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EDITED TRANSCRIPT

ORLY.OQ - Q4 2024 O'Reilly Automotive Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Welcome to the O'Reilly Automotive Inc fourth-quarter and full year 2024 earnings call.

My name is Matthew and I'll be your operator for today's call. (Operator Instructions)

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

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

Thank you, Matt. Good morning, everyone, and thank you for joining us.

During today's conference call, we will discuss our fourth quarter and full year 2024 results and our outlook for 2025. After our prepared comments, we will host a question-and-answer period.

Before we begin this morning, I would like to remind everyone that our comments today contain forward-looking statements, and we intend to be covered by, and we claim the protection under the Safe Harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You can identify these statements by forward-looking words such as estimate, may, could, will, believe, expect, would, consider, should, anticipate, project, plan, intend, or similar words. The company's actual results could differ materially from any forward-looking statements due to several important factors described in the company's latest annual report on Form 10-K for the year ended December 31, 2023 and other recent SEC filings. The company assumes no obligation to update any forward-looking statements made during this call.

At this time, I would like to introduce Brad Beckham.

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

Thanks, Jeremy.

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Good morning, everyone, and welcome to the O'Reilly Auto Parts fourth quarter conference call.

Participating on the call with me this morning are Brent Kirby, our President; and Jeremy Fletcher, our Chief Financial Officer. Greg Henslee, our Executive Chairman; and David O'Reilly, our Executive Vice Chairman, are also present on the call.

To begin today's call, I'd like to recognize the hard work and commitment demonstrated by our team of over 93,000 professional Parts People throughout 2024. It is their commitment to our company and our customers that enabled us to deliver a solid year highlighted by an increase in comparable store sales of 2.9% and an increase in diluted earnings per share of 5.7%.

2024 was a challenging year across the automotive aftermarket, and our financial results reflected the headwinds our industry faced, finishing below the expectations we set for our business entering 2024. Our team has established a long track record of robust growth and profitability, so we are never fully satisfied when we fall short of that high bar.

However, we are pleased with our team's ability to navigate the challenging environment and still deliver increases in comparable store sales and earnings per share, representing our 32nd consecutive year of growth in these metrics since becoming a public company. We are very pleased to have delivered record earnings despite a $0.46 headwind to EPS resulting from a fourth quarter charge of $35 million to adjust our auto claims self-insurance liabilities, which Brent will discuss in more detail during his prepared comments.

This charge was a headwind of over 1% to the full year EPS growth we reported for 2024. The charge was even more impactful to the fourth quarter, representing a headwind of approximately 5% to the 2.6% EPS growth we reported for the quarter.

Now, I'd like to take a few minutes to provide some color on our fourth quarter sales results. Our comparable store sales for the fourth quarter grew 4.4%, which was at the high end of our expectations. Our sales growth was driven by solid results in both professional and DIY. The relative performance between the two sides of our business was more balanced in the fourth quarter than we experienced in the first nine months of 2024.

Our professional business again delivered mid single digit comp growth, while DIY grew just over 3%, the best quarterly result in 2024. To some degree, our fourth quarter results were consistent with the pressure demand environment we have experienced throughout 2024. The headwinds we have seen from broad-based pressure on consumers persisted in the fourth quarter and were reflected in continued softness in discretionary categories such as tools, accessories, and performance parts.

However, we saw continued strong demand in maintenance categories in the fourth quarter. We also benefited from strong performance in winter weather related categories as we calendared easier comparisons to the mild start of winter in the fourth quarter of 2023.

Harsh inclement winter weather creates a tailwind to our business, and the timing of when we have experienced this type of weather has created some variability over the last few years. As a reminder, last year, we really did not see severe winter weather in the fourth quarter of 2023, with more of the harsh conditions that support our business arriving in January of 2024.

So far, this season has been more typical as we have seen the impact of winter weather spread out a little more evenly. As a result, from a cadence perspective, our business in the quarter was steady month to month when viewed relative to the normal sales volume trends in our business. Our comps in October benefited from 2024 having one less Sunday than the prior year and our December comps reflected the easier weather comparisons.

Again, these monthly variances were driven by prior year comparisons and not by variability in our business within the fourth quarter of the current year.

Next, I'll discuss average ticket and traffic dynamics underpinning our sales growth for the fourth quarter. Ticket count growth was the larger contributor to our comparable store sales increase in the quarter, again led by the professional side of our business, in line with the consistent strength we saw throughout 2024. DIY ticket counts also grew in the fourth quarter, representing our best quarterly performance for the year, as this side benefited from solid performance and maintenance categories in the favorable winter weather comparisons.

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On a two year stack basis, which smooths out the effect of the timing of impact of weather, fourth quarter DIY traffic was down slightly, in line with full year 2024 trends. We believe our customer transaction count results lead the industry on both sides of our business, reflecting continued market share gains in a tough environment. Average ticket values were also a positive contributor to our comp growth in the fourth quarter and included a benefit from same-SKU inflation of just under 1%.

For the full year of 2024, our 2.9% comparable store sales increase was at the high end of the revised guidance range we provided on last quarter's call, but just below the 3% to 5% guidance we set at the beginning of the year. The sales growth achieved in 2024 was on top of the robust increases our team delivered in 2023 and 2022 of 7.9% and 6.4% respectively.

Against the tougher industry backdrop, our team has worked diligently to double down on our efforts to provide the best customer service in our industry, allowing us to both sustain the business we have earned from our customers over the last few years and further grow our market share.

