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Q3 2025 Right Tail Capital Investor Letter

How often do you take the time to recognize someone who has impacted your life, especially someone you don't see often?

Recently, I had the privilege of writing a graduate school recommendation for a friend. It gave me a chance to reflect on his impressive professional accomplishments, the strength of our friendship, and the qualities that will continue to make him successful. It was both fun and humbling—a small way to thank him and to play a role in his next chapter. It was also a full circle moment being grateful for those who helped me on my path to Harvard Business School, an incredible opportunity and life-changing experience.

Much like a recommendation letter reflects on a person's past and future trajectory, I'd like to do the same here with one of our long-term investments: O'Reilly Auto Parts ("ORLY").

It has been a Day 1 holding for Right Tail since the spring of 2022 (my ownership dates back before Right Tail to the spring of 2020) and one of our best performers over the past 3+ years. As you know, at Right Tail we aim to generate excellent after-tax returns by owning high-quality public companies for the long run – ORLY fits well into this framework.

Early Learnings

In 2017, ORLY shares—along with peers AutoZone (AZO) and Advance Auto Parts (AAP)—fell 30–50% amid fears that Amazon would disrupt auto parts retail. For the first time in years, O'Reilly traded at a mid-teens P/E multiple, despite a decades-long record of success. Shares were about $14 at the time, representing a ~100x return from its IPO price (~$0.14 split-adjusted) and a ~21% compound annual return.

The industry had proven to be economically resilient due to the necessary nature of the products they were selling. As the larger players grew, they became more important to their suppliers. Over time, this led to a negative working capital balance sheet where ORLY would get paid by its customers before it had to pay it suppliers for the inventory they were selling. These were pretty fabulous past results from the past.

Among its peers, I believed O'Reilly was best positioned. ORLY's business mix was roughly 50/50 between "Do It Yourself" (DIY) customers and "Do It For Me" (DIFM, primarily professional mechanics). Advance was a consistent underperformer, always bringing in new management to try to close the gap relative to peers. AutoZone skewed more heavily DIY. Amazon might capture some DIY demand, but O'Reilly's balanced mix, distribution superiority, and culture appeared harder to replicate. Still, I lacked conviction to invest then.

Building Conviction

At Right Tail, I view investing as an ongoing process of study and accumulation of knowledge—not a single transaction. Over the following years, I deepened my understanding of O'Reilly.

I gained an appreciation for ORLY's distribution advantages. Delivering to all of its stores nightly with 95% of stores also getting intraday service provided a logistical advantage Amazon could not easily replicate. Its culture of promoting from within created long-tenured employees with deep expertise, leading to a consultative service that mechanics and customers valued. This wasn't a typical e-commerce transaction where pricing is important and the purchaser knows the exact item she wants. In most cases, a part has failed unexpectedly, and the customer needs help sourcing the correct part immediately—things Amazon doesn't specialize in. Amazon can compete well if a customer knows what type of windshield wiper blades he'll need and doesn't need them right away. That's not the typical use case. For a mechanic where the customer is often an insurance company wanting to keep their policy holder happy, speed and knowledge are more critical than price.

I also came to appreciate the power of reinvesting cash flows at high returns which were typically greater than 30% in ORLY's case. Early in my career, I was drawn to turnarounds—the second- or third-best companies in an industry trading cheaply with a plausible strategy for improvement. Over time, I learned that the best companies, even at seemingly premium valuations, could deliver superior long-term investment performance. How could this be? Well, usually the expected earnings were well below what the best companies achieved. Their consistent reinvestment and execution made them far less "expensive" than they first appeared. O'Reilly has been a clear example of that lesson.

Investing with Conviction (2020 Onward)

When COVID struck in March 2020, O'Reilly shares fell 40–50%. This time, I was ready. What was required was largely a belief that people would drive again—and to back a company with a proven track record. ORLY became a core investment (and later on, a Day 1 Right Tail holding).

Over the last 5+ years, O'Reilly has repeatedly turned challenges into opportunities. It navigated supply chain disruptions better than peers, reset select DIFM pricing in 2021 to strengthen relationships, and weathered 2022 softness in discretionary categories. I recall discussing ORLY as an investment to a potential institutional investor in the early days of Right Tail. I felt I was on the other end of some glossed over looks implying "yes I've heard this boring investment case before". The stock was ~$40 per share and has since been one of RTC's best performers since inception rising to >$100 per share.

Another enduring strength has been culture. Current CEO Brad Beckham has worked nearly every operational role since joining right out of high school—a testament to O'Reilly's promote-from-within philosophy. This culture has driven consistency across cycles. It's also operated in an industry that has performed well in various economic environments.

Relative to its larger peers, O'Reilly has also exceeded my expectations. I initially assumed ORLY, AZO, and AAP would all take share from mom-and-pop shops. What surprised me was how much faster O'Reilly grew than even its strongest peers. AAP's acquisitive, integration-light approach continued to struggle. AZO has remained an excellent company, but O'Reilly's ability to out-execute—particularly in the DIFM channel—has been a differentiator. I'm impressed that ORLY has largely been able to grow its DIFM business faster than AZO which has the benefit of a smaller base to start from.

Looking Ahead

Why do I believe O'Reilly will continue to compound? Because the drivers that fueled its past success remain intact: selling necessary products that require professional knowledge, disciplined reinvestment, cultural consistency, and customer-first execution.

Cars are getting older and more complex. Parts remain essential. Mechanics and consumers continue to need speed, certainty, and expertise—not just low prices. O'Reilly is well positioned to keep delivering on all of those fronts.

Beyond O'Reilly, let's review several key lessons that we've discussed before and that will help in our further compounding of wealth. First, near term valuation metrics don't always capture reinvestment opportunities: High-quality businesses may trade at premium valuations, but sustained reinvestment and superior execution often make them cheaper in hindsight. Even when ORLY's shares were down, it always looked more expensive than its peers. Second, culture compounds: Long-tenured employees and promote-from-within leadership create consistency, resilience, and a durable edge that outsiders underestimate. Additionally, service matters: Speed, certainty, and expertise—not just low prices—create moats that e-commerce alone cannot replicate. Insights develop over time: Following a company for years before and after investing can transform skepticism into conviction when the right opportunity arises.

I'll continue to think through and apply these same key lessons with all names in the portfolio, both ones viewed positively like ORLY and ones whose share prices have dropped like our long-term holding Constellation Software. The principles of reinvestment, culture, and patience will continue to serve us well over the years investing together at Right Tail.

Best wishes for a fantastic completion to 2025,

Jeremy Kokemor

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