OVERVIEW:
Co. reported 2Q15 EPS of $2.29. Expects 2015 revenue to be $7.75-7.85b and EPS to be $8.59-8.69. Expects 3Q15 diluted EPS to be $2.29-2.33.
CORPORATE PARTICIPANTS

Tom McFall  O'Reilly Automotive, Inc. - EVP, Finance & CFO
Greg Henslee  O'Reilly Automotive, Inc. - President & CEO
Jeff Shaw  O'Reilly Automotive, Inc. - EVP, Store Operations & Sales

CONFERENCE CALL PARTICIPANTS

Greg Melich  Evercore ISI - Analyst
Seth Basham  Wedbush Securities - Analyst
Matthew Fassler  Goldman Sachs - Analyst
Dan Wewer  Raymond James - Analyst
Mike Baker  Deutsche Bank - Analyst
Simeon Gutman  Morgan Stanley - Analyst
Michael Lasser  UBS - Analyst
Brian Sponheimer  Gabelli & Co. - Analyst

PRESENTATION

Operator
Welcome to the O'Reilly Automotive, Inc.’s second-quarter earnings release conference call. My name is John and I will be your operator for today’s call. (Operator Instructions). Please note this conference is being recorded. I will now turn the call over to Mr. Tom McFall. You may begin.

Tom McFall  O'Reilly Automotive, Inc. - EVP, Finance & CFO
Thank you, John. Good morning, everyone and thank you for joining us. During today’s conference call, we will discuss our second-quarter 2015 results and our outlook for the third quarter and remainder of 2015. 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, 2014 and other recent SEC filings. The Company assumes no obligation to update any forward-looking statements made during this call. At this time, I'd like to introduce Greg Henslee.

Greg Henslee  O'Reilly Automotive, Inc. - President & CEO
Thanks, Tom. Good morning, everyone and welcome to the O'Reilly Auto Parts second-quarter conference call. Participating on the call with me this morning is, of course, Tom McFall, our Chief Financial Officer and Jeff Shaw, our Executive Vice President of Store Operations and Sales. David O'Reilly, our Executive Chairman and Greg Johnson, our Executive Vice President of Supply Chain, are also present.

It is once again my pleasure to begin our quarterly call by congratulating Team O'Reilly on another record-breaking quarter and an extremely successful first half of 2015. With our team of over 71,000 dedicated team members keenly focused on providing consistently high levels of service...
to our customers, we generated second-quarter comparable store sales growth of 7.2%. Our year-to-date comparable store sales also increased 7.2% on top of a healthy 5.7% increase last year. These market share gains are the direct result of our team’s dedication to living the O’Reilly culture of providing outstanding service to our customers and I cannot thank our team enough for their continued contributions to our Company’s long-term success.

The 7.2% increase we generated in the second quarter represents the seventh straight quarter we’ve generated a comparable store sales increase in excess of 5%. We remain steadfast in our commitment to sustainable profitable growth demonstrated by our total sales increase of 10.2% driving a gross margin dollar increase of 11.3% over the second quarter of 2014.

The resulting operating profit dollar increase of 14.7%, while solid, is somewhat subdued related to an unusual adverse event that I’d like to take a moment to explain. As a result of an adverse verdict in a long-term contract dispute with a former service provider, we recorded a $19 million reserve to cover all the potential costs associated with the litigation. This reserve increased our SG&A expense by 93 basis points. Absent the charge, our second-quarter operating profit as a percent of sales would have increased 167 basis points to 19.9% and operating profit dollars would have increased 20.3% over the second quarter of 2014.

Our earnings per share of $2.29 for the second quarter is an increase of 20% over last year. While this quarter does represent the 26th consecutive quarter of earnings-per-share growth in excess of 15%, our EPS would have increased 26% to $2.40 absent this charge. In regards to this event, we will continue to aggressively pursue all available options to reduce our ultimate costs.

Okay, now back to our auto parts business. Our comparable store sales increase of 7.2% for both the second quarter and the year strongly exceeded our comparable store sales guidance of 3% to 5%. The composition of the comparable store sales growth in the second quarter was also very similar to the first quarter. Both the professional and DIY sides of the business were strong contributors to our comparable store sales growth with professional being slightly higher. Increases in comparable transaction count and ticket averages contributed equally to the growth.

Professional transaction count growth continues to outpace DIY transaction count growth. However, DIY transaction count growth was a strong contributor to our comparable store sales increase. Average ticket growth on both sides of the business continues to be driven by parts complexity with little to no help from increases in selling price as inflation remains muted.

