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OVERVIEW:

Company Summary

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PRESENTATION

Mark Merz - *O'Reilly Automotive Inc - Senior Vice President - Finance, Vice President of Investor Relations, Financial Reporting and Planning*

Well, good morning, everyone, and welcome to the 2024 O'Reilly Analyst Day. It's great to see so many familiar faces, but it's also great to see a lot of faces that we haven't seen before. So welcome. We would also like to welcome everyone who is listening to the Analyst Day via webcast.

So for everyone who doesn't know, my name is Mark Merz. I'm the Senior Vice President of Finance here at Team O'Reilly. For many years, I've headed our investor relations functions, but I have a change in my position with the company coming soon.

So I'm very pleased to have joining us today Leslie Scorick. Leslie will be taking over as a primary point person for investor relations for the company going forward. So hopefully, everybody will have a chance to get to know and meet Leslie in person today. So we will go ahead and kick off the day's events.

We will start with are forward-looking statements. So everyone who is listening via the webcast should be able to see the forward-looking statement on their screen. By the way, everyone who is listening via webcast, you have the ability to download the full PDF presentation and save it and follow us or you could follow via the webcast.

So we do claim the Safe Harbor protections under the Private Securities Litigation Reform Act of 1995. I'm not going to read the entire statement. But just know we do claim those protections today. All of the information that we will be discussing today will be in relation to our most recent public earnings release, which is for our second quarter ended June 30.

And so just like with our past Analyst Days, these events aren't days where we provide new outlook or provide updated guidance or provide new information. These are just simply a day where we have a chance to get up and talk to the investment community about the business and give the investment community opportunities to ask about the management team questions.

The events for today will have roughly in our prepared comments where our team will present, and then we'll have roughly an hour of Q&A. So right about 10:30, the webcast portion of the event will end. And then following that will -- for the live participants, we'll do a distribution center tour, and then we'll come back here into this room and we'll have a have a light lunch and have a chance to sit down and talk to management. And then we will go see the store that's attached to the distribution center, and then we will go visit one other store and then the shuttles will head to the airport.

So with that, again, it's my very great pleasure to introduce Leslie. And Leslie is going to talk about the thing that is the most important thing for the company, and that is culture. Our team, our culture and our promote for more than are what makes O'Reilly special. It's what's made us different than every other company in the world for 60 years, and it's what's going to make us different from every other company for the next 60 years. And you'll hear that theme very consistently from our team today.

So with that, I'll turn it over to Leslie to provide our culture statement.

Leslie Skorick - *O'Reilly Automotive Inc - IR*

Good morning, everyone. Thank you for being here.

As Mark said, my name is Leslie Skorick. I've had the privilege of being with Team O'Reilly for just under 10 years. Most of that has been in the tax function. Prior to that, I worked in public accounting and at a couple of other large publicly traded companies. I'm excited about this new opportunity and appreciate the promote from within philosophy that O'Reilly has as part of our culture to enable me to take this next step in my career.

So today, I'm going to talk a little bit more about our culture and our excellent customer service. That begins with our field team, providing the best customer service in the industry to all of our customers, no matter what the circumstances are. As you'll see today, that is backed up by our tremendous DC teams providing the right part at the right time.

Then, our corporate office rounds that out with our comprehensive one call does it all approach to supporting the field and the DC teams. O'Reilly remains unwavering in our commitment to customer service, which allows us to maintain our competitive edge. You will see today the opportunity that we uphold our customer service throughout our company and has been the cornerstone of our history.

Thank you. I'm going to turn it over to Brad now.

Brad Beckham - *O'Reilly Automotive Inc - Chief Executive Officer*

All right. Welcome, everybody. Great job, Leslie. Thank you so much. So I want to kick off.

We talked about culture already, which A lot of companies talk about culture, but in my 28 years with the company, I literally grew up here with the company since I was 17 years old. And culture even before it was really documented with such a huge part of my upbringing and who we are as a company today, but not very far behind culture.

I think sometimes it's missed. When we do an event like this, we want to highlight the team first and foremost. We'll do a distribution center tour. We're going to see a couple of stores. But I think sometimes because it seems a little bit intangible or like every company out there has a management team, they have field management. They have people running store operations, sales, distribution operations.

I think it's missed sometimes that what we want to highlight the most today is our amazing team and the amount of tenure we have within our company, not just industry experience, but true O'Reilly experience of all these years represented on this slide here, this is -- 99% of this is actually O'Reilly time. We could almost really say, instead of saying industry experience, we could really say O'Reilly experience. A few of our field folks started out maybe with a competitor, but they've been with us for a very long time.

So I'm not going to talk about the executive team as much. You all know us. For the most part, you know the finance team. So really what I want to do is highlight the team in the back of the room. Some of you had the opportunity to meet as you came in and saw everybody. But I want to do some individual introductions because these are the folks that have the real work in our company.

And I mean that from the bottom of my heart. We talk a lot at O'Reilly about the fact that -- if it's not for these team members, these leaders in the back of the room, guys like are sitting up here don't have jobs. That's the way we look at our field leadership. We run our company from the bottom up, not the top down, and that's extremely important to mention.

So I want to start out and Ramon, if you would, have Ramon Odems stand up. So Ramon Odems is our Senior Vice President of Store Operations and sales for the Northeast part of the country. So Ramon covers basically everything from the great Lakes here, up through New England and the Upper Midwest. Ramon and I actually go back to, really until 1998, when I was a very young man a couple of years after I started with the company and relocated down to the Texas market when we acquired Hi-Lo Auto Supply out of Houston, Texas.

Back then, we had doubled the size of our company from roughly 200 stores to 400 stores and Ramon had been with Hi-Lo since 1993, and we had the fortune of acquiring the most important part, the most strategic part of acquiring Hi-Lo, like a lot of the companies that we've acquired is the people. It's not the assets, it's absolutely the people that are on the front line with customer relationships, taking care of the customers. And Ramon did everything from stocking to learning to be a parts specialist to be a store manager and then Ramon and I became district managers pretty close to the same amount of time, and Ramon's basically held every position in store operations from district manager to Regional Manager, Division Vice President, now he's our Senior Vice President of Store Operations and Sales. So thanks for one.

I want to talk next about Jeff Loafman. Jeff is our Senior Vice President of Distribution Operations. So if Eric will get out of the way back there. Jeff Loafman joined our company just last year. So we talk a lot about promote from within at O'Reilly and 90% of our leadership team, it comes from within and his proven performers within our company, but there is times that as O'Reilly, we don't know what we don't know. And there's areas of specialty within our company that we need somebody that has been there and done that at scale in a different way than we've been as a company.

And so we had the great fortune here last year to bring Jeff Loafman is our Senior Vice President of Distribution Operations, and Jeff came from a couple of decades at Walmart in distribution operations, everything from being an operations manager, DC manager, regional DC manager at Walmart all the way up to basically a division Vice President. And Jeff, we had the great fortune of finding somebody that had a lot of logistics experience, a lot of distribution experience. but most importantly, had our culture, he just wasn't working for us yet. And so we had the great fortune of bringing Jeff on last year. So thanks, Jeff.

Okay. Next is Chris Mancini. Some of you met Chris Mancini over the years. Chris Mancini has been with us for a long time. Like Ramon, Chris and I go back to running stores and districts and regions in the eastern part of the country. Chris has done everything from ISS, the person that stands in the back of the store, taking care of our professional customers, store manager, district manager, regional manager, Division Vice President, Senior Vice President of Store Operations and sales in the field.

And then Chris most recently relocated the Springfield to run the central part of the company. And then we've actually asked Chris to come in the office. We needed a fresh set of eyes basically running store operations and sales from a corporate standpoint, store operation support, retail systems and all the teams that help support and build basically continuous improvement for all of our stores and our professional sales team. So Chris has a long tenure with the company. We're very proud of him.

Next is Jose Ramirez. So Jose is standing up now. Jose actually grew up in Houston, Texas. As you can see, Jose has a long time with the company. Jose has done everything from basically stocking parts specialists, a store manager, district manager, regional manager and is one of our newest division vice president. So when Ramon stepped up this year, and took responsibility of the Senior Vice President role. We had the great fortune

of Jose and his family being able to relocate from the Texas market up to the Windy City here. So we're very thankful to have Jose up here being our Division Vice President. Thanks, Jose.

Next is Dave Leonhart. So Dave standing up now. Dave has been with our company for almost 30 years. Dave is a guy, when I got my start back in 1996 in Oklahoma, Dave was basically running a store for us in Oklahoma City. David came from a two-store independent that we had acquired in the Oak City market. And basically a parts guy, store manager ended up being a district manager. I learned a lot from Dave and the team he worked around when I started with the company in Oklahoma.

And back then, we had an opportunity to instill some store operations background into our distribution operations, and we had the fortune of Dave stepping up and taking the responsibility of our Oklahoma City distribution center back then. And so Dave is actually a store guy that we had the fortune of getting on the distribution operations side to make sure that our DCs always remember where the customer is and who we're actually servicing on a day-to-day basis and Dave's basically done everything in distribution operations from DC manager, regional DC manager and now Division Vice President, he runs everything from kind of the center part of the country east from a distribution standpoint. So thanks, Dave.

Okay. Next, I'm going to have three stand up at the same time. Roberto, Jose, Maurino, I'm going to have you guys all stand up, so I don't get too far behind. But this is Jose Palacios, Maurino Arreola, and Roberto Vega. So these guys run our local market here. We have basically two operational regions in the Chicago market. So Jose takes care of kind of our suburbs up to Milwaukee and kind of wraps around the metro. And then Maurino has responsibility for the city in the south side. And then Roberto Vega is our Director of Sales. He's their partner in crime when it comes to running our professional business, making sure our territory sales managers that are out calling on the customers every day are doing what they're supposed to be doing. We're out there taking market share and doing what we do.

I'm very proud of these three men because really, what we've done in store operations here at O'Reilly, myself included, is -- we've all grown up together here. These guys grew up in the parts business. They grew up in the parts business in Chicago. They're just three hard nose guys from kind of the intercity of Chicago, pretty tough upbringings, but humble beginnings and it basically grinded it out year after year for us running -- being parts people, running stores, districts and now regions and in Robert's case, a full division of sales performance and so. And so we're very proud of every one of these guys, and I look forward to you having a chance to get to know them.

And then last but certainly not least, Wade Rowley, I'll have you and Scott stand up. This is our local distribution operations team. So Wade Rowley has been with our company, as you can see for 17 years. He started out as a material handler. You talked about promote from within, started out as a material handler in our Indianapolis D.C. And Wade has held every role of supervisor operations manager, DC manager, and now is our regional distribution center manager overseeing many of our DCs in this part of the country. And so Wade's amazing promote from within story.

And then Scott Johnson is our DC Manager. He'll be the one taking us on our distribution center tour. Scott has done an unbelievable job running this box that we're attached to here, especially through the pandemic. This is a market from a human capital standpoint and a challenging standpoint that could have been a very tough box for us to run. And Scott and his team, we couldn't be more proud of them. They have done a tremendous job all the way through the pandemic and coming out of the pandemic, we never missed a beat. They were able to retain their team, keep everybody motivated and keep everybody focused on picking, packing and shipping, inbound outbound, making sure that we are taking care of our stores and our end customers. So thanks, guys, very much.

I'm going to figure out how to run this thing -- one of these days. And less important is the executive team, the men and women in the back of the store and in this facility, you'll see today are the ones that make it happen every day. But I really think from an executive standpoint, I think everybody in the room and on our webcast knows that -- at O'Reilly, even though there's been a leadership change, there's really no revolution needed. At O'Reilly, we're going to always continue to evolve.

