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EDITED TRANSCRIPT

ORLY.OQ - Q1 2026 O'Reilly Automotive Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, and welcome to the O'Reilly Automotive, Inc. first-quarter 2026 earnings call. My name is Ali, and I will be your operator for today's call. (Operator Instructions) I will now turn the call over to Jeremy Fletcher. Mr. Fletcher, you may begin.

Jeremy Fletcher - *O'Reilly Automotive Stores Inc - Controller, Senior Vice President of Finance*

Thank you, Ali. Good morning, everyone, and thank you for joining us. During today's conference call, we will discuss our first quarter 2026 results and our updated outlook for 2026. 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, 2025, and other recent SEC filings. The company assumes no obligation to update any forward-looking statements made during this call.

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

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

Thanks, Jeremy. Good morning, everyone, and welcome to the O'Reilly Auto Parts first-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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I'm excited to begin our call by thanking our over 93,000 team members for the incredible results they were able to deliver in the first quarter. Their hard work and absolute dedication to excellent customer service produced a strong start to 2026 for O'Reilly with an 8.1% increase in comparable store sales. This was above our expectations for the quarter. And when combined with our new store sales and contributions from our international business, drove double-digit total sales growth of 10.2% for the first quarter of 2026.

Our team successfully translated these robust sales results into an impressive 14% increase in operating profit through our focus on profitable growth and expense control. We coupled this strong operating performance with the return of excess capital through our share repurchase program to deliver a 16% increase in diluted earnings per share in the quarter. Thank you again, Team O'Reilly for keeping our culture strong and providing the best customer service in the business.

Now I'd like to take a few minutes to walk through the details of our first quarter comparable store sales performance. Our comp growth of 8.1% solidly surpassed our expectations, and we were pleased to see above plan contributions from both sides of our business in the quarter. Our professional business continues to be the larger contributor to our total comp results with our first quarter results making the third straight quarter we have posted double-digit professional comps.

We also saw strength in our DIY side of our business, which generated a mid-single-digit comp during the first quarter. While DIY was the smaller overall contributor to the total comparable store sales growth in the first quarter, it was an equal driver of the outperformance we delivered versus our expectations coming into the quarter.

This outperformance was driven by better-than-expected growth in ticket counts on both sides of the business. We believe there were some favorable industry tailwinds that aided our results in the first quarter that I will discuss in a moment. However, we are just as confident with our sales momentum also reflects share gains our team is winning on both sides of our business.

Next, I want to provide some detail on the cadence of our sales results as we move through the quarter. We know every year that first quarter is often our most volatile quarter as we experienced variability in our business resulting from the type and severity of winter weather and the timing of the onset of spring. In addition to this, the timing and magnitude of individual income tax refunds can also be a factor impacting our results through much of February and into March.

Beginning with this January, winter weather was favorable and largely as expected, providing a strong start to the quarter. Moving into February, weekly volumes began increasing as tax refunds started to flow to consumers. Our business often receives some level of benefit from tax refund season but is not always a direct correlation to average refund size or total refund dollars as weather and general economic conditions can play a role in the extent to which consumers spend these refund dollars and where they are spent.

This year, we do believe the combination of an increase in average refund size as well as higher total refund dollars coincided with favorable weather to produce a benefit for our business. Warm and generally dry conditions in most of our markets provided a supportive backdrop for consumers looking to perform vehicle maintenance in conjunction with the benefit from tax refunds.

While we surpassed expectations each month, our business strengthened as we moved through the quarter relative to both our plan and on a one-, two- and three-year stack comp basis. April has had the expected degree of seasonal moderation in volumes relative to March, but our business continues to be strong in both DIY and professional.

From a category perspective, our results were driven by broad-based strength across the business, with solid results in many of our under car hard part categories coupled with continued healthy performance in our maintenance categories, including oil, filters and fluids. Even in light of widespread strong comp contributions across a broad range of categories, we still see some evidence of consumer caution.

Discretionary categories were not as pressured from a relative comp perspective as we've seen in the past few quarters, but this was mainly due to the soft comparisons as we are lapping periods of pressure in this small subset of our business. I will discuss in more detail in a moment, but our outlook assumes a continuation of this uncertain stance by consumers.

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Growth in average ticket was a mid-single-digit contributor to comps on both sides of our business. While average ticket growth represented the larger driver of our comp for the first quarter, these results were essentially in line with our expectations. As I referenced earlier, it was really the growth in transactions that exceeded our expectations.

Coming into the quarter, we assumed the average ticket would benefit from same SKU inflation of approximately 6% and actual results came in right in line with those expectations. As a reminder, the front half of 2026 is expected to receive a larger benefit from same SKU inflation as we do not compare against the more significant cost and associated price increases in 2025 until the third quarter.

