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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Welcome to the O'Reilly Automotive, Inc. Fourth Quarter and Full Year 2023 Earnings Call. My name is Matthew, and I will 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 fourth quarter and full year 2023 results and our outlook for 2024. 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 Brad Beckham.

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

Thanks, Jeremy. Good morning, everyone, and welcome to the O'Reilly Auto Parts fourth quarter conference call. Participating on the call with me this morning are Brent Kirby, our President; 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 this morning by congratulating Team O'Reilly on another strong performance in the fourth quarter. Our team faced our toughest prior year comparisons where we generated 9% comparable store sales in the fourth quarter last year, which represented our strongest quarterly performance in 2022.

Against this very high bar, our team was able to deliver a strong comparable store sales increase of 3.4% in the fourth quarter of 2023. This was a direct result of their unwavering commitment to providing excellent customer service every day in each of our over 6,000 stores. For the full year of 2023, our team generated a robust 7.9% comparable store sales increase, which was at the high end of the revised guidance range we provided on last quarter's call.

This performance was also almost 2 full percentage points above the high end of our original 2023 comp sales guidance range of 4% to 6%. We're extremely pleased with the ability of our team to deliver industry-leading results again in 2023, especially since this performance was on top of the incredible sales growth in the preceding 3 years. These strong top line sales results drove another year of record-setting earnings per share as diluted EPS increased 15% to $38.47, representing continued strong value creation for our shareholders.

As strong as this performance was in 2023, I again think it's helpful to view these continued outstanding results in a longer-term context. To give some perspective, just in the last 4 years, our company has more than doubled earnings per share with our 2023 EPS 115% above the $17.88 we generated in 2019. After such an amazing run of performance, it would have been far too easy for our team to accept the idea that we may be forced to give back some of our growth. Instead, they did just the opposite, as our business accelerated in 2023.

I couldn't be more proud of our Team's relentless dedication to outperforming the competition by providing the best customer service in the industry. As you'd expect, the incredible momentum we built in our business this year has generated a lot of excitement for our team, and that excitement was on full display at our annual leadership conference held in Dallas just 2 weeks ago.

Each year, we bring all of our store managers and field leadership, including our sales and distribution management teams, together in one place to build leadership skills, enhance product knowledge, share best practices across our company, celebrate award-winning performances and most importantly, set our focus on the year to come.

Our conference theme this year was Leaders in Motion, which perfectly defines the focus and attitude of our team. It's clear the energy created by winning with our customers and driving industry-leading performance is infectious. And all of our leaders are passionate about taking the next step forward and seizing the opportunities in front of us.

Now I'd like to take a few minutes and provide some color on our fourth quarter results.

As we discussed on last quarter's conference call, we started the fourth quarter with solid sales results in line with trends we saw as we exited the third quarter. As we progress throughout the quarter, our results remain relatively consistent on a volume -- from a volume perspective with each month performing better than our guidance expectations. As we expected, our comparable store sales results on a year-over-year basis faced pressure in December against very challenging comparisons the last 2 years when we capitalized on favorable winter weather.

So far this winter, we have seen typical variability in winter weather with more of the harsh conditions that support our business arriving in January versus December. However, we are very pleased with how we finished out 2023 with broad-based solid performance across our core nonweather-related categories. Our comparable store sales results were driven by strength on the professional side of our business where our team delivered yet another quarter of double-digit comp growth in the fourth quarter.

Our professional performance was primarily driven by robust growth in ticket counts, and we continue to be pleased with our team's ability to execute our proven business model at a high level and gain share through exceptional customer service.

Our professional strength was partially offset by pressure in our DIY business, where we faced challenging ticket count comparisons to the weather benefits we saw in 2022 as well as a moderating benefit from same SKU inflation.

Overall, the combined impact of average ticket growth on both sides of our business was a contributor to our comp growth in the quarter. As we discussed on last quarter's call, as we entered the fourth quarter, we had fully lapped the year-over-year inflation benefits that carried over from price levels that ramped throughout 2022. For the fourth quarter, our same SKU benefit was just over 1%, in line with our expectations.

Next, I want to transition to a discussion of our guidance for 2024, starting with our sales outlook. As we disclosed in our earnings release yesterday, we're establishing our annual comparable store sales guidance for 2024 at a range of 3% to 5%, and we want to provide some additional color on how we're viewing both the broader economic conditions in our industry and the opportunities we have to outperform the market.

As we progress through 2023 and now into 2024, we believe the fundamental backdrop for the automotive aftermarket industry is stable and the drivers for demand in our industry remains strong. The daily transportation needs of consumers generates robust and resilient demand for our industry, and there continues to be a very compelling value proposition for consumers to invest in the repair and maintenance of their existing vehicles.

We've been pleased to see improvement in the total miles driven in the U.S. over the last several quarters and expect to see continued steady growth in this metric in line with our -- in line with long term industry trends driven by population growth and an increase in the size of the car park.

We also believe our industry has benefited and will continue to benefit from the increasing average age of vehicles as consumers show a strong willingness to prioritize investments in their existing vehicles to keep them on the road longer at higher and higher mileages.