And as you all know, David O'Reilly was our first public company CEO. He became our -- our CEO is we went public in 1993, and he was our CEO up until 2005 when Greg Henslee took the helm. And both those guys, literally, as you can see, 40 and 52 years, respectively, running our company in the industry, but all with O'Reilly.

And then as you all know, Greg Johnson was our next CEO after Greg Henslee and now myself, Brent, Jeremy Jason and the leadership team we have the great fortune of really running our company and leading our company into the next generation. And one of the biggest questions I get, again, is, hey, Brad, you've been in the seat now for four, five, six months. What's different? How are you looking at things different?

Well, again, at O'Reilly, we work in a pretty boring industry and a pretty boring company in terms of it's very solid. And it's basic fundamental execution and its basic leadership of people. Again, no revolution needed. But that said, we're always going to evolve. I promise you Greg and Greg and David, our Board and most importantly, our 90,000 team members, they didn't give me this opportunity set still.

We're absolutely going to get better. We're going to absolutely evolve. And we have plenty of ways that you'll hear from the team that we can get better at how we staff our stores, how we take market share, how we get better at digital, how we get better at search. We always have opportunities to continue to get better. What's not going to change is our culture, our promote from within culture, our culture of hard work, focus on excellent customer service, those basic, again, kind of boring fundamentals. The culture is not going to change, promote from within is not going to change. But we are going to continue to evolve and get better. But we're very, very blessed to have this leadership team at the helm.

Company overview -- you all know this. We're up to almost 6,200 stores and will be by year-end. As everybody knows, that's in 48 US states, and then we now have 69 stores in Mexico and 23 stores in Canada. So very much an international company. Now Brent is going to give an international update here in a little bit. with the addition of two distribution centers with vast Auto in Canada, one in Montreal, one in Toronto. That brings our distribution count up to 32, 90,000 plus team members across North America, \$16.3 billion in revenue, the trailing 12 months, \$66 billion in market cap.

And then as everybody knows, to end last year, we were roughly 53% DIY and 47% DIFM. Year-to-date results, nothing new here. We've obviously had a little bit of a challenging year, expect especially when it comes to O'Reilly expectations. Like I think we mentioned on our Q2 earnings call, we're never happy with this type comparable store sales number at O'Reilly. But what I am proud of is even with the macro pressures and everything going on in the US right now, our team in the back room and our team out in our 6,200 stores, they have absolutely worked very hard this year to make sure that we were less focused on things that we can't control.

Our store teams, none of us all the way up to me, can control what's going on with the election, what's going on with the economy, pressure to the consumer all the things that we don't make excuses for. What we can control is that we have a lot of market share that we can still take in every one of our markets, and we have opportunities to do that every day. And so that's absolutely what we're focused on.

Full year guide, a lot stayed the same. We did revise some of our guidance, as everybody knows here in the room and on the call today. 2% to 4% comparable store guide revised for this year. And really, everybody knows what those are. So I want to talk about how we see the industry drivers, and I know this isn't new, but this is something that I think is really important when I think over my 28-year history with the company, and I think about any years we've had that there was broader macroeconomic pressures.

And I really -- what I think about as I think about miles driven, and I think about the resiliency of the automotive aftermarket and especially resiliency of O'Reilly, but when you think about miles driven, the thing that's really encouraging on this slide is the fact that we're now back to pre-pandemic levels of total miles driven. So when you think about 3.25 trillion miles being driven in the US this year. That's a really encouraging number. And again, really encouraging that we're back to pre-pandemic levels.

But also, when I think back again across my career and you think about 2008, maybe a 2012 to some extent or what happened during the pandemic, I think it's always important to remember that even though we may have a little bit challenging year in a year like '24, everything that's going on this year, overall in the macro, you think about something that's happening back in 2012 for sure 2008.

Our industry has always seen some short-term kind of shocks to what's going on, but we've always come out of it. Miles driven come back, the industry comes back. And no matter if that's a little bit of a soft spot or a strong spot, the main thing is we always use times like that to make sure we're focused on taking market share, but really very encouraged with miles driven and all backed up by a pretty solid employment backdrop and overall population growth.

The other thing when I think about the light-duty vehicle fleet in the US, another thing that's really encouraging that backs up miles driven is -- or it really supports miles driven is the fact that the US vehicle population continues to grow. It's steady, but it's growth. 285 million light-duty vehicles.

So this is car and light truck, 285 million vehicles on the road in the US and they continue to age. So when you think about really that growth at the bottom of the slide, 12.5, 12.5 years average age of vehicle that's really good news for us in our industry and especially for O'Reilly, especially when you think about the amount of vehicles that are -- even with new car sales that are entering what we consider kind of our sweet spot and you think about really the quality of vehicles, is continuing to get better and better. But even the better vehicles, it puts more vehicles in that sweet spot for us that need maintenance and overall repairs over time. So again, really good news here.

And then lastly for me, and I'm going to turn it over to Brent, is really just how we think about the overall US market. Really, since I've been with the company, going all the way back to the '90s and 2000s, the amount of parts stores in the United States really hasn't changed. It's always kind of been in that mid 34,000, 35,000 outlets in the US. We're up to 39,000 outlets in the US now.

But I think the thing to remember, when you think about consolidation, but more importantly, when you think about how fragmented our market really still is, you look back really over the last 10 years and you look at the top 10 auto parts chains in the US since 2014 to 2024, our ownership, being in the top 10 ownership in the US has only gone from 48% to 53%. So we still work and sell parts in a very highly fragmented market, especially on the DIFM side.

When you think about the amount of independents that are still successful. Some have struggled. When you look at the independents and the WDs and the two-step type competitors you all hear us talk about, there's really solid competitors out there. There are some that have struggled the last few years, but there's always consolidation opportunities, whether it be just greenfield expansion for us, whether it's acquisitions or whether it's just taking share every day, and that's the biggest opportunity we have. You can kind of see the size of the US automotive aftermarket down in the bottom left-hand corner.

I would just tell you, we use the Auto Care fact book that all of us in the industry have inputs to. That's a really solid data source for us. But I would just tell you not to get too caught up in where those lines are drawn, it can get a little bit gray. I think the key for us is what we extract out of the data on the bottom left.

What's really important to us at O'Reilly is we feel like and fairly conservatively feel like that we have \$150 billion to \$160 billion opportunity. So when you talk to the team in the back of the room, and you hear from Jason here in a little bit, and you hear anybody in our company talk, we're not thinking about us being a \$16 billion company. We're always talking about the business we're not doing. We're talking about the remainder and the delta between those two numbers.

And so really for my lifetime, for our lifetime, no matter what happens in the industry, we have a lot of share we can take. We got to continue to get better. We got to continue to get better at the way we operate. We got to change, adapt to changing circumstances, but we have more opportunity than we ever have.

So with that, I'm going to turn it over to our Company President, Mr. Brent Kirby.

Brent Kirby - *O'Reilly Automotive Inc - President*

Great. Thanks, Brad. Good morning, everybody. I'm going to jump in and start with product life cycle and thinking about the dynamics of the automotive aftermarket that Brad was just talking about, you think about our industry, winning in our industry really requires really being able to manage the product life cycle very well.

And it starts with late-model coverage. As vehicles come out of warranty, parts begin to fail and being able to have the parts that the customer needs when they need them is critical in our industry. And our team does a fantastic job managing that product life cycle from getting late-model coverage into our stores, we use demand signals, both from stores, from our customers, from our suppliers to make sure that we have those parts as they begin to fail in the marketplace so the customers will have the solutions they need when they come to our stores.

The fact that we have a tiered distribution infrastructure, and we'll talk about that a little bit more here in a minute, but our regional DCs, our DCs, our hub store network down to our spoke stores gives us the ability to manage that life cycle very effectively and very efficiently. So as those parts begin to come into more demand, we place those -- place those parts in stores and hubs and DCs based on those demand signals.

And one thing that's really interesting when you think about over 6,000 stores, none of our 6,000 stores has the exact same SKU footprint. Because our teams work diligently to make sure that whatever we're stocking in the local store, the hub store that serves it or the DC that serves it is driven based on vehicles and operation data and demand signals for that particular region of the country.

So as those parts become more in demand, we're able to bring those into the full life cycle and deploy them further down into our supply chain. And as we do that, we also developed good, better, best across our product line offering to ensure that customers have value where they need it and premium products where they need it for their vehicle.

As those particular application parts continue to age through that life cycle, we also have the ability, as we see that demand wane, we have that ability to begin to pull those parts up in our tiered supply chain distribution network into hubs, into regionals and then ultimately into a national DC and then even special order through our suppliers. But our goal is always going to be to meet that customer's need for that part that they need for their specific application when they have a failure and get them back on the road.

So our team does a fantastic job of managing this. If you think about this over literally hundreds of thousands of SKUs, and you think about that demand life cycle that can last 15 years in some vehicles and some parts. So our team does a fantastic job with that. We're committed to continue to do that. We talk about our distribution network.

You'll get to visit the DC here with Scott and the team later on today. But really just thinking about the power of that distribution infrastructure that we've developed here at O'Reilly over many generations going back to the O'Reilly family as the company got into central distribution, and knowing that he who has the part wins in our industry, whether that's a professional customer, whether it's a retail customer, it's about who can get the part, the fastest that's needed for that particular application. We have 29 DCs domestically, including Puerto Rico, as Brad mentioned, we have two in Canada and one in Mexico, also in addition to that.

Average SKU count in a regional DC is 175,000 SKUs. So that is a lot of inventory ready to serve the stores that is serving average DC serving about 250 stores, five-night-per-week delivery, we're the only one in our industry that does that consistently across every location. 95% of our stores also get intraday service from either a servicing hub store or from a DC city counter. They're getting multiple runs a day. So we can give the customer that time-definite promise for that part that they need to get their vehicle back on the road. 100% of our distribution nodes has reverse logistic capability, again, giving us the ability to effectively manage that product life cycle that I talked about just a minute ago, tiering up and tiering down as demand dictates.

And 385 hub stores -- and again, we don't talk specifically about hubs, but our hub stores go from 50,000 SKUs to over 10,000 SKUs. So we are always optimizing that hub network to ensure that we are the industry leader in that market, wherever that market is in terms of parts availability. In terms of strategic investment, Brad talked a little bit -- I talked about the market, talked about our opportunity.

With the growth we've encountered over several years, we still see ourselves and we say it internally all the time. We're getting about 10% of the total addressable market. We still got so much opportunity to win and to gain share in this industry. And we're committed to making strategic investments to do that because we feel like we have a winning model.

We have a winning team. We have a winning culture, and we feel like there's a whole lot more share for us to go get out there. And really, when you think about our investment priorities, it's really about expansion, industry consolidation. That expansion includes new store growth in existing markets expansion in international markets. We'll talk about that here more in a minute and continued industry consolidation.

When you think about the commitment to industry-leading inventory availability, I just talked about some of that a minute ago. We'll talk about some of our capital investments in DC projects here in just a few minutes. Customer experience, store and digital. That continues, no matter where

the customer is, we want to be able to connect and meet them, whether they want to visit us on a website. Whether they want to visit a store, we continue to invest to enhance that experience. We'll talk a little bit more about that here in a few minutes.

And then our professional parts people, our team, we're totally invested in the power of our team. We've invested in improvements in 401(k) and paid time off. We implemented a human capital management system, again, to make our employee experience much better for our team members. So we're committed to investing back in our team because we know they're committed to delivering great results for us.

So when you add all that up for 2024, we're on target to spend, \$900 million to \$1 billion in terms of CapEx, going back into the business, investing to continue to win and gain share. Obviously, there's OpEx associated with a lot of the commitments here too, but that's our capital commitment for 2024.

