 50 locations.

If we were in Dallas or Houston, they'd say XL auto parts. The list goes on and on. And our opportunity there is continue to run great stores, have great availability. When you look at those, they tend to be one big warehouse and many satellite locations. What's our opportunity to deliver faster? We have consolidated a lot of those businesses over time in new areas. In existing areas, it's hard to make the numbers work to go buy an existing business where you already have assets in place. But those types of local competitors are going to be the toughest nuts to crack in our markets.

Unidentified Analyst

In talking about servicing those companies, you've talked about, I think, 3 new distribution centers. Can you just talk about the reason behind those investments and what you're looking at there?

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

Yes. So we have announced a warehouse, 3 new distribution centers. Our model, really, since the early days of our company has been to make sure that we can serve the professional side of the business with the inventory availability that Tom talked about earlier by ensuring their stores have 5-night-a-week access to the significant inventories that are in our distribution centers. And then we supplement that with inventory within a hub store network and, obviously, with the SKUs that are at the store.

As we have grown over the course of time, from a geographic standpoint, we've grown contiguous to our existing markets. So as we move into a new market region, we'll stretch the existing boundaries of our distribution network, and then we will -- we'll go and we'll add distribution capacity that they can open with some amount of stores that they can service, and that then allows us to continue to grow and be effective within those markets.

And that's what you see with the new facility we'll be opening in Twinsburg, Ohio, coming up here in the fourth -- yes, fourth quarter we'll get it -- of this year, we'll get it open.

In addition to that, as we've continued to grow and capture share within our existing market. We've got different opportunities, different points in time to enhance our distribution capacity to allow us to grow further on existing footprint and to continue to provide great service by strategically locating those DCs. So we've got a project underway to relocate our existing Nashville DC to a newer, larger facility, helps to consolidate some of the service within those markets. In addition to that, we're adding a distribution center in the Memphis area to against backfill to where our existing store base is but allows us capacity to continue to serve our customers with greater availability there and gives us opportunity to grow as we add stores in existing markets.

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

One thing I would add to that is the #1 buying decision in our business is, do you have the part? And if I need 6 parts, do you have all 6 parts? So DIY customers, they can go across the street to Zone or Advance. They will shop around until they find those parts. Professionals, I mean, they got to call us, right. I'm going to start it with my preferred supplier. If they don't have it, I'm going to work my way down the call list. So having the parts is critical to working your way up the call list and stay in the call list. Having the parts is critical because the DIY consumer prices are going to be similar across -- that are different opportunities, so they want the part. They got to get their car fixed.

Over the last 10 years, what we've seen are much better engineered manufactured vehicles that stay maybe 15 years total really it started where vehicles stay on the road longer. What we've also seen is a big push by the OEs to make cars lighter and more fuel-efficient to hit CAFE standards. So when you combine those 2 items where cars are staying on the road longer and parts are much more specific to the models, and there's more foreign-made plates, all of a sudden, you've got a huge amount of parts. And being able to manage those parts and being first in the customers' hands with those parts is critical to long-term success.

So our regional distribution network that we started to build to supply the professional is even more important now based on that SKU proliferation. And what we're seeing is that, unfortunately, if you looked 15 years ago, every Ford that was manufactured, car, truck, didn't matter, 80% of them had the same oil filter because you used to look in. There's all that room in there, right? Now you look in it's covered, and you take cover off, and it's all packed in there. And that oil filter's got to fit exactly right. So you see pressure on turns of inventory, but you got to have more to be first to market. It also means we need more square foot of space per store than we used to. So for all of those reasons, we are adding to our distribution network.

(inaudible)

Unidentified Analyst

When you look at Amazon's location of distribution centers and they're picking, packing, sorting and just getting it out, do you learn anything? Or do they learn from you or both? And then, obviously, delivery by drone, where are you in thinking about that?

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

So our industry is really -- we talk about retail but really a warehouse distributor. And because the OEs 50, 60 years ago, didn't have enough bays to service the fleet, that's what birthed the automotive aftermarket and repair shops. Because -- since the beginning, the #1 buying consideration is, do you have the parts? There's been a tremendous amount of parts in every town, city and burg in the U.S. and a really robust distribution network in aggregate for the industry.

