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EDITED TRANSCRIPT

ORLY.OQ - Q2 2025 O'Reilly Automotive Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Welcome to the O'Reilly Automotive Inc. second quarter 2025 earnings call. My name is Matthew, and I will be your operator for today's call. (Operator Instructions)

I will now hand the call over to Jeremy Fletcher. Mr. Fletcher, you may begin.

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

Thank you, Matthew. Good morning, everyone, and thank you for joining us. During today's conference call, we will discuss our second quarter 2025 results and our outlook for the remainder of the year. After our prepared comments, we will host a question-and-answer period. Before we begin this morning, I would like to remind everyone that our comments today contain forward-looking statements, and we intend to be covered by, and we claim the protection under the Safe Harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

You can identify these statements by forward-looking words such as estimate, may, could, will, believe, expect, would, consider, should, anticipate, project, plan, intend or similar words. The company's actual results could differ materially from any forward-looking statements due to several important factors described in the company's latest annual report on Form 10-K for the year ended December 31, 2024, and other recent SEC filings. The company assumes no obligation to update any forward-looking statements made during this call.

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

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

Thanks, Jeremy. Good morning, everyone, and welcome to the O'Reilly Auto Parts second quarter conference call. Participating on the call with me this morning are Brent Kirby, our President; and Jeremy Fletcher, our Chief Financial Officer; Greg Henslee, our Executive Chairman; and David O'Reilly, our Executive Vice Chairman, are also present on the call.

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It is once again my pleasure to begin our call today by congratulating Team O'Reilly on their performance in the second quarter and the solid results they have delivered in the first half of 2025. Our team's proven ability to provide superior value and excellent customer service drove our second quarter comparable store sales increase of 4.1%.

These solid results contributed to a year-to-date comp growth at the high end of our expectations, and we are pleased with our team's ability to generate this level of sales momentum in the first half of 2025. Our second quarter sales growth drove an 11% increase in earnings per share to $0.78 and I'd like to thank our over 92,000 team members their unwavering commitment to executing our business model at an extremely high level and providing the best customer service in our industry.

The composition of our comparable store sales growth in the second quarter was similar to the first quarter with solid contributions from both sides of our business. Our professional business was once again the more significant driver of our sales results with an increase in comparable store sales exceeding 7%, fueled by continued strong ticket count growth. Our teams continue to set the standard for how seamlessly and effectively they partner with and support our professional customers to grow their businesses.

Our continued robust share gains in our professional business are a testament to the close relationships we have fostered with our customers and our continued efforts to enhance our service levels to earn a greater share of their spend. DIY was also a contributor to our sales growth in the quarter with a low single-digit comp.

From a traffic standpoint, we did see pressure to DIY ticket counts as we exited the quarter in June that resulted in a small decline in DIY ticket count for the full year, but we were pleased to see positive overall sales growth in DIY in the quarter, driven by growth in average ticket size. Average ticket continues to be a contributor to our sales growth on both sides of the business, driven by increasing complexity in vehicle repairs. We also saw a modest benefit from effective pricing management in the second quarter.

The contribution to our average ticket from same SKU inflation for the second quarter was just under 1.5% and reflects the early stages of the impact of changes in the tariff environment in our industry, which I will discuss more in a moment. Turning to the cadence of our sales performance. Results were reasonably steady throughout the second quarter.

As I noted previously, our comparable store sales for the quarter landed at the high end of our expectations, and we saw this outperformance primarily in the first two months of the quarter. As we remarked on last quarter's call, favorable spring weather supported strong volumes in our business as we exited the first quarter, and that momentum continued through April and May.

Business normalized somewhat in June but was still in line with plan. The moderation at the end of the second quarter was driven at least in part by minor pressure in hot weather-related categories where we were up against a tough comparison to a strong performance in June last year. On balance, we think weather impacts evened out over the quarter and were ultimately neutral to our full second quarter results but did contribute to some minor differences in the month-to-month cadence.

Thus far in July, summer weather has been typical for the season, and we have been pleased with the continued solid trends in our business to start the third quarter. From a category perspective, our second quarter results reflected trends similar to what we've seen over the last few quarters. We continue to generate strong performance in maintenance categories, including oil, filters and spark plugs, and we're also pleased with solid performance in under car hard part categories, particularly on the professional side of our business.

We are encouraged by the resiliency of performance in these categories and believe it reflects favorable vehicle dynamics in our industry as well as continued willingness of consumers to prioritize the care of their existing vehicles. However, we also saw continued softness in discretionary categories in line with trends we have seen over the last year.

As we have noted in the past, Discretionary products make up a small subset of our total sales, primarily on the DIY side of our business. While not a substantial headwind to our overall results, the continued sluggishness in these categories is an indicator to us that consumers are still remaining cautious and conservative in how they are managing the spend in the current environment.

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Next, I would like to provide some color on our revised full year comparable store sales guidance. As noted in yesterday's press release, we updated our guidance from the previous range of 2% to 4% to a range of 3% to 4.5%. It isn't typical for us to revise our guidance to a range of 1.5% at this stage of the year, but we feel this update is appropriate for a few reasons.

