REFINITIV STREETEVENTS

EDITED TRANSCRIPT

ORLY.OQ - Q2 2023 O'Reilly Automotive Inc Earnings Call

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

OVERVIEW:

Company reported gross margin of 51.3%, Free cash flow of $1.2 billion.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

CORPORATE PARTICIPANTS

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

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

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

Katharine Amanda McShane *Goldman Sachs Group, Inc., Research Division - MD & Retail Analyst*

Michael Allen Baker *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

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

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

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

PRESENTATION

Operator

Welcome to the O'Reilly Automotive, Inc. Second Quarter 2023 Earnings Call. My name is Matthew, and I'll be your operator for today's call. (Operator Instructions) I will now turn the call over to Jeremy Fletcher. Mr. Fletcher, you may begin.

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

Thank you, Matthew. Good morning, everyone, and thank you for joining us. During today's conference call, we will discuss our second 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.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Thanks, Jeremy. Good morning, everyone, and welcome to the O'Reilly Auto Parts second quarter conference call. Participating on the call with me this morning are our Co-Presidents, Brad Beckham and Brent Kirby; as well as 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 thanking Team O'Reilly for their continued dedication to consistently providing excellent service to our customers. Our team's proven ability to execute our business strategy at a high level drove our second quarter comparable store sales increase of 9%, exceeding our expectations on both the professional and DIY sides of our business.

For the first 6 months of 2023, we generated a 9.8% increase in comparable store sales, which is the direct result of our team's unrelenting focus on providing the best customer service in our industry. Our team members and our culture remain our greatest assets. I made the exact same statement on our first quarter call, but it warrants repeating.

Our commitment to strengthening our culture and investing in our team is paying clear dividends in our continued strong performance. And I want to congratulate all of Team O'Reilly on another outstanding job in the second quarter.

Driven by the strength of our top line performance, we're also pleased to deliver a robust 16% increase in diluted earnings per share. Our operating cost spend was elevated above our expectations, which Brad will discuss more -- in more detail during his prepared comments, but we remain pleased with the investments we have made in our business to build on the momentum our teams are generating.

Our EPS results reflect our ability to produce strong, compounding operating profit dollar growth, and we are committed to aggressively capitalizing on the opportunities we see to provide enhanced value for our customers and earn even greater market share.

As a result of our strong top line performance, we are increasing our full year 2023 EPS guidance to a range of $37.05 to $37.55, reflecting our second quarter results and shares repurchased since our last call. At the midpoint of this revised range, we now expect our full year EPS to increase 12% over 2022.

As we disclosed in our press releases last night, after 41 years of service to our company, I've made the decision to retire next January. At that time, Brad Beckham will take over my role as Chief Executive Officer with direct responsibility to the Board as the leader of our executive team. We will also be promoting Brent Kirby to the role of company President. As you know, Brad and Brent assumed the roles of Co-President earlier in the year, and they have both taken on increasing levels of responsibility and prominence in the leadership of our business over the past several years.

Succession planning has always been a very important and methodical process at our company. In many ways, our upcoming change mirrors the successful leadership transitions we have seen before in our company's history, including when Jeff Shaw and I were elevated to lead the company in 2018 and Greg Henslee and Ted Wise were selected as the first non-O'Reilly family members in the top leadership roles of CEO and COO in 2005. Brad and Brent are both extremely talented and experienced individuals who have the full support of our team, and I have every confidence they will continue to deliver on our company's long-term track record of success. Over the period of now -- from now through January 31, we will complete the transition of the day-to-day operations of the company to Brad and Brent.

Finally, Greg Henslee, our Executive Chairman; and David O'Reilly, our Executive Vice Chairman, will also be continuing in their roles and along with our full Board will support Brad, Brent and our executive team in executing our strategy and driving long-term value for our shareholders.

As I finish up in my prepared comments, I would like to again thank our team for continuing to provide industry-leading customer service every day and generating excellent results in the first half of 2023. I'm extremely proud of all of you, and I'm excited to keep the momentum strong in the back half of the year.

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

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Thanks, Greg, and good morning, everyone. I would like to begin by congratulating Team O'Reilly on another excellent performance in the second quarter. Our continued industry-leading sales performance is the direct result of our team's unwavering commitment to our company's culture of providing excellent customer service, and I would like to thank all of our team members for their hard work and dedication.

Over the last several quarters, our team has generated tremendous momentum in our business, and that strength carried into the second quarter, driving our outstanding top line sales performance. As we've discussed on our last quarter's conference call, we faced some pressure from the timing of spring weather at the end of the first quarter, but our business rebounded with the onset of normal spring weather in April.

Those strong sales trends continued throughout the quarter, resulting in our outperformance versus our expectations in each month of the quarter. From a cadence perspective, our results were very steady in each month of the quarter both in absolute terms and as compared to our expectations.

The ability of our team to drive high levels of sustained sales growth month after month is the product of consistent daily execution of our key business fundamentals. And I couldn't be more pleased with how consistently Team O'Reilly has performed in the first half of 2023.