Next, I want to transition to a discussion of our guidance for 2025, starting with our sales outlook. As we disclosed in our earnings release yesterday, we're establishing our annual comparable store sales guidance for 2025 at a range of 2% to 4%, and we want to provide a snapshot of how we view both industry and macroeconomic conditions in our prospects for the coming year.

As we've discussed over the last few quarters, the current environment in the automotive aftermarket has been challenging but is not unlike other cycles we've seen over our decades of experience in our industry. We operate in an extremely stable sector of retail, and our customers are very resilient in periods of economic uncertainty.

The dynamics of the car park also contribute to stability in our industry. Vehicles are engineered and manufactured to be reliably driven at higher mileages. This reliability, coupled with the substantial cost of replacement creates a compelling value proposition for customers to invest in the repair and maintenance necessary to keep their existing vehicles on the road.

The result has been a growing US car park characterized by an increased average vehicle age which combined with steady growth in total miles driven supports durable demand in the automotive aftermarket. Against this stable backdrop, our industry has encountered years similar to 2024, where industrywide growth is hard to come by and positive sales momentum is only available through market share gains and industry consolidation.

We remain confident these periods are short-lived and that our industry consistently rebounds due to the core strength of the demand drivers underpinned by the vehicle population. As such, we are optimistic in the long-term fundamentals of our industry and the prospects for conditions to improve as we move through 2025.

However, we remain cautious regarding the potential for worsening economic conditions or the possibility of short-term economic shocks, particularly pressure to the consumer from sustained high price levels, rapidly increasing interest rates or energy costs, spikes in gas prices, or other adverse circumstances. These considerations are built into our 2025 outlook and full year guidance, but are particularly relevant as we enter the year on a similar trajectory to our 2024 exit and face challenging comparisons in the first quarter on a multi-year basis.

Our focus as a company is to control our own destiny and drive our industry-leading results in any market condition, and our performance this year will ultimately depend on our effectiveness in executing our business model and providing exceptional customer service. To that end, we expect both our DIY and professional businesses to be positive contributors to our comparable store sales growth in 2025.

We anticipate stronger growth in professional from increased ticket counts driven by an expected higher industry growth rate on this side of the business and by our ability to continue to capture market share. We also expect to be a DIY share gainer, but expect these gains to be offset by the long-term industry dynamic of pressure to ticket counts resulting from increased parts quality and corresponding extended service and repair intervals.

As a result, we anticipate DIY traffic will be down slightly in 2025, but that a higher ticket value associated with the increasing complexity and quality of parts will drive comparable store sales growth in DIY similar to our experience in 2024. Our projected outlook for average ticket growth in 2025 assumes a benefit from same-SKU inflation of approximately 1%.

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Consistent with our historical practice, we are assuming only modest increases in price levels from this point forward in 2025. In a few moments, Brent will discuss how we view the potential for increased tariffs on our supply chain and margin outlook. For now, I will just highlight that our sales assumptions exclude any changes in tariffs, as it remains too early to project the impact to our business.

Before I move on from our sales guidance, I would like to highlight our expectations for the quarterly cadence of our sales growth in 2025. We expect our quarterly comparable store sales growth to be relatively even throughout 2025, with relatively minor differences driven by more challenging headwinds in the first and fourth quarter and easier compares in the second and third quarters.

Thus far, in the first quarter, our sales volumes are tracking in line with our expectations against the tough comparison to favorable winter weather in January of last year.

Now I'd like to move on to discuss our capital investment and expansion plans. Our capital expenditures for 2024 were just over $1 billion, in line with 2023 and marginally above our full year guidance range, driven by the timing of spend on distribution infrastructure projects. For 2025, we are setting our capital expenditure guidance at $1.2 billion to $1.3 billion. The increased level of projected investment is centered around our plans to accelerate our store and distribution expansion.

Starting with our store network. We disclosed on last quarter's call our target of 200 to 210 net new store openings for 2025. The increase in new store openings reflects our continued strong new store performance and our confidence in our ability to successfully balance our organic growth with greenfield growth across our North American footprint.

For domestic US store growth, our projected new store openings are spread across over 35 different states, balanced between expansion in newer markets in the Northeast, the Mid-Atlantic, and Puerto Rico, as well as backfill in existing markets coast to coast.

Our plans also include continued growth in Mexico. In 2024, we opened 25 new stores in Mexico, bringing our store count to 87 stores and expect to open a similar number of stores in 2025. We are still in the early innings of our expansion in Mexico, but we are gaining momentum and capitalizing on the opportunity to spread new store growth over several market areas while at the same time also beginning to increase density in markets outside of our core historical base in Guadalajara.

We are also building the development muscle necessary for greenfield new store growth in Canada. Our 2025 target does not yet include a substantial number of new stores in Canada, but the coming year will be an important one to build out the organic capabilities and advance the development of the new store pipeline that will fuel our growth in the coming years.

Beyond the increase in our new store targets, we are also expected to increase our growth capital spend as a result of two additional factors, a continuing shift to owned new store growth versus leased stores and incremental investments in our hub store network. Our ability to successfully open stores that increasingly generate higher sales volumes and stronger cash flows is driving enhanced returns on capital invested in our new store growth.

In light of these strong returns, we are planning 2025 new store openings to include a projected 60%, 40% mix of owned versus leased stores. We are also pleased with the returns we have generated through our ongoing expansion and enhancement of our hub store network. Our ability to support our stores with quick access to broad localized SKU availability is an important factor in our ability to effectively compete and take market share on both sides of the business.

