UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to ________

Graphic

O'REILLY AUTOMOTIVE, INC.

(Exact name of registrant as specified in its charter)

Missouri	**000-21318**	**27-4358837**
(State or other jurisdiction of incorporation or organization)	Commission file number	(I.R.S. Employer Identification No.)

233 South Patterson Avenue
Springfield, Missouri 65802
(Address of principal executive offices, Zip code)

(417) 862-6708
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on which Registered
Common Stock,$0.01 par value	ORLY	The Nasdaq Stock Market LLC (Nasdaq Global Select Market)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐	Emerging growth company	☐
Non-accelerated filer	☐	Smaller reporting company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: Common stock, $0.01 par value - 59,162,175 shares outstanding as of October 30, 2023.

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2023
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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	September 30, 2023 (Unaudited)	December 31, 2022 (Note)
Assets		
Current assets:		
Cash and cash equivalents	**$ 82,664**	$ 108,583
Accounts receivable, net	**399,654**	343,155
Amounts receivable from suppliers	**156,727**	127,019
Inventory	**4,631,511**	4,359,126
Other current assets	**107,156**	110,376
Total current assets	**5,377,712**	5,048,259
Property and equipment, at cost	**8,136,342**	7,438,065
Less: accumulated depreciation and amortization	**3,248,165**	3,014,024
Net property and equipment	**4,888,177**	4,424,041
Operating lease, right-of-use assets	**2,213,884**	2,112,267
Goodwill	**895,399**	884,445
Other assets, net	**176,666**	158,967
Total assets	**$ 13,551,838**	$ 12,627,979
Liabilities and shareholders' deficit		
Current liabilities:		
Accounts payable	**$ 6,199,816**	$ 5,881,157
Self-insurance reserves	**128,892**	138,926
Accrued payroll	**124,040**	126,888
Accrued benefits and withholdings	**170,550**	166,433
Income taxes payable	**325,693**	—
Current portion of operating lease liabilities	**385,942**	366,721
Other current liabilities	**496,149**	383,692
Total current liabilities	**7,831,082**	7,063,817
Long-term debt	**5,102,350**	4,371,653
Operating lease liabilities, less current portion	**1,895,991**	1,806,656
Deferred income taxes	**282,894**	245,347
Other liabilities	**199,990**	201,258
Shareholders' equity (deficit):		
Common stock, $0.01 par value:		
Authorized shares – 245,000,000		
Issued and outstanding shares – 59,621,138 as of September 30, 2023, and 62,353,221 as of December 31, 2022	**596**	624
Additional paid-in capital	**1,341,163**	1,311,488
Retained deficit	**(3,132,517)**	(2,375,860)
Accumulated other comprehensive income	**30,289**	2,996
Total shareholders' deficit	**(1,760,469)**	(1,060,752)
Total liabilities and shareholders' deficit	**$ 13,551,838**	$ 12,627,979

Note: The balance sheet at December 31, 2022, has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statements.

See accompanying Notes to condensed consolidated financial statements.

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	**2023**	2022
Sales	**$ 4,203,380**	$ 3,798,619	**$ 11,980,235**	$ 10,765,367
Cost of goods sold, including warehouse and distribution expenses	**2,042,917**	1,863,657	**5,842,861**	5,237,615
Gross profit	**2,160,463**	1,934,962	**6,137,374**	5,527,752
Selling, general and administrative expenses	**1,263,241**	1,130,768	**3,669,734**	3,255,478
Operating income	**897,222**	804,194	**2,467,640**	2,272,274
Other income (expense):				
Interest expense	**(51,361)**	(43,164)	**(145,520)**	(115,389)
Interest income	**1,292**	1,435	**2,920**	2,627
Other, net	**(486)**	(616)	**8,179**	(7,104)
Total other expense	**(50,555)**	(42,345)	**(134,421)**	(119,866)
Income before income taxes	**846,667**	761,849	**2,333,219**	2,152,408
Provision for income taxes	**196,840**	176,411	**539,142**	508,330
Net income	**$ 649,827**	$ 585,438	**$ 1,794,077**	$ 1,644,078
Earnings per share-basic:				
Earnings per share	**$ 10.82**	$ 9.25	**$ 29.46**	$ 25.30
Weighted-average common shares outstanding – basic	**60,082**	63,288	**60,905**	64,979
Earnings per share-assuming dilution:				
Earnings per share	**$ 10.72**	$ 9.17	**$ 29.20**	$ 25.08
Weighted-average common shares outstanding – assuming dilution	**60,590**	63,860	**61,445**	65,566

See accompanying Notes to condensed consolidated financial statements.

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	**2023**	2022
Net income	**$ 649,827**	$ 585,438	**$ 1,794,077**	$ 1,644,078
Other comprehensive income (loss):				
Foreign currency translation adjustments	**(5,782)**	(372)	**27,293**	2,816
Total other comprehensive (loss) income	**(5,782)**	(372)	**27,293**	2,816
Comprehensive income	**$ 644,045**	$ 585,066	**$ 1,821,370**	$ 1,646,894

See accompanying Notes to condensed consolidated financial statements.

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

(Unaudited)

(In thousands)

	For the Three Months Ended September 30, 2023					
	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	
	Shares	Par Value	Capital	Deficit	Income	Total
Balance at June 30, 2023	**60,402**	**$ 604**	**$ 1,330,270**	**$ (2,994,418)**	**$ 36,071**	**$ (1,627,473)**
Net income	—	—	—	649,827	—	649,827
Total other comprehensive loss	—	—	—	—	(5,782)	(5,782)
Issuance of common stock under employee benefit plans, net of forfeitures and shares withheld to cover taxes	7	—	5,239	—	—	5,239
Net issuance of common stock upon exercise of stock options	64	1	17,685	—	—	17,686
Share based compensation	—	—	6,900	—	—	6,900
Share repurchases, including fees	(852)	(9)	(18,931)	(780,589)	—	(799,529)
Excise tax on share repurchases	—	—	—	(7,337)	—	(7,337)
Balance at September 30, 2023	**59,621**	**$ 596**	**$ 1,341,163**	**$ (3,132,517)**	**$ 30,289**	**$ (1,760,469)**

	For the Nine Months Ended September 30, 2023					
	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	
	Shares	Par Value	Capital	Deficit	Income	Total
Balance at December 31, 2022	**62,353**	**$ 624**	**$ 1,311,488**	**$ (2,375,860)**	**$ 2,996**	**$ (1,060,752)**
Net income	—	—	—	1,794,077	—	1,794,077
Total other comprehensive income	—	—	—	—	27,293	27,293
Issuance of common stock under employee benefit plans, net of forfeitures and shares withheld to cover taxes	22	—	16,649	—	—	16,649
Net issuance of common stock upon exercise of stock options	207	2	56,483	—	—	56,485
Share-based compensation	—	—	20,555	—	—	20,555
Share repurchases, including fees	(2,961)	(30)	(64,012)	(2,526,938)	—	(2,590,980)
Excise tax on share repurchases	—	—	—	(23,796)	—	(23,796)
Balance at September 30, 2023	**59,621**	**$ 596**	**$ 1,341,163**	**$ (3,132,517)**	**$ 30,289**	**$ (1,760,469)**

	For the Three Months Ended September 30, 2022					
	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	
	Shares	Par Value	Capital	Deficit	Loss	Total
Balance at June 30, 2022	**63,753**	**$ 638**	**$ 1,286,651**	**$ (2,391,108)**	**$ (3,611)**	**$ (1,107,430)**
Net income	—	—	—	585,438	—	585,438
Total other comprehensive loss	—	—	—	—	(372)	(372)
Issuance of common stock under employee benefit plans, net of forfeitures and shares withheld to cover taxes	7	—	4,698	—	—	4,698
Net issuance of common stock upon exercise of stock options	78	1	16,765	—	—	16,766
Share based compensation	—	—	5,752	—	—	5,752
Share repurchases, including fees	(1,039)	(11)	(21,141)	(689,163)	—	(710,315)
Balance at September 30, 2022	**62,799**	**$ 628**	**$ 1,292,725**	**$ (2,494,833)**	**$ (3,983)**	**$ (1,205,463)**

	For the Nine Months Ended September 30, 2022					
	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	
	Shares	Par Value	Capital	Deficit	Loss	Total
Balance at December 31, 2021	**67,029**	**$ 670**	**$ 1,305,508**	**$ (1,365,802)**	**$ (6,799)**	**$ (66,423)**
Net income	—	—	—	1,644,078	—	1,644,078
Total other comprehensive income	—	—	—	—	2,816	2,816
Issuance of common stock under employee benefit plans, net of forfeitures and shares withheld to cover taxes	26	—	15,272	—	—	15,272
Net issuance of common stock upon exercise of stock options	169	2	42,786	—	—	42,788
Share-based compensation	—	—	17,563	—	—	17,563
Share repurchases, including fees	(4,425)	(44)	(88,404)	(2,773,109)	—	(2,861,557)
Balance at September 30, 2022	**62,799**	**$ 628**	**$ 1,292,725**	**$ (2,494,833)**	**$ (3,983)**	**$ (1,205,463)**

See accompanying Notes to condensed consolidated financial statements.