Now I would like to provide additional details on our sales performance in professional and DIY. Our professional business was again the outperformer in the second quarter. Our team delivered a mid-teens comparable store sales increase in our professional business in the quarter with incredibly strong growth coming on top of double-digit professional comps in the second quarter of 2022.

The compounded gains we are seeing on this side of our business reflect a sustained high level of customer service and execution that has allowed us to translate increased sales gains into future business opportunities. Every chance we have with a professional customer to prove our exceptional value gives us the ability to earn the next call and capture even more of that customer's business.

As we have seen our business grow over the last few years, our store teams have made the most of these incremental opportunities, and we continue to see runway to leverage our proven business model and execution to gain market share.

Turning to DIY. We continue to be reasonably pleased with this side of our business with our teams delivering steady comparable store sales growth, consistent with our overall trends in the first quarter. As we move past the spring weather volatility we experienced at the end of the first quarter and beginning of the second quarter, our DIY business has been very steady with consistently positive performance in each month of the quarter.

Our comparable store sales increase in our DIY business was driven by increased average ticket values aided by same SKU inflation, but we were also pleased to see flat DIY ticket count comps in the second quarter. Average ticket growth was in the mid-single digits on a combined basis for both sides of our business and drove the larger share of our comparable store sales increase. However, strength in ticket count comps, especially in our professional business, was the larger contributor to our outperformance versus our expectations.

Our average ticket growth was driven primarily by same-SKU inflation, which was in line with our expectations, coupled with a modest benefit from product mix and complexity in our professional business. As anticipated, same-SKU inflation we realized in the second quarter ticked down from the tailwind we saw in the first quarter. We continue to expect to see this benefit moderate in the back half of 2023 as we lap impact of 2022 price increases. This dynamic was built into our initial guidance expectations and remains unchanged.

To wrap up my comments on sales, I would like to highlight our updated sales guidance and full year outlook. From a macro perspective, we continue to remain bullish on the strength of our industry and prospects for the remainder of 2023. Our customer base has continued to be very resilient and willing to prioritize the maintenance and repair of their existing vehicles in order to avoid taking on a payment for newer, more costly vehicles.

While we still maintain an element of caution with regard to the outlook for the overall U.S. economy and the potential for heightened economic pressures, we believe that current market dynamics combine to provide a strong backdrop for demand in our industry.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

In light of this backdrop, we are increasing our full year comparable store sales guidance to a range of 5% to 7% from our previous range of 4% to 6% with a corresponding increase in total sales guidance to $15.4 billion to $15.7 billion. This increase reflects our year-to-date performance through today's call. As I've already discussed, we anticipate moderation in our comparable store sales expectations in the back half of the year as we realize less built-in benefit from same SKU increases.

Our expectations also incorporate more challenging ticket count comparisons as we move through the back half of the year. The combined impact of both of these factors is driving the anticipated deceleration in our comparable store sales guidance in the second half of 2023 versus the 9.8% increase we generated in the first 6 months of 2023. However, our teams remain highly motivated to take share in every market, and we remain diligent in delivering a high level of customer service to accelerate our sales momentum.

Before I move on from sales, I will add that we are pleased to be off to a strong start in the third quarter as we have seen the robust sales trends in the first half of the year continue with incremental strength from the extreme heat in many of our markets in the first few weeks of July.

Now I would like to discuss our second quarter SG&A results, which came in higher than our original expectations for the quarter and were above the long-term growth rate necessary to operate our business model. SG&A as a percentage of sales was 30.3%, a deleverage of 71 basis points from the second quarter of 2022. This deleverage was driven by an increase in SG&A per store of approximately 10%. This heightened level of SG&A was incorporated in part into our initial expectations for 2023 but ultimately came in higher than anticipated driven by a few key factors I will briefly recap.

Coming into 2023, we identified several key initiatives targeted to enhance our long-term operational strength with an intent to capitalize on the considerable momentum we have generated in our business to further separate ourselves from the competition and consolidate the market. We have been pleased with the progress of these initiatives and in a few instances, realized an opportunity to accelerate these investments in the second quarter.

A good example relates to our plans this year to increase our spend on refreshing the image and appearance of our stores, which is targeted at both strategic projects as well as improved general maintenance of our existing facilities. We have sought to return to a new normal post pandemic. We have been -- excuse me, as we have sought to return to a new normal post pandemic, we have been working hard to catch up on deferred maintenance needs of our stores that have unfortunately accumulated over the last couple of years.

As a result, part of our SG&A pressure in the second quarter was driven by going faster than originally planned to address this issue. The image, appearance and shoppability of our stores is incredibly important to our ability to drive DIY traffic, customer satisfaction and in turn share gains over time. We have also seen good traction in our efforts to enhance our team member experience and benefits.

Our initiatives here have reaped better-than-expected team member retention but have also contributed to the overall cost of these enhancements, which coupled with the deferred compensation SG&A headwind Jeremy will discuss in a moment, added to our SG&A growth in the quarter.

