Monro Inc, Bank of America Consumer & Retail Conference 2023-03-14

Presentation

Analyst

Great. All right. So next, in our agenda, we have Monro. And unfortunately CEO, Mike Broderick, couldn't make it today, he had some issues with travel, but we are very fortunate to have Brian D'Ambrosia and Felix Veksler, IR.

So Brian, I think you had a couple of prepared remarks that you want to give in before we kick it off into Qs.

Brian D'Ambrosia

Sounds good. Thank you, Liz. Yes, and Mike apologizes for not being able to make it today. So I will just talk a little bit about Monro, little bit about the company, our current strategy and some of the progress that we've made. So Monro is the country's leading – one of the leading auto service and tire providers. We have about 1,300 stores, about 9,000 service bays in 32 states.

In fiscal 2022, our most recently completed fiscal year, we did about $1.4 billion in sales and a strong balance sheet, very conservatively levered with significant cash flow generation, we'll likely do record operating cash flow in this current year. As it relates to the categories that we serve, we're about 50% in tires, the other 50% in other underhood and under-car services. And most of those are nondiscretionary services related to the consumer.

And with our strategy, we feel like we're well positioned to take care of multiyear industry tailwinds as we execute our strategy. So the strategy is really designed around delivering on 3 outcomes. The first is sustainable, mid-single-digit comparable store sales growth.

The second is gross margin and operating margin expansion. And the third being cash creation.

So to do that, we've done some things already and continue to do and execute against the strategy. Those include properly staffing our stores to meet consumer demand. The second is training those technicians so that we can more effectively service our guest cars and drive productivity through in-store operational excellence as well as scheduling our technicians for success in our stores for success. And then finally, being competitively priced so that we can continue to drive consumer demand and take share in the industry.

As it relates to our outcomes around sales thus far, in our recent third quarter, we delivered comparable store sales increases of 6%. So we're on track for our mid-single-digit goal, and we feel good about the sustainability of that – of that top line. We've moved into January with comparable store sales in January, which is our fourth quarter of about 8% comparable store sales.

In addition, we are focused on our smaller and underperforming stores. So there's about a group of 300 stores that we feel has opportunity for outsized comparable store sales increases. And those have run between 10% and 15% over the last 3 quarters. And what those stores are getting is just a more concentrated kind of helping of staffing, scheduling, operational excellence with outsized opportunity to improve beyond the chain average.

And as we look at those small underperforming stores, we also have opportunities – the same opportunities to deliver those sales growth through what we're executing across the chain. And across the chain in Q3, we saw a 5% comp growth in the non – small and underperforming group.

And then finally, related to sales, one of the big dynamics that changed for us during this year as we divested our wholesale tire and distribution assets, we had about $100 million wholesale business that we divested and returned for about $100 million in proceeds. But with that also came a distribution agreement with ATD, who is one of the largest distribution companies in the world. And it really gives us access to supply, particularly at our opening price point levels that we used to directly distribute ourselves.

We now have access to all of their availability. And what it does is it makes us a better seller of tires at some of those opening price points, which has been extremely important as the consumer has traded down the screen and is really shopping for value at a lot of those price points. So that's really helped us to deliver our top line. And I would say with that has come some pressure in gross margin, inflationary pressure across the industry, obviously, but at the same time, some of the mix in the trading down to opening price point tires as well as the consumer deferring some of our higher-margin services. This put some pressure on it from the mix standpoint.

At the same time, we've obviously been investing in technicians. We've added 650 technicians during the last 12 months, and we've also experienced, obviously, wage pressures. So as we manage our business going forward, we're obviously looking at the drivers of our margin opportunities and particularly how we can affect mix, how we can continue to drive productivity out of our technician investment and how we can continue to take price in the appropriate way in order to preserve our volume opportunity as well.

And then the only – the last part of the strategy and the output is related to cash creation. And as we think about cash creation, we are driving cash from our operations, but we also have significant working capital unlock through our partnerships with some of our strategic partners, we're able to optimize inventory and at the same time, achieve attractive payables terms. And that's been an outsized opportunity for us as – we generated $171 million in cash flow for the first 9 months. $71 million of that was unlocked from working capital reductions. And we think that there's more opportunity for that.

And ultimately, the proceeds from that really allow us to maintain a conservative balance sheet, while at the same time as executing our growth strategy and returning cash to shareholders, which we're doing currently through our share repurchase program as well as our dividend program.

And then our M&A strategy is – continues to take hold with a small acquisition that we announced in our last earnings call for about $6 million of annual increase annualized sales. So it all comes together with that cash creation, allows us to grow and leaves a really strong balance sheet to take advantage of potentially bigger or more frequent opportunities for growth.

