

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ORLY - O'Reilly Automotive Inc Annual Shareholders Meeting

EVENT DATE/TIME: MAY 14, 2020 / 3:00PM GMT



CORPORATE PARTICIPANTS

David E. O'Reilly *O'Reilly Automotive, Inc. - Executive Chairman*

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

Tricia Headley *O'Reilly Automotive, Inc. - VP & Secretary*

CONFERENCE CALL PARTICIPANTS

Paul Rissman

PRESENTATION

Operator

Welcome to the 2020 O'Reilly Automotive Shareholders Board Meeting. My name is Simon, and I'll be your operator. (Operator Instructions) I will now turn the call over to David O'Reilly, Chairman of the Board of Directors, O'Reilly Automotive, Inc. You may begin.

David E. O'Reilly - *O'Reilly Automotive, Inc. - Executive Chairman*

Thanks, Simon. Good morning, everyone. My name is David O'Reilly, and I am the Chairman of the Board of Directors for O'Reilly Automotive, Inc. Before this meeting begins, I'd like to welcome you all, and thanks for being with us today.

On behalf of the Board of Directors, I want to express our appreciation with your flexibility and your understanding with our decision to change the format and the location of the meeting from being in person as we've done for so many years to this virtual only meeting. Historically, our in person annual shareholders meetings have proven to be an excellent opportunity for our loyal shareholders to personally interact with our Board members.

However, in light of the public health concerns related to the COVID-19 pandemic, our Board determined that changing the format was the correct decision to ensure the safety and wellness of our shareholders, our team members, our Board and our executive team.

Due to the changing format, we will not host a management presentation following the business portion of the meeting as we have done historically. However, our Investor Relations team is ready to fill any questions you may have about the company, and they can be contacted through our website by clicking on Investor Relations. We intend to return to our traditional in person format for next year's annual meeting -- Annual Shareholders' Meeting and very much look forward to seeing our shareholders face-to-face again.

I would now like to introduce the members of our Board of Directors who are present also telephonically. Mr. Larry O'Reilly, Vice Chairman of the Board, been an executive and leader of the company since 1969. Greg Henslee, our Executive Vice Chairman of the Board, has been a director since 2017 with over 35 years with the company. Jay Burchfield, our independent Lead Director, has been a director since 1997. Tom Hendrickson, is an independent director and Audit Committee Chair. He's been a director since 2010. John Murphy is our -- is also an independent director, and he's our Compensation Committee chair and has been director since 2003; Dana Perlman, who is an independent director, and she is chair of the Corporate Governance and Nominating Committee and has also been a director since 2017. And Andrea Weiss, independent director, has been a director since 2019.

As stated in the proxy, after many years of loyal service to the company, our current Board member, Rosalie O'Reilly-Wooten, will be retiring from the Board after this meeting, consistent with the Board's mandatory retirement age policy. I'd like to take this opportunity to personally thank my sister, Rosalie, for her numerous contributions to the company. Her leadership, guidance and insight have been invaluable assets to the company, and her presence on our Board will be missed greatly. Thank you, Rosalie, for your commitment and dedication to our past success.



The Board undertook an extensive search for a suitable candidate to fill the vacancy resulting from Rosalie's retirement, including retaining third-party search firm, and this search led us to Maria Sastre, whose very impressive experience and qualifications and skills are a perfect complement to our existing Board members. Maria is being nominated to serve as an independent director on our Board. We're really excited to find someone of Maria's executive leadership experience, and we continue to be proud and appreciative of the tremendous experience and diverse background of all of our Board and especially their hard work and dedication to the success of the company. Maria, in anticipation of your new position, we welcome you to the Board.

Assisting me during today's meeting will be Tom McFall, our Chief Financial Officer and Executive Vice President of the Company; and Tricia Headley, who's also a Vice President and Corporate Secretary. Now before we start the business portion of the meeting, I'll make just a couple of comments. As stated, we won't be conducting a management presentation, but I do encourage you to refer to our recent releases, our first quarter results and our 10-Q, which gives great details about the financial performance and provides management discussion and analysis and lots of other information about the company. And what's going on in the business. And that can be found through our website on oreillyauto.com under Investor Relations. So if you have any questions about any of that, again, contact our Investor Relations department.

