Co. reported 3Q15 adjusted EPS of $2.53. Expects 2015 revenue to be $7.85-7.95b and diluted EPS to be $8.97-9.01. Expects 4Q15 diluted EPS to be $1.97-2.01.
CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Michael Lasser  UBS - Analyst
Matthew Fassler  Goldman Sachs - Analyst
Christopher Horvers  JPMorgan - Analyst
Scot Ciccarelli  RBC Capital Markets - Analyst
Daniel Hofkin  William Blair & Company - Analyst
Dan Wewer  Raymond James & Associates - Analyst
Tony Cristello  BB&T Capital Markets - Analyst

PRESENTATION

Operator

Welcome to the O'Reilly Automotive Incorporated third-quarter earnings release conference call. My name is Ethan, and I will be your operator for today's call.

(Operator Instructions)

Please note that this conference is being recorded. I will now turn the call over to Mr. Tom McFall. Mr. McFall, you may begin.

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

Thank you, Ethan. Good morning, everyone, and thank you for joining us. During today's conference call, we will discuss our third-quarter 2015 results and our outlook for the remainder of 2015. After our prepared comments, we will host a question-and-answer period. Before we begin this morning, I'd like to remind everyone that our comments today contain certain forward-looking statements that 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 third-quarter conference call. Participating on the call 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's my pleasure to again begin our quarterly call by congratulating Team O'Reilly on another record-breaking quarter and an extremely successful first three quarters of 2015. Our team of over 72,000 dedicated team members continues to win business and take market share by providing consistently excellent customer service, evidenced by our third-quarter 7.9% comparable store sales increase. In all three quarters of 2015, we have generated comparable store sales growth in excess of 7%. And these results are on top of difficult comparisons, as our team has generated a remarkable eight straight quarters of comparable store sales growth in excess of 5%. This consistently robust top-line performance is the direct result of our team's dedication to living the O'Reilly culture of providing incredible levels of service to each of our valued customers. And I want to thank each of our team members for their continued contributions to our Company's long-term success.

For the third quarter, we robustly we grew our total sales by 10.8%. And with our focus on growing sales profitably and controlling our expenses, we generated our first-ever 20% operating profit quarter. During the quarter, we resolved an historic tax item, which added $0.11 to our quarterly EPS of $2.64. This resolution, while very positive for the Company, is not part of our ongoing business. So I think the more appropriate number to focus on is an adjusted third-quarter EPS of $2.53, which represents an increase of 23% over the prior year.

I couldn't be more pleased with the consistent efforts of our team members to provide unsurpassed service levels to our customers, as the third quarter of 2015 represents the 27th consecutive quarter of EPS growth in excess of 15%. The comparable store sales increase of 7.9% strongly exceeded our comparable store sales guidance of 3% to 5%, and our performance was relatively consistent on a month-to-month basis. The composition of our comparable store sales growth in the third quarter was also very similar to the first two quarters of the year. Both our professional and DIY sides of the business were strong contributors to our comparable store sales growth, with professional being slightly higher. Increases in our comparable transaction count and ticket average contributed equally to our growth, with a larger contribution from our professional ticket count, although our DIY ticket count growth continues to be strong. The increase in average ticket continues to be driven by the secular industry driver of parts complexity, with little to no help from increases in selling price, as inflation remains muted.

Our performance for the third quarter, as we've see over the past year and half, was driven by key hard part categories such as brakes, driveline, chassis and ride control. Additionally, as summer heated up in July, we were very pleased with heat-related categories such as HVAC or temp control, batteries and rotating electrical. Through July, the latest data available, miles driven were up 3.6% for the year, representing 17 straight months of year-over-year increases. We feel this increase, driven by relatively low gas prices and improving employment, has been important factors in fueling our robust comparable store sales growth.

In our business, the fourth quarter can be highly variable, based on weather, especially in the second half as consumers focus on holiday shopping. Therefore, we feel it's appropriate to establish our fourth-quarter comparable store sales guidance at a range of 3% to 5%. And reflecting on our strong year-to-date sales results, we are increasing our full-year comparable store sales guidance to a range of 6.5% to 7%. Based on the strength of our first three quarters results, we are raising our full-year operating margin guidance from a range of 18.3% to 18.7% of sales to a range of 18.6% to 18.9% of sales. This guidance range includes the net negative impact of the $19 million litigation charge from the second quarter, which we discussed during last quarter's conference call. We are establishing our fourth-quarter earnings-per-share guidance at a range of $1.97 to $2.01. And based on our strong year-to-date results, we're increasing our full-year earnings-per-share guidance from a range of $8.59 to $8.69 to a range of $8.97 to $9.01. This full-year guidance range includes the negative impact of the second-quarter litigation charge, as well as the positive impact in the third quarter from the resolution of the historical tax item I discussed earlier. Which, on a net basis, essentially offset one another.