Outside of these deliberate decisions to enhance our business, we unfortunately also faced pressure during the quarter from a higher-than-expected self-insured auto liability exposure driven by inflation and claim costs. Ultimately, we remain -- we retain control of our most significant driver of our total SG&A spend and the decisions we make around store payroll and appropriate staffing levels within our stores. Ensuring we have the strongest possible team delivering the best customer service in the industry is one of the most important, if not the most important driver of our long-term success.

Our total payroll spend in the second quarter was another contributor to the higher-than-normal SG&A per store increase driven by total head count and staffing levels, coupled with higher incentive compensation with wage rates largely in line with our expectations. As we have discussed often in the past, we manage this key component of our SG&A spend with a long-term focus. As we have continued to see our business accelerate over the last year-plus since exiting the pandemic, we have prioritized ensuring that our stores are delivering a high level of service on both sides of our business.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

When we gain share with new and existing customers as we have seen over the last 2 years, we create an opportunity to prove our industry-leading value proposition as a trusted supplier and in turn earn repeat expanded business. In these situations, we are judicious about how we manage staffing levels to ensure we are delivering the excellent customer service that develops and maintains long-term relationships.

As we look forward to the balance of the year, we now expect to see an SG&A per store increase of approximately 6%, which reflects our first half results and our outlook for the remainder of the year. Implicit in this guidance is our expectation that per store SG&A growth will moderate versus what we have seen in the first half of 2023 even as we continue to pursue strategic initiatives in our business.

We remain highly committed to expense control as a culture value and have set high expectations for the long-term productivity of the investments we're making today. We have a long track record of diligently managing our expenses to match the business conditions we are seeing in our markets, and we will continue to prudently adjust our operating cost structure to drive long-term value in our business. Finally, we still continue to expect our full year operating profit margin to come in within the range of 19.8% to 20.3% of sales.

Before I turn the call over to Brent, I would like to thank our entire team for their unwavering hard work and commitment so far in 2023. I am extremely humbled to have the opportunity to service our next -- our company's next Chief Executive Officer. And I couldn't be more excited to work side by side with our over 88,000 dedicated parts -- professional parts people to provide the best service possible to our customers and in turn drive outstanding performance for years to come.

Now I'll turn the call over to Brent.

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

Thanks, Brad. And I would like to join Greg and Brad in congratulating Team O'Reilly on the strength of our performance in the second quarter. Our strong top line sales performance and continued ability to outperform the market and gain share is a direct result of our team's relentless commitment to providing excellent customer service. And I want to thank all of our team members for their dedication to our company and to our customers.

Now, I will walk through our second quarter gross margin results, what we are seeing in the competitive environment and discuss our investments in inventory, exciting developments in our store and distribution growth and capital expenditures.

Beginning with gross margin. Our second quarter gross margin of 51.3% was down just 6 basis points from the second quarter of 2022 and at the top end of our expectations. Our second quarter of 2023 represents the first quarter after we have fully lapped the rollout of our professional pricing initiative and atypical LIFO impacts, which provides us a much clearer read on a year-over-year gross margin performance, excluding the noise that these factors have caused in prior quarters.

We are pleased with the stability of our gross profit results, especially in light of the pressure we continue to face from the extremely strong performance of our professional business. As this side of our business has continued to outperform, we have faced mix headwinds to gross margin but have been able to offset this pressure with incremental improvements in acquisition cost, solid leverage of distribution expenses and positive shrink results.

I would also like to provide some color on the cost and pricing dynamics we are seeing in our industry, both on the acquisition side of our supply chain and across the competitive environment in our markets. The short and sweet answer is that our industry remains rational and cost and pricing continue to be very stable, consistent with what we have seen over the past several quarters. Our supplier partners continue to see some degree of inflationary pressure, while at the same time, we have been able to realize incremental opportunities to reduce acquisition costs across some product categories.

These puts and takes are occurring in a much more normalized pattern than what we experienced in 2021 and 2022 and are in line with how we would view normal conditions in our industry from a historical perspective.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Pricing to DIY and professional customers in the industry has remained rational. And we have not seen significant changes in market pricing dynamics in the industry in 2023. Where we have seen increases in product acquisition and other costs, we continue to be successful in passing these increases through in selling price and are confident that this will continue into the future. As we have discussed many times on these calls, price is ultimately not always the deciding factor that determines where a customer will take their business.

Our team continues to perform at a high level by delivering industry-leading product availability and excellent customer service, and these strengths have enabled us to win share at appropriate gross margins in a competitive industry.

As we move into the back half of 2023, our gross margin results can vary based on product sales mix in any individual quarter or the timing of the pass-through of acquisition cost changes. But we are maintaining our full year gross margin guidance and continue to expect the back half of the year to fall within the 50.8% to 51.3% range.

Inventory per store finished the quarter at $762,000, which was in line with our expectations, up 12% from this time last year and 4% 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. Our AP-to-inventory ratio at the end of the second quarter was 134%, in line with the beginning of the year and slightly better than our expectations, supported by strong sales volumes and inventory turns.