Turning to guidance. We maintained our full year comparable store sales guidance range of 3% to 5%. We are very pleased with the strong start to 2026 that our team has been able to deliver. The first quarter results exceeded our plan and right now, have pushed us to the top half of our full year range. However, we remain cautious in our outlook for the consumer.

Rapid increases in fuel costs have the potential to impact consumer spending even in predominantly nondiscretionary sectors like our industry. While the more fundamental long-term demand drivers of miles driven and the average age and size of the vehicle fleet are expected to remain supportive and change very gradually over time, spikes in prices at the pump and the impact it can have on other day-to-day spending in the life of a consumer can cause short-term reactions.

So far, our first quarter results and trends thus far in April have not indicated a pullback in consumer demand. However, we remain cognizant that sustained inflation pressure on the consumer or potential for future shocks could create volatility in demand. Likewise, we are always cautious to not overreact to first quarter results, which can be susceptible to demand variability driven by weather and tax refund dynamics.

Given these considerations, we have kept our sales and operating margin outlook for the remaining three quarters of the year unchanged from our previous guidance. It goes without saying that our team is highly motivated to sustain our first quarter momentum as we move through 2026.

Ultimately, we will lean on our business model of service and availability to grow our business with both our existing and new customers the same. We have confidence in the health of our industry and even more in our ability to take market share in any market backdrop.

Our store and sales teams operate with a high degree of discipline within their markets. We expect to win business by delivering value through deep win-win relationships, excellent customer service, superior product availability, as our team's focus on partnering with our professional customers who recognize this value and place us in a position of preferred supplier as a result of the consistent execution of our team.

This same high standard of customer service also drives our DIY business. Since these customers are just as dependent on the trusted advice of our professional parts people to help them solve problems, go the extra mile and in turn, keep their vehicles on the road and well maintained.

Before I wrap up, I would like to note that we are increasing our full-year diluted earnings per share guidance to a range of $3.15 to $3.25. Our increase in EPS guidance is driven by our first quarter sales and operating performance and the impact of shares repurchased through the date of our earnings release yesterday. We are pleased to be delivering an increase to our full-year guide after kicking off the year and look forward to the opportunity to execute on our fundamentals and generate strong results throughout the remainder of the year.

As I wrap up my prepared comments, I'd like to take the opportunity once again to thank Team O'Reilly for your hard work and commitment to growing our business. Now I'll turn the call over to Brent.

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

Thanks, Brad. I would also like to begin my comments this morning by congratulating Team O'Reilly on a strong start to 2026 as your hard work continues to earn business and take share. Today, I will further discuss our first quarter gross margin and SG&A results and provide an update on the progress toward our expansion and capital investment plans for 2026.

Starting with gross margin. Our first quarter gross margin of 51.5% was a 19 basis point increase from the first quarter of 2025, which was in line with our expectations. Within the first quarter, our gross margin did encounter some pressure from seasonal product mix, but we are pleased to be able to offset this pressure with acquisition cost reductions and improved leverage of our distribution cost driven by solid DC productivity and strong sales volumes. The acquisition cost environment remains stable, and the pricing environment continues to be rational across our industry.

Our first quarter gross margins were not materially impacted by the changes within the tariff environment as our net tariff exposure has remained relatively stable. Additionally, at this point, neither our first quarter results nor our outlook include any benefit from tariff refunds. We actively monitor these topics as they develop and are being proactive to ensure our sourcing is competitive and reflects the scale of our company.

The conflict in Iran and resulting constraints on global oil supply have the potential to be disruptive to certain categories, particularly motor oil, and could impact supply chain costs such as freight. However, we did not see a material impact in the first quarter and have not adjusted our full-year outlook assumptions for these factors.

We have strong relationships with our supplier community and have been working through challenging situations surrounding international trade and geopolitics for an extended period of time now. While every situation can be unique, our expectation is that our merchandise teams will continue to successfully navigate these environments and that we will be able to leverage our long-term relationships with supplier partners as well as our scale to ensure that we lead the industry in availability.

We are maintaining our full-year gross margin guidance range of 51.5% to 52%. At this stage, we believe we have the ability to manage the current dynamics surrounding product acquisition cost and freight within our full-year guidance range.

Our supply chain teams work to not only actively mitigate cost increases, but also to diversify our supplier base and seek alternative sourcing options when necessary. A significant benefit to us on this front has been the continued development of our private label brand portfolio. Our private label penetration has climbed to over 50% of total revenue and we will continue to work to prudently leverage the strength of our proprietary brands.

The benefits of our private label strategy range from improving margins and customer brand loyalty to improve sourcing capabilities as we have control over the product within the box and can seamlessly source a single SKU from multiple suppliers. When supply chain constraints emerge, having the ability to adjust orders and demand across a broader base of suppliers is an important tool for our teams to leverage in order to maintain a strong in-stock position.