Our performance for the quarter, as we’ve seen over the past year and a half, was driven by key hard part categories such as brakes, chassis, driveline and rotating electrical. Through May, the latest data available, miles driven were up 3.4% year to date and we feel this increase driven by relatively low gas prices and improving employment has been an important factor in our comparable store sales growth.

Sales were relatively consistent throughout the quarter with May being the softest month as cool and wet conditions over much of the central and northern part of the country hurt air conditioning-related sales. In recent weeks, summer has taken hold across the country, which should be a positive tailwind for our business and our third quarter is off to a strong start.

But based on moderate but slightly increasing gas prices and tough comparisons from the third quarter of 2014, we are setting our third-quarter comparable store sales guidance at a range of 3% to 5%. And based on our strong first half of the year performance, we are increasing our full-year comparable store sales guidance to a range of 4% to 6%.

We are maintaining our full-year operating margin guidance in a range of 18.3% to 18.7% of sales, which reflects our very strong first half of the year results, but also includes the negative impact of the litigation charge I discussed earlier. We are increasing our full-year earnings-per-share guidance from a range of $8.42 to $8.52 to a range of $8.59 to $8.69. This updated guidance includes the strong first-half results in shares repurchased through yesterday and excludes any potential future share repurchases.

Before I finish up my prepared comments, I would like to again thank our team for these record-breaking second-quarter results. We remain very confident in the long-term drivers for demand in our industry and we believe our team is very well-positioned to capitalize on this demand by consistently providing incredible levels of service to our customers each day.
Again, congratulations to Team O'Reilly for our very strong second-quarter and year-to-date results. With that, I will turn the call over to Jeff Shaw. Jeff.

_Jeff Shaw - O'Reilly Automotive, Inc. - EVP, Store Operations & Sales_

Thanks, Greg and good morning, everyone. I'd like to begin today by echoing Greg's comments and congratulating Team O'Reilly on another outstanding quarter. Every day our focus is to come to work, roll up our sleeves and outhustle our competition to earn our customers' business.

While we always have areas where we know we can improve, I couldn't be more proud of our team's performance this quarter and year to date. Our industry-leading comparable store sales growth of 7.2% for both the second quarter and the first half of the year is a testament to our team of 71,000 plus team members who are committed to providing consistent top-notch customer service and I'd like to send you a heartfelt thank you.

For the quarter, we grew total revenue 10.2% and total gross margin dollars by 11.3%, proving yet again that our ability to provide exceptional service, a wide product offering at competitive prices and superior parts availability allows us to generate sustainable profitable growth.

This growth doesn't happen without the dedication of our store, distribution center and office support teams. Including the litigation event that Greg mentioned earlier, we were still able to leverage SG&A 20 basis points in the quarter. However, I will speak to our SG&A results, excluding that item, as it is a very unusual event for us and is not indicative of our store operating performance.

Excluding the unfortunate event, SG&A leverage is 113 basis points on our strong sales performance and average SG&A increased 1.4%. This per-store increase was higher than expected primarily driven by more aggressive store staffing and incentive compensation.

On the store staffing front, we've been more aggressive putting hours into the stores and that decision has continued to enhance our store level customer service and is a key driver of our robust marketshare gains.

As we've discussed on recent calls, all of our Company compensation programs are designed to incentivize our team members to run their business like they own it. As a result, when we drive strong financial results as we did again this quarter, we spend more payroll dollars at every level of the organization, but generate strong leverage.

Based on our year-to-date performance and our expectation for the remainder of the year, we are increasing our expected SG&A growth per store to a range of 1.5% to 2%, excluding the litigation event. We feel this level of expense dollars is appropriate given the current environment to maximize our results.

We successfully opened 99 net new stores in the first half of 2015 and we continue to be pleased with the performance from our new stores. As we discussed on our last call, we'll open new stores across our footprint with more significant growth concentrated in Florida supported by our new distribution center in Lakeland in California as we backfill attractive markets not previously penetrated by CSK in the upper Great Lakes as we freed up capacity across multiple DCs with the opening of our new Chicago DC and in Texas. These markets represented 21 of our 34 openings during the second quarter.

Year to date, we've strongly exceeded our expected sales volumes and I'd like to take time to thank the members of our supply chain for their outstanding work keeping our stores in stock to meet the robust demand we've experienced the past several quarters. We continually evaluate stocking levels, expediting product with higher than planned sales, filling in on backordered product, adjusting routes to handle higher freight volumes and continually modifying our hub, DC City Counter and weekend routes to ensure we have the best availability in each market we serve.