From a broader macroeconomic standpoint, we view current conditions as favorable for our customers and in turn, our industry. We believe the economic health of the consumer is solid, supported by strong employment trends, improved wages, stable fuel prices and moderating inflation. However, our expertise is not in our ability to predict broader economic conditions.

We remain cautious in our outlook regarding the potential for worsening economic conditions or the possibility of short-term economic shocks, particularly any impacts we could see from sustained higher price levels and interest rates, jumps in gas prices or election year volatility.

As we have discussed in the past, we maintain our conviction that consumers in our industry quickly adjust to challenging environments and will prioritize the maintenance and repair of their existing vehicles as a countermeasure in the pace of economic pressures. Due to the resiliency of our customers and the nondiscretionary nature of our business, we have confidence our industry will perform well in 2024, even if the broader economy ends up facing challenges.

While our outlook for 2024 incorporates our assumptions of a reasonably stable economic environment, ultimately, our performance this year will depend on our effectiveness in executing our business model, providing exceptional customer service and in turn, gaining market share. To that end, I want to spend a few minutes discussing how we view our opportunities on both sides of our business. We expect both our DIY and professional businesses to be positive contributors to our comparable store sales growth in 2024, with professional again expected to outperform.

We have been truly blown away by the incredible momentum our Team has generated with our professional customer base, driving 3 consecutive years of comparable store sales growth in the mid-teens. We were especially excited with the ticket count gains we saw in 2023 as our store, sales, distribution and office Team members delivered on our commitment to excellent customer service and industry-leading inventory availability.

We remain bullish in our outlook for growth in professional in 2024, but expect comps to naturally moderate as we compare against the higher bar we set in 2023. We also believe we have opportunities to gain share on the DIY side of our business, but anticipate that any share growth in the DIY will come in the context of the long-term industry trend of pressure to DIY ticket counts.

We believe the industry dynamic of extended service and repair intervals resulting from increased complexity and quality of parts will drive down DIY ticket counts broadly in our industry.

As a result, we anticipate DIY traffic will be flat to slightly down in 2024 with an expectation that we will continue to gain share to partially offset the normal industry drag on ticket counts. However, increased complexity and quality of parts also drives higher average ticket values, and we expect total DIY comps to be positive in 2024.

For both sides of our business, we expect to see continued growth in average ticket values. However, our 2024 projections assume same SKU inflation will provide a smaller benefit than we have realized in the last 3 years.

Overall price levels were very much more stable in 2023 and consistent with our historical practice, we are assuming only modest increases in price levels from this point forward in 2024. As a result, our guidance assumes a minimal tailwind of less than 1% from same SKU inflation with overall ticket expected to be up low single digits, driven by increased complexity.

Before I move on to sales guidance, I would like to highlight our expectation for the quarterly cadence of our sales growth in 2024. On a weekly volume basis, our business is fairly steady in 2023, and we expect our quarterly comparable store sales growth to be relatively even throughout 2024 absent any unforeseen seasonal variability in weather and a minor shift from the timing of the Easter holiday in the first quarter of 2024 versus the second quarter last year.

We are pleased to be off to a solid start in 2024 aided by favorable winter weather in January. As I mentioned previously, we did not see much of the winter weather benefit in the fourth quarter. However, with the arrival of typical winter conditions in January, we would now view the weather backdrop as normal, and our assumptions underlying our sales guidance for the full year of 2024 do not include any material impacts from weather.

Now I'd like to move on to discuss our capital investment and expansion results in 2023 as well as our plans for 2024. Our capital expenditures for 2023 were just over $1 billion, which exceeded the guidance range we updated on last quarter's call and is approximately $200 million above our initial guidance for the year.

As we progressed through 2023, we realized incremental opportunities to further invest in our store and distribution network as well as accelerate our spend on certain initiatives to refresh our vehicle fleet and enhance our store image and appearance.

For 2024, we're setting our capital expenditure guidance at $900 million to $1 billion. While our expected total CapEx will approach a similar level of spend as 2023, the composition will change somewhat.

A portion of our capital deployment in 2023 was directed at restarting initiatives that were delayed in previous years and accelerating certain projects where we saw an opportunity to improve the image and convenience of our stores.

Our 2024 plans anticipate a leveling of capital investment for these type of projects back to a more normalized annual spend. We also expect to see a reduced CapEx spend for new distribution projects in 2024. We continue to be on track with our ongoing distribution expansion, and Brent will provide a status update on these projects in a few moments.

While we still have substantial dollars to invest to move these projects forward in 2024, our anticipated investment this year will be below our spend in 2023 based upon development time lines for new facilities. These planned reductions in CapEx will be largely offset by an increased investment in new stores as well as continued strategic investments in technology projects and infrastructure.

Our growth in new store CapEx is being driven by a shift toward owned store growth versus lease stores in our planned 2024 new store openings and future store development. As we disclosed last quarter, we have established a target of 190 to 200 net new store openings for 2024 spread across multiple markets in the U.S. and Mexico.

We continue to be very pleased with the performance of our new stores and are excited about our growth opportunities in both new and existing markets alike. We have a long-held preference toward own properties as we fuel our expansion in our ability to successfully open stores that increasingly generate higher sales volumes and stronger cash flows is driving enhanced returns on capital invested in our new store growth.

