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ORLY.OQ - Q1 2023 O'Reilly Automotive Inc Earnings Call

EVENT DATE/TIME: APRIL 27, 2023 / 3:00PM GMT

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PRESENTATION

Operator

Greetings, and welcome to the O'Reilly Automotive, Inc. First Quarter 2023 Earnings Call. My name is Ali, and I will be your operator for today's call. (Operator Instructions)

I will now turn the call over to Mr. Jeremy Fletcher. Mr. Fletcher, you may begin.

Jeremy Adam Fletcher - *O'Reilly Automotive, Inc. - Executive VP & CFO*

Thank you, Ali. Good morning, everyone, and thank you for joining us. During today's conference call, we will discuss our first quarter 2023 results and our outlook for the remainder of the year. After our prepared comments, we will host a question-and-answer period.

Before we begin this morning, I would like to remind everyone that our comments today contain forward-looking statements. And we intend to be covered by and we claim the protection under the safe harbor provisions for forward-looking statements contained in 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 or similar words. The company's actual results could differ materially from any forward-looking statements due to several important factors described in the company's latest annual report on Form 10-K for the year ended December 31, 2022, and other recent SEC filings. The company assumes no obligation to update any forward-looking statements made during this call.

At this time, I would like to introduce Greg Johnson.

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

Thanks, Jeremy. Good morning, everyone, and welcome to the O'Reilly Auto Parts first quarter conference call. Participating on the call with me this morning are our Co-Presidents, Brad Beckham and Brent Kirby; and Jeremy Fletcher, our Chief Financial Officer. Greg Henslee, our Executive Chairman; and David O'Reilly, our Executive Vice Chairman, are also present on the call.

I'd like to begin our call today by congratulating Team O'Reilly on a strong start to 2023. Delivering such consistent strong results requires an unrelenting commitment to excellent customer service from our team of over 86,000 professional parts people across the U.S. and Mexico. I am extremely grateful for the hard work our team puts in each and every day.

Our first quarter results were highlighted by a robust 10.8% increase in comparable store sales as our team continued to deliver outstanding growth on top of strong performance in the prior year. These top line results exceeded our expectations and demonstrate O'Reilly strength on both the professional and DIY sides of our business.

Team O'Reilly charged out of the gate this year, highly motivated to execute on our initiatives to invest in our people, further refine and enhance our business tools and aggressively grow our market share. We have been very pleased with the momentum our teams have generated in 2023. Our team members and our culture remain our greatest assets. And our ongoing commitment to build on both of these competitive advantages is paying clear dividends through the sustained strong results delivered quarterly quarter after quarter.

Team O'Reilly remains highly focused on expense control and prudent capital deployment, enabling us to translate our sales gains and growth into outstanding returns for our shareholders.

For the first quarter, our diluted earnings per share of $8.28 represents a 15% increase over the prior year. We are increasing our full year 2023 EPS guidance to a range of $36.56 -- $36.50 to $37 even, reflecting our first quarter outperformance and shares repurchased since our last call. At the midpoint of the revised range, we now expect our full year EPS to increase 10% over 2022.

Before I turn the call over to Brad and Brent to provide additional detail on the first quarter, I'd like to reiterate our confidence in the favorable outlook for both our industry and our company for the balance of 2023. We view our first quarter top line results as a clear reflection of the strong demand backdrop in our industry.

We also remain firm in our belief that consumers will continue to prioritize the maintenance and repair of their existing vehicles in the face of economic pressures in order to avoid taking on a payment for a higher-priced, newer vehicle. This value proposition compelling consumers to reinvest in their existing vehicles continues to be further supported by elevated new and used vehicle prices.

Encouragingly, the U.S. consumer remains resilient with low unemployment rates, wage growth and stabilization in fuel prices, supporting both consumer health and the steady growth in miles driven. While we still maintain an element of caution with regard to the outlook for the overall U.S. economy and potential for heightened economic pressures, we believe the current market dynamics combine to provide a strong backdrop for demand in our industry. Even more importantly, we believe our strategic competitive advantages uniquely position our company to capitalize on the positive fundamentals of the automotive aftermarket and grow at a faster rate than the industry as a whole.

To wrap up my comments, I want to again thank Team O'Reilly for continuing to uphold our culture of excellent customer service. Your commitment to our culture, our fellow team members and our customers drives our success and makes you the best team in the business.

Lastly, I would also like to extend our gratitude to our shareholders. This past week marked our 30th anniversary as a public company with our initial public offering in April of 1993. The O'Reilly family had the wisdom and foresight to recognize the benefits of obtaining capital through the public markets to grow our business as well as extending ownership opportunities to our team members to allow us all to share in the company's success.

Our incredible financial performance as a public company is a true testament to the dedication of our team. In each of the 30 years since 1993, our team has delivered growth in both sales and EPS, driving returns to our shareholders in excess of 22% per year on a compounded annual basis. We see a bright future for O'Reilly and are thankful for the trust and confidence our shareholders have placed in the O'Reilly team over the years.

I'll now turn the call over to Brad Beckham. Brad?

Brad W. Beckham - *O'Reilly Automotive, Inc. - Co-President*

Thanks, Greg, and good morning, everyone. I would also like to begin with a sincere thank you to Team O'Reilly for their commitment to our continued success through providing excellent customer service. We have set an incredibly high bar of performance, and I could not be more excited about the momentum our team drove in the first quarter by executing on the fundamentals of our business and taking care of our customers every day.

Our ambitious goals require dedication and hard work from every area of our organization, and I'm extremely proud of the way Team O'Reilly continues to deliver.

