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ORLY - Q1 2017 O'Reilly Automotive Inc Earnings Call

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OVERVIEW:

Co. reported 1Q17 EPS of $2.83. Expects 2017 total revenues to be $9.1-9.3b and EPS to be $12.05-12.15. Expects 2Q17 EPS to be $3.10-3.20.

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CORPORATE PARTICIPANTS

Gregory D. Johnson *O'Reilly Automotive, Inc. - Co-President*

Gregory L. Henslee *O'Reilly Automotive, Inc. - CEO*

Jeff M. Shaw *O'Reilly Automotive, Inc. - Co-President*

Thomas G. McFall *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

CONFERENCE CALL PARTICIPANTS

Alan Michael Rifkin *BTIG, LLC, Research Division - MD for Research and Strategy Group*

Bret David Jordan *Jefferies LLC, Research Division - Equity Analyst*

Christopher James Bottiglieri *Wolfe Research, LLC - Research Analyst*

Christopher Michael Horvers *JP Morgan Chase & Co, Research Division - Senior Analyst*

Daniel Ray Wewer *Raymond James & Associates, Inc., Research Division - Research Analyst*

Gregory Scott Melich *Evercore ISI, Research Division - Senior MD, Head of Consumer Research Team and Senior Equity Research Analyst*

Kate McShane *Citigroup Inc, Research Division - MD, Head of the U.S. Discretionary and U.S. Apparel and Retail Analyst*

Matthew Jermey Fassler *Goldman Sachs Group Inc., Research Division - MD*

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

PRESENTATION

Operator

Welcome to the O'Reilly Automotive First Quarter Earnings Conference Call. My name is Victoria, 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. Tom, you may begin.

Thomas G. McFall - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

Thank you, Victoria. Good morning, everyone, and thank you for joining us. During today's conference call, we will discuss our first quarter 2017 results and outlook for the second quarter and the remainder of 2017. After our prepared comments, we'll host a question-and-answer period.

Before we begin this morning, I'd 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, 2016, 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.

Gregory L. Henslee - *O'Reilly Automotive, Inc. - CEO*

Thanks, Tom. And good morning, everyone, and welcome to the O'Reilly Auto Parts First Quarter Conference Call. Participating on the call with me this morning in their positions as Co-Presidents are Greg Johnson and Jeff Shaw; and of course, Tom McFall, our Chief Financial Officer, is also participating; and David O'Reilly, our Executive Chairman is also present.

I would like to begin our call today by thanking Team O'Reilly for their continued dedication to our company's success and their unwavering commitment to providing consistently excellent levels of customer service to our valued customers. As we outlined in our press release and will discuss in our comments today, our top line sales performance fell short of our expectations, driven by challenging external factors we faced in the quarter. But our team remained diligent in executing our business model for the long haul by ensuring we put an even more pronounced emphasis on our customer service levels during the quarter. Our professional parts people are the very best at what they do. And it is their contributions that have driven our success as a company and will continue to drive us forward as the market leader.

Now I'll make some brief comments about our quarterly performance before I turn it over to Greg, Jeff and Tom for more of a detailed overview. When we held our year-end conference call on February 7, we established a comparable store sales guidance range of 2% to 4%, which was below our typical expectations of 3% to 5%. This was the result of the impact of the mild January temperatures as well as our belief that we likely saw some pull-forward of winter weather-related sales into December of last year due to the extreme cold weather we had in many markets at the end of 2016.

Unfortunately, the seasonably mild weather continued in February and the resulting softness in our business was exacerbated by the delay of tax refund money to early filers, which as you know was deferred by several weeks this year compared to the prior year. We saw business improve markedly toward the end of February as our customers began to receive these income tax refunds. However, this positive trend was halted at the beginning of March as a result of cold, wet weather, including late winter storms in many of our markets. This type of weather would have been a positive in January or February but was a significant headwind to our business in much of March as customers awaited spring weather.

When we look at our by-category sales, this unusual weather drove softness in weather-sensitive categories, like engine cooling, rotating electrical and antifreeze. On the tax return front, the delay in refunds was a positive to March, which despite the late winter weather was the strongest month of the quarter. But at this point, we believe some of the opportunity to capture a share of early filers' tax return money related to repairs needed due to the extreme weather in some cases has been delayed. To be clear, many of the parts that might have failed in extreme weather will still fail. The failure has just been pushed into the future by the mild winter weather. Greg Johnson will discuss our sales expectations moving forward in detail when I turn the call over to him in a few moments. But I will say we view the challenges we faced in the quarter to be transient and believe the onset of normal spring weather will restore demand in our broader industry.

As we noted in our press release yesterday, the shortfall in sales in the first quarter created leverage pressure on all areas of our business. However, even in light of these pressures, we were pleased that our team was able to continue to execute our expense control culture to generate a very respectable 18.7% operating profit. Unfortunately, our performance this quarter ended our incredible streak of 32 consecutive quarters of 15% or greater EPS growth. We are certainly disappointed to see this streak come to an end, but I want to take this opportunity to recognize and congratulate our team for this amazing run of generating outstanding results for our shareholders each quarter for the last 8 years.

While we are obviously not pleased with our comparable store sales performance in the first quarter, we remain extremely confident in not only our business model and industry-leading supply chain but also our team of outstanding parts professionals and the Team O'Reilly culture they live every day across our company. As we move past the short-term pressures we faced in the first quarter, we believe we are very well positioned to grow our market share by continuing to leverage our industry-leading distribution model and providing the unsurpassed levels of customer service that has put us in the industry-leading position we've maintained the past several years. I want to again thank Team O'Reilly for your continued dedication to our customers.