One of the strengths of our company and a key factor in our growth story has been our ability to balance our organic greenfield growth across geographic -- across our geographic footprint, which -- while also supplementing our expansion with strategic acquisitions. The most important factor in the success of our new stores is the ability to staff the store with highly trained professional parts people who live the O'Reilly culture and are committed to providing excellent customer service in their markets.

Over the course of our history, we have been very fortunate to join forces with several great companies through acquisitions and our ability to partner with seasoned professionals, who have strong relationships with customers in markets that are new to our company has been paramount to our success.

With this in mind, we are thrilled to have completed our acquisition of Groupe Del Vasto in January and are extremely excited to partner with their experienced leadership team to enter the Canadian market.

As noted in our press release in December, the company is headquartered in Montreal, Quebec, Canada and operates as Vast-Auto Distribution. Vast-Auto is a highly respected family-owned business founded over 35 years ago with a company culture focused on the core values of hard work and excellent customer service. They currently operate 2 distribution centers and 6 satellite warehouses that support 23 company-owned stores, a network of strategic independent partners and thousands of professional customers across Eastern Canada.

We are still in the very early innings of planning -- of the planning process for our future expansion in Canada, and there will definitely be more to come as we grow our footprint. But for now, we are very excited to welcome the 500-plus Vast-Auto team members to Team O'Reilly.

In a few moments, Brent will provide additional details on our gross profit and operating profit results as well as our expectations for 2024. But before I turn the call over to him, I want to highlight our earnings per share guidance we outlined in our press release last night.

We have established our EPS guidance for 2024 at $41.05 to $41.55, while we expect the Vast-Auto acquisition to be slightly accretive to our bottom line in 2024, it will not have a material impact on earnings per share.

Our 2024 operating plans and earnings and profitability outlook reflects our continued commitment to investing in our business to grow market share and drive industry-leading results.

We have been pleased with our ability to capitalize on our strong competitive positioning and generate robust sales momentum and will continue to judiciously manage our capital and operating investments to drive long-term growth and high returns.

Our entire team remains highly committed to our business and our customers, and we are very confident in our ability to build on the strong historical EPS results I outlined at the beginning of our call today.

As I wrap up my prepared comments, I would like to once again thank Team O'Reilly for their hard work, dedication and performance in 2023. Now I will turn the call over to Brent.

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

Thanks, Brad. I would also like to begin my comments this morning by congratulating Team O'Reilly on another great year in 2023 and welcoming our newest Canadian team members to our great company. We're thrilled to partner with the Vast-Auto team to enter the Canadian market. Their experienced leadership team and excellent company culture, provide a strong foundation for our growth in Canada, and we view this acquisition as an important part of our strategic expansion plans.

Today, I will further discuss our fourth quarter and full year operational results and provide some additional color on our outlook for 2024. Starting with gross margin. Our fourth quarter gross margin of 51.3% was a 47 basis point increase from the fourth quarter of 2022 and at the high end of our expectations. Our full year gross margin also came in at 51.3%, in line with last year and also at the high end of our guidance range.

As a reminder, our full year results as compared to 2022 were impacted by incremental pressure we faced in the first quarter from the final impacts of calendaring our 2022 professional pricing initiative. Subsequent to the first quarter, our gross margin for the remaining 3 quarters of the year improved approximately 30 basis points from the comparable period in 2022.

We've been pleased with our consistent solid gross margin results, especially in light of the mix headwind we faced from our outsized strong performance in our professional business. Our supply chain teams with outstanding support from our supplier partners have worked diligently to drive improved gross margins through incremental improvements in acquisition costs and distribution efficiencies.

For 2024, we expect to continue to see further expansion of gross margin as we calendar our gains in 2023 and drive similar incremental improvements as we progress through the year. We have established a guidance range for 2024 of 51% to 51.5%, which includes an anticipated 25 basis points of dilution from the inclusion of the acquired Vast-Auto business in our results.

As we outlined in our press release, because of our new partner's current mix of lower margin distribution business to independent parts stores, we're expecting this headwind to consolidate gross margin, but only expect a net impact of 15 basis points to operating profit since they operate with a lower mix of owned stores and associated operating cost.

Excluding the impact of adding the Vast-Auto business, our expected gross profit is projected to be up 24 basis points at the midpoint. This reflects our confidence in the tremendous amount of focus our supply chain, store operations and sales teams have on creating a premium value proposition for our customers.

Our quarterly gross margin remained very consistent throughout 2023. and we expect a similar quarterly cadence as we move through 2024. While we cannot completely predict what inflation will look like from a macro perspective, our current assumptions also build in a stable inflation environment, both as it relates to our product input cost and selling prices to our customers, as Brad outlined in his comments.

During 2023, we saw puts and takes in the costing environment as a result of inflationary pressures broadly experienced by our supply chain partners, offset by our Team's efforts to manage acquisition cost effectively.

We really view this as a normal state of condition for our industry and expect a similar rational environment in 2024. Our expectations also assume customer pricing in our industry will remain rational. As pleased as we've been with our incremental improvements to gross margin rate, we're even more excited with our strong gross profit dollar growth, which saw an increase of 10% in 2023 and is projected for solid growth again in 2024.