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	For the Nine Months Ended September 30,	
	2023	2022
Operating activities:		
Net income	**$ 1,794,077**	$ 1,644,078
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, equipment and intangibles	**296,583**	258,048
Amortization of debt discount and issuance costs	**3,597**	3,490
Deferred income taxes	**35,982**	42,673
Share-based compensation programs	**21,948**	18,913
Other	**3,574**	716
Changes in operating assets and liabilities:		
Accounts receivable	**(58,658)**	(69,965)
Inventory	**(263,896)**	(450,991)
Accounts payable	**315,910**	878,501
Income taxes payable	**353,366**	73,853
Other	**15,172**	(46,296)
Net cash provided by operating activities	**2,517,655**	2,353,020
Investing activities:		
Purchases of property and equipment	**(753,958)**	(388,820)
Proceeds from sale of property and equipment	**10,461**	10,829
Investment in tax credit equity investments	**(4,150)**	(5,262)
Other	**(2,126)**	(448)
Net cash used in investing activities	**(749,773)**	(383,701)
Financing activities:		
Proceeds from borrowings on revolving credit facility	**3,227,000**	785,800
Payments on revolving credit facility	**(3,227,000)**	(785,800)
Net proceeds from commercial paper	**1,025,075**	—
Proceeds from the issuance of long-term debt	**—**	847,314
Principal payments on long-term debt	**(300,000)**	(300,000)
Payment of debt issuance costs	**(39)**	(6,442)
Repurchases of common stock	**(2,590,980)**	(2,861,557)
Net proceeds from issuance of common stock	**71,604**	56,575
Other	**(354)**	(350)
Net cash used in financing activities	**(1,794,694)**	(2,264,460)
Effect of exchange rate changes on cash	**893**	88
Net decrease in cash and cash equivalents	**(25,919)**	(295,053)
Cash and cash equivalents at beginning of the period	**108,583**	362,113
Cash and cash equivalents at end of the period	**$ 82,664**	$ 67,060
Supplemental disclosures of cash flow information:		
Income taxes paid	**$ 147,128**	$ 392,490
Interest paid, net of capitalized interest	**127,085**	99,674

See accompanying Notes to condensed consolidated financial statements.

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of O'Reilly Automotive, Inc. and its subsidiaries (the "Company" or "O'Reilly") have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2023, are not necessarily indicative of the results that may be expected for the year ended December 31, 2023. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2022.

Principles of consolidation:

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company balances and transactions have been eliminated in consolidation.

NOTE 2 – VARIABLE INTEREST ENTITIES

The Company invests in certain tax credit funds that promote renewable energy. These investments generate a return primarily through the realization of federal tax credits and other tax benefits. The Company accounts for the tax attributes of its renewable energy investments using the deferral method. Under this method, realized investment tax credits and other tax benefits are recognized as a reduction of the renewable energy tax credits.

The Company has determined its investment in these tax credit funds were investments in variable interest entities ("VIEs"). The Company analyzes any investments in VIEs at inception and again if certain triggering events are identified to determine if it is the primary beneficiary. The Company considers a variety of factors in identifying the entity that holds the power to direct matters that most significantly impact the VIEs' economic performance including, but not limited to, the ability to direct financing, leasing, construction, and other operating decisions and activities. As of September 30, 2023, the Company had invested in six unconsolidated tax credit fund entities that were considered to be VIEs and concluded it was not the primary beneficiary of any of the entities, as it did not have the power to control the activities that most significantly impact the entities, and has therefore accounted for these investments using the equity method.

The Company's maximum exposure to losses associated with these VIEs is generally limited to its net investment, which was $37.1 million as of September 30, 2023, and was included in "Other assets, net" on the accompanying Condensed Consolidated Balance Sheets.

NOTE 3 – FAIR VALUE MEASUREMENTS

The Company uses the fair value hierarchy, which prioritizes the inputs used to measure the fair value of certain of its financial instruments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The Company uses the income and market approaches to determine the fair value of its assets and liabilities. The three levels of the fair value hierarchy are set forth below:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2 – Inputs other than quoted prices in active markets included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Unobservable inputs for the asset or liability.

Financial assets and liabilities measured at fair value on a recurring basis:

The Company invests in various marketable securities with the intention of selling these securities to fulfill its future unsecured obligations under the Company's nonqualified deferred compensation plan. See Note 11 for further information concerning the Company's benefit plans.

The Company's marketable securities were accounted for as trading securities and the carrying amount of its marketable securities were included in "Other assets, net" on the accompanying Condensed Consolidated Balance Sheets as of September 30, 2023, and December 31, 2022. The Company recorded a decrease in fair value related to its marketable securities in the amount of $1.4 million and $2.0 million for the three months ended September 30, 2023 and 2022, respectively, which were included in "Other income (expense)" on the accompanying Condensed Consolidated Statements of Income. The Company recorded an increase in fair value related to its marketable securities in the amount of $3.6 million and a decrease in fair value related to its marketable securities in the amount of $11.2 million for the nine months ended September 30, 2023 and 2022, respectively, which were included in "Other income (expense)" on the accompanying Condensed Consolidated Statements of Income.

The tables below identify the estimated fair value of the Company's marketable securities, determined by reference to quoted market prices (Level 1), as of September 30, 2023, and December 31, 2022 (in thousands):

	September 30, 2023			
	Quoted Priced in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Marketable securities	**$ 54,631**	**$ —**	**$ —**	**$ 54,631**

	December 31, 2022			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Marketable securities	$ 49,371	$ —	$ —	$ 49,371

Non-financial assets and liabilities measured at fair value on a nonrecurring basis:

Certain long-lived non-financial assets and liabilities may be required to be measured at fair value on a nonrecurring basis in certain circumstances, including when there is evidence of impairment. These non-financial assets and liabilities may include assets acquired in a business combination or property and equipment that are determined to be impaired. As of September 30, 2023, and December 31, 2022, the Company did not have any non-financial assets or liabilities that had been measured at fair value subsequent to initial recognition.

Fair value of financial instruments:

The carrying amounts of the Company's senior notes, unsecured revolving credit facility borrowings, and commercial paper program borrowings are included in "Long-term debt" on the accompanying Condensed Consolidated Balance Sheets as of September 30, 2023, and December 31, 2022.

The table below identifies the estimated fair value of the Company's senior notes, using the market approach. The fair value as of September 30, 2023, and December 31, 2022, was determined by reference to quoted market prices of the same or similar instruments (Level 2) (in thousands):

	September 30, 2023		December 31, 2022	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Senior Notes	**$ 4,074,674**	**$ 3,731,165**	$ 4,371,653	$ 4,119,777

The carrying amount of the Company's unsecured revolving credit facility approximates fair value (Level 2), as borrowings under the facility bear variable interest at current market rates. The carrying amount of the Company's commercial paper program approximates fair value (Level 2), as borrowings under the program bear interest at market rates prevailing at the time of issuance. See Note 6 for further information concerning the Company's senior notes, unsecured revolving credit facility, and commercial paper program.

The accompanying Condensed Consolidated Balance Sheets include other financial instruments, including cash and cash equivalents, accounts receivable, amounts receivable from suppliers, and accounts payable. Due to the short-term nature of these financial instruments, the Company believes that the carrying values of these instruments approximate their fair values.

NOTE 4 – LEASES

The Company leases certain office space, retail stores, distribution centers, and equipment under long-term, non-cancelable operating leases. The following table summarizes Total lease cost for the three and nine months ended September 30, 2023 and 2022, which were primarily included in "Selling, general and administrative expenses" on the accompanying Condensed Consolidated Statements of Income (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	**2023**	2022
Operating lease cost	**$ 100,559**	$ 92,677	**$ 296,624**	$ 273,475
Short-term operating lease cost	**1,708**	2,594	**7,213**	7,710
Variable operating lease cost	**25,696**	23,547	**75,257**	70,650
Sublease income	**(1,143)**	(1,553)	**(3,632)**	(3,975)
Total lease cost	**$ 126,820**	$ 117,265	**$ 375,462**	$ 347,860

The following table summarizes other lease-related information for the nine months ended September 30, 2023 and 2022:

	For the Nine Months Ended September 30,	
	2023	2022
Cash paid for amounts included in the measurement of operating lease liabilities:		
Operating cash flows from operating leases	**$ 291,033**	$ 272,620
Right-of-use assets obtained in exchange for new operating lease liabilities	**324,893**	341,272

NOTE 5 – SUPPLIER FINANCE PROGRAMS

The Company has established and maintains supplier finance programs with certain third-party financial institutions, which allow participating merchandise suppliers to voluntarily elect to assign the Company's payment obligations due to these merchandise suppliers to one of the designated third-party institutions. Under these supplier finance programs, the Company has agreed to pay the third-party financial institutions the stated amount of confirmed merchandise supplier invoices on the original maturity dates of the invoices, which are generally for a term of one year. The Company does not have any assets pledged as security or other forms of guarantees for the committed payment to the third-party financial institutions. As of September 30, 2023, and December 31, 2022, the Company had obligations outstanding under these programs for invoices that were confirmed as valid to the third-party financial institutions in the amounts of $4.4 billion and $4.2 billion, respectively, which were included as a component of "Accounts payable" on the accompanying Condensed Consolidated Balance Sheets.