We have executed our hub strategy for decades. One of the strengths of this strategy is our flexibility to adjust the number, location, and size of our hub stores to ensure our network provides our customers with the best access to inventory in each of our markets. As such, our capital investment projections for 2025 include planned increases in the number and size of our hub stores.

The second major driver of our 2025 CapEx outlook is our continued investment in distribution capabilities. The competitive advantage we maintain in an industry-leading inventory availability is fueled by our substantial investment in our distribution network, and Brent will provide an update on our current distribution projects and expectations for 2025 during his supply chain update.

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Our store, hub and distribution expansion represents the lion's share of the planned growth in CapEx for 2025, but also included in our outlook are continued ongoing investments to maintain and refresh the image and appearance of our store fleet, as well as continued strategic investments in technology.

As I wrap up my prepared comments, I would like to once again thank team O'Reilly for your unwavering commitment to providing excellent customer service every day in each of our over 6,300 stores.

Now, I'll turn the call over to Brent.

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

Thanks, Brad.

I would also like to begin my comments this morning by congratulating team O'Reilly on a solid finish to 2024. Today, I will further discuss our fourth quarter and full year operational results and provide some additional color on our outlook for 2025.

Starting with gross margin. Our fourth quarter gross margin of 51.3% was in line with the fourth quarter 2023, which was within our range of expectations. Our full year gross margin came in at 51.2%, which was down 6 basis points from the prior year and in line with our expectations. The year over year comparison includes the headwind from the inclusion of our acquired Canadian business which finished the year at the expected 30 basis point impact.

Our 2024 gross margin was also impacted by a mixed headwind of approximately 11 basis points from the outsized strong performance in our professional business. These pressures were offset by incremental improvements in acquisition cost achieved through the efforts of our supply chain and operations teams with outstanding support from our supplier partners.

We have been pleased with our consistent, solid gross margin results and expect to see further expansion of gross margin in 2025 as we lap our 2024 gains and anticipate additional opportunities to reduce acquisition cost. We also expect to continue to incrementally drive distribution efficiencies. Based on these expectations, we have established a guidance range for 2025 of 51.2% to 51.7%, representing an increase of 25 basis points over 2024 at the midpoint.

We remain very bullish on our prospect to generate gross profit dollar growth driven by the premium value proposition that our supply chain, store operations, and sales teams create for our customers. Our outlook for gross profit assumes a stable inflation environment and the expectation that our industry will remain rational from a pricing perspective. As Brad previously mentioned, we have not incorporated any impact from changes to tariffs.

At this time, it is difficult to assess the exact timing, duration, and magnitude of any tariff provisions that will occur and the way that suppliers, competitors, and customers will respond to any changes. While it isn't prudent to adjust our forecast to quantify the different possible paths these developments could take, we remain very confident in our ability to manage effectively in a changing environment.

Our experience during the last round of significant tariffs in 2018 and 2019 is a clear demonstration that our industry behaves rationally in response to increased acquisition cost. This rationality was further demonstrated during the period of heightened inflation from 2021 to 2023. We fully expect this dynamic to continue and anticipate our industry will have both the ability and the resolve to appropriately pass through any increased tariff cost.

From a cadence perspective, our quarterly gross margin remained relatively consistent throughout 2024, and we expect a similar quarterly cadence as we move through 2025.

Next, I want to provide an update on some supply chain and distribution initiatives. Our unwavering commitment to providing the best possible parts availability in the industry is a critical component of our business model and a primary contributor to our long-term success.

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This commitment is reflected in the continued investments we make in our supply chain, distribution network, hub store network, and inventory position. And 2024 was a very successful year for team O'Reilly in these areas. On the distribution side, we successfully completed the relocation of our distribution centers in Springfield, Missouri and Atlanta, Georgia to larger, more efficient facilities.

Since our last earnings call, the new Atlanta distribution center began servicing stores in the fourth quarter, and we are extremely pleased with the seamless opening of this new facility. This 690,000 square foot facility will have the ability to service 350 stores with direct import processing capabilities and will further fuel our growth in a core market area for our company.

We're also nearing the completion of our new greenfield distribution center in Stafford, Virginia, and expect to start providing exceptional service to stores in the mid-Atlantic region out of this facility in the back half of 2025.

As we've discussed earlier, the addition of this DC opens up a new section of the map, and we are excited to lean into growth in these new markets. We're also making great progress on the expansion of our existing distribution center in Lakeland, Florida, and are eager to improve the efficiency of this building and unlock additional capacity when this project is complete at the end of 2025.

Finally, our capital investment outlook for 2025 includes dollars allocated to future expansion and development of our distribution infrastructure. We do not currently have specific details on the next slate of projects, but we continue to proactively align our distribution strategy to the store growth opportunities that Brad outlined earlier.

In line with physical expansion of our distribution and hub networks, we are targeting inventory investments in 2025 as another key component of planned enhancement to our industry leading parts availability. Our inventory per store at the end of 2024 was $799,000 which was up 5.5% from the end of last year, driven by our continued opportunistic investment to support our sales momentum.

In 2025, we are projecting an additional per store inventory of 5%, with a little over half of that increase driven by the investments in our expanded distribution center and hub store inventory layers. The remainder of the increase is geared to capitalize on targeted additions to our stores to ensure that we're offering the best possible local assortment and inventory availability.