I do want to say, on behalf of the Board, we are extremely proud of our approximately 80,000 team members, who, as you know, are clearly essential service providers, and they're on the front line. They provide important support to everyone from government agencies, first responders, the agricultural industry, the construction industry and, of course, all forms of trucking and transportation. We're so appreciative and proud of our team members' unselfish and critical support of the transportation needs of all the areas including, of course, the everyday needs of our citizens, needing to get back and forth for their services. And so everyone must mean -- maintain their means of transportation these days, it seems. And certainly, that's -- we feel like that's certainly gratifying to have our team members out there on the front line each and every day, taking care of those needs.

So 2019 is kind of in the distant past now, it seems, but I'll simply say that it was another solid year. We had an 11% increase in EPS. We returned to our shareholders \$1.4 billion through share repurchases, and our share price rose 28% over the year -- during 2019. The first quarter was unusual, to say the least, with transpiring pandemic that occurred mid-March or so. However, we were able to still maintain an operating income of 17.1%, and our net income was 12.1%, between about \$300 million. Our comparable store sales suffered from various factors. Obviously, the pandemic being the primary one, came in at minus 1.9%.

We did announce in our release that from mid-March to mid-April, just to give an indication of what the sales pace we were on, we had about a minus 13% same-store sales run at that time. However, in the first quarter, we did produce EPS of \$3.97 per share and free cash flow of \$227 million. So the auto parts industry is a resilient one and historically, has weathered significant economic downturns pretty well. Obviously, with the widespread stay at home and shutdown that our industry has been impacted with, but widespread industry reports are now saying that miles driven is on the way up again and stimulus checks and unemployment support and other assistance has reportedly been helpful to the entire industry. And with the expected car travel to go up as the pandemic eases, we are cautiously optimistic that the 275 million light vehicles that are now averaging approximately 12 years old that are on the roads today will continue to need maintenance and repair, and that will hopefully bode well for continued success of O'Reilly Auto Parts.

And lastly, before we begin the business portion of our annual meeting, we would like to thank, not only our O'Reilly frontline team members in the stores, our distribution centers, our truck drivers and in the office -- and our office staff, but also all health care and medical staff throughout our communities as well as all essential workers that are out there helping make things better for all of us.

So representatives from our independent public accountants, Ernst & Young LLP are also present telephonically and are available to respond to questions. Present with us is [Scott Dicker], our coordinating partner; and Colby Clifton, our engagement partner. Posted on the web portal for this meeting is the meeting agenda and the rules of conduct. We will ask that you abide by these rules to be fair to the other shareholders and so that we can conduct an orderly meeting.

Any shareholder logged into the web portal with their 16-digit control number may ask a question or provide a comment through the web portal. All submitted questions will be addressed if they are pertinent to the company and the business agenda of this meeting.



As stated in the rules of conduct, we kindly request that you limit questions or comments to a maximum of 3 and if they pertain to the item under the discussion in the agenda. Thank you for your cooperation with those rules.

Please note also that this meeting is being recorded, and the replay will be available to the public following the conclusion of the meeting. However, no one attending is permitted to use any recording device.

So the chair now officially calls the meeting to order, and Tom McFall will act as secretary of the meeting and will now present proof of the due calling of the meeting.

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

Mr. Chairman, I present the following: a copy of the printed notice of the meeting dated March 27, 2020, stating the time, place and purpose of the meeting and a copy of the printed notice dated April 20, 2020, stating the change of location of the annual meeting from an in-person meeting to a virtually only meeting.

A complete list certified by Computershare Trust Company, the transfer agent of the company, of the holders of the common stock of the company as of the close of business on March 16, 2020, the record date fixed by the Board of Directors for shareholders entitled to notice of and to vote at this meeting, arranged in alphabetical order with the address of and the number of shares held by each such holder. This list, which has been opened to inspection of the shareholders for the past 10 days at the company's headquarters and will remain open to the inspection of shareholders via the web portal throughout the course of this meeting for any purpose germane to the meeting shows that at the close of business on March 16, 2020, there were 74,251,563 shares of common stock of the company issued and outstanding. The affidavit of Tricia Headley, our esteemed Corporate Secretary, stating that the notice of the annual meeting of shareholders, the proxy statement and proxy card, together with the annual report of the company for the year ended December 31, 2019, began mailing on March 27, 2020, to each of the shareholders of record as of March 16, 2020.

In addition, the affidavit states that the notice of change of location of the Annual Meeting of Shareholders began mailing on April 20, 2020, to each of the shareholders of record as of March 16, 2020.