NOTE 6 – FINANCING

The following table identifies the amounts included in "Long-term debt" on the accompanying Condensed Consolidated Balance Sheets as of September 30, 2023, and December 31, 2022 (in thousands):

	September 30, 2023	December 31, 2022
Commercial paper program, weighted-average variable interest rate of 5.578%	**1,030,000**	—
3.850% Senior Notes due 2023, effective interest rate of 3.851%	—	300,000
3.550% Senior Notes due 2026, effective interest rate of 3.570%	**500,000**	500,000
3.600% Senior Notes due 2027, effective interest rate of 3.619%	**750,000**	750,000
4.350% Senior Notes due 2028, effective interest rate of 4.383%	**500,000**	500,000
3.900% Senior Notes due 2029, effective interest rate of 3.901%	**500,000**	500,000
4.200% Senior Notes due 2030, effective interest rate of 4.205%	**500,000**	500,000
1.750% Senior Notes due 2031, effective interest rate of 1.798%	**500,000**	500,000
4.700% Senior Notes due 2032, effective interest rate of 4.740%	**850,000**	850,000
Total principal amount of debt	**5,130,000**	4,400,000
Less: Unamortized discount and debt issuance costs	**27,650**	28,347
Total long-term debt	**$ 5,102,350**	$ 4,371,653

Unsecured revolving credit facility:

The Company is party to a credit agreement dated June 15, 2021, as amended as of March 6, 2023 (the "Credit Agreement"). The Credit Agreement provides for a five-year $1.8 billion unsecured revolving credit facility (the "Revolving Credit Facility") arranged by

JPMorgan Chase Bank, N.A., which is scheduled to mature in June of 2026. The Credit Agreement includes a $200 million sub-limit for the issuance of letters of credit and a $75 million sub-limit for swing line borrowings under the Revolving Credit Facility. As described in the Credit Agreement governing the Revolving Credit Facility, the Company may, from time to time, subject to certain conditions, increase the aggregate commitments under the Revolving Credit Facility by up to $900 million, provided that the aggregate amount of the commitments does not exceed $2.7 billion at any time.

On March 6, 2023, the Company entered into the First Amendment (the "Amendment") to the credit agreement to convert the LIBOR based pricing to Secured Overnight Financing Rate ("SOFR") based pricing. The Amendment replaces an Adjusted LIBO Rate with an Adjusted Term SOFR Rate, comprised of the Term SOFR Rate plus 0.100%. The Amendment made no other material changes to the terms of the credit agreement.

As of September 30, 2023, and December 31, 2022, the Company had outstanding letters of credit, primarily to support obligations related to workers' compensation, general liability, and other insurance policies, under the Credit Agreement in the amounts of $ 4.9 million and $5.1 million, respectively, reducing the aggregate availability under the Credit Agreement by those amounts. Substantially all of these outstanding letters of credit have a one-year term from the date of issuance. As of September 30, 2023, and December 31, 2022, the Company had no outstanding borrowings under its Revolving Credit Facility.

Borrowings under the Revolving Credit Facility (other than swing line loans) bear interest, at the Company's option, at either an Alternate Base Rate or an Adjusted Term SOFR Rate (both as defined in the Credit Agreement) plus an applicable margin. Swing line loans made under the Revolving Credit Facility bear interest at an Alternate Base Rate plus the applicable margin for Alternate Base Rate loans. In addition, the Company pays a facility fee on the aggregate amount of the commitments under the Credit Agreement in an amount equal to a percentage of such commitments. The interest rate margins and facility fee are based upon the better of the ratings assigned to the Company's debt by Moody's Investor Service, Inc. and Standard & Poor's Ratings Services, subject to limited exceptions. As of September 30, 2023, based upon the Company's current credit ratings, its margin for Alternate Base Rate loans was 0.000%, its margin for Term Benchmark Revolving Loans was 0.900% and its facility fee was 0.100%.

The Credit Agreement contains certain covenants, including limitations on subsidiary indebtedness, a minimum consolidated fixed charge coverage ratio of 2.50:1.00 and a maximum consolidated leverage ratio of 3.50:1.00. The consolidated fixed charge coverage ratio includes a calculation of earnings before interest, taxes, depreciation, amortization, rent, and non-cash share-based compensation expense to fixed charges. Fixed charges include interest expense, capitalized interest, and rent expense. The consolidated leverage ratio includes a calculation of adjusted debt to earnings before interest, taxes, depreciation, amortization, rent, and non-cash share-based compensation expense. Adjusted debt includes outstanding debt, outstanding stand-by letters of credit, and similar instruments, five-times rent expense and excludes any premium or discount recorded in conjunction with the issuance of long-term debt. In the event that the Company should default on any covenant (subject to customary grace periods, cure rights, and materiality thresholds) contained in the Credit Agreement, certain actions may be taken, including, but not limited to, possible termination of commitments, immediate payment of outstanding principal amounts plus accrued interest and other amounts payable under the Credit Agreement, and litigation from lenders. As of September 30, 2023, the Company remained in compliance with all covenants under the Credit Agreement.

In addition to the letters of credit issued under the Credit Agreement described above, as of September 30, 2023, and December 31, 2022, respectively, the Company had additional outstanding letters of credit, primarily to support obligations under workers' compensation, general liability, and other insurance policies, in the amount of $106.8 million and $96.6 million. Substantially all of these letters of credit have a one-year term from the date of issuance and were not issued under the Company's Credit Agreement or another committed facility.

Commercial paper program:

On August 9, 2023, the Company established a commercial paper program (the "Program") pursuant to which it may issue short-term, unsecured commercial paper notes (the "Notes") under the exemption from registration contained in Section 4(a)(2) of the Securities Act of 1933, as amended. Amounts available under the Program may be borrowed, repaid, and re-borrowed from time to time, with the aggregate face or principal amount of the Notes outstanding under the Program at any time not to exceed $1.8 billion. The Notes will have maturities of up to 397 days from the date of issue. The Notes rank at least pari passu with all of the Company's other unsecured and unsubordinated indebtedness. The Company plans to use its Revolving Credit Facility as a liquidity backstop for the repayment of Notes outstanding under the Program. The Notes issued under the Program were included in "Long-term debt" on the accompanying Condensed Consolidated Balance Sheet as of September 30, 2023, as the Company has the ability and intent to refinance these Notes on a long-term basis.

Senior notes:

On June 15, 2023, the Company's $300 million aggregate principal amount of unsecured 3.850% Senior Notes due 2023 matured, and the Company repaid these notes using borrowings under our Revolving Credit Facility.

As of September 30, 2023, the Company has issued and outstanding a cumulative $4.1 billion aggregate principal amount of unsecured senior notes, which are due between 2026 and 2032, with UMB Bank, N.A. and U.S. Bank Trust Company, National Association as trustees. Interest on the senior notes, ranging from 1.750% to 4.700%, is payable semi-annually and is computed on the basis of a 360-day year. None of the Company's subsidiaries is a guarantor under the senior notes. Each of the senior notes is subject to certain customary covenants, with which the Company complied as of September 30, 2023.

NOTE 7 – WARRANTIES

The Company provides warranties on certain merchandise it sells with warranty periods ranging from 30 days to limited lifetime warranties. The risk of loss arising from warranty claims is typically the obligation of the Company's suppliers. Certain suppliers provide upfront allowances to the Company in lieu of accepting the obligation for warranty claims. For this merchandise, when sold, the Company bears the risk of loss associated with the cost of warranty claims. Differences between supplier allowances received by the Company, in lieu of warranty obligations and estimated warranty expense, are recorded as an adjustment to cost of sales. Estimated warranty costs, which are recorded as obligations at the time of sale, are based on the historical failure rate of each individual product line. The Company's historical experience has been that failure rates are relatively consistent over time and that the ultimate cost of warranty claims to the Company has been driven by volume of units sold as opposed to fluctuations in failure rates or the variation of the cost of individual claims.

The Company's product warranty liabilities are included in "Other current liabilities" on the accompanying Condensed Consolidated Balance Sheets as of September 30, 2023, and December 31, 2022; the following table identifies the changes in the Company's aggregate product warranty liabilities for the nine months ended September 30, 2023 (in thousands):

Warranty liabilities, balance at December 31, 2022	$	98,564
Warranty claims		(135,309)
Warranty accruals		151,460
Foreign currency translation		60
Warranty liabilities, balance at September 30, 2023	**$**	**114,775**

NOTE 8 – SHARE REPURCHASE PROGRAM

In January of 2011, the Company's Board of Directors approved a share repurchase program. Under the program, the Company may, from time to time, repurchase shares of its common stock, solely through open market purchases effected through a broker dealer at prevailing market prices, based on a variety of factors such as price, corporate trading policy requirements, and overall market conditions. The Company's Board of Directors may increase or otherwise modify, renew, suspend, or terminate the share repurchase program at any time, without prior notice. As announced on November 15, 2022, and May 23, 2023, the Company's Board of Directors approved a resolution to increase the authorization amount under the share repurchase program by an additional $1.5 billion and $2.0 billion, respectively, resulting in a cumulative authorization amount of $23.8 billion. The additional authorizations are effective for three years, beginning on its respective announcement date.

The following table identifies shares of the Company's common stock that have been repurchased as part of the Company's publicly announced share repurchase program for the three and nine months ended September 30, 2023 and 2022 (in thousands, except per share data):

	For the Three Months Ended September 30,				**For the Nine Months Ended September 30,**			
		2023		2022		**2023**		2022
Shares repurchased		**852**		1,039		**2,961**		4,425
Average price per share	**$**	**938.11**	$	683.09	**$**	**874.99**	$	646.61
Total investment	**$**	**799,520**	$	710,304	**$**	**2,590,950**	$	2,861,513

As of September 30, 2023, the Company had $1.1 billion remaining under its share repurchase authorization. Excise tax on shares repurchased, assessed at one percent of the fair market value of net shares repurchased, was $23.8 million for the nine months ended September 30, 2023.

Subsequent to the end of the third quarter and through November 8, 2023, the Company repurchased 0.5 million additional shares of its common stock under its share repurchase program, at an average price of $911.88, for a total investment of $444.4 million. The Company has repurchased a total of 94.0 million shares of its common stock under its share repurchase program since the inception of the program in January of 2011 and through November 8, 2023, at an average price of $245.43, for a total aggregate investment of $23.1 billion.

