

## O'Reilly Automotive, Inc.

**Mgmt. meeting takeaways: ORLY on a solid trajectory to gain market share**

Maintain Rating: BUY | PO: 1,250.00 USD | Price: 1,092.96 USD

**SG&A investments expected to improve efficiency**

We visited O'Reilly (ORLY)'s headquarter in Springfield, Missouri on Feb 28 and came away positive. With the acquisition of Groupe Del Vasto (Vast-Auto) in Canada, ORLY has now expanded its addressable market to all of North America. Due to Vast-Auto's current mix of lower margin distribution business to independent parts stores, ORLY expects a headwind to gross margin which resets the margin base. Over time, the company hopes to expand margin similar to how it executed in Mexico. The company has also been making SG&A investments in IT, human capital management tools, customer engagement and retention, etc. Within IT, ORLY plans to roll out better tools to provide better team member and customer experience and improve system for pricing and inventory. ORLY has a solid roadmap for DCs and procurement and sees room to further improve efficiency and automation.

**Aims to gain share and drive margin improvement**

ORLY wants to gain share in the market and improve operating profit growth. Although the company focuses on margin dollars, it also wants to drive rate. Currently, DIFM is outperforming and causing mix pressure to margins. Some businesses are jobbers, which also pressured margin, but the company believes that it can improve eventually. ORLY emphasized that it wants to improve DIY and to take share from competitors.

**Plans to explore opportunities in EV parts**

ORLY also sees opportunities in the EV segment. Increasing complexity is a favorable trend for the industry. The company has several thousand SKUs of EV parts and can take advantage of the EV trend. Broadly speaking, the industry will benefit from more parts, increased complexity and rising cost of cars.

**Operating within a resilient industry**

We reiterate 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 to macro factors than the broader Consumer Discretionary sector (see [BAC aggregated credit and debit card data note \(02/08/2024\)](#)). 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 are publishing our 2026 estimates.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	33.44	38.46	42.24	47.60	53.62
EPS Change (YoY)	7.5%	15.0%	9.8%	12.7%	12.6%
Consensus EPS (Bloomberg)			42.31	46.92	52.21
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	32.7x	28.4x	25.9x	23.0x	20.4x
EV / EBITDA*	21.5x	19.8x	18.4x	17.2x	16.1x
Free Cash Flow Yield*	4.0%	3.1%	3.2%	4.0%	4.4%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

29 February 2024

## Equity

**Key Changes**

(US\$)	Previous	Current
2026E Rev (m)	NA	19,246.4
2026E EPS	NA	53.62

**Jason Haas, CFA**  
Research Analyst  
BofAS  
+1 646 743 0587  
[jason.haas@bofa.com](mailto:jason.haas@bofa.com)

**Vicky Liu**  
Research Analyst  
BofAS  
+1 646 855 5115  
[yanjun.liu@bofa.com](mailto:yanjun.liu@bofa.com)

**Robert F. Ohmes, CFA**  
Research Analyst  
BofAS  
+1 646 855 0078  
[robert.ohmes@bofa.com](mailto:robert.ohmes@bofa.com)

**Stock Data**

Price	1,092.96 USD
Price Objective	1,250.00 USD
Date Established	6-Feb-2024
Investment Opinion	B-1-9
52-Week Range	795.75 USD - 1,083.57 USD
Mrkt Val (mn) / Shares Out (mn)	64,564 USD / 59.1
Free Float	99.0%
Average Daily Value (mn)	447.45 USD
BofA Ticker / Exchange	ORLY / NAS
Bloomberg / Reuters	ORLY US / ORLY.OQ
ROE (2024E)	NA
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	Medium

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Timestamp: 29 February 2024 05:00AM EST

EV: Electrical vehicle

DIY: Do it yourself

SKU: Stock keeping unit

DC: distribution center

# iQprofile<sup>SM</sup> O'Reilly Automotive, Inc.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	40.3%	42.3%	38.8%	37.5%	38.7%
Return on Equity	NM	NM	NM	NM	NM
Operating Margin	20.5%	20.2%	20.2%	20.4%	20.5%
Free Cash Flow	2,585	2,028	2,098	2,592	2,834