So building on that, just thinking about distribution and continuing to invest in that parts availability that I just talked about. And one project that's not on this slide that I'll go ahead and give a quick update on that was on the slide, I think, when we did this two years ago was the relocation of our Springfield DC in our hometown of Springfield, Missouri. We are about to bring that DC online. We took it from an old three block, three buildings that had evolved to over time, to a new facility. It's going to serve more stores, going to be more automated, more efficient, more effective, that DC is coming online next month.

We're very excited about that. Fast follow to that, we've got the relocation of our Atlanta, Georgia distribution center. We're replacing a DC there that we have had for many, many years that just -- it doesn't have the capacity to continue to meet our growth in the Southeast. So we have been in the process of relocating taking our capacity there from 250 stores to 350 stores. This DC will come online later this year. And it will be our largest and most automated and advanced DC yet when we bring it online. So we're super excited to get that online.

Stafford, Virginia, is a brand-new greenfield project for us in the Mid-Atlantic super excited about this project as well, 350 store capacity. This really unlocks a lot of opportunity for us to continue to penetrate some of those mid-Atlantic markets, very populated markets where we still have a lot of room to grow our store count. And then an expansion of our Lakeland, Florida, facility. We continue to grow in markets in Florida. And we have opportunity here to expand this building, taking the capacity from 275 stores to 350 stores, and we expect that to come online late in 2025. So super excited about all of these projects that we'll continue to advance our inventory availability in the market.

If you look at store growth over the last several years, you can see it charted out here on this slide. We're still on track to open 195 new stores in 2024. You can see, again, states by store population. You can also see the states where we're still under-penetrated. I talked about a minute ago, Mid-Atlantic or a lot of those markets. So again, having the distribution capacity to better serve those markets. We're pretty excited about that opportunity. And we've been consistent industry consolidators over the last many, many years.

We've got a few highlights there at the bottom of the slide, including our recent acquisitions internationally in both 2019 and 2024. So for some international updates, our Mexico team, again, acquired the business in 2019. With some of the challenges of COVID, we got our DC opened down there in July of 2023, servicing with the ability to service 250 stores in Guadalajara, super excited about this facility and having it online. This is going to continue to propel our store growth in Mexico.

We have a very engaged team there that's growing our brand. We're up to 69 stores. We opened seven stores in the first half of 2024. We're projecting 15 to 20 in the back half. So really being able to accelerate our growth in Mexico is super exciting for us. Still a very young store base and still very early innings, respectively. If you think about the average age of a store right now for us in Mexico is still under two years. So we still have a lot of lot of new growth there and a lot of runway. We feel like this give me a fantastic market for us and really excited about the team we have there.

Canada, again, this is -- we're a little over six months in. So very early innings here, but the acquisition of Groupe Del Vasto that was completed back in January of this year. Just a fantastic team in Montreal that knows the industry grew up in the industry. We just couldn't be more excited to have Mauro and his team as a part of Team O'Reilly the acquisition there, two distribution centers Brad talked about a moment ago. We have 23 stores across Eastern Canada. We see a lot of opportunity to grow here.

One thing in Mexico, we did not change over the names on the stores of Mexico until December of last year to we felt like we really had our O'Reilly model up and running could provide an O'Reilly parts availability and service experience to our customers there. We're going to take the same approach in Canada. We're still running there under -- we're not running under the O'Reilly name. We're still running under BAST, and so we will do that as we feel like we're able to bring that experience to our customers in Canada. So more to come on that in the future, but just very excited.

Our teams are working very closely together in Canada, looking at near-term, midterm and long-term strategies there. So we'll obviously be sharing more with that with you guys as that comes together. Talk a little bit about brand. Product is vitally important. I talked about that product life cycle a little bit earlier.

I want to talk about how we go to market in terms of our branding. We go to market very specifically with a mix of national and proprietary brands. We feel like that is what the customers expect and from us. The main thing there is national brands that really carry some consumer interest and reputation. We want to have those as a part of our brand portfolio.

What we've really been excited about over the last several years is the accelerated growth of our proprietary brands. Think about our proprietary brands, and we've got some of them here on the slide. BrakeBest Select and Superstar being two of our biggest when you think about brakes and batteries. We continue to grow there. Proprietary brand penetration now exceeds 50% of our sales. It's even higher in the back room. So we continue to see opportunity there. That's opportunity for us in several ways in terms of margin, in terms of ability to diversify our supply chain and supply base to give us more resiliency in terms of inventory availability. So super excited about the growth here.

One thing I'll point out too, the ones with the green stars beside them, Murray Precision, Syntec those at one time were national brands that we have now acquired and you can only get them at O'Reilly. And as an example, our fastest growing proprietary brand right now is Syntec motor oil. Which is a synthetic motor oil brand that was owned by Castor for many years. So many customers recognize that brand. Today, the only place you can buy Syntec oil is at a O'Reilly.

So much has been said about emerging technologies and the evolution of the vehicles. So I wanted to provide a quick update on how we look at that, how we're thinking about that here and vehicles are going to continue to evolve. They have since their inception, and we expect them to continue to. The great news is a lot of that evolution is good news for our industry and good news for the future for us. start-stop technology, which is on many vehicles, I'm sure many of you drive a vehicle that has a start-stop capability to it.

Over 50% of the vehicles that were sold new in 2023 had start-stop technology on them. The thing about Start-Stop technology is nothing -- it's additive parts. It's added sensors, it's beefed up alternators and electrical components that have the ability to measure the charge of your battery and shut the car off and restart the car. Well, while those things are engineered to a heavier standard, the failure rates on them are exactly the same as the old models, at least what we're seeing so far in the industry. And this is additive business for us. It's a higher ticket, and it's not an improved failure rate. So it's continued business for us for many, many years. This is a tailwind for our industry and for our opportunity for the future.

ADAS is another one, advanced driver assist systems, think about the sensors that are in your car today. And a lot of this goes back to even 2005 is really when the first ABS brake sensors were put on cars, 74% of the car park that's in the US right now has some form of ADAS on it. And again, this is additive. This is not taking any parts away. This is additive and making those parts more expensive. So we see this as a continued tailwind as it continues to penetrate the car park and those parts continue to fail with the age of the vehicle.

When you think about Hybrid and EV, again, a lot of talk about that in the industry. You think about a hybrid vehicle, again, it's additive. You've got all the OS components that you had, and then you've got a hybrid battery-driven system as well. So it's additive. There's more expense there, more points of failure. We see that as an opportunity for our industry long term. EVs, yes, the powertrain is driven by battery.

But if you think about all the other components of the car, nothing is taken away. We think about brakes, suspension, you think about heating, cooling, electrical, all those other components of the vehicle, they're all there. And as a matter of fact, in EVs, most of those are under more stress due to the weight of the vehicles and the heat that's generated from the battery. So we see higher failure rates in many cases of those basic components in EV vehicles than we do in ICE vehicles. And our suppliers are very quick to begin to bring those to market as we learn more about those. So we see the evolution of the car and the vehicle as an opportunity and a tailwind for our industry if you think about it long term.

Okay. Omnichannel, I had a couple of questions, just talking to a couple of you before we started here about some things we're doing with digital, online, a couple of things I'll say. When we think about our omnichannel strategy here, our goal is to meet the customer where they are, whether that's in one of our 6,000 stores, whether that's on a website, whether that's on a call or on a chat with one of our professional parts people.

We want to meet them where they are. We do that through -- the store is always going to be the center of our omnichannel ecosystem because availability and time-definite delivery of those parts is king. Everything we can do around that to supplement that, it only improves that experience and gives us the ability to gain more share. So several things that we've done recently that I wanted to provide some updates on is continuing to expand product availability.

We brought forward time-definite availability on our retail website a couple of years ago and so tremendous results. When we did that, what that did was it gave that customer visibility not only to the 20,000 or 24,000 SKUs that were in that individual store, which is where we were before. It gave them a time-definite promise of when they could get the part they were looking for from the servicing hub or the DC network, which opened up a whole new opportunity for us to sell that customer, the part that they needed.

We just launched that earlier this year and rolled it out in the first half of this year on our professional website. Before for our professional customers, that was a phone call, and we have very capable parts professionals in the back of the store that we're handling those calls. We now are syndicating that time-definite availability on our professional website and already getting really good feedback from our customers on that. So ship to store for the professional website, super excited about that.

Same day next day, we rolled out DoorDash to every store location. Last year, we completed that rollout. So every store location now has same-day availability through DoorDash if you want it same day, or we can ship to 98% of the zips in the US with one of our shipping nodes with standard two-day shipping. So we've done everything we can to narrow that gap.

The exciting thing about our business is when you look at our retail website, 75% of that is picked up in store. So even getting it same day within hours or next day isn't always soon enough when you have a vehicle that is not working. And that speaks volumes to the dynamic of our industry and the need-driven urgency of the part when you need a part to get your car back on the road. So super excited about some of the changes there.

We've also added additional payment methods. So we now have Google Pay, Apple Pay in our stores on our retail website. We also rolled out Klarna buy now pay later options earlier this spring on a retail website, so super excited about that, again, higher ticket for that customer that may be constrained, helping them get the part that they need and getting it quickly, getting them back on the road.

We've also implemented some tools to improve our personalization for our loyalty and rewards customers as well as our professional customers based on purchase history and buying activity and continued user enhancements to the both platforms.

In terms of search and content, we've upgraded our search -- modernized our search technology to improve our search experience across both our retail and professional websites as well as our internal catalog selling system. So we're seeing some benefit from that. Our content continues to improve. When you look at our content over the -- on the parts that we've sold over the last 12 months, over 90% of those have high quality, high resolution, 360-degree spin images.

We continue to develop our DIY and How-to videos. Many of those are application-specific -- that number continues to grow. Our team does a great job with that. We continue to monitor and really drive our enhancement road map for both our professional website and our retail website from over 20 retail touch points that we have with our voice of customer network constantly gathering customer feedback for an improved experience.

And lastly, I'll wrap up here with our loyalty program. O'Rewards is something that continues to grow. We have a very engaged loyalty base in our stores. We continue to work on personalization and how to best activate them. If you think about our most loyal customers, they trip us over 14 times a year. You think about that medium bucket, they trip us over 10 times a year. So we have a very loyal customer base that continues to grow. We just rolled out some new personalization tools here to better target them based and have a more personalized experience for them based on, again, their buying experience and their preferences. So super excited about the growth here.

And with that, I want to wrap it up and turn it over to Mr. Jason Tarrant. Thank you.

Jason Tarrant - *O'Reilly Automotive Inc - Senior Vice President - Western Store Operations and Sales*

Good morning, and welcome. I get the privilege and honor to talk about what Mark opened up this morning saying is the most important thing. Our culture our team members. And I thought no better way to introduce myself to most of you that I haven't had the pleasure in the past to get to know some in the Team O'Reilly story. I started in 2001. I was a full-time technician. I ran the AM swing shift from my local bus barn for public transportation. I've been a cardinal in my entire life. I built my first engineer as 14 to 15 years old.

So this is what I've done. This is what I love. And like so many of us here at O'Reilly, it's not just about selling parts, it's serving customers, but we really love the industry that we serve. So I started night weekends, and it was six, seven, eight months later, I have the opportunity to come on full time at the time in Northern California in my hometown, which at the time was CSK. And fast forward then to just for sake of time, a year, 1.5 years later, I got my first store opportunity, and I take that and I never thought I'd be here 23 years later.