Before I finish up my prepared comments, I would like to again thank our team for our record-breaking third-quarter results. We remain very confident in the long-term drivers for demand in our industry. And we believe we are very well-positioned to capitalize on this demand by consistently providing industry-leading service to our customers every day at every store. Again, congratulations to Team O'Reilly for the very strong year-to-date results and the solid start we have to our fourth quarter through this point in October. I'll now turn the call over to Jeff Shaw. Jeff?

Jeff Shaw - O'Reilly Automotive Inc - EVP of Store Operations and Sales

Thanks, Greg. Good morning, everyone. I'd like to begin today by echoing Greg's comments and congratulating Team O'Reilly on another outstanding quarter. I could not be more proud of our team's get-it-done attitude, as they roll up their sleeves every day with the focus of providing top-notch customer service and winning our customers' business. Our industry-leading comparable store sales growth of 7.9% for the quarter and 7.4% for the third quarter of 2015 represents the 27th consecutive quarter of EPS growth in excess of 15%. The comparable store sales increase of 7.9% strongly exceeded our comparable store sales guidance of 3% to 5%, and our performance was relatively consistent on a month-to-month basis. The composition of our comparable store sales growth in the third quarter was also very similar to the first two quarters of the year. Both our professional and DIY sides of the business were strong contributors to our comparable store sales growth, with professional being slightly higher. Increases in our comparable transaction count and ticket average contributed equally to our growth, with a larger contribution from our professional ticket count, although our DIY ticket count growth continues to be strong. The increase in average ticket continues to be driven by the secular industry driver of parts complexity, with little to no help from increases in selling price, as inflation remains muted.

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the first three quarters of 2015 is a testament to our team of 72,000-plus team members who are committed to providing consistently excellent customer service. As we work tirelessly to make sure that we’re the friendliest and most knowledgeable parts store in every market we serve.

For the quarter, we grew total revenues 10.8% and total gross margin dollars by 12.5%, 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 does not happen without the dedication of our store, DC and office support teams.

For the quarter, SG&A levered 87 basis points on our strong sales performance, and average SG&A per store increased 2.9%. For the year, SG&A per store, excluding unusual litigation item in the second quarter, increased 2.3%. As we discussed on the last few calls, our average per-store SG&A spend has been higher than we planned at the beginning of the year. However, we have seen the opportunities to add hours to the stores to accelerate our share gain. Based on our strong year-to-date results, we’re very pleased with the direction we’ve taken, but we continue to closely monitor our sales volumes, and will make the appropriate adjustments to ensure store payroll levels match the [difference]. With our strong sales and profitability results, we’ve also seen a corresponding increase in variable compensation throughout the organization, as we reward team members at every level of the Company for running their business like they own it. For the year, we now expect average SG&A per store to increase approximately 2.25%.

We successfully opened 58 net new stores during the quarter, and we continue to be very pleased with the performance from our new stores. During the quarter, we opened stores in 27 different states with the highest concentration in the Great Lakes area, which is primarily based on the weather dictating development timeframes. For the year, we’re confident we’ll hit our target of 205 net new stores. For 2016, we expect to open 210 net new stores spread across our existing footprint and in new markets. Our ability to provide consistently excellent service at the stores is supported by our industry-leading parts availability, and I’d like to thank our supply chain groups for the great service levels they provide to our stores.

We’re constantly evaluating stocking levels, expediting products with higher-than-planned sales, filling in on back-ordered products, modifying routes to handle higher freight volumes. And continually monitoring and adjusting our hub, DC, City Counter and weekend routes to ensure we have the best availability in each market we serve. The knowledge and dedication of our supply chain team is a critical contributor to our 7.4% year-to-date comparable store sales gain, and is critical to our future ability to continue to grow market share. On that front, we continue to be on pace to open our San Antonio, Texas DC in the second quarter of 2016.