So with that, I think that encapsulates our strategy, what we're looking to get out of it, and I'll turn it back to you, Liz, for any questions.

Question and Answer

Analyst

Great. Yes. That's a really helpful background. So I guess just kind of starting with the demand environment, broadly speaking, where do you think driving activity and demand for automotive services is compared to pre-pandemic levels? And are there areas in the auto aftermarket where there was pull forward demand or where there's been sort of more delayed demand? Like how are you thinking about those areas where maybe it overshot a little bit or vice versa?

Brian D'Ambrosia

Yes. I think that if you look at how we measure activity of demand in the aftermarket, I think the #1 thing that we'll point to is going to be vehicle miles traveled. For us, when you talk about deferral, when you talk about demand, you can't talk about it without VMT. And because as the car is driven, you can – there's no such thing as a mile doesn't include wear and tear on a friction part or treadwear on a tire or using up a useful life of a fluid. So what that means is as those miles are traveled, we know we're that much closer to seeing that guest.

And what we've seen is that while we saw an initial shock during COVID of a pretty dramatic drop in vehicle miles traveled, they've about returned to where we were prepandemic. Now we haven't seen maybe the growth – we probably foregone some growth that we would have ultimately had during that period of time, but we released back to the absolute miles that were driven. The constitution of those miles might be different from commute to recreation miles or from fleet miles to individual driver miles, but they're there.

So we know that the fleet is being driven. We also know that the fleet is aging because the average age of vehicles is getting older as scrappage rates have gone down as well as new car sales have gone down, so we know that the vehicles are being driven in our sweet spot as well.

So for us, those are always a good sign and really what we point to see if our staffing levels and our outlook for vehicle miles traveled is corresponding to our staffing levels and what we expect from demand.

If there was anything that was maybe pulled forward or disrupted during COVID, I would say it was likely the DIY, DIFM multiyear trends. Obviously, if you look back over time, DIFM, do it for me, has taken a larger share of the aftermarket growth and taking that at the expense of do-it-yourself. We saw that reverse during the COVID pandemic. But I think if you look back at the trends over the last year, you're seeing that renormalize to maybe where it would have been otherwise.

Analyst

Yes. Okay. That makes sense. And are there regions of the country where you're seeing trends diverge meaningfully? I mean, outside of the impact of weather, are you seeing greater demand in the South where people sort of moved away or more rural markets, anything you're seeing in terms of market divergence?

Brian D'Ambrosia

Yes. We haven't seen a significant divergence between our regions. We kind of run as a North, South, Midwest and West Coast as our regional view. And we haven't seen anything significant outside of more weather-related trends.

Analyst

Okay. And how about in demographic levels? I mean I guess, first, what is average sort of household income and age of the vehicle for your customer? And then are you seeing divergence in trends between sort of upper income versus lower income?

Brian D'Ambrosia

Yes, it's a great question. I think that first up, the most important thing for us is our customers are driving 6-year-old vehicles plus. I mean we will see some vehicles earlier than 6 years, and we'll see some vehicles that are primarily in our sweet spot of 6 to 12 and then we'll see some 12-year older vehicles. But our bell curve, the heart of our bell curve is 6- to 12-year-old vehicles. So our customer is the person that's driving a 6- to 12-year-old vehicle and there's different reasons for that.

As we look at individuals that own a single car, it's usually because they're driving one of those earlier model vehicles out of affordability as you look at multifamily household or multi – households – multimember households, it's often that they might have 1 or 2 newer cars, but the second or third car is an older vehicle so They might be a customer of the dealer, but also a customer of Monro because it depends on which vehicle they're servicing.

But in general, kind of taking a swath down the middle, our consumer is a household of $100,000 or less in income. And for whatever reason, they have a 6- to 12-year-old vehicle or plus in their fleet that they're using the auto aftermarket to service and Monro is one of their customers. Monro is one of their vendors that they used to service those vehicles.

So I would say, as it relates to our consumer, we have certainly seen a change in behavior across our customer regardless of income level. I think we've seen a shop for value. We've seen our higher-tiered tires, they're looking for value with the next tier down. They're looking for opportunities to take advantage of manufacturer rebates or promotional opportunities. But I think it's most acute in our lower income households where we're seeing that real trade out into the opening price point tires.

With that also comes a lack of desire to attach additional services to those. So you see less of a road hazard attachment to those tires. You will see the options being taken. I'll take the standard in tire installation versus the lifetime installation that includes other services-free, nitrogen-free balancing. You might even see customers forgo in alignment so that they – which we always recommend to protect your investment, but it just might be something they're foregoing.