NOTE 9 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) includes adjustments for foreign currency translations. The tables below summarize activity for changes in accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2023 and 2022 (in thousands):

	Foreign Currency (1)	Total Accumulated Other Comprehensive Income
Accumulated other comprehensive income, balance at June 30, 2023	$ 36,071	$ 36,071
Change in accumulated other comprehensive loss	(5,782)	(5,782)
Accumulated other comprehensive income, balance at September 30, 2023	**$ 30,289**	**$ 30,289**

	Foreign Currency (1)	Total Accumulated Other Comprehensive Income
Accumulated other comprehensive income, balance at December 31, 2022	$ 2,996	$ 2,996
Change in accumulated other comprehensive income	27,293	27,293
Accumulated other comprehensive income, balance at September 30, 2023	**$ 30,289**	**$ 30,289**

	Foreign Currency (1)	Total Accumulated Other Comprehensive Loss
Accumulated other comprehensive loss, balance at June 30, 2022	$ (3,611)	$ (3,611)
Change in accumulated other comprehensive loss	(372)	(372)
Accumulated other comprehensive loss, balance at September 30, 2022	**$ (3,983)**	**$ (3,983)**

	Foreign Currency (1)	Total Accumulated Other Comprehensive Loss
Accumulated other comprehensive loss, balance at December 31, 2021	$ (6,799)	$ (6,799)
Change in accumulated other comprehensive income	2,816	2,816
Accumulated other comprehensive loss, balance at September 30, 2022	**$ (3,983)**	**$ (3,983)**

(1) Foreign currency translation is not shown net of additional U.S. tax, as other basis differences of non-U.S. subsidiaries are intended to be permanently reinvested.

NOTE 10 – REVENUE

The table below identifies the Company’s revenues disaggregated by major customer type for the three and nine months ended September 30, 2023 and 2022 (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	**2023**	2022
Sales to do-it-yourself customers	**$ 2,206,511**	$ 2,086,201	**$ 6,254,980**	$ 5,914,238
Sales to professional service provider customers	**1,914,884**	1,630,571	**5,480,212**	4,601,111
Other sales and sales adjustments	**81,985**	81,847	**245,043**	250,018
Total sales	**$ 4,203,380**	$ 3,798,619	**$ 11,980,235**	$ 10,765,367

See Note 7 for information concerning the expected costs associated with the Company’s assurance warranty obligations.

NOTE 11 – SHARE-BASED COMPENSATION AND BENEFIT PLANS

The Company recognizes share-based compensation expense based on the fair value of the grants, awards, or shares at the time of the grant, award, or issuance. Share-based compensation includes stock option awards, restricted stock awards, and stock appreciation rights issued under the Company’s incentive plans and stock issued through the Company’s employee stock purchase plan.

Stock options:

The Company’s incentive plans provide for the granting of stock options for the purchase of common stock of the Company to certain key employees of the Company. Employee stock options are granted at an exercise price that is equal to the closing market price of the Company’s common stock on the date of the grant. Employee stock options granted under the plans expire after 10 years and typically vest 25% per year, over four years. The Company records compensation expense for the grant date fair value of the option awards evenly over the vesting period or minimum required service period.

The table below identifies stock option activity under these plans during the nine months ended September 30, 2023 (in thousands, except per share data):

	Shares (in thousands)		Weighted- Average Exercise Price
Outstanding at December 31, 2022	1,069	$	356.76
Granted	87		856.08
Exercised	(207)		272.39
Forfeited or expired	(12)		573.96
Outstanding at September 30, 2023	**937**	**$**	**419.41**
Exercisable at September 30, 2023	**669**	**$**	**323.28**

The fair value of each stock option award is estimated on the date of the grant using the Black-Scholes option pricing model. The Black-Scholes model requires the use of assumptions, including the risk-free rate, expected life, expected volatility, and expected dividend yield.

- *Risk-free interest rate* – The United States Treasury rates in effect at the time the options are granted for the options' expected life.
- *Expected life* – Represents the period of time that options granted are expected to be outstanding. The Company uses historical experience to estimate the expected life of options granted.
- *Expected volatility* – Measure of the amount, by which the Company's stock price is expected to fluctuate, based on a historical trend.
- *Expected dividend yield* – The Company has not paid, nor does it have plans in the foreseeable future to pay, any dividends.

The table below identifies the weighted-average assumptions used for grants awarded during the nine months ended September 30, 2023 and 2022:

	September 30,	
	2023	2022
Risk free interest rate	**3.92 %**	2.00 %
Expected life	**6.3 Years**	6.3 Years
Expected volatility	**29.0 %**	28.8 %
Expected dividend yield	**— %**	— %

The following table summarizes activity related to stock options awarded by the Company for the three and nine months ended September 30, 2023 and 2022 (in thousands, except per share data):

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
		2023		2022		**2023**		2022
Compensation expense for stock options awarded	**$**	**5,977**	$	4,924	**$**	**17,892**	$	15,134
Income tax benefit from compensation expense related to stock options		**1,476**		1,222		**4,417**		3,756

The weighted-average grant-date fair value of options granted during the nine months ended September 30, 2023, was $321.36, compared to $219.30 for the nine months ended September 30, 2022. The remaining unrecognized compensation expense related to unvested stock option awards at September 30, 2023, was $43.4 million, and the weighted-average period of time over which this cost will be recognized is 2.7 years.

Other share-based compensation plans:

The Company sponsors other share-based compensation plans: an employee stock purchase plan and incentive plans that provide for the awarding of shares of restricted stock to certain key employees and directors. The Company's employee stock purchase plan (the "ESPP") permits eligible employees to purchase shares of the Company's common stock at 85% of the fair market value. The fair value of shares issued under the ESPP is based on the average of the high and low market prices of the Company's common stock during the offering periods, and compensation expense is recognized based on the discount between the fair value and the employee purchase price for the shares sold to employees. Restricted stock awarded under the incentive plans to certain key employees and directors vests after one-year or evenly over a three-year period and is held in escrow until such vesting has occurred. The fair value of shares awarded under the incentive plans is based on the closing market price of the Company's common stock on the date of the award, and compensation expense is recorded evenly over the vesting period or the minimum required service period.

The table below summarizes activity related to the Company's other share-based compensation plans for the three and nine months ended September 30, 2023 and 2022 (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	**2023**	2022
Compensation expense for shares issued under the ESPP	**$ 923**	$ 828	**$ 2,663**	$ 2,429
Income tax benefit from compensation expense related to shares issued under the ESPP	**228**	205	**657**	603
Compensation expense for restricted shares awarded	**477**	459	**1,393**	1,350
Income tax benefit from compensation expense related to restricted awards	**$ 118**	$ 114	**$ 344**	$ 335

Profit sharing and savings plan:

The Company sponsors a contributory profit sharing and savings plan (the "401(k) Plan") that covers substantially all employees who are at least 21 years of age. The Company makes matching contributions equal to 100% of the first 2% of each employee's wages that are contributed and 25% of the next 4% of each employee's wages that are contributed. The Company may also make additional discretionary profit sharing contributions to the 401(k) Plan on an annual basis as determined by the Board of Directors. The Company did not make any discretionary contributions to the 401(k) Plan during the nine months ended September 30, 2023 or 2022. The Company expensed matching contributions under the 401(k) Plan in the amount of $13.4 million and $9.5 million for the three months ended September 30, 2023 and 2022, respectively, which were primarily included in "Selling, general and administrative expenses" on the accompanying Condensed Consolidated Statements of Income. The Company expensed matching contributions under the 401(k) Plan in the amount of $35.9 million and $27.3 million for the nine months ended September 30, 2023 and 2022, respectively, which were primarily included in "Selling, general and administrative expenses" on the accompanying Condensed Consolidated Statements of Income.

Nonqualified deferred compensation plan:

The Company sponsors a nonqualified deferred compensation plan (the "Deferred Compensation Plan") for highly compensated employees whose contributions to the 401(k) Plan are limited due to the application of the annual limitations under the Internal Revenue Code. The Company may make discretionary contributions to the Deferred Compensation Plan on an annual basis as determined by the Board of Directors. In the event of bankruptcy, the assets of this plan are available to satisfy the claims of general creditors. The Company has an unsecured obligation to pay, in the future, the value of the deferred compensation and Company match, if applicable, adjusted to reflect the performance, whether positive or negative, of selected investment measurement options chosen by each participant during the deferral period. See Note 3 for further information concerning the Company's marketable securities held to fulfill our future unsecured obligations under this plan.

The liability for compensation deferred under the Deferred Compensation Plan was $54.6 million and $49.4 million as of September 30, 2023, and December 31, 2022, respectively, which was included in "Other liabilities" on the accompanying Condensed Consolidated Balance Sheets. The Company did not make any discretionary contributions to the Deferred Compensation Plan during the nine months ended September 30, 2023 or 2022. The Company expensed matching contributions under the Deferred Compensation Plan in the amount of less than $0.1 million and $0.1 million for each of the three months ended September 30, 2023 and 2022, respectively, which were included in "Selling, general and administrative expenses" on the accompanying Condensed Consolidated Statements of Income. The Company expensed matching contributions under the Deferred Compensation Plan in the amount of less than $0.1 million and $0.2 million for the nine months ended September 30, 2023 and 2022, respectively, which were included in "Selling, general and administrative expenses" on the accompanying Condensed Consolidated Statements of Income.