The knowledge, dedication and effectiveness of our supply chain team continues to be a critical component of our success and I cannot thank them enough for their contributions to our Company's ongoing success.
Looking forward to the third quarter and beyond, we know the key to our success is providing exceptional customer service, as well as the best parts availability in the industry and we strongly feel our team continues to be up to that challenge. I’m very proud and thankful to work with such a great team. Now I will turn the call over to Tom.

Tom McFall - O’Reilly Automotive, Inc. - EVP, Finance & CFO

Thanks, Jeff. I would also like to begin today by thanking Team O’Reilly for another very successful quarter. We are very proud of our record-breaking performance, which is a direct result of our team’s dedication and hard work and I would like to thank each of our store, DC and support team members for their commitment to making O’Reilly Auto Parts our customers’ first choice for auto parts.

Now we’ll take a closer look at our second-quarter results and update our guidance for the remainder of 2015. For the quarter, sales increased $188 million comprised of a $130 million increase of comp store sales, a $59 million increase in non-comp store sales, a $1 million increase in non-comp non-store sales and a $2 million decrease from closed stores. Based on our strong year-to-date performance, we are raising our full-year total revenue guidance to a range of $7.75 billion to $7.85 billion.

For the quarter, gross margin was 52% of sales, an improvement of 54 basis points over the prior year. This was a little lighter than we expected due to a larger than expected LIFO headwind during the quarter. As we’ve discussed over the past two years, our success at reducing our acquisition costs over time has exhausted our LIFO reserve with the result that additional cost decreases create one-time non-cash headwinds to gross margin as we adjust our existing inventory on hand to the lower cumulative acquisition cost.

For the quarter, our LIFO charge was $11 million, which was about double the charge we saw in the second quarter of 2014. Excluding LIFO from both years, gross margin increased 79 basis points. However, we remain confident in our ability to achieve our full-year gross margin guidance of 51.8% to 52.2% of sales.

Our effective tax rate for the quarter was 37.3% of pretax income and in line with our expectations. Looking at the full year of 2015, we still expect our tax rate will be approximately 37% of pretax income. As is typical in most years, we anticipate our third-quarter tax rate to be lower at approximately 36.2% of pretax income as we adjust for the expected tolling of certain historical tax periods and with the fourth quarter returning to a more normal rate of 37.3% of pretax income. These estimated rates are subject to the resolution of open tax periods under audit and our success in qualifying for existing job tax credit programs.

Now I’d like to provide some color on our free cash flow results and provide updated guidance for our full-year expectations. We generated $197 million of free cash flow during the second quarter, which is relatively flat with the prior year. Year to date, we generated $512 million in free cash flow compared to $461 million in the prior year. And based on our strong year-to-date operating income performance, we are raising our full-year free cash flow guidance from a range of $700 million to $750 million to a range of $725 million to $775 million.

Inventory per store at the end of the second quarter was $574,000, which is a 2% decrease from the end of 2014. Our ongoing goal is to ensure we grow per-store inventory at a lower rate than the comparable store sales growth we generated and we accomplished that goal through the first half of 2015.

We continue to make great progress on reducing slow-moving and overstock product and replacing it with additional store-level inventory made up of products that are entering higher demand cycles. However, part of this year-to-date decrease is timing-related driven by the very strong sales during the first half of the year and we continue to expect our average inventory per store will increase a little less than 1% for the full year.

Our AP to inventory ratio finished the second quarter at 99%, up from 97.7% at the end of the first quarter of this year. The rise in the ratio is related to seasonality and extremely strong first-half sales. During the second half of the year, we believe this ratio will come down slightly and we continue to expect the year-end AP to inventory ratio will be around 97%.

Capital expenditures for the first six months of 2015 were $187 million, which is a little less than we planned, but we still expect our 2015 CapEx to be within the range of $400 million to $430 million.
Moving on to debt, we finished the second quarter with an adjusted debt to EBITDA ratio of 1.63 times, down from 1.66 times as of the end of the first quarter. Driven by very strong trailing 12-month operating income performance. We are still well below our targeted ratio of 2.0 to 2.25 times; however, we continue to believe our stated range is appropriate for our long-term business and we will move into this range when the timing is appropriate.

During the second quarter, we repurchased 2 million shares of our stock at an average cost of $221.50 per share. Year to date through yesterday, we repurchased approximately 2.9 million shares of our stock at an average cost of $219.13 per share for a total investment of $630 million.