At this time, I will turn the call over to Greg Johnson to provide more color on our first quarter results and our outlook for the remainder of the year.

Gregory D. Johnson - *O'Reilly Automotive, Inc. - Co-President*

Thanks, Greg, and good morning, everyone. To begin, I would like to echo Greg's comments and thank Team O'Reilly for their continued hard work and dedication to providing outstanding customer service every day. While we certainly aren't pleased with our comparable store sales results for the quarter, we know that market conditions we faced in the quarter have created significant volatility in our results, especially against the backdrop of very difficult comparable store sales comparisons of 6.1% last year and 13.3% on a 2-year stack basis. Our ability to still be able to generate positive comparable store sales growth despite the tough prior year comparisons and the specific headwinds in the first quarter is a testament to the quality of our team.

I would now like to provide a little more color on the composition of our comparable store sales growth for the first quarter and our outlook for the remainder of the year. Despite the challenging conditions we faced in the first quarter, we were able to generate positive comparable store sales growth in both our professional and DIY businesses. As we've discussed in the past, any pressure to consumer discretionary income is more impactful on the DIY side of the business as these customers are often forced to repair their own vehicles out of economic necessity. This was reflected in our results for the first quarter as the delay in tax refunds, while a significant headwind to both sides of our business, was more impactful on the DIY side and resulted in comps to those customers underperforming our professional customer comps.

However, the negative weather impacts that we saw throughout the quarter were felt on both sides of the business. And we received consistent feedback from across our professional customer base that their business suffered from the lack of extreme weather and a slow start to spring. We saw solid increase in ticket average, but we experienced pressure in both DIY and professional ticket count comps as a result of the sluggish sales environment. As has been the case for several years, we realized no benefit from increases in selling price as inflation remains muted.

As Greg mentioned earlier, we view the headwinds we faced in the first quarter as temporary. And we still feel confident we'll see favorable demand environment for the balance of the year that will enable us to deliver long-term profitable growth. We established our 2017 guidance based on the improved health of the overall economy; continued sustained improvements in employment; positive trends in miles driven; an aging and growing vehicle fleet; and the ability of our team to deliver outstanding customer service. Despite the slow start to the year, we see all of these drivers of our business as intact. We exited March on a more solid footing, and we're performing within our expectations thus far in April. As such, we are setting our second quarter comparable store sales guidance at 3% to 5% and reiterating our full comparable store sales guidance range of 3% to 5% as well.

Turning to our gross margin results. We finished the quarter with a gross profit of 52.5%, which was an increase of 10 basis points over the first quarter results from last year. This was below our expectations coming into the quarter due to mixed headwinds from unseasonable weather, deleverage of fixed cost in our gross margin as a result of the soft sales and a larger-than-anticipated LIFO headwinds. However, we believe that the pressure caused by these specific challenges we faced in the first quarter is temporary, and we are leaving our gross margin expectation for the full year unchanged.

Looking specifically at gross margin for the second quarter. Our 2016 second quarter results included a larger-than-normal LIFO charge related to acquisition cost reductions from a specific vendor negotiation last year. While we still see significant year-over-year benefit on our gross profit percentage as we calendar this item from last year, we do expect second quarter 2017 gross margin percentage to be slightly below our annual target as a result of the seasonal mix of our business. However, we still expect our full year gross profit to be within our original guidance range of 52.8% to 53.2% of sales.

During the quarter, we generated earnings per share of $2.83. As noted in our press release yesterday, these results included a $0.23 benefit from a change in accounting related to the tax benefit from stock option gains, which Tom will discuss in more detail later. Excluding this change, our EPS fell well short of our guidance range as a result of the sluggish sales and corresponding leverage pressures on our business.

While we are not satisfied with our results thus far in 2017, we remain confident the challenges we faced in the first quarter are temporary in nature and that the remainder of the year sets up well for us to achieve our planned growth and profitability and deliver a full year operating profit within our original guidance range of 20.1% to 20.5% of sales. We are also reiterating our full year EPS guidance range to $12.05 to $12.15 and establishing our second quarter EPS guidance range at $3.10 to $3.20.

Before I turn the call over to Jeff, I would like to again thank our team for their hard work and dedication to our company's continued success. 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 as we move forward in 2017 by consistently providing industry-leading customer service and parts availability.

I'll now turn the call over to Jeff Shaw. Jeff?

Jeff M. Shaw - *O'Reilly Automotive, Inc. - Co-President*

Thanks, Greg, and good morning, everyone. As both Greg and Greg have stated, we certainly faced a tough market environment in the first quarter. Our team's consistent industry-leading performance over our history has set a very high bar. And we were disappointed that we weren't able to deliver our typical mid-single-digit or better comparable store sales. However, our team hasn't wavered in delivering exceptional service to each of our customers. And we're as committed as ever to rolling up our sleeves and outhustling our competitors to earn our customers' business each and every day.

Now I'd like to spend a little time talking about our SG&A expense for the first quarter. As we've discussed several times in the past, we manage our SG&A spend with a long-term focus and won't make drastic changes to slash SG&A expenses on a quarter-to-quarter basis. Instead, our teams remain very focused on expense control every quarter but are judicious in managing our store staffing levels to ensure we don't jeopardize the excellent customer service that develops and maintains long-term relationships. No other expense more directly impacts our level of customer service and each store's ability to grow our business than store payroll. And our store operations teams use a number of tools to manage store staff and productivity on a store-by-store, day-by-day basis.