Now I want to spend some time covering our SG&A and operating profit performance for 2024 and our outlook for 2025. Fourth quarter SG&A expense as a percent of sales was 33.3%, up 68 basis points from the fourth quarter of 2023. This significant increase was driven by a $35 million charge, representing 85 basis points to adjust reserves relating to our self-insurance liabilities for historic auto liability claims.

As we noted in our press release yesterday, the adjustment relates to claims that occurred prior to 2024 and reflects adverse claim development spanning multiple years of exposure to losses from accidents incurred in the operation of our store delivery fleet.

Unfortunately, we have realized significant inflation in the cost to resolve these claims. This pressure, coupled with slower development timelines resulted in the need to make the significant adjustment we recorded in the fourth quarter.

The adjustment was driven both by our experience in administering and resolving these claims and also from revised assumptions that we use to estimate future liabilities. While the charge was driven by significant increases in cost on an average claim basis rather than an increased frequency of accidents, we are taking all steps possible to improve safety, reduce accident rates, and limit future loss exposure.

Average per store SG&A expenses for the full year of 2024 were up 4.6%, with 0.7% of that growth reflecting the fourth quarter charge. Excluding the adjustment for the pre-2024 auto claims, our per store SG&A growth was in line with our revised expectations of 3.5% to 4% and below the guidance range that we set at the beginning of the year of 4.5% to 5% growth.

While we are certainly disappointed by the negative impact of the charge to our fourth quarter results, we are otherwise pleased in how we finished out 2024 and the productivity of the rest of our SG&A spend in the quarter, which generated 18 basis points of leverage over the prior year on a 3% increase in SG&A per store.

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As we look forward to 2025, we are planning to grow average SG&A per store by 2% to 2.5%, which equates to 2.5% to 3% growth, excluding the impact of lapping the fourth quarter 2024 charge. Based on our SG&A expectations and projected gross margin range, we're setting our operating profit guidance range at 19.2% to 19.7% which at the midpoint is in line with our full year 2024 results.

Since our guidance range implicitly assumes a year over year benefit of approximately 20 basis points from calendering the fourth quarter 2024 charge, we are also expecting an offsetting pressure to operating margin. Our SG&A outlook for 2025 anticipates the prudent actions our team will take to manage expenses to effectively execute our business appropriately in response to market conditions in a similar fashion to the steps that we took to adjust operating expenses down as we moved through 2024.

However, these expense measures are limited by our expectation of modest pressure to wage rates, as well as investments in key capabilities, including the hub store and technology initiatives that Brad outlined earlier. We remain committed to investing in our business to grow market share and drive industry-leading results.

We have been pleased with our ability to capitalize on our strong competitive positioning and sustain our industry leading growth momentum, and we'll continue to judiciously manage our capital and operating investments to drive long-term growth and high returns.

As I conclude my comments, I would like to thank the entire O'Reilly team for their hard work and dedication in 2024.

And now, I'd like to turn the call over to Jeremy.

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

Thanks, Brent.

I would also like to thank all of team O'Reilly for their continued commitment to our company and our customers.

Now we will fill in some additional details on our fourth quarter results and guidance for 2025. For the fourth quarter, sales increased $264 million driven by a 4.4% increase in comparable store sales and a $66 million non-comp contribution from stores opened in 2023 and 2024 that have not yet entered the comp base.

For 2025, we expect our total revenues to be between $17.4 billion and $17.7 billion. Our fourth quarter effective tax rate was 19.6% of pre-tax income, comprised of a base rate of 20.4%, reduced by a 0.7% benefit for share-based compensation.

This compares to the fourth quarter of 2023 rate of 17.7% of pre-tax income comprised of a base tax rate of 18.9% reduced by a 1.2% benefit for share-based compensation. The fourth quarter of 2024 base rate as compared to 2023 was higher as a result of the timing of recognition of certain tax credits.

For the full year, our effective tax rate was 21.6% of pre-tax income, comprised of a base rate of 22.9%, reduced by 1.3% for share-based compensation. For the full year of 2025, we expect an effective tax rate of 22.6%, comprised of a base rate of 23%, reduced by a benefit of 0.4% for share-based compensation. We expect the quarterly rate to fluctuate due to variations in the tax benefit from share-based compensation and the tolling of certain tax periods in the fourth quarter.

As we outlined in our press release yesterday, we have established our earnings per share guidance for 2025 at $42.60 to $43.10 which reflects an increase over 2024 EPS of 5.4% at the midpoint. The year over year increase reflected in our guidance range includes both the benefit of calendering the fourth quarter 2024 self-insurance charge, as well as the headwind from the increase in our expected effective tax rate with the impacts from these items roughly offsetting.

Now we will move on to free cash flow and the components that drove our results in 2024 and our expectations for 2025. Free cash flow for 2024 was $2 billion which was unchanged from 2023. Pressure to free cash flow in 2024 from the timing of tax payments and purchases of renewable

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energy tax credits, which we were able to defer in 2023, was offset by growth in net income and a decrease in net inventory in 2024 versus an investment in net inventory in 2023.

For 2025, we expect free cash flow to be in the range of $1.6 billion to $1.9 billion. The expected reduction in free cash flow is driven by the incremental capital expenditures and inventory investments Brad and Brent outlined in their prepared comments partially offset by growth in operating income.