The midpoint of our revised comp range represents a 75 basis point increase over our previous midpoint and is in line with trends we have seen in our business in the first half of the year. The increase in our guidance range at the top end also reflects the potential for incremental benefit we could realize from the effective price management that we talked about earlier as we navigate the challenging tariff environment.

As I previously noted, we have begun to see some incremental same-SKU benefit filter into our numbers from industry-wide pricing actions spurred by the first round of tariffs. Brent will discuss more of this in detail during his prepared comments, but we continue to be successful in working with our supplier partners to respond to and mitigate the impacts from tariffs.

Likewise, we have begun to see industry adjustments in response to the incremental pressures to product acquisition costs and anticipate our industry will continue to behave rationally. However, in establishing our outlook for the remainder of 2025, we remain cautious as to the uncertainty of the timing, magnitude and ultimate impact of changes in the pricing environment in our industry. We are also cautious concerning the potential adverse impact to consumers and their resulting response in the face of rising prices.

Our stance is driven in part by our current assessment of the health and confidence of consumers. We continue to view the consumer as relatively healthy, buoyed by strong employment and wage rate growth. We also believe the strong value proposition of maintaining and repairing an existing vehicle, coupled with the high quality of vehicles creates a very compelling incentive for our customers to prioritize their auto part spend.

However, as I noted earlier, we also think that consumers in our industry remain cautious in a very uncertain environment and are remaining conservative in the management of their overall household spend. Should consumers face rapid broad-based price increases in the back half of the year, we could encounter short-term reactions, particularly by lower-income DIY consumers who may look to ease pressure in face of these shocks by cutting back on spending wherever possible.

As a result of these factors, our forward-looking guidance expectations do not incorporate a significant net benefit from tariff-induced inflation beyond the modest price changes we have already seen thus far. While we are cognizant that these macroeconomic factors could cause volatility in our industry in the remainder of 2025, we are also confident the disruptions to consumer demand will be short-lived. Over the course of many economic cycles, consumers in our industry have proven their resilience in responding to short-term shocks, whether caused by tariff-driven inflation, spikes in gas prices or other factors.

The core fundamental drivers of demand in our business remain very solid, underpinned by the increasing age and quality of the vehicle fleet in the growth of the North American car park and the corresponding steady annual increases in miles driven. We also view periods of acute challenges in our industry as opportunities to leverage our strategic advantages and enhance our competitive positioning.

We currently hold just a fraction of the addressable market share in a fragmented industry. Our primary growth vehicle is centered on our ability to provide constantly improving value to our customers to earn a larger share of auto parts demand. This relentless focus on excellent customer service is an imperative every day in each of our markets regardless of the broader macro conditions.

In challenging environments, our teams of professional parts people dig even deeper to distinguish the value we provide to our customers, knowing there is always more market share gains to be earned. Before I wrap up and turn the call over to Brent, I wanted to call out the update to our diluted earnings per share guidance.

As noted in our press release yesterday, we have updated our EPS guidance to a range of $2.85 to a range of -- $2.85 to $2.95. We were pleased to complete our Board and shareholder approved 15-for-1 stock split in the second quarter. So this quarter's press release is the first reporting period where we provided EPS results and guidance factoring in the increased share count.

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At the midpoint, our updated guidance is an increase of approximately 1% from the midpoint of our previous guidance adjusted for the stock split with the increase reflecting our second quarter results and expectations for the remainder of 2025. As I wrap up my prepared comments, I would like to once again thank Team O'Reilly for their strong performance in the second quarter.

Now I'll turn the call over to Brent.

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

Thanks, Brad. Before I dig in further to our results, I would like to echo Brad's comments on the dedication of Team O'Reilly. The sales momentum we have generated in the first half of 2025 and is the direct result of the hard work of each of our team members in our stores, distribution centers and offices, and I want to thank the entire team for their commitment to our customers. I would like to begin my comments this morning by discussing our second quarter gross margin results and our outlook for the remainder of 2025. For the quarter, our gross margin of 51.4% was up 67 basis points for the second -- from the second quarter of 2024.

In establishing our full year gross margin outlook, we assumed a slightly lower gross margin rate in the second quarter as compared to the first, third and fourth quarters, which is typical for the seasonal composition of our product mix and consistent with our results in 2024. So while our second quarter gross margin performance fell in the middle of our full year guidance outlook, it handily exceeded our expectations for the quarter.

Our performance in the quarter was driven by continued strong management of our supply chain environment and solid distribution productivity coupled with the timing benefit from the impact of tariff-related costs and pricing adjustments. On the tariff front, as Brad discussed in his comments, we did begin to see some impact to our business in the second quarter.

As we've discussed at length in the past, the process by which we respond to any changes in the acquisition cost environment, including increases spurred by tariff modifications begins with close coordination with our supplier partners to mitigate the impact to our customers. As we have worked through the changing tariff landscape over the last several months, we believe that coordination has been very effective and has allowed us to negotiate appropriate cost increases that do not reflect the full impact of incremental tariff rates while also temporarily delaying the timing of the application of those cost changes where possible.