Stock appreciation rights:

The Company's incentive plans provide for the granting of stock appreciation rights, which expire after 10 years and vest 25% per year, over four years, and are settled in cash. As of September 30, 2023, and December 31, 2022, there were 13,079 and 13,159 stock appreciation rights outstanding, respectively. During the nine months ended September 30, 2023, there were 1,714 stock appreciation rights granted, 1,187 stock appreciation rights exercised, and 607 stock appreciation rights forfeited. The liability for compensation to be paid for redeemed stock appreciation rights was $3.8 million and $2.9 million as of September 30, 2023, and December 31, 2022, respectively, which were included in "Other liabilities" on the Condensed Consolidated Balance Sheets. The Company recorded compensation benefit for stock appreciation rights in the amount of $0.1 million and compensation expense for stock appreciation rights in the amount of $0.6 million for the three months ended September 30, 2023 and 2022, respectively, which were included in "Selling, general and administrative expenses" on the accompanying Condensed Consolidated Statements of Income. The Company recorded compensation expense for stock appreciation rights in the amount of $0.6 million and $0.4 million for the nine months ended September 30, 2023 and 2022, respectively, which were included in "Selling, general and administrative expenses" on the accompanying Condensed Consolidated Statements of Income.

NOTE 12 – COMMITMENTS

Renewable energy tax credits:

The Company has entered into an agreement to purchase federal renewable energy tax credits ("RETC"). As of September 30, 2023, the Company has committed to purchase approximately $300 million RETCs upon the credit transfer date, which is anticipated to occur by September of 2024.

NOTE 13 – EARNINGS PER SHARE

The following table illustrates the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2023 and 2022 (in thousands, except per share data):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	**2023**	2022
Numerator (basic and diluted):				
Net income	**$ 649,827**	$ 585,438	**$ 1,794,077**	$ 1,644,078
Denominator:				
Weighted-average common shares outstanding – basic	**60,082**	63,288	**60,905**	64,979
Effect of stock options [1]	**508**	572	**540**	587
Weighted-average common shares outstanding – assuming dilution	**60,590**	63,860	**61,445**	65,566
Earnings per share:				
Earnings per share-basic	**$ 10.82**	$ 9.25	**$ 29.46**	$ 25.30
Earnings per share-assuming dilution	**$ 10.72**	$ 9.17	**$ 29.20**	$ 25.08
Antidilutive potential common shares not included in the calculation of diluted earnings per share:				
Stock options [1]	**83**	139	**98**	145
Weighted-average exercise price per share of antidilutive stock options [1]	**$ 853.21**	$ 660.74	**$ 824.23**	$ 658.74

(1) See Note 11 for further information concerning the terms of the Company's share-based compensation plans.

For the three and nine months ended September 30, 2023 and 2022, the computation of diluted earnings per share did not include certain securities. These securities represent underlying stock options not included in the computation of diluted earnings per share, because the inclusion of such equity awards would have been antidilutive.

See Note 8 for information concerning the Company's subsequent share repurchases.

NOTE 14 – LEGAL MATTERS

The Company is currently involved in litigation incidental to the ordinary conduct of the Company's business. Based on existing facts and historical patterns, the Company accrues for litigation losses in instances where an adverse outcome is probable and the Company is able to reasonably estimate the probable loss in accordance with Accounting Standard Codification 450-20. The Company also accrues for an estimate of legal costs to be incurred for litigation matters. Although the Company cannot ascertain the amount of liability that it may incur from legal matters, it does not currently believe that, in the aggregate, these matters, taking into account applicable insurance and accruals, will have a material adverse effect on its consolidated financial position, results of operations or cash flows in a particular quarter or annual period.

NOTE 15 – RECENT ACCOUNTING PRONOUNCEMENTS

In September of 2022, the Financial Accounting Standards Board (the "FASB") issued Accounting Standard Update ("ASU") No. 2022-04, "Liabilities – Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations" ("ASU 2022-04"). ASU 2022-04 enhances the transparency of supplier finance programs. Under ASU 2022-04, a buyer in a supplier finance program would be required to disclose sufficient information about the program to allow a user of financial statements to understand the program's nature, activity during the period, changes from period to period, and potential magnitude. ASU 2022-04 is effective for annual reporting periods beginning after December 15, 2022, including interim periods within that reporting period, except for the amendment on rollforward information, which is effective for fiscal years beginning after December 15, 2023. ASU 2022-04 allows for early adoption and requires retrospective adoption, except on rollforward information, which should be applied prospectively. The Company adopted this guidance, using the retrospective adoption method, beginning with its first quarter ending March 31, 2023, with the exception, as stated in the guidance, of the rollforward information, which will be adopted prospectively, disclosure for which will be effective with the Company's fiscal year beginning after December 15, 2023. The application of this new guidance did not have a material impact on the Company's consolidated financial condition, results of operations or cash flows, as the guidance requires disclosure only. See Note 5 for further information concerning the Company's supplier finance programs.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Unless otherwise indicated, "we," "us," "our," and similar terms, as well as references to the "Company" or "O'Reilly," refer to O'Reilly Automotive, Inc. and its subsidiaries.

In Management's Discussion and Analysis, we provide a historical and prospective narrative of our general financial condition, results of operations, liquidity, and certain other factors that may affect our future results, including

- an overview of the key drivers and other influences on the automotive aftermarket industry;
- our results of operations for the three and nine months ended September 30, 2023 and 2022;
- our liquidity and capital resources;
- our critical accounting estimates; and
- recent accounting pronouncements that may affect our Company.

The review of Management's Discussion and Analysis should be made in conjunction with our condensed consolidated financial statements, related notes and other financial information, forward-looking statements, and other risk factors included elsewhere in this quarterly report.

FORWARD-LOOKING STATEMENTS

We claim the protection of the safe-harbor for forward-looking statements within the meaning of 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. In addition, statements contained within this quarterly report that are not historical facts are forward-looking statements, such as statements discussing, among other things, expected growth, store development, integration and expansion strategy, business strategies, future revenues, and future performance. These forward-looking statements are based on estimates, projections, beliefs, and assumptions and are not guarantees of future events and results. Such statements are subject to risks, uncertainties, and assumptions, including, but not limited to, the economy in general; inflation; consumer debt levels; product demand; a public health crisis; the market for auto parts; competition; weather; tariffs; availability of key products and supply chain disruptions; business interruptions, including terrorist activities, war and the threat of war; failure to protect our brand and reputation; challenges in international markets; volatility of the market price of our common stock; our increased debt levels; credit ratings on public debt; historical growth rate sustainability; our ability to hire and retain qualified employees; risks associated with the performance of acquired businesses; damage, failure or interruption of information technology systems, including information security and cyber-attacks; and governmental regulations. Actual results may materially differ from anticipated results described or implied in these forward-looking statements. Please refer to the "Risk Factors" section of our annual report on Form 10-K for the year ended December 31, 2022, and subsequent Securities and Exchange Commission filings, for additional factors that could materially affect our financial performance. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by applicable law.

OVERVIEW

We are a specialty retailer of automotive aftermarket parts, tools, supplies, equipment, and accessories in the United States, Puerto Rico, and Mexico. We are one of the largest U.S. automotive aftermarket specialty retailers, selling our products to both DIY customers and professional service providers – our "dual market strategy." Our goal is to achieve growth in sales and profitability by capitalizing on our competitive advantages, such as our dual market strategy, superior customer service provided by well-trained and technically proficient Team Members, and strategic distribution and hub store network that provides same day and over-night inventory access for our stores to offer a broad selection of product offerings. The successful execution of our growth strategy includes aggressively opening new stores, growing sales in existing stores, continually enhancing merchandising and store layouts, and implementing our Omnichannel initiatives. As of September 30, 2023, we operated 6,063 stores in 48 U.S. states and Puerto Rico and 48 stores in Mexico.

The extensive product line offered in our stores consists of new and remanufactured automotive hard parts, maintenance items, accessories, a complete line of auto body paint and related materials, automotive tools, and professional service provider service equipment. Our extensive product line includes an assortment of products that are differentiated by quality and price for most of the product lines we offer. For many of our product offerings, this quality differentiation reflects "good," "better," and "best" alternatives. Our sales and total gross profit dollars are, generally, highest for the "best" quality category of products. Consumers' willingness to select products at a higher point on the value spectrum is a driver of enhanced sales and profitability in our industry. We have ongoing initiatives focused on marketing and training to educate customers on the advantages of ongoing vehicle maintenance, as well as "purchasing up" on the value spectrum.

Our stores also offer enhanced services and programs to our customers, including used oil, oil filter, and battery recycling; battery, wiper, and bulb replacement; battery diagnostic testing; electrical and module testing; check engine light code extraction; loaner tool program; drum and rotor resurfacing; custom hydraulic hoses; professional paint shop mixing and related materials; and machine shops.

Our business is influenced by a number of general macroeconomic factors that impact both our industry and consumers, including, but not limited to, inflation, including rising consumer staples; fuel and energy costs; unemployment trends; interest rates; and other economic factors. Future changes, such as continued broad-based inflation and rapid fuel cost increases that exceed wage growth, may negatively impact our consumers' level of disposable income, and we cannot predict the degree these changes, or other future changes, may have on our business or industry.

We believe the key drivers of demand over the long-term for the products sold within the automotive aftermarket include the number of U.S. miles driven, number of U.S. registered vehicles, annual rate of light vehicle sales, and average vehicle age.

