

O REILLY AUTOMOTIVE INC
Form 10-Q
November 06, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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, 2015

OR

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

For the transition period from _____ to _____

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)		

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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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 - 98,639,942 shares outstanding as of November 2, 2015.

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2015

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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, 2015 (Unaudited)	December 31, 2014 (Note)
Assets		
Current assets:		
Cash and cash equivalents	\$276,916	\$250,560
Accounts receivable, net	163,889	143,900
Amounts receivable from suppliers	76,861	69,311
Inventory	2,606,813	2,554,789
Other current assets	33,085	48,418
Total current assets	3,157,564	3,066,978
Property and equipment, at cost	4,275,349	3,993,509
Less: accumulated depreciation and amortization	1,470,199	1,334,949
Net property and equipment	2,805,150	2,658,560
Notes receivable, less current portion	14,265	13,349
Goodwill	757,093	756,384
Other assets, net	41,194	45,030
Total assets	\$6,775,266	\$6,540,301
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$2,626,126	\$2,417,167
Self-insurance reserves	69,251	64,882
Accrued payroll	84,295	78,442
Accrued benefits and withholdings	65,010	62,946
Deferred income taxes	7,445	17,258
Income taxes payable	17,574	—
Other current liabilities	234,211	189,836
Current portion of long-term debt	—	25
Total current liabilities	3,103,912	2,830,556
Long-term debt, less current portion	1,396,995	1,396,615
Deferred income taxes	72,197	85,164
Other liabilities	200,076	209,548
Shareholders' equity:		
Common stock, \$0.01 par value:		
Authorized shares – 245,000,000		
Issued and outstanding shares –		
98,714,308 as of September 30, 2015, and		
101,602,935 as of December 31, 2014	987	1,016

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Additional paid-in capital	1,268,357	1,194,929
Retained earnings	732,742	822,473
Total shareholders' equity	2,002,086	2,018,418

Total liabilities and shareholders' equity \$6,775,266 \$6,540,301

Note: The balance sheet at December 31, 2014, 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		For the Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Sales	\$2,080,201	\$1,876,872	\$6,017,622	\$5,451,903
Cost of goods sold, including warehouse and distribution expenses	990,947	908,671	2,882,618	2,655,109
Gross profit	1,089,254	968,201	3,135,004	2,796,794
Selling, general and administrative expenses	673,994	624,433	1,983,603	1,829,432
Operating income	415,260	343,768	1,151,401	967,362
Other income (expense):				
Interest expense	(14,296)	(12,983)	(43,017)	(39,211)
Interest income	551	551	1,708	1,688
Other, net	(647)	982	648	2,237
Total other expense	(14,392)	(11,450)	(40,661)	(35,286)
Income before income taxes	400,868	332,318	1,110,740	932,076
Provision for income taxes	134,600	115,321	398,100	335,572
Net income	\$266,268	\$216,997	\$712,640	\$596,504
Earnings per share-basic:				
Earnings per share	\$2.68	\$2.10	\$7.09	\$5.67
Weighted-average common shares outstanding – basic	99,270	103,498	100,468	105,146
Earnings per share-assuming dilution:				
Earnings per share	\$2.64	\$2.06	\$6.98	\$5.58
Weighted-average common shares outstanding – assuming dilution	100,770	105,222	102,041	106,945

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,	
	2015	2014
Operating activities:		
Net income	\$712,640	\$596,504
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, equipment and intangibles	158,065	143,515
Amortization of debt discount and issuance costs	1,578	1,563
Excess tax benefit from share-based compensation	(50,759)	(32,296)
Deferred income taxes	(22,780)	(18,108)
Share-based compensation programs	16,656	17,424
Other	4,194	3,801
Changes in operating assets and liabilities:		
Accounts receivable	(24,511)	(26,167)
Inventory	(52,024)	(142,880)
Accounts payable	208,959	352,533
Income taxes payable	85,428	51,043
Other	25,276	36,022
Net cash provided by operating activities	1,062,722	982,954
Investing activities:		
Purchases of property and equipment	(296,474)	(317,157)
Proceeds from sale of property and equipment	2,197	2,304
Payments received on notes receivable	3,028	2,770
Net cash used in investing activities	(291,249)	(312,083)
Financing activities:		
Principal payments on capital leases	(25)	(54)
Repurchases of common stock	(849,202)	(687,154)
Excess tax benefit from share-based compensation	50,759	32,296
Net proceeds from issuance of common stock	53,351	51,006
Net cash used in financing activities	(745,117)	(603,906)
Net increase in cash and cash equivalents	26,356	66,965
Cash and cash equivalents at beginning of the period	250,560	231,318
Cash and cash equivalents at end of the period	\$276,916	\$298,283
Supplemental disclosures of cash flow information:		
Income taxes paid	\$342,920	\$308,029
Interest paid, net of capitalized interest	51,003	47,173
See accompanying Notes to condensed consolidated financial statements.		

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)
 September 30, 2015

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, 2015, are not necessarily indicative of the results that may be expected for the year ended December 31, 2015. 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, 2014.

NOTE 2 – 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 carrying amount of the Company's marketable securities is included in "Other assets, net" on the accompanying Condensed Consolidated Balance Sheets as of September 30, 2015, and December 31, 2014. The Company recorded a decrease in fair value related to its marketable securities in the amounts of \$1.1 million and \$0.7 million, which was included in "Other income (expense)" on the accompanying Condensed Consolidated Statements of Income, for the three and nine months ended September 30, 2015, respectively.

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, 2015, and December 31, 2014 (in thousands):

	September 30, 2015			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Marketable securities	\$ 16,112	\$—	\$—	\$ 16,112
	December 31, 2014			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Marketable securities	\$ 15,378	\$—	\$—	\$ 15,378

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, 2015, and December 31, 2014, 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 are included in "Long-term debt, less current portion" on the accompanying Condensed Consolidated Balance Sheets as of September 30, 2015, and December 31, 2014. See Note 3 for further discussion on the Company's senior notes.

The table below identifies the estimated fair value of the Company's senior notes, using the market approach. The fair values as of September 30, 2015, and December 31, 2014, were determined by reference to quoted market prices of the same or similar instruments (Level 2) (in thousands):

	September 30, 2015		December 31, 2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
4.875% Senior Notes due 2021	\$498,140	\$550,638	\$497,876	\$566,700
4.625% Senior Notes due 2021	299,689	324,469	299,650	