Moving to SG&A. Our teams generated an impressive 34 basis points of SG&A leverage as they diligently managed our cost structure and delivered robust sales results. Our total SG&A dollar spend was at the higher end of our expectations for the first quarter due to incremental spend to support elevated sales volumes.

This produced average SG&A per store growth of 5.5% for the first quarter, and we are still expecting our full-year SG&A per store growth to run approximately 3% to 4%. Our first quarter SG&A was expected to drive the highest average per store growth rate of the year, and we expect our per store growth to moderate as we move through the year and compare against the SG&A ramp that occurred throughout 2025.

Within our SG&A, gas price increases had a muted impact on balance for the quarter. We do operate a large delivery fleet across our stores and quick timely delivery of product to our professional customers is an incredibly important part of our value proposition. As a result, there

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is certainly the potential for some level of impact to our SG&A, but this is heavily dependent on the extent and the duration of fuel price increases.

When managing our cost structure, and in particular, when gauging a response to cost pressures over a short time frame, we always view our business through a long-term lens with a focus on serving our customers and supporting high levels of service and availability.

In keeping our SG&A and margin guidance unchanged for the remainder of the year, we have considered the potential for modest pressure from rising fuel prices and the opportunities we have to manage those pressures within the broader context of our overall cost structure.

We are raising our full-year operating profit guidance range by 10 basis points to an updated range of 19.3% to 19.8%. This reflects the flow-through of operating cost leverage from our strong first quarter results and our unchanged outlook for the remainder of the year. At the midpoint, this updated guidance range projects full-year operating margin expansion of 9 basis points over 2025, which is a testament to Team O'Reilly's dedication to profitable growth.

Inventory per store finished the first quarter at $874,000, which was up 8.5% from this time last year and up 0.5% from the end of the year. We are still targeting growth of 5% per store by the end of 2026. Our inventory position at the end of the first quarter was slightly below our plan, resulting from the strong sales performance and the timing cadence of inventory additions.

Our turns remain strong at 1.6x, and we are pleased with the productivity we have seen from our inventory investments and our efforts to continually enhance inventory deployment within our tiered distribution network. We absolutely believe that our industry-leading inventory availability is a factor contributing to the share gains that we are compounding, and we will continue to aggressively capitalize on opportunities to bring our inventory closer to the customer.

Lastly, to touch on our store growth and capital investments in the first quarter. We opened a total of 59 net new stores across the US, Mexico and Canada. Domestic new store performance continues to meet our high expectations and we are pleased with the opportunities we have across the US, both to backfill existing markets and expand into new greenfield markets. Our international markets continue to make progress in building the O'Reilly store growth engine, and we remain on track for our 2026 store opening goal of 225 to 235 net new stores.

Capital expenditures for the first quarter were $244 million, and we still expect a total capital expenditure investment in 2026 of $1.3 billion to $1.4 billion. The major projects driving this expected level of spend are on schedule, and we are excited for the growth opportunities in store for us in all of the markets that we operate in.

Before I turn the call over to Jeremy, I want to once again thank our entire team of Team O'Reilly for their continued hard work and unwavering commitment to our customers.

Now I'll turn the call over to Jeremy.

Jeremy Fletcher - *O'Reilly Automotive Stores Inc - Controller, Senior Vice President of Finance*

Thanks, Brent. I would also like to thank all of Team O'Reilly for their continued hard work and dedication to our customers. Now we will fill in some additional details on our first quarter results and updated guidance for 2026.

For the first quarter, sales increased $424 million, driven by an 8.1% increase in comparable store sales and a $91 million noncomp contribution from stores opened in 2025 and 2026 that have not yet entered the comp base. For 2026, we continue to expect our total revenues to be between $18.7 billion and $19 billion.

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Our first quarter effective tax rate was in line with expectations at 22.5% of pretax income, comprised of a base rate of 23% reduced by a 0.5% benefit for share-based compensation. This compares to the first quarter of 2025 rate of 21.3% of pretax income, which was comprised of a base tax rate of 23.2%, reduced by a 1.9% benefit for share-based compensation.

For the full year of 2026, we continue to expect an effective tax rate of 22.6%, comprised of a base rate of 23.0% reduced by a benefit of 0.4% for share-based compensation. We expect that the quarterly rate will fluctuate due to variations in the tax benefit from share-based compensation and the tolling of certain tax periods in the fourth quarter.

Now we will move on to free cash flow and the components that drove our results. Free cash flow for the first quarter of 2026 was $785 million versus $455 million in 2025. The increase in free cash flow was primarily driven by robust growth in operating income, a reduction in net inventory and timing of CapEx spend.

For 2026, our expected free cash flow guidance remains unchanged at a range of $1.8 billion to $2.1 billion. I also want to touch briefly on our AP to inventory ratio. We finished the first quarter at 125%, which was up from 124% at the end of 2025 and above our expectations. For 2026, we expect to see moderation resulting from our planned incremental inventory investments and expect to finish the year at a ratio of approximately 122%.