In anticipation of the impact of tariff cost pressures, we closely monitored the pricing environment in our industry as we move through the second quarter and where appropriate, made adjustments to selling prices. Our industry has historically been very rational in its response to changing input costs and pricing. And we believe those same dynamics are prevailing in the current environment.

Typically, in our industry, we see changes in acquisition costs and any corresponding price movements sync up fairly closely, but can sometimes experience temporary timing differences they create short-term headwinds or tailwinds within a quarter. In these instances, we can realize a short-term benefit from the timing of pricing changes that are slightly out ahead of when the corresponding cost increases filter into our income statement. Within the second quarter, we did realize a benefit from this timing dynamic, which contributed to our positive gross margin results.

As we look to the back half of the year, we aren't currently projecting significant further incremental benefit or pressure to gross margin rates from tariffs, but the environment remains fluid, both as it relates to the exact timing and magnitude of any tariff revisions that have yet to be implemented as well as the timing of market responses in our industry.

Given the existing tariff landscape and our ongoing work with our supply chain partners, we do anticipate further impacts to acquisition costs and are cautious that we could encounter short-term timing headwinds to gross margin rate in the back half of the year depending on the speed with which our industry digests inflation pressures. Ultimately, we believe these short-term timing differences will even out over the long run and our industry will settle at an equilibrium that is in line with the rational pricing dynamics that have persisted over many cycles in many different environments in the automotive aftermarket.

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Independent of these tariff-related impacts, we are pleased with our gross margin performance in the quarter and the trends we continue to see in our business. We believe our consistent results despite facing a mix headwind from a faster growth on the professional side of our business reflect continued strong management by our supply chain teams, working closely with our supplier partners.

Given our experience thus far in 2024 and 2025 and factoring in that we could see tariff-induced choppiness in gross margin results in the back half of the year. we are leaving our full year gross margin guidance unchanged at a range of 51.2% to 51.7%. As Brad discussed earlier, we remain cautious as to the potential adverse impact our customers could face from the heightened inflation in the remainder of 2025. We but remain confident that we will still be able to profitably earn our customers' business by delivering a strong value proposition driven by our professional parts people and industry-leading parts availability, even an environment of rising prices.

Turning to SG&A. Our second quarter average SG&A per store growth of 4.5% was above our expectations and reflects a combination of the incremental spend to deliver excellent customer service in support of our above-plan sales performance and inflation pressure in our cost structure, particularly in areas more challenging to manage in the short term, such as expenses pertaining to our medical and casualty insurance programs. Based on the inflation pressure we are currently seeing, coupled with our top line outlook for the remainder of the year, we are revising our full year guidance for average SG&A per store growth to a range of 3% to 3.5%.

While the pressures we are seeing have driven SG&A above our expectations, we continue to believe that the initiatives that we are executing and the enhancements to customer service we have been able to generate are integral factors in the market share gains that we are capturing on both sides of our business.

As such, we will continue to diligently manage our SG&A spend to prioritize a high standard of excellent customer service and take advantage of the opportunities to fuel growth. Based on our SG&A expectations and projected gross margin range, we continue to expect our full year operating profit to come within our guidance range of 19.2% to 19.7%. We successfully opened 105 net new stores across the US and Mexico in the first half of 2025.

And we continue to be pleased with the performance of our new stores. We continue to see solid growth in greenfield expansion markets, but we are also capitalizing on great growth opportunities across our footprint. As a result, our store growth thus far in 2025 was spread across 34 different US states, Puerto Rico and Mexico. Underpinning our very successful new store expansion efforts are the pivotal investments, we continue to make to enhance our industry-leading distribution network.

We remain steadfast in our commitment to equipping our store teams with rapid industry-leading access to inventory. To that end, we are excited to announce that we have acquired a facility in Hazlet, Texas a suburb of Fort Worth that will become our 33rd distribution center. This new facility, which we were referred to as our Fort Worth DC, is approximately 560,000 square foot with an expected capacity to serve 350 stores in the South-Central United States.

These market areas represent some of our most mature markets, while also being strong contributors of highly profitable growth for many years. Even with the relatively high store counts we have in Texas and surrounding markets, we still see tremendous opportunity to continue growing in this part of the country in the future, but are running up against constraints with our distribution capacity.

The backfill addition of this facility will not only give us additional capacity and enhanced service capabilities in the important Fort Worth metro market, but will also free up much needed capacity in surrounding DCs to support growth across the South-Central region of the country. We are still in the early innings of development for this new DC, having just acquired the facility with substantial infill work still ahead of us.

As a result, we anticipate this distribution center will be in operation in 2027. We are also excited to be nearing the completion of our Stafford, Virginia distribution center. We plan to start transferring stores to be serviced by Stafford at the end of the third quarter with the new facility servicing its initial store base by the end of this year.

We could not be more excited about the store development opportunities that these two new facilities will unlock for the company in both the largely untapped Mid-Atlantic region and in strong existing markets in the South-Central US. As I close my comments, I want to thank Team O'Reilly

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for their continued dedication to our company's success. Your commitment to providing consistent, excellent customer service to all of our customers each and every day continues to be the key to our long-term success. Now I will turn the call over to Jeremy.

