

## O'Reilly Automotive, Inc.

## 4Q23 quicktake: 2024 guidance may prove conservative given strong start

Maintain Rating: BUY | PO: 1,250.00 USD | Price: 1,067.02 USD

## EPS beats on strong gross margin expansion

O'Reilly (ORLY) reported 4Q EPS of \$9.26, compared to our estimate of \$8.74 and consensus of \$9.16. Comp growth of 3.4% beat our estimate of 1.8% but was slightly below consensus of 3.7%. Gross margin expanded 47bp to 51.3% and was above our estimate of 50.9% and just above consensus of 51.2%. SG&A deleveraged 43bp to 32.6% and was above our estimate of 31.9% and consensus of 32.1%. On December 18<sup>th</sup>, ORLY announced that it was planning to acquire Groupe Del Vasto (Vast-Auto), a family-owned and operated auto parts supplier in Canada, and this acquisition represents another milestone for ORLY because it is the start of ORLY's entrance into Canada. The transaction closed in January 2024. Following the acquisitions of Mayasa Auto Parts in Mexico in 2019 and Vast-Auto this year, ORLY has now expanded its addressable market to all of North America.

## Vast-Auto creates margin dilution for 2024

ORLY provided outlook for 2024. The company expects comp to be between 3.0% to 5.0% and for total sales of \$16.8-17.1bn. ORLY expects EPS (ex. future repurchases) between \$41.05-\$41.55 (vs. consensus \$42.73 which includes repurchases). Gross margin is expected to be 51.0%-51.5%, compared to 51.3% for 2023, and operating margin is expected to be 19.7%-20.2%, compared to 20.2% for 2023. This implies 20bp of SG&A deleverage at the midpoint to 31.3% compared to 31.1% in 2023. ORLY is on track to open 190-200 net new stores this year. The guidance considers the impact of the newly acquired Canadian business, which incorporates a 25bp dilution to gross margin and 15bp dilution to operating margin for 2024.

## Remain confident in ORLY's growth trajectory

We maintain our Buy rating and \$1,250 PO based on 30x '24 P/E as we continue to view ORLY as a best-in-class operator within the auto aftermarket which has historically been more resilient than the broader Consumer Discretionary sector (see [BAC credit and debit card data note \(01/11/24\)](#)). Within this defensive yet growing category, ORLY has a long track record of both stronger growth and stronger margins than its auto parts retail peers. We expect ORLY had a strong start to 2024 given cold weather in January.

07 February 2024

## Equity

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## Stock Data

Price	1,067.02 USD
Price Objective	1,250.00 USD
Date Established	6-Feb-2024
Investment Opinion	B-1-9
52-Week Range	776.43 USD - 1,074.04 USD
Mkt Val (mn) / Shares Out (mn)	63,127 USD / 59.2
Free Float	99.0%
Average Daily Value (mn)	402.62 USD
BofA Ticker / Exchange	ORLY / NAS
Bloomberg / Reuters	ORLY US / ORLY.OQ
ROE (2023E)	NA
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter™	Medium

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Timestamp: 07 February 2024 08:44PM EST

## Price objective basis & risk

### O'Reilly Automotive, Inc. (ORLY)

Our PO of \$1250 is based on about 30x our 2024 EPS estimate, above the company's 10-year pre-COVID average (20x). Given O'Reilly's attractive characteristics of 1) balanced DIY vs DIFM mix, 2) expected pace of store growth and organic market share gains, and 3) above-average operating margin, we believe that a P/E multiple above the peer group historical average (10x-20x) is warranted. In the current consumer backdrop, we also expect investors to ascribe a premium to best-in-class retailers in non-discretionary product categories, such as ORLY.

Upside risks are accelerated share gains, faster than expected penetration of the Northeast and a continuation of accretive and market share gaining acquisitions.

Downside risks are: 1) announcements by online retailers of increased focus on auto parts would drive further negative investor sentiment and potential market share loss, 2) miles driven trends decelerate, 3) new vehicle sales strengthen and/or scrappage rates increase, reducing the average age of the vehicle fleet, 4) increased competition on price in the DIFM channel, further pressuring margins.

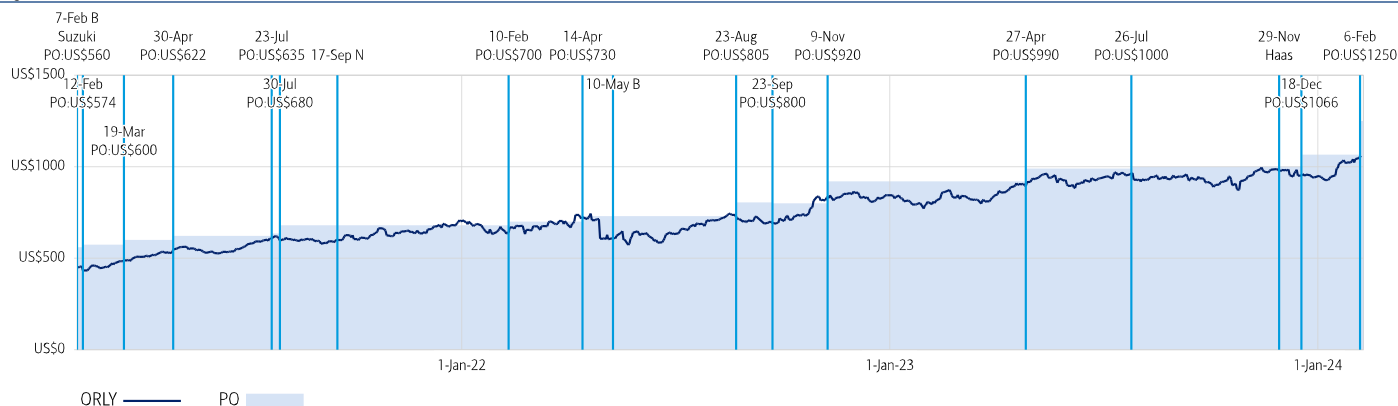
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### O'Reilly Auto (ORLY) Price Chart



ORLY — PO ■■■■  
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
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Sell	807	22.84%	Sell	383	47.46%

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