I can assure you that I was looking for extra income and a discount for parts because I was an enthusiast for cars and I fell in love and I let go of my prior passion, which is repair and made this my home. And 23 years later, as I ran stores, I moved to the Pacific Northwest in 2005 and move my young family up there, had the opportunity to run my first district with CSK, and then about 1 year, 1.5 years later in the summer of '08, my life got better yet again as we were acquired by the O'Reilly auto parts. And that's when I started to understand that culture and teamwork and the value of our teams was. CSK had a culture. Every company has their version of a culture.

I'd like to believe that here at O'Reilly, we live our culture by how we act and how we conduct ourselves every single day with our customers and our team members and -- my first impression to that was with some folks if you followed our company since then, these names, Ted Wiis and Jeff Shaw, who I still think of every single day as I'm not working with our teams and some of their quotes are here on the slide behind me because as Brad said, while things evolve, and we're always iterating and trying to continuously improve as a company, the core fundamentals of how we go to market and how we treat our team over our customers will never change.

Fast forward, there's certainly thereafter I had the chance to run my first region up there in the Pacific Northwest, and I did that for a few years. And I had the chance to come back home to Northern California, continued running a larger region for a few more years. Continue to learn and grow and challenge myself and our teams and learn the business from all aspects. And then when my boss at the time retired, I had the opportunity to take on the Northwest Division as a Vice President, where covered really all of California, except for South of the Grapevine and Oregon, Washington, Alaska and such, in parts of Idaho. Just for the sake of time, I'll kind of speed up.

And then in 2017, Keith Childers, if you were around back then, was out West. He followed after Jeff and Ted and helped really just impose and live the culture and show those of us with CSK, what their O'Reilly culture was all about. Also as well as learning and really understanding the core principles of our business model and our core fundamentals. And so when he retired in 2017 and really until the back half of this year and the first part of 2024, I was a Senior Vice President from the south tip of Texas all the way up around to North Dakota, Alaska, Hawaii, and so that's what I've been doing in the last seven years.

And it's all ever done for the majority of my working professional career. I love it. I hope to show you my enthusiasm in that -- in a few minutes with you this morning. So for me, pride comes from my story. We all have our stories.

We truly believe that those prior to us who invested in us and gave us all their passion, their energy, their culture, and their knowledge and shared it with us. That's our job and my responsibility until I hang it up in 10, 15, 20 years or more who knows to do that for my teams out there in the stores and field operations and sales teams.

Ownership is very simple for me in the stores. And we try to keep things very simple while competition. We have 39,000 competitors out there every single day or 33,000, I guess, competitors today in the States. It's very simple. It's bottoms up.

In O'Reilly, it's all about our teams and our store managers ownership, and that's where it starts. Every single month, if you've never heard this, our store team over set their own individual sales goals for themselves every single month. That we go into that next month. That's where we started. It's a bottoms-up mentality.

Our store managers set their goals for their stores, they work with their district managers. And because of our promote from within philosophy and that commitment that we've had since 1957, when you build things from the bottom up, there's just a higher level of ownership and that passion, that desire to win comes from our promote from within, all of us that ran districts in stores and regions and now areas like Ramon in the back of the room.

We've done this. We've seen most things. So peer-to-peer and team, the team as long as my team on this next slide, which I'll cover in a second here, has over 430 years of experience in just our 19 field leaders that run our divisions and our area vice presidents and myself. That's over 22 years of experience in the industry. And as Brad said in his opening, the far majority of that is with the O'Reilly auto parts.

So I think back to what Ted and Jeff did for me and our teams out West in 2008 and what we've done for our team since and what we intend to do and commit to do for our teams going forward. Just to step back to one quick thing. I referenced it just briefly. Our business model, while it might seem complex when you think about all the technologies and all the competition and the way the world has evolved the last 20 years, at the end of the day, the customers still have a very basic need they need the right part at the right place at the right time to take care of their needs so that their families can move forward or if you're on the professional side so that they can take care of those consumers and customers that they intend to serve and run the best business that they can.

So really, in store operations and sales, well, there's lots of things that I have to -- my team and myself have to be aware of, and we are, and we're always at a high level of respect for every competitor that we compete with in every market. At the end of the day, we focus on what we control. And that's what I hope to aim to highlight these next few minutes with you.

So again, the one thing that I think is really hard for me to express and I'm extremely proud to be the one that gets to talk about this on behalf of 70,000 team members out there in the stores that right now are taking care of customers as they walk into our stores, call our stores, and they might engage online. The one thing that Brent didn't say that I want to really add, we obviously have to have the technology required to meet the customers where they expect us to be, whether it be online, tablets, chat, what so be -- the part that I'm most proud of, that 75% or more of that buy online, pick up in store, well, I know the technology is where we met them.

The reason I think a lot of our customers choose to come into the stores on their own time to pick up the part as they value the professional parts people in our stores. They need that consultant experience. They need the experience of our team members that have grown up in our company, those managers that are -- this is what they're passionate about.

This is what they do That, to me, is something we talk about a lot. One of the things that I'm most excited about when I think about our store experience inside our stores, you'll see it here in this store and also the second store that you go visit this morning. Is above our part scanner, if you've never seen it. Every single O'Reilly store says it, professional parts people. That's our commitment to our customer.

And that's a big tall ask. It's very challenging to ensure that in retail, as you know, turnover and all the things that that challenge us, especially the last four or five years. Our teams worked diligently. They're so experienced Ramon and so many other of our regional managers, our district managers that had ran stores successfully because they were the proven performers that we promote. They know how to compete in markets.

They know to hire the right people with diversity that have the passion to serve customers, but also have a passion for our industry. that commitment to be professional for our retail and professional customers or something that we'll never let die here at O'Reilly other parts, and you have my commitment with that.

One thing I do want to talk about on top notch customer service and really this is ingrained in us because again, starting from the bottom up and that promote from within and the way we aim to always select and mentor and develop our proven performers is -- that part right here on the right-hand side of the slide, which is outhustle and outservice the competition. This is what we focus on. In times like this in 2024, when there's so

many factors that might be out of our control, while we have to recognize them as a senior leadership team, when we're working with our teams in our stores, which I'll highlight here in a second, even more.

The things we focus on are things inside our four walls or in our markets, the way we hire, the way we train, the way we carry ourselves and inside the store. But most importantly, the level of customer service we offer to both sides of our business. And I know that's so simple when you think about what we do in retail. But that passion, that experience that promote from within that promoting proven performers. It's really hard to express in a room like this.

I hope you could see that in these two store visits today. But when we get ownership right and we have a tenured team. And we have the leadership, our store manager leadership is engaged and they own everything that happens inside those four walls. What we do in our O'Reilly is just a little bit better I think in most markets, and I think our results for years have proven that. I'm very proud to say that our teams put a lot of work and pride into being the most professional, hardest working part stores in every market we operate in.

On the professional side, again, I could talk for a long time on just this one slide alone. But to keep it simple, we have a highly engaged and experienced outside sales team that supports the efforts of our store teams to build relationships and to call on those customers day in, day out, five days a week or more when needed, just to build those relationships because while having the right part at the right place at the right time is paramount, obviously, we're trying to turn the base of our customers.

I think if you were to go make sales calls with our sales teams today, if we add time, it'd be great to see you guys do that. But if you were to read the surveys and just listen to what our professional customers tell us the most important thing besides having a relationship is helping them get the right part, obviously, and get that part -- that car on the rack and get that car off the rack. That's how they make their living. That's how they please their customers. That's how they make their profits.

And so it's really important in our store is it as our leaders engage with our teams every single day. This is what we focus on. We are obsess with the small details that are extremely boring if you were to read them on a piece of paper, I had them on the slide, you think that can't be your secret sauce.

But the truth is what we do in the stores is really, really important to us. And every little detail that our experienced leaders, our district managers, our regional managers and myself included, when we're in stores, these are the things that we're looking for we're addressing, we're coaching, we're training and we're improving on because we know what it matters most of our professional customers. And that's having a relationship with our store manager, our back counter team, which is our ISS and getting those parts to them in the most timely fashion that we can. One thing that I want to again expand on the professional side is that while our teams and our culture and having the right part in the right places is obviously the most important thing to most of our professional customers. There's also other expectations.

We have a very competitive fragmented industry, obviously, that we talk about every time we have the opportunity to discuss our marketplaces. But there's also some support programs, whether it's our world-class real-world training or we train thousands of technicians mostly in-house, whether it be in a facility that's ours or we will rent a space outside to bring technicians in. And it's not only a place -- an opportunity for us to train those technicians to help them be better. It helps those shop owners, those shop managers, those fleet managers have better retention because their technicians are more well trained. They do better work for their customers as well because they're all more well trained.

But it gives our opportunity with our highly engaged district managers and store managers who participate in those events to further build their relationship. Those are just the small things where our managers and district managers partner with our sales teams and our professional customers to spend that extra time on night and weekends, when they've already put in 10, 12 or more hours running their store and meeting their teams and serving the customers, we go participate in the evenings with the technicians to try to build that relationship. It's something I really wanted to highlight because it's all those small details that we make time for because we see the value in the relationship and the execution in our stores. And those things really make a difference to keep the professional customers loyal to us, but more importantly than even that, provide them value and help them run a better business themselves. Obviously, I'm extremely proud and Brent and all of us up here and our entire team back in Springfield that help stand up what we feel is best in class, our B2B platform, first call online.

And we're continuously iterating and evolving and improving on that platform. It's been amazing to see the results over the last decade or more. and how much of our business that we serve through that one platform. Again, I could talk for too long on that, but it's rich full of so many value adders for our professional customers besides just parts availability and pricing. That's the core basic that any B2B has to have, obviously, but there's so many other value adders that our professional customers engage with and value that keeps them in that ecosystem that keeps us loyal to us.

And obviously, improves the productivity and efficiency and the ability of our store teams to again ratchet up the level of customer service we offer our customers.

And just lastly here briefly. If you think about the majority of the professional base out there, our repair shops that we all serve every single day. The far majority, while the biggest ones that get the most press are the big national, regional and dealership players. And while there are customers as well, a lot of the smaller independent repair shops as they're getting started become very loyal and attached to our store teams, our stores and around the auto parts because of how we help them grow and scale their business and certified our payers just one piece of that puzzle.

To compete in today's marketplace, you need a national warranty program and all the other things that come along with that to offer their customers the things that they expect as well. That feel like as they travel their families up and down the interstates, that if they have an issue, they know that their part is going to be taken care of in a timely manner, no matter where they are with our 6,100-plus stores here domestically. So I'm very proud of the programs and the teams that I'm now responsible for leading in my time here in Springfield and headquarters.

But again, just to stress our commitment to what's most important, which is our teams in the stores that serve our customers, the guys in the back of the room and the guys and gals out there that lead our teams every single day. We spend 75% to 80% of our time in stores. Last week, I spent six days personally in the field meeting teams out west in a market I hadn't been in. We had some great experiences and opportunities and some takeaways. And this is where our passion is.

That's the difference between so many maybe of our competitors that may be higher outside when you grow up and you love the industry you're in and you love serving customers and you love our space where you want to be is in front of customers and our teams.

So with that, I'll leave you with our mission statement. Obviously, if you've never seen this, your first reaction might be what some people when we recruit and engage in the markets and talk to customers and even folks at the competition. Sometimes -- this is a very bold statement. While it is bold, I don't know in my lifetime, we'll achieve this at O'Reilly auto parts. But every single day, the thing that we're -- our store managers, our district managers, our sales teams, our ISSs are taking one step forward, one customer at a time, and we value every single opportunity we get to earn retail and professional customer business.

And it's always our vision, it's our dream. It's our mission every single day. It keeps us humble. It keeps us remembering about how much business we don't have, it keeps us hungry and that's really the DNA here in our leadership and so operations and sales.

So thank you.