Our consistent strong performance is the direct result of a continued high level of execution of our business model and our unrelenting commitment to providing our customers with the absolute best parts availability in our industry.

This competitive advantage is the direct result of our long-term commitment to making sound investments in our supply chain, distribution network and inventory position. And we're excited about the projects we have underway to continue to enhance our capabilities in 2024.

To start on the distribution side of the business, we have 3 significant projects in development that will add capacity and service levels to our network, and I'd like to provide a quick update on our progress.

As we have previously disclosed, we currently have new distribution centers under construction to relocate our existing Springfield, Missouri and Atlanta, Georgia DCs to larger, more efficient facilities.

This expanded capacity will enable us to continue to support new store growth in some of our more mature core market areas as well as support the increased per store volumes that have grown significantly during the last several years.

Both of these projects are on track. We're projecting the Springfield relocation to be complete in the back half of 2024, and we'll begin the process of transferring stores to the new Atlanta facility at the end of this year. We're also making great progress on the development of our new greenfield distribution center in Stafford, Virginia and continue to expect for this facility to be operational in the middle of 2025.

It will support our expansion into these new untapped market areas for our company. Our distribution strategy directly aligns with the store growth strategies that Brad outlined earlier, and these new facilities will be key drivers of our ability to capture market share in both existing and new markets. In addition to the investments we're making in our distribution centers, we continue to prioritize the opportunities we have to enhance our hub store network, which is the next level of our tiered supply chain model.

Our ability to support our stores with quick access to broad localized SKU availability is an important factor in our ability to effectively compete up and down the street. We continually evaluate this network to ensure all of our stores have the best access to inventory in their respective markets, and we'll adjust the number, location and size of hub stores as necessary to achieve this goal. Every year, a portion of our capital and operating investment is geared toward this tier in our distribution model and our plans for 2024 are in line with this continued commitment.

Moving on to inventory. Our inventory per store at the end of 2023 was $575,000, which was up 4% from the end of last year, driven by our continued opportunistic investments to support our sales momentum. In the coming year, our planned growth and inventory per store corresponds with the growth we will send -- see in our distribution and hub network.

For 2024, we expect per-store inventory to increase approximately 4% within our existing chain with the addition of the acquired Vast-Auto inventory, resulting in another 1% of per store growth since their model is more heavily weighted to distribution with a lower store count.

Our growth objectives are focused on adding expanded inventories in our relocated DCs, augmenting the inventory availability in our hub network and capitalizing on targeted additions in our stores to ensure we're offering the best possible local assortment and inventory availability.

Now I want to spend some time covering our SG&A and operating profit performance in 2023 and our outlook for 2024. Fourth quarter SG&A expense as a percent of sales was 32.6%, up 43 basis points from the fourth quarter of 2022 and above our expectations due to higher-than-expected self-insured auto liability exposure and legal costs, driven by inflation and claims costs.

Average per store SG&A expense for the full year of 2023 were up 7.8%, slightly above our revised guidance from the third quarter as a result of these same drivers. As we have discussed throughout the year, the outsized year-over-year SG&A growth as compared to our historical growth rates, was the result of planned initiatives targeted at enhancing our long-term operational strength through reinvestment in our stores, technology and our outstanding team.

As we look forward to 2024, we're planning to grow average SG&A per store by 4.5% to 5%. With approximately 1/2 of 1 point of this increase driven by the addition of the Vast-Auto operations. Our anticipated store growth in 2024 is a step down from the significant investment we made in 2023, but is higher than we would normally forecast in our initial SG&A guidance driven by a few key factors.

Part of our anticipated increase in 2024 SG&A expense is driven by a year-over-year increase in depreciation expense directly related to our increased CapEx spend in both 2023 and 2024. As we calendar passed our prior year investments, this headwind will moderate as we move through 2024, especially as our mix of capital spending in 2024 shifts more towards new store investments.

The more significant driver of our planned initiative-driven SG&A spend is our continued investment in our technology capabilities, both in incremental tools and infrastructure. We've been pleased with the impact our IT investments are having on our business and the opportunities we see to support our growth initiatives as we move forward.

Based on these expectations and our projected gross margin rate, we're setting our operating profit guidance range at 19.7% to 20.2%. As we disclosed in our press release yesterday, this includes an anticipated dilution of 15 basis points from the inclusion of Vast-Auto's results in our consolidated guidance.

Excluding that impact, our guidance for 2024 brackets our 2023 results with the midpoint of our expected operating profit range down slightly from last year. Based on the anticipated cadence of our SG&A growth during the year, we expect more pressure to operating profit in the first half of the year than the back half.

As Brad previously mentioned, we are highly committed to growing our share of the market and driving industry-leading results. Before I close my comments, I want to join Brad in expressing the privilege it was to spend time with our company leaders at our annual leadership conference in January.

Our team certainly had much to celebrate given their outstanding performance in 2023, but it was evident that our team is not satisfied with resting on our past success. Rather, they are intensely focused on providing excellent customer service and continuing to grow market share in 2024 and beyond. 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 congratulate Team O'Reilly on another outstanding year. Now we will fill in some additional details on our fourth quarter results and guidance for 2024. For the fourth quarter, sales increased $188 million, driven by a 3.4% increase in comparable store sales and a $71 million noncomp contribution from stores opened in 2022 and 2023 that have not yet entered the comp base.