Now I'd like to take some time to walk through the details of our sales performance for the first quarter and what we saw on each side of the business. I'll start with the professional side of our business, which was the outperformer in the quarter and the driver of our above-expectation results.

Our professional sales growth on a comparable basis exceeded 20% for the quarter, and we were very pleased to see outperformance steadily throughout the quarter. The growth trend in our professional business continues to be very strong even in light of increasingly challenging comparisons, and these compounded gains are the direct result of our team's outstanding execution.

For us, the bread and butter of our execution on the professional side of our business is always ensuring we have the right part available for our customers when and where they need it and providing efficient delivery service so that a customer can get cars off the rack and turn their base, but it doesn't stop there.

Providing top-notch customer service also includes our professional parts people regularly visiting our customers and spending time in their shops, making sure we are doing all we can to deliver value as a business partner, whether it be educating them on our store team and service, our products, equipping that shop with shop management tools or providing training to their technicians.

Focusing on these fundamentals and building long-term loyal relationships are the key drivers of our robust professional sales results. We continue to expect our professional business to be the stronger driver of our growth in 2023, but also see exciting opportunities on the DIY side of our business to win share in the marketplace.

Turning to our DIY business. We were generally pleased with our results for the quarter with our teams delivering positive comparable store sales growth each month of the quarter driven by solid results in January and February mixed with some weather-related pressure in March.

The first quarter has historically seen the most weather-driven volatility in our business as we see impacts both from the type and severity of winter weather and from the timing of the onset of spring weather. Our DIY customers often take on jobs in their driveways and will take advantage of the first warm days of spring to perform repair, maintenance and tune up items that were temporarily on hold during the winter.

The pace of our DIY business in the first quarter was definitely impacted by this weather volatility as unseasonably cool, wet weather across much of the country pressured our March results. However, spring finally sprung as we turned into the calendar into April, and we have been pleased with the solid rebound we have seen in our DIY business.

The DIY improvement, coupled with continued robust professional sales growth, has resulted in a strong start to the second quarter. As we have said more than a few times over the years, we don't like to talk about weather since it's out of our control. But on balance, so far in 2023, the volatility in our sales results lines up pretty much exactly with what we would expect, given the timing of spring.

Now I would like to provide some color on our ticket count and average ticket performance. Strong ticket count comps on the professional side of our business were partially offset by pressure to DIY ticket counts in the quarter. Directionally, our ticket counts performed as we expected with the gap wider than our original outlook because of the outperformance in our professional business and, to a lesser degree, the weather headwind to DIY in March.

We saw mid-single-digit average ticket growth supported by same-SKU inflation at similar levels and in line with our expectations for the quarter. Our benefit from same-SKU inflation was primarily the result of year-over-year benefit of price increases we passed along in 2022 as opposed to significant incremental cost increases in the first quarter.

As a result of this dynamic, we expect first quarter will be the most significant benefit to average ticket increases from same-SKU inflation and continue to expect this benefit to moderate as we move throughout the year and compare against higher price level stemming from price increases in the first half of this year.

To wrap up my comments on sales, I would like to highlight our sales guidance and full year outlook. We are maintaining our full year comparable store sales guidance range of 4% to 6% and total sales guidance of $15.2 billion to $15.5 billion.

After incorporating above plan first quarter results, we are trending above our full year midpoint and are encouraged by the strength we have seen thus far. However, even though we outpaced our sales plan in the first quarter, our original expectations had already anticipated some of the strength we saw in Q1.

As we discussed when we laid out our expectations on our last call, we expect first half 2023 comps to be stronger as a result of the year-over-year same-SKU inflation benefit as well as easier ticket count comparisons on both sides of our business. While we are pleased with our strong sales performance thus far in 2023, we're always cautious about overreacting to first quarter results, especially in light of the weather volatility we can see at the beginning of the year.

Ultimately, as Greg noted, we believe industry dynamics are positive and supportive of strong demand moving forward. And we are optimistic about our ability to drive strong results as we move through the year.

Rest assured, our teams are focused on taking share in every market and on both sides of the business regardless of any challenges that may arise.

Our teams do not waste energy focusing on things outside of our control. We work in a people, service and relationship business. And we spend 100% of our time focusing on and executing the basic fundamentals of our business. Ownership and everything we can control with our team and our service levels is at the core of our culture and in turn, everything we do.

Now I'd like to discuss our SG&A performance in the quarter. SG&A as a percentage of sales was 31.7%, a deleverage of 14 basis points from the first quarter of 2022. Our first quarter SG&A results included a planned approximately 35 basis point headwind from the resumption of our annual in-person leadership conference in February.

As we discussed on our conference call in February, this event was our first in-person conference since 2020, and as such, was a headwind to our first quarter SG&A on a year-over-year comparison basis. However, this spend is one of the absolute best investments we make in our team as we celebrated our successes from 2022, shared best practices and strategies for better serving our customers, expanded product knowledge, perpetuated our culture and energized our team to be the dominant supplier of auto parts in each of their markets in 2023.

As noted on our last call, we have also invested in our team through the enhanced paid time-off program we rolled out at the end of 2022, which resulted in a $28 million SG&A charge in the fourth quarter of 2022. On a full year basis, the total cost for this program in 2023 will be roughly comparable to our fourth quarter 2022 charge that creates a year-over-year headwinds in the first 3 quarters of 2023 but a positive comparison in the fourth quarter of this year.

For the first quarter, our SG&A per store increased 9.6%, which is well above our expected full year run rate in part because of the year-over-year impacts from both our leadership conference and the team member benefit plan transition. In total, our SG&A spend in the first quarter was above our original plan coming into the quarter driven by incremental costs related to stronger-than-anticipated sales but is in line with our expectations given the sales performance.