We continue to view our buyback program as an effective means of returning available cash to our shareholders after we take advantage of opportunities to reinvest in our business at a higher rate of return. Currently, we have $649 million remaining under our current authorization and will continue to prudently execute our program with an emphasis on maximizing long-term returns to our shareholders.

For the third quarter, we are establishing diluted earnings-per-share guidance at a range of $2.29 to $2.33. Based on our above planned results during the first half of the year and additional share repurchases since our last call, for the full year, we are raising our earnings-per-share guidance to a range of $8.59 to $8.69 per share representing an increase of $0.17 per share from the annual guidance we provided on our first-quarter conference call in April and $0.39 per share from the initial annual guidance we provided at the beginning of the year. As a reminder, our diluted earnings-per-share guidance for both the third quarter and full year take into account the shares repurchased through yesterday, but do not reflect the impact of any potential future share repurchases.

Before I turn the call over to our analysts for questions, I’d like to once again thank the entire O’Reilly team for their continued hard work and dedication to providing consistently high levels of customer service. Congratulations on another record-breaking quarter.

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

QUESTIONS AND ANSWERS

Operator

(Operator instructions). Greg Melich, Evercore ISI.

Greg Melich - Evercore ISI - Analyst

I’d love to have a little more insight as to how the different sides of the business performed in the quarter, particularly sequentially, because you had a nice performance both first and second quarter. Did you see a real shift in how DIY versus do-it-for-me played out?

Greg Henslee - O’Reilly Automotive, Inc. - President & CEO

No. Both sides of the business did well in both quarters. We are pleased with both. The professional side is growing a little faster than the DIY side, but both sides of the business are growing well.

Greg Melich - Evercore ISI - Analyst

And on the SG&A bumping up for the full year, that shift to 1.5% to 2% growth per store, it sounded like that is just solely because of the increased hours and the incentive comp. Was there anything else that’s moving that around if you ex out the charge?
Those are the key drivers, Greg.

Okay. And then, lastly, and I will let someone else have another shot, is there anything that we should -- when we think out to next year that you see in the plans that would move the CapEx significantly from the range you have this year?

We would expect to see a similar number. We are going to have more dollars in the San Antonio DC. We haven't set our number for new stores, but it will be in the same neighborhood that we were this year, potentially a few more stores. So we would expect to see a similar number.

Okay. Great. Thanks a lot. Good job.

My first question is just on your commentary, Greg, about 3Q. You mentioned it's off to a good start, or a strong start, I should say. Any more color on that as it relates to level of trend? Is it in line with the second quarter overall?

We exited the second quarter on a strong sales note and the trend we were on continued in the third quarter. Something I might mention is that the easiest compares for the third quarter are in the first two months of the third quarter and then our tougher compares are in the last month. So yes, we are off to a good start. Business has been solid really all year. We've not seen much variance month-to-month all year with the exception of -- we mentioned this in our prepared comments -- that May with a lot of rain, a little bit cooler than normal temperatures, our HVAC business didn't do as good as what we would have anticipated, but we feel like we've kind of made up for that with the warmer weather that we've had in June and July. So business has been good.

Got it. Thank you. And one follow-up. In terms of your leverage ratio, it's still well below your target range. You talked about moving into this range when timing is appropriate. Can you help us better understand when you think that timing is appropriate?

We have been, over the last few years, more successful faster than we anticipated as far as having our suppliers help us with financing inventory and utilizing our vendor financing program. In addition, operating results have been very good, so we've generated more cash than we've expected.
We continue to look for opportunities to get the best return on that cash. To date that’s been repurchasing shares and you saw that we picked up the amount of repurchases we had during this quarter because we saw some great opportunities.

We will continue to prudently execute that. To the extent that we have cash on the balance sheet, we are not going to go out and raise debt to have more cash sit on the balance sheet and have a negative carry. So when we have opportunities to invest or if we don’t have cash on hand, we will look at that point to raise our -- to raise some more debt.

**Seth Basham - Wedbush Securities - Analyst**

Got it. That’s helpful. Congrats on a great quarter and good luck.

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**Matthew Fassler - Goldman Sachs - Analyst**

Congratulations on a terrific quarter. My first and primary question relates to your comments on parts complexity. If you can just talk about how the changing profile of parts complexity is impacting the DIY business versus the pro business, how it impacts the service needs in the DIY area as well and finally whether you think that’s having an impact on the ticket of the business.