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

Thanks, Brent. I would also like to begin today by thanking Team O'Reilly for another successful quarter. Now we will take a closer look at our second quarter results and update our guidance for the remainder of 2025. For the second quarter, sales increased $253 million, driven by a 4.1% increase in comparable store sales and an $86 million non-comp contribution from stores opened in '24 and '25 that have not yet entered the comp base. For 2025, we now expect our total revenues to be between $17.5 billion and $17.8 billion.

Our second quarter effective tax rate was 22.4% of pretax income, comprised of a base rate of 23.2%, reduced by a 0.8% benefit for share-based compensation. This compares to the second quarter of 2024 rate of 23.2% of pretax income which was comprised of a base tax rate of 23.8%, reduced by a 0.6% benefit for share-based compensation. For the full year of 2025, we now expect an effective tax rate of 22.3%. We expect the fourth quarter rate to be lower than the other three quarters due to the tolling of certain open tax periods. Also, variations in the tax benefit from share-based compensation can create fluctuations in our quarterly rate.

Now we will move on to free cash flow and the components that drove our results. Free cash flow for the first six months of 2025 was $904 million versus $1.2 billion in the first half of 2024. The reduction in free cash flow was primarily the result of the timing of payment for renewable energy tax credits with a higher cash outflow for these payments occurring in the second quarter of 2025 versus the third quarter of 2024. For the full year 2025, our expected free cash flow guidance remains unchanged at a range of $1.6 billion to $1.9 billion. Inventory per store finished the quarter at $833,000, which was up 9% from this time last year and up 4% from the end of 2024.

Broad-based inventory availability is critical to the success of our business and we have been pleased with the investments we have made in inventory in 2025. Our projected increase in 2025 in average inventory per store remains unchanged at 5%. I also want to touch briefly on our AP to inventory ratio. We finished the second quarter at 127%, which was down from 128% at the end of 2024, but slightly above our expectations. For the remainder of 2025, we expect to see continued moderation resulting from our planned incremental inventory investment across our store and distribution network and currently expect to finish the year at a ratio of approximately 125%.

Moving on to debt. We finished the second quarter with an adjusted debt-to-EBITDA ratio of 2.06 times as compared to our end of 2024 ratio of 1.99 times with an increase in adjusted debt partially offset by EBITDA growth. We continue to be below our leverage target of 2.5 times and plan to prudently approach that number over time. We continue to be pleased with the execution of our share repurchase program. And during the second quarter, on a split-adjusted basis, we repurchased 6.8 million shares at an average share price of $90.71 for a total investment of $617 million.

We remain very confident that the average repurchase price is supported by the expected discounted future cash flows of our business, and we continue to view our buyback program as an effective means of returning excess capital to our shareholders. As a reminder, our EPS guidance that Brad outlined earlier includes the impact of shares repurchased through this call, but does not include any additional share repurchases. Before I open up our call to your questions, I would once again like to thank the entire O'Reilly team for their continued hard work and dedication to providing consistently high levels of service to our customers. This concludes our prepared comments.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Simeon Gutman, Morgan Stanley.

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Simeon Gutman - *Morgan Stanley & Co. LLC - Analyst*

My first question -- so call it, two or three months ago when we began this tariff journey, there was probably a range of outcomes that we're forming in terms of what would happen to price. You've had tariff rates now that have changed. You're discussing with suppliers and now you're probably making decisions on pricing. Can you -- without stating magnitude, which I don't think you'll share with us, can you tell us is the pressure on pricing, which I assume is upward. Is that around the same? Is it higher? Or is it lower than when you started this journey about three or four months ago?

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

Yes, Simeon, this is Brent. I can start and these guys can add in. Yes, I would just tell you that the backdrop is the consumer. Brad talked about that in his prepared comments. And as far as defining as the pricing pressure greater or less than it was a few months ago, it's really hard to say.

The consumer, we know at the lower end is pressured right now and has been for some time. What I would tell you is what we continue to see is we've got a very rational industry. we've got a very rational history of these kind of things in the past, certainly not dealt with some of the headlines on tariffs that we're dealing with now. It's a little bit uncharted. But if you go back a few years and look at how things behaved back in the 2018 timeframe, the cost eventually do get to get to the price at some point in the process.

Our goal is to minimize any impact to our consumer because we know they're under pressure. So we work very closely with our supplier partners. It's really hard to gauge is the pressure greater now than it was a few months ago. I think the pressure is what the pressure is. We're going to continue to do what we do and do everything we can to keep the prices reasonable for our consumers and be fair with our suppliers as we work through this.

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

Yes. Simeon, just real quick. I think Brent summed it up really well. I think if I think back to kind of the beginning of the year, just what we've been through, what the consumer has been through, what our industry has been through broader retail to over the last six months to a year. I think if we had to say it as close to the answer you're driving to as we could, it's -- we're not surprised.

I think it's generally a similar pressure to the input cost, similar pressure to the retails that -- from a pricing standpoint that we would have expected. I think the pressure is similar to the consumer. We're just trying to balance out the best we possibly can, how we're thinking about the balance of the year in terms of possible opportunities and also just have a caution in the way we're thinking about it, that depending on how things go, there could be increased pressure to the consumer.