Moving on to debt. We finished the first quarter with an adjusted debt-to-EBITDA ratio of 2.03x, flat to our ratio at the end of 2025. We continued to be below our leverage target of 2.5x 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 first quarter, we repurchased 10 million shares at an average share price of $92.45 for a total investment of $923 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 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 for your questions, I would like to thank our team for their commitment to the excellent customer service that drives our success.

This concludes our prepared comments. At this time, I would like to ask Ali, 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.

Simeon Gutman - *Morgan Stanley & Co Ltd - Analyst*

Brad, I wanted to ask about market share. The data I look at, it looks like the spread for O'Reilly versus the industry is actually accelerating, granted we don't know what everyone's first quarters look like. But the last time we saw this was somewhat in the post-COVID period or the COVID period where you took a lot of share versus the industry.

So I wanted to ask if your data more or less is the same thing, if that's corroborated? And then are there any trends? Is it markets where you're investing? Is it broad based? And then how you think and where it's coming from?

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

Yes. Simeon, I'm happy to talk to that. First off, I can't jump into that question without just bragging on the team. We are extremely proud of the execution by the entire team. When I think about store operations, the sales team, when I think about the supply chain teams, all of our teams are just executing at a high level.

And yes, I think directionally, we look at a lot of data. As you know, we probably spend less time worrying about what everybody else is doing, than we do trying to figure out how to get our company to the next level when it comes to share gains, comparable store sales and taking that to the bottom line and really investing not just for the short term, but more importantly for the mid and long term.

But yes, I think directionally, when we look at the data that we see both internally and externally, we do agree with you that our team continues to drive solid share gains beyond maybe even what we've seen in the last couple of years and on both sides of the business. Our teams are highly focused on taking share from all types of competitors when it comes to retail and professional, the same. And so yes, we concur with what you said there, Simeon.

Simeon Gutman - *Morgan Stanley & Co Ltd - Analyst*

And just following up on the same topic. This is a wild guess. The percentage of your customers where you are the primary distributor. And then is that percentage of that share being primary, is that continuing to tick up? And if you're willing to tell us where that number might fit?

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

Yes. Just maybe talk broadly about kind of our customer buckets on the professional side, very pleased overall when we look at our performance, really by market, by customer type and kind of the way we look at where we sit on the call is at a micro level, seeing really broad-based performance when it comes to both existing customers, as I spoke about in my prepared comments as well as seeing a lot of success with new customers, whether it be in new markets or it be new customers within existing markets.

And I always like to point out that no matter if you're looking at the most mature part of our company kind of in the Missouri, Oklahoma, Kansas, Arkansas, Texas, Iowa, Nebraska, when you look at those markets versus a brand-new market, we're still very immature even in our most mature markets. We have 10% share.

We're going to continue to aggressively go after the remainder of that business in North America. And we don't disclose exactly what that percentage looks like to that part of your question, but just feel really good about overall performance across all markets and all customer types, both with new customers and existing customers the same.

Operator

Greg Melich, Evercore ISI.

Gregory Melich - *Evercore Inc - Analyst*

I want to follow up on what you were seeing in like-for-like inflation, the 600 basis points? And how do you think about the changing input costs and how that could impact that as we go through the year? Do we still expect that to decelerate to, let's say, 2% as we wrap the tariff increases? Or could it possibly only decelerate to 3 or 4 points, especially given what you mentioned on gasoline costs and how that flows through in SG&A?

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Jeremy Fletcher - *O'Reilly Automotive Stores Inc - Controller, Senior Vice President of Finance*

Greg, thanks for the question. This is Jeremy. And I want to make sure I know lots of questions about this. And I think reasonable speculation about what could happen for the balance of the year. Just from a clarity perspective, as we think about where same SKU would go this year and what we baked into our guidance, that really is unchanged for us at the 3%.

And I think that for us is as much just our approach to these items as much as it is anything else. It's just historically been our approach that we try not to speculate too much on the future movements in prices without a lot of clarity around what we're going to see or candidly, really mostly what we've already seen.

And so what informed our outlook from an inflation perspective this year was really how we saw price levels change last year where that had stabilized and kind of how we've entered and moved into 2026, and haven't really seen fundamental shifts or movements. Brent mentioned it in his prepared comments. But we've kind of seen a normal acquisition cost environment, some puts and takes.

And so for us, as we kind of move through the remainder of the year, we would expect that we'll still have some year-over-year tailwind based on where prices are at today in the second quarter, and then we'll start to compare against the price increases from last year as we move into our back half.

As we think about the back half, we still think that we'll benefit from average ticket growth and shrink that's been consistent in our business and really in the industry for a long time. Within that number, we still have a muted inflation expectation.