We’ve had a great year so far, and we are well-positioned to continue to provide our customers exceptional service levels and the best parts availability in the industry, so that we finish up the year strong. That said, we can never rest on our past successes, and we have to go out and earn the business each and every day by out-hustling and out-servicing our competitors. And I’m confident in our team’s ability to do just that. Great job, Team O’Reilly. Now I’ll turn the call over to Tom.

**Tom McFall - O'Reilly Automotive Inc - EVP of Finance & CFO**

Thanks, Jeff. I’d also like to thank all of Team O’Reilly on another outstanding quarter. Now we will take a closer look at our quarterly results, and update our guidance for the remainder of 2015. For the quarter, sales increased $203 million, comprised of $145 million increase in comp store sales, a $58 million increase in non-comp store sales, a $2 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’re raising our full-year total revenue guidance to a range of $7.85 billion to $7.95 billion. For the quarter, gross margin was 52.4% of sales, and it grew 78 basis points over the prior-year period. This was in line with our expectations, as a positive mix and leverage distribution costs offset a higher-than-expected LIFO charge of $5 million, which was 10 basis points less than last year. Based on our year-to-date results, we’re [changing] our full-year gross margin guidance from a range of 51.8% to 52.2% of sales to a range of 52.0% to 52.2% of sales.

Our effective tax rate for the third quarter was 33.6% pretax income. During the third quarter of each year, we typically experience a lower tax rate as we adjust our tax reserves for a closed tax [period]. And as Greg mentioned earlier, we [did] a non-typical tax reserve adjustment this year related to a previous acquisition. This non-typical adjustment was a non-recurring, non-cash item, which added $0.11 to our quarterly EPS, and lowered...
our effective tax rate by 2.7% pretax income. Excluding this item, our effective tax rate would have been 36.3%, which is where we thought we would be. For the fourth quarter, we expect an effective tax rate of approximately 37.3% of pretax income.

Now I'll move on to free cash flow and the components that drove the results in the quarter, and our updated guidance expectations for the full year of 2015. Free cash flow for the quarter was $254 million. Based on our strong year-to-date performance, we're revising our full-year guidance for free cash flow to a range of $800 million to $850 million, reflecting an increase of $75 million on both ends of the range.

Inventory per store at the end of the quarter was $576,000, which is a 1.5% decrease from the end of 2014. Our ongoing goal is to ensure we grow first-store inventory at a lower rate than the comparable store sales growth can generate, and we definitely accomplished that goal through the first three quarters of 2015. We continue to make great progress on reducing slow-moving and overstocked product, and replacing it with additional store-level inventory of products that are entering the higher-demand cycles. However, part of this decrease is timing related to the very strong sales during the first three quarters of the year, and we continue to expect our per-store inventory to increase a little less than 1% per store for the full year. Our AP inventory ratio finished the third quarter at 101%. This is the first time our net inventory investment has been negative. We're excited about the accomplishment, but this ratio was aided by seasonality in our extremely strong sales. As a result, we expect to finish up 2015 at an AP inventory ratio just under 100%.

Capital expenditures for the first nine months were $296 million, which was 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 third quarter with an adjusted debt-to-EBITDA ratio of 1.6 times -- still well-below our targeted ratio of 2% to 2.25%. We continue to believe our stated range is the appropriate level for our business, and we will move into this range when the time is appropriate.

We continue to execute our share repurchase program, and from July 1 through yesterday, we repurchased 1.3 million shares of our stock at an average cost of $239.81 per share, for a total investment of $305 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 invest in our business at a higher rate of return. And we'll prudently execute our programs with an emphasis on long-term returns for our shareholders.

For the fourth quarter, we're establishing diluted earnings-per-share guidance of $1.97 to $2.01. Based on our above planned results thus far in 2015, and additional shares repurchased since our last call, for the full year, we're raising our guidance to $8.97 to $9.01 per share, representing an increase of $0.35 per share at the midpoint from our previously announced guidance. As a reminder, our diluted earnings per share guidance for both the fourth quarter and full year take into account the shares repurchased through yesterday, but do not reflect the impact of any potential future share repurchases. Finally, I like to once again thank the entire O'Reilly team for their continued dedication to the Company's success. Congratulations on another outstanding performance in the third quarter. This concludes our prepared comments. At this time, I like to ask Keith and the operator to return to the line, and we'll be happy to answer your questions.
Michael Lasser - UBS - Analyst

Good morning, thanks a lot for taking my question. First on the labor side, in your SG&A investments, you’ve have made these investments for the last couple of years. At what point do you start to see some diminishing returns, where your SG&A is going up but you’re just not seeing the benefit from it?