For 2024, we expect our total revenues to be between $16.8 billion and $17.1 billion. Our guidance for total revenues includes the benefit from leap day in 2024, but this additional day will not be included in our comparable store sales calculation consistent with our historical practice.

Our fourth quarter effective tax rate was 17.7% of pretax income comprised of a base rate of 18.9%, reduced by a 1.2% benefit for share-based compensation. This compares to the fourth quarter of 2022 rate of 18.2% of pretax income, which was comprised of a base tax rate of 19.9%, reduced by a 1.7% benefit from share-based compensation.

The fourth quarter of 2023 base rate as compared to 2022 was lower as a result of an increase in certain federal and state tax credits. For the full year, our effective tax rate was 21.9% of pretax income, comprised of a base rate of 23.1% reduced by a 1.2% benefit for share-based compensation.

For the full year of 2024, we expect an effective tax rate of 22.6%, comprised of a base rate of 23.1%, reduced by a benefit of 0.5% for share-based compensation. We expect the fourth quarter rate to be lower than the other 3 quarters due to the tolling of certain tax periods, also 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 in 2023 and our expectations for 2024.

Free cash flow for 2023 was $2 billion versus $2.4 billion in 2022. The decrease of $383 million was the result of the increased capital expenditures Brad discussed earlier as well as an increase in net inventory in 2023 versus the substantial working capital reduction in net inventory we realized in 2022. These headwinds were partially offset by growth in income and a benefit from favorable timing of tax payments and disbursements for renewable energy tax credits.

For 2024, we expect free cash flow to again be in the range of $1.8 billion to $2.1 billion. We anticipate the benefit to free cash flow from growth in our operating income will be offset by a headwind as we compare to the benefit we realized in 2023 from favorable timing of tax payments and purchases of renewable energy tax credits.

As Brad and Brent discussed in their prepared comments, in 2024, we have planned for capital expenditures and inventory growth at similar levels to the investments we made in 2023. And as a result, we expect a comparable impact to free cash flow.

I also want to touch briefly on the component of our net inventory driven by our AP to inventory ratio. We finished the fourth quarter at 131%, which was reduced from the rate we saw through much of 2023.

This moderation in AP reflects the timing impact of payments associated with the substantial inventory purchases we made at the end of 2022 to support our strong sales volumes and significant inventory additions as we exited last year. For 2024, we expect to see continued moderation and an impact from our Canadian acquisition and currently expect to finish the year at a ratio of approximately 127%.

Moving on to debt. We finished the fourth quarter with an adjusted debt-to-EBITDA ratio of 2.03x as compared to our end of 2022 ratio of 1.84x with the increase driven by our successful issuance of $750 million of 3-year senior notes in November and borrowings under our commercial paper program, partially offset by the June retirement of $300 million of maturing notes. 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 for 2023, we repurchased 3.6 million shares at an average share price of $883.13 for a total investment of $3.2 billion.

Since the inception of our share repurchase program in 2011, we have repurchased 94 million shares at an average share price of $247 for a total investment of $23.3 billion. We remain very confident that the average repurchase price is supported by the expected discounted 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, our EPS guidance, Brad outlined earlier includes the impact of shares repurchased through this call, but does not include any additional share repurchases.

Before I open up our call to your questions, I would like to thank the entire O'Reilly team for their dedication to our company and our customers. Your hard work and commitment to excellent customer service continues to drive our outstanding performance.

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 Scot Ciccarelli from Truist Securities.

Joshua Allen Young - *Truist Securities, Inc., Research Division - Research Analyst*

This is Joshua Young on for Scot. As we look to 2024, how are you thinking about the sustainability of the growth rates you've been putting up on the commercial side of the business? Then as we think about the transaction growth in commercial, would you attribute it more to doing business with new customers? Or is that coming more from wallet share with existing accounts?

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

Josh, it's Brad. I'll kick this off and see if the guys have anything else. But as I think you know, there's a lot of moving pieces this year. We're going up against a huge performance last year in 2023 on top of everything we generated with mid-teens, comp sales growth on the professional side in the last 3 years. So I want to be a little bit careful talking about the sustainability of that as a percentage as our bases continue to get bigger. Again, there's a lot of moving pieces in 2024. We want to be a little bit cautious of everything going on in '24.

But what I can talk to you about from an absolute confidence perspective is our ability to continue to outcomp the market and continue to take share, especially on the professional side of the business. We couldn't be more confident in our team's ability to continue to drive share gains on the professional side. As you know that side of the business is still extremely fragmented. And we have a lot of initiatives in place as well as just our fundamental everyday execution that we've always had to make sure we continue to drive share gains here in 2024.

In terms of the transaction part of it, Josh, I would say it's probably a combination of both. When we think about the makeup of our professional business and you think of kind of how we're always working up that call list, we're always going to be focused on new business. There's customers out there even in existing markets that still don't buy hardly anything from us simply because of the relationship they have with somebody else.