There's obviously the potential that, that could change if we see fuel prices pass through. But we've got to see where that goes and how sustained and how long term that is, what the industry does, we would expect the rationality within the industry to continue on that. But it's also pretty early in that ballpark.

We would have to see just more broadly what that market looks like as we kind of roll through the rest of the year, and that's really our approach and how we would think about what that broader framework would be like for the remainder of the year.

Gregory Melich - *Evercore Inc - Analyst*

Great. And my follow-up, if I could, was on the consumer demand and tax refunds. You mentioned it several times. I guess looking back now at the end of the quarter and into April, is it fair to say that maybe tax refunds is an extra couple of hundred basis points of demand versus what you were thinking back in February? Or how should we even think about that and that cadence as we go into the spring and summer?

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

Greg, it's Brad. I'll try to answer that the best we can. We want to be a little bit careful trying to quantify what was tax refunds, what was weather. There's a case to be made from the seat we set in that there was to your question, maybe some pent-up demand. The consumer has been under pressure for many quarters now, more so in the discretionary areas, but even to some extent, as we talked to you about what we see in a little bit of deferred maintenance, some pushed out repairs that can be pushed out even though that's minimal.

And so there's a case to be made that what we saw was some catch-up. Part of that, we feel, is contributed to or should be attributed to tax refunds. Part of that, we feel like even though there was some choppiness week-to-week from a weather perspective, weather on balance was a tailwind for us, we feel. And so there was just a lot of moving pieces. We just want to be careful trying to quantify what we think that is, but we definitely feel like tax was a helper and we feel like weather was a helper overall.

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Jeremy Fletcher - *O'Reilly Automotive Stores Inc - Controller, Senior Vice President of Finance*

Yes. Maybe the only thing that I would add to that is those are the typical types of things that we see in first quarter. Sometimes it's hard to assess. It's the reason why we said within the prepared comments, we tend not to overreact to what we see in this part of the year. And we said that in years when results weren't as favorable for us.

Ultimately, we think that works itself through the system and you get a pretty good read on that as you move through second quarter. For sure, we want to make clear what Brad referenced on the earlier question. We still feel like we're performing well compared to what the opportunity is in the industry. So it's a balance of the two. Hard to know at this stage where it's at.

But when we look to the balance of the year, the thing that I think still has us most excited is the ability to execute our model, to provide industry-leading service and to continue to grow our share in the market.

Operator

Christopher Horvers, J.P. Morgan.

Christian Carlino - *JPMorgan Chase & Co - Analyst*

It's Christian Carlino on for Chris. On the oil price shock, is it fair to say you'd generally pass along any product cost inflation from commodities or higher ocean freight, but you'd probably absorbed the impact of higher domestic fuel costs from moving inventory within your supply chain and doing the DIFM deliveries?

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

Pardon, Christian. You're breaking up pretty badly.

(technical difficulty)

Operator

Okay. I believe it was your line that have broken up. So I've left Christopher on the line. Christopher, can you try asking your question again, sir?

Christian Carlino - *JPMorgan Chase & Co - Analyst*

It's Christian Carlino on for Chris. My question was on the oil price shock. And is it fair to say you generally pass along any product cost inflation from commodities or higher ocean freight, but probably absorb the impact of higher domestic fuel costs from moving inventory within your supply chain and doing the DIFM deliveries? And if that's right, is there a point where you start to pass on the cost of higher domestic freight, whether that's through surge charges or another method?

Jeremy Fletcher - *O'Reilly Automotive Stores Inc - Controller, Senior Vice President of Finance*

Yes. Thanks for the question, Christian. I think it's probably a good framework with which to look at that. When we think about product acquisition costs, I think, into the US, the freight component, we've historically thought about that, I think, is a component of what -- of the cost of the product and what it takes again. And I think that's consistent with the framework Brent outlined earlier about how we can consider sources of supply and the flexibility that we have there.

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So historically, for us, a lot of times, it's also that our suppliers obtain here a big portion of that. And so what we see there, we view from that one is the product cost and it's, I think, no different for us than any other kind of components of input costs that we would pass through to a customer and pricing. Obviously, after having worked with our suppliers, we really need to be able to work to mitigate that.

If we think about just the operating cost of our business, and that shows up in our distribution cost within gross margin and then also within SG&A, our cost of fuel is a part of that, and it's an important part, but it's obviously not the biggest part of that spend. And it's generally, I think, view for us within the broader context of how we manage our costs within our distribution and within our store operating costs in that way.

I think just to reiterate maybe what Brent said on that topic, we feel like that while we could see some pressure there that it's manageable kind of within that broader context of our expense outlook for the remainder of the year and within sort of the ranges of how we've talked about our margin guidance from that perspective.