We are pleased with the health of our supply chain and continued improvements in store in-stock position. It is clear to us that our industry-leading inventory availability has been a key factor driving our robust sales results, and we continue to prioritize deploying the right inventory at the optimal position in our DC, hub and store network.

Turning to our growth initiatives and capital investment. We are extremely excited to complete the very successful opening of our first new O'Reilly distribution center in Guadalajara, Mexico earlier in July. This 370,000 square foot facility will have the capacity to ultimately service 250 stores in the Guadalajara Metro area and surrounding regions in Mexico.

Even more importantly, our new facility will be a game changer for our business model in Mexico. Since our entry into Mexico in 2019, we have supported our inventory strategies by utilizing a network of smaller distribution centers and warehouses that were part of the historical operations of Mayasa. Our new facility gives us the ability to deploy a much more significant inventory investment and leverage this enhanced and highly competitive inventory availability position.

It is our goal in Mexico, just as in all our domestic markets, to be the industry leader in putting the right part in the hands of our customers faster than the competition. And our new facility in Guadalajara provides the necessary platform to execute our strategy. We have a long history of successful distribution center openings, but each new facility is a significant undertaking and requires incredible hard work and coordination across our organization.

We could not be more pleased with the partnership between our U.S. and Mexico teams that drove the highly successful acquisition, development and opening of this new facility. It is an understatement to say that our store teams in Mexico are very energized by the opportunities that our new distribution center unlocks. And they are dedicated to leveraging all of our competitive advantages as they outwork the competition to grow market share.

From a store growth perspective, we successfully opened 42 stores during the second quarter, bringing our year-to-date total to 100 net new store openings. Our team is on pace to hit our plan of 180 to 190 net new store openings for 2023. Our openings in the first half of the year were very well balanced across our store footprint with new stores coming online in 34 different states, Puerto Rico and Mexico.

Our ability to spread our growth across many markets positions us to be highly selective in hiring and training the outstanding teams that drive the success of our new stores. We continue to be pleased with the performance of our new stores and view our organic store growth as a key priority for our use of capital.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Total capital expenditures for the first 6 months of 2023 were $461 million, up substantially from the first 6 months of 2022, but in line with our ambitious plans to deploy capital against projects and initiatives that will drive long-term growth and operational gains for our business. We remain on target to hit our capital expenditure guidance range of $750 million to $800 million.

To close my comments, I want to once again thank Team O'Reilly for their hard work and continued dedication to our customers.

Now I'll 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 continued hard work and exceptional professionalism. Now we will cover some additional details on our second quarter results and guidance for the remainder of 2023.

For the quarter, sales increased $398 million driven by a 9% increase in comparable store sales and a $75 million noncomp contribution from stores opened in 2022 and 2023 that have not yet entered the comp base.

Brad covered our SG&A expense in the quarter in detail, but I did want to provide some additional color on our deferred compensation plan expenses given the nature of how this plan runs through our income statement. For many years, the company has sponsored a nonqualified deferred comp plan for team members whose participation would otherwise be limited in our qualified 401(k) plan. Since this is a nonqualified plan, the company maintains a liability for the obligation to pay the value of the deferred compensation to team members in the future, adjusted to reflect asset performance and also holds a corresponding asset for the fully funded and participant-directed assets in the plan.

However, market value changes in the plan are reflected on different line items on our income statement with an increase in value driving an increase in SG&A expense and an offsetting benefit below the line in other income. Historically, the net impact has not been significant to either line item, but given the increased size of the planned assets and the more significant market value changes both in the second quarter of 2023 and 2022, we wanted to highlight the difference so that you will be able to update your models.

The year-over-year swing in the market values of planned assets drove a $9 million increase in SG&A expense or 24 basis points with a corresponding $9 million year-over-year favorable change in other income and expense.

Our second quarter effective tax rate was 22.5% of pretax income, comprised of a base rate of 24.3%, reduced by a 1.8% benefit from share-based compensation. This compares to the second quarter 2022 rate of 23.8% of pretax income, which was comprised of a base rate of 24.3% reduced by 0.5% benefit from share-based compensation. Our second quarter base tax rate was in line with our expectations with the total effective tax rate below our expectations due to the higher-than-planned benefits from share-based compensation.

For the full year of 2023, we now expect an effective tax rate of 22.5% comprised of a base rate of 23.4%, reduced by a benefit of 0.9% from share-based compensation. Our fourth quarter effective tax rate is expected to be lower than the other 3 quarters due to the totaling of certain tax periods. Variation 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 first 6 months of 2023 was $1.2 billion, in line with the first half of 2022, with growth in income and a benefit from favorable timing of tax payments and disbursements for renewable energy tax credits, offset by increased capital expenditures in 2023 versus the prior year and a lower benefit from a reduction in net inventory this year versus 2022. For 2023, we now expect free cash flow at a range of $1.9 billion to $2.2 billion, up $100 million from our previous guidance range based on operating cash flow performance in the first half of the year.