Jeremy Fletcher - O'Reilly Automotive Inc - Chief Financial Officer, Executive Vice President

All right. Thanks, Jason. Good morning, everyone. I get the bat cleanup today with the goal of getting us to Q&A is quickly, it's humanly possible. So we're going to flip through these slides.

We're not going to slide by slide. You've got them in your deck. They're available on the website. Really, the story behind any of what we provided is just the consistency and long-term nature of our business, you guys can pull the data for yourselves. But the point was made earlier that we operate in a very strong and resilient industry and continue to feel very positive about the long-term opportunities we've got. So won't camp on any of these slides in particular. We'll spend a little bit of time on use of capital and may have some questions within the Q&A.

Brent did a great job of talking about our mindset and our mentality towards investments, and in particular, some of the initiatives we've had over the last few years as we've thought about our process to invest back in our business. But really, that falls in line with how we think about capital and our stewardship of capital and how we want to focus on achieving the best possible results as we invest capital.

And that strategy has been true really for well over a decade now, where our priority continues to be to invest in our business to grow, to gain market share, to be able to expand, be a consolidator of the industry and to be a company that came through all the things we've talked about today, generate high returns on the capital that we invest. And then obviously, as we think about how we balance the mix of how we fund the business, to utilize the share repurchase program in a very consistent, reliable manner to keep -- to be able to return capital, but also to think about what our balance is in terms of how we fund the business.

So what you see there is no different than what we've had before, but did want to have a few minutes on that. But really, frankly, I know it's probably it's probably time to move to Q&A. We told Michael, he could ask the first question. He's just been burning in his head for an hour, what he was going to ask. So we won't camp on this any longer, and we'll go ahead and get started.

And Leslie, you can probably give everybody instructions on how we'll hand out the Q&A.

QUESTIONS AND ANSWERS

Leslie Skorick - *O'Reilly Automotive Inc - IR*

So as we prepare for Q&A, if you need another snack or coffee in the back, Scott can direct you to the restrooms. When we -- when you're ready for a question, flag Craig or eye down, please state your name and your company, so everybody on the webcast can know where you're from. And wait until we get you to the mic, of course, to do that and ask your question.

Jeremy Fletcher - *O'Reilly Automotive Inc - Chief Financial Officer, Executive Vice President*

So go ahead and get the mic to Michael. Go ahead, Michael.

Michael Lasser - *UBS - Analyst*

Thank you very much. It's Michael Lasser from UBS. Number one, Brad, in your opening remarks, you showed this slide that talked about the vehicle population over time. There was a reduction in vehicle sales in 2020, 2021. And when that happened in the late 2000s that ushered in a slower period in the mid-2000s for the auto aftermarket, would you expect the same dynamic in the next couple of years, given what's happened? And if not, why? And then I have one more follow-up.

Brad Beckham - *O'Reilly Automotive Inc - Chief Executive Officer*

Yes. Thanks, Michael. I guess I'm turned on here. So yes, I think that's a great question, Michael. I think the -- we had a lot of moving pieces.

When you look back at '08, '09, 2010, even though there were some macro challenges. I think when you look at our performance those years, we didn't see -- we had kind of a short period of time that we saw a little bit of a lull, but we took a lot of share in that period. And so as we always say, it's a little bit hard for us to predict the future. I think we all know why there's pressure on the consumer this year. I don't necessarily see anything that points to us having anything tough the next couple of years.

I think I would compare the next few years the best I can tell to really any time that there's been pressure, I think back to all the times I pointed out in all those years, we controlled our own destiny extremely well. And so it's very hard to predict the future.

But I think, overall, I think we have a lot of things in place. And I think there's enough competitive dynamics that there's still going to be plenty of opportunities for us to continue to consolidate the market to lead the industry in comparable store sales, share gains and turn that into profitability like we always have.

Jeremy Fletcher - O'Reilly Automotive Inc - Chief Financial Officer, Executive Vice President

Yes. And maybe, Michael, just to add on to that, a little bit different dynamic than what we saw in that kind of '9, '10 timeframe, not quite the same the same pressure to those cohorts. The other thing that I think continues to be true is that as that average vehicle age is an increase and not just increase but the reliability of vehicles allowing people to invest and to get good value out of their vehicle much later in the life means more miles are being driven over a much broader and extended period of vehicle lives. It mitigates the impact of any one or two years' worth of cohorts. Hard to say.

For sure, there's some amount of pressure don't know even today that you'll be able to measure it very well.

It's challenged to measure it candidly in the period of time that you talked about, we probably felt like we saw the high of that in '17. But -- but broadly speaking, we think that the large vehicle population, the dynamics around it continue to be very supportive of a pretty resilient demand for us moving forward.

Michael Lasser - UBS - Analyst

My follow-up question is if we go back and look at the 2010s for O'Reilly, there were so many good drivers of your profitability, integrating CSK, ramping up the private label penetration, growing the distribution center network understanding that you're looking to add incremental profit dollars do you look at the next period for O'Reilly as any less fruitful on the percentage or the rate, meaning -- or at least just at a time where it's trying to hold its percentage constant, and that would be sufficient? Or are there opportunities still grow the percentage? And how would you rank those opportunities?

Jeremy Fletcher - O'Reilly Automotive Inc - Chief Financial Officer, Executive Vice President

Yes, Michael, you knew what our response was because you put in your question, our focus is on operating profit dollars and it continues to be -- you're right, the 2010 were, I think, a period of very strong and solid growth, just the dynamic and the nature of how our income statement changed over that course of time.

I would tell you that as we entered this decade, our answer that you'll get today is pretty similar to what it would have been at the beginning of the decade that we're in. And then we found out that there was even more opportunity for us during the course of the pandemic, that profile has expanded and we're able to drive the percentages even beyond what we were at, at that point. But we've also proven over the course of the last few years that where we see opportunities to invest in our business and drive operating profit dollar growth that we're going to do that.

So when we say that the focus is not as much on the percentages as they are on the dollar growth. That's really true it's backed up by some of the decisions that we've made around how we manage the business. Do we think there continues to be opportunities to drive additional leverage out of our business?

Absolutely. That's our goal is to take share to operate every single one of those 6,200-plus stores that we've talked about more effectively to enhance service for our customers and to be more efficient in doing that because we're able to take shares out of our existing boxes. So we think that there's an opportunity to move forward from that. But frankly, our goal is to grow the profit dollars.

Brian Nagel - *Oppenheimer & Co. Inc. - Analyst*

Brian Nagel from Oppenheimer. So thanks for the presentation. My first question, and maybe similar to what Michael asked us maybe asked a different way. But if I look at -- listen to the presentation, Jeremy, what you're saying is the underpinnings of your sector are -- remain very healthy. But we look at sales growth that's been softer sub-algo for O'Reilly. So if you -- what have been -- in your mind now, what have been the kind of missing pieces? What's not there to keep your sales growth where it should be? And how should we think about getting those pieces back and what timeframe?

Brad Beckham - *O'Reilly Automotive Inc - Chief Executive Officer*

Yes. Well, that's a great question, Brian. I'll start out and let the guys jump in. I don't know. We're asked a lot about what would be a catalyst.

And we just really don't look at it that way. I mean, what we're seeing right now is what we've seen -- I've seen it every four years for 28 years is anytime you're in an election year, people start to pull back a little bit. We've had a lot of years stacked up of inflation. All the things that you all know very well as well as we do. And I think we're just in a pretty short time period.

I mean I don't know that there's any one catalyst in terms of what's going to drive the industry. But quite frankly, one thing that's probably missed sometimes is we kind of like when there's pressure on the overall because what we see, not exactly to your question, Brian, but what we see a lot of times when there's a macro pressure on the entire industry on all of retail, we see some of the smaller players and potentially some of our larger competitors that maybe don't manage that as well as we do. They can swing the wrong direction with staffing and inventory levels and things like that. And so if you heard Jason talk about it, he kind of likes when things are a little bit tough because good times can create bad habits and tough times can create good habits operationally.

And we learned a lot about ourselves during COVID, where some cracks were, whether it be in store operations, whether it be in supply chain, and we got better from that. And so when we take a year like this, we just don't spend as much time trying to figure out what the catalyst is for the industry as much as we do, what's going to be the catalyst for O'Reilly, and that's -- we control every bit of that from all the things we talked about earlier.

Gregory Melich - *Evercore ISI Institutional Equities - Analyst*

It's Greg Melich with Evercore. I want to start with the top line. I think in the past, you guys have talked a lot about maybe 1 to 3 points of growth just from AUR, the complexity of vehicles and the vehicles, the cost of the parts of nominal dollars is just more. And I'm wondering, given the period of inflation we've just had, do you think that we just need to have a couple of years where we settle out at maybe 1% before we go back to that historic 3%? Or I sort of saw through the whole presentation, the added complexity and the technology and some of these things are breaking faster.

Can we enter a period where we just have higher AUR increases across what you sell for the next three, four, five years from a technology standpoint. Does that make sense?

Jeremy Fletcher - *O'Reilly Automotive Inc - Chief Financial Officer, Executive Vice President*

Yes. I wouldn't point to it Greg, as being something that would dramatically change from the trend in that shorter window of time. One of the things that I think both drives that kind of industry-wide benefit consistently over time, but it also means that it is at a very measured pace is the size of the vehicle car park is so large. And incremental changes to the demand triggers there happen slowly and over the course of time. So we would think that, that increasing complexity and the degree to which that supports the selling price of new product applications remains pretty consistent over the course of time.

So I don't know that the shape of that line curve changes. I think where our increasing conviction has been is, as we look further out in terms of periods of time, we still believe that that the arc is towards a higher level of complexity and a more expensive part. It's going to gradually move just because you can't change the car park dramatically in any short window of time. But if you measure where we're at today versus where we think it will be in 10 or 15 or 20 years, we're probably more confident than ever now that you're going to see high cost of parts there because of technology. because of evolutions in how vehicles are built and also because of just the cost of vehicles and the investment that's going into them.

Brent Kirby - *O'Reilly Automotive Inc - President*

Yes. And Greg, I would add to that, maybe a little additional color on top of what Jeremy said. Some of the examples I gave on the evolution of the vehicle. When you think about -- even on that start-stop example, over 50% of the new vehicles last year had that as on them. It's still only 16% penetration in the car part.

When you go back and look at that ADAS that I talked about, if you go back to 2005, that's when ABS brake sensors went into play, but then there was some staggering of that, and it only intensified really around the '15-'16 timeframe when you got into dynamic cruise controls and those kind of things, the proliferation of those sensors.

So to Jeremy's point, we really feel like that that's going to be more of a phased-in dynamic over time versus a particular bell curve or hump to get through in the next few years. It's going to be phased in over time with the lack of the vehicle.

Gregory Melich - *Evercore ISI Institutional Equities - Analyst*

This year, the comp being [2% to 4%] and in the lower part that it's really just -- there's no inflation this year or very little compared to normal was that?

Brent Kirby - *O'Reilly Automotive Inc - President*

That's probably a better way to think about it.

Gregory Melich - *Evercore ISI Institutional Equities - Analyst*

Okay. And my follow-up was a bit related. Could you just update us on where you are in direct import parts, how much you direct import. I know you listed Import Direct is one of the key proprietary brands. So just where we are there and what happened with tariffs a few years ago and how you guys play that out?

Brent Kirby - *O'Reilly Automotive Inc - President*

Yes. No, great question. Yes, and just for clarity on import direct. I mean, that's our OE comparable replacement for European models, and that's where the name comes from. So -- so less about specifically that part being imported.

But with that said, when you think about imports, especially from China, I know that's where a lot of the tariff focus has been. But we've actually, through -- Brad talked a minute ago about hard times create good habits and they did for us in terms of supply chain during COVID, we recognized in some cases, to our detriment, the overdependence we had in some cases there.