I also want to touch briefly on our AP to inventory ratio. We finished the fourth quarter at 128%, which was down from 131% at the end of 2023, but marginally better than our expectations for the end of 2024. For 2025, we expect to see continued moderation resulting from our planned incremental inventory investment across our store and distribution network, and currently expect to finish the year at a ratio of approximately 125%.

Moving on to debt. We finished the fourth quarter with an adjusted debt to EBITDA ratio of 1.99 times as compared to our end of 2023 ratio of 2.03 times with a modest increase in adjusted debt more than offset by EBITDAR growth. We continue to be below our leverage target of 2.5 times and plan to prudently approach that number over time.

We continue to be pleased with the execution of our share repurchase program. And for 2024, we repurchased 1.9 million shares at an average share price of $1,072 for a total investment of $2.1 billion. Since the inception of our share repurchase program in 2011, we have repurchased 96 million shares at an average share price of $264 for a total investment of $25.4 billion.

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

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

Before I open up our call for your questions, I would like to thank our team for their hard work and the commitment to excellent customer service that drives our success.

This concludes our prepared comments.

At this time, I would like to ask Matt, the operator, to return to the line, and we will be happy to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Scot Ciccarelli, Truist.

Josh Young - *Truist Securities - Analyst*

Josh Young on for Scot.

Could you help us understand better -- you've started sourcing exposure to China, Mexico and Canada on a percentage COG basis. And then what are you guys hearing at this point from your vendors on price increase expectations and how much would that proposed tariffs change that?

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

This is Brent. I can start on that, and these guys can add in as we go through it.

Yeah, in terms of sourcing, obviously the big question, nobody's got a crystal ball. Like we said in the guidance, we're -- don't anticipate tariffs, but we all know that there's some looming threat of that. So China, we're in the 25%-ish range sourced from China 25%, 26%, mid-20s percent. Mexico, we're in the high teens at this point. So we'll see how things go there.

Canada, you're talking low single digit, not a real impact there. So but the thing to remember is as it relates to those things, we're -- in many cases, we're not the importer of record. So we work with our suppliers as those tariffs, if they get enacted, if they get passed on, we're going to work with our suppliers to negotiate what that true impact would be to us in those situations.

Several things that I give our sourcing and our merchandizing team a ton of credit for, over the last several years through COVID and some of the challenges we faced and really even going back to 2018, 2019, when the first round of China tariffs went into effect, our team's done a great job continuing to diversify our global supply chain and reduce dependency on some of the hotspots that we know about.

And with our proprietary brands and the growth that we continue to see in our proprietary brands, which are over 50% of our revenue now, just managing that portfolio gives us the ability to source from multiple suppliers, multiple countries of origin, and to evolve as we need to in changing conditions.

So. Well, I think everybody is facing some of the challenges. Obviously anybody in retail is facing a lot of the tariff questions right now and the challenges right now. I really feel like we're as well-positioned as anyone to effectively deal with those challenges and to work with our supplier partners to be able to pass along anything in a very rational industry that may come our way.

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

Yeah. Josh, maybe the only thing that I would add to that explanation is, unfortunately, we're just kind of in a situation where it's been a little bit of a moving target and it's a challenge for us at this stage to give you just a real complete picture on exactly how that's going to look for a lot of the reasons that Brent talked about. Also keeping in mind that, when we think about how our COGS is comprised, there are pieces of that like our distribution that aren't impacted.

So when we talk about those percentages, we're really talking about how we think about the sourcing impacts that come from that. I think for us, the confidence that we have having been through a couple cycles of more dynamic changes in how costs have run through our supply chain that Brent called out within his prepared comments puts us in a position where it's going to be hard to anticipate exactly where some of this will settle.

For sure, we've seen the first round of those changes and some threatened, and we'll see where that goes as we move through the year, but our industry is just showing the ability to leverage pricing power and put us in a position where those costs can be passed through.

Operator

Michael Lasser, UBS.

Michael Lasser - *UBS Equities - Analyst*

What drove your decision to guide your comp to 2% to 4% this year versus often guiding 3% to 5% at the outset of the year? And should we interpret this as any signal that O'Reilly expects its growth rate to be slower in the future than it has been in the past?

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

Great question, thanks for it.

Yeah. So I think the biggest thing, we put a lot into our guidance, a lot of thought, a lot of science, and then there's an art to it to knowing what's going on in the streets and our opportunities versus our competitors to continue to take market share. I think the -- obviously, the biggest thing that we want you to keep in mind, Michael, is that we're as excited as we are that our team was able to put up a 4.4% comp in Q4.

We had softer comparisons and while the cadence of our months building into '25 was pretty consistent, the week to week -- when you look at it week to week and you look at it kind of day to day, there's still just some choppiness in what we're seeing in the business and we still feel like there's a cautious consumer.

We contemplated the fact that discretionary categories like we talked about earlier, we're still seeing pressure to discretionary, even though we're pleased overall with kind of the maintenance and repair factors. We just -- we're heading into '25 just continuing to be cautious in terms of that lowering consumer -- DIY consumer, even though we have a lot of confidence in our ability to continue to take market shares.

So Michael, it's hard to think about exactly how we think about that in longer terms. So what we do know thinking about, '25, '26, and beyond to the second part of your question is that we're $16 billion, $17 billion company operating in a $168 billion industry in North America. And so while we do feel like we need to have some caution here, we know that our team has plenty of opportunity over the next many years to continue to play from a position of strength and really drive and control our own destiny, both DIY and DIFM.