Moving on to debt. We finished the second quarter with an adjusted debt-to-EBITDA ratio of 1.92x, 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.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

We continue to be pleased with the execution of our share repurchase program. And during the second quarter, we repurchased 0.8 million shares at an average share price of $904.37 for a total investment of $680 million. Year-to-date, through our press release yesterday, we repurchased 2.2 million shares at an average share price of $855.22 for a total investment of $1.9 billion. 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 updated 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 continued dedication to the company's long-term success.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is coming from Simeon Gutman from Morgan Stanley.

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

It's Simeon Gutman. Congratulations to Brad, Brent and Greg. My first question is market share. It looks like the spread with O'Reilly in the industry is accelerating, at least it has in this calendar year. A question as to what do you attribute it. The only thing that we could put our finger on is a year ago, the PPI initiative. So maybe it just took a year for those investments to rue. So curious what you're take on the market share acceleration is due to.

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

Yes. Simeon, thanks. It's Brad. Yes, I think the PPI is a little bit easy to point to because it's a little bit more tangible for everybody who looks into our company. But I would say that if you talk to our operators like we do every day, the biggest thing we're seeing is just a huge opportunity starting with our team, our culture. The things we've done to stabilize our team to rebound from kind of the COVID hangover in terms of some of the turnover and maybe what was subpar for us from a service standpoint is we just feel really great, first and foremost, about the teams we build, what we're doing with our human capital and the service that our store teams, our distribution teams and our corporate offices are providing.

Second thing I would say is that, especially from operations and sales, the first thing they point to when we talk to them about what we're seeing in the market, Simeon, is the position we're in from a supply chain standpoint. As you know as good as anybody, our immediacy of need in nondiscretionary business, it's all about -- on both sides of the business, it's all about who has the right part at the right place at the right time.

And I just couldn't be more pleased with the job that Brent and the merchant team, the inventory management purchasing team and our distribution teams are doing for our store operators. They have just got us in a better position than we've been in a long time. And we feel like we're playing from a position of strength from the team side, from the supply chain side and all the work we're doing with our professional customers out in the field every day making sales calls. And then obviously, we still feel good about everything we did with PPI.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Yes. Simeon, if I could maybe add to what Brad said there, first of all, thanks for the congrats. And Brad did a nice job of expressing confidence in the supply chain team and our inventory position. Obviously, as we've said over and over again, we've got to be competitive on price, which we are and continue to be and will continue to be. But what outweighs price is inventory availability and service level. And Brad and his teams in the field have just done an outstanding job of making sure we're positioned to provide the highest level of service in the industry.

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

Yes. And maybe the follow-up on that point, this year, you're investing it sounds like a little more at stores to get the experience improved. Service was part of it. Is there a case that you should continue to lean in given that you have transitions happening at competitors? Might we see that the flow-through be a little weaker, as you should just lean into the business especially given how strong it is? Is that a thought that investment mode may continue?

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

Yes. Great question, Simeon. And I think you've picked up, I think, the key thesis behind this. As we've talked about it, really all year, they're coming into 2023. We've just identified areas that we felt really from a long-term perspective allow us to invest within our business and continue to really double down on the momentum that we've seen.

For us to have, I think, such a sustained expense control culture within our organization for such a long period of time, that's a substantial undertaking to think about it in those ways and to move forward. And absolutely, as we've done that, that has been very focused and targeted towards a strong return on those dollars that we're spending in. And we've thought about that from a long-term perspective.

We -- here we are, we sit in July halfway through a year, and I think we've given clear expectations around where we think we'll finish out the year. And funny, we don't really provide guidance for 2024 until later on and we get closer. So I think it's a little bit premature for us to, I think, talk too specifically about that.

For sure, 2023 has been a high year for us. But at the same time, to your question, I'm not going to say that as we move forward, we won't find other opportunities for us to invest in our business, and we'll continue to do so aggressively where we feel like that's appropriate.

Having said that, we have an expense control focus. We're diligent in how we manage to that. And it's our expectation that we'll continue to see the levels of productivity on a long-term basis and improvements in how we think about the returns on our operating cost spend that is consistent with what we've seen over the long course of our business.

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

Well done. Good luck in the second half.

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

Thanks, Simeon.

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

Thanks, Simeon.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Operator

Your next question is coming from Greg Melich from Evercore ISI.

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

My first question is on the same-SKU rate of disinflation. I think you said it's coming in as planned. Could you just update us on what that actually was in the quarter and what you expect it to be in the back half?

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

Yes, Greg. We -- I think we had said that it was mid-single digits in the quarter. We think that moderates in the back half of the year. It won't get all the way to flat. But we would expect it to -- by the time we kind of exit this year, at that stage, you're really just talking about kind of what we've seen in the current year from a year-over-year perspective.

And we've kind of -- as Greg mentioned in -- or I'm sorry, as Brent mentioned in his comments, we've kind of normalized to what we think are more kind of historical long-term rates there. So that would -- that puts you kind of in the low single-digit range. But really, as Brent mentioned, that's all falling -- almost directly in line with what we would have anticipated for this year.