Ultimately, for any of those types of costs, from an operating cost perspective, to the extent that they're sustained and we think they're broad-based, our industry I think has the ability to pass that through. Historically, that has not really been decoupled from a similar acquisition cost type of pressure. So generally, what happens is products get more expensive, and you have some inflation to pass along and helps to cover pressures in those other areas that we would anticipate as we move forward that it would continue to operate in a similar fashion.

Christian Carlino - *JPMorgan Chase & Co - Analyst*

Got it. That's really helpful. And I think you had talked about maybe roughly 5% comps quarter-to-date when you reported the fourth quarter, so that would put the exit rate maybe in the double-digit range for the first quarter. So is it fair to say that quarter-to-date trends are continuing to hunt in that double-digit range? And I guess just when you put together comparisons and weather and stimulus benefits fading, how are you thinking about the shape of the comps in the second quarter and beyond?

Jeremy Fletcher - *O'Reilly Automotive Stores Inc - Controller, Senior Vice President of Finance*

Yes. So just from a clarity perspective on the cadence in the first quarter, we felt like we started solidly and then improved as we move throughout the quarter. It's always a little bit of a challenge to talk about nominal comps because they compare differently. We feel well with how we finished the quarter in February and March, we were also up against, I think, a pretty challenging comparison within March and ended up in a good place on that side of our quarter.

As we move here into April, we've seen a little bit of moderation off of the strength in March. I think that's pretty consistent with what we've seen from a seasonal perspective a lot of times. Still, I think, running well strong, better than maybe we would have expected, but pretty early in the quarter. And obviously, we have to balance out a lot of core left and what the business looks like as we move kind of into the beginning of the summer months.

Operator

Mike Baker, D.A. Davidson.

Michael Baker - *DA Davidson & Co - Analyst*

Can I focus on costs, please? And this was an issue when you reported the fourth quarter, some cost overruns. Your costs were still high this quarter, but presumably, a lot of that was due to increased labor to support the high comps rather than the legal and health care situation that had been impacting you. But can you just remind us where you are in improving your cost? Your guidance clearly shows it's improving

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throughout the year. What of the 9% increase this quarter was just because of the higher comp versus that legal situation? And how does that evolve throughout the year?

Jeremy Fletcher - *O'Reilly Automotive Stores Inc - Controller, Senior Vice President of Finance*

Yes. Thanks, Mike. This is Jeremy again. I would tell you, great question. In our actual results, I would tell you, it would be pretty much in line with what we thought, a little bit higher as Brent mentioned in his comments, and it's mostly just, I think, on the pace of the business being faster.

When we look at it from a year-over-year perspective, we have had an expectation that the first quarter, in particular, and a little bit in the first half, we would see a higher per store SG&A growth rate just because of the kind of the cadence of what we saw from the pressure perspective in the back half of last year. So when we just look at the growth rate in the first quarter, it's still I think made up of similar things that we saw last year.

Obviously, important core operational cost to run our business, continue to, I think, lean into areas that make a lot of sense to help move our business forward. But then also, I think, a more pressured item on a year-over-year basis for things like the insurance and the other types of liabilities that we've been talking about for a couple of quarters now.

That type of exposure for us was very much in line with what we had expected, and I don't think there was any kind of trend change from what we saw in the back half of the year. It was sort of in line but we knew it would be more pressured just given the comparisons from a year-over-year perspective.

So really, I think from that standpoint, the only kind of difference for us as we move through the quarter is as we saw the business pick up and had the opportunity to address the incremental transactions that we were driving in our business as well as some of the incentive comp that goes along with that, we ended up maybe more towards the high end of a range we would have set for ourselves in the first quarter. But beyond that, everything else kind of was in line with what we would have thought.

Michael Baker - *DA Davidson & Co - Analyst*

Okay. So that makes sense. If I could ask, we'll call it a follow-up, but we can do probably a different subject. But back to the tax refunds, you said maybe there was some spending of pent-up demand there. How about the other way?

Could that be a pull forward? And so when you have spikes related to either weather or tax refunds, how does that impact subsequent quarters? In other words, people did their maintenance in the first quarter with their tax refund dollars. Does that impact spending in the second and third quarter historically?

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

Yes. Great question, Mike. And this is Brad. Being in this business, having the fortune to be in this business for almost 30 years myself and all that being at O'Reilly, what I'm getting ready to say is less data-driven, just more about just kind of instinctually coming out of a quarter like we just came out of that we've been through many times, some better, some not.

I generally feel like that and we generally feel like that there was -- it would be more of the what I said earlier that there was some pent-up demand when I look at category performance. And even though we haven't seen a lot of deferred maintenance or trade down in terms of bigger ticket jobs, we did talk about that some in the previous quarters.

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So it makes sense for us when I look at the retail business by category. I look at the professional business by category and all the work that Brent and the merchandise teams do. Again, we feel like it would be more catch-up than it would be pull forward. I'm not saying that, that couldn't be, to some degree, a factor, but not as much how we're feeling about how things played out.