Ultimately, we're in the customer service business in a highly competitive industry. And the primary reason for why our customers choose to do business is the level of customer service they receive. As a result, we take a prudent approach to adjusting staffing levels in our stores over time and won't allow soft patches to result in dramatic short-term swings in store payroll as this will damage long-term relationships. With this objective in mind, we're pleased with the expense control focus our team showed in the first quarter with our average SG&A per store up only 1.4% over the prior year, below our initial expectations as our team made the appropriate adjustments while still delivering on the excellent service our customers expect.

The deleverage of our SG&A expense we saw in the quarter was a by-product of the sluggish sales environment, and we're confident that we'll be able to leverage our SG&A expenses in line with our previous guidance as comps improve, which has led us to keep our operating profit guidance unchanged for the full year. We continue to expect our full year increase in average SG&A per store to be approximately 1.5% to 2% for the year. And we'll continue to make the appropriate adjustments as needed to prudently manage SG&A expenses both up and down to match business trends and the opportunities that we see in the marketplace.

We successfully opened 59 net new stores during the first quarter with our new store performance within our expectations, given the broader demand environment. During the quarter, we opened stores in 25 different states with the highest concentration in some of our newer growth markets in the Southeast and the Northeast as well as continued growth in existing markets such as Texas. We continue to see great opportunities to open new stores across our coast-to-coast footprint. And this diverse growth profile allows us to develop and train great teams of parts professionals, who are ready to provide top-notch customer service from day 1.

The strong start to our new store growth in 2017 puts us well on our way to our full year growth target of 190 net new stores and provides us with the flexibility we need to devote significant resources in the remainder of the year to converting the Bond stores that we acquired in December. We just recently completed the store systems conversions and are now servicing each of the acquired Bond stores with 5-night-a-week delivery from our Devens distribution center. We're now servicing approximately 142 stores out of this facility with the capacity to service an additional 145 stores. And we continue to view the Northeast as a very favorable expansion market.

Before I turn the call over to Tom, I'd like to thank our team for their continued dedication to providing the best customer service in our industry. Clearly, we began the quarter in a tough weather environment knowing we were facing very tough comp comparisons and the external market conditions didn't improve to give us much of an opportunity to make up ground during the remainder of the quarter. However, our teams just redoubled their efforts and worked that much harder to take care of our customers, and still were able to continue our string of generating positive comparable store sales in spite of the industry-wide headwinds. I'm very confident that we have the right team in place to continue to provide unwavering customer service and lead our industry. And I look forward to our opportunities to take market share as we move through 2017.

Now I'll turn the call over to Tom.

Thomas G. McFall - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

Thanks, Jeff. Now we'll take a closer look at our quarterly results and update our guidance for the remainder of 2017. For the quarter, sales increased $60 million, comprised of $32 million increase in comp store sales; a $56 million increase in non-comp store sales; a $25 million decrease from 1 less day in 2017 as compared to Leap Day in 2016; a $2 million decrease in non-comp, non-store sales; and $1 million decrease from closed stores. Consistent with our historic practice, we have included the results of the acquired Bond stores as a component of our comparable store sales calculation starting in the first quarter.

For 2016, we continue to expect our total revenues to be $9.1 billion to $9.3 billion. For the quarter, gross margin was 52.5% of sales, an improvement of 10 basis points over the prior year. As we've seen for the last several years, our first quarter results were impacted by LIFO headwinds resulting from continued incremental acquisition cost reductions. The headwind, the $7 million in the first quarter, which was higher than we expected, and we were anticipating a similar headwind in the second quarter.

I would now like to provide some additional details on the impact to our earnings per share from the adoption of our new share-based compensation accounting standard we adopted during the first quarter of 2017. The new standard requires excess tax benefits related to share-based compensation payments to be recorded through the income statement. For us, this primarily relates to gains our team members realized upon exercise of stock options, where the company receives a corresponding tax benefit in excess of the previously estimated benefit recognized upon issuance of the equity award. Previously, these benefits were reflected directly in shareholders' equity and were not recorded through the income statement. With this change in accounting standards, we saw a reduction to our effective tax rate to 31.2% of pretax income, which drove a $0.25 benefit to our earnings per share results for the first quarter. This benefit was partially offset by a $0.02 EPS decrease from an increase to our diluted shares outstanding calculation also required by the new accounting standard, resulting in a net $0.23 benefit to EPS for the quarter.

Excluding the impact of this accounting change, our core underlying effective tax rate for the quarter was 37.3% of pretax income, in line with our expectations. For the full year, we continue to expect this core tax rate, excluding the benefit from the accounting change, to be 37% with the remaining quarters being relatively consistent with the exception of the third quarter, when we adjust our tax reserves for the tolling of open tax periods. In line with our normal practice, our earnings per share guidance for the remainder of the year includes all of the shares repurchased through this call but does not include any future share repurchases and also does not include any future potential benefit from the accounting change for options beyond the first quarter of 2017.

Now we'll move on to free cash flow and the components that drove our results in the quarter and our guidance and expectations for the full year of 2017. Free cash flow for the quarter was $243 million, which is $141 million decrease from the prior year, driven by an increase in our net inventory in the first 3 months of 2017 compared to a decrease in the prior year. Inventory per store at the end of the quarter was 588,000, which was a 2% increase from the end of 2016. For the full year, we continue to expect inventory per store to grow approximately 1.5% to 2%. Our ongoing goal is to ensure we grow per store inventory to a lower rate than the comparable store sales growth we generate. And we expect to continue our success of effectively deploying inventory in 2017.