Simeon Gutman - *Morgan Stanley & Co. LLC - Analyst*

Okay. Fair enough. And then the back half guide, mathematically tells us that SG&A dollar growth is going to taper a bit from the run rate. That's the math. If it doesn't, if it surprises us at the upside, what would be the cause of it? And then Brad, the age old spending versus investment versus return. Like how do you think about that? Should there be a higher rate of SG&A going forward?

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

Yes, I mean, it's a fair and important question. And if you don't mind, I'm going to let Jeremy talk through kind of our thoughts to start out, and then I'll come back to more of the kind of short- to long-term question.

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

Yes. It's a good question to call out, Simon. And I think when you look at our updated guide, where we think the full year will finish at that three to 3.5 per store SG&A growth that Brent referenced earlier. Just keep in mind, that, that does include a comparison benefit as we move through the fourth quarter where we had to take a charge from a reported number perspective on that. it does contemplate that the back half of the year, maybe excluding the dynamic around that comparison that would put us more in that 3% to 4% range for personal growth.

And really, that's a reflection relative to what we saw in the first half of just the cadence of how some of that spend is expected to occur through the balance of the year, some of the more unique pressures that we would have seen in the first half.

I think to your question, the types of things that could drive us to see that be further pressured in the balance or beyond what we're really seeing today would be any continuation of inflation or cost-driven pressures within our cost structure that we are -- unfortunately, at times can be takers of especially on things that are more difficult to manage things that Brent pointed out within his comments.

But then also as we see the cadence of our business and continue to see opportunities to fuel top line growth within a market that might end up being a little bit more disruptive in the balance of the year. To the extent that we're starting to capture volume benefits or any of those types of things. It's always been I think a pretty firm commitment of our company to service that business well. Those are the points in kind of in the cycle where our customers most rely on us to step in and provide really excellent service to help solve problems with them.

And so we remain pretty committed to managing our business in a way that provides value for our customers at a very high level and puts us well positioned to capture share to fuel growth. And so that, from a component perspective might be among the factors that would cause SG&A to differ from our expectations and moving forward. For sure, I think we factored what we know and how best we can forecast that. for how we've updated our outlook there. But those are really the things that kind of caused it to be variable moving forward.

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

Yes. Well said, there is some inflationary pressure additional to what we saw a quarter ago and two quarters ago. But the bottom line is, Simeon, we're in this for the long haul. We're very proud at O'Reilly, as you know, of of the operating profit rate that we've been able to establish and grow over a long period of time. We still feel confident in the mid to long term, we can continue to create leverage, but we're going to do that through share gains.

We're going to do that through the fact that -- we have 10% share in the US and even less in Mexico and Canada with these new platforms. And we feel like these years, last year and even this year continue to show us that there's some volatility with some of our competitors, mainly on the independent WD type side. And we're going to continue to play from a position of strength. We're going to make solid, decisive long-term decisions.

In any of these quarters, as you know as well as anyone, there's things that we could have done to bring in the quarter, but it wouldn't have been the right thing to do for the mid- and long term, and that's what we're focused on.

Operator

Michael Lasser, UBS.

Michael Lasser - *UBS Financial Services Inc. - Analyst*

Brad, has the cost of doing business within the auto aftermarket, you simply increased perhaps as a result of a lot of the weaker marginal competitors having already gone away. So the industry is left with stronger players, and it's more expensive to gain that share. And that's caught O'Reilly a bit off guard, it's been a surprise. And that's why these SG&A dollars have been consistently under expected and have come in a bit heavier than anticipated? And if that's the case, how does the model need to change in order to navigate through this moving forward?

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

Michael, fantastic question. So really kind of back to a couple of points that we made on Simeon's question I think the direct answer to your question, quite frankly, is a little bit of both. Is there going to be times, like it always has been in our industry where we do feel like expense pressure is understandable and needed along with investments, I think there's going to be cycles like that.

And I think to some degree, we're in a cycle like that where we are going to see the cost of doing business for the long term, have pressure on it. What we don't think has changed to kind of the middle and latter part of your question is the long-term focus for us on our operating profit rate on what we built over a long period of time.

We don't feel like that's necessarily changed. And the reason I say that and the reason we have conviction about it, Michael, is when I look back at the top 10 chains, specifically in the US today versus 10 years ago versus 20 years ago or versus almost 30 years ago when I started in this business and with O'Reilly.

As you know, consolidation has continued to take place, and we see consolidation going to continue to take place. And we feel like, again, to what I said about Simeon's question, we feel like we continue to operate in a unique time where there is still some volatility with some of our weaker smaller players.

And so again, the answer is a little bit of both. We feel like there continues to be an opportunity for us to invest and not react to short-term things that we could do from an expense standpoint. But we feel like the basic fundamentals of our industry our ability to turn our 10% share into a much larger number over the mid- to long term that we feel confident we can continue to have O'Reilly standards when it comes to leveraging our overall expense structure and continuing to maintain and incrementally grow our operating profit percentage over time.