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

Got it. And then maybe you talk a little bit about the category mix that you're seeing in both pro and DIY. It sounded like some of the bigger-ticket stuff with some of your competitors got a little softer, maybe some trade-out happening in those categories or batteries, how some of these things are doing on both sides of the house.

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

Yes, Greg. Well, I'll speak to a little bit of that in terms of categories at a high level. I mean we always are looking for -- we have complete lines across good, better, best product offerings. We're always looking, is there any trade-down, trade-across, trade-up, depending on where the consumer is.

And similar to what we saw in the first quarter and how we answered this question on the call a quarter ago, we actually saw a little bit of a trade-up from better to best and good kind of stayed where -- at the normal baseline that we've seen historically there. So we're not seeing trade-down with the consumer at this point.

I mean in terms of categories where we have seen strength, I would attribute a lot of that strength to better in-stock position in categories like radiators and, in some case, brake components versus where we were a year ago on a comparable basis or even where we were in first quarter on some of those categories. So we continue to see our store in-stock position improve. And as we talked about in our prepared comments, we really believe that's a huge contributor to our share gains.

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

Yes, Greg, this is Greg. I just might add one comment there. In addition to what Brent said, we continue to also see strength and growth in our proprietary brands as well. They currently make up over half of our sales overall.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Got it. That's great and good luck.

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

Yes. Thanks, Greg. Appreciate it.

Operator

Your next question is coming from Chris Horvers from JPMorgan.

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

Congratulations to everybody on their updates. My first question is as you -- can you talk about what you're seeing from a national accounts versus the "up and down the street" business perspective? Is one of relative strength? Are you seeing any pricing differential in those 2 businesses? It sounds like the answer is no. And then lastly, I think it would be helpful maybe if you could size how much national accounts contribute to the overall business.

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

Chris, it's Brad. I'll start this one, and a couple of others may want to jump in. But great question. I think, as you know, us growing our company over the last few decades from humble beginnings here in the center part of the country and growing out toward the coast through acquisition and greenfield expansion. We founded our company on the independent garage, the -- what you call the "up and down the street" accounts, the small everything from a shade tree mechanic to the larger independent garages that compete very well with the larger players.

And then obviously, as we've grown over time, you have your small accounts, you have your midsized accounts. And then obviously, we do have a sizable book of strategic account business that's made up of both national players and regional players.

Part of that, as you know, Chris, is we still have that gap in footprint. We have kind of in the upper Mid-Atlantic and going up into New York in those markets that doesn't always match up with some of the biggest national players. So that's still an opportunity for us as we build out the U.S. But really from what we've seen from your direct question about kind of what we're seeing in our share gains and momentum and how that relates to pricing on the street, we're seeing every bit of our business grow very consistently from the small shops, the larger independent garages, our strategic accounts, all that is very consistent in what we're seeing.

And we've never quantified the exact how that splits out between our strategic and our other book of business. But I would tell you that our -- by far, the foundation of our professional business is the independent garage in the way that we built that from the ground up.

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

Yes. Chris, I'd just add one thing to that, maybe in respect to your size question. Brad talked about it, those are -- the national and regional account, they're very important customers to us. They're an important part of our business. But we may differ from others in that the relative size of that business for us is not so significant that it's a huge need to move into our overall performance.

It's important, as Brad mentioned. It's grown consistently well along with the rest of our business. But it's not a dynamic that has caused our results to be significantly different than the broader base of business.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Got it. My follow-up question is for you, Jeremy. I mean, if you look back historically, gross margin seasonality is pretty flattish over the year, ex periods where you have inflation or deflation -- I'm sorry, like -- yes, inflation or disinflation in the business. And you talked about things getting back to normal. So I guess, does that -- would that suggest that the back half of the year is maybe in the sort of the upper half of your guide sort of consistent with the year-to-date level?

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

Yes -- no. Thanks, Chris. I appreciate the question. And you've been around our story for a really long time to go back to those periods when you could say that the quarter-to-quarter wasn't impacted by some of the noisy items. The LIFO story itself has been a long history. But I think you're appropriate to identify that, generally speaking, seasonality, it has some impact on our gross margin results. Product mix in any quarter can have some impact as well. But they're going to be, I think, much less muted moving forward than some of the larger variances we've seen.

I'd tell you, we'd be cautious in saying the guidance would be in the back half of the year -- or is it in the top half of the range in the back half of the year for no other reason than we've seen our professional business continue to perform well.

And we give a guidance range for a reason. There's going to be some degree of volatility around product mix and the timing of pricing, and Brent called those out in the script. But we feel comfortable with the guidance range that we've had and really with the strength of our gross margin as we've seen our business accelerate and be successful. It's important for us to be able to grow those sales in the right way, and we've seen that with, I think, the steadiness of our gross margin results.

Operator

Your next question is coming from Scot Ciccarelli from Truist.