Operator

Bret Jordan, Jefferies.

Bret Jordan - *Jefferies LLC - Analyst*

On the private label discussion, you talked about getting over 50%. I guess, is there a reasonable target for that? And when you think about private label penetration by market where you're really established sort of back in that Missouri area, are you meaningfully higher where people know your brand versus as you push to the Northeast? Is there less private label mix where you've got sort of room to make up?

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

Yes. Bret, this is Brent. Good question. I can start on that one and the other guys can chip in. Yes, and the team has done a fantastic job. David Wilbanks, our merchandise team, they do a fantastic job developing a good, better, best line design across our proprietary brands, and we've just continued to see them grow in brand penetration.

Our strategy, though, is still we're going to have relevant national brands where it makes sense as part of our line design, by category and teams do a great job of mixing those in. So we don't have a stated goal that we're going after there in terms of percent penetration. We let the customer vote with their wallet.

Just like we talked about in the prepared comments, the great thing about that private brand portfolio is it does give us that sourcing capability that is much broader, and we can source from multiple suppliers the same SKU quality in the box, form, finish and the teams have just done a fantastic job with that.

So we want to go to market that way. Customers vote with their wallets where our national brands, and we've got some fantastic national brands as well where they compete head-to-head with those proprietary brands. We want the consumer to have the choice for both. But we don't have a stated goal that we're going after there. We're just pleased with the performance of the team and the portfolio.

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

Bret, this is Brad. Brent said it extremely well. Maybe just on the second part of your question. We really don't see that as well as we are established in the most mature markets. There's not really a disparity between what we see in our new expansion markets in terms of how they are adopting our proprietary national brands.

Again, I just want to give credit to Brent, to David Wilbanks and the merchandise team as well as our sales team. We have the fortune of having this diversified branding, not just one brand, not just O'Reilly, but like we do in oil, but we have these brands that used to be national brands that we've acquired over a long period of time that the customers just trust.

So whether it's a mature market or whether it's a brand-new market like the upper Mid-Atlantic, we see customer adoption of things like precision chassis and U-joints. It used to be a national brand. It's been our own brand for a long time, Murray Air Conditioning, SYNTEC Oil, it doesn't matter if you're really talking about the DIY side or the DIFM side, we see our proprietary brand performance performing very well equally both in mature and immature markets.

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Bret Jordan - *Jefferies LLC - Analyst*

Great. A quick question on motor oil. I think you called out some supply chain impact. Is that likely just to be seeing significant price inflation? Or are there issues? I think some of the synthetic sourcing in the Middle East might be challenged. Is there actual risk of some supply shortage versus just higher prices?

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

Yes. I can start on that one, too, Bret. There is some consumer motor oils and a lot of that, while we're energy independent as a country, a lot of that does come from the Far East, and there is some pressure across our supplier base right now on pricing there, and that's something that our merchandise teams are working with those oil suppliers on.

So there could be some pressure there, again, depending on the duration of the conflict and how long some of the oil price inflation persist. But our teams are working through that. We feel confident in our ability to do that.

Operator

Scot Ciccarelli, Truist Securities.

Scot Ciccarelli - *Suntrust Robinson Humphrey Capital Markets - Equity Analyst*

SG&A follow-up actually. We saw 5.5% SG&A per store growth. But labor is by far your highest SG&A item. And I believe employees per store are down a few percent for the fourth quarter in a row. So I guess my question is, is the growth rate of the SG&A being driven more by wages rather than hours? Or is it all coming from those other items you mentioned, liability costs, et cetera?

Jeremy Fletcher - *O'Reilly Automotive Stores Inc - Controller, Senior Vice President of Finance*

Yes. No, it's a great question, Scot. I think principally, when we look at that, the first place you have to go is just wage rates. And we've been, I think, kind of pleased with the trajectory of that trend for a little while. Obviously, there were a few years that was pretty heightened and turnover was I think a pretty big challenge.

But we felt good with where that's gone. I think obviously, there's some puts and takes. Our focus is on having excellent customer service within our stores, having team members that we could try and help form relationships on the professional customer side, help our DIY customers. And so to the extent that we're able to retain team members, you can see some rate pressure from that as well.

When we look at the rest of it, we do, I think, have the ability and flexibility to manage the mix of full time and part time in our stores. And I think over the course of time, that's kind of influenced a little bit how you might otherwise look at just the per team member accounts. To the extent that we need to support increased transaction volumes, we've done that with ours.

But we've also felt like that over the course of the last several years as we continue to make investments within our team, been able to really, I think, help support how they function and they can provide service to our customers, we've also seen some benefits from a productivity perspective, which is kind of what we would have expected to see given how we've leaned into that area of our business over the last few years.