So those are really the drivers of who's making the purchase when. I think that we have -- and our competitors have augmented that defense by having private-label products that are priced significantly below branded products that you would see on a discount online. But that's also driven us to have super-low turns. We turn our inventory 1.4x a year as an industry because as -- if I'm a supplier, and I'm competing against Jeremy, I'm going to beat Jeremy by having more of my product out there. And because availability is the #1 thing, and then everybody is going to buy my product because they can't get Jeremy's and then I'm going to snowball Jeremy. So they're willing to help fund that inventory out there because it's so key to building your business.

And when you look at Amazon's business, you -- that immediacy of need is a problem, that low turns. They have a lot of forward distribution. Do they want to stock 170,000 auto parts that turned 1.4x? That doesn't seem to fit in their model. They have some of the higher-turning items at lower prices, for sure. Those aren't really our bread and butter. You've been able to buy those at Walmart for cheaper, higher turn items for forever. We don't, as an industry, compete with Walmart's prices because it's just not our customer base.

On the drones and delivery to shops. One, there have -- a lot of stuff we sell is heavy. But there's a tremendous amount of interaction that happens when our driver goes out to a professional shop. I'm going to deliver the parts. They want them in a half hour to 45 minutes, and I'm going to pick up the parts I delivered earlier today or yesterday that weren't the right parts, or there's a lot of items that we sell that have a core that gets remanufactured or gets repurposed that we're going to pick up, and they're going to get credit on their statement. And you better believe they want their credit the same day, right?

We also -- because the shops aren't great business. People weren't carrying their receivables, right? So it's helping fund their business. So all of those things are tremendously value-add. And sometimes, we'll talk about and get questions about average ticket. And how's your average ticket doing? That is one item we really don't focus on. Because if you got a great shop customer, and they ordered $150, $200 worth of parts to do a brake job and the technician broke off a $1.50 caliper pin while he was doing it, you better believe we're going to run that $1.50 caliper pin out there. So they're trying to get their business running and get things off the shop, and there's tremendous amount of interaction between our in-store service specialists, our drivers and the professionals at the shop.

Unidentified Analyst

A quick one, like fast answer, what percentage of your do-it-for-me is imported outside -- made outside the United States. What percentage of do-it-yourself is imported or not made in the U.S.?

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

No more filibustering long questions?

Unidentified Analyst

Yes. No more long -- no more. That's it.

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

About 40% of what we buy is manufactured outside of the U.S. It's going to trend more on the DIY side of the business because that's more of the entry. But it really depends on the product. What the type of product is determines where it's manufactured. So if it's a remanufactured part, where we take a core ad fix it. It goes to Mexico. Labor's cheap and it's close. If it's a commodity item, if it's batteries, and they have a shelf life, they're made here in the U.S. If it's standard steel, they get made in China.

Unidentified Analyst

Great. And I did want to touch on Mexico, but it sounds like we might not have time. But another trend we've talked about a lot today is right to repair and the kind of fight for the data and telematics. You have been vocal or O'Reilly has been vocal about this before. Can you just discuss where you are on that trend?

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

I'm not sure either of us -- any of us are the right person to ask. But we are working as an industry to make sure that consumers have a choice of what to do with their data. I think that if anybody was at the keynote speech today, they talked a lot about customers just don't know. They don't know they're cars sending out all this data and that other people are using it. And from a privacy and a consumer protection standpoint, we're confident that we will, over time, convince the OEs that it is in their best interest to share that data or have it available for the consumer, similar to the Right to Repair Act.

Unidentified Analyst

Great. And then lastly, you entered Mexico. Just a quick update on to your thoughts behind that. I know it was a huge investment in terms of dollar power but very exciting change, I think.

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

Yes. So we actually haven't closed on our Mexico deal yet. We're supposed to close here in the fourth quarter. Great family business. Great platform to grow from. AutoZone has -- they do a great job of saying nothing about Mexico, except that they continue to open stores down there. So there are over 600 mostly prototype stores. We think there's a great opportunity for us to deploy some version of our business model. And we found a great partner to work with. It will take a while to get ramped up, so we need to make sure we understand the business that is down there. But feel like we're going to have great success, similar car parts for a lot of similar cars and then you get buying synergies. So we're excited about it.

Unidentified Analyst

Terrific. Well, we ran up against time. Thank you so much for being here. Tom, Jeremy, for being here again and, Mark, for the first time.

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

Thank you for having us. Thank you.