Our AP-to-inventory ratio finished the first quarter at 104%, which is down from the 106% at the end of 2016 and was below our expectations as a result of the lower level of inventory purchases related to the soft sales environment in the quarter. As we move into our busy summer selling season, we expect to see our AP-to-inventory ratio to build through the balance of the year and to finish in line with our previous guidance of 107%. The compression of our AP-to-inventory ratio was the primary factor driving the decrease in our free cash flow for the first quarter. As a result, we are reiterating our full year guidance of $930 million the $980 million, which reflects our full year expectation of a modest increase in our AP ratio. Finally, CapEx for the quarter ended up with $111 million, which was up slightly from the first quarter of 2016 and in line with our expectations. We continue to forecast CapEx at $470 million to $500 million for the full year of 2017.

Moving on to debt. We finished the first quarter with an adjusted debt-to-EBITDA ratio of 1.69x, which is consistent with our ratio at the end of 2016 and still well below our targeted range of 2 to 2.25x. Subsequent to the end of the first quarter, we completed a new credit agreement, which established a $1.2 billion unsecured revolving credit facility, replacing our previous $600 million facility that was set to expire next year. We were pleased with the execution of the agreement. And the additional liquidity we added will allow us more financial flexibility. We continue to believe our stated leverage range is appropriate for our business. And we'll move into this range when the timing is appropriate.

We continue to execute our share repurchase program. And year-to-date, we've repurchased 2.1 million shares at an average price of $266.87 for a total investment of $566 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 high rate of return. And we will prudently execute our program with an emphasis on maximizing long-term returns for our shareholders. Finally, before I open up the call for questions, I'd like to thank the entire O'Reilly team for their continued dedication to the company's long-term success.

This concludes our prepared comments. At this time, I'd like to ask Victoria, the operator, to return to the line, and we'll be happy to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Chris Horvers from JPMorgan.

Christopher Michael Horvers - *JP Morgan Chase & Co, Research Division - Senior Analyst*

A couple of weather questions, and I'm sure not the last on this call. The March to April shift, is that simply the timing of the DIY spring business overall? And then related to that, I believe April is the second easiest monthly compare behind May with a tougher June. So you talked about the quarter or April running in line with expectations and mentioned 3% to 5%. Does that suggest that it's within that 3% to 5% range? Or should we think about it being better, given how the business is shifting in the compare overall?

Gregory L. Henslee - *O'Reilly Automotive, Inc. - CEO*

What I would say first about the March to April shift, as springtime gets here, DIY customers start to do repairs on their cars more prevalent. And some of the damage that is done in the winter, they start repairing as they're able to work on their cars outside and so forth. And that's one of the reasons we see the increase. Last year, our best month of the quarter was June, second was April, third was May. So we're comparing -- and there wasn't that much difference between April and June, but June was the best. So we're comparing against a healthy month last year in April. What I would tell you about our first quarter and kind of our progression into second quarter is that looking at our first quarter, the damage was done in February. The period of time that we compared against the period last year, where the early filers had their tax refund money and they did not this year, those few weeks there were pretty big declines in our comp store sales. Really on a weekly basis, some of the biggest I've seen. And it just clearly showed us how much difference it makes when you compare to a period where lower-income consumers have money in their pocket that they didn't have the week before. And that was significant. We progressed out of that, kind of hit a weather block in March as some of the markets that are weather-sensitive, had kind of a late winter. And then the trend we came out of March on was healthy. And the trend that we've been on so far in April has continued. There's a little bit of noise in April this year with the misalignment of Easter. But the trend that we've been on makes us feel confident with our ability to achieve the guidance range that we issued, the 3% to 5%, for both the second quarter and for the full year, considering that all the fundamentals that we look at relative to miles driven, age of vehicles, unemployment, fuel price stability, things like that, we just see no reason that our industry wouldn't have a reasonably good year. And like I said, the trends that we've seen thus far in April give us confidence in achieving that.

Christopher Michael Horvers - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay. And then a little bit of parsing on the numbers. So you guided -- you kept the 3% to 5% for the year after the 0.8%. The 3% to 5% -- and you issued 3% to 5% guide for the second quarter. So is there some sort of expectation that you could be sort of the north end of that 3% to 5% or a 4% to 6% in the back half to end up solidly in that 3% to 5% range?

Gregory L. Henslee - *O'Reilly Automotive, Inc. - CEO*

Well, if we just -- yes, there would be some expectation, of course, at the back half of the year that we would generate towards the upper end of that range. But we wouldn't have to generate much towards the upper end of that range to get in the 3% to 5% range for the year. But yes, there would have to be some of that.

Thomas G. McFall - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

The other thing that I would point out, Chris, is our first quarter is our lightest quarter both from a daily sales volume and the number of stores in the comp base. So as we roll through the year, each quarter, especially the second and third quarter, count substantially more towards the full year.

Operator

Our next question comes from Greg Melich from Evercore ISI.

Gregory Scott Melich - *Evercore ISI, Research Division - Senior MD, Head of Consumer Research Team and Senior Equity Research Analyst*

I had a follow-up and another question. Just to make sure I got -- interpreted that right. So what you've seen so far in April is that you are actually in that 3% to 5% range, just to make sure I got that clear, Greg.