Michael Lasser - *UBS Equities - Analyst*

My follow-up question is if we do assume that O'Reilly outperforms this initial range that it established, especially given the weather that's happened so far this year along with the opportunity to gain share in the wake of some store closings across the industry, how should we expect the flow through on upside to the comp guidance to hit the P&L?

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

I appreciate the question. At this point, we're really in a position where we would need to lean back on our guidance and how we think about how that approaches our range. And just to understand as we move forward that if circumstances play out for us differently in 2025 and sometimes, they do. Certainly did last year. We're going to have to evaluate what that looks like and what that means for our business as we move forward because that can take any of a number of different forms.

For sure, one of the big questions is, is there going to be some level of pricing benefit that you get that we haven't baked in just because of the tariffs that roll through and the persistence of that. What does that have from a broader impact in the economy? What does that do from inflation levels, price levels, how does a consumer respond to that? There are lots of different, I think, factors that when you start to speculate as to how the year might go differently could play in differently to how we think about what the income statement looks like up and down.

We would tell you that within the guided range of where we've talked about how we think we spend this year, that is always first and foremost focused on what do we think is prudent and appropriate to take care of our customers with a high level of service. And that's the reason why that number we don't swing around substantially in lots of different groups because we're not focused on what the short term results are. We've got to make sure that we take care of our customers for the long term.

But we've also included some investments that we feel really good about as we move through the year. So the long and short of it is that we'll see. Our business has given us the opportunity to continue to be able to lean into growth and be successful and how that flows down through. But this year, is there's still some unknowns and we're going to manage to it appropriately as we go through the year.

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

Yeah. And I think Michael, just to add to that real quick. This is Brad. Just to wrap up, Jeremy said it very well, but as you know, comparable store sales can come in more than one form, meaning that, if we end up seeing additional inflation than we have contemplated today, in that case, just for an example, is you could see more leverage or easier leverage from that standpoint versus if we see an outsized share gain.

We could continue to see leverage in that scenario as well, but we also reserve the right to, if we see us controlling our own destiny well with share gains and that's driving our top line above and beyond, we also want to continue to look for opportunities to lean in and really lean into that customer service and make sure that pays off not just this year but for the next many years.

Operator

Gregory Melich from Evercore ISI.

Gregory Melich - *Evercore ISI - Analyst*

My first question is, just looking at the quarter, and when you think about this year, you mentioned that inflation same-SKU was I think 0.9% in the fourth quarter. What did you see from mix and complexity in the fourth quarter and how is that trending as you think into '25?

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

Yeah. Greg, I appreciate the question. We did see same-SKU that was just under 1% for us in the quarter as a top line benefit. As we think about just the impactors to our gross margin rate from a year over year perspective, for sure, there was some degree of that that was driven by just the inclusion of the Canadian business center results.

And then the mix from a customer perspective also saw some more kind of kind of temporary pressures in things like product mix, just the seasonality of business and a little bit of the categories that perform better, a little bit of pressure and things like our distribution costs side is we're working through a couple of facilities there that we relocated and had some exit costs in the Atlanta facilities, some transportation pressures that happened there.

But by and large, what we've been pleased with is the ability to see just kind of the steady incremental acquisition costs or improvements as we've moved through the year just as a result of the ability with our supplier base to create value and find good opportunities there.

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

Yeah. Greg, the only thing I would add to every -- hey, Greg. This is Brent. The only thing I would add to what Jeremy said, there's some of the elements he talked about in the quarter that were impactors with gross margin in Q4. We felt were some of it was transitory and timing in some respects, some of the things that he mentioned and feel very good about our proposition on the cost side as we move into '25.

Gregory Melich - *Evercore ISI - Analyst*

So that's what drives that normal increase. I guess my follow up then would be talking about the margin already. What does it mean for top line? I know in the past, you said that inflation and AUR expansion, average unit retail or mixed complexity put together could be a normal 2 points to 3 points of comp. Do you think -- is that what we ended up doing last year for the full year?

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

Yeah. Thanks, Greg for the follow-up question. I realize now I probably answered the second question first, and I'll answer the first question second here.

Yeah, I think our trends as we work through 2024 and what we expect in 2025 are pretty similar. There is a lift above the inflation number, the same-SKU number within our average ticket value. That is a helper. It was probably a little bit more compressed in 2024. Some part of that is when we think about that ticket size. It's just a consumer that's a little bit more pressured that might not add that extra item to their job that they may be able to do around with or not a lot of real trade down.

We've talked about that a lot through the year, but sometimes that can kind of squeeze the benefit that you get from complexity a little bit. We think that that largely is pretty normalized within our results. So we think that we'll be in decent shape next year to have a contribution if you kind of think about it in a few pieces, both from just modest same-SKU, a little bit of complexity benefit in the ticket, and then we do expect that with the professional growth that the ticket counts will be a contributor as well.

Operator

Bret Jordan, Jefferies.

Bret Jordan - *Jefferies - Analyst*

Talk about regional performance and did you see any disruption in the west given the store closures that one of your peers is executing out there?

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

Yeah. Hey, good morning, Bret. Yeah, I'll talk kind of about regional performance and then the second part of your question next. Yeah, overall, when we look at kind of the quarterly and we look at regional and division performance versus our internal plans and kind of what we were seeing from a weather standpoint, we really didn't have any major standouts in the fourth quarter.

Bret, in terms of regional performance, what you would kind of expect from weather benefits in some markets over others, but we were actually really pretty consistent in terms of regional performance and no standouts one way or the other.