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

Michael, thanks for the question. This is Tom. What I would tell you is that we manage our payroll on a store-by-store basis, and it’s a bottoms-up management. We monitor the business obviously on a daily and weekly basis, and adjust payroll with a long-term view to grow the business. But to the extent that the ability to take market share wasn’t as significant as if we feel like it is right now, we wouldn’t put as many hours in the store. What I would tell you is, it’s very variable based on what the store operation’s view is of the opportunity to accelerate growth.

Michael Lasser - UBS - Analyst

Why do feel the opportunity to gain share is greater today than it might of been in the past?

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

Michael, this is Greg. What I would tell you, there’s just a lot going on in the industry. You guys have seen the M&A activity that is going on. As some of the companies that have previously been more retail have come into the wholesale business, we see pressure being put on some of the weaker players in each market, which provides some opportunity for us. We beefed up our supply chain and the number of times that we touch each store in the last few years, and improved some of the retail services that we provide. And we’ve proven, I think, over the last two or three years or whatever, that we have the ability to pick up some market share. I think that we’re going to continue to be able to do that. And for that reason, we’re pretty robust in the way we deploy staffing in the stores as a means of continuing that trend of gaining market share.

Michael Lasser - UBS - Analyst

And Greg, on that point, is that salary, given some of the activity this week with Pep Boys switching ownership?

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

Well, I think that’s just one of the many things. It’s Dan’s and Carquest coming together, that’s another. And there’s other smaller ones that have taken place, like the Uni-Select thing with Carlecon, and things like that. One last item to add, Michael, is, there’s a lot of tailwinds in our industry. Unemployment is coming down. Commuter miles driven are going up. Miles driven are going up. So there is more opportunity for -- there’s a backdrop that says there’s more business out there for us.

Michael Lasser - UBS - Analyst

Great. Thank you so much, and good luck with the rest of the year.

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

Thank you, Michael.
Operator
Matthew Fassler, Goldman Sachs.

Matthew Fassler - Goldman Sachs - Analyst
Thanks a lot. Good morning. My primary question relates to ticket trend. You spoke more elegantly than most about parts complexity as a driver of the business and as a fundamental contributor to your strength. Can you talk about the degree to which this is building? And if you think about the inning that we're in -- this might be an analyst game, I guess. What point do you feel, for perspective, you saw this start to move the ticket? And is it having a growing impact on ticket as we move forward here?

Greg Henslee - O'Reilly Automotive Inc - President & CEO
I think it has had a growing impact, and I think will continue to for the foreseeable future. Cars continue to increase in complexity. There's a lot of technology that's being deployed in cars that wasn't a few years ago, and I would expect that to continue to increase. An example would be -- and we were talking about this internally the other day -- when it comes to vehicle ignitions. For instance, cars just a few years ago had distributor caps with a rotor, and each cylinder had an ignition wire. And today, most vehicles have an ignition coil on each spark plug. And while the ignition coils are not replaced as part of normal vehicle maintenance during a tune-up, and the cap and rotor and ignition wires would have been, when those coils fail, they're very expensive, and at higher mileage as they fail. And the trade-off is, we sell a lot fewer units and maybe the frequency of the sale is less, but when we do sell a coil, it's much more expensive sale. And since there's one on each cylinder, there's several of them on a car. And that kind of thing exists in several different areas.

Fuel pumps. It used to be cars had mechanical fuel pumps or an in-line fuel pump going up to the carburetor or throttle body injection. And today, vehicles have an in-tank fuel pump that acts as not only the fuel pump, but also the fuel gauge sending unit, down in the fuel pump. It's a very technical part; they sell for on average maybe a couple hundred dollars a piece. Whereas, the older fuel pumps might sell for $20 to $40 a piece. While they are good products, maybe don't fail as often as the old mechanical pumps or the in-line pumps, they are more expensive when they do.

Matthew Fassler - Goldman Sachs - Analyst
Thanks for the detailed answer, Greg. And just a very brief follow-up on working capital. To your point, you made it to negative working capital. You had not ever really guided past that 100% level. I understand that it's easier to do when your philosophy is what it has been. But in an environment where your velocity recedes, if that were to happen, would you still have a trajectory, in your view, from a working capital perspective?

Greg Henslee - O'Reilly Automotive Inc - President & CEO
Tom, do you want to give some perspective on that?