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.4x	1.3x	1.2x	1.2x	1.2x
Asset Replacement Ratio	1.6x	2.5x	2.2x	1.5x	1.4x
Tax Rate	22.4%	21.9%	22.6%	22.6%	22.6%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	18.7x	15.8x	14.8x	15.9x	17.0x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	14,410	15,812	16,969	18,072	19,246
% Change	8.1%	9.7%	7.3%	6.5%	6.5%
Gross Profit	7,382	8,105	8,736	9,312	9,927
% Change	5.2%	9.8%	7.8%	6.6%	6.6%
EBITDA	3,312	3,595	3,869	4,146	4,442
% Change	2.1%	8.5%	7.6%	7.1%	7.1%
Net Interest & Other Income	(156)	(182)	(224)	(226)	(228)
<b>Net Income (Adjusted)</b>	<b>2,173</b>	<b>2,347</b>	<b>2,486</b>	<b>2,678</b>	<b>2,885</b>
<b>% Change</b>	<b>0.4%</b>	<b>8.0%</b>	<b>5.9%</b>	<b>7.7%</b>	<b>7.7%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	2,173	2,347	2,486	2,678	2,885
Depreciation & Amortization	358	409	434	460	487
Change in Working Capital	1	2	2	2	2
Deferred Taxation Charge	26	28	29	31	33
Other Adjustments, Net	590	249	97	98	104
Capital Expenditure	(563)	(1,006)	(950)	(676)	(676)
<b>Free Cash Flow</b>	<b>2,585</b>	<b>2,028</b>	<b>2,098</b>	<b>2,592</b>	<b>2,834</b>
<b>% Change</b>	<b>-6.5%</b>	<b>-21.6%</b>	<b>3.4%</b>	<b>23.6%</b>	<b>9.3%</b>
Share / Issue Repurchase	(3,282)	(3,151)	(1,260)	(2,600)	(2,600)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	541	445	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	109	279	1,226	1,327	1,670
Trade Receivables	343	375	402	429	457
Other Current Assets	4,597	4,904	5,240	5,575	5,932
Property, Plant & Equipment	4,424	5,037	5,553	5,770	5,959
Other Non-Current Assets	3,156	3,278	3,278	3,278	3,278
<b>Total Assets</b>	<b>12,628</b>	<b>13,873</b>	<b>15,699</b>	<b>16,378</b>	<b>17,295</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	7,064	7,661	8,163	8,660	9,190
Long-Term Debt	4,372	5,570	5,570	5,570	5,570
Other Non-Current Liabilities	2,253	2,381	2,402	2,423	2,445
<b>Total Liabilities</b>	<b>13,689</b>	<b>15,612</b>	<b>16,135</b>	<b>16,653</b>	<b>17,205</b>
<b>Total Equity</b>	<b>(1,061)</b>	<b>(1,739)</b>	<b>(436)</b>	<b>(275)</b>	<b>90</b>
<b>Total Equity &amp; Liabilities</b>	<b>12,628</b>	<b>13,873</b>	<b>15,699</b>	<b>16,378</b>	<b>17,295</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Retailing-Hardlines

## Company Description

O'Reilly is the nation's second largest auto parts retailer with more than 6,000 stores and \$15.4 billion in 2022 revenue. Founded in 1957 and headquartered in Springfield, MO, O'Reilly has an enviable balance between DIY and commercial, which gives the company a relatively less discretionary revenue split.

## Investment Rationale

ORLY's superior supply chain and inventory availability should enable it to continue to take share from both independent auto shops and national players, while a favorable fleet aging cycle should provide additional top-line growth. Partially mitigating the growth in the DIFM channel could be deceleration in the DIY channel, which may somewhat curb medium-term same-store sales growth vs. peers with more exposure to auto service.