Talking about the West Coast a little bit on the competition front. I think it's still a little bit too early to kind of gauge how that's going. Our sales and operations team, anytime there's disruption and store closures. Obviously it's their job, and they take a lot of pride in making sure if there's a jump ball that we're the first to that. In any case, we possibly can.

I think where I would kind of temper a little bit of that expectation in terms of any windfall from competitor closures and the fact that what we look at more so than just a share -- automatic share gain is it's not just a jump ball necessarily between us and one other competitor. Those markets are extremely competitive. There's a lot of independence and a lot of different players, especially on the professional side.

And with the volumes we know are being fairly low in those instances, one thing to keep in mind is that we're going to kind of take a look as we see those happening and make sure that it's actually quality sales that's up for grabs. There may be some business that was being done that isn't the sustainable, profitable business that we want, and there could be some independence and things like that that are willing to take that, or we may have some opportunities that's a little bit more of our type business on our terms.

And so again, opportunity for sure, but we want to temper that with just seeing how the remainder of the closures kind of play out and just manage those expectations that we're going to work smartly through that and make sure that what's available is our type business.

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Bret Jordan - *Jefferies - Analyst*

And I guess my follow ups competitive landscape as well. There's a lot of chatter in the fourth quarter about non-traditional retail competition. Are you seeing anything changing around the DIY market with you guys down in Arkansas pushing in the space, or is that pretty much status quo?

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

No. I -- Bret, good question. We really haven't. We -- really what I think about our best barometer, especially when Brent and I are looking at category performance and sector performances, what we're seeing in maintenance is a good kind of bellwether for us, not that we don't take anything that a nontraditional competitor does for granted.

We always want to be monitoring those type things, but really what we're seeing in -- what we look at in maintenance categories like oil and filters is extremely encouraging. And so we don't feel like there's any issues there that we're aware of.

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

Yeah. And Bret, this is -- yeah, Bret, maybe just add one thing to Brad's comment. In those categories that he talked about, filters and oil, some of those maintenance categories, we continue to see strength. And just a reminder too that I think the primary competitor you're referring to, they go to market on price and we go to market on service and availability. And we continue to see a lot of strength and demand for what we -- how we go to market versus maybe just price alone.

Operator

David Bellinger, Mizuho.

David Bellinger - *Mizuho Securities USA - Analyst*

Maybe a couple of bigger picture questions, but we've noticed some more automation going into your distribution centers lately, more of a modernized approach. So should we expect any new buildings that come online to use those type of features and is there any way you can quantify those benefits whether it's in terms of saving delivery times and replenishing more stores or some type of labor savings? Just anything there to help frame that up would be helpful.

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

This is Brent. I can start on that. Yeah, we -- obviously the two projects that we successfully completed this year, the relocations in Springfield in Atlanta, we did include some goods to person automation. I think the way we really look at that is we -- obviously our distribution network's extremely important to our business model and parts availability and that time definite promise and delivering on that time definite promise with accuracy and and consistency.

So what we added, I would just call kind of the evolution of distribution technology. And when you think about the marketplace, I mean we've been using -- we're always looking at MHE, we're always looking at how do we be -- how can we be more efficient, more effective in our buildings, and that goes whether that's sortation, conveyors, things like that.

So I would couch maybe the investment in some of the things we've done more recently in that regard in terms of just the ongoing evolution. Obviously we see a cost benefit or we wouldn't be doing those things as it relates to just labor overall efficiency and accuracy.

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The thing I would tell you though, and I think it's important to not get too overly fixated on one capability or technology that we may have deployed in one of our 30 plus distribution centers, we're never going to have the same suite of goods to person in every DC in the network. That's not where we're going. We're always -- we look at every distribution center as we look at the market it serves, we look at the amount of SKUs we need in it, the capability we need to serve those stores, and how do we do that most effectively and most efficiently.

And that's really what you're seeing in some of the recent investments we've made in some of that technology. So that's how we're looking at it and we're going to continue to always challenge that as we look at every DC project.

David Bellinger - *Mizuho Securities USA - Analyst*

And then just my follow up. I'm curious if you can talk about your exposure to gas and diesel prices and in the context of operating expenses. If there is a period where we do go into a lower energy price environment and materially lower, but what type of benefits could you have on the SG&A side? Is there a way to size that up and that would be on top of the benefits you'd see also on the demand side? Just I'm talking about more internally though, is there a way that you could help frame that for us?

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

Yeah. It's not an item that typically, David, we quantified or that we've drilled that into. I would tell you just from an order of magnitude, it's not a huge mover. We've had periods of time when gas prices and those types of input costs have fluctuated and it can be maybe a smaller order of magnitude helper or challenge if you see spikes there from an operating cost perspective.

But our teams have been able to manage that as a kind of a component piece of the overall spend, but it's an item that it has to move pretty substantially for it to move the needle from a companywide perspective. And we maybe had an instance or two of that in the past, but it's not usually something that's meaningful over a longer period of time.

Operator

Michael Baker, D.A. Davidson.

Michael Baker - *D.A. Davidson & Company - Analyst*

A couple of follow-ups. One, I'm just a little confused on the trend really this quarter. We know there's a more difficult comparison in the expectation, I think, than is for the first quarter comp to be lower, yet I thought you said that January is running at the exit rate of 2024, which would be like 4.5% or 4.4%. I don't know if that's right, but anyway, could you help clarify that?