Tom McFall - O'Reilly Automotive Inc - EVP of Finance & CFO
What I would tell you is that we continue to work with each supplier to see where our opportunities are. We're excited that we've got to 101 this particular period. We'll have some pressure as we go into the end of the year, just based on velocity of business. If we hadn't posted to the externally strong comps that we have, we wouldn't have that ratio. When we look at long term, we continue to have some opportunities to extend some of our suppliers. But I think the key for us now is to really focus on what our inventory turns are, as we talked about in the prepared remarks. To make sure, A, that we have the right products in the stores that are moving to provide customer service carried throughout our layers to optimize that. But really to work on where do we have inventory deployed that we're not getting a return, and how do we adjust that? That's a big driver to our [EBITDA] inventory ratio.
Matthew Fassler - Goldman Sachs - Analyst
Thank you so much.

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

Operator
Christopher Horvers, JPMorgan.

Christopher Horvers - JPMorgan - Analyst
Thanks, good morning, guys. I wanted to, Greg, get your thoughts around weather, in the sense that there’s a lot of discussion around El Nino. How do you think about that as you look into 2016, how that potentially plays out for a system, the structural positives around gas prices, and the aging car fleet? And as you look back over the past three quarters, do you think weather has been a plus or minus or a neutral?

Greg Henslee - O'Reilly Automotive Inc - President & CEO
We are not great predictors of the weather, and really looking back a few years, we really didn't spend that much time even talking about it. But as we got bigger, it’s become a little bit more of a factor, with our geographic expansion and so forth. This fall, most markets have not had really cold weather yet, and some of the periods that we compare to last year, where you had cold snaps that might drive short-term demand for batteries or something like. We’ve not really had that yet in most markets, so that’s yet to come. What I would say is, if we have a mild winter, some of the demand that would be created by the more extreme winter would be deferred a little bit. It would go into maybe next year if there were parts that were going to fail in the wintertime, or pressure that was put on parts that were going to fail anyway at some point, but didn’t have the pressure put on them by the cold weather. So that might be kicked down the road to maybe the winter of 2016 or something like that.

As we've always said, extreme weather is generally good for us. Real cold, real hot, causes parts to fail more premature than they would typically. But they’re still going to fail. It may push some of it down the road a little bit that we might gain during more extreme weather. I think this year has been pretty normal weather. I think that the summer started out pretty mild, but it turned out to be pretty hot in most markets. And we did well in some of the heat-related categories, as I mentioned in our prepared remarks. I think that the -- it was an average winter. I don’t think it was extreme in most markets. And we think we benefited as we typically would, from the damage that’s into cars in the extreme cold. I would expect that many markets would have some version of a cold winter this year. Although I know that there could be some effect from this El Nino. So that would be my comment. I don’t think it’s a major factor to consider. And I think that the economic issues we discuss relative to gas prices, miles driven, the health of the consumer, employment rates improving are more powerful typically than what the weather would be.

Christopher Horvers - JPMorgan - Analyst
Thanks very much. And then Tom, on the gross margin, can you talk about how much of the gross margin improvement is more sales-driven, i.e., the leverage that you're getting on distribution? And perhaps better buying versus something more structural that's going on underneath?

Tom McFall - O'Reilly Automotive Inc - EVP of Finance & CFO
Chris, we are very hesitant to talk about our distribution costs. So we're not going to break that down.
Christopher Horvers - JPMorgan - Analyst

Okay. Is there something else in terms of growing private label, or some other efficiency that’s driving your gross margin that is not necessarily depending on the level of sales growth?

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

Well, we continue to look at where our opportunities are to direct our own brands. That’s a margin opportunity for us. We continue to look at how we distribute parts. We continue to look at where our opportunities are to leverage our size and buy better, sometimes to buy direct. So those all play into it.

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

Something I would add to that, Chris, is that, for the most part, vendors have after-market parts. Many of them can’t supply all of us, so they supply some of us. So many of them make choices as to who they’re going to do business with. And I think they’re trying to pick companies that they feel like will do a good job distributing their products and representing their products. I think to some degree, we have benefited from being recognized as a pretty high-quality partner when it comes to partnering with a supplier. And for that reason, we’ve been afforded some gross margin opportunities that maybe we weren’t as a smaller company, and we are today. And then I think our merchandise cost is a pretty good contributor to our gross margin results.

Christopher Horvers - JPMorgan - Analyst

Understood. Thanks very much.