Now with that said, so we've been able to reduce pretty -- in a pretty meaningful way, some of our dependency on China specifically. We've moved more sourcing to India to Mexico. There's been some countries that have been beneficiaries of the migration out of China. With that said, there's still some suspension components and different things that are, by and large, only manufactured there. So we do still have some of that, but we have less of that than we had over the last several years.

When you go back to the tariffs, when they were enacted in the 2017, 2018 timeframe. When we did encounter that, we were able to really directly -- our whole industry was able to directly pass that through pretty immediately in selling costs and really didn't see any adverse effect per se from that because of the -- again, the need and occasion-based demand for those parts.

So I feel like we'd see the same similar dynamic, if we encounter a tariff specifically from China, again, we got to believe that's the only thing we can point to at this point was the experience there, but we felt pretty good about how we handle that and how the industry handled it. We don't share that number, but I can tell you it's been reduced by a considerable amount. I can't share an exact number with you.

Simeon Gutman - *Morgan Stanley - Analyst*

Simeon Gutman, Morgan Stanley. Another version of the growth versus investment question. The last few years, we had PPI, so there were some pricing investments and the SG&A per store got elevated. And it looked like you got -- you rewarded for that in the last few years. This year, industry malaise, but how much debate is there about keeping the pedal to the metal, not just thinking about rate, but just growth and investing and not delivering as much on the bottom line so that you could take advantage of how much share there is in the industry. And I have one follow-up?

Brad Beckham - *O'Reilly Automotive Inc - Chief Executive Officer*

Yes. Great question, Simeon. And so yes, we debate about that all the time. We spend a lot of time on that. It's a good position to be in to be able to play from a position of strength when we can. And we've been able to do that for a long time now. I think the key to the balance point of what you're asking is.

I think really, our CapEx number continues to show that we're going to continue to keep the pedal to the metal in terms of investments, both on the cap side and the operating expenses what it becomes is we do feel really good about the returns we've seen out of the SG&A spend specifically in the last couple of years. What's always the fine line is when you think about tech investments or you think about store staffing or you think about the returns on up in the level of image and appearance of our store locations. It really becomes as much not just about what the spend does what can we operationally consume and what can we effectively deploy.

And so when we're talking about it, it's not that we want to always spend more, spend less. It's as much of operational excellence and the fine line between if we're going to invest in technology, how quick can we deploy applications in a way that we can have good change management and the stores can adapt it. So we've got really solid road maps on everything, CapEx and OpEx, but we feel really good about that fine line. We're walking between the spend and making sure that we're able to digest it in the field.

Jeremy Fletcher - *O'Reilly Automotive Inc - Chief Financial Officer, Executive Vice President*

Assuming you identified, the last few years have been not the norm of what we've seen in our business, there has been some degree to which, because of the extreme growth and expansion, we weren't able to have the same type of consistent approach to what Brad just talked about as we would have normally done.

So a little bit of just a cadence question that becomes -- that becomes a little bit different as things have normalized since then. This year is a good example of how we're going to balance the right timing in the appropriate way, operationally to get the best results of how we're going to invest understanding that you have to do that within the context of an environment that's more challenging than the last few years have been.

So we don't want to limit where we think all of those things go. But we're going to be very measured to balance how we move it forward and take advantage of the opportunities, we have a lot of conviction how we can be highly successful at.

Brad Beckham - *O'Reilly Automotive Inc - Chief Executive Officer*

I think, Simeon, I'm sorry, last thing I thought about what Jeremy was talking is, we were really proud. We don't just look at one quarter. We look at long periods of time, the way we manage store staffing, for example, and the last few years, as you know, quite frankly, we weren't happy to O'Reilly with our turnover and retention numbers in the stores. It was just subpar.

We feel like we held up better than most in retail and our competitor -- direct competitors. But we weren't happy internally with our turnover and retention numbers. And it took some time for us to overcome that. And when I think of really what we -- what the teams have done, what Jason and the teams in the back have done this year with store staffing, store payroll, is really, I think, what we're seeing. It's not like all of a sudden, we're not spending this year.

I think we're continuing to invest in the right strategic initiatives. But we have seen fruits from slowing down that turnover, getting back to O'Reilly standards on store turnover retention, DC turnover and retention. And so we're seeing some payoff in those things that Brent talked about earlier with what we did with PTO, what we did with our store manager work schedule, we made their work schedule a little more conducive to work-life balance while still doing the job they need to do. And so really managing the expense well, but continuing to invest.

Simeon Gutman - *Morgan Stanley - Analyst*

Talked a lot about -- you talked a lot about market share in the \$150 billion to \$160 billion TAM. Can you talk about the market share you're taking or growth in mature penetrated markets? Because we know you're not in a couple of key regions. So some of that dollar amount is not accessible to you. So give us a better sense of the growth that you're getting to mature and can you keep taking the level of market share by staying in these existing places? Or do you have to go to these densely populated markets that you're not in order to grow that?

Brad Beckham - *O'Reilly Automotive Inc - Chief Executive Officer*

No, it would probably surprise most Simeon, when I look at the most mature markets in our company, the Central Midwest, around Missouri, Oklahoma, Kansas, Arkansas, when we look at Texas, it's not like we have 3% or 4% share in Florida, and we have 50 or 60 in those mature markets. You look at markets that were maybe 15 or 20 in the most mature markets in the country, maybe the most dominant stores where there's only one or two other parts stores, maybe 30.

And so when we look at it, it's not what you think that we have 70%, 80% of the business. It's just not that. It's more of the difference in a three or four share and 10 to 20. And so we still see a lot of opportunities. I mean, when we're doing what we need to be doing in our most mature markets, there's still plenty of share to take.

Brent Kirby - *O'Reilly Automotive Inc - President*

Yes, I would just add one thing to that. When we talk about maturity of markets for us here in O'Reilly as far as the store base, it's relative to O'Reilly. It's not relative to having a share we have relative to the market entitlement that we call it -- so it's not that we're mature is and we're almost done being the dominant supplier like my last slide. It's maturity relative to when we started and where we started and how long we've been over the other parts in those markets that, that adds any color, too.

Seth Basham - *Wedbush Securities Inc. - Analyst*

Seth Basham with Wedbush here. Brad, you mentioned that miles driven are now back to pre-pandemic levels. But that's a CAGR of flattish over that last four-year period compared to a CAGR of about 1.5% for the prior four years. And that's despite the fact that during those past four years, we saw really strong sales for the industry. So do you think there may have been a pull forward of demand during that pandemic period that we're unwinding now? Or how do you think about it?

Brad Beckham - *O'Reilly Automotive Inc - Chief Executive Officer*

Yes. Great, great question, Seth. Well, I think there's a little bit of that. I don't know that there's a lot when it comes to when it comes to more of the non-discretionary side of our business, I think really what we saw from a category standpoint, Seth, when we were in the height of the pandemic, yes, I mean our average customer, as you all know, had time on their hands and money in their pocket. And in some cases, spent some money, I think more on projects and paint and body and restoring an old car and we saw categories like spark plugs that was kind of normal in the way it used to grow and it spiked, and some of that has reduced.

And so I think from some of the project stuff and things like that, I think we've seen some of that be less here this year. But when we look at our non-discretionary categories, when we look at maintenance and true replacement parts we're really not seeing a lot of that. There could have been a little bit from the maintenance side, but the actual failure side, that failure is what it is. I think maintenance, there could be a little bit of that, that was pulled forward, but we're just not seeing that materially.

Seth Basham - *Wedbush Securities Inc. - Analyst*

Got it. And my follow-up question is just on international growth. As you expand internationally, can you give us some perspective on how fast you can open stores in Mexico and Canada? And what kind of return on capital profile we can expect out of those stores relative to greenfield stores in the US?

Brad Beckham - *O'Reilly Automotive Inc - Chief Executive Officer*

Yes. Yes. Thanks, Seth. I'll take the first part of that and then have Jeremy talk about the last. So -- we couldn't be more excited about our international markets.

Obviously, North America, building out North America made a lot of sense for us contiguous to the US. And we've had extreme success in the markets the border of Mexico. And quite frankly, our largest public competitor has done an unbelievably good job in Mexico now since the late '90s. And they've kind of paved the way. They've done a phenomenal job down there.

The average age of a vehicle is 16.5 years in the Mexican market, not good roads, and it's really a great parts market, even more fragmented than the US by far. It really almost when you go down there, it feels like going back in the US in our industry to the almost the '60s or '70s. And so tremendous opportunity.

Seth, we're not -- when we look back through the pandemic, we would have wanted to get more done in Mexico than we have gotten done, quite frankly. We acquired an amazing family business in Mayasa. They had roughly 20 stores, and they had a bunch of small distribution centers, and they were a WD supplier.

But what was most important to us with the acquisition of Mayasa was we needed the right people platform. We wanted to go down there with somebody that had teams that understood the market that had customer relationships and that had distribution and systems to a lesser degree, and we have an unbelievable leadership team down in Mexico, pandemic hit, and we felt like we lost some time, quite frankly. And so I think over -- really, as we've kind of caught up from not being down there as much as we wanted to be down there in the pandemic. The catalyst for us, as you well know, is getting that DC open that we opened last year -- last summer in Guadalajara.

And I think we can continue to ramp to, at some point, open maybe 30, 40, 50 stores a year potentially. We haven't laid that out in that manner, but that's just kind of directionally where we feel like we can head. That may increase. That may decrease. But -- what's most important to us in Mexico is just making sure that we have our foundation right from a people standpoint.

We now have our distribution up and running. Brent and our IT teams are working very hard on our system integration and working on the right system platforms to be able to enable that type of growth. And we feel really good about our ability to get after that and have hundreds, if not

thousands of stores down in Mexico. On Canada, and then I'll turn it over to Jeremy from the kind of the economics Canada is very similar, obviously, to a lesser degree than Mexico in terms of the TAM. Canada is, as everybody knows, is the population sits on the US border.

And so there's still a lot to learn about what exactly our distribution network is going to look like. But very similar to Mayasa is we wanted the right people platform in the Canadian market. It's a decent DIY market. It's a phenomenal DIFM market. And we wanted, again, the right people platform, not only that understood the Canadian market, but specifically understood the Quebec market in French Canada.

And we absolutely have that in Mauro Cifelli and the team that's running that business for us. We've known them for a long time. They're kind of an industry icon as a family and as a team. They're a great company there with Groupe Del Vasto -- and so we still -- it's still a little bit early to say exactly what our plans are going to be in Canada, but they had distribution capabilities, both in Montreal and Toronto as well as kind of what we consider hub stores they had as well.

And so we have a lot of capabilities in place. We're going to be working on those plans the next year to really figure out what that store ramp needs to look like and what it will look like in terms of actually being branded O'Reilly. So more to come on that.

Jeremy Fletcher - *O'Reilly Automotive Inc - Chief Financial Officer, Executive Vice President*

Yes. In terms of just how we think about returns on capital, Canada pretty similar to the US. We're still early stages. So we'll tweak how we think about what the growth looks like there. But I would tell you that marketplace in many ways, is similar to the US. Mexico also a good opportunity for us. We feel highly confident in being able to invest capital down there a little bit different economics just because of the market conditions at different -- and we're still early stages there in more of an investment cycle, opening a lot of stores into a few right now.

But from a long-term perspective, we similarly think that we'll be able to earn a strong return on capital for new store growth in similar ways to where we've invested in the US for a long period of time. We'll see where that balance is out. But -- but there's nothing that we've seen so far in our experience there that has shied us away from what we think the long-term potential is.