Number of Miles Driven

The number of total miles driven in the U.S. influences the demand for repair and maintenance products sold within the automotive aftermarket. In total, vehicles in the U.S. are driven approximately three trillion miles per year, resulting in ongoing wear and tear and a corresponding continued demand for the repair and maintenance products necessary to keep these vehicles in operation. According to the U.S. Department of Transportation, the number of total miles driven in the U.S. decreased 13.2% in 2020, as a result of responses to the coronavirus pandemic, including work from home arrangements and reduced travel. Miles driven improved and increased 11.2% in 2021, and continued to improve and increased 0.9% in 2022, and year-to-date through August of 2023, miles driven have increased 2.4%. Total miles driven can be impacted by macroeconomic factors, including rapid increases in fuel cost, but we are unable to predict the degree of impact these factors may have on miles driven in the future.

Size and Age of the Vehicle Fleet

The total number of vehicles on the road and the average age of the vehicle population heavily influence the demand for products sold within the automotive aftermarket industry. As reported by the Auto Care Association, the total number of registered vehicles increased 13.9% from 2012 to 2022, bringing the number of light vehicles on the road to 283 million by the end of 2022. In 2022, the rate of new vehicle sales was pressured due to supply chain constraints experienced by manufacturers, and the seasonally adjusted annual rate of light vehicle sales in the U.S. ("SAAR") was below the historical average at approximately 13.3 million vehicles for the year ended December 31, 2022. The degree to which potential supply chain constraints may affect new vehicle production capacity in 2023 is difficult to determine, with the current 2023 outlook for the SAAR estimated to be approximately 15.7 million vehicles, which again remains below the historical average. From 2012 to 2022, vehicle scrappage rates have remained relatively stable, ranging from 4.1% to 5.7% annually. As a result, over the past decade, the average age of the U.S. vehicle population has increased, growing 9.9%, from 11.1 years in 2012 to 12.2 years in 2022. While the annual changes to the vehicle population resulting from new vehicle sales and the fluctuation in vehicle scrappage rates in any given year represent a small percentage of the total light vehicle population and have a muted impact on the total number and average age of vehicles on the road over the short term, we believe our business benefits from the current environment of elevated new and used vehicle prices, as consumers are more willing to continue to invest in their current vehicle.

We believe the increase in average vehicle age over the long term can be attributed to better engineered and manufactured vehicles, which can be reliably driven at higher mileages due to better quality power trains, interiors and exteriors, coupled with consumers' willingness to invest in maintaining these higher-mileage, better built vehicles. As the average age of vehicles on the road increases, a larger percentage of miles are being driven by vehicles that are outside of a manufacturer warranty. These out-of-warranty, older vehicles generate strong demand for automotive aftermarket products as they go through more routine maintenance cycles, have more frequent mechanical failures, and generally require more maintenance than newer vehicles. We believe consumers will continue to invest in these reliable, higher-quality, higher-mileage vehicles, and these investments, along with an increasing total light vehicle fleet, will support continued demand for automotive aftermarket products.

Inflationary cost pressures impact our business; however, historically we have been successful, in many cases, in reducing the effects of merchandise cost increases, principally by taking advantage of supplier incentive programs, economies of scale resulting from increased volume of purchases and selective forward buying. To the extent our acquisition costs increase due to base commodity price increases or other input cost increases affecting the entire industry, we have typically been able to pass along these cost increases through higher selling prices for the affected products. As a result, we do not believe inflation has had a material adverse effect on our operations.

To some extent, our business is seasonal, primarily as a result of the impact of weather conditions on customer buying patterns. While we have historically realized operating profits in each quarter of the year, our store sales and profits have historically been higher in the second and third quarters (April through September) than in the first and fourth quarters (October through March) of the year.

We remain confident in our ability to gain market share in our existing markets and grow our business in new markets by focusing on our dual market strategy and the core O'Reilly values of hard work and excellent customer service.

RESULTS OF OPERATIONS

Sales:

Sales for the three months ended September 30, 2023, increased $405 million, or 11%, to $4.20 billion from $3.80 billion for the same period one year ago. Sales for the nine months ended September 30, 2023, increased $1.21 billion or 11% to $11.98 billion from $10.77 billion for the same period one year ago. Comparable store sales for stores open at least one year increased 8.7% and 7.6% for the three months ended September 30, 2023 and 2022, respectively. Comparable store sales for stores open at least one year increased 9.4% and 5.6% for the nine months ended September 30, 2023 and 2022, respectively. Comparable store sales are calculated based on the change in sales for U.S. stores open at least one year and exclude sales of specialty machinery, sales to independent parts stores, and sales to Team Members. Online sales for ship-to-home orders and pickup in-store orders for U.S. stores open at least one year are included in the comparable store sales calculation. We opened 40 and 140 net, new stores during the three and nine months ended September 30, 2023, respectively, compared to opening 38 and 154 net, new stores during the three and nine months ended September 30, 2022, respectively. We anticipate total new store growth to be 180 to 190 net, new store openings in 2023, and 190 to 200 net, new store openings in 2024.

The increase in sales for the three months ended September 30, 2023, was primarily the result of the 8.7% increase in domestic comparable store sales and a $78 million increase in sales from new stores opened in 2022 and 2023 that are not considered comparable stores. The increase in sales for the nine months ended September 30, 2023, was primarily the result of the 9.4% increase in domestic comparable store sales and a $221 million increase in sales from new stores opened in 2022 and 2023 that are not considered comparable stores. Our comparable store sales increase for three months ended September 30, 2023, was driven by an increase in average ticket values for both professional service provider and DIY customers and positive transaction counts from both professional service provider and DIY customers. Our comparable store sales increase for the nine months ended September 30, 2023, was driven by an increase in average ticket value for both professional service provider and DIY customers and positive transaction counts from professional service provider customers. Average ticket values benefited from increases in average selling prices, on a same-SKU basis, as compared to the same period in 2022, driven by increases in acquisition costs of inventory, which were passed on in selling prices. Average ticket values also continue to be positively impacted by the increasing complexity and cost of replacement parts necessary to maintain the current population of better-engineered and more technically advanced vehicles. These better-engineered, more technically advanced vehicles require less frequent repairs, as the component parts are more durable and last for longer periods of time. The resulting decrease in repair frequency creates pressure on customer transaction counts; however, when repairs are needed, the cost of replacement parts is, on average, greater, which is a benefit to average ticket values. The increases in transaction counts were driven by consistently exceptional execution of our strategies surrounding superior service, inventory availability, and competitive pricing, as well as hot weather across many of our markets during the three months ended September 30, 2023.

See Note 10 "Revenue" to the Condensed Consolidated Financial Statements for further information concerning the Company's sales.

Gross profit:

Gross profit for the three months ended September 30, 2023, increased 12% to $2.16 billion (or 51.4% of sales) from $1.93 billion (or 50.9% of sales) for the same period one year ago. Gross profit for the nine months ended September 30, 2023, increased 11% to $6.14 billion (or 51.2% of sales) from $5.53 billion (or 51.3% of sales) for the same period one year ago. The increases in gross profit dollars for the three and nine months ended September 30, 2023, were primarily the result of the increase in comparable store sales at existing stores and sales from new stores. The increase in gross profit as a percentage of sales for the three months ended September 30, 2023, was primarily due to improved acquisition costs, partially offset by a greater percentage of our total sales mix being generated from professional service provider customers, which carry a lower gross margin than DIY sales. The decrease in gross profit as a percentage of sales for the nine months ended September 30, 2023, was primarily due to the impact of the rollout of our professional pricing initiative in the first quarter of 2022, which was a strategic investment aimed at ensuring we are more competitively priced on the professional side of our business, a greater percentage of our total sales mix being generated from professional service provider customers and a benefit in the prior year from selling through inventory purchased prior to more recent acquisition cost increases and corresponding selling price increases, partially offset by improved acquisition costs in the current period.

Selling, general and administrative expenses:

Selling, general and administrative expenses ("SG&A") for the three months ended September 30, 2023, increased 12% to $1.26 billion (or 30.1% of sales) from $1.13 billion (or 29.8% of sales) for the same period one year ago. SG&A for the nine months ended September 30, 2023, increased 13% to $3.67 billion (or 30.6% of sales) from $3.26 billion (or 30.2% of sales) for the same period one year ago. The increases in total SG&A dollars for the three and nine months ended September 30, 2023, were primarily the result of additional Team Members, facilities, and vehicles to support our increased sales and store count. The increase in SG&A as a percentage of sales for the three months ended September 30, 2023, was principally due to increased store staffing to support superior service levels, depreciation costs on accelerated refreshment of store delivery fleet, investment initiatives aimed at refreshing the image and appearance of our stores, and our transition to enhanced benefit programs for our Team Members. The increase in SG&A as a percentage of sales for the nine months ended September 30, 2023, was primarily the result of the items discussed above, as well as increased expense for the market value performance of the Company's Deferred Compensation Plan and the costs associated with the resumption of our annual in-person leadership conference. See Note 11 "Share-Based Compensation and Benefit Plans" to the Condensed Consolidated Financial Statements for further information concerning the Company's Deferred Compensation Plan.

Operating income:

As a result of the impacts discussed above, operating income for the three months ended September 30, 2023, increased 12% to $897 million (or 21.3% of sales) from $804 million (or 21.2% of sales) for the same period one year ago. As a result of the impacts discussed above, operating income for the nine months ended September 30, 2023, increased 9% to $2.47 billion (or 20.6% of sales) from $2.27 billion (or 21.1% of sales) for the same period one year ago.