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

Okay, thank you.

Operator

Scot Ciccarelli, RBC Capital Markets.

Scot Ciccarelli - RBC Capital Markets - Analyst

That was a botch. Scot Ciccarelli. How are you guys? (laughter)

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

Hi, Scot.

Scot Ciccarelli - RBC Capital Markets - Analyst

The last seven quarters or so, you guys have experienced a pretty material ramp-up in your retail sales. It seems to coincide with the launch of your loyalty program. But it’s not a standalone issue, because you been adding weekend and night hours, et cetera. So two related questions. Number one, how much of your improvement in the retail sales are from these changes? And then how much do think is just from improvements in the
market, such as the unemployment stuff you’ve already talked about? Number two, related to that, of the changes that you have made, what you think has had the bigger impact? Has it been the loyalty program, or has it been the increase in store hours?

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

Well, Scot, those things are hard to know for sure. We know, as you know, that our regional business has grown pretty robustly. And the things you’ve mentioned relative to our efforts to staff better on nights and weekends, make sure that the service levels that we provide are extremely high. And that we now include in those services -- we provide some things that we didn’t three years ago, relative to the occasional battery installation or wiper blades. Or the occasional light bulb pulling check engine light and trouble codes off of cars, stuff like that. And then of course, the old rewards program, which we now have 18 million enrolled customers, and we’re averaging 120, 125 a week, new enrollees. And so all those things are contributors. And then of course the economy improving, [laws-driven] improving are big contributors also to just the demand for parts retail. It’s really hard for us to know.

I think all the things put together have got us where we are. I think the old rewards program’s very important. I think the services that we provide that we didn’t provide previously, I’m glad we’re providing them now. We probably should have done them a little earlier. And the staffing is just something that we have focused on for a long time, and we’ve just gotten better and better at it. And I think we’ll continue to improve that as time goes along and we deploy better systems to help us manage the staffing in our stores, and make sure the store managers have the information they need to optimize the way they staff stores. But it’s hard for me to quantify which is the bigger contributor. They are all significant contributors.

**Scot Ciccarelli** - RBC Capital Markets - Analyst

Let me rephrase part of the question then. When you look at specifically the loyalty program, how much of the improvement, or how much incremental sales do you think that loyalty program has been able to drive? If you’re doing, as of August at least, doing 155,000 transactions per day on the loyalty program, that’s a really sizable impact to business, I would think. But I don’t know what part is incremental and what part is just: look, these guys are just going to take advantage of the program.

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

Well, I don’t have the numbers with me, but I will tell you, if we look at it that way, and I have looked at it that way, it’s pretty shocking, the number of transactions and the dollar contribution from our loyalty program. The thing that’s impossible to know is how much of that business were we getting prior to the loyalty program? And if they’re customers that were coming to us previously and we signed them up on a loyalty card, and they continue to do business. And we hope they’re more loyal maybe than they were before. But maybe we were the only store they came to previously. We really don’t have a good way of knowing. Although, as I said a moment ago, if you look just at the transactions and the dollar contribution from the people using our loyalty program, it’s material. But again, we don’t have a way of knowing what would’ve gotten anyway. But I continue to believe that it’s been a positive thing for us, and will continue to be a positive thing for us, as customers benefit from the rewards that we afford them, and they reward us with their loyalty.

**Scot Ciccarelli** - RBC Capital Markets - Analyst

Okay. All right, thanks a lot, guys.

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

Okay, thank you.
Operator
Daniel Hofkin, William Blair & Company.

Daniel Hofkin - William Blair & Company - Analyst
Good morning. Congrats on the standout results once again.

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

Daniel Hofkin - William Blair & Company - Analyst
Just a little more color on this whole general topic of comps. If I understood you correctly, it sounded like you were describing market share gains in both segments. You've talked in recent quarters about DIY showing maybe greater share gains for you, given some of the changes you've made the last couple of years. But it sounded like in addition to that, commercial, you felt like, either because of some of the squeeze-out of smaller players, maybe that's picked up in terms of share gains for you as well. Is that a fair characterization?

Greg Henslee - O'Reilly Automotive Inc - President & CEO
I think so. It's hard for us to measure share gains, just like it's hard for you all to measure share gains. And really, our only means of measuring wholesale share gains basically is by comparing to the results of our publicly traded competitors and those that we know in the industry that tell us how their sales are. That's really the only way we have of comparing. And I think the 7.9% comp that we generated in the third quarter speaks for itself relative to market share. But that really is a very basic comparison and a very general comment, when we say we're gaining market share, and it's strictly based on our perception of how we're performing versus the companies that report publicly and those that we know in the industry.