And that business and those relationships is built over time, but we're out there chipping away on it every day. And so we have that business that we're not doing today. And when Brent and I and Jeremy look at our performance on the professional side, we're seeing fairly balanced growth, both with existing customers and new. And we feel like that is going to continue for the foreseeable future.

Joshua Allen Young - *Truist Securities, Inc., Research Division - Research Analyst*

Got it. Very helpful. And then, just this year, you obviously had the elevated SG&A growth on that investment spending. And it sounds like that may be the case again in '24. Could you just give us some more color on where your biggest remaining investment opportunities are? And do you think you'll be finished with this sort of accelerated investment cycle by the end of this year?

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

Yes, I'll take that, Josh. And again, see if the guys have anything else. Obviously, a very fair question. As you know, as we talk through the quarters in 2023, we continue to see opportunities to play from our position of strength. We're always thinking about the long game when it comes to making sure that we're driving the profitability of our business through sustained share gains that we talked about a minute ago.

Really, as we said a couple of times last year, we had the question, is this going to continue in 2024? And our answers then the entire time that we're going to wait and see and see how we feel about the continued ability for us to capitalize on some of the volatility that's happening with some weaker competitors. And as you've seen, that's still how we feel. Really, when we look at the makeup of that, we're obviously rifle approach when it comes to our store payroll and how we manage that each and every day.

We're also still rifle approach on making sure those staffing levels to really affect both sides of our business on the share gains. We want to make sure that we continue to staff for that. Really, the makeup that Brent just talked about really how we're seeing that is the biggest driver of that is going to be our continued investments in tech.

And how we're thinking about that is pretty simple. We have had an amazing run in the last many years, but we're not looking backwards. We're looking at the next many years of our business. We only own 10% of the market in the U.S. And so we have an extreme opportunity to get after some of these investments when it comes to technology and specifically in the form of how are we going to help our frontline team members to give better customer service.

How are we going to remove friction from the customer experience, both with our DIY customers and our professional customers. And so we feel extremely good about those investments in SG&A, and we feel like there's things we could do, Josh, here for the short term to drive down SG&A, but that wouldn't be the right thing to do, knowing we only own 10% of the market and knowing that we're playing the long game here.

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

Yes. And the only thing I would add Josh, to Brad's comments, especially as it relates to the tech investments, everything we invest in, to Brad's point, we're playing the long game, but we invest through a filter of expecting a return on it. And a return in the marketplace and an outsized return with our customer base. So that's the lens we look through when we make those investments.

Operator

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

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

I wondered if you could talk a little bit more about the change to more owned retail? And can you walk us through what that means for availability of cash for share buybacks over the longer term?

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

Kate, this is Jeremy. Great question. It's been kind of an interesting transition over a lot of our history as a company. We've always had a preference or a bias towards owned properties. We feel like that long-term investment and our ability to get compounding returns out of an increasing store bases is an attractive part of how we're able to deploy capital for our shareholders. invest back in our business.

And we've spoken kind of, gosh, over the long course of time, especially as we move to sort of our current capital structure in 2011 and started to dial up our share buyback, we've been consistent around how we think about the prioritization of our use of capital.

And the first part of that has always been within our existing operations and how we think about funding the things that are going to make our existing stores be better. And then as we focus on growth, we know that, that's been a very valuable engine for a long course of time for our shareholders.

That's always been tempered a little bit by what are the best opportunities and things that are available within our market. And so we've always had a balance. As we work through the last few years, we've seen the economics on those investments improve really on both sides.

But for sure, as we own those properties and the per store volumes and our profitability per store have improved, there's an even I think, more powerful value creation mechanism there as we invest in owned stores, and I think that's helped.

I think there's also been an ability to identify those properties within the marketplace that has been a little bit easier. So those have been the driving factors, and it's obviously been moving that direction for at least some period of time.

You don't make those decisions for the next year at the beginning of the year, they've been in play. But for us, for this year, we would expect instead of being around 40% of owned new stores in our mix to be closer to 60% for the year and feel like that that's a positive thing.

In terms of how it affects our ability to deploy cash from a share buyback perspective, obviously, at the increments, it's going to be less dollars that we would allocate to that. But that's -- that's also in line with our historical priorities around use of capital.

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

Yes. And Kate, I may just jump in. This is Brad. Jeremy did a great job kind of really framing up your -- the answer to your question. The one thing I would highlight and just reiterate from what Jeremy said was how incredibly impressed we are with our ability to open new stores.

Our team is just doing from site acquisition all the way through the build all the way through the store execution and our field Team's ability to build the right team with a great store manager professional parts people, we are just incredibly pleased with our new store performance both in backfill markets in kind of the center part of the country and our existing footprint as well as our new greenfield markets.

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*

Can you -- you sort of alluded to it, but a little more color on the competitive situation. You guys have been pretty big market share gainers if you just look at your comps versus competitors or even your comps versus I don't know if you look at the NAICS data, sales through automotive supply entire stores. With your comps a little bit lower this quarter because of tough comparisons, you are a little bit below that industry data. I'm wondering if there's anything changing in your view in terms of competitive situation or market's ability to take market share or anything along those lines?