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

Yes. And Scot, I may just jump in. This is Brad. Jeremy said it really well. Good, very good observation on the pieces of our SG&A. I just have to brag on Jason Tarrant and the store teams, all the field leadership out there overseeing our stores. They just continue to do a phenomenal job, walking the fine line of giving excellent customer service, industry-leading customer service on all hours of operation while really managing our labor well, even though we continue to grow SG&A at the rate we do.

To your point, we've invested in wages. There's been a lot of wage inflation, but they've been able to take on that wage inflation, continue to reduce store-level turnover, improve retention. And to your point, we've seen really solid productivity in return.

They're also doing a great job just with a continuous improvement mindset in the way that we push labor from the office, the way that we reduce tasks in the stores to make sure that all of our store managers and store teams just really have the ability to focus on serving customers, great teamwork, focused on -- the customer-facing team member focused on the customer. And even though that it sets in gross margin, our DC teams continue to do the same thing, continuous improvement, reducing turnover, improving retention and overall giving better service and levering expenses.

Operator

Max Rakhlenko, TD Cowen.

Max Rakhlenko - *Cowen and Company LLC - Analyst*

So first just on the consumer front, what's the latest thinking around the level of gas prices where there could be some impact miles driven historically, I think you guys talked about $4 a gallon, but maybe that's now moving a little bit higher as there hasn't seemingly been much change at least on a national level for miles driven. And so just curious how you guys are thinking about that.

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

Yes. Max, this is Brad. Great question. So maybe just to kind of pull it up, again, a lot of history through fuel price costs, both with diesel and gasoline. What we've seen over a long period of time is that it takes a sustained level of heightened fuel prices to really start even to a minimal level affecting miles driven.

What we've seen time is that even though that takes a longer period of time, more sustained high levels, which we haven't seen yet, it's still very early to tell really what's going to happen with fuel costs. But really, what we've seen is it taking -- we've always kind of thrown out the number of a sustained level over $4 a gallon. And when you look at the broader US market and the majority of the markets we operate in, we have not seen that yet. Diesel prices have been very high. Obviously, gasoline prices have crept up.

But as we mentioned earlier on the business front, aside from expenses on the share consumer front and what we're seeing from consumer demand, we have not seen an impact that we would tie directly to gas prices. And we're not really great at predicting where this is going to go over the future, but it would take a sustained level of heightened gas prices and well north of that $4 a gallon if history repeats itself for us to see any kind of impact on miles driven.

Again, just with the caveat that we said earlier, the short-term spikes at the pump can just create a shock with a consumer that even though we define the consumer today as still relatively healthy, the low income to middle income consumer that's our core customer has seen a lot of inflation over the last couple of years and a lot of other ways that they operate their household in everything they do. And so we could see some short-term shocks, but it would take a sustained level of well over those numbers that we have yet seen.

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Max Rakhlenko - *Cowen and Company LLC - Analyst*

Okay. Great. That's very helpful. And then can you speak to the competitive environment with the folks on the independents and WDs. How are they dealing with an increasingly challenging operational backdrop? And then ahead, what is your take on O'Reilly's ability to take market share at a faster pace maybe than what we've seen historically?

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

Yes, absolutely, Max. A little bit hard for us to speak from the independent side. Obviously, we have a lot of insights, but we try to stay in our own lane and focus on what we know is going to take share versus exactly what an independent part store or a WD or some of the larger regional players are exactly doing.

But we do feel like a sizable part of our share gains currently is coming from the kind of that weaker, smaller independent player. Within that independent space, you have a lot of different cohorts of competitors. You have everything from true mom-and-pops that maybe are part of a buying group to some of the 8 to 10 store chains all the way up to some of the most sophisticated private equity-backed type independent WD players that are scaled across the US.

And so I think when you start at the bottom and talk about the small independents with interest rates, withholding cost of inventory, inflation and inventory investments that are needed to truly compete, I think there's probably quite a bit of disruption going on right now to some degree, maybe a little lesser degree with kind of those midsized competitors.

And then we never take anybody for granted, but for sure don't take the more scaled competitors on the WD side for granted because they're scrappy. They never lose their grit. They're well ran and they're figuring out how to navigate this even like the largest of players. So that would be how I'd categorize the competitive landscape on the independent side.

And then to your point on just outsized share gains as we move forward. Number one, I want to be careful because we want to stay humble. We want to stay hungry. We don't take anything for granted. We don't take any competitors for granted, first and foremost.

That said, we have a lot of conviction right now in the high level of execution that our team continues to deliver. We've got a lot of good things in flight. We're executing well. We feel like we have the right strategies on both sides of the business. They continue to take share in any market backdrop to say what will be outsized versus what we've seen in the last couple of years, I think we just want to let our numbers do the talking.

Operator

Ladies and gentlemen, unfortunately, we have reached our allotted time for questions. So 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, Ali. 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 second quarter results in July. Thank you.

Operator

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

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