Steven Forbes - *Guggenheim Securities, LLC - Analyst*

Steven Forbes, Guggenheim. Brad, I wanted to revisit higher level that industry slide in the United States because it looks like you had -- you guys are noting about 2,000 net new stores since 2019. And over the past five years, which I think the prior 2,000 net new stores took about 15, 18 years to see within the industry. So any way sort of frame like what's sort of supporting that growth and/or how do you think about attrition risk, cannibalization risk into the future? And/or has there been sort of an emergence of a new competitor that you guys are seeing? It just seems very stark in sort of difference versus --

Brad Beckham - *O'Reilly Automotive Inc - Chief Executive Officer*

Yes. We actually talked about that this morning. That's a great question, Steven. So the thing I would tell you, when you really break that down, the difference in kind of what looked like 35, 36 for a very long period of time ramping up to 37 than just the way you laid it out. Honestly, I think when you take us and our largest competitor that puts in about as many stores as we do, I think we would comprise a good portion of that, like we always have.

I think the difference, quite frankly, is -- there was a lot of small mom-and-pop type independent got a really good shot in the arm during the pandemic, like we all did. I think we controlled our own destiny better than anybody, but everybody did pretty well, maybe better than what they were actually operating during the pandemic.

And so -- it's not so much anything new in terms of new competition. I think what's missing is the fallout in previous years from a consolidation standpoint it was kind of a step change in lack of store closures, maybe from some of the weaker independents, which is actually a good opportunity as we move forward the next couple of years.

Steven Forbes - *Guggenheim Securities, LLC - Analyst*

And then just a quick follow-up for Jason. You talked about the first call commitment and I can't remember your exact words, but you sort of made it seem like first call online platform, would be surprised by the amount of sales that are sort of going through that platform. Any way to sort of frame up for us, like sort of how that penetration has changed or just how successful that first call online platform has been?

Jason Tarrant - *O'Reilly Automotive Inc - Senior Vice President - Western Store Operations and Sales*

I wouldn't say that you'd be surprised about how much we do. you may be, but that's not what I was trying to, I guess, lay out -- we're very pleased with the growth and the trajectory of that platform and how we continue to bring in more customers to that ecosystem that creates that loyalty through the efficiencies that the professional customer sees as well as what our store team sees. It's really just been an ongoing this evolution of snowball effect where our customers continue to find value in that platform, and our teams support it, and we go out and promote that platform to provide value for professional customers.

Brent Kirby - *O'Reilly Automotive Inc - President*

And shops continue to evolve, too, in terms of technology and their adoption of technology. There's a dynamic of that going on as well as a lot of the great work that the teams are doing to enhance the platform continuously to meet those needs as well as the (inaudible) on the Street behind the platform.

Jeremy Fletcher - *O'Reilly Automotive Inc - Chief Financial Officer, Executive Vice President*

But for sure, our growth in professional sales through the platform has exceeded our overall professional sales growth gosh, for as long as I can remember, even during the last several years when our professional growth has been very strong.

Brent Kirby - *O'Reilly Automotive Inc - President*

Yes. The part that might be surprising is that as the base has grown over years, that growth and outperformance through the platform versus not through the platform, continues to lead the way. That's what's been so impressive to us is as the base grows, the outperformance hasn't changed.

Anna Baghdasaryan - *First Manhattan Securities LLC - Analyst*

Anna Baghdasaryan from First Manhattan. I would love if you could the CapEx spend. It has doubled in the last few years, while the store openings has kind of ranged in the 190 to 200. So I'd love if you could discuss like where it's being spent on, what kind of longer-term plans and how you think it's enhancing your competitive position in an environment where at least one of your public competitors is pulling back on CapEx?

Jeremy Fletcher - *O'Reilly Automotive Inc - Chief Financial Officer, Executive Vice President*

Yes. Great question there. And I'll start and the other guys might chime in. For sure, in the time period that you outlined with those endpoints, it's been pretty stark. Some of those are comparisons are to that 2021, 2022 timeframe, where we -- at the beginning of those years, we had set a guidance target that was that ended up being well in excess of what we spend because we just couldn't get into stores, couldn't get the development through.

So some of what we've seen is a normalization above a higher -- a little bit higher bar there, where we were in the \$650 million to \$700 million range for some of the years pre-pandemic. I would tell you that especially this year, one of the bigger changing components of that is the composition of the stores that you talked about, lean a little bit heavier to own stores.

And to the degree to where we lease a little bit more of a lean towards leasing existing buildings where we're going to go in and do a more substantial amount of work. As our economics have continued to improve, and we've seen opportunities from a brick-and-mortar standpoint over the course of really the last couple of years to enhance that level.

We've been pleased with how we thought about the return profile of that business. And that's always been, I think, to a certain degree, a bias and a focus of ours. We've had more balance there historically just because of the availability of properties within markets, but we've had an opportunity, especially within the current year. To own more of those new sites than we've leased.

In addition to that, we have had some initiatives, some of the some of the -- just the normal things that we would focus on the quality of our plant, the imaging appearance of our stores, some of the -- what we see as value-added initiatives that that we've caught up on over the course of the last few years that have heightened that spend. And then obviously, a lot of the technology things that we've seen, we continue to incrementally add as we think about capital for those items moving forward. But -- but really, the biggest LTA, if you look back on an existing store populations were heavier own mix at this point.

Brad Beckham - *O'Reilly Automotive Inc - Chief Executive Officer*

Yes. I think to, Anna, maybe just to highlight a couple of things we have going on is Brent talked about our DC projects. We're going to continue, as I think everybody knows, we're the one in our industry that actually has these regional distribution centers that we spend a lot more money putting them in the cities versus a lot in retail and a lot in our industry have their distribution setting out where you can get free land and tax breaks and it's really a replenishment play.

As you'll see here in the Chicago market here in Naperville, this location, for example, of what we're going to do in Stafford, Virginia for the Mid-Atlantic, what we're doing with the relocation of Atlanta, those type things. Having that inventory and making sure that we're keeping our inventory advantage an advantage. We're going to continue to lean into that from distribution capabilities, hub store capabilities and parts proliferation and having the right part at the right place at the right time.

We all talk about that, but we're going to make sure that continues to be a competitive advantage. And so obviously, those projects are expensive projects. And then when we think about technology, we have a lot of opportunities to get better with tech. And we actually have a new CIO with our company. It's not here with us today, Scott Ross, that joined our company at the end of last year.

He reports directly into Brent. And we're really excited about some things we're doing internally with technology when it comes to taking friction out not only for the customer at the store with omnichannel, digital capabilities, e-commerce, but also things we're doing to simplify the store manager's job, things we're doing to simplify the store team's job to make sure they're totally focused on taking care of our customers. And so we're going to continue to invest in technology as well because we have a lot of opportunities there.

Brent Kirby - *O'Reilly Automotive Inc - President*

Yes. And just one adder a little bit on the comments Brad made about the DCs, too, in regard to your question on timing. So if you think about -- I mentioned the Springfield, DC that's coming online next month. This is 2024 prior to this, the last new DC project we had was 2019. So some of that timeframe you're referencing, we were kind of dark on DC projects as well, just COVID and everything else going on. So we've gotten back to that cadence like Brad talked about.

David Bellinger - *Mizuho Securities USA - Analyst*

David Bellinger from Mizuho. Maybe just a follow-up on that last one. You mentioned some automation in the new DCs -- can you talk about what level of automation is in those facilities across the chain? Is there a potential to go maybe you retrofit some of those and get more productivity out of those bonus.

Jeremy Fletcher - *O'Reilly Automotive Inc - Chief Financial Officer, Executive Vice President*

Yes. So great question, David. We -- throughout the history of O'Reilly, again, distribution has been a core competency of ours from the very beginning. And we're always looking at automation. And that can be conveyance.

It can be pallet flow, carton flow, all kinds of different MHE that we've looked at over the years, and we're always looking for a return on those investments when we make them. The last several years has yielded some benefit there from some automation around goods to person and those kind of things. So we've evaluated some of those technologies, and we'll be implementing some of those technologies to see how they perform.

We'll see how that works. In our business, we feel like though that we're not leading edge or bleeding edge, it's very proven and -- we've done some time and motion study. So we feel very assured in the investments we're making in some of those new facilities.

David Bellinger - *Mizuho Securities USA - Analyst*

And just a second one. In terms of any potential expense pullback, if we are in a slower spending environment? Is there any parts of the business where you would, I guess, pull back to some degree while still trying to take market share? And specifically on store replenishment 95% stores daily replenishment. Is that something that could ever go back? Or is that really the leading edge of you continuing to gain share in something that's sort of off the table at this point?

Brad Beckham - *O'Reilly Automotive Inc - Chief Executive Officer*

Yes. Thanks, David. Maybe on the expense side first, and we can talk a little bit about nightly replenishment. So on the expense side, as you've heard us say for a long time, David, we're very careful to make sure we don't overreact. We absolutely have to react.

And we've invested a lot the last few years. And so I think this year has been a proof point that Jason and the team have done one heck of a job managing our store SG&A under the pressured top line. And we've continued hone in on investments and not pull back too far. Really, when we get in a cycle like this, obviously, we have a lot of fixed costs, we make or manage every little penny. We -- expense culture is something every one of us were founded on, and we micromanage every single penny we spend each and every day no matter if it's good times or bad times, but Obviously, you're like this, we look at everything.

And when you think about something like StoreStack, we're managing that dynamically one store at a time, one team remember at a time. And so yes, that's under extreme scrutiny right now. stopping short of making sure that we are continuing to give the service we need to give on both sides of the business.

Really the only area that we -- we look at everything, but the biggest area we make sure that we're pulling back or making sure we're adjusting is just headquarter expense. Every one of us that sets up here and most of the team that's here from Springfield this week were in expense. These men and women in the back of the room are out there ringing the cash register every day. And in times like this, we make sure we're not spending one penny that we shouldn't, whether it be on headquarter staffing, whether it be on projects. We look at every process in the office is a process that somebody is doing each and every day that they've done for three years.

Is that still relevant? Do we need to stop doing that? Do we need to start doing something different? Do we need to utilize technology or better processes. So we just continue to micromanage every single expense every day.

Jeremy Fletcher - *O'Reilly Automotive Inc - Chief Financial Officer, Executive Vice President*

But to your specific point, David, around 95% plus of our stores get multiple intraday deliveries from a city counter of a DC or a hub store or do we look at those types of things and change delivery schedules or look at that model and dial it in differently. For that, I mean, we would tell you

absolutely not. The reality is, we're not pleased with the growth of what we've seen so far this year. It's shaping up to be one of those types of uses in the industry. But the large majority of our business is still there and does not accept or understand any change in the service levels.

I think Brad mentioned it earlier, candidly, these types of environments can at times excite us because if -- look, we're very ready for a competitor that does that type of thing, it puts us in a position, we think that we can take advantage of it. So that's why as much focus and scrutiny is we take the controlling expenses and our ability to do that because we have so many of these units that have people within those stores that do treat it like it's their own business, gives us a lot of flexibility to do that. But it is limited because we're going to -- we're never going to sacrifice certain service components of our business.

Brad Beckham - *O'Reilly Automotive Inc - Chief Executive Officer*

And David, on your other part of the question, I want to make sure that we all understand, actually 100% of our stores get five night a week replenishment. So forget special orders or what we call must have, so it's hard to find parts. We replenish our stores five nights a week, every store in the chain.

So I want to make sure we understand that. So a part that any store in the company, a part they sell on Wednesday is pick, pack and ship from this facility on Thursday, and it shows up to the store in the middle of the night, Thursday night, and it's put back on the shelf Friday morning. That's 100% of our stores from a replenishment standpoint. What we talked about is what I mentioned earlier with Anna's question on CapEx and how that ties into our distribution strategy, what you'll see when you go through this facility here, is 95% of our stores actually get multi times a day or at least one time a day beyond their replenishment truck in the middle of the night on a small truck for special orders.