David E. O'Reilly - *O'Reilly Automotive, Inc. - Executive Chairman*

Thanks, Tom. The secretary is directed to incorporate a copy of the notices of meeting together with the affidavit of mailing of the notices in the minute book of the company as part of the minutes of this meeting.

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

Mr. Chairman, they are present, in person or by proxy, at this meeting, the holders of record at the close of business on March 16, 2020, of over 65 million shares of common stock of the company, which is a majority of the shares of common stock then outstanding.

David E. O'Reilly - *O'Reilly Automotive, Inc. - Executive Chairman*

By reason of the fact that the holders of record of a majority of the outstanding shares of common stock of the company entitled to vote at this meeting are present in person or by proxy, a quorum is present for all purposes. The meeting is declared lawfully and properly convened and now confident to proceed to the transaction of the business for which it has been called, as stated in the notice of the meeting in accordance with the bylaws of the company.

I present to the meeting the annual report for the year ended December 31, 2019, which was mailed or e-mailed to the shareholders of record as of March 16, 2020. As stated in the notice of the annual meeting, there are 7 proposals before the meeting today. First, to elect as directors, the 9

nominees named in the proxy statement to hold office until 2021 at the Annual Shareholders Meeting and until his or her successor is duly elected and qualified. Second, to conduct a nonbinding advisory vote on the 2019 compensation of our named executive officers. Third, to ratify the appointment of Ernst & Young LLP as independent auditors for the fiscal year ending December 31, 2020. Fourth, to approve a proposal to amend the articles of incorporation to reduce stock ownership required for shareholders to call a special meeting. And fifth, to approve a proposal to amend the articles of incorporation to delete unnecessary and outdated language related to classification of Board and to reflect other nonsubstantive revisions. Sixth, to consider and act upon a shareholder proposal relating to material human capital risks and opportunities, if properly presented at the annual meeting here today. And then seventh, to consider and act upon a shareholder proposal entitled, Independent Board Chairman, if properly presented at the annual meeting today.

To expedite this process today, we'd like to handle proposals one through 5 together, followed by relevant questions and answers and comments, and then we will handle proposal 6 and 7, followed by relevant questions and answers and comments.

The polls for voting are now open and will close shortly following the last question or comment regarding proposal 7. If you have already voted and do not wish to change your vote, you do not need to vote again on the web portal. Voting on the web portal will revoke your prior proxy.

(Voting)

Tricia Headley - *O'Reilly Automotive, Inc. - VP & Secretary*

Good morning. On behalf of the Board of Directors of the company, I nominate David O'Reilly, Larry O'Reilly, Greg Henslee, Jay D. Burchfield, Thomas T. Hendrickson, John R. Murphy, Dana M. Perlman, Maria A. Sastre and Andrea M. Weiss, to serve as directors of the company, to hold office until the 2021 Annual Shareholders Meeting, and to serve until his or her successor has been duly elected and qualified. The description of this proposal is set forth in the proxy statement.

David E. O'Reilly - *O'Reilly Automotive, Inc. - Executive Chairman*

Do we have a second?

Unidentified Participant

I second the nomination.

Tricia Headley - *O'Reilly Automotive, Inc. - VP & Secretary*

On behalf of the Board of Directors of the company, I move that the 2019 compensation of the company's named executive officers be approved. The description of this proposal is set forth in the proxy statement.

David E. O'Reilly - *O'Reilly Automotive, Inc. - Executive Chairman*

Do we have a second?

Unidentified Participant

I second the motion.

Tricia Headley - *O'Reilly Automotive, Inc. - VP & Secretary*

On behalf of the Board of Directors of the company, I move that the appointment of Ernst & Young as the company's independent auditors for the fiscal year ending December 31, 2020, be ratified.

David E. O'Reilly - *O'Reilly Automotive, Inc. - Executive Chairman*

Do we have a second?

Unidentified Participant

I second the motion.

Tricia Headley - *O'Reilly Automotive, Inc. - VP & Secretary*

On behalf of the Board of Directors of the company, I move that the articles of incorporation be amended to reduce stock ownership required for shareholders to call a special meeting.

David E. O'Reilly - *O'Reilly Automotive, Inc. - Executive Chairman*

Do we have a second?

Unidentified Participant

I second the motion.

Tricia Headley - *O'Reilly Automotive, Inc. - VP & Secretary*

On behalf of the Board of Directors of the company, I move that the articles of incorporation be amended to delete unnecessary and outdated language related to classification of Board and to reflect other nonsubstantive revisions.