Gregory L. Henslee - *O'Reilly Automotive, Inc. - CEO*

Well, what I would say because we have a displacement of Easter coming into the second quarter. We had an uneven compare between the quarters as to where Easter fell on the years. So what I would say is -- and to quantify that for such a short period of time is a little bit difficult. So you don't know what we would have done had we not had Easter this year. But what I would say is that we're pleased with the trend we're on. And the trend that we're on would lead us to having confidence in achieving the 3% to 5% range for the second quarter.

Gregory Scott Melich - *Evercore ISI, Research Division - Senior MD, Head of Consumer Research Team and Senior Equity Research Analyst*

And it sounds like February, in terms of in the first quarter, February was a negative month and the other 2 were positive?

Gregory L. Henslee - *O'Reilly Automotive, Inc. - CEO*

That's correct. Yes, January is positive. March was the best month in the period. February was negative, which is the first negative month that I remember for a while. And it wasn't just a little bit negative. It was a reasonable amount of negative due to the 2 weeks in the middle of the month where the tax refund comparison was significant and -- well, we had a couple of rough weeks there.

Gregory Scott Melich - *Evercore ISI, Research Division - Senior MD, Head of Consumer Research Team and Senior Equity Research Analyst*

Got it. And so then the actual question I had was stepping back a little bit, could you just remind us in terms of understanding the customer, particularly on the DIY side, what sort of demographic they look like? And taking the weather out of it, but just what sort of drives demand? How much of the business is cash business? I think I remember it being something like 30% compared to -- it was a lot different than a lot of other retailers. So if you could help us understand that customer demographic and the tender form, I think that would be helpful.

Gregory L. Henslee - *O'Reilly Automotive, Inc. - CEO*

Yes. I'll make a few comments, and I think Tom wants to make a couple of comments. Our typical DIY consumer would be a lower-income consumer who is driven to work on their own cars out of economic necessity. They're typically -- we target, generally speaking, in our advertising efforts males from the age of 18 to 54 because they're typically the most driven to work on their own cars and try to do things that some may not try to do when it comes to DIY repair. But typically, they're incentivized to work on their own car because of the economic need and they're trying to avoid paying labor at the shop to do so. And Tom, you may have some...

Thomas G. McFall - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

On the question on tender, it's heavily cash. And then when we look at cards presented, there are many more debit cards presented than actual credit cards.

Gregory Scott Melich - *Evercore ISI, Research Division - Senior MD, Head of Consumer Research Team and Senior Equity Research Analyst*

So a majority of the DIY business is cash? Or just is this like 30% a good guess or...

Thomas G. McFall - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

I don't have the percentages sitting in front of me. But we take cash and debit card, so it's coming straight out of the account. It's significantly higher than half.

Operator

Our next question comes from Alan Rifkin from BTIG.

Alan Michael Rifkin - *BTIG, LLC, Research Division - MD for Research and Strategy Group*

So Greg, your guidance of 3% to 5% comp both 2Q and the full year certainly underscores your belief in the business. But is there anything incremental in the last quarter that leads you to believe that the competitive dynamic versus Amazon or e-commerce overall is any different than what you've said 90 days ago? And then I do have a follow-up.

Gregory L. Henslee - *O'Reilly Automotive, Inc. - CEO*

No, Alan, there's not been anything happened that would cause us to think that. As a matter of fact, and really more because of the noise that has been generated with some of the analyst reports and so forth, just -- and I totally understand it relative to the disruption that some of the online retailers have caused with other brick-and-mortar retailers. I've spent some time talking to some of our supplier principals who might sell online retailers, which we obviously don't care for that, that much. But still, some of them makes sense for them to sell online retailers and work to protect the price at which their products are sold and so forth. And I think -- I've known a lot of these guys for a long time. And I have every reason to believe that they would shoot me straight relative to the amount of volume they do with some of these online retailers. I think that most of you would be really disappointed to hear what some of the suppliers that you might think would be major suppliers to online retailers, the amount of volume they're actually doing. And that volume is not on a ramp-up that I think some of the commentary would lead people to believe. So while I -- there's obviously products, especially accessories, and some of the more ancillary products that go on cars, there's obviously a marketplace online that will serve them. But for the majority of our business in hard parts, I don't feel like that we're exposed much to online retailers. And I don't see that changing in the short term.

Alan Michael Rifkin - *BTIG, LLC, Research Division - MD for Research and Strategy Group*

Okay. And then my follow-up, Greg, so -- or Tom. So your guidance 90 days ago for the full year was $12.05 to $12.15, which you're now reiterating. What is the impact in the new number that you're issuing today, $12.05 to $12.15, from the change in the accounting principle? What will that number be for the full year? And then just to confirm, the Leap Day, which cost you $25 million, that correlates to about 120 basis points. Would it be correct to assume that just that one factor alone would have led you to put up a 2% comp rather than 0.8%?

Thomas G. McFall - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

Okay. On the full year guidance, obviously we were short of our expectations in the first quarter, absent the change in accounting. However, when we look at our full year guidance, and maybe I could have been clearer in the script, our full year guidance includes the actual tax benefit experienced in the first quarter. So we've got the headwind from the (inaudible) the change in accounting for options. We've got the positive from the options and we've got some positive in the last 3 quarters of the year for the shares we bought in the first quarter that weren't included really since our last conference all. So that's how we bridge back to the same EPS. So our expectation is that -- or we have not given any guidance for what the gain will be from the new accounting for the rest of the year. And we'll obviously continue to report those separately. The same way we look at share repurchases, we will buy some shares back between now and the end of the year. But we don't include that in our guidance. On the second question, could you remind me what that was?