Michael Lasser - *UBS Financial Services Inc. - Analyst*

Got you. My follow-up question is, given your experience in June where the DIY business was a bit softer, does that give you pause as we move throughout the rest of the year, either in the consumer's ability to absorb all this inflation and how it's going to respond in terms of elasticity or some other factors, whether it's immigration policy reform or anything else that might be impacting your core consumer, and we should have more moderate expectations as a result of that experience? Or is that just a one-off situation that we could expect like moving forward?

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

Yes. Another great question, Michael. I'll start this off and then see if Jeremy and Brent want to jump in. But we want to answer that balance because there is still so much caution and just pause for us to get too far over our skis with how the consumer is going to react to the remainder of the year. as there continues to be pressure.

So I want to balance this out. directly to the question about June, we don't think that signals anything beyond what I just said. And what I mean by that is when we got into June, quite frankly, when you look at our southern markets and really all our markets to some degree, it was very wet. We've really had a hot summer and it's getting hotter, which is generally a good thing for us. but it was a very wet June.

And when we look at category performance and we look at geography performance, it wasn't that there were stark differences, but there were some minor differences that really convicted us the -- some of the pressure in June, if not all of it, was kind of normal pressure that we saw that we think more offset maybe the remainder of the quarter. We look at the quarter very balanced and still very early in July, but we feel good about the start of July.

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Operator

Scott Ciccarelli, Truist.

Scot Ciccarelli - *Truist Securities Inc. - Analyst*

(technical difficulty) increases related to the tariffs. Is there any difference on how you price or maybe even the timing between your DIY and commercial segment -- just trying to get a feel here for if the (technical difficulty)

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

Scott, for some reason, you're cutting in and out. We're not getting all of your question.

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

I think maybe you were pointing towards a question around just how we think about the tariff and managing through the tariff does it differ on the DIY and professional side? So really, I'll maybe start there and Brent and Brad can chime in from their perspective. I would tell you, we actively manage that process.

It's a very in-depth and involved process, and it's one that we're going down from a category-by-category basis and even how we think about the professional side of our customer base we're trying to understand the different ways we keep feeding that space on the different types of customers we have. So I think it'd be a little bit of a simplification to say that they both look exactly the same just because it's a fairly complex process.

And for sure, there are times at which we have better visibility on the DIY side. It's a little bit simpler of a change there to think through what those modifications would be, whereas we're going to have a different process to understand where the market sits and how the market is moving in a little bit more diversified way with our professional customers.

Having maybe laid out those dynamics a little bit, our approach and what we think we see is relatively consistent on both sides of our business. That can differ a little bit category-to-category. And particularly as we think through this kind of timing component. But ultimately, as we kind of work through to get to that equilibrium that Brent talked about, that does tend to work in pretty close parity on both sides of our business.

Operator

Zach Fadem, Wells Fargo.

Zach Fadem - *Wells Fargo Securities LLC - Analyst*

When you think about the typical consumer reaction to rising prices in the category historically, can you help level set us on the mix of your business that you would say requires immediate action like a dead battery versus what mix is deferrable or discretionary.

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

Yes, Zach. Thanks for the question. We've never really put a very fine point on that specific split. Just candidly, because there's a fair enough of other items that they kind of fall sort of in the in-between space. I would tell you that there is a high majority of what we sell that requires either an immediate fix or that can only be deferred over a very, very short period of time.

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In response to your first question, maybe start there and Brad and Brent can jump in as well. Interestingly, I think for us, our industry does not typically see a lot of price sensitivity as it relates to the individual job or the individual ticket for our customer because of what we talked about from a non-discretionary perspective. If you need that alternator, if you have that battery, it fails it's a required fix. You need your vehicles to be able to get to work to hold your kids around and those types of things.

I think from our perspective, what gives us more caution is less any price sensitive to your elasticity around is specifically the prices we move up, but just the broader pressure the inflation really across all of our customers pocketbook spend can have to how they think about decisions where they do have deferral, if they can push off that oil change or can maybe delay fix in air conditioner service or part or something along those lines or might choose to do things like trade down the value spectrum or those items.

I think that's where within our industry, those are more shocks to the consumer than they are individual pricing pressure on the things that we sell, but we have seen that short-term pressure where deferrals can happen. But typically, but typically normalizing it caught back up as the consumer adjust as things that they buy from us.

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

Yes, Zack, I think just real quick, Jeremy said it very well. The lines in our business between failure maintenance and discretionary, aren't always just black and white. There's some gray area kind of in between. And I think Jeremy kind of walked through the way we look at it very, very well. I think we just continue to try to stay balance that though we haven't seen hardly any, we may have seen a little bit over the last couple of quarters in terms of deferral.

We're still very positive about our maintenance categories, obviously, failure categories, the way we see them are performing well, and we continue to see pressure in the discretionary. So we're still positive and constructive. But we also want to stay constructive in terms of just the back half of the year. And if pricing continue to pipe through.

Do we get to a point where the consumer is at a point like we've seen in years past where they just need to defer a little bit, like we mentioned in the prepared comments, when we've seen those type times, even though I think what we're going through right now is unprecedented in a lot of ways. When we have seen that type of shock to the consumer, it is fairly short-lived in our industry.