And on the service side, you see them not necessarily taking the recommendations that may be needed. For example, if you need brakes, you're seeing them say, I'll get them the next time. So we're seeing that trade down and that deferral most acute in our lower income. But I would say that there's still a desire for value at all income levels.

Analyst

All right. So I guess kind of turning to the competitive environment, how do you think about Monro's biggest competitive advantages as one of the largest service organizations in the country? And what do you think that you bring to the consumer that is unique?

Brian D'Ambrosia

Yes. I think – I mean, the #1 thing that Monro has is scale in terms of our – and what that means for our customer. What it means is our ability to invest in the experience that, that guest has when they come to Monro. And that happens in a few different ways. We talked about investments in staffing. That is a huge differentiator in terms of an experience that a guest can have interacting with a well-staffed store versus an understaffed store.

The ability to be able to set the appointment time that you want versus the one that's available. The ability to get your car turned back to you at the time that you expected and the ability for that store to do a full courtesy inspection to know what else is needed or will be needed on your vehicle. That all is required by staffing. So our investments in staffing, because of our scale and ability to make those investments and recruit – and attract and retain those teammates it's been important for us in this environment and for us to execute our strategy.

The second thing is investment in price, and we've talked about that. Our ability to make sure that on the service side, if we aren't fully passing through to the consumer, the full value of any of the cost increases we've seen to be able to do that and have the financial wherewithal to do that in order to take share and to drive outsized performance of our customer base.

And then also its investments in technology. So we have a technology road map that we believe will be industry-leading in terms of our ability to use technology in our stores for our teammates to service a vehicle and really facilitate the guest experience from beginning to end and from that guest to really interact very easily with Monro and manage their car care needs. So all of those things are done by a company with really good scale and a really strong balance sheet like we have.

Analyst

And then how are you utilizing customer data in – to stay engaged with the customer. And it's just an interesting segment to be in because I think typically, people don't like to think that they're going to need a lot of auto service, but when they need it, they need it kind of right away. So how do you use that to engage with the customer without being pushing and try to sell them things that they don't want, but still stay in front of them when they do need to?

Brian D'Ambrosia

Yes, absolutely. It is the challenge of running in a low – it's a low interest category. So when you're not in market for auto aftermarket, you're not really thinking about the services. You're not daydreaming and shopping for breaks that you leave it – so yes, so we don't need to meet the guests with – and be in front of them, the entire time that they're driving their vehicle. We need to be in front of them at the time that they need us to help them with the needs of their vehicle.

So with that, we gather a lot of data about the vehicle and about the consumer. So there's 3 ways we do that. The first is when they're in store. So when they're in store, we know they're in market. They're already with us, either they're a new customer or an existing customer. The #1 thing we can do for them is to their benefit and to ours is to do the full courtesy inspection because that's the time where we can really speak to them about their car care needs, really articulate for them, their options, help them prioritize if they do have share of wallet issues. And even if it's not something that's needed today, it helps to them to plan for their next visit and it builds a lot of credibility when that item is worn or needs replacement because we've been out ahead of it and allow them to plan for it.

So in store, we need to do a really good job of educating that consumer. What we do then is we decide what they're not going to do that day, and we capture that data in terms of the client service and the client parts. And that allows us to market back to the consumer when they're not with us. we can look at the driving history or when they were in last and be able to make sure that we're delivering a message to them at the right point in time so that it's in advance of when that next visit might need to be and often with a promotional offer to allow them to make that decision to come to Monro to get that service done.

We've also opened up, and we talked about it on our last earnings call, a more direct relationship with the consumer when it comes to decline services. So over the last couple of – last quarter, we've introduced a callback program. So for any service that was declined in the previous week, our store managers will actually call that consumer back and make sure first the vehicle service work that we did was good, and it's running well. But also ask them if that issue that maybe didn't get resolved, is still bothering them to a point where they'd like to come back sooner than later and make sure that we've got a lot to know we've got a time for you to come back in.

We're doing that, and we're also doing 6-month oil callbacks. So we look at the calls, the oil services that we had 6 months ago, and every day, every store manager is calling back all those oil changes to let them know, hey, it looks like you probably due, let's get you back in. So we're doing those things on top of our traditional more, I guess, indirect CRM that they would get through a postcard or through an e-mail, now we're having actually that store manager who they have a relationship, make that call.

And then we're also doing a lot to tie service into other categories as well. So those are the main things that we're doing with the data that we have, but it really comes down to getting the right message to them at the right time. And you don't always know the right channel, so we're doing it through multichannel electronic postcard and calling.