Alan Michael Rifkin - *BTIG, LLC, Research Division - MD for Research and Strategy Group*

Yes. On the Leap Day, did it cost you 120 basis points to the comp, Tom?

Thomas G. McFall - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

It did not. Leap Day was excluded from our comp calculation last year. So when you look at the 6.1% comp we put up in the first quarter of '16, that excluded Leap Day. When we talk about the total sales, obviously I did note those in my script, that rolls into the total sales. And I think as we commented on last year's call, it was about the additional day has a great flow-through because of so many fixed costs, we don't pay more for the extra day within the month, added about $0.05 to EPS last year.

Operator

Our next question comes from Kate McShane from Citi.

Kate McShane - *Citigroup Inc, Research Division - MD, Head of the U.S. Discretionary and U.S. Apparel and Retail Analyst*

Not to beat a dead horse, but I do believe there was some delay in the tax refund last year. It's certainly not to the extreme that we saw this year. Can you remind us what impact you saw last year as a result of that?

Gregory L. Henslee - *O'Reilly Automotive, Inc. - CEO*

Tom, do you know the answer to that?

Thomas G. McFall - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

Well, we saw -- last year, when we look at February and the tax return timing, we were also very fortunate that weather was very spring-like. And we were able to capture quite a bit of that money when people had money in their pocket right away. Weather was beneficial to go out and work on your car, which this year, it was not. But we didn't quantify the exact number, just saying that February was our strongest month last year.

Kate McShane - *Citigroup Inc, Research Division - MD, Head of the U.S. Discretionary and U.S. Apparel and Retail Analyst*

Okay. And do you get -- do you have a sense of what the industry was down in February as a result this year?

Thomas G. McFall - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

I think we'll anxiously await our other public competitors to report and take a look at that.

Kate McShane - *Citigroup Inc, Research Division - MD, Head of the U.S. Discretionary and U.S. Apparel and Retail Analyst*

Okay. And then just to wrap up this question, just given the impact, which seems to be much more negative for DIY in February, I assume the bigger lift that we will see for the rest of the year will be coming from DIY in your guidance?

Thomas G. McFall - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

We would expect to continue to see some bounce-back. But the weather factor, a cool winter and a late start to spring, as Greg's comments, [you'll] really weighed on both sides of the business.

Operator

Our next question comes from Chris Bottiglieri from Wolfe Research.

Christopher James Bottiglieri - *Wolfe Research, LLC - Research Analyst*

One of your competitors referenced, I guess, a difference between national accounts and tire stores, et cetera, versus general repair shops. Have you seen anything similar in your business?

Gregory L. Henslee - *O'Reilly Automotive, Inc. - CEO*

Jeff, you might have a comment on that. But I don't think we've seen much difference or anything that would be significant. I think that all of us work to gain market share with the national accounts. And I don't think we noted the difference. Jeff, did you see anything?

Jeff M. Shaw - *O'Reilly Automotive, Inc. - Co-President*

No. I think the traffic would be fairly similar across those accounts.

Gregory L. Henslee - *O'Reilly Automotive, Inc. - CEO*

Yes. I think generally speaking, across our business, we saw the pressure from the milder winter, which would not drive demand for the winter-sensitive products, and then the delayed tax refunds during those weeks in February, where that was a comparison issue.

Jeff M. Shaw - *O'Reilly Automotive, Inc. - Co-President*

The only other thing I might mention, Greg, is we have put more of a focus on the national accounts over the last couple of years. And those accounts are still trending up with us.

Gregory L. Henslee - *O'Reilly Automotive, Inc. - CEO*

Yes, so we're gaining market share with those guys, yes.

Christopher James Bottiglieri - *Wolfe Research, LLC - Research Analyst*

That was actually my follow-up question, then I'll hop off. But now that you're in the Northeast now, you clearly have planted more flags or somewhere in the Southeast, you truly are becoming more national. Can you talk about your conversations with some of those national installers and how those are changing, given your increased presence?

Gregory L. Henslee - *O'Reilly Automotive, Inc. - CEO*

Yes, I think we're doing a good job with them. We've got a team, just like our competitors do, that focuses on developing relationships and establishing purchasing relationships with those guys. And yes, we feel like we're doing well. We feel like we're gaining market share on that side of the business. Some of it you want and obviously some of it our competitors want worse, and they might sell them at a price that we might not be willing to. But in many cases, we're able to get the business. And long term, the people that run the individual shops are looking for the best service provider. So I think that more often than not, we win on service. But you first have to have a relationship with the company that enables the systems to be integrated for ease and processing transactions at the shop. And we gained some market share there the last couple of years and would expect over the next few years as we become more national by having a significant presence in the Northeast that we'll do better with those types of businesses.

Operator

Our next question comes from Simeon Gutman from Morgan Stanley.

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

So March and April clearly picked up. It sounds like some of it was tax refund. But I guess what gives you confidence that we're just not seeing the other side of it now, meaning there was some pent-up demand and that could April's run rate be influenced by that. In other words, what makes you feel -- or is there any evidence that gives you confidence that this a new sustainable run rate and not just a bounce-back from some pent-up demand?