Zach Fadem - *Wells Fargo Securities LLC - Analyst*

Appreciate that. And then with respect to your Virginia DC opening. Can you talk about just the expected impact or opportunity for unlocking share gains in the Mid-Atlantic and Northeast. And would you say this could ultimately result in an acceleration in new openings or perhaps getting more aggressive in taking share in that region?

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

Yes, Zach, great question. This is Brent. I can start, and Brad and Jeremy can jump in. Yes, we're super excited about the DC super excited about having that capacity. We've been a little strained with our distribution capacity in the Southeast and that Eastern Mid-Atlantic for several years now as we've grown our store count and growing our volumes there. So getting that DC online is something we're really excited about.

If you think about that I-95 corridor and you think about number of vehicles, the number of people that are along that corridor and really kind of a last frontier a little bit for us in terms of our domestic expansion. So there'll be -- we'll be moving some stores over from existing DCs, but we'll still have plenty of capacity to grow in that Mid-Atlantic region. So certainly something our real estate teams are focused on and looking at and our operational teams are focused as well. So we see that as a big growth opportunity for us.

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

Yes, Zach. Brent said it really well. We couldn't be more excited about our opportunities kind of in that upper mid-Atlantic market, very competitive markets, but it has all the market share opportunities to go along with it. And so as we continue to look at kind of that upper Northern Virginia, getting into DC, Baltimore, eventually Philly and New York City, depending on where you draw the line in some of those regions, you can almost come up with a third of the population of the US to Brent's point, on population, car part, vehicle registrations, et cetera.

And so to be a big opportunity to take a little bit of pressure off some existing DCs, but also more importantly, to really get after that part of the country where we have a lot of opportunity.

Operator

Steven Zaccone, Citi.

Steven Zaccone - *Citigroup Inc. - Analyst*

Great. I wanted to ask just given the disruption in the industry from tariffs and stuff of that nature, do you see this as an opportunity to really accelerate share gains work closer with the vendors, kind of take some share from customers out there? Just how do you think through that ability to accelerate share gains?

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

Yes. Steve, thanks very much. Well, number one, while there is some disruption, we work in a very resilient industry. Our industry, consumers are resilient. Our competitors are resilient. And so want to balance that a little bit with -- we know our big, sophisticated competitors and the best of the best of some of the smaller competitors, WD's two-stepper type independents. -- they'll navigate through this pretty well.

I mean we don't want to take that for granted. That said, the other side of it is, anytime there's this type of complexity in our industry, I would really start this part by just giving a call out to our supply chain that's led by Brent, our merchants, our inventory control purchasing teams, distribution operations is really especially the merchandise team, how they're navigating this.

Our experience in the industry are tenure, our promote from within philosophy that has worked through these type of things, so many different times, even though it is a little bit unique, we do feel like there's an opportunity for disruption, especially when it gets to the less sophisticated and maybe some of the competitors that are already struggling on the independent side.

And so yes, we see opportunity, but we also know that we have a lot of work to do ourselves to make sure we do run our playbook, we do our part because this is complex. There's a lot of work to do, but we also don't take our competitors for granted. So definitely opportunity, but we feel like our industry overall will be resilient and as well as our consumers as long as we all work together to figure it out.

Steven Zaccone - *Citigroup Inc. - Analyst*

Okay. Understood. And then just a follow-up I had on same-SKU inflation. What should we anticipate as a level of same-store inflation in the second half of the year? Sounds like second quarter was up just a little under 1.5%.

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

Yes. So the specific answer to that question is -- and I think Brad mentioned it in his prepared comments, is we're not factoring into the back half of the year within our updated guidance, a substantial ramp-up in the net benefit that we would see from inflation beyond where we're at today.

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Keeping in mind that as we think about our outlook for the remainder of the year, it's not really just one view on where we think things can go from there.

We're trying to understand and plan for lots of different thought processes or sensitivities and understanding that the potential for same-SKU inflation in the back half of the year is substantially more than that. because of just what exists out there on the horizon from a tariff perspective, what we think the industry typically does when they move through it.

But we're hesitant to plan for a windfall in our top line from that because of the cautions and concerns we've got about just the overall shock and the impact to the consumer. And that's largely in keeping with how we've managed thinking about inflation in forward-looking inflation projections than what we've done previously. But certainly, there is -- we're not in a static environment.

I don't want to leave with that impression, it's changing, even understanding what the cost environment is doing is changing period-to-period. We think that there's going to be some movement there. But we do have reservations at least somewhat in projecting that forward until we start to work through it and realize it.

Operator

Max Rakhlenko, TD Cowen.

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

Great. So we get the sense that peers are taking different stances on the level of price that they're pushing through. So just curious, do you think that your price spreads are similar to historic levels, especially against the -- or are you noticing any changes there?

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

I appreciate the question. I guess maybe we would have a little bit different assessment on how we think the industry is reacting and responding kind of in this period of time. We do spend a little bit of time thinking about it and looking at it. so we feel like we have a pretty decent handle on kind of what we're seeing. I think one of the challenges -- and Brent kind of talked to it in terms of of how he walked through in his prepared comments sort of the process by which all this happens.

We don't all show up, I think, at the marketplace at the same time and just find out that the price change on Tuesday for everybody in the same way. There is a pretty thorough and involved process for how this works through the system. And so there are just naturally because the supplier bases are similar, but they're actually different manufacturers in some instances where there's just some fluidity to how the timing of all of that works.