**Greg Henslee - O’Reilly Automotive, Inc. - President & CEO**

Well, I think it does have an impact on the ticket in the business and I think it will have for the foreseeable future. I think that to the extent that we are talking the parts that are increasing in complexity, which is a big part of our business, absent the things that we carry in our display [coolers], because the types of products that are being used that are electronic-oriented, more sensors -- vehicles are in the process now of going to direct injection, both diesel and gas. Ignition parts are going to one coil per cylinder as opposed to one coil for the car. And then newer vehicles have all these life safety sensors and so forth that add complexity. We see that driving the cost of a repair incrementally up over time. It’s hard to forecast what that increase will look like, but that will continue to happen.

All the things I just mentioned tend to make us believe and I believe make others believe that the professional business will grow a little better in the coming years than what the DIY business will simply because this complexity is a challenge for DIY customers. Although, as I’ve said many times before, and as cars originally started having onboard computers and sensors and so forth, I think that the DIY customer out of economic necessity is very adaptable and there’s a lot of companies that are out there providing information and tools to help DIY customers be able to work on cars that have more sensors and more electronics. And for that reason, there’s many that would bet that the DIY business is going to do pretty well. So that’s my comment on that.

**Matthew Fassler - Goldman Sachs - Analyst**

That’s terrific. And just following up on that, putting aside the age of the vehicle fleet, obviously, and just thinking about pound for pound, is there a change in the average age of a vehicle that’s coming in via DIY versus pro, or DIFM, based on some of the evolving technology that you discussed? Are cars making their way into the DIFM channel or I guess staying in the DIFM channel longer, do you think, based on some of the things you just talked about?
Greg Henslee - O'Reilly Automotive, Inc. - President & CEO

I think so and I think that's a trend we will continue to see. I think the later-model vehicles, which are more complex. The 2015s are the most complex. I think that trend has been going on for several years and that those cars that have the highest levels of complexity tend to stay in the do-it-for-me channel longer than what they had years back when DIY customers were able to work on them pretty easily as they came out of warranty.

Matthew Fassler - Goldman Sachs - Analyst

Great. Thanks so much for that.

Dan Wewer, Raymond James.

Dan Wewer - Raymond James - Analyst

So your do-it-yourself same-store sales are growing fastest in the sector; yet if you look at O'Reilly's do-it-yourself revenues per store, it appears to be about $500,000 less compared to AutoZone. When you think about the art of the possible for O'Reilly's do-it-yourself revenues per location, do you think it could be in line with that competitor and if so, what changes would you need to make? I know you've been growing your private label business, you've been expanding your store labor hours to target the do-it-yourselfer, but are there any other initiatives that you would need to make to achieve that kind of productivity?

Greg Henslee - O'Reilly Automotive, Inc. - President & CEO

Well, Dan, as we’ve said for some time, we view ourselves as having competitors that do better on the DIY side than what we have in the past. And I think that some of the things that we’ve done over the past three or four years to put ourselves in a better position to compete on an equivalent service level perspective with the best retailers in the business I think is attributed to our growth in the DIY business and will continue to do so.

The way I view this is we have this big opportunity to do more DIY business just as we have this big opportunity to do more on the do-it-for-me side. Although we, as you stated, underperform some of our biggest competitors on the DIY side on a per-store basis. And the way I look at this is just like going up a staircase. You take it one step at a time and we've made a lot of positive changes that I feel like are attributing to our DIY growth and we will continue to benefit from those changes. As we see opportunities for things that we might be able to do to grow our DIY business better without infringing on our do-it-for-me business, we will continue to do that.

I think there's a lot of reasons that we have an opportunity here partly based on the team members that we have that are just really good parts people. They know cars. They know parts. They know customer service. I think that our availability of product is unsurpassed in our industry and I think that as DIY customers who maybe did business with one of our competitors previously and maybe have been coming into our store lately, I think as they realize that we have this fantastic availability model, I think that just bodes well for us in the future.

So I look for our DIY business to continue to be a significant part of our growth even with the headwind of parts complexity that I was talking about earlier. And as we see things that we need to adjust to make sure we continue to take marketshare on that side of the business, we will continue to do so.

Dan Wewer - Raymond James - Analyst

Also a question for Jeff as my follow-up. You talked about putting in more stores into the California market, infilling where CSK was not located. It's been some time since you have given us an update on how the former CSK stores are performing in terms of revenues. As I recall, they were...
probably overindexing on the do-it-yourself channel and underperforming on commercial. Could you give us an update on how those stores are comparing to say where they were six or seven years ago?