Other income and expense:

Total other expense for the three months ended September 30, 2023, increased 19% to $51 million (or 1.2% of sales) from $42 million (or 1.1% of sales) for the same period one year ago. Total other expense for the nine months ended September 30, 2023, increased 12% to $134 million (or 1.1% of sales) from $120 million (or 1.1% of sales) for the same period one year ago. The increase in total other expense for the three months ended September 30, 2023, was the result of increased interest expense on higher average outstanding borrowings. The increase in total other expense for the nine months ended September 30, 2023, was the result of increased interest expense on higher average outstanding borrowings, partially offset by an increase in the value of our trading securities, as compared to a decrease in the same period one year ago. See Note 6 "Financing" to the Condensed Consolidated Financial Statements for further information concerning the Company's borrowings. See Note 3 "Fair Value Measurements" to the Condensed Consolidated Financial Statements for further information concerning the Company's trading securities.

Income taxes:

Our provision for income taxes for the three months ended September 30, 2023, increased 12% to $197 million (23.2% effective tax rate) from $176 million (23.2% effective tax rate) for the same period one year ago. Our provision for income taxes for the nine months ended September 30, 2023, increased 6% to $539 million (23.1% effective tax rate) from $508 million (23.6% effective tax rate) for the same period one year ago. The increases in our provision for income taxes for the three and nine months ended September 30, 2023, were the result of higher taxable income, partially offset by higher excess tax benefits from share-based compensation in the current periods, as compared to the same periods one year ago. Our effective tax rate for the three months ended September 30, 2023, was flat, as compared to the same period one year ago. The decrease in our effective tax rate for the nine months ended September 30, 2023, was the result of higher excess tax benefits from share-based compensation in the current period, as compared to the same period one year ago.

Net income:

As a result of the impacts discussed above, net income for the three months ended September 30, 2023, increased 11% to $650 million (or 15.5% of sales) from $585 million (or 15.4% of sales) for the same period one year ago. As a result of the impacts discussed above, net income for the nine months ended September 30, 2023, increased 9% to $1.79 billion (or 15.0% of sales) from $1.64 billion (or 15.3% of sales) for the same period one year ago.

Earnings per share:

Our diluted earnings per common share for the three months ended September 30, 2023, increased 17% to $10.72 on 61 million shares from $9.17 on 64 million shares for the same period one year ago. Our diluted earnings per common share for the nine months ended September 30, 2023, increased 16% to $29.20 on 61 million shares from $25.08 on 66 million shares for the same period one year ago.

LIQUIDITY AND CAPITAL RESOURCES

Our long-term business strategy requires capital to open new stores, fund strategic acquisitions, expand distribution infrastructure, operate and maintain our existing stores, develop enhanced information technology systems and tools, and may include the opportunistic repurchase of shares of our common stock through our Board-approved share repurchase program. Our material cash requirements necessary to maintain the current operations of our long-term business strategy include, but are not limited to, inventory purchases; human capital obligations, including payroll and benefits; contractual obligations, including debt and interest obligations; capital expenditures; payment of income taxes; and other operational priorities. We expect to fund our short- and long-term cash and capital requirements with our primary sources of liquidity, which include funds generated from the normal course of our business operations, borrowings under our unsecured revolving credit facility and our commercial paper program, and senior note offerings. However, there can be no assurance that we will continue to generate cash flows or maintain liquidity at or above recent levels, as we are unable to predict decreased demand for our products or changes in customer buying patterns. Additionally, these factors could also impact our ability to meet the debt covenants of our credit agreement and, therefore, negatively impact the funds available under our unsecured revolving credit facility.

Other than the commitment discussed in Note 12 “Commitments” to the Condensed Consolidated Financial Statements, there have been no material changes to the contractual obligations, to which we are committed, since those discussed in our annual report on Form 10-K for the year ended December 31, 2022.

The following table identifies cash provided by/(used in) our operating, investing and financing activities for the nine months ended September 30, 2023 and 2022 (in thousands):

	For the Nine Months Ended September 30,	
Liquidity:	**2023**	2022
Total cash provided by/(used in):		
Operating activities	**$ 2,517,655**	$ 2,353,020
Investing activities	**(749,773)**	(383,701)
Financing activities	**(1,794,694)**	(2,264,460)
Effect of exchange rate changes on cash	**893**	88
Net decrease in cash and cash equivalents	**$ (25,919)**	$ (295,053)
Capital expenditures	**$ 753,958**	$ 388,820
Free cash flow (1)	**1,731,695**	1,944,638

(1) Calculated as net cash provided by operating activities, less capital expenditures, excess tax benefit from share-based compensation payments, and investment in tax credit equity investments for the period. See page 23 for the reconciliation of the calculation of free cash flow.

Operating activities:

The increase in net cash provided by operating activities during the nine months ended September 30, 2023, compared to the same period in 2022, was primarily due to an increase in income taxes payable, an increase in net income, and an increase in accrued benefits and withholdings, partially offset by a smaller decrease in net inventory investment, as compared to the same period in 2022. The increase in income taxes payable was primarily attributable to the timing of tax payments in anticipation of benefits from the expected purchase of federal renewable energy tax credits. The increase in accrued benefits and withholdings was due to higher accrued incentive compensation payments in 2023, versus the same period in 2022.

Investing activities:

The increase in net cash used in investing activities during the nine months ended September 30, 2023, compared to the same period in 2022, was the result of an increase in capital expenditures. The increase in capital expenditures was primarily due to an increase in store and distribution enhancement and expansion projects, as well as an increase in vehicle fleet upgrade investments, in the current period, as compared to the same period in the prior year.

Financing activities:

The decrease in net cash used in financing activities during the nine months ended September 30, 2023, compared to the same period in 2022, was attributable to net proceeds from the commercial paper program in 2023 and a lower level of repurchases of our common stock in the current period, as compared to the same period in the prior year, partially offset by the issuance of $850 million aggregate principal amount of senior notes in the prior year.

Debt instruments:

See Note 6 “Financing” to the Condensed Consolidated Financial Statements for information concerning the Company’s credit agreement, unsecured revolving credit facility, outstanding letters of credit, commercial paper program, and unsecured senior notes.

Debt covenants:

The indentures governing our senior notes contain covenants that limit our ability and the ability of certain of our subsidiaries to, among other things, create certain liens on assets to secure certain debt and enter into certain sale and leaseback transactions, and limit our ability to merge or consolidate with another company or transfer all or substantially all of our property, in each case as set forth in the indentures. These covenants are, however, subject to a number of important limitations and exceptions. As of September 30, 2023, we were in compliance with the covenants applicable to our senior notes.

The Credit Agreement contains certain covenants, including limitations on indebtedness, a minimum consolidated fixed charge coverage ratio of 2.50:1.00 and a maximum consolidated leverage ratio of 3.50:1.00. The consolidated fixed charge coverage ratio includes a calculation of earnings before interest, taxes, depreciation, amortization, rent, and non-cash share-based compensation expense to fixed charges. Fixed charges include interest expense, capitalized interest, and rent expense. The consolidated leverage ratio includes a calculation of adjusted debt to earnings before interest, taxes, depreciation, amortization, rent, and non-cash share-based compensation expense. Adjusted debt includes outstanding debt, outstanding stand-by letters of credit, and similar instruments, five-times rent expense and excludes any premium or discount recorded in conjunction with the issuance of long-term debt. In the event that we should default on any covenant contained within the Credit Agreement, certain actions may be taken, including, but not limited to, possible termination of commitments, immediate payment of outstanding principal amounts plus accrued interest and other amounts payable under the Credit Agreement, and litigation from our lenders.

We had a consolidated fixed charge coverage ratio of 6.56 times and 6.83 times as of September 30, 2023 and 2022, respectively, and a consolidated leverage ratio of 1.83 times and 1.74 times as of September 30, 2023 and 2022, respectively, remaining in compliance with all covenants related to the borrowing arrangements.

The table below outlines the calculations of the consolidated fixed charge coverage ratio and consolidated leverage ratio covenants, as defined in the Credit Agreement governing the Revolving Credit Facility, for the twelve months ended September 30, 2023 and 2022 (dollars in thousands):

	For the Twelve Months Ended September 30,	
	2023	2022
GAAP net income	**$ 2,322,649**	$ 2,163,051
Add: Interest expense	**187,851**	150,121
Rent expense [1]	**417,988**	386,409
Provision for income taxes	**656,817**	633,581
Depreciation expense	**392,354**	340,705
Amortization expense	**4,114**	7,906
Non-cash share-based compensation	**29,493**	25,025
Non-GAAP EBITDAR	**$ 4,011,266**	$ 3,706,798
Interest expense	**$ 187,851**	$ 150,121
Capitalized interest	**6,025**	5,902
Rent expense [1]	**417,988**	386,409
Total fixed charges	**$ 611,864**	$ 542,432
Consolidated fixed charge coverage ratio	**6.56**	6.83
GAAP debt	**$ 5,102,350**	$ 4,370,772
Add: Stand-by letters of credit	**111,732**	101,741
Unamortized discount and debt issuance costs	**27,650**	29,228
Five-times rent expense	**2,089,940**	1,932,045
Non-GAAP adjusted debt	**$ 7,331,672**	$ 6,433,786
Consolidated leverage ratio	**1.83**	1.74

(1) The table below outlines the calculation of Rent expense and reconciles Rent expense to Total lease cost, per Accounting Standard Codification 842 ("ASC 842") the most directly comparable GAAP financial measure, for the twelve months ended September 30, 2023 and 2022 (in thousands):

	For the Twelve Months Ended September 30,	
	2023	2022
Total lease cost, per ASC 842	$ 495,360	$ 460,299
Less: Variable non-contract operating lease components, related to property taxes and insurance	77,372	73,890
Rent expense	$ 417,988	$ 386,409

The table below outlines the calculation of Free cash flow and reconciles Free cash flow to Net cash provided by operating activities, the most directly comparable GAAP financial measure, for the nine months ended September 30, 2023 and 2022 (in thousands):

	For the Nine Months Ended September 30,	
	2023	2022
Cash provided by operating activities	**$ 2,517,655**	$ 2,353,020
Less: Capital expenditures	**753,958**	388,820
Excess tax benefit from share-based compensation payments	**27,852**	14,300
Investment in tax credit equity investments	**4,150**	5,262
Free cash flow	**$ 1,731,695**	$ 1,944,638

Free cash flow, the consolidated fixed charge coverage ratio, and the consolidated leverage ratio discussed and presented in the tables above are not derived in accordance with United States generally accepted accounting principles ("GAAP"). We do not, nor do we suggest investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, GAAP financial information. We believe that the presentation of our free cash flow, consolidated fixed charge coverage ratio, and consolidated leverage ratio provides meaningful supplemental information to both management and investors and reflects the required covenants under the Credit Agreement. We include these items in judging our performance and believe this non-GAAP information is useful to investors as well. Material limitations of these non-GAAP measures are that such measures do not reflect actual GAAP amounts. We compensate for such limitations by presenting, in the tables above, a reconciliation to the most directly comparable GAAP measures.