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

Yeah. I know. Thanks for the question and absolutely want to be able to clarify there. When we talk about about the gains of our business, especially when we think about a really short period of time here in 2025, our focus is always on how we think about the day to day, week to week volumes of the business and how that relates to the trends that happen from just normal seasonality.

So when we say our business has been somewhat consistent, that is on that basis. To the extent that was not the situation in the prior year where December of -- now going back to 2023 was very light because of no weather, but January volume stepped up pretty substantially, then how the comp looks is going to be different.

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And I would -- I just explicitly tell you that the January comps are below where the December comps are at. It's just the math that pushes through. I think our point was that as we think about what our guidance for the full year should be in the considerations that go into that Brad talked about earlier, one of the places where we sit is we just think about the volume of our business as we start the year.

It looks similar to how last year looked with some, well, I'm sorry, with how we acted in December, understanding that that December to January type of time frame had similar weather. There weren't some of the swings in that. I think we had some favorable weather for both of those. I think it's also appropriate to remind everybody that that first quarter is kind of a quarter of two weather seasons. It's how does it start off with, with winter weather and then it's always very dependent upon that beginning to spring as tax refunds hit, as we start to see the initial spring weather and when that hits. So there's a lot of variability as we move through.

Michael Baker - *D.A. Davidson & Company - Analyst*

One more. Just to follow up on the inflation. We're starting to see some inflation in general come back and as I look at some of the CPI data for auto parts related sectors, it's starting to tick up yet you didn't really see that. You're slightly below 1%. I think it was actually even less than the 1% inflation on a like-for-like basis in the third quarter. And you're not expecting any pick up in 2025 outside of potential tariffs. Any reason why you're not seeing that increase in inflation that we're seeing generally in the economy?

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

Yeah. I think at this point that the broader move is still somewhat a minor. I know it's starting to pick up broadly. And so just the timing of when those things start to happen, you can see a little bit of dislocation. We're not an industry that's going out and repricing a carton of eggs, week to week or anything like that.

We still largely sell a lot of products that have a slower turn. And so I think you see adjustments more gradually over the course of timing. And there's nothing that we would call out in maybe the broader landscape that tells us that we know we're back on a spike of a new trend.

I think some of what we've talked about as we think about the next year is that it's still to be determined exactly where we think that broader price level story is going to go from a total economy standpoint. And still not convinced that we won't see some ability to hold off inflation and the impact that that might have on our business to be able to pass it through.

That's largely the reason why we tend to not be too speculative in how we think about our guide on future inflation that we haven't seen yet.

Operator

Steven Forbes, Guggenheim Securities.

Steven Forbes - *Guggenheim Securities LLC - Analyst*

I was maybe hoping to follow up on the self-insurance reserve adjustment. Really as it pertains to go forward implications around servicing costs within the industry, so starting high level views on how we should think about this cost factor for not only yourself but other participants and whether rising insurance costs in a broader sense could drive more accelerated consolidation efforts, right, or maybe a rise in attrition rates. Just like how is that insurance cost dynamic impacting the industry?

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

Yeah, no, thanks for the question. Yeah, I think it'll be interesting to see kind of how it plays out as we move forward. For sure, what we saw in our experience, we don't think is wholly unique to what's happening from a broader perspective. I think we are somewhat unique, or at least our

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industry is in the types of fleets that we run and the degree to which our professional business is supported by that level, but that's also kind of a core fundamental part of how we provide value and take care of our customers.

So I think it continues to be an item that is important both for how we go to market, but then also an important cost for us to be able to mitigate to manage and to move through.

I will tell you, over the course of time, we've had periods where the rate of change here has been more accelerated. This is certainly one where there's more pressure than there's normally been. But there's nothing in what we've seen that would tell you that we're not going to be in a position to operate our business. And to operate in a safe manner that helps us to control this moving forward.

We'll see. The cost of resolving these types of accidents is what's really creating the pressure, but it's a component of the cost it takes for us to go to market and we'll have to manage through the way that might change in the same way that we would any other part of our operating cost structure.

Steven Forbes - *Guggenheim Securities LLC - Analyst*

And maybe just a quick follow up, right, given the owned versus leased store mix for the 2025 store cohort. Can you remind us of the capital cost difference between the two build types and then comment on what the four wall EBITDA margin benefit is to those owned stores as we recalibrate the models?

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

Yeah. So from a standpoint of just what the cost spin looks like, typically, we're going to be in that $3.3 million to maybe $3.4 million range for an owned store, and that's inclusive of the cost of construction development of the site and then how do you put equipment and computer systems, vehicles, those types of things. Depending upon the type of a lease that's substantially reduced, it's typically going to be somewhere between. $400,000 to $600,000 just depending upon the building and the condition that you get it in when it's delivered.

So pretty substantial difference. We don't get down in the weeds too much on the specific store models as it relates to how we think about about our growth there, but feel very good that both owned and leased provide a very important and primary use of capital. It's the best place over the long course of time. We've been able to invest our shareholders' dollars and we'll continue to be for sure as we've improved the performance of our new stores and those returns have been enhanced.

It does make owned stores that much more of an attractive investment for us.

Operator

We've reached our allotted time for questions. I'll now turn the call back to Mr. Brad Beckham for closing remarks.

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

Thank you, Matt.

We would like to conclude our call today by thanking the entire O'Reilly team for your continued dedication to our customers. I would like to thank everyone for joining us on our call today, and we look forward to reporting our first quarter results in April. Thank you.

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Operator

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

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