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

Mike, it's Brad. I'll take a stab at that. So maybe just to answer your question directly on the NAICS data. We, in our business, at least at O'Reilly, have never been able to tie that out exactly to correlate the way that some do. Not to say directionally, there's not something there. But we haven't seen anything change in the competitive dynamic as we look at our performance in Q4 by month.

I -- Mike, I spent a lot of time just looking at the outputs from our CRM tool that our sales team has out in the field. And listen, those independent competitors that you know very well, I mean, they're incredibly well run. We have a tremendous amount of respect for those WDs, the independents, the 2 steppers. They do an incredible job. And they are honestly our toughest competitor and they hold the most market share when we look at the total addressable market on the professional side of our business, that they are great competitors.

That said, there's been nothing that we see that has pointed to anything that has been a step change or anything different, but they were tough all year last year, and they continue to be tough in Q4. And so I wouldn't tie that directly to what you're seeing in that data, we just really aren't seeing that.

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

Mike, this is Brent. I would add to everything Brad said. I would also add that we continue to see a very rational pricing environment out there amongst the competition and as it relates to our ability to continue to win when it comes down to professional parts people and parts availability and service, we feel very good with our proposition going forward.

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

Okay. That makes sense. One -- another follow-up to something you said. You talked about the operating profit pressure to be a little bit greater in the first half, but gross margin is relatively consistent and comps relatively consistent. So presumably, the SG&A is a little bit higher in the first half. Is that just timing of when you're adding some investments or more store labor in the first half of the year versus second half? Just curious what would cause that to occur?

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

No, Mike. It's really a little bit more of the impact of the investments we made throughout 2023, and especially as those -- some of those capital investments, thinking about things like the rollout of our store fleet or our ability to get all the way through all of our stores with our LED lighting upgrade, the timing of how those investments flowed in, in the prior year and the depreciation impact of that means that we've got some compare noise that would hit us a little bit heavier in the first part of our year.

There is also some degree of timing of some of the technology investments that Brent spoke to, that is the cadence of what that looks like. So that's the reason for that, I guess, commentary around how we would expect cadence to look.

Operator

Your next question is coming from Michael Lasser from UBS.

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

As you set your guidance for 3% to 5% comp growth for the year, what have you assumed about the industry growth rate and your ability to take share within the industry? Have you assumed that essentially you will grow your share at the same rate that you did in 2023?

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

Michael, great question. We appreciate it. So kind of -- obviously, we want to balance our confidence in our ability to continue to take share, to continue to outcomp the market in all both sides of the business, not just professional. As I said earlier, I think maybe Brent and I both did, we see 2024 generally as an overall market as more of a "normal" year.

Now what's the definition of normal. You look back at the last many years and how much volatility, how much opportunity, how many things have happened, kind of previous to COVID, we generally think that a normal year based upon all our history, all our decades of doing this, that a normal year for the industry is probably more in that 2% to 3% range.

And so I think that ties into kind of what we're saying with our guide. Again, like you know, Michael, we always say we're not very good at predicting the future, and it's hard to say exactly what the what future holds for the industry in 2024. But I think I would generally point you to that kind of 2% to 3% range.

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

Michael, the only thing I would add to that is, if you have to ask the question, do we think our market share gains will be as strong in 2024 as they were in 2023? The answer obviously is no. I mean, we comped to 7.9% last year, and we're clearly not guiding to that range this year.

We feel like that we still have the same competitive advantages. We really feel like our Teams are energized and enthusiastic about the momentum we've created to move forward.

But we're continuing to calendar increasingly hard comps, especially on the professional traffic side of our business. So that, I think, implicit within how we think about the way this year will play out. It's just our knowledge that we're going to continue to make gains, but we're doing that on a bigger base.

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

Okay. My follow-up question is, Brad, as you begin the tenure of being the CEO of O'Reilly, do you think that the company is at a peak operating margin rate level? And how much within your focus is on continuing to improve the percentage rate of this organization over time, given that there has been a lot of investment spend made over the last few years?

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

Yes. Thank you so much, Michael. So as you know, our primary focus, I've been here for 27 years, grew up with the company and our -- everything that we do has always started as a company with our mission statement that we're going to be the dominant auto parts supplier in all our market areas. And we always focus on not just the business we have but what's out there in the market, total addressable not only for the U.S. but now Mexico and Canada.

And so every -- we start with that. And then we always have done that profitably, and our goal has always been to drive operating profit dollar growth. And that has not changed.

When I think back, Michael, over the last 5 years, I absolutely don't want to live in the past. But when you think about the fact that we ended 2019 with an operating profit percentage of 18.9%, ended the year with a 20.3% at 2023, I think that kind of to your question, kind of points to where we're thinking about the future in terms of what I want to make sure we do and what we want to make sure we do is we want to set up for a similar trajectory going forward in the years to come. not meaning that we're assuring anybody of what our rate is going to be, but we know we can do it through share gains and driving operating profit dollar growth.

That's where our head is at. It's where it's always been at. Now do we have pride in where we've gotten our rate? Absolutely, especially since going all the way back to when we bought CSK in 2008. We're extremely prideful of where we've gotten our rate. And question has always been, hey, what is the right operating profit percentage? And our answer has always been as high as we can possibly get.