And so the way that we have these 32 regional distribution centers across North America, every one of the -- I think of this facility, Scott will correct me if I'm wrong, but he services 302 stores from a nightly replenishment standpoint. In mid-2s, well over 200 of them actually can pull from this 175,000 SKUs multiple times a day through small trucks. And so I just want to make sure that we get that right is -- and on the replenishment front, we've played around with is five nights a week too much. Can we go to 4, can we go to 3, can we modify our service?

And there's been a few of those opportunities show up in some kind of tertiary markets. But honestly, having the part in stock and us having our stores, even though it's a little bit more expensive to do, having our stores put up a little bit of freight every day and knowing that they're 100% in stock. We just found that to be a competitive advantage versus some of our competitors that are just getting one or two trucks a week.

Brent Kirby - *O'Reilly Automotive Inc - President*

Yes. Brad said what I was going to say, the only thing I would add to it in addition on your question is -- when we talk about those multiple times a day beyond that nightly replenishment and Scott will show it to you when we go out here and tour the DC, there's a customer attached to that order. It's sold. It's sold. And so to stop doing that would be to give up opportunity for us.

Steve Zaccone - *Citi Investment Research (US) - Analyst*

Steve Zaccone from Citi. I wanted to follow up on some of the conversation around market share in DIFM. Could you talk about who the share donors are going forward? Has that changed versus maybe previously -- and when you think about the tactics to gain market share, Brad, you talked about trying to evolve some strategies there are no revolutionary needed, but still opportunities to get better. Could you talk about what that is?

Brad Beckham - *O'Reilly Automotive Inc - Chief Executive Officer*

Yes, specifically on the DIFM side, Steve. Yes. So as most of you know, the way we look at the quality of the share dollar on the DIFM professional side of our business. We roughly still see almost 50% of that share or that those sales being accomplished through the independents. And so when you talk about highly fragmented, you look at us and our other big three competitors we all have 10 or less roughly even on the professional side.

And so still continues to be highly fragmented. I think what we've seen is when I started in this business, it was very common to see most every market had a couple of stores that were independently owned just one store owners.

I think what's evolved over time is you have more owners that have three, four, five stores, they could be a NAPA store, they could be bumper to bumper, they could be part of another buying group. But I think what's changed, even though that independent is still 50% of the revenue done on the DIFM side, the way we look at the share available in the US the week have gone away. The mediocre have kind of been in the middle, and we've been able to take share even though they still exist and some of the strong you've gotten even stronger. When you look at the parts authorities, excels, the FMPs, all the WD type competitors, they've grown pretty well, too, over the last many years, and they're solid independent operators.

They do a fantastic job. So I think the opportunity is the same to continue to take share from the independents. It's just the mix a little bit of ownership has been the biggest change. And then obviously, as always, as we always say, of our big three competitors we have a tremendous amount of respect for those guys. I mean, they do a lot right.

They're well-run companies, some better than others, and we've had some opportunities. And I think our opportunities will continue to be to take. When Jason and his team talk about share, they're not just talking about one competitor. They're talking about the total market, and they're focused on -- even though we talk a lot about market share and competitors, our biggest competitor operationally, these guys say it all the time is in the mirror, meaning that when we're executing to a tea, we normally take a lot of share. When we're not doing exactly what we're supposed to be doing, which can happen sometimes, unfortunately, even with our company with 6,000 stores, our opportunity normally is for us to get better and run our playbook better.

But I think we see equal opportunities, generally speaking, to continue to take share from the independents, the small operators as well as the big public competitors. And then I think -- I'm asked all the time about pure-play e-tailers or maybe big box or what's happened on that front. And what I try to remind everybody, when they talk about e-tailers and their fulfillment and things like that. The way I look at it is we have 6,200 fulfillment centers. Because if you think about our stores, we view them as fulfillment centers. They all have that average of 22,000 SKUs in the far majority of those SKUs are behind the counter.

It's a consultant visit. It's -- these non-discretionary failure and maintenance parts. And so when I think about that, another opportunity we have is to continue to get better. Brent talked about it and making sure that we have the best websites possible. The omnichannel for us is always going to start in the store, but professional parts people means that we must have the most professional parts people staying in the store.

It also says that we better have the most professional website in the industry. oreillyauto.com on the retail side, first call online on the professional side. And so I also think we have incremental opportunities to continue to get better at digital e-commerce, display in that inventory exactly the way we want to display it. In Lasalle working with our suppliers to make sure that we're displaying all the inventory availability that we have, not only in our network with our suppliers and continue to get better at the way we really exploit our inventory advantage.

Steve Zaccone - *Citi Investment Research (US) - Analyst*

Okay. Great. Just a brief follow-up to Jeremy, your leverage ratio from a debt perspective has been below that target, I guess, like two analyst days now. So just should we expect this to be the new kind of run rate? And if it's not, and you can get back to that level, how would you think about some of the priorities that you had some extra capital spend?

Jeremy Fletcher - *O'Reilly Automotive Inc - Chief Financial Officer, Executive Vice President*

Yes. So no, we wouldn't say that we've reestablished a new target. It's probably been more than two Analyst Days that we've been below our level candidly. Our focus there same as it's been over -- really, gosh, the net 13, 14 years that we've been under this capital policy. We want to be prudent and consistent about how we might move to that target over the course of time.

We constantly reevaluate that, but we still think that's the right mix for our business. I think I had a question maybe before we started today, just as we were milling about how do we think about what our capacity is to be able to invest. And we feel very comfortable where we're at today and at our leverage target that we've got a balance sheet that allows us to take advantage of any strategic opportunities that we would see and feel very comfortable over the course of time as we gravitate towards that level that, that will remain true.

Maksim Rakhlenko - *TD Securities (USA) LLC - Analyst*

Maksim Rakhlenko, TD Cowen. So first, can you speak to the Mid-Atlantic opportunity -- how long could it take to build out the infrastructure, including hubs and stores to really be able to compete with the top WDs in the region? And then how are you thinking strategically about the unlocks to potentially selectively go after some of those national accounts potentially incremental, but at a lower margin?

Brad Beckham - *O'Reilly Automotive Inc - Chief Executive Officer*

Yes. Thanks, Max. Well, we're really excited about the Mid-Atlantic. We've kind of snuck up on it for a long time here now. We've had the Greensboro DC for a long time, and then we normally wouldn't have jumped over the Mid-Atlantic to go to New England.

We only did that as a lot of you remember, because we had the opportunity to buy the parts side of the IP auto up in Maine, New Hampshire and Massachusetts. And then a few years later, in 2016 had the opportunity to acquire Bond Auto out of Vermont. And so really, it was just those opportunistic acquisitions that got us to the point of opening our distribution center there in Boston that a lot of you have visited.

And so again, we've had this dynamic where we've kind of had this really gap in footprint that we have that depending on where you draw the lines, you can almost say it's a third of the population of the United States. And so we're extremely excited about the markets. When you look at Northern Virginia, when you look at Washington, D.C., when you look at Baltimore, when you look at Philadelphia and on up through New York City and Jersey, there's a tremendous opportunity. directly to answer your question in terms of time, it's going to take some time.

Stafford, we had already snuck up kind of on that Northern Virginia market. We have some big hubs up in that market. And then from the north, we've done the same down through Connecticut. And then obviously, Stafford is going to be the catalyst to really get that big box inventory like we have here attached to this facility in that Northern Virginia market. And on that I-95 corridor where we can really get after that stuff.

But I would say, generally speaking, that it's still going to take us. And that's good news. It will take us time, but that's when we do our best work. We could acquire a couple of companies and be in those markets overnight, but we really wouldn't have the growth story and the ability to grow into those markets. So we're going to be very disciplined. We'll do that over the next decade or so.

Generally speaking, we'll focus when our site acquisition folks go out and they start working a new market, they're working from that distribution center out. And so we're not going to immediately jump to Philadelphia in New Jersey. What we'll do is in a disciplined way is we'll continue to acquire sites, look for acquisition opportunities in Northern Virginia DC kind of start working that Baltimore market in a very disciplined way. Over the next few years. We're already working some of those markets from a site selection standpoint. But great question on the competitive landscape, they're competitive markets.

I mean there's tremendous amount of market share in all those metro areas, but they're tough competitors. We know a lot of those independents that operate in those markets, plus we'll be the last in terms of the big four to enter those markets. But -- we couldn't be more pleased, quite frankly, with our store openings already. And when we look at our new store cohort kind of in that Northern Virginia market, and you look at our new store

cohort, come in the other direction from New England in the stores we've opened in Rhode Island and Connecticut and Upstate New York. Those stores are coming off incredibly strong.

And as you can probably imagine, they are -- there's not a big material difference in the cash charge mix in those stores, but there's great DIY opportunity, but there's even better DIFM opportunity when you get in those intercity markets of obviously, New York, Baltimore and Philadelphia. And so we're really excited about those markets, but we take them -- we don't take the competitive nature for granted. We're going to be very careful and be disciplined in the way we build out the teams there.

Maksim Rakhlenko - *TD Securities (USA) LLC - Analyst*

Okay. Great. And then can you just speak to the price environment? How stable is it? Some of your bigger peers are making some changes? And then just bigger picture, if the environment remains soft for maybe a more extended period of time in WDs, you get a little more desperate, how do you think that could play out?

Brad Beckham - *O'Reilly Automotive Inc - Chief Executive Officer*

Yes. Absolutely. I'll start it and more of the other guys may want to jump in. But as we always say, we continue to see the market really rational. We have disciplined competitors on both the public side and the independent side.

As you all know, when we decided to make that strategic investment in Pro Price initiative here, a couple of 2.5 years ago now, I guess, or at least 1.5 years ago and get my years mixed up. It's been two years, two-plus. Yes. We purposely did not necessarily go down to be cheaper or even exactly the same as some of those two-step model type competitors.

But we wanted to get more in the game, so to speak, in certain categories, and that's -- paid off extremely well, not because of pricing actions alone, but because our teams in the back room have gone out there with a sharper price and being the best in the market with availability and service and relationship that backs up that pricing. So that's key. But we see the market extremely rational. We feel good about the way we feel like price increases are being passed through.

And really, what we've seen here of late is just a competitor that was way out of the game on both sides of the business here a year or two ago, or maybe over the last couple of years for sure, last year. And what we're seeing there is just a little bit more competitive, but nothing to worry us in terms of anything radical what so ever.

Mark Merz - *O'Reilly Automotive Inc - Senior Vice President - Finance, Vice President of Investor Relations, Financial Reporting and Planning*

Okay. Well, I think that gets us to time for our Q&A session. I'd like to thank our team for coming up and answering the questions. I'd like to thank everyone for joining us here in person today. I'd also like to thank everyone who is on the webcast for joining us today. Everyone in the room, if you could just stay seated for a few minutes while we end the webcast portion of the call and we'll give some instructions.

But before we finish up, everything in O'Reilly, everything at O'Reilly starts and ends with culture, period. That's who we are, that's what we do. That's what makes us different. Hopefully, you saw the team exhibited today, how many times they refer to the back of the room, the operators in the back of the room. That's where the rubber hits row, that's where the depth of experience exists. That's what makes O'Reilly special.

So I'd like to thank everybody for the privilege and opportunity I have had to work so closely and get to know many of you over the years. As I transition into my new role. I know most of you have probably heard my stick whenever you call me, one of the first things I say is living the dream. So or stand swing.

So that concludes the webcast portion of the call for today. Everybody who's online can now disconnect.

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