David E. O'Reilly - *O'Reilly Automotive, Inc. - Executive Chairman*

Do we have a second?

Unidentified Participant

I second the motion.

David E. O'Reilly - *O'Reilly Automotive, Inc. - Executive Chairman*

Are there any questions or comments with regard to the motions relating to proposals 1 through 5 before this meeting? We see no questions related to these proposals at this time. So we will now handle proposal 6, a shareholder proposal, which relating to material human capital risk and opportunities.

Paul Rissman, a representative of the proponent, will present the proposal at this annual meeting. Mr. Rissman, you have 3 minutes to present the proposal. Operator, please open Mr. Rissman's line.

Paul Rissman

Thank you. Am I coming through?

David E. O'Reilly - *O'Reilly Automotive, Inc. - Executive Chairman*

You are.

Paul Rissman

Thank you. We urge shareholders to vote yes on proposal 6 on the O'Reilly Automotive proxy statement, which asks the company to provide metrics on workforce diversity and labor practices. Proposal makes the following specific request. Resolved. Shareholders request that the Board of Directors issue a report to shareholders describing the company's policies, performance and improvement targets relating to material human capital risks and opportunities by 180 days after the 2020 Annual Meeting at reasonable expense and excluding confidential information prepared in consideration of the metrics and guidelines set forth in the Sustainability Accounting Standards board, multiline and specialty retailers and distributor standards provisions on workforce diversity and inclusion and labor practices requirements.

Human capital management disclosures are garnering attention in Congress and the SEC. We are requesting human capital management disclosure that is financially material to investor decision-making. This disclosure concerns both diversity and inclusion and fair labor practices.

We request nothing more than enhanced disclosure concerning financially material, human capital management metrics. Investors deserved to be informed of these metrics so that they can appropriately evaluate the risks to our company from its human capital policies and procedures.

Disclosure is the bedrock concept of federal securities law. The SEC has recognized the increasing materiality of human capital disclosures concerning diversity. Shareholder resolutions regarding diversity and those explicitly referencing EEO-1 category percentage disclosures received increasing support over time. In 2018 and 2019, 14 shareholder proposals requesting EEO-1 disclosure received on average more than 40% support. This year, 2 human capital management proposals requesting diversity and/or fair labor disclosure received majority support from shareholders. O'Reilly Automotive opposes issuing financially material disclosure that provides decision-useful investor protection as it serves the public interest. We, therefore, urge a yes vote for proposal 6 on the 2020 O'Reilly Automotive proxy statement. Thank you.

David E. O'Reilly - *O'Reilly Automotive, Inc. - Executive Chairman*

And thank you for your comments. Are there any questions or comments with regard to the shareholder proposal relating to material human capital risks and opportunities? We don't see any.

So we will now handle proposal 7, the shareholder proposal entitled Independent Board Chairman. Mr. Jesse Alba, a representative of the proponent, will represent the proposal at this annual meeting. And Mr. Alba, you have 3 minutes to present the proposal. Operator, please open Mr. Alba's line.

Unidentified Participant

Thank you, and good morning.



David E. O'Reilly - *O'Reilly Automotive, Inc. - Executive Chairman*

Good morning.

Unidentified Participant

The Independent Board Chairman, Proposal 7, sponsored by John [Chebeden].

Shareholders request that the Board of Directors adopt a policy and amend the governing documents as necessary to require that the Chairman of the Board be an independent member of the Board whenever possible. Although it would be better to have an immediate transition to an independent Chairman, the Board would have the discretion to phase in this policy for the next Chief Executive Officer transition.

This proposal topic won 50% support at Boeing in late April. This proposal topic also won 50-plus percent support at 5 major U.S. companies in 1 year, including 73% support at Netflix. These 5 majority votes would have been still higher if more shareholders had access to independent proxy voting advice.

This proposal topic won 36% support at our 2016 annual meeting, which is a significant supporting vote. However, in 2016, this situation needing correction did not exist. Both our Chairman, David O'Reilly; and our Lead Director, Jay Burchfield, received 6x as many negative votes each in 2019 as 2 other directors at the same meeting. Plus David O'Reilly had 48 years long tenure, and Jay Burchfield had 23 years long tenure. Long tenure in a director in the opposite of independents and independents can be the most important attribute for a director, especially a Chairman or a Lead Director.

In 2019, O'Reilly shareholders rejected management's advice and gave 51% support to a shareholder proposal to make calling a special meeting more accessible to shareholders. A management version of this 2019 shareholder proposal is on the ballot today as proposal 4.