Daniel Hofkin - William Blair & Company - Analyst
I guess the question is -- obviously I don't think anyone is expecting that an 8% comp is the new run rate for you. But at the same time, your pace of share gains has picked up. And the things that you described as positive for the industry should be positive for everyone, yet your relative performance seems to have widened. So I'm trying to get a sense for what aspects of the performance you think are most sustainable in the next couple of years in either segment?

Greg Henslee - O'Reilly Automotive Inc - President & CEO
Well, Danny, what I would tell you is we -- me and 72,000 other people here -- come to work every day trying to do the best job we can to provide great levels of service to our customer. And make sure we have the right parts in the right places, and we know what we're talking about when it comes to selling parts and fixing cars. We're going to continue to do what we do, and we're going to continue to try and improve things we do, and improve the way we educate team members, and improve our supply chain, improve the number of times we touch doors, improve the science behind how we deploy inventory. So to the extent that those things are contributing to our market share gains, which, I believe they are, I think we will continue to be a market share gainer. Yet all of us are subject to just the macro backdrop and the business that the automotive after-market is doing -- and right now, it's pretty robust. So that some portion of the 7.9% comp and the 7.4% comp we've had for the year is a result of the market being pretty robust. And as I mentioned, I think that in a robust market, we're in a very good position to take market share because of the things I mentioned that I think we do pretty well. And they're very basic things, but they're things that we've done for years, and we have just improved on as our Company has grown...
and gotten older, and we've all gained more experience and we put more science behind it and things like that. So I would not expect a change in our ability to grow market share. But the unknown, to some degree, is just the backdrop of what the macroeconomic environment provides.

_Daniel Hofkin - William Blair & Company - Analyst_

That's very helpful. Last just very quick housekeeping question is on the whole -- you talk about the $0.11 benefit this quarter from the tax favorability. If I recall correctly, in the second quarter, you had the litigation on the unfavorable side. Don't those wash out overall? So that the base comparison -- if we're thinking about projecting into next year, and we look at the first nine months as a whole, you still get to a relatively clean base level of earnings. Am I correct about that?

_Greg Henslee - O'Reilly Automotive Inc - President & CEO_

Yes. Those two are pretty offsetting. One is pretax, one is post-tax. So they basically create a neutral.

_Daniel Hofkin - William Blair & Company - Analyst_

Got it, thanks. Best of luck in the fourth quarter.

_Greg Henslee - O'Reilly Automotive Inc - President & CEO_

Okay, thank, Dan.

_Dan Wewer - Raymond James & Associates - Analyst_

Thanks. I had a question regarding the fourth-quarter guidance. In the first three quarters of the year, the actual earnings exceeded the high end of guidance by an average of $0.19 a share. Is there anything different about the upcoming fourth quarter that would make the comparisons more difficult?

_Greg Henslee - O'Reilly Automotive Inc - President & CEO_

Well, what I would tell you, Dan, is that in my history with O'Reilly, which is 31 years, I can tell you the fourth quarter is the most variable. There are things that can happen related to weather intercepting in some markets and doesn't in some markets, and that can be a significant driver of early demand. And then also the holiday shopping season is always an unknown, and the effect of that on our business is always a little bit of an unknown. So we're always -- because of our history and our experience in all the fourth quarters that we have lived through, we know that fourth quarter is the most variable. And for that reason, we are -- we generally are pretty conservative. But we're even -- put more emphasis on our conservatism going into the fourth quarter, as a result of the knowledge we have of the potential variability coming into the holiday season.
Dan Wewer - Raymond James & Associates - Analyst

Okay. The second question: can you discuss O'Reilly's success with the IP acquisition, knowing that those stores had a combination of parts and a service business? And with that in mind, is there any opportunity for O'Reilly to participate in the consolidation of the industry with the Bridgestone/Pep Boys merger?

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

Well, what I would tell you is that when we assessed the IP, we were pretty skeptical and concerned of having stores with shops adjoined. And we worked out how we would do that, and at this point, we had been pleased with our results. It was certainly a challenge, because our competitors use the fact that we are attached to a shop as a means to imply that there is some partnership that might be unfair to the other professional customers that we provide parts to. Which is not the case, and we make it very transparent and clear that, that is not the case.