Jeff Shaw - O'Reilly Automotive, Inc. - EVP, Store Operations & Sales

As Greg mentioned, overall, those stores, that group of stores continues to perform solidly on both sides of the business. We knew our biggest opportunity was grow the professional side of the business. We've worked hard on that from a service level standpoint, strategic hire standpoint, but we also are working just as hard on growing the retail side of the business.

Dan Wewer - Raymond James - Analyst

Do you think the commercial revenues in those California CSK stores, are they getting to that 45% of store revenues?

Unidentified Company Representative

Not quite.

Jeff Shaw - O'Reilly Automotive, Inc. - EVP, Store Operations & Sales

They are not quite there yet.

Dan Wewer - Raymond James - Analyst

Okay. Thanks.

Operator

Mike Baker, Deutsche Bank.

Mike Baker - Deutsche Bank - Analyst

Sorry if this was asked; I dropped off for a minute there. But you’re clearly taking marketshare. Is that -- we know it’s because of the Company-specific things that you are doing, but what are you seeing from other competitors? There’s been some disruption from some of those guys. Are you seeing certain competitors cede more share than they have historically?

Greg Henslee - O'Reilly Automotive, Inc. - President & CEO

It’s a store-by-store fight out there every day. This morning, as we are releasing our results, our store managers and installer service specialists are out there trying to take business and our competitors are doing the exact same thing. So we have a lot of strong competitors that do a nice job and really nothing that we’ve seen has changed much. We’ve always had strong competitors and they’ve always done a pretty nice job, some better than others, but we really haven’t seen a change in the tack that our competitors have taken in driving their companies, other than the things that our publicly traded competitors talk about in trying to improve their distribution systems to be more comparable to maybe ours and Genuine Parts and just trying to solve the availability equation, which is a challenge without the robust distribution network that companies like ours have.
Mike Baker - Deutsche Bank - Analyst

So you are clearly taking more marketshare than you have in the past, but I guess in your view that's more a function of what you guys are doing differently than you have in the past. I think you've always been marketshare gainers, but it seems like it's exhilarating. Do you think that's more a result of what you guys are doing rather than what competitors are doing or not doing?

Greg Henslee - O'Reilly Automotive, Inc. - President & CEO

Yes, I would attribute our marketshare gains to just the success of our teams on the street and the work they are putting in to maintaining customer and growing customer relationships on the do-it-for-me side, the improvements that we've made on our DIY business the last few years and really just the day in, day out blocking and tackling on a store-by-store basis and making sure that the service levels we provide are higher than our competitors and then at the same time leveraging our strong distribution network to make sure we have the best availability in the industry.

And a lot of that comes from just brute strength in distribution capacity, but a lot of it also comes from the science that we put into making sure we have the right products in the right locations and that we do a better job than our competitors in making sure that the parts that we anticipate our customers are going to walk into our stores needing based on the vehicle population in each market are the parts that we have in stock in the stores and our hubs and in our distribution centers.

Mike Baker - Deutsche Bank - Analyst

Okay. That's helpful. If I could ask one more real quick, just how to think about — I think was asked in calls periodically, but any updated thoughts on M&A in the space, anyone out there in terms of acquisitions either big or small that you guys would consider?

Greg Henslee - O'Reilly Automotive, Inc. - President & CEO

Well, there's a lot of companies out there that are not publicly traded, that are private and do pretty well that would be potential acquisition targets for us. We continue to explore that as we expand geographically and we even consider some companies sometimes in existing markets and we do some kind of minor acquisitions ongoing of single stores and things like that. But I don't see anything big on the horizon right now that I could speak of, obviously.

Mike Baker - Deutsche Bank - Analyst

Okay. Thanks. Appreciate the color.

Operator

Simeon Gutman, Morgan Stanley.

Simeon Gutman - Morgan Stanley - Analyst

Thanks and nice results, guys. Greg, on DIY, a lot of attention on it so far. Do you think there's a pickup in the secular demand, or is all the gains, or a lot of the gains you are saying it's mostly marketshare gains?
Greg Henslee - O'Reilly Automotive, Inc. - President & CEO

I think it's both. I think we are gaining marketshare and I think the DIY business has been pretty good with the economy improving some and gas prices being down, more money in people's pocket, unemployment a little better, miles driven up. I think that it's both a secular demand increase and I think that we are gaining marketshare.