So we're going to continue to have that focus. We're going to focus on share gains, doing it profitably and driving that operating profit dollar growth, and we'll continue to make sure that we drive that rate as much as we possibly can.

Operator

Your next question is coming from Simeon Gutman from Morgan Stanley.

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

Brad, we were talking about SG&A earlier. And last year, you spent a little more, and you did get a return. I know it's not perfectly linked, but it looks like you got to pay off last year. How much debate did you have around maintaining an even higher level of spend? I know there's some tapering, but why not continue to lean in, while there's, call it, displacement going on in the industry behind you?

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

Thanks, Simeon, and I'll start that off and see if the guys have anything else. So yes, I think that's right. We feel really good. There's been a lot of talk about kind of -- we've been asked about catch-up with what we spent this last year.

And I think we want to more reframe that to timing because anything that we were "catching up" on, to Brent's point earlier to one of the other questions, we have a very solid discipline internally here on a return on every amount of spend that we make, whether it be SG&A, whether it be CapEx and how those play together between CapEx and OpEx with depreciation.

And so we feel really good about the money we spend. We feel really good about the returns. And we're going to continue to lean into that, both directions. And we -- that's really what got us to where we're at today to kind of your -- the root of your question is where is that line of what's the right spend and that really just lanes us back to our guidance.

We feel really good about every moving piece of our SG&A. We feel good about the returns as well as CapEx and everything that we're talking about when it comes to tech investments, when it comes to safer vehicles, the image and appearance of our stores and all the things you've heard us talk about. We're going to continue to lean into that as you've seen.

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

Simeon, I...

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

And a follow-up -- please.

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

Simeon, just one other thing to maybe add to Brad's comment and kind of speak to your question, too, is, obviously, we just leaned into an acquisition, too, as part of investing in a future opportunity. And we feel good about that investment as well, still more shape to come to that over time, but definitely continue to lean in where we see opportunity.

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

Yes. And a quick follow-up, more short term. I don't think I heard it in the prepared remarks, maybe you never venture to guess what weather means in a quarter. Given that you face 2 years of favorable weather, but any idea and is there deferred maintenance or that got resolved with the ongoing run rate of the business?

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

You're talking about fourth quarter, Simeon?

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

Yes, any fourth quarter impact? And then does that create deferred maintenance? Or has that just gotten realized as the weather has become more favorable for maintenance and repair?

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

Yes. No, I appreciate the question. A good one. For sure, there is a fourth quarter impact. I would tell you that for both the weather impact, the calendar, the timing of the holiday was a little bit unfavorable to us.

The bulk of what we saw was anticipated and would have been built into how we thought about the guidance as we moved into the fourth quarter. It had a lot to do with how we performed in 2022, which was very strong, in '21 also.

So there's definitely a degree to which the timing of winter showing up in January versus December impacted those results. In terms of how you think about that for major shifts to deferral, we're not talking about like a huge needle mover and it's really I mean, literally as simple as a couple of weeks in December last year versus a couple of weeks in January of this year.

And that's why within the prepared comments, we talked about kind of on balance as we think about the full winter season, we're sort of where we would expect to be in the setup for the remainder of the year is how we would view as kind of normal for our industry.

Operator

Your next question is coming from Greg Melich from Evercore.

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

I'd like to follow up on sales and then maybe a bit on SG&A. Just to make clear, I've got the fourth quarter, right, It was December, I think you said pressured. Was it actually negative in December. And is the first quarter running above the range for the year, given the polar vortex?

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

Yes. So I can answer both those questions, Greg. The December was negative for us. It was better than our plan candidly, but we kind of knew it would be -- it was substantially good last year. We don't give discrete quantification of where we run at the beginning of the year just because there's always a challenge with short periods of time and how the weeks to weeks can vary just on a 1-year comp.

But we do feel comfortable that we're running well. We're pleased with how we set up and we largely attribute that shrink so far to the couple of weeks of really, really harsh weather that we got in January.

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

Got it. And then maybe a follow-up on sales. I want to make sure I get the inflation and mix part of this, right? So inflation same SKU will be around 1%. And then should we assume another 200 bps of complexity and mix within your 3% to 5% guide? Is that a fair buildup?

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

Yes. I don't know that I'd put too finer point like that on it, Greg, for 2024. First, I don't know what inflation will be in 2024. Our guidance is a little bit less than 1%. We'll get a benefit from the average ticket above that, even independent of professional growing faster, which naturally pulls the total company average ticket up.

But we would still expect that a portion of our comp expectations for next year are driven by ticket count growth as the professional side of the business is expected to continue to be solid.

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

Great. Well, I'll let somebody ask -- someone else ask when do you get the flex capacitor in stock that we see on the website.

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

Thank you, Greg.

Operator

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

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

Thank you, Matthew. We would like to conclude our call today by thanking the entire O'Reilly Team for your unwavering dedication to our customers and the outstanding results you produced in 2023. I would like to thank everyone for joining our call today, and we look forward to reporting our first quarter results in April. Thank you.

Operator

Thank you. This does conclude today's conference call. You may disconnect your phone lines at this time, have a wonderful day. Thank you for your participation.