As we move forward in 2023, we will continue to execute our plans targeted at strengthening our team member experience and benefits, upgrading our vehicle fleet, refreshing and improving our store image and appearance and deploying incremental technology projects as well as investments in infrastructure.

We are investing in our teams and our customer service levels from a position of strength. And we'll continue to capitalize on opportunities we see to accelerate share gains, drive long-term profitable growth and generate strong returns on our investments. These initiatives are on track through the first quarter, and we have continued confidence in our ability to deliver on these items as planned.

For the full year, we expect to see SG&A per store increase of approximately 4.5% at the top end of our original guide of 4% to 4.5% as a result of incremental spend in the first quarter to support our robust sales growth. Finally, we are maintaining our operating margin guidance range at 19.8% to 20.3% of sales.

To conclude my comments, I want to once again thank Team O'Reilly for their dedication to our success. I am very fortunate to continue to spend time in our stores with our team members and with our customers, both DIY and professional, and can assure you our teams remain focused on relentless execution of our customer service fundamentals.

Our team has a proven playbook that has been developed over the 65 years O'Reilly Auto Parts has been serving customers. And our team members are passionate about upholding our standards of service and professionalism. Thank you, Team O'Reilly, and great job.

Now I'll turn the call over to Brent.

Brent G. Kirby - *O'Reilly Automotive, Inc. - Co-President*

Thanks, Brad. I would also like to give my thanks to Team O'Reilly for your performance in the first quarter. These outstanding results are a testament to your efforts and focus on our culture of providing excellent customer service.

Now I will take some time to walk through our first quarter gross margin results, discuss our inventory position and provide color on our store growth and capital investments. Beginning with gross margin. Our first quarter gross margin of 51% was an 84 basis point decrease from the first quarter of 2022, but in line with our expectations. As we noted in our last call, we anticipated comparison pressures in the first 2 quarters of this year. Our results in the first quarter hit those expectations, and I will now provide some color on what we saw.

First, our year-over-year gross margin results for the first quarter were impacted by the rollout of our professional pricing initiative last year, which began in the middle of the first quarter of 2022. We fully lapped the higher gross margin run rate in the first half of the quarter and will be apples-to-apples in the comparison for the remainder of 2023.

Secondly, we have a headwind as we compare against the final roll-through of our historic LIFO accounting benefit in the first quarter of 2022, which we noted at the time was approximately $10 million in that quarter. Both of these headwinds were in line with our expectations for the quarter and will not impact gross margin moving forward.

In addition to the anticipated pressure from the first quarter in pro pricing and LIFO, we also saw continued gross margin pressure from a higher mix of professional business, some of which was planned and some resulting from our outperformance versus our expectations as that side of the business continues to grow faster but also carries a lower gross margin.

However, product margin on both sides of our business has been slightly better than expected, resulting from positive acquisition cost benefits, offsetting some of the pressure from the higher-than-planned mix of professional sales.

While we are pleased with our results so far this year, we remain cautious regarding the cost outlook for the remainder of 2023, including the prospect for incremental reductions to acquisition cost. Our supply chain partners continue to face anticipated broad inflationary pressures, and we expect to see a relatively stable cost environment with potential for puts and takes in both directions.

Pricing in the industry has remained rational. If we see future increases in product acquisition or other costs, we are confident in our ability to pass those cost increases through in selling price. We are maintaining our full year gross margin guidance of 50.8% to 51.3% and expect our quarterly gross margin performance for the remainder of the year to be consistent on a quarter-to-quarter basis and within that range.

Inventory per store finished the quarter at $754,000, which was up 14% from this time last year but flat compared to the beginning of the year. We continue to track toward our planned inventory per store increase of 2% by the end of 2023 and are constantly working to deploy our inventory at the optimal position across our distribution centers and hub stores in our tiered distribution network.

Our supply chain and store in-stock positions are as strong as they have been in several years. And the diligent work that our merchandise inventory management and distribution teams have done to deploy the best possible local inventory assortment is reaping benefits and strong top line results.

Our AP to inventory ratio at the end of the first quarter was 133% and continues to be supported by strong sales volumes and inventory turns. Net inventory investment remained flat compared to the beginning of the year, and we remain pleased with the returns generated from ensuring that we are the industry leader in product availability.

Turning to our progress on store growth and capital investments. We successfully opened 60 new stores during the first quarter. Within these openings, there are a few milestones that I would like to highlight.

First, we kicked off the year with our entrance into Maryland, marking our 48th state. Not long after, we celebrated the opening of our 6,000th store on February 23 with a ribbon-cutting ceremony in Fort Gibson, Oklahoma. Finally, we successfully opened our first 2 stores and a distribution center in Puerto Rico in March. We are truly proud of these accomplishments and would like to thank and congratulate all of the teams involved in achieving these milestones.

Growth is always hard work, and Team O'Reilly does an outstanding job of rolling up their sleeves and ensuring that each O'Reilly store is a model of excellent customer service and industry-leading product availability. Our team's ability to perpetuate our culture and execute on our dual market strategy is the reason our store growth continues to drive premium returns on the capital that we invest.

Our team is marching ahead toward our goal of 180 to 190 net new store openings for 2023. We still have an ambitious year ahead of us in terms of growth initiatives and capital investments to fund those plans.

Our capital expenditures for the first quarter were $223 million. And our projects and initiatives are still on track for us to hit our capital expenditure guidance of $750 million to $800 million.

Progress on our distribution center in Guadalajara, Mexico remains on schedule for an opening this summer. We are excited about the opportunity that this new facility will create for us in terms of enhanced service levels to the Guadalajara metropolitan area as well as future store growth across Mexico for many years to come.

Before I turn the call over to Jeremy, I want to once again thank Team O'Reilly for their accomplishments during the quarter and for their enthusiasm for excellent customer service. It is a real privilege to be a part of the best team in the automotive aftermarket.

Now I will turn the call over to Jeremy.

Jeremy Adam Fletcher - *O'Reilly Automotive, Inc. - Executive VP & CFO*

Thanks, Brent. I would also like to thank Team O'Reilly for their hard work and the outstanding professionalism as they deliver excellent customer service every day.

Now we will cover some additional details on our first quarter results and guidance for the remainder of 2023. For the quarter, sales increased $412 million driven by a 10.8% increase in comparable store sales and a $68 million noncomp contribution from stores opened in 2022 and 2023 that have not yet entered the comp base. For 2023, we continue to expect our total revenues to be $15.2 billion to $15.5 billion.

Brent covered our gross margin performance and guidance already, but I would like to remind everyone that we view our reported GAAP gross margin as the best measurement of our gross margin performance and do not view the normal application of LIFO as a discrete charge in the evaluation of gross margin.

The comparison headwind in first quarter of 2023 resulting from the $10 million LIFO benefit recognized in the first quarter of 2022 is unique to our first quarter comparisons. And we will not have a discrete LIFO impact for the remainder of 2023.

Our first quarter effective tax rate was 23.7% of pretax income, comprised of a base rate of 24.3% reduced by a 0.6% benefit from share-based compensation. This compares to the first quarter 2022 rate of 23.9% of pretax income, which was comprised of a base rate of 24.3% reduced by a 0.4% benefit from share-based compensation.

Our first quarter effective tax rate was in line with our expectations. For the full year of 2023, we continue to expect an effective tax rate of 22.9%, comprised of a base rate of 23.4% reduced by a benefit of 0.5% from share-based compensation. Our fourth quarter effective tax rate is expected to be lower than the other 3 quarters due to the tolling of certain tax periods. Variations in the tax benefit from share-based compensation can create fluctuations in our quarterly tax rate.

Now we will move on to free cash flow and the components that drove our results. Free cash flow for the quarter of 2023 was $486 million versus $579 million for the first quarter of 2022 with the decrease driven by higher capital expenditures in '23 versus the prior year. For 2023, our expected free cash flow guidance remains unchanged at a range of $1.8 billion to $2.1 billion.

Moving on to debt. We finished the first quarter with an adjusted debt-to-EBITDA ratio of 1.96x, which is up compared to our end of 2022 ratio of 1.84x with the increase driven by borrowings on our revolving credit facility. We continue to be below our leverage target of 2.5x and plan to prudently approach that number over time.

We continue to be pleased with the execution of our share repurchase program. And during the first quarter, we repurchased 1.4 million shares at an average share price of $819.06 for a total investment of $1.1 billion. Subsequent to the end of the quarter and through our press release yesterday, we repurchased 0.2 million shares at an average share price of $864.44 for a total investment of $137 million.

The excise tax on share repurchases that was implemented as part of the Inflation Reduction Act became effective for all share repurchases beginning January 1, 2023, and is assessed at 1% of the aggregate fair market value of net share repurchases. We incurred $11.1 million in excise tax during the first quarter, which is reflected directly in our balance sheet and retained earnings.

We remain very confident that the average repurchase price, inclusive of the current excise tax cost, is supported by the discounted expected future cash flows of our business. And we continue to view our buyback program as an effective means of returning excess capital to our shareholders.

As a reminder, the EPS guidance outlined by Greg earlier includes the impact of shares repurchased through this call but does not include any additional share repurchases.

Finally, before I open up our call to your questions, I would like to again thank the entire O'Reilly team for their commitment to our customers and our company.

This concludes our prepared comments. At this time, I would like to ask Ali, the operator, to return to the line, and we will be happy to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is coming from Scot Ciccarelli with Truist Securities.

Scot Ciccarelli - *Truist Securities, Inc., Research Division - MD*

Looks like you had a pretty big acceleration in commercial sales. So should we be thinking about that as a function of just continued share increases? Or is there something else potentially helping drive that?

And then related to that question, do the improved sales results potentially tempt you guys to make additional price investments in certain markets where you're seeing positive results of prior price investments?

Brad W. Beckham - *O'Reilly Automotive, Inc. - Co-President*

Scot, this is Brad. I'll take the kind of the first part of your question there on professional. As you know, our business, we're really excited about really a lot of things that Brent talked about. Me speaking from the store side of the house and looking at our supply chain, we're just incredibly proud of the way that our supply chain teams have found resolve over this last year and the last many years.

And to Brent's point, we're in a better in-stock and ship rate percentage as we've been in a long time. And I can speak for our store operators and our sales team just -- that's just an incredible accomplishment and was a large part of what drove our -- what we feel like our share gains in our top line, especially on the professional side of the business, that being such a high service, high touch side of the business.

And so yes, the supply chain, continued execution on properly staffing our stores, get the customer service out there calling on those customers. Just all the tools that come out of our toolbox that we talk all the time, we feel really good and are really excited about how we started the year from a professional standpoint.

And, Scot, on the pricing side of it, as you know, we've talked for basically a year now that we've lapped this thing, we've lapped pro price initiative. We feel really good about that investment we made just over a year ago. But as we've talked for several quarters now, that was a onetime decision.

We felt like we had an opportunity to move our overall matrix down to a point that we could really -- felt like we were really competing better with the 2-step competitors, the independent competitors that kind of, by historical, have been somewhat cheaper than us in some of our retail and larger closing competitors. So we feel really good about what we did. But around here, it's kind of back to business as usual. We've lapped this thing. It's in the past, and we have no plans for a second round.

Operator

Our next question is coming from Chris Horvers with JPMorgan.

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

So I wanted to follow up on the question, on Scot's question. So first on the DIY side, do you think your DIY performance was in line with the market? And any gander on how much you outgrew the professional market in the first quarter?

Jeremy Adam Fletcher - *O'Reilly Automotive, Inc. - Executive VP & CFO*

Chris, this is Jeremy. Great question. I wish we had a real definitive answer on the DIY side of the business. Some of that, we're just going to -- we'll have to wait to see how maybe some others talk about it.

We think more broadly speaking, over several quarters, our teams have been executing well. And we've had opportunities, and we think that we're a share gain on a net balance on any given quarter on the DIY side of our business. And to be fair, like we think that there's share that we should be gaining. We think there's entitlement out there that we haven't addressed and need to continue to work to get our fair share of the marketplace.

In a quarter like first quarter, it's a little bit more challenging. Obviously, there's volatility on that side of our business from the perspective of spring, and those are things that we can pay attention and watch pretty closely, but feel good given what we could see just in the daily, weekly reports from the weather that we saw rolled in, the DIY was solid for us in the first quarter.

On the professional side of the business, Brad's talked to it already. In some respects, we're absolutely picking up share there. And more fragmented on that side, hard to identify where it has been, but really think that a lot of the things that Brad pointed to, for sure, the momentum we gained last year with the professional pricing but now even more how exceptionally our teams are executing against that and providing direct service, we think that, that's just -- that's a function of our business model and the great team we've got are running our business well.

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

And so 2 quick follow-ups. First, do you think that any of the -- you getting back in stock on the inventory side is driving some of that pressure in addition to pricing? And if so, when did you get back in stock?

And secondly, on the gross margin, given that you should have some freight costs that are capitalized that are coming down, why shouldn't we see better gross margin performance sequentially as the year progresses?

Brent G. Kirby - *O'Reilly Automotive, Inc. - Co-President*

Yes. Chris, this is Brent. And just really to kind of tag on to what Jeremy and Brad have already said, really, when you think about our business and how we go to market, whether it's on the professional side or the retail side, it's really first and foremost, is 3 ingredients, right? It's service, it's parts availability and price is the third.

And what we saw and what we felt really good about in this quarter was the level of service and execution that our teams were delivering out there. In terms of product availability and in-stock, we've talked about that. It's gotten progressively better over the last 12 months.

We've seen suppliers continue to get healthier, and we've seen them finally be the healthiest they've been in several years, which has obviously helped contribute to our position. But we've also been aggressive like we talked about in terms of our investment in inventory and how we use it across -- we have a tier distribution model with a big DC footprint, a big hub store footprint. And really the placement of that inventory and our ability to get the part there quicker than our competition is really what helps us win there. So it's as much about supplier availability as it is our execution and how we deploy that inventory across our network of stores and DCs.

In terms of freight cost, we -- and acquisition cost on product, we've continued to see some international transportation costs come down even some to pre-COVID levels. Domestic transportation sill have some inflationary factor to it. That's something to consider.

We have a lot of suppliers that have raw material cost pressure, labor cost pressure, different things like that. So that's one of the reasons we remain cautious there. We're always going to do everything we can to bring the best cost of goods into our model and compete effectively. But that's how I would wrap it up for you in terms of your question.

Operator

Our next question is coming from Greg Melich with Evercore ISI.

Gregory Scott Melich - *Evercore ISI Institutional Equities, Research Division - Senior MD*

I wanted to follow up a little bit more on the top line trends on both sides. So DIY, it sounds like came back in April with the weather better. I just want to make sure that's back in terms of ticket counts are positive, and you're still getting sort of mid-single-digit inflation mix?

Jeremy Adam Fletcher - *O'Reilly Automotive, Inc. - Executive VP & CFO*

Yes, Greg, I wouldn't say that the ticket counts are necessarily positive from an ongoing trend stability standpoint. I don't want to parse too closely into just a few weeks here in April as it relates to that.

Our full year expectation is that we would see kind of net on balance, a little bit of pressure on the DIY ticket counts that was reflected in our guidance. And so just maybe around your specific question for us that we did see the DIY business rebound in April.

Now for sure, some of that we interpret cautiously the first really nice week in the spring or weaken spring hit us in April, and there's some of that, that we carried over out of first quarter and picked it up there. But feel good that, that's kind of stabilized at this stage and really haven't changed our outlook or expectations for the balance of the year from a DIY perspective.

Gregory Scott Melich - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Got it. And then secondly, on SG&A, just help -- I know it was -- it grew, I guess, what, 14%. You called out some of the things that drove that, planned and unplanned. What is making you for the full year think that SG&A per store now is at the higher end? Is it wage costs? Is there something else going on (inaudible) the high end?

Jeremy Adam Fletcher - *O'Reilly Automotive, Inc. - Executive VP & CFO*

Yes. No, Greg, really, the only change there from our beginning of the year outlook, which was a range of 4 to 4.5, is as sales did exceed our expectations in the first quarter. We have some incremental costs associated with that, especially on the professional side of the business.

We're running more trucks out for more hours, those types of things. And then in addition to that, just some of the incentive pressures there. So most of what we would attribute that small change is the sales are running a little bit better than what we would have expected and would plan to be above midpoint there, but we have kept that operating profit guide where it's at. And the personal spend is really just reflective of that.

Gregory Scott Melich - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Got it. And then last is just private label. Do you have an update on percentage penetration? Any signs of trade down as you get more volatility in DIY?

Brent G. Kirby - *O'Reilly Automotive, Inc. - Co-President*

Yes, Greg, I can speak to that. We really honestly continue to see our proprietary brand penetration continue to grow. It's slightly north of 50%, which we're really proud of. We continue to build very competitive offerings with good, better, best progression through the lines across all our proprietary brands. And they continue to gain traction with our customers, both DIY and professional. So we're extremely proud of that. I think -- the second part of your question, could you ask that again?

Gregory Scott Melich - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Yes. Just is there any sign of trade down? So I know you have -- you're building out the program of private label, and that's still gaining traction. Are you finding consumers getting a little more cash-constrained and trading down within that?

Brent G. Kirby - *O'Reilly Automotive, Inc. - Co-President*

Yes. That's something we watch very closely, Greg. And honestly, we have not seen that. I know some retailers are talking about that. We've actually seen a slight gravitation from the better to the best, believe it or not.

And again, we think that's probably just the strength of the offering and consumers wanting quality when they have to repair their vehicle. But we've not seen any material evidence of any trade down at this point.

Gregory Scott Melich - *Evercore ISI Institutional Equities, Research Division - Senior MD*

That's great. Congrats, and good luck.

Brent G. Kirby - *O'Reilly Automotive, Inc. - Co-President*

Thanks, Greg. Appreciate it.

Operator

Our next question is coming from Bret Jordan with Jefferies.

Bret David Jordan - *Jefferies LLC, Research Division - MD & Equity Analyst*

Could you give us some quick color on regional performance, maybe the spread between the best and the worst and talk about what you saw nationally? Obviously, the weather was different east versus west.

Brad W. Beckham - *O'Reilly Automotive, Inc. - Co-President*

Yes. Bret, this is Brad. Really, we were fairly pleased overall with how consistent most every market performed. As you can imagine, you've heard from others in red, there's obviously some pressure more on the DIY side on the West Coast. Some of that rolled in a little bit to the center part of the country.

But honestly, even though there was puts and takes, the puts and takes kind of changed per geography based upon what the weather was doing, especially on the DIY side on the weekends specifically. So it kind of moved around a little bit.

And really surprisingly, even for March where we had the most pressure that there wasn't just huge swings. There was just a little bit more pressure broad-based. And as you know, we don't have quite the concentration of stores that some do in the true Northeast other than New England. But overall, really our northern markets performed pretty well.

Bret David Jordan - *Jefferies LLC, Research Division - MD & Equity Analyst*

Okay. Great. And the next question is that, obviously, you've entered Maryland. Could you talk a little bit about your -- maybe the cadence of Mid-Atlantic fill in, in the Northeast? Obviously, another 100-plus stores to open this year, and maybe what's your thoughts as far as distribution infrastructure that might be needed to come into that market.

Jeremy Adam Fletcher - *O'Reilly Automotive, Inc. - Executive VP & CFO*

Yes, Bret, great question. This is Jeremy. We are excited about the inroads that we have made in the Northeast. We entered there originally in 2012 with the acquisition of VIP, and then we bought Bond a few years later and opened our distribution center in Boston. So we're kind of closing the gap to those markets that we haven't been in already.

I think as much as anything, we've been excited about the teams and the culture we've been able to both inherent from our acquisitions, but also grow from as a platform in those markets. So very attractive for us.

We are cautious on how aggressively we pursue any individual market. One of the benefits that we have with our large footprint is we can continue to grow really across that footprint. And that helps us to be able to identify the strong store teams that we need to be successful in our growth, and that's true up in the Northeast as well.

But we've been aggressively working to acquire the properties that we'll need and to work to build the teams. And you'll continue to see our growth up there and get to a level of density. I think it's going to be consistent with a lot of our markets.

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

Bret, this is Greg. I mean, to speak to the DC question specifically, obviously, with growth in that market and just the growth that we've experienced over the past couple of years, the really unplanned growth, we are looking very hard at our DC capacity and our DC infrastructure.

And we've talked about opening the DC in Mexico to support our growth down there. We're also looking across the country as a whole and where we have capacity issues in the Northeast is one of those markets. And we'll continue to evaluate those markets and enhance our DC presence as needed to continue to support our growth.

Operator

Our next question is coming from Zack Fadem with Wells Fargo.

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

Could you talk about the level of DIY comp you think you left on the table due to weather in March? And then big picture as we lapped the unit pressures last year for DIY, to what extent do you think the DIY industry has now normalized back to a more typical low single-digit unit decline? Or is there any reason to believe DIY units can actually inflect positive, given the macro and used vehicle dynamics?

Jeremy Adam Fletcher - *O'Reilly Automotive, Inc. - Executive VP & CFO*

Zack, thanks for the questions. Good questions. We haven't really quantified what we think the net impact is. As Brad mentioned, it was -- March was a little bit of a mixed bag for us, and different markets performed differently.

And for us, it's a fairly tight window to hone in on, especially as we've seen some recovery here in April. As we work through the balance of the remainder of the year, I think for us maybe specifically, we've got some easier comparisons on the DIY side in the first and second quarter just as we think about that look for the rest of the year just because of the -- some of the gas price and other economic pressures that the industry saw in the first half of last year.

And then for us, especially as we finish out the fourth quarter on DIY, we saw some really strong results, good end to our year last year. So some of that comparison will impact us.

From a broader industry perspective, I think on balance, we'd say we feel like we're at least as close back to normalize as we can probably perceive from all the volatility that we saw through the pandemic. What does that mean for the industry moving forward? I think we'll continue to see the long-term secular impact from just the improved engineering and manufacturing of parts and the impact that, that has on service intervals and the pressure that we've talked about, us and others have talked about for years on that side of our business. But we're kind of cautious around the rest of the outlook.

For the industry, we're very positive in terms of how the vehicle dynamics, and Greg and Brent talked about on the call, the vehicle dynamics continue to be strong for our industry. That's a positive for us, and I think that continues to bode well. But obviously, we're, like others, we'll have to wait to see what the broader economy does and what puts and takes that looks like. But I feel good about the overall trajectory for us on the DIY business.

Brad W. Beckham - *O'Reilly Automotive, Inc. - Co-President*

Zack, I was just going to say real quick. This is Brad. No matter what the macro does as you know, our teams are always focused on taking DIY share. We still have a tremendous opportunity on the DIY side. We have a lot of great competitors doing a lot of retail business.

And so though there's some pressure overall, the outlook is positive on the whole. But I feel even better about our prospects at O'Reilly because of our ability to take market share.

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

Perfect. And appreciate the color. And then on the pro side, do you attribute the outperformance in the industry to better-than-expected industry growth or better-than-expected share gains? And then as your price investments lap, to what extent do you expect to hold the share gains through the year, particularly against the tougher compares?

Jeremy Adam Fletcher - *O'Reilly Automotive, Inc. - Executive VP & CFO*

Great question. We sometimes get a lot smarter in the rearview mirror as to how all the rest of the industry performs. We'll -- I think we'll wait to see some of the data that's out there. We think the industry is strong. I mean, we talked about some of the factors that, I think, contribute to that.

And so for sure, we believe that it's a very positive backdrop for us. We are very pleased with our professional business and the gains that we've made. And frankly, we know how hard those gains come. It's a service and relationship business. Loyalty is an important thing. When you have an opportunity to execute well for our customer, it's meaningful. When you fail on the execution, it's even more meaningful.

So for us, we view what we've been able to accomplish is very sticky because of really the excellent execution that our teams have been able to deliver as we've had opportunity to -- over the last couple of years.

Operator

Our next question is coming from Liz Suzuki with Bank of America.

Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

Can you just talk about the private label approach you've taken and just how you've been able to grow that portfolio of products so successfully without losing any of your professional customers that tend to be more brand sensitive? And then if you could give any comment about your private label penetration by retail channel versus commercial, that would be helpful, too.

Brent G. Kirby - *O'Reilly Automotive, Inc. - Co-President*

Yes. Liz, this is Brent. I'll start and then maybe some others can jump in. But I think, again, tribute to our merchandise team and really, just to be clear, too, proprietary brands have grown exponentially over the last several years. We're proud of that, proud of the quality we've been able to put in the box, working with suppliers on those products and really just building good line designs with good, better, best offerings across those lines. And we've seen a lot of strength there.

The other thing though I want to reinforce is really, our branding strategy is a mix of quality proprietary brands as well as well-known national brands. And we go to market with both. And we have some national brands that we're very proud of, very proud we have in-house and certainly want to keep in-house because we know customers seek those brands as well.

So we really seek a balanced approach. Customers are obviously -- they're looking for value, and they're looking for availability, first and foremost. And we've been able to bring that to our proprietary brand lines.

In terms of -- we don't really specifically talk about penetration by DIY and by professional specifically. I will tell you, though, our professional customers use and believe in our proprietary brands, and in many cases, are huge promoters of them because they see the quality and the value in those brands. And Brad can speak to that better than I can. But we see those -- well adoption of those equally well across both DIY and professional customers.

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

Liz, this is Greg. Just to add to that, I would say that the shift in the growth of proprietary brands is it's intentional. Proprietary brands give us the ability to leverage multiple suppliers, mitigate risk, help us better control cost of those products and the quality of the products that are in the box.

And don't forget that a few of our proprietary brands that we're calling proprietary brands today were national brands a few years ago. So we continue to look for opportunities to take those national brand names that we now own as proprietary brands and spread them across additional categories. So we're very pleased with the performance of our proprietary brands, as Brent said, on both sides of our business.

Operator

Our next question is coming from Michael Lasser with UBS.

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

If we assume that half of your commercial growth in the first quarter came solely from market share gains, which doesn't seem unreasonable given that one of your larger competitors in the commercial space just comped up 3, so you've got maybe 1,000 basis points of share or growth from share gains, that would translate to $150 million of incremental business year-over-year or about $30,000 per store.

So is that coming from a big chunky customer who you've been able to win over? And that will give us a sense for as you lap that increase the tails associated with those share gains. And should we also think because you are winning this business and you're probably running your Hot Shot deliveries more, that's where the increase in SG&A is coming from that you're not seeing the flow-through that you might have seen to be as strong as in the past?

Brad W. Beckham - *O'Reilly Automotive, Inc. - Co-President*

Michael, it's Brad. I'll take a stab. A lot of assumptions there, but I probably jump to really your question specifically about kind of where it's coming from and customer type, competitor type. And so I may start out just on the customer front.

As you know, with that gap in footprint that we talked about earlier on the call kind of between Washington, D.C. and up to -- through New York City, we still don't have a big book of national or strategic account business. We have a lot of regional-type service providers that are outstanding customers. And we have second, third, fourth call with some of the big national service providers.

But really, when we look at our book of business and our -- by customer types, it's coming from a lot of places, but primarily the independent garage. There's obviously some on the national and regional accounts side, but it's not one big move in one area to your question directly. It's a lot of small moves moving from third call to second from second to first. And we're just -- we feel like that is extremely sustainable, and we're really proud of the way we've been able to build that the right way.

When you ask about SG&A there, what I would say is there's no doubt, we started the year fully committed to making sure that we had our back counter staffed, our professional parts people making sure that we have efficiencies in the back of the store. That obviously is an investment. It's an investment to keep our small vehicles rolling to the Hot Shot delivery to the shops.

As you know well, we talk a lot about getting the car off the rack and making sure that we're safe, we're very efficient in the way that we route deliveries. So we're turning those days and helping these people retain good technicians and all those things.

So no doubt, all those things that are investment from an SG&A standpoint. Michael, as you can imagine, when retail gets a little bit softer in a month like March, could our operators have scaled back a little bit from a payroll standpoint? Sure, they could have. But it may or may not have been the right thing to do for the rest of the year in the mid and long term when it comes to our customer service levels. And so part of that was when the business pulled back a little bit there in March is we kept our pedal down to keep those service levels top notch, and we feel like that will pay off for the remainder of the year.

Jeremy Adam Fletcher - *O'Reilly Automotive, Inc. - Executive VP & CFO*

One more thing that I would add there, and maybe back to your specific question. When we think about just generally flow through on the SG&A side, for sure, we're -- we spent a little bit more in the first quarter than we expected, and Brad talked about that. But that was really what we saw on the sales side and what we needed to do to support that.

As we think about just more broadly the flow through, that's really more heavily impacted by the investments that we're making this year that we talked about on our last call that we're executing against this year. I think that, in combination with our leadership conference, is more of an impact than just the incremental costs to support our sales, which did drive how we think about the full year, but the bigger year-over-year is what we've been talking about.

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

So can I clarify that, Jeremy? Is O'Reilly in this era over the last couple of years, last year, but with the price investments this year with more price -- SG&A investments, O'Reilly is in an era where it's making sizable investments to gain share. It's gaining share.

But at some point, you'll be able to see better flow-through on those investments, assuming the share continues because the peak of the investment cycle is happening now. And as part of that, why don't you raise the comp guidance? Because it implies a sizable slowdown over the next couple of quarters. So are you not going to see as much share gain over the next couple of quarters?

Jeremy Adam Fletcher - *O'Reilly Automotive, Inc. - Executive VP & CFO*

So Michael, what we would say on the first part of that question, we don't provide guidance beyond the current year. And we will continue to invest in our business over the long term. That's an important part of what we do.

But as we've talked about 2023 and the investments we are making and some of these things that we'll see in SG&A and the fact that we have some (inaudible) new leverage because of that, we absolutely don't expect that we would not lever SG&A on strong sales growth as we move forward in the future. That's part of where we're at.

There is an opportunity that we see now that we think that has a longer-term payoff for us, and we'll continue to approach that. But we're going to do that whenever we see opportunities to do that.

We -- in reference to your sales question, we have some structural things that we've talked about that make comparisons easier in the first half of the year. Certainly, we were pleased with our performance in the first quarter, but we try not to overreact to the first few months of the year knowing we've got a lot of year left. And we'll have to see how the summer selling season plays out.

Operator

We have time for one last question. It's coming from Simeon Gutman with Morgan Stanley.

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

Nice result. I guess will beat the dead horse here, the commercial outperformance. Can you talk about any new accounts versus existing? I don't think there's probably much change there. And then did anything distinctly happen in ticket growth in commercial?

And I'll just ask my follow-up now so I don't -- you don't have to hear me again. I wanted to ask you about the import space. We talked a bit about private brands. Can you talk about your strategy there, which is OE like with Import Direct? Are you able to penetrate that market fully with that product line or any aspiration to do it with the OE lines?

Brad W. Beckham - *O'Reilly Automotive, Inc. - Co-President*

Yes. Simeon, it's Brad. I'll take the first part of your question. I may kick it over to Brent for the latter part. On customer segments, I talked a little bit a minute ago just about not necessarily anything materially changed on the national or the strategic account side.

We continue to feel like we're earning the business every day with some of the regional-type service providers. But just on the -- really the core of our business, which is the independent garage, we're seeing a little bit of both.

We're seeing new customers. We're seeing existing customers move forward. We were mature enough in most all our markets where there isn't just flat out brand new customers that we weren't on the call list somewhere. It's just a matter of moving from fourth to third, third to second and second to first, like we talk about all the time.

So combination, but it would be more so just continuing to take more share, delivery vehicle that had a total job versus in the past, we may have been -- us and a competitor delivering a split job. We see a lot of opportunity with getting those full jobs, and we feel like that's happening.

Brent G. Kirby - *O'Reilly Automotive, Inc. - Co-President*

Yes. And Simeon, this is Brent. On the second half of your question regarding Import Direct, we continue to be very pleased with the performance of Import Direct and our offering there. And we continue to enhance the coverage of it, and we continue to see customers continue to penetrate that brand. So very happy there and feel like we compete well.

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

And we are intending in some categories with the branded international type products as well, as well as some of those well-known branded suppliers are in our Import Direct boxes in some cases as well.

Brent G. Kirby - *O'Reilly Automotive, Inc. - Co-President*

That's right.

Operator

We have reached our allotted time for questions. I will now turn the call back over to Mr. Greg Johnson for closing remarks.

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

Thank you, Ali. We'd like to conclude our call today by thanking the entire O'Reilly team for your continued hard work in the first quarter. I'd like to thank everyone for joining our call today, and we look forward to reporting our second quarter results in July. Thank you.

Operator

Thank you. This does conclude today's call. You may disconnect your lines, and have a wonderful day. We thank you for your participation.

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