

O'Reilly Investment Decision

By Izzy Watts and Haley Gilbertson

The CUSP portfolio managers added O'Reilly Auto Parts to the portfolio in April 2022. O'Reilly Auto Parts is an aftermarket car parts store that services both professional and do-it-yourself customers. They have over 5,700 stores across the United States and Mexico as well as a solid online presence. The auto parts industry is in a unique position coming out of the pandemic as new cars are hard to come by, creating an increase in spending on the maintenance of older vehicles. O'Reilly Auto Parts is an established, mature business that provides services and products that will be in demand for the foreseeable future. O'Reilly's established distribution network has positioned it to be an industry leader in inventory availability, offering it a significant advantage within the market.

O'Reilly is considered to be a member of the Consumer Discretionary sector. Investing within this sector can be risky due in part to oscillations in consumer confidence. However, O'Reilly is an example of a company that doesn't fit neatly within either the Consumer Discretionary or Consumer Staples sector. One could argue that O'Reilly's business makes it more of a necessity. O'Reilly is not likely subject to variations in consumer confidence because many vehicle repairs are not optional.

The health of the auto industry is forecasted to remain strong well into the future. Although the market for electric vehicles is expected to grow, the demand for gas-powered vehicles is also expected to continue to grow at a fast rate, accounting for a predicted \$1,907 billion of the \$2,605 billion sales in 2050. The US EIA believes that sales of internal-combustion-engine vehicles will peak in 2038. This suggests a corresponding increase in maintenance expenses on these types of vehicles well into the foreseeable future. O'Reilly is positioned well to handle this growth.

O'Reilly was able to emerge from the pandemic successfully by avoiding, to a large extent, the supply-chain issues felt elsewhere in the economy. Market factors acted to limit the availability of new cars, increasing the need to maintain existing vehicles. Additionally, the uncertainty of the pandemic led frugal consumers to reinvest in currently owned vehicles rather than purchase new ones. Because of O'Reilly's ability to keep the shelves stocked, it was able to use these disruptions as a way to increase its market share and competitive advantage. O'Reilly's ability to maintain competitive pricing while avoiding major inventory disruptions helped it build a loyal and growing customer base that CUSP managers anticipate will continue to expand.

The CUSP managers believe the firm was attractively valued at the time of purchase. The firm's P/E and EV/EBITDA ratios were well below the industry averages, and its margins were substantially higher than its closest competitors. The firm has solid cash flows that it has used to grow its brick-and-mortar presence across the United States. As a result, the firm has been able to grow its revenues, thereby capitalizing on its strong operating margins. The economic and market disruptions of the past couple of years made it a challenge to assess the finances of many firms. In times of such uncertainty, the CUSP managers were clearly attracted to stable, mature, profitable companies, such as O'Reilly Auto Parts. Because of the firm's profitability and its

near and long-term growth prospects, the CUSP managers voted to add the company to the portfolio.