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

It's Scot Ciccarelli. We're hearing from the field that services facilities are seeing slower tire sales. Presumably, that would stem from increased economic pressures. So the questions are, a, are you hearing similar from your customers? And then, b, even though you guys don't sell tires, you would presumably sell parts on a car being brought in for service. So how much exposure to such a trend could O'Reilly have just from a customer standpoint?

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

Scot, it's Brad. As you said, we don't sell tires. And I want to be careful not to speak for the professional customer installer base. But what we see generally is kind of good and good, meaning if our shops are selling a lot of tires, then they have wheels off, they have -- they're looking at -- they're doing inspections, they're looking at brake parts, they're looking at the chassis, they're looking at a lot of different things.

But then if they're not selling tires, they have a little bit more time on their hands to spend a little bit more time with customers and diagnose better and potentially get ahead of some of the DIFM jobs. So I just want to be careful to answer that too pointed versus that population. But we haven't really seen anything with softer tire sales the way business comes to us. We really haven't seen anything on that front.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Yes. I think maybe just more broadly, Scot, the consumer that we engage in and interact with continues to be resilient and healthy. We -- as you know, we benefit from just the nature of our industry and the immediacy and need and the key value of that transportation demand being so high that we always tend to be a little bit lagging to others that start to see pressure there.

We're cognizant that in short periods of time, you could see customer reactions. But we still have a lot of confidence in what we see as we interact with our customers. They're valuing the proposition of keeping the cars on the road. There -- it's a good return on their investment. I think we'll continue to see that as we have in past economic cycles. But at this point, we haven't seen any of those types of things that you would point to that would indicate the customer -- or our customers suffering.

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

And maybe Scot, just maybe to add one other point to the points that Brad and Jeremy have already made. Interestingly enough, we've continued to see strength in undercar, ride control, chassis, a lot of those categories that are getting looked at when the car is up on the rack. So just throw that in as well for color.

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

I appreciate that. And then just a quickie on accounts payable if inventory stays pretty elevated. Jeremy, is there any reason that should shift by the time we hit year-end? Or is it just the accelerated sales pace and we should continue to see kind of like 125%-, 130%-type ratio?

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

Yes, we would expect it would it would stay at reasonably elevated levels there. Sometimes it can moderate a bit just on seasonality of how some things flow through in the back half of the year within our free cash flow expectations. We've got a little bit of that built in. But we continue to see strong productivity out of existing inventory even as we've added over the course of the last year and the ability to turn that inventory helps us to maintain that negative net investment that is still nice to have.

Operator

Your next question is coming from Brian Nagel from Oppenheimer.

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

I would like to add my congratulations to the promotions all around. So the question I have -- the first question, just with respect -- I guess looking to the back half of the year, and you talked about sort of say, the waning benefits of, I guess, inflation from a sales perspective. But as we think about that then, should we also expect on the other side potentially -- at least the potential for more benefits on the gross margin front with potentially easing sourcing costs?

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

Yes. Brian, I can start on that. I mean I would just tell you, and I mentioned it in the script, a lot of suppliers are still under some pressure from increased cost of capital, increased raw materials, increased labor cost. I mean we do see that.

We also, though, are always aggressively looking at price and cost of goods and doing everything we can to drive out cost of goods and purchase the best we can. Greg talked a little bit earlier about proprietary brands and our continued strength we see in growth in those proprietary brands.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

That gives us an opportunity to shop that with multiple suppliers and be multi-sourced in those categories, which is certainly a strategic strength for us and an opportunity on the cost side.

But I would tell you, in general, the -- a lot of our suppliers would tell you, they're still under cost pressure, as you would expect them to report that. But we feel like we're in a very good position to mitigate that through this period and have done that in many cases.

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

Got it. That's helpful. So my follow-up question, just with respect to June. So we've heard others in your sector talk about weaker June, and others in retail talk about a weaker June. I mean it sounds like your business was pretty steady. So I guess the question is, I mean, did you see anything in the month of June to suggest weakness? And if you didn't, can you -- is there an explanation of why O'Reilly performed so much better than others in that month?

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

To answer the question directly, right, we didn't see weakness in June. We were pleased with our results for the month. The compares obviously are different month-to-month. But relative to our expectations, it performed as strongly as in the other months, actually a little bit higher. The actual comp, they were all within a really tight band. So we feel positive.

We obviously week-to-week, month-to-month evaluate all of the individual drivers of our business. And I think it's tough in such a time period to be able to parse out too much what we see versus what others in the marketplace might see. But we saw solid demand really across regions, across categories throughout the quarter.

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

I appreciate it. Congrats again.

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

Thanks, Brian.

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

Thanks, Brian.

Operator

Your next question is coming from Kate McShane from Goldman Sachs.

Katharine Amanda McShane - *Goldman Sachs Group, Inc., Research Division - MD & Retail Analyst*

We just wanted to make sure that aside from the moderating inflation and some of the challenging ticket count compares, if there was anything else driving the sequentially lower comp outlook for the second half of the year.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

No, Kate. I mean, I think you've identified what really we've talked about since we established our guidance at the beginning of the year. Most of the cadence differences as we move quarter-to-quarter throughout 2023 in the actual math that pushes out our comp, it relates to the way volumes flowed in, in 2022. So for sure, there's a waning same-SKU benefit.