But VIP and John Quirk, the owner, they've been great partners of ours, and I think both businesses have done well. And we're reasonably comfortable there, and I can tell you that our business continues to grow robustly in those stores. We're coming off a small base, but if you looked at the percentages, you'd be impressed if I told you what it was, which I'm not going to. (laughter) But talking about Pep Boys, I think it's a lot different situation, because the size of it for one thing, but then also the amount of square feet. But what I would say is that, if given the opportunity to look at that, we would assess that in due course, just like we would any other opportunity, and decide whether it made sense for us and what parts of it worked and what parts of it didn't, and all those things. But I can tell you, we probably would not be scared of the fact that there's a shop attached. Tom? What I would tell you though, Dan, Bridgestone still has a tender offer out there to close Pep Boys. And as far as we've heard, we don't know what they're going to do. They may run the shops, they may not run the shops. That might be a question better directed to those folks.

Dan Wewer - Raymond James & Associates - Analyst

Great, thank you.

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

Okay, thank you, Dan.

Operator

Tony Cristello, BB&T Capital Markets.

Tony Cristello - BB&T Capital Markets - Analyst

Great, thank you, good morning.

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

Good morning, Tony.

Tony Cristello - BB&T Capital Markets - Analyst

I wanted to talk a little bit about O'Reilly and the business model and the margin, and how that looks in a normalized comp, assuming that 7.9% is not normalized. 20% EBIT margin is really solid. And I'm just wondering, the variability of cost and labor and some of the other things. What does margin look like in the 3% to 5% comp versus a 7% to 9% comp?
Tom McFall - O'Reilly Automotive Inc - EVP of Finance & CFO

What we would tell you is that if we have low -- it depends on the mix of products we sell, when we look at the gross margin. Our distribution is pretty highly variable, but there will be pressure on those fixed costs. When we look at the store costs, it's a difficult question to answer. When we look at what our SG&A was per store, with high sales volumes, we're staffed up to meet that. We're probably running overtime because of the amount of business we have. It's a higher achievement of variable compensation, and we're running a lot more trucks, burning a lot more fuel. All those costs are very variable. But obviously there is some portion of payroll, and there's occupancy costs that are fixed that we are leveraging. So at a lower comp, we're not going to -- all other things equal, we're not going to put up the operating profit we did this quarter. But we're going to make adjustments to fine-tune the variable part of our business to match what the business is that's out there.

Tony Cristello - BB&T Capital Markets - Analyst

Okay. And I guess is it a benefit with the initiatives you've had for the retail side of the business -- which I understand it to be a higher margin-type business. If there's a stickiness there, or what you've done from the initiative standpoint holds, do you think that, that changes the margin profile for the longer term? Or do think that, all else being equal, you'll just ebb and flow with what the comp does?

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

Additional retail contribution is certainly favorable. Like you said, it's higher gross margin, and they bring the money with them. And you don't have to deliver the part, so it's a great thing. So yes, to the extent that our retail business growth, that we're able to hold onto that and we continue to grow it, which I think we will, that is a positive thing. And it's a contributor to our margin and will be helpful at a lower comp rate in generating flow-through to operating margin.

Tony Cristello - BB&T Capital Markets - Analyst

Okay. And if I could just ask a follow-up on the hours. Is it primarily geared toward the commercial side of the business? Or are the hours intuitively driven toward spending-reachable peak retail side?

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

Yes, they send it out. We open early, of course, for the wholesale customers, because many of them get their shops up and running pretty early, and we want to be sure that parts that they may have ordered the day before or whatever get to their shop first thing. But later in the day, DIYers, many of them work for a living obviously, and they are the reason we keep our stores open late and staff our stores right on nights and weekends is, generally speaking, to serve the DIY customers.

Tony Cristello - BB&T Capital Markets - Analyst

Okay, great, thank you for your time.
Okay, thank you, Tony.

Operator

We reached our allotted time for questions. I'll now turn the call back over to Greg Henslee.

Okay, thank you, Ethan. We'd like to conclude our call today by thanking the entire O'Reilly team for the outstanding year-to-date results. We are extremely proud of our record-breaking third-quarter results, and externally confident in our ability to continue to aggressively and profitably gain market share, and are focused on continuing our momentum into the fourth quarter. I'd like to thank everyone for joining our call today, and we look forward to reporting our 2015 fourth-quarter and full-year results in February of next year. Thank you.

Operator

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