Gregory L. Henslee - *O'Reilly Automotive, Inc. - CEO*

Well, I guess, Simeon, what I would say is just the things that in the past, we've looked at that have been drivers of demand or have been detractors from demand, those fundamental factors are positive right now. And so all the things that we would look at that would indicate industry demand should be healthy or maybe not so healthy, they're all healthy right now. So I think that we have to feel like that, generally speaking, demand this year would be reasonably good. Now that's not to say that our crystal ball is any better than yours. But we have been in this business a long time and have seen the ups and downs with the different vehicle population, gas prices, miles driven, things like that. And all those things are positive, indicating that demand should be good. So while there's no question that there could be some benefit to deferred maintenance and repairs from maybe the March weather and so forth that could have pushed business into late March or early April, it's hard for us not to feel like that the fundamental drivers of demand in our business are very positive, and we would expect the year for our industry to be a reasonably positive year.

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

Right. And I think though you mentioned you are seeing, I don't know if it's spring-related or early summer-related or spring-related business start to come into the mix. I don't know if that could be an indication of it. I don't know if I caught that earlier in the call.

Gregory L. Henslee - *O'Reilly Automotive, Inc. - CEO*

Yes, I mean, we're -- in most markets, we're into springtime and we're starting to see the DIY maintenance-type business that you would see. The shops are busier. We are very close with many of the shops that we partner with. And the shops' businesses are picking up as they do every spring. And so yes, we're seeing more typical springtime demand, early springtime demand as we would see every spring right now.

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

Okay. And just my follow-up is just on inflation. We hear from some of the oil companies, they're starting to see price increases that it feels inflationary. Are you seeing any signs on the input side 3 months, 6 months, a year out from now?

Gregory L. Henslee - *O'Reilly Automotive, Inc. - CEO*

Yes. Greg, you may have a comment on that just from a supplier pricing standpoint. And then Tom, you could speak to it from a raw inflation standpoint.

Gregory D. Johnson - *O'Reilly Automotive, Inc. - Co-President*

Yes. I mean, a lot of our commodities do fluctuate based on oil, for example, metals, things like that. So we do typically see fluctuations in prices based on lead pricing for batteries, things like that. We have seen some movement in base oil pricing over the past quarter and -- but we don't -- you never know what the future brings. But we feel like we've taken the bulk of that or at least we hope we have in the first quarter. And we've been able to pass some of that along. Some of it, we're still [into].

Thomas G. McFall - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

When we look from a macro standpoint across all our products, we continue to expect to have more LIFO pressures. We're going to have a similar number here in the second quarter we saw in the first quarter. Those deals have already been inked. Could we come back a little bit from increases in oil? Yes, but we have pretty good visibility going forward. And we'd expect to continue to see, in aggregate, minor LIFO pressures again in the third and fourth quarters built into our guidance.

Operator

Our next question comes from Bret Jordan from Jefferies.

Bret David Jordan - *Jefferies LLC, Research Division - Equity Analyst*

Could you talk a bit about regional performance, too, I guess, given the fact that some of that mild weather more significantly impacted Northern states? Are you seeing the correlation in weather in the various markets?

Gregory L. Henslee - *O'Reilly Automotive, Inc. - CEO*

Well, yes, I mean, we definitely had this very regional performance. What we would say is that the markets that we would consider to be weather-affected versus the markets that would be maybe not weather-affected -- and that's not a clear line, but we do our best to draw that line. That difference would be just slightly less than 400 basis points of difference. And what I would tell you is that in the first quarter, our Western stores performed materially better than the East Coast stores relative to that because the East Coast stores are obviously more sensitive to weather and the West Coast stores less. Although for some period of time in the West, they had torrential rains that were impacting the business. I think we would have done a lot better out West if it hadn't been for the significant rainstorms that they had. But that's still even with that, the West performed better than the East and the North, of course.

Bret David Jordan - *Jefferies LLC, Research Division - Equity Analyst*

Okay. Another question, I guess, sort of housekeeping, the first quarter, obviously the earnings were within the guide but have the nonoperating positive. But you kept the EBIT margin guide constant for the year. So I guess you must have some confidence that the operating improves. I guess that, Tom, that was more tax impact on the stock-based accounting, not EBIT impact?

Thomas G. McFall - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

That's correct. We still feel like with the comp range that we're anticipating and the SG&A spend we're anticipating and the gross margin, we're going to continue to be in the same operating margin range and don't feel the need to change it.

Bret David Jordan - *Jefferies LLC, Research Division - Equity Analyst*

Great. If I could squeeze a quick one in, on the Bond stores, you announced that the integration is progressing. Could you give us any color on how those stores are performing?

Gregory L. Henslee - *O'Reilly Automotive, Inc. - CEO*

We're happy with them. I would say that they're comparable from just a sales cadence standpoint to the stores that we have in the Northeast that have been somewhat weather-affected. Yes, we're happy with them. They're great teams at those stores. They going to do much better with our inventory assortment and availability of our Devens distribution center inventory mix, which is a substantial increase in SKU count from what they were supplied by before. So yes, we're happy with them. And we think they should continue to do well. The conversion just took place last weekend, so they now have all the availability tools that we will ultimately provide them. And as they get used to that and trained in using those, we would expect this to be a great summer and fall for them.

Operator

Our next question comes from Dan Wewer from Raymond James.