'22 is also a unique year for us, really on both sides of our business where from a transaction perspective, the back half was stronger than the first half for different reasons. The DIY, we faced some pressure in the front half of last year for just volatility in the overall macro economy and then responded better. And then on the professional side, we've continued to see ramp growth there from a transaction perspective.

Really, as we think about the balance of the year, nothing has changed about where we would expect on a sequential volume basis to be our overall business when we think week-to-week from a dollar standpoint. We're anticipating to remain consistent and strong. We're excited about the trends that we've produced in the business.

Operator

Your next question is coming from Mike Baker from D.A. Davidson.

Michael Allen Baker - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

Real quick, can you just talk about the heat that we're seeing throughout the country and how this impacts your business? And specifically, I think you said -- I hate to put -- to have 2 short term, but you said that July was continuing the strength that you saw in June with incremental benefit from the weather. So does that actually mean that July was better than June?

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

Thanks, Mike. It's Brad. Yes. As you know, heat -- we like heat, we like extremes, and we work in enough markets, especially where the hot weather really contributes to failure and weather be immediate. One thing to remember about heat is a lot of time, something like a battery, heat kills batteries, but then it fails in the winter. So we want to be a little bit cautious.

But overall, we're really excited about where our business is. We're excited where we ended the quarter, and we're really excited about how we started July. We're always a little bit careful with a 3-week period, but there's no doubt in our minds that what we're seeing in the market and -- relating to weather that the heat is good for us, and we're doing everything we can to capitalize on it.

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

Yes, Mike. Brad said it right. We don't ever overreact to 3-week periods of time. But it should come as no surprise, you walk outside, you know that, that hot weather is good for us. And that's how we would, I think, frame Brad's comments in the prepared comments around that is, yes, we've seen the benefit that you would expect to see with the weather we've had.

Michael Allen Baker - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

Great. Excellent. One more quick follow-up. The deferred compensation impact in the second quarter that you talked about, that $9 million shift, do we -- does that continue into the third and fourth quarter? I presume if it does or doesn't, that's in the guidance, but just trying to think about how to think about that in terms of our models.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Yes. We don't -- you know we don't do a lot of forecasting within our guide there. We hate to even talk about it, but it does create noise on that other income and expense line. It just really kind of depends on the broader market activity that impacts those accounts. And in normal periods, it's not a needle mover, but it just happened to coincide in the second quarter that it creates noise.

Michael Allen Baker - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

Understood. So in other words, it wasn't a catch-up in the second quarter. It has to do with, I presume, the increase in the stock price during the quarter.

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

Yes. When the market recovers, we see the liability go up, the assets go up. It's a net nothing. It literally -- it perfectly offsets, it just creates noise.

Michael Allen Baker - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

Right. It's important, though, because it makes looks like your SG&A is higher than expected and that the only reason why you beat earnings is because of below-the-line items. But -- so I think it's important to understand it's just a change in the geography.

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

Yes, agreed.

Operator

Your next question is coming from Seth Bashman (sic) [Seth Basham] from Wedbush Securities.

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

Sales productivity on a per employee basis was very strong, reaching on a new record by my calculation. I mean, first, do you see this as sustainable? And then second, can you provide more color on wages and benefits in the quarter and how you expect them to trend going forward on a year-over-year growth basis?

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

Yes. So maybe I can start there and then others can chime in, Seth, and probably answer the second question first. Overall, from a workforce perspective, continuing to see pressure from a wage rate standpoint there. I'd tell you, it's largely in line with what we're seeing with the inflation benefit that we've seen on our top line. And all of that were within our expectations.

I know Brad talked about the SG&A as we've seen the opportunities to invest. But none of our spend outside of our original guide was driven by wage rates. Those were in line with where we had expected.

And we continue to anticipate that we'll have opportunities from an investment perspective in the team member experience enhancements that we've had. We felt very positive about those. I talked about those at length. Those start to moderate just on a comparison basis as we move throughout the year for the things that we've been executing.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

In terms of where that's driven us from a productivity perspective on the sales per team member, absolutely. We're seeing a very robust top line. And Brad talked about it at length in the sense that we really believe that we're winning business based upon the strength of our team and the service and value that they're providing. And we think that our ability to double down on the strength of our team is really going to help us continue to sustain that and improve it as we move forward.

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

Got it. Congrats to Greg, Brad and Brent.

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

Thanks, Seth.

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

Thanks, Seth.

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, Matthew. We'd like to conclude our call today by thanking the entire O'Reilly team for your unwavering dedication and the great results you've generated in the first half of 2023. I'd like to thank everyone for joining the call today, and we look forward to reporting our third quarter results in October. Thank you.

Operator

Thank you. This concludes today's event. You may disconnect at this time, and have a wonderful day. Thank you for your participation.

DISCLAIMER

Refinitiv 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 REFINITIV 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.

©2023, Refinitiv. All Rights Reserved.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV