LSEG STREETEVENTS

EDITED TRANSCRIPT

ORLY.OQ - Q2 2026 O'Reilly Automotive Inc Earnings Call

EVENT DATE/TIME: JULY 30, 2026 / 3:00PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

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

Brent Kirby *O'Reilly Automotive Inc - President*

CONFERENCE CALL PARTICIPANTS

Michael Lasser *UBS AG - Analyst*

Christopher Horvers *JPMorgan Chase & Co - Analyst*

Zachary Fadem *Wells Fargo Securities LLC - Analyst*

Greg Melick *Evercore ISI - Analyst*

Simeon Gutman *Morgan Stanley & Co Ltd - Analyst*

PRESENTATION

Operator

Welcome to the O'Reilly Automotive Inc second quarter 2026 earnings call. My name is Matthew, and I'll be your operator for today's call. (Operator Instructions)

I'll now turn 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 results and our updated outlook for the remainder of 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 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.

It's once again my pleasure to begin our quarterly call by congratulating Team O'Reilly on another strong quarter and a very successful first half of 2026. Our team's steadfast commitment to providing consistently high levels of service to our customers drove a comparable store sales growth of 6% for our second quarter.

Year to date, our comparable store sales have increased 7% and driven total sales growth of over 9%. As a result of our team's relentless focus on delivering profitable sales growth, we generated a 10% increase in diluted earnings per share in the second quarter on top of the 11% growth we delivered in the second quarter of 2025.

For the first six months of 2026, our diluted EPS grew 13%. And I want to thank all of Team O'Reilly for the momentum they have created in our business so far in 2026.

Now I'd like to take a few minutes to walk through the details of our second-quarter comparable store sales performance. Our comp growth of 6% surpassed our expectations, driven by solid results in both our professional and DIY businesses.

Our professional business continues to be the larger contributor to total comps, but we again saw the outperformance versus our expectations split evenly between both sides of our business, similar to first quarter results.

In aggregate, our comparable store sales gains continue to be driven by increases in average ticket values and robust professional ticket count growth. The growth in average ticket was primarily the result of same SKU inflation, which totaled 5.5% for our consolidated business and was in line with our expectations.

Average ticket strength was the primary contributor to our low-single digit DIY comparable store sales increase in the second quarter. This benefit was partially offset by pressure to transaction counts, which were down low single-digits and slightly below our expectations in part due to headwinds in hot weather-related categories.

Despite this pressure, we believe we're outperforming the market and gaining DIY share, and we continue to see tremendous growth opportunity on this side of our business.

We also continue to be pleased with the robust sales growth we are generating with our professional customers. Comparable store sales on this side of our business grew right at 10% in the second quarter, reflecting our fourth consecutive quarter of double-digit comps. The sales growth was fairly evenly split between an increase in average ticket value that was in line with our expectations and robust ticket count growth, which again outpaced our forecast.

We don't quantify the individual ticket and traffic components of our sales results on a quarterly basis. However, I will share that our professional ticket count growth was in the mid-single digits in the second quarter and has essentially been within that range every quarter since our business normalized coming out of the pandemic.

We are very excited about the continued momentum in our professional business and our team's ability to compound the market share gains they are winning quarter after quarter, year after year with our professional customers.

Next, I want to provide some detail on the cadence of our sales results as we move through the quarter. As I previously mentioned, our second quarter results surpassed our expectations, and we outpaced these projections each month of the quarter with April's results outperforming a little more than May and June.

As we discussed on last quarter's call, favorable spring weather supported by strong volumes in both our DIY and professional businesses as we exited the first quarter and we saw much of that momentum continue in April. As we moved into our summer selling season, our sales trends moderated to a very consistent week-to-week pace through the remainder of the quarter.

Finishing out the quarter, our June sales were solid on a one-year basis against a softer comparison in June of 2025, but we didn't realize the normal ramp-up in demand for certain hot weather-related categories that we typically like to see from the onset of summer heat at the end of the second quarter. We have definitely seen summer take hold across our markets in July though, and we are very pleased with a strong step up in sales results to start the third quarter.

Turning to our revised full-year guidance, I want to provide some color on the update to our expected comparable store sales range. As noted in yesterday's press release, we have increased from the previous range of 3% to 5% to a range of 4% to 6%. This update flows through the outperformance we delivered in the first half of 2026 but leaves our expectations for comparable store sales growth for the back half of the year unchanged.

Looking forward, we are pleased with a strong start to the third quarter, but we're cognizant of the potential that the benefits we have realized so far this quarter are the result of normal month-to-month weather volatility, and we don't want to overact to trends that could moderate over time.

Included in our outlook for the remainder of the year is our expectation for the same SKU benefit to moderate in the third and fourth quarters as we calendar the tailwind from tariff-driven price increases that we realized in 2025. As a reminder, those benefits started to flow into our comp results as we moved through the third quarter last year with the lion's share of the impact reflected in price levels by the time we exited the third quarter.

As a result of this dynamic, we are projecting the inflation benefit to moderate to 1% to 2% for the back half of 2026, with the third quarter expected at the top end and continued moderation to the bottom end of that range by the fourth quarter. These assumptions reflect our standard approach for setting guidance. We assume only modest levels of prospective future price changes.

While we have passed along some incremental price increases in 2026, resulting primarily from the cost pressures due to the increased crude oil prices, we are cautious as to how long these benefits will persist through the balance of the year. We are also cautious concerning the potential adverse impact to consumers and their resulting response in the face of continued economic pressure.

We have some very relevant recent experience that points to the potential for choppiness in consumer demand in the face of volatility and price levels. However, we have been pleased with the resiliency of the consumer and believe our customers have adjusted well to the current economic conditions and will continue to prioritize the maintenance and repair of their existing vehicles.

Ultimately, we remain optimistic about the health of our industry and our teams are committed as ever to build on our strong sales momentum, but we believe it's prudent to incorporate into our updated guidance expectations some potential volatility as we finished out 2026.

Before I move on from our guidance, I would also like to note that we are increasing our full-year diluted earnings per share guidance to a range of $3.20 to $3.30. Our increase in EPS guidance is driven by our sales and operating performance in the first half of 2026, and the impact of shares repurchased through the date of our earnings release yesterday.

Before I wrap up my prepared comments and turn the call over to Brent, I'd like to spend a few minutes discussing our strategic priorities for use of capital, and how these priorities align with the growth opportunities we see for our business.

We are off to a strong start in 2026, and we remain extremely excited about our opportunities to build on this momentum, to drive continued growth, and to capture a larger share of the fragmented addressable market in our industry. We have refined our strategy to capitalize on this tremendous opportunity over many years, building and strengthening a world-class customer service organization and executing a sustainable growth plan.

Our capital allocation priorities directly align with that consistent long-term strategy. Our top priorities for use of capital continue to be reinvestments in our existing store and distribution network and organic growth through new store openings. We are currently 6,695 stores strong across North America, and Team O'Reilly includes over 95,000 of the most technically competent and customer-focused professional parts people in our industry.

Our greatest opportunity to grow our business is to match the hard work and dedication of these team members with attractive stores, robust inventory availability, and enhanced technology. Our teams operate with a continuous improvement mindset, and we have been pleased with the returns on targeted investments in our existing business, which have helped fuel industry-leading comparable store sales growth.

We have also been pleased with the continued success of our organic store growth and remain excited about opportunity to further consolidate the industry through the opening of stores in both new geographies and existing market areas. The success of our organic growth strategy is the result of our commitment to never compromise on our proven model.

For each new store we open, we aggressively identify and develop a knowledgeable and enthusiastic team of professional parts people to provide unsurpassed customer service from day one, supported by the very best inventory availability and selling tools in the industry.

Over the course of our history, we have supplemented our capital investments in our existing network and organic store growth with targeted opportunistic acquisitions. While we continue to view the acquisition of existing park stores as an effective use of capital, we will also remain highly selective and strategic as we evaluate future opportunities consistent with our proven framework.

Our success with acquisitions has been directly tied to the discipline we apply in selecting and executing on those opportunities and then the process we undertake to integrate the acquired companies. Our blueprint is focused on opportunities with a clear strategic rationale where we have a high degree of confidence we can implement the O'Reilly culture as well as our business and operating models.

This disciplined strategy has allowed us to accelerate growth in markets that complement our existing footprint by quickly establishing both the proven O'Reilly model and a strong core of local parts professionals who have strong long-standing customer relationships.

We have successfully executed this strategy through acquisitions ranging from a single store to over 1,000 stores. With our commitment to fully integrating every acquisition, we view each transaction as significant. However, with our current footprint, we expect the universe of opportunities that meet our strategic criteria to be primarily smaller tuck-in acquisitions and expansion markets. This also means we have no expectation or intention of executing a large transformative acquisition in the foreseeable future.

Our final priority for use of capital after we have exhausted all opportunities to invest in our business is to return value to shareholders through our share repurchase program. Jeremy will provide a recap of the execution of our buyback program in his prepared remarks, but I would emphasize that we continue to feel good about the effectiveness of this program.

As I wrap up my prepared comments, I would like to once again thank Team O'Reilly for their continued dedication to our company and strong performance in the second quarter.

Now, I'll turn the call over to Brent.

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

I would also like to join Brad in congratulating Team O'Reilly on a strong performance in the second quarter, driven by their steadfast dedication 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 2026.

For the second quarter, our gross margin of 51.4% was unchanged from the second quarter of 2025. In establishing our gross margin outlook, we assumed a slightly lower gross margin rate in the second quarter as compared to the full year, which is typical for the seasonal composition of our product mix.

So while our gross margin rate for the second quarter came in slightly below our full-year guidance range, our results were in line with our expectations for the quarter. We continue to see very stable, solid gross margin performance with only a few minor puts and takes driving the outcome for the quarter.

We continue to benefit from incremental acquisition cost reductions and improved leverage of distribution costs on our strong top-line sales performance. On a year-over-year basis, these benefits were offset by mixed pressures from the faster rate of professional sales growth and our product mix in the quarter.

We also faced our most challenging quarterly comparison in 2026 related to the timing benefit that we realized in the second quarter of 2025 from the impact of tariff-related cost and pricing adjustments.

Given our inline first-half performance and the current stable market environment, we are maintaining our full year gross margin guidance range of 51.5% to 52%. At the midpoint, this reflects an expansion of 16 basis points compared to 2025.

Through the first half of 2026, we are on track with our full-year target. With our year-to-date gross margin rate of 51.5%, representing an 11-basis point expansion over the prior year, we are pleased to be able to continue to deliver incremental margin expansion while at the same time generating the robust gross profit dollar increases that come with our market-leading professional sales growth.

Our experienced merchandise and supply chain teams continue to successfully partner with our supplier network to drive value for our customers and deliver these great results, while also proactively managing through any disruptions to global supply chains.

Moving to SG&A, our second quarter SG&A per store grew at 4.8%, which included incremental spend to support elevated sales volumes, similar to what we saw in the first quarter. We also experienced some modest incremental pressure from higher fuel prices.

We continue to be pleased with our team's effectiveness in driving productivity through the management of our operating structure and our spin in the second quarter and first half of 2026 was within the range of our expectations. As we outlined coming into 2026, we anticipated growth in SG&A per store to be higher in the first half of the year, driven in part by expected year-over-year SG&A pressures from self-insurance and legal line items that ramped in the second half of 2025.

Our experience for the first six months of 2026 for those line items has been in line with our expectations. So while we saw modest pressure to our SG&A as a percent of sales, deleveraging 9 basis points in the second quarter, we outperformed versus our expectations as a result of the strong sales growth generated by our team.

We continue to expect our full-year SG&A per store growth to be at or below 4%, but we are making a slight revision to tighten our full-year range to 3.5% to 4%, which incorporates the flow through of our results for the first half of 2026. This reflects an expected moderation of per store operating expense in the back half of the year as comparisons ease, which is unchanged from our prior guidance.

We are also reiterating our full year operating profit guidance range of 19.3% to 19.8%, which reflects the sales, gross margin, and operating expense forecast that we have outlined today. For the first half of 2026, our operating margin expanded 21 basis points, split evenly between gross margin expansion and SG&A leverage, and driving an increase in operating profit dollars of 10%.

We strongly believe that our greatest long-term strategic opportunity is our ability to leverage our industry-leading business model and execution to provide the best customer service in our industry.

Our company operates in a fragmented industry and still holds a small percentage of the total addressable market. We have demonstrated that we are willing to aggressively lean into the investments and initiatives that equip us to address this opportunity, and we are very pleased to deliver productive returns on those efforts so far in 2026.

Before I turn the call over to Jeremy, I want to provide an update on our store growth and capital investments for the first half of 2026 and our outlook for the remainder of the year. Year-to-date, we have opened 110 net new stores, with that growth spread across 31 US states, Puerto Rico, Mexico, and Canada. And we remain on track to open 225 to 235 net new stores in 2026.

Capital expenditures in the first six months of 2026 were $552 million and we still expect a total capital expenditure investment for 2026 of $1.3 billion to $1.4 billion. Our planned expenditures in 2026 mirror the capital allocation priorities that Brad outlined earlier, including acceleration in new store growth.

Corresponding enhancement of our distribution capabilities to support our industry-leading inventory availability, and targeted initiatives to maintain and refresh the image and appearance of our store fleet, and enhance our technology tools.

We continue to pair these capital investments in our existing business with targeted investments in inventory. Inventory per store finished the second quarter at $892,000, which was up 7% from this time last year and up 2% from the end of 2025.

This growth is slightly below what we originally projected for the first half of the year as a result of normal seasonal timing differences in the deployment of inventory. However, we are still targeting growth of 5% per store by the end of 2026.

We are excited to be able to highlight the tangible impact of these investments when we host our upcoming Analyst Day at our new Atlanta Distribution Center on September the 17. We relocated our previous DC in Atlanta to this new 690,000 square foot facility at the end of 2024.

The incremental distribution capacity provided by this DC is enabling us to unlock additional expansion in the Southeastern United States and support import processing capabilities. This new facility is a great illustration of our proven business model and the continuous improvements we make to refine the processes and technology in our buildings to relentlessly enhance inventory availability and the value proposition that we offer our customers.

As I close my comments, I want to once again thank Team O'Reilly for their commitment to providing excellent, consistent customer service to all our customers each and every day.

Now, I'll 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 thank all of Team O'Reilly for another strong quarter. Now we will fill in some additional details on our second quarter results and outlook for the remainder of 2026. For the second quarter, sales increased $367 million, driven by a 6% increase in comparable store sales and a $100 million non-comp contribution from stores opened in 2025 and 2026 that have not yet entered the comp base.

For 2026, we now expect our total revenues to be between $18.9 billion and $19.2 billion. Our second quarter effective tax rate was in line with our expectations at 22.6% of pre-tax income, comprised of a base rate of 23.3%, reduced by a 0.7% benefit for share-based compensation. This compares to the second quarter of 2025 rate of 22.4% of pre-tax income, which was comprised of a base tax rate of 23.2% reduced by a 0.8% benefit for share-based compensation.

For the full year of 2026, we now expect an effective tax rate of 22.5%. We expect the quarterly rate to fluctuate due to variations in the tax benefit from share-based compensation and the totaling 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 six months of 2026 was $1.5 billion versus $904 million in the first half of 2025. The increase in free cash flow was primarily driven by robust growth in operating income and the timing of payment for renewable energy credits with a higher cash outflow for these payments occurring in the second quarter of 2025.

For the full year of 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 second quarter at 124%, which was in line with the same level at the end of 2025. For 2026, we expect to see continued moderation resulting from our planned incremental inventory investment and expect to finish the year at a ratio of approximately 122%.

Moving on to debt, we finished the second quarter with an adjusted debt to EBITDA ratio of 2.17 times, which was an increase from our ratio at the end of 2025 of 2.03 times. This incremental step-up in leverage reflects additional borrowings through our commercial paper program. And it's consistent with our intention to prudently approach our optimal leverage target of 2.5 times.

We continue to be pleased with the execution of our share repurchase program and during the second quarter, we repurchased 17 million shares at an average share price of $90.40 for a total investment of $1.5 billion. Our 2026 year-to-date share repurchases through the date of yesterday's press release totaled 34 million shares for a total investment of $3.1 billion.

We have consistently viewed our buyback program as an effective means of returning excess capital to our shareholders, and the step-up in share repurchase volume in 2026 reflects our strong cash flow generation and incremental borrowings as we move towards our leverage.

As Brad discussed earlier, we are very excited about the opportunities we have to execute our strategic roadmap, and we will continue to prioritize capital investments in our existing business to grow market share. When it is appropriate to return excess capital to shareholders, we are very confident that the average repurchase price is supported by the expected discounted future cash flows of our business.

Before I open up the call to 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 Matthew, the operator, to return to the line and we will be happy to answer your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions)

Michael Lasser, UBS.

Michael Lasser - *UBS AG - Analyst*

Brad, right or wrong, the investment community is going to parse all of your very helpful words around O'Reilly's approach to capital allocation and M&A very carefully. And this is all coming up given the speculation around O'Reilly's interest in the business of one of its main competitors.

And the interpretation is, if that was the case, is this a signal that O'Reilly either sees the competitive landscape or the customer consolidation changing such that it needs to at least look at a competitor for an acquisition to maintain its competitive position in the market? Can you address that and potentially put this to rest one last time?

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

So, yeah, I want to start out by stating, as it's been our longtime practice and our current practice not to comment or spend unproductive time on speculation or rumors. I think we were very clear in our prepared comments what our priorities are today, and are going to be over the foreseeable future.

And I think to the kind of latter part of your question, the answer to that is no. We work in this amazing industry where we have 10% of the market. It's crazy for me to think over my 30-year history this year. starting in 1996 that we have well over 6,500 stores and we still only have 10% of the market both in the US and when you look across North America.

And so, what I would say to that, Michael, is we are more convicted than ever about the fundamentals of our industry. We're more convicted than ever about the strength of O'Reilly and the fact that we feel like there's going to continue to be consolidation organically through us running our playbook, doing what we do well, focusing on our culture, promoting from within, being a store and customer-centric business that is focused on taking DIY share from our DIY competitors, and continuing to do what we do on the DIFM side.

Investing in inventory, getting it closer to the customer, delivery service, relationships, all the things we're doing to continue to consolidate the industry on the DIFM side. So my answer to you is no, there's nothing structural or fundamentally different about how we think about our ability to take market share in running our playbook that you know so very well.

Michael Lasser - *UBS AG - Analyst*

Thank you very much for that, Brad. My follow-up question is there's a lot of debate on what the demand and sales trends in the industry are going to look like in the back half of the year as this like-for-like inflation starts to fade. So is it your expectation that particularly on the DIY side, there will be an acceleration in units as the moderation in pricing happens, especially at a time where gas prices probably remain elevated and there's a lot of distraction out there.

And have you seen an acceleration in units in July, does that give you any incremental confidence that the outlook would remain consistent even as this pricing dynamic unfolds? Thank you very much.

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

So just want to start this one out with the fact that we in the room here couldn't be more pleased with our team's results on the DIY side of the business as any year goes, in DIY, there's puts and takes month to month, quarter to quarter, just so excited about not only the second quarter. But even more so what we've been able to do on the DIY side of the business in the first half of the year. We feel strongly that we're taking market share and we're always working to continue to drive foot traffic and do everything we can. To drive our retail business.

Second thing I would say is just to reiterate what we said earlier is as we work through the second quarter, it was evident as we got toward the end of the quarter, it was just wet and not as hot as it can normally be in the latter part of the second quarter. We absolutely saw pressure to some of those hot weather-related categories that we would normally start to really see solid performance, especially in June.

And we've been really pleased to see that come back here these first 3.5, four weeks of July. It's evident so far that those hot weather-related categories, it's absolutely gotten hot in the far majority of our markets. And we feel really good about where our DIY business is headed, at least for the beginning of the third quarter here.

That said, there's a lot of quarter left, and we just want to be really careful, and we want to balance the fact that we feel like we have good momentum. We feel like our consumer and our customer specifically continues to be relatively healthy. But we also want to remain cautious in the way we're looking at the back half, not knowing what the future holds here in the short-term with oil prices, fuel prices.

Just still a cautious consumer. And so, we want to just as we always do, make sure that we balance that out with some cautiousness as it relates to how we feel like the rest of the year is going to play out.

I may let Jeremy just talk a little bit about your question on units and versus the inflation lap.

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

To some degree how we think about the back half, we're always going to be a little bit reluctant to polish our crystal ball any more than the rest of you guys do about what we see happening. But in large part the way that we thought about it coming into this year and for sure now that we're halfway into the year about how to think about back half of the year, it's a little bit more consistent with what our broader view around guidance and expectations would be in any period.

And we continue to expect that average ticket is going to be a solid driver of our sales growth opportunity. Historically, for us, it's typically meant a benefit from SKU inflation, but it's been a little bit more muted within our industry in a lot of the periods of the time of the year or in our history when we would have kind of formed this type of outlook.

So we think we get a little bit from SKU, but then some of the average ticket benefits that we get around the complexity of the mix of products that we sell that continues to be more valuable and costly even as that engineering and technology gets better for our customers. And then having that average ticket supplemented by ticket count growth for our business that we feel like is still an opportunity for us.

For sure, on the professional side of the business, that's been more robust. I think that's true broadly for the industry and for where we're at. DIY ticket counts just from a secular perspective are challenged by some of the same dynamics around the increased complexity of the parts, but we still think that we've got tremendous opportunity for growth in that area as well.

So as we thought about the back half of the year, that'sf the outlook that we carry into most periods as to how we can drive comps and what our opportunity is to outperform the market. Ultimately, there are. Opportunities for volatility that we could see, and we've outlined those, I think, pretty clearly.

For sure, there was some of that last year. There were some partial offsets to the same SKU benefit that we saw in some of those components that we think revert back to their norms. And that's how we would lay out what our expectations and that's what's implicit in what we've guided to finish out the year here.

Operator

Christopher Horvers, JPMorgan.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

I wanted to dig more in on the DIY customers. The stacks looks like they slowed from the first quarter to the second quarter. You also had a moment where gas prices reached $4.50 in the middle of May. So I guess how would you diagnose what looks like a two-point slowdown sequentially on gas versus DIY starting to exaggerate deferral as gas prices peak there?

And then how are you thinking about the risk in the back half of the year? As we got into the third quarter last year, there was a moment where you started to lap easy comparisons on the easier comparisons on the DIY side of the business but then sort of the macro uncertainty and some of the pressures facing that low-end consumer sort of kept the trend where it was versus being alleviated by the easier comparison.

So a broad question of how you think about what happened in DIY from 1Q to 2Q. What was the intra-quarter behavior around gas prices and how are you thinking about the deferral potential in the back half of the year?

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

Yeah, all great questions, Chris, and we'll try to take them in order of how you talked about them. For sure, some level of month-to-month change as we move through first quarter and here through second quarter. The gas price question is always a little bit of a challenge to parse out because often the reaction is not extended at any point in time.

And you don't know that we would really point to anything in particular about consumer reaction to that we think is drill noteworthy or meaningful as we move through the quarter. For sure, maybe for a short period of time in May, we could have seen some of that flow through. Sometimes when you start to park too short a time frame, it gets a little bit challenging.

When we just think about overall first quarter versus second quarter, obviously, pleased with where our first quarter was at. We talked quite a bit about it last quarter on the call. We had an extremely strong March and a good start to the spring selling season. Absolutely felt like that was buoyed by some solid tax refund money that was working its way through the system and saw that as a really solid start to the quarter.

In the second quarter in April, not quite as strong as April as we were in March, but all things I think we spoke through. The more we move through second quarter, we feel like we settled at a level that was indicative of strong results for us. We're pleased with how the caves of the quarter progressed as we move through it.

But certainly, we I think we understood that there was some part of what we saw in the first quarter that was unique to the weather and the consumer benefits around tax refunds that we saw within the quarter. As we move through that and into the back half of the year, second quarter, to Brad's point, finished on some of the hot weather categories, not quite as robust as you like to see, we figured we probably pick that back up here in July and then we'll move through the balance of the year.

To your point, some of the comparisons were choppy as the broader economy and consumers move through some of the responses to price levels being increased really more broadly across the economy. And we talked through those last year. I think you articulated very well. We don't necessarily think that we'll see that level of volatility in the back half of the year.

We think that there's probably a lot more stability there, although we're cognizant that we could see some of that again just depending upon what happens from a broader consumer perspective. But we'll have the opportunity in some of those periods to lap periods of time where maybe consumers were reacting a little bit to the things that were happening in 2025.

Broadly speaking, ultimately, we'll see where it all lands as we move through the rest of the year. We feel pretty good about momentum that we've been able to create from an execution perspective relative to where the market is at. So our focus and intention is to outperform, and to be able to deliver solid results in any market and ultimately sometimes the highs and lows are determined by the short-term things that we see in the consumer.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

Absolutely seems like this year your share gains have really widened. I wanted to follow-up on the outlook for inflation, understanding in the back half of the year you're baking in the normalcy and what you assumed really at the start of 2026. But I want to pull apart, are you seeing product cost increase requests related to the fuel cost of shipping products over from Asia that your vendors want to pass on from you? And if you get them, would you pass them through, and then on the other hand, more of the periodic cost of shipping from DC to customer and to store.

How do you anticipate handling that? Do you have a do you has your outlook changed at all in that regard, and as you look back on the industry historically. Does the industry pass on that sort of periodic cost of domestic transportation from DC to store and to customer versus for sure passing on the product input cost side?

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

Yeah, great questions, Chris. I'll start there and Brad or Brent might want to add to anything I missed. From the over the ocean freight, the inbound cost as we think about it as a component of our acquisition costs, that obviously fluctuates from period to period. And we've seen some minor impacts there, but nothing of huge concern to us at this point.

And to your point, we would characterize that within the context of just broadly where we see acquisition and cost pressures and so forth. And we would tell you that that's all been pretty rational and stable this year and the industry continues to operate to pass those through to the customers as appropriate for what we see and what others would see. So nothing really kind of I think in that dynamic that we would view as unusual, and that's kind of incorporated into how we have thought about that normal rate of inflation that we're expecting for the back half of the year.

From an operating cost standpoint, we're seeing I think like everybody would be to run our trucks to maintain a high level of service to our customers. We're seeing some pressure from fuel prices that have been increased. We would just to dimensionalize that a little bit for you. It falls within the range of some of the normal puts and takes that we see within our RSG&A spend. Brent outlined it within his comments.

That was pretty much in line with our expectations of any given quarter, we're going to have a range of where we think they'll sit, and we were probably closer to the top end of that range with the sales volume being what it is and some of that incremental. But by and large, in most instances, that's managed along with the overall cost structure of the business. And it's not an item that you would see a discrete price change move through.

Having said that, that's just part of the broader inflation that's always going to be a part of our operating costs below the gross profit line. And those are all things that as we see inflation and acquisition costs in our industry is very rational in how we pass those through. It's always been our approach to make sure we're maintaining gross margin rate in those instances, and that benefit helps us to cover the normal operating cost inflation dynamics that we see in our business, and they typically sync up pretty well.

If we were ever in a situation where we saw even more enhanced pressure on fuel or any other items that was dislocated from the cost we paid for our products, then we feel really comfortable that we could identify that and pass it through. The market would be rational about that. But those things typically in our history and our business have worked pretty much in sync and in tandem.

Operator

Zach Fadem, Wells Fargo.

Zachary Fadem - *Wells Fargo Securities LLC - Analyst*

You're pointing us to an SG&A per store level that's moving back closer to that 3% range. And the first question is whether you think this is the right run rate now as we move past an elevated period. And as we normalize, is it fair to think about a 3% comp leverage point? And should we anticipate a return to operating margin expansion at this level?

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

Yeah, good morning, Zach. This is Jeremy. I'll take the first stab at that question as well and completely understand and appreciate the question on the longer-term run rate. I'd be remiss if I didn't remind you that we'll provide guidance to you guys for 2027 as we move closer to the year. And so, we're always reluctant to put a stake in the sand around what the expected kind of core year-to-year thought process should be on that because every environment just becomes a little bit unique and different.

For sure, for us in the back half of the year, we're calendaring up against some pretty substantial pressures in our business, and we spent a lot of time, I think, last year talking about some of the things that we saw in third quarter and fourth quarter that elevated our SGA level to levels that had been higher than what we had seen before.

And so, I think the one positive of that is that we, as we calendar against some of those things, we'll see the impact of some of those pressures being built into the base and not necessarily seeing a re-acceleration on top of that in the back half of the year. And that's part of why we've got comfort and why implicitly the purchase for SG&A growth rate within our guidance is less in the back half of the year than it is in the front half of the year.

I would caution again saying, well, that's now the new run rate because we'll roll into 2027. We'll obviously have to have a read on where we think the broader inflation environment is and the broader economy, particularly as it pertains to wage rates and those types of things.

And then we'll also continue to be proactive and aggressive in our posture where we see that we have opportunities to lean into our business and do the types of things that we know will enhance the value that we create for our customers that helps us to drive the share gains that we have.

So it's not trying to be invasive around the question, but I would tell you, we don't view it internally in those ways. We're going to make sure that we match the business opportunities that we have in the market that we have to be sure that we're driving the right result for our customers on a long-term perspective that we know is going to help us to address this great opportunity that we talked about on the call.

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

Yes, Zach, I may just add that I feel really good about the back half and where we've said we're going to land. Still a lot of year to go but have a lot of conviction about our ability to execute, but I'd be remiss if I didn't. When I think about our 7% year-to-date comparable store sales increase over top-line growth of over 9%, our focus priority one is this 10% of the market we have. We feel like we can change that very aggressively over the next few years, especially over the next decade.

So our focus is on taking profitable share. First and foremost, our next priority is solidly driving operating profit dollar growth. And so, we just want to stay focused on those things. But we also want to balance that with the fact that we're very proud of the operating profit percentages we've been able to generate over the last couple of decades as well as our leverage points to make sure, we're dragging it to the bottom line.

And so, we're focused on both, but we want to keep an eye on that topline, and we're not going to make short-term decisions that are going to affect our ability to take share for the mid and long-term.

Zachary Fadem - *Wells Fargo Securities LLC - Analyst*

And putting your share gains aside for a minute, I think there is some concern that the broader industry is beginning to slow, call it inflation, consumer pressures, oil prices, et cetera. And I'm curious to hear whether or not you agree with that sentiment and how you would view industry trends right now for both DIY and Pro, and how these dynamics influence your expectations for the broader category this year?

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

Yeah, no, great question, happy to address it, Zach. I mean, I think for us, clearly there's going to be some impact from just the calendaring of the price increases that the industry passed through last year. And so, I think like the clearest point of deceleration and really the one that I think we've been very clear about and articulating the back half of the year, that's just the dynamic around comparison that we should expect to see.

I think one of the benefits, obviously, that we have been able to see this day-to-day and week to week is we kind of understand the cadence of our business and the volumes that we do and what we see in terms of customers and their transaction accounts, that kind of moves from period to period. And so, as we look at our consumer and what they have looked like in 2026, we still feel good about the resiliency of that consumer to be able to adjust to some of the pressures that are occurring within the broader marketplace.

We think that even as we've moved over the last calendar year through some of the stuff that it caused some volatility last year, and some of the puts and takes from fuel prices this year, that we still operate an industry with a very resilient consumer and that they'll respond well, that they're going to take care of their vehicles and want to keep them on the road at higher mileages and older ages because that's a great decision for a car owner to do that.

And we think all of those things lend probably more stability to how we view the outlook than it would be volatility. We're always going to be cautious the back half of the year. We know we'll get into further into the year and start to get into the holiday selling season, everything else that could impact our customer.

But outside of a very real calendaring of inflation that will moderate back to kind of normal levels, the rest of how we would view the broader industry is positive and consistent with our broader view on our industry in most periods.

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

Yeah, Zach, I would just wrap that up by saying that while it's always a little hard for us to set share gains aside because that's our focus every day is taking an existing share out in the market and turning it into a rally share. But if I do do that, I just got to pull it back up to the fact that I don't know that I agree that the industry is going to slow. There could be some volatility.

We'll see what happens with the pressure to the consumer, but I'm sitting here looking at over 293 million light -- car and light truck vehicles in the US now. That's an increasing number. Average age, as you know. Continues to increase to 13 years old. We're over 3.3 trillion miles driven in 2025 in the US alone. And those dynamics are very similar in Mexico and in Canada.

And so, while there could be some short-term volatility, I think really the way that Jeremy articulated and when I think about the core fundamentals of our industry, used car prices, new car prices, I don't know that I totally agree that we're going to see an industry slowdown.

Operator

Greg Melick, Evercore ISI.

Greg Melick - *Evercore ISI - Analyst*

I wanted to follow-up on what really drove a lot of the like-for-like inflation, which is the tariffs. Have you guys received any rebates so far and/or any forthcoming in your guidance plans in the back half? And then my follow-up is on Phase II there.

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

Yeah, Greg, this is Brent. I can start on the tariffs, and these guys can add in. But yeah, I mean, you think about obviously the tariff environment has been pretty choppy for some time now. And our team has done a fantastic job navigating through that. Our merchandise team has done a tremendous job working with suppliers on that.

But one thing I will remind you is we are not paying a lot of direct tariffs. A lot of our sourcing model historically has been driven by other suppliers that were the importer of record. So in terms of just having a big tariff rebate check per se, that's really not the way our supply chain model has historically worked.

Now with that said, we've worked very diligently and the team has done a fantastic job working with our suppliers to make sure that as those tariff refunds come in that we are benefiting from sharing the benefit from those refunds with our supplier partners.

In addition to that, as we always do, the team continues to do a fantastic job diversifying our supply chain, country of origin. We continue to make progress in that in the first half of the year, very pleased with what we see there. And we're continuing to build capabilities that allow us to, in the cases that it benefits us, become that importer of record, in the cases it doesn't not be that importer of record.

But when you think about just direct tariff rebates or refunds, as some retailers have spoken about it, that's something we are doing in cost and cost of goods and how we negotiate the cost of goods. And we've been very pleased with the job that the team has done throughout the tariff regime of the last year and a half. And certainly, been very proud of the work of the team in the first half of this year, and feel comfortable with the ability to do even more of that as we move into the back half of the year and move forward in terms of benefit of best first cost of goods and best utilization of transportation dollars in bringing those goods to market at the best possible cost to be able to maximize our margin opportunities.

So that's really the way we think about it and that's the way we've been operating and just feel like the team's done a great job. But yeah, there is maybe a little bit of a misinterpretation about direct refunds when you think about our supply chain model versus some others in retail that maybe you guys could cover.

Greg Melick - *Evercore ISI - Analyst*

And maybe then a follow-on to that is, given you're working with your vendors, when you're working with them, is this something that basically ends up being an offset from what might be other rising energy cost pressures? And if there's a way to think about having more perhaps rate go up in gross margin to offset what you're seeing in SG&A from fuel costs?

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

Yes, everything is on the table in those negotiations. And yes, any input cost, whatever that may be, whether it's commodities, labor, raw materials, transportation, whatever those components are of cost of goods in total, everything is a part of those negotiations.

So what I would tell you is we feel very confident in our ability and partnership with those suppliers to be able to continue to improve our gross margin performance just like I pointed to at the midpoint of the year in terms of our guide and maintaining that. We feel confident there as we look to the back half and feel confident even with some of the newer capabilities that we're building to even further address that as we move forward.

Operator

Simeon Gutman, Morgan Stanley.

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

I know you guys don't manage the stock price, but one of the premises is that the profit growth would need to accelerate to create earnings upside to drive the multiple and then obviously, more earnings. So the sales are good. We know SG&A is coming down. I wanted to focus on gross margin, if there's any levers there that can be cranked up to think about how incremental margins can accelerate going forward.

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

Yeah, I can start there, Simeon, and Brad, Britt can jump in. Brent said it in his prepared comments, we feel good about our gross margin performance in the second quarter for half of the year. There is, I think, for us a pretty consistent playbook around how we feel like we can make incremental improvements from a margin perspective. We've proven over the long course of time that we're a great partner for our suppliers.

We view the opportunities that we have in the businesses as a combined set of opportunities for us and our supplier partners. And as we grow, they benefit from it. And that I think helps us to be able to articulate a great value proposition that we can leverage to acquire parts better as we move forward.

I think that also has been inclusive of how we've managed our portfolio of proprietary brands and being very thoughtful and strategic about how we position ourselves around those. And then obviously, distribution is a huge part of our business and we're working hard to lever those costs. But with a real eye towards the incredible productivity that our efforts there drive and the ability to drive sales gains and growth.

And really, that's the underpinning of everything that we do is how do we think about what's going able to allow us to support creating the best value proposition for our customers, and how do you drive that gross profit dollar growth by being able to consolidate the industry and grow faster.

But at the same time, there are opportunities to incrementally improve that margin rate. Our capabilities and our flexibility to really leverage our supply chain from the point of manufacturers continue to improve over the course of time that's evolved as we work through a few care cycles and we've been able to diversify country of origin. And we'll continue to pursue and exploit opportunities there to get incrementally better.

But it's really all consistently focus on what do we think the right long-term strategy is there. In any given quarter, we're going to perform within a little bit tighter band, and there'll be puts and takes, but we feel good about the longer-term trajectory of what we can do with gross margin rates.

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

Okay. And then a follow-up, flipping it back to sales and SG&A leverage. Would you invest more for another incremental point of comp? Meaning, you think the business at its current run rate taking an appropriate amount of share or would you, if you could drive the gross profit dollars faster vis-a-vis more sales, you wouldn't let the business run back down to SG&A per score, call it three, you'd keep it a little higher?

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

Yeah, hey, Simeon, it's Brad. Great question. That's what our teams focus on balancing every day is, where our next best dollar spent is, the return on that dollar. And I would just say that we feel really great with your question right where we're at. We feel like we're making the right investments that we have the right ROI on. We feel like our store staffing when it comes to store payroll.

Jason Tarrant and his team are doing an unbelievable job walking that piano while they walk every day, making sure that we are giving excellent customer service, taking market share and also managing our largest controllable expenses for payroll. So we evaluate that ongoing, but we feel like we found the sweet spot in terms of what we're currently investing to get that top-line return.

LSEG DATA & ANALYTICS

Operator

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

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

Thank you, Matthew. 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.

I'd also like to remind everyone that we will be webcasting our Analyst Day on Thursday, September 17, beginning at 8:00 AM Eastern Time. Details will be available on our website, and we hope you'll be able to join us either virtually or in person. Thank you.

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.