## Stock Data

Average Daily Volume 409,391

## Quarterly Earnings Estimates

	2023	2024
Q1	8.28A	9.28E
Q2	10.22A	11.31E
Q3	10.72A	11.94E
Q4	9.26A	9.71E

## 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.

## Analyst Certification

I, Jason Haas, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Arhaus, Inc.	ARHS	ARHS US	Jason Haas, CFA
	Boot Barn	BOOT	BOOT US	Jason Haas, CFA
	Driven Brands	DRVN	DRVN US	Jason Haas, CFA
	Five Below Inc.	FIVE	FIVE US	Jason Haas, CFA
	Floor and Decor Holdings, Inc.	FND	FND US	Robert F. Ohmes, CFA
	Genuine Parts	GPC	GPC US	Jason Haas, CFA
	Lowe's Companies, Inc.	LOW	LOW US	Robert F. Ohmes, CFA
	Mattel	MAT	MAT US	Jason Haas, CFA
	Mister Car Wash	MCW	MCW US	Jason Haas, CFA
	Ollie's	OLLI	OLLI US	Jason Haas, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Jason Haas, CFA
	Petco	WOOF	WOOF US	Jason Haas, CFA
	PROG Holdings Inc	PRG	PRG US	Jason Haas, CFA
	Rollins Inc.	ROL	ROL US	Jason Haas, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Jason Haas, CFA
	The Home Depot, Inc.	HD	HD US	Robert F. Ohmes, CFA
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
<b>NEUTRAL</b>				
	AutoZone Inc.	AZO	AZO US	Jason Haas, CFA
	Hasbro	HAS	HAS US	Jason Haas, CFA
	Sonos, Inc.	SONO	SONO US	Jason Haas, CFA
	Williams-Sonoma	WSM	WSM US	Jason Haas, CFA
<b>UNDERPERFORM</b>				
	Advance Auto Parts, Inc.	AAP	AAP US	Jason Haas, CFA



## US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Best Buy Co., Inc.	BBY	BBY US	Robert F. Ohmes, CFA
	Snap-on	SNA	SNA US	Elizabeth L Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Whirlpool	WHR	WHR US	Jason Haas, CFA

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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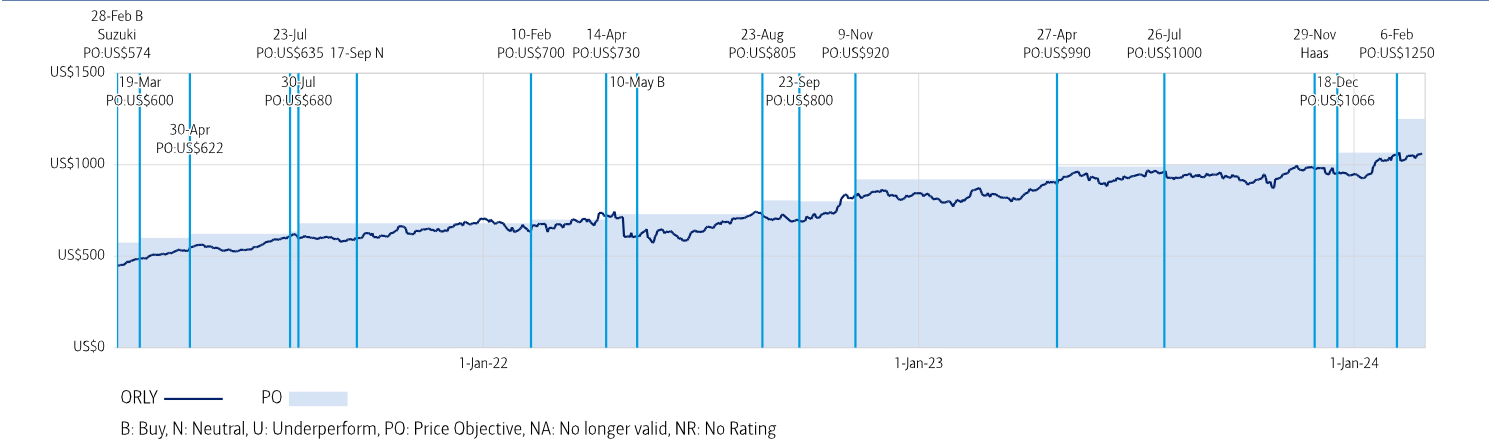
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O'Reilly Auto (ORLY) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

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%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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