And so there'll be lines in categories where we will be a follower because we see a competitor move before that or where we'll lead. And also, we lead more often than not, I guess, I would say. But by and large, we think that the rationality of the market in this environment, even though it's a little bit more volatile in this iteration of tariffs than it has been in the past is still largely consistent with what we've seen historically. We don't anticipate that we'll see anything moving forward that is unusual to our previous practices.

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

Yes. Well said. Max, this is Brad. We're not seeing anything that would tell us that we're not seeing anything at all, not only that won't tell us, but we're actually not seeing any changes in the general spreads between the independent competitors all the way up to our big public national competitors.

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

Okay. Great. And then just on SG&A, any specific callouts that you can make as far as the areas that you're investing to capitalize on the market share opportunity?

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

Yes, we don't like to dig down too deep into details. But I don't think the answers would surprise anyone, Max. It's the things that are most impactful to the service we provide to our customers, which really starts with our teams and how do we think about putting our teams in the right position to be successful in taking care of their customers.

How do we make sure that they've got the inventory availability in their hand are supported by access to inventory that's faster than the industry in every instance that you can -- you could put those two umbrellas over a big swath of what we do. And I think you'd be pretty far along the way.

And so those are always going to be the things that I think are prioritized and important to us in conjunction with some of the technological things that we are continually evolving and modernizing to be sure that we're equipping our teams with the tools that are going to make them most effective in taking care of our customers.

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

Yes. Max, it's not always just -- for example, when we outperform on sales incentive compensation, we love that pressure. It's some of the things that Jeremy talked about basic blocking and tackling that we see additional opportunity. But it's not always just when things are above expectations.

It could be in a little bit tougher month when things are a little bit more normal or there's a little bit of pressure, short-term pressure, just weather or something that's affecting the business a certain weaker month within a quarter that we just decide what we're not going to overreact to the way we're scheduling.

We may take an opportunity if the shops are a little bit slow to wow them with additional delivery service to make sure when things pick back up, we're top of mind. And so it's just balancing not only when things are better, but also when things maybe have a little bit of toughness week-to-week, month-to-month, we're just going to step in there and just decide that we're going to hustle everybody else.

Operator

Steve Forbes, Guggenheim.

Steve Forbes - *Guggenheim Securities LLC - Analyst*

Maybe just revisiting some of the expense pressures you talked about medical casualty self-insurance pressures. Can you just help frame us -- frame that for us? Like what is the pressure in terms of rate of growth and is there sort of end of sight to it? And then a follow-up on that. You think about the operational challenges that everyone is sort of facing today, are the field teams themselves, right, whether it's the territory or DMs.

Are they seeing more points of friction occurring, right? And is that the message on sort of what you're leaning into? And how are you doing it, right? Like span of control changes or any sort of broader message around just how unique this opportunity is today to drive share capture?

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

Yes. No, I appreciate the question, Steven. I'll maybe take the second one first. our business is -- to Brad's earlier point, there's a lot of resiliency. There's a lot of stability within our business.

So what you don't really see is kind of maybe these bellwether moments where you just hear a lot a lot from the field organization about -- I mean, something has really changed, and there's a dynamic that's different. Now you'll see that more on a disaggregated basis, because our guys are always really tuned into their markets. And if you spend any time in one of our stores in our field organization and you walk and talk, there's always going to be something at the top of their list of opportunity.

That's just -- that's how we're engineered in our DNA to always be looking for things. But there's not some net incremental business, more often than did not when you see those types of things, it's because we're realizing and actually capturing something well, and we're making sure that acceleration in volume in individual markets not overstressing our system that we're serving it well.

And so that's some of what you see. Beyond that, some of the broader inflation things that Brent called out earlier that you asked about, we're just in a heightened period of some pressure and inflation on those things. It's not always linear and how those things come through.

As we thought about the balance of the year, we anticipate we're going to continue to see it to some degree as we move forward. But generally, over the course of time those things normalize to the long-term run rates that are kind of typical of the costs in those environments. So it's not a longer-term concern. But at times, when there's unique pressure there, you can see it persist from a few quarter perspective.

Steve Forbes - *Guggenheim Securities LLC - Analyst*

And then just a quick follow-up on the facility in Virginia. Is there a rule of thumb for us on sort of the number of stores that the fulfillment set of starts with and then sort of what's the ideal sort of ramp cadence of capacity utilization into DC, sort of rule of thumb math.

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

Yes. Steven, thanks for the question. This is Brent. Honestly, when you think about our distribution centers, they're where the people are, they're where the cars are, vehicles and the major metros and quite frankly, we've got different capacities across our network. Some of those DCs are expected to serve 250 stores, 225 stores.

Larger regional DCs are up to 350 stores. Stafford, in the case of Stafford, it's going to be a regional DC for us, large DC 350 stores. We'll probably have -- by the end of this year, we'll probably have a little bit of a third of the capacity of it, maybe a little bit more transferred from some other locations and the rest of it is going to be growth opportunities for us.

Operator

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

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

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

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Operator

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

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