Daniel Ray Wewer - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Greg, wanted to ask, if there were any company-specific issues that adversely impacted sales in the first quarter or competitive changes. The reason I'm asking is the comp sales gap between O'Reilly and NAPA narrowed in the period compared to past levels, and when we think that the tax refund and so forth has impacted both companies about the same.

Gregory L. Henslee - *O'Reilly Automotive, Inc. - CEO*

What I would tell you, Dan, is that there's not a day goes by that I don't have a conversation with someone here about something I think we could improve. And the job that Greg and Jeff and Tom and the rest of our executive team do is that same way, we're very critical of ourselves. So what I would tell you is that we always feel like that we have opportunities to improve. But there's been nothing changed relative to the opportunities that we have to improve relative to what we see at our competitors and the gap that should exist as a result of that. So I think my answer is no, there's been no significant change. And I wouldn't reflect our underperformance on comps in the first quarter to anything company-specific here, although we always see opportunities to improve. We spend a week every year gathering input from our field as to the things that they feel like we can improve on and the competitive pressures that they might feel. And then we bring all of our executives together every year and come up with solutions to those and put a plan in place on how we're going to resolve and correct those things. And it's just been a focus. From way back when we were a private company and the family owned the business, they did that and we've continued to do that as a publicly traded company. And we feel like it serves us well. So do we have our opportunities? You bet we do. Do we feel like we are the best in the industry at what we do? Yes, we do. I think what we do is pretty incredible. And I don't think there's been anything changed on that front.

Daniel Ray Wewer - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Okay. And also Tom, I want to follow up on Bret's question about the EBIT guidance. Given the share count that you're using now for the annual EPS forecast and excluding the lower tax rate, is it fair to say that your EBIT guidance is towards that low end of that range of 20.1% instead of the mid- or higher end?

Thomas G. McFall - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

When you work through the math of where we are and look at our guidance through the end of the year, we're going to be pressured below the midpoint at this point. Obviously, our goal is to get it back up to the midpoint.

Operator

Our next question comes from Matt Fassler from Goldman Sachs.

Matthew Jermey Fassler - *Goldman Sachs Group Inc., Research Division - MD*

I have 2 questions. The first is a financial one, probably for Tom. If you could update us on what you're thinking as for the impact of LIFO on a full year basis, I think at the end of Q4, you indicated that it would be about half of what it was in 2016. So is that still the case? And also just to clarify, when you talked about half the impact, was that essentially in total dollar terms?

Thomas G. McFall - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

Yes, we were -- we're looking at -- when we started the year, we were looking at a LIFO impact between $20 million and $25 million for this year. I'd say based on having a higher first quarter number than we anticipated, which we talked about, we'd be in the higher end of that range.

Matthew Jermey Fassler - *Goldman Sachs Group Inc., Research Division - MD*

Okay. But still directionally, if you're $49 million last year, kind of the mid-20s is still a reasonable place to think about?

Thomas G. McFall - *O'Reilly Automotive, Inc. - CFO and EVP of Finance*

Yes, sir.

Matthew Jermey Fassler - *Goldman Sachs Group Inc., Research Division - MD*

Got it. And then secondly, curious what you are seeing in your own online efforts. In terms of DIY and commercial, whether one piece of the business or another is gaining more traction and what you see consumers responding to as you test and learn about what the appeal is and the desires from your customers to interact with you online.

Gregory L. Henslee - *O'Reilly Automotive, Inc. - CEO*

Yes. Matt, this is Greg. From a B2B standpoint, we call our product First Call Online, which as you may know, a lot of our professional business is done under the name of First Call for most part. That business is awesome. We do a -- we've done an incredible job for a long time incentivizing and getting use from our professional customers of our B2B platform, which can work as a browser-based product or it can be and is integrated in with many of the shop management systems. And a lot of our orders come from our customers via that platform. And that's a growing platform that will continue to grow as we continue to enhance it with better features and benefits as we move forward. On the DIY side, we have a substantial business. But we feel like we could do better. And we've got a lot of work underway right now to replatform both our website and our mobile site to do some things that we would like it to do that we think would be more customer-friendly. As online retail has been talked about, it's hard for us not to think that we would be -- if a customer is going to buy wiper blades, for instance, or an accessory or something like that, that we might stock or have available from someone online, I mean, who better to buy it from with 27 distribution centers across the country that know these products and can help them with these products. So we've got a substantial effort underway right now to improve our B2C business. And like I said, it's a nice business, but we feel like we could do more than what we are doing. And more than anything, we view ourselves as building an omni-channel business so that our customers, when they go on our website or our mobile site, see the same O'Reilly Auto Parts that they would see if they walked into one of our stores. So that's a significant project for us right now. And when I talk about the strategic goals that we have for the year that we set each year that I mentioned in response to one of the questions a moment ago, that's one of our strategic goals. And I think that if you look at our site a year from now, you would be impressed with what it looks like then as compared to what it looks like now. And now is pretty good, but I think it can be a lot better.

Operator

Thank you, ladies and gentlemen. This concludes -- we have reached our allotted time for questions. I will now turn the call back over to Mr. Greg Henslee for closing remarks.

Gregory L. Henslee - *O'Reilly Automotive, Inc. - CEO*

Okay. Thanks, Victoria. We'd like to conclude our call today by thanking the entire O'Reilly team for their diligent customer service in the first quarter. We remain extremely confident in our ability to continue to aggressively and profitably gain market share for the remainder of 2017. I would like to thank everyone for joining our call today. And we look forward to reporting our 2017 second quarter results in July. Thank you.

Operator

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