The roles of Chairman and CEO are fundamentally different-ish at 2 directors, a CEO and a Chairman who is completely independent of the CEO and our company. Please vote yes, Independent Board Chairman, Proposal 7. Thank you.

David E. O'Reilly - *O'Reilly Automotive, Inc. - Executive Chairman*

And thank you for your comments. Are there any questions or comments with regard to shareholder proposal relating to an independent board chair?

We do not have any questions regarding that proposal.

Again, any shareholder who has not yet voted or wishes to change their vote may do so by clicking on the Voting button on the web portal and following the instructions there. Shareholders who have sent in proxies or voted via telephone or the Internet do not need -- and do not want to change their vote, they do not need to take any further action. We will pause for any final voting on these items.

(Voting)

David E. O'Reilly - *O'Reilly Automotive, Inc. - Executive Chairman*

Thank you. I hereby declare the polls closed. The secretary will now tally the votes and announce the preliminary results of the voting.

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

Mr. Chairman, the preliminary voting results indicate that the holders of a majority of the shares of common stock represented at this meeting in person or by proxy and entitled to vote have voted for the election of David O'Reilly, Larry O'Reilly, Greg Henslee, Jay D. Burchfield, Thomas T. Hendrickson, John R. Murphy; Dana M. Perlman, Maria A. Sastre, Andrea M. Weiss as directors of the company; for the approval by a nonbinding advisory vote of the 2019 compensation of the name -- of the company's named executive officers; for the ratification of the appointment of Ernst & Young LLP as independent auditors for the year ended December 31, 2020; for the amendment to the articles of incorporation to reduce stock ownership required for shareholders to call a special meeting; for the amendment to the articles of incorporation to delete unnecessary and outdated language related to classification of the Board and drove -- other nonsubstantive revisions; for the shareholder proposal relating to material human capital risks and opportunities; and against the shareholder proposal entitled Independent Board Chairman.

David E. O'Reilly - *O'Reilly Automotive, Inc. - Executive Chairman*

David O'Reilly, Larry O'Reilly, Greg Henslee; Jay Burchfield; Tom Hendrickson, John Murphy, Dana Perlman, Maria Sastre, and Dana Weiss are hereby elected or declared elected to serve as directors of the company until the 2021 Annual Shareholders Meeting and until his or her respective successor is duly elected and qualified.

The company's Board of Directors and Compensation Committee will strongly consider the results of the nonbinding advisory vote of the 2019 compensation of the company's named executive officers in the formation and structure of future executive compensation plans, and the appointment of Ernst & Young LLP as independent auditor is considered ratified. The articles of incorporation will be amended to reduce stock ownership required for shareholders to call a special meeting. The articles of incorporation will be amended to delete unnecessary and outdated language related to classification of Board and to reflect other nonsubstantive revisions.

Proposal 6, the shareholder proposal relating to material human capital risk and opportunities has been voted for. The company's Board of Directors will strongly consider the results of this vote as they discuss and consider appropriate future disclosures relating to material human capital risks and opportunities.

Proposal 7, the shareholder proposal entitled Independent Board Chairman, has been voted against, and no further action related to this shareholder proposal is necessary.

The final vote totals for each of these proposals will be filed with the U.S. Securities and Exchange Commission and a current report on Form 8-K within 4 business days, and that can be accessed through our website at that time.

There being no other business to properly come before the meeting, the chair will entertain a motion to adjourn. Do I have such a motion?

Unidentified Participant

I move that the meeting be adjourn.

David E. O'Reilly - *O'Reilly Automotive, Inc. - Executive Chairman*

Do we have a second?

Unidentified Participant

I second the motion.

David E. O'Reilly - *O'Reilly Automotive, Inc. - Executive Chairman*

There being no objection, the chair hereby declares this meeting adjourned.

And ladies and gentlemen, this concludes our event for the day. I'd like to once again thank everyone for attending this virtual annual meeting of shareholders. Our first one, hopefully our last under this format, we look forward to returning to our traditional in-person format next year. And again, there are likely a few questions that were unrelated to the specific agenda items today, and we certainly are anxious and willing to answer those questions for you. Again, please contact our Investor Relations team at (417) 829-5878 or you can always contact them through our website, and they'll be happy to assist you.

Thank you very much, ladies and gentlemen.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you, everyone, for participating. You may now disconnect, and have a great day.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Thomson Reuters. All Rights Reserved.