Simeon Gutman - Morgan Stanley - Analyst

And the balance that we've long talked about where you were primarily a commercial DIFM palace and going too far into the DIY side, there's a fine line that you didn't want to cross. Now you're there, I think there's probably some acceptance among the garages that you could get bigger in that space. Is there some point you've passed where now you've put the pedal to the metal a little bit harder, or are there still some natural resistance points that -- there are still some product areas, etc., that you won't go towards?

Greg Henslee - O'Reilly Automotive, Inc. - President & CEO

Well, what I would say, Simeon, is that we try to do the best we can on both sides of the business and we treat them somewhat separately from a management standpoint from the perspective that our promotions are different. Sometimes the product decisions we make we have to consider both sides. We don't talk to our do-it-for-me customers a lot about our DIY business and most of the time our do-it-for-me customers are not really even walking into our stores. We are delivering the parts to them and they are dealing with an installer service specialist who focuses solely on that business relationship with them and then also our territory sales managers and our regional field sales managers, store managers and so forth.

So I think we have a lot of business to gain on both sides and we are less restrictive in the aggressive position that we take on the DIY side now than we ever have been simply because I think that most shops now realize that customers are going to buy parts from someone if they want to work on their own car. They are either going to buy them from one of our competitors or us or maybe even on the Internet and we are going to be completely supportive of them and driving successful businesses for them and making parts available for them and that there's just a lot of business that they've got out there to take. And to the extent that they provide a service level that's satisfying to their customers and on our customers in effect, they will be successful. And I think most of them are less concerned now than ever about the fact that people can buy parts and do their own work if they want to, but that they can drive a great business by providing these service levels that are necessary to be successful in the service business today.

Simeon Gutman - Morgan Stanley - Analyst

And my brief follow-up for Tom on gross margin, you mentioned ex-LIFO up almost 80 bps. You said it wasn't up as much as you thought. Was that because of LIFO, or even on the 80 basis points, you expect it to do better? And I am asking because the back-half guidance I think implies around 50 bps and I'd say 80 bps on a FIFO basis is still quite solid. So just trying to think -- how to think about gross margin going forward.

Tom McFall - O'Reilly Automotive, Inc. - EVP, Finance & CFO

The answer to the question is yes. The LIFO headwind higher than we expected drove the slightly below percentage. Maybe we thought we would be 52.2, 52.1, but we've been pretty consistent in our discussion that we'd be in the 51.8 to 52.2 range basically quarter after quarter and we've accomplished that. But the additional $5 million headwind over last year was more than we expected.

Simeon Gutman - Morgan Stanley - Analyst

Okay, thank you.
Michael Lasser - UBS - Analyst

It’s on the performance over the last few quarters. There’s been a clear stepup in the same store sales and while you’ve provided some quantitative or qualitative information about the various performance within your sectors, could you give us a little bit greater sense of has that stepup been driven more so by the DIY side of the business, or has it been driven more so by the DIFM side of the business? Or has both sides of the business stepped up equally?

Greg Henslee - O’Reilly Automotive, Inc. - President & CEO

Well, I’m looking at a sheet here. I can tell you that -- for instance, back in 2013, our professional business was growing pretty significantly faster in most of the quarters that our DIY business. For the last six quarters or so, they’ve been much more comparable. And I would attribute part of that to just the effect the economy tends to have on the DIY business greater than the do-it-for-me business, just because of the economic condition of what drives someone to maybe work on their own car versus take their car into a shop.

So yes, I would say that here recently with the economy doing a little better, unemployment better, that the DIY business has improved. And the commercial business has remained good, but the spread between the performance of the DIY and do-it-for-me has closed a little bit over the last couple years.

Michael Lasser - UBS - Analyst

Greg, that’s a fair point that the economy has probably helped. But if we also look at the spread between your performance and your competitors’ performance, just on a same-store sales basis, that spread has widened a bit in recent periods. So it would suggest that there’s probably also something that O’Reilly is doing that is enabling it to gain share.

And just observationally, it’s occurred at the same time following the rollout of your loyalty program. You’ve invested a little bit more labor in the stores. So can you type those two factors or others to the performance of your DIY business?

Greg Henslee - O’Reilly Automotive, Inc. - President & CEO

I think those are factors, Michael, no question about it. We work hard here and we try very hard, and our teams on the street work every single day to show our customers that we want them to walk into our stores on the DIY side. We prove to our professional customers every day that we want to earn their business and that they’re going to be best served to buy parts from us and partner with us. So yes, I think that -- it’s hard for me to know exactly what all our competitors’ initiatives are. I know what they say publicly and what we see on the street.