Share repurchase program:

See Note 8 "Share Repurchase Program" to the Consolidated Financial Statements for information on our share repurchase program.

CRITICAL ACCOUNTING ESTIMATES

The preparation of our financial statements in accordance with GAAP requires the application of certain estimates and judgments by management. Management bases its assumptions, estimates, and adjustments on historical experience, current trends and other factors believed to be relevant at the time the condensed consolidated financial statements are prepared. There have been no material changes in the critical accounting estimates since those discussed in our annual report on Form 10-K for the year ended December 31, 2022.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 15 "Recent Accounting Pronouncements" to the Condensed Consolidated Financial Statements for information about recent accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest rate risk:

We are subject to interest rate risk to the extent we borrow against our unsecured revolving credit facility (the "Revolving Credit Facility") with variable interest rates based on either an Alternative Base Rate or Adjusted Term SOFR Rate, as defined in the credit agreement governing the Revolving Credit Facility. As of September 30, 2023, we had no outstanding borrowings under our Revolving Credit Facility.

We are subject to interest rate risk to the extent we issue short-term, unsecured commercial paper notes under our commercial paper program (the "Program") with variable interest rates. As of September 30, 2023, we had outstanding borrowings under the Program in the amount of $1.0 billion, at the weighted-average variable interest rate of 5.578%. At this borrowing level, a 10% increase in interest rates would have had an unfavorable annual impact on our pre-tax earnings and cash flows in the amount of $5.8 million.

Cash equivalents risk:

We invest certain of our excess cash balances in short-term, highly-liquid instruments with maturities of 90 days or less. We do not expect any material losses from our invested cash balances and we believe that our interest rate exposure is minimal. As of September 30, 2023, our cash and cash equivalents totaled $82.7 million.

Foreign currency risk:

Foreign currency exposures arising from transactions include firm commitments and anticipated transactions denominated in a currency other than our entities' functional currencies. To minimize our risk, we generally enter into transactions denominated in the respective functional currencies. Our foreign currency exposure arises from Mexican peso-denominated revenues and profits and their translation into U.S. dollars.

We view our investments in Mexican subsidiaries as long-term. The net asset exposure in the Mexican subsidiaries translated into U.S. dollars using the period-end exchange rates was $317.6 million at September 30, 2023. The period-end exchange rate of the Mexican peso, relative to the U.S. dollar, strengthened by approximately 11.9% from December 31, 2022. The potential loss in value of our net assets in the Mexican subsidiaries resulting from a 10% change in quoted foreign currency exchange rates at September 30, 2023, would be approximately $28.9 million. Any changes in our net assets in the Mexican subsidiaries relating to foreign currency exchange rates would be reflected in the financial statements through the foreign currency translation component of accumulated other comprehensive income, unless the Mexican subsidiaries are sold or otherwise disposed. A 10% change in average exchange rates would not have had a material impact on our results of operations.

Our market risks have not materially changed since those discussed in our annual report on Form 10-K for the year ended December 31, 2022.

Item 4. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the management of the Company, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures pursuant to Rule 13a-15(b) and as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (“the Exchange Act”). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company’s disclosure controls and procedures as of the end of the period covered by this report are functioning effectively to provide reasonable assurance that the information required to be disclosed by the Company, including its consolidated subsidiaries, in reports filed under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and is accumulated and communicated to management, including the Company’s Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROLS

There were no changes in the Company’s internal control over financial reporting during the fiscal quarter ended September 30, 2023, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is currently involved in litigation incidental to the ordinary conduct of the Company's business. Based on existing facts and historical patterns, the Company accrues for litigation losses in instances where an adverse outcome is probable and the Company is able to reasonably estimate the probable loss in accordance with Accounting Standard Codification 450-20. The Company also accrues for an estimate of legal costs to be incurred for litigation matters. Although the Company cannot ascertain the amount of liability that it may incur from legal matters, it does not currently believe that, in the aggregate, these matters, taking into account applicable insurance and accruals, will have a material adverse effect on its consolidated financial position, results of operations or cash flows in a particular quarter or annual period.

Item 1A. Risk Factors

As of September 30, 2023, there have been no material changes to the risk factors set forth in our annual report on Form 10-K for the year ended December 31, 2022.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

The Company had no sales of unregistered securities during the nine months ended September 30, 2023. The following table identifies all repurchases during the three months ended September 30, 2023, of any of the Company's securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, by or on behalf of the Company or any affiliated purchaser (in thousands, except per share data):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Programs (1)
July 1, 2023, to July 31, 2023	151	$ 950.55	151	$ 1,787,926
August 1, 2023, to August 31, 2023	370	935.43	370	1,441,906
September 1, 2023, to September 30, 2023	331	935.42	331	$ 1,132,370
Total as of September 30, 2023	**852**	**$ 938.11**	**852**	

(1) The authorization under the share repurchase program that currently has capacity is scheduled to expire on May 23, 2026. No other share repurchase programs existed during the nine months ended September 30, 2023. See Note 8 "Share Repurchase Program" to the Condensed Consolidated Financial Statements for further information on our share repurchases.

Item 5. Other Information

(c) Rule 10b5-1 Trading Plan Elections:

On August 23, 2023, Chris Mancini, Senior Vice President of Central Store Operations of the Company, established a plan intended to satisfy the affirmative defense of Rule 10b5-1(c) of the Securities Exchange Act of 1934, as amended, for the trading of the Company's common stock. The plan provides for the sale of up to 2,500 shares at specific market prices, subject to specified limitations over a period beginning on November 22, 2023 and ending on February 24, 2025. The plan was established for the purposes of facilitating the exercise and subsequent sale of stock options with a ten-year contractual life that are due to expire August of 2025. The plan was established during the Company's unrestricted trading window and at a time when Mr. Mancini was not in possession of material, non-public information about the Company. Mr. Mancini has informed the Company that he will publicly disclose, as required by federal securities laws, any option exercises and stock sales made under this plan.

None of the Company's other Directors or Officers adopted, modified, or terminated a Rule 10b5-1 trading agreement or a non-Rule 10b5-1 trading agreement, as defined in Item 408(c) of Regulation S-K, during the Company's fiscal quarter ended September 30, 2023.

Item 6. Exhibits

Exhibit No.	Description
3.1	Second Amended and Restated Articles of Incorporation of the Registrant, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated May 19, 2020, is incorporated herein by this reference.
3.2	Fourth Amended and Restated Bylaws of the Registrant, filed as Exhibit 3.3 to the Registrant's Current Report on Form 8-K dated May 19, 2020, is incorporated herein by this reference.
10.1 *	First Amendment to the Credit Agreement, dated as of March 6, 2023, among O'Reilly Automotive, Inc., JPMorgan Chase Bank, N.A., as Administrative Agent, and the lenders party thereto, filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q dated May 9, 2023, is incorporated herein by this reference.
10.2 (a)	O'Reilly Automotive, Inc. 2009 Stock Purchase Plan, as Amended and Restated May 4, 2016, and further Amended and Restated May 18, 2023, filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q dated August 8, 2023, is incorporated herein by this reference.
10.3	Form of Commercial Paper Dealer Agreement between O'Reilly Automotive, Inc., an issuer, and the applicable Dealer party, filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated August 9, 2023, is incorporated herein by this reference.
31.1	Certificate of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certificate of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1 **	Certificate of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith.
32.2 **	Certificate of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith.
101.INS	iXBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	iXBRL Taxonomy Extension Schema.
101.CAL	iXBRL Taxonomy Extension Calculation Linkbase.
101.DEF	iXBRL Taxonomy Extension Definition Linkbase.
101.LAB	iXBRL Taxonomy Extension Label Linkbase.
101.PRE	iXBRL Taxonomy Extension Presentation Linkbase.
104	Cover Page Interactive Data File, formatted as Inline XBRL, contained in Exhibit 101 attachments.

(a)	Management contract or compensatory plan or arrangement
*	Certain schedules and exhibits to this agreement have been omitted pursuant to Item 601(a)(5) of Regulation S-K.
**	Furnished (and not filed) herewith pursuant to Item 601(b)(32)(ii) of Regulation S-K.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

O'REILLY AUTOMOTIVE, INC.

November 8, 2023	/s/ Gregory D. Johnson
Date	Gregory D. Johnson Chief Executive Officer (Principal Executive Officer)
November 8, 2023	/s/ Jeremy A. Fletcher
Date	Jeremy A. Fletcher Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)