But we, generally speaking, try to stay focused on what we are doing and what we can do better and where our opportunities are because we have opportunities to improve. And we focus on doing the things that we can do to improve our business and frankly, don’t spend a whole lot of time analyzing what our competitors are doing unless there’s some significant change that we need to react to, which is really a relatively rare occurrence.

Michael Lasser - UBS - Analyst

Sure. And then my last question is on capital -- that’s helpful, Greg. My last question is on capital allocation. Your stock and the valuation of your stock is above where it’s been historically. So how does that influence both the deployment of excess cash back to shareholders through share repurchases and the potential that you use as currency to execute your M&A strategy?
Tom McFall - O'Reilly Automotive, Inc. - EVP, Finance & CFO

What I would tell you, Michael, is historically it has always proven best for us to deploy our capital into our business through growing new stores, maintaining our existing store base, and acquiring other chains of stores. When we look at our M&A strategy, there are players out there that we are interested in, but we are an opportunistic buyer. And our success in buying and assimilating chains has a lot to do with buying the right chain at the right price. So that's why we are opportunistic.

So we will continue to look for those as our number one deployment of capital. When we look at buying stock back, we look at what we think the long-term discounted cash flow value is and set our targets that way.

Michael Lasser - UBS - Analyst

Okay. That's very helpful. Thank you, Tom, and Greg.

Operator

Brian Sponheimer, Gabelli.

Brian Sponheimer - Gabelli & Co. - Analyst

Good morning, guys. Great quarter. Just thinking about how the quarter progressed, can you talk about what, if any, impact you saw from flooding in Texas, ag markets, or any impact from oil in some of your energy-related markets?

Greg Henslee - O'Reilly Automotive, Inc. - President & CEO

It's hard to measure exactly what impacts business. I know you know, but generally speaking, the big rains we had down in Texas aren't initially good for business. When thinks kind of shut down and people can't drive because of water over the roads and stuff like that, that obviously isn't good for us. But in the long run, we feel like it levels back out because of the damage created.

Generally, kind of the way the quarter went was April was really good. May was not as good, and June was really good. And I attribute May's softness or slightly softer results to the heavy rains that we had and just the fact that we had cooler temperatures, rain, not as good a HVAC business and stuff like that.

Brian Sponheimer - Gabelli & Co. - Analyst

Okay. Thank you. Also, just thinking about pricing and any pressures ex-oil, how are you guys thinking about inflation versus deflation in some of your non-petroleum related products at this point?

Greg Henslee - O'Reilly Automotive, Inc. - President & CEO

I don't expect deflation. We've not seen a lot of inflation for some time. We would expect at some point that we might start seeing some inflation in some of the hard parts products, but that's just not been the case for some time.

From a pricing standpoint, it's always competitive out there and we always have competitors who, on the do-it-for-me side more than the DIY side, tend to try and take business with a lower price for a short period of time to try and change buying habits and stuff like that. But that's nothing new; that's been the case forever. So really nothing has changed on the pricing front. It's always competitive and as I said earlier, we have a lot of
really strong and really good competitors who do a lot of different things to try and gain market share and some of course use price as a means to try and develop a relationship with a do-it-for-me customer, but that’s nothing new. I’ve been doing this 31 years and that happened the first day I was working in an O’Reilly store, so that’s nothing new.

Brian Sponheimer - Gabelli & Co. - Analyst

Great, and anything on the way as far as wage inflation that could be impactful for you from a cost perspective?

Greg Henslee - O’Reilly Automotive, Inc. - President & CEO

Well, I don’t know about the impact effect, but of course we stay in tune with all the discussion about minimum wage changes and stuff like that. And as those things, if they come to fruition, we will be measuring and planning and including those in our forecast for results.

Brian Sponheimer - Gabelli & Co. - Analyst

All right. I appreciate the color. Thanks for taking my questions.

Operator

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

Greg Henslee - O’Reilly Automotive, Inc. - President & CEO

Okay. Thank you, John. We would like to conclude our call today by again thanking Team O’Reilly for another quarter of record-breaking results. We remain very confident in the continued strength of our long-term drivers for demand in the automotive aftermarket and in our team’s ability to consistently provide unsurpassed levels of service to our customers. We remain absolutely focused on extending our long history of profitable growth as we build on our very strong performance for the first half of the year. I would like to thank everyone for joining our call today and we look forward to reporting our 2015 third-quarter results in October. Thank you.

Operator

Thank you, ladies and gentlemen. This concludes today’s conference. Thank you for participating. You may now disconnect.