Analyst

Great. And just given that Monro is a pretty mature company and this is a mature industry that grows at usually kind of low single digits in a normal year. But your – one of your key strategies is that sustainable mid-single-digit comp. So what goes into that? And then how do you gain market share consistently?

Brian D'Ambrosia

Yes. Ultimately, our mid-single-digit comp over the long term, the sustainability of it is really predicated on a balanced approach, and there's a couple of different balances. The first is a balanced approach between service and tires. So we are approximately 50-50 in service and tires, and that's how we want to grow as well. So we think we've got opportunities to grow all of our services, but to really do it in a balanced way.

The second is traffic and ticket. So that 5% or if you want to call it, mid-single digit really is a balanced approach between traffic and ticket. So I think that in this inflationary environment, there's been a lot of growth in ticket and there's been a lot of inflation passed in. And certainly, our comp, our mid-single digit comp currently is leading with ticket right now. But we believe we're doing the things from a traffic standpoint, from a pricing standpoint, from a customer experience standpoint, where we'll ultimately be able to drive that balanced approach. And we think that's what it's – the car count will really be an important aspect and matter more than ever if we do move into a disinflationary environment.

Analyst

Great. I want to change gears a little bit here into cost and capital allocation. So – at this time last year, we were just beginning what turned out to be a pretty steep inflationary period. And a CPI for motor vehicle parts and equipment still looks pretty elevated. So I guess, is that representative of what you're able to pass along to the customer in terms of price? And then how much pricing power do you think the broader auto parts and service market has? And how rational has the competitive set been?

Brian D'Ambrosia

Yes. I think as you look at our business, I will – I'll parse it between tires and service. So on the tire side, the tire is the largest component of the bill of materials or cost of a ticket. The service install is a very small cost. The tire is by far – the material cost of a tire ticket is the largest. So that is where we've seen as prices have increased on tires, we've seen a really rational industry passing that on to the consumer.

And wage inflation is much – not as creating any sensitivity to the tire ticket, it really is the tire cost. And we've seen that passed along and certainly, we've passed that along. Now offsetting that is as you're passing that price along, you're seeing the consumer trade down. So they're taking the price increase, but it's also changing where they're buying because they're may be getting priced out of certain tiers that are causing them to move down a tier.

On the parts side and the service side, the part is a much, much smaller piece of the ticket. The labor is a much larger piece. And it's also why there are higher margins on the service side because the service is inherently a higher margin because it is more labor and less part, less material. On that side, we haven't passed a lot of the price increase, the cost increase on to the consumer. It's been more of a deferral cycle there. So we're trying to stay relevant on price. There's less of an opportunity to trade down in service and more of an opportunity to say yes or no.

And so we want to make sure when they're ready to say, yes, that we're priced competitively so that we're the place they decide to bring that car to. And I'd say the wage inflation on the service side has been more of a factor than the parts inflation because that's ultimately our largest cost on that side.

Analyst

Makes sense. Yes. So I guess to that point, there's been a lot of cost pressure from higher wages and benefits. So how are you planning for labor costs this year? And is the growth pace more accelerated than usual? Or is it starting to moderate?

Brian D'Ambrosia

Well, for Monro, we'll see a moderation in our growth of our labor cost as a percent of sales. And the reason for that is – like we said in FY '23, that was a large investment year for us, where we added 650 technicians. So on top of wage inflation, we were also adding more hours into the system. And we'll ultimately be rewarded for that, and we are being rewarded for that in the form of higher sales. But it takes some time to leverage that investment.

So we'll have more leveraging of that investment in FY '24. What we'll be left with will be the wage component. So for us, it will be a smaller headwind than what we faced in '23, but one that we'll have to manage through – as best as we can through productivity gains. And then ultimately, if we are able to see this deferral cycle services start to abate, which we would expect because, again, we're nondiscretionary and you can't – there's no such thing as a mile with no wear and tear. You will need the service eventually. At that point, we expect some pricing to make its way into the service side. And with that, we'll – and productivity gains, we'll be able to better manage the wage inflation that we'll be seeing.

Analyst

Okay. Are there opportunities in your current cost structure to reduce costs in areas like rent or advertising, other ways you can offset some of that inflation?

Brian D'Ambrosia

Yes, absolutely. And this has been something that we've always done. But we've done a healthy dose of it post-COVID. During COVID, we did a lot of looking at our leases and some strategic rent restructuring. So we enjoy a lower level of rent than we would have otherwise for the lot of the work that we did post COVID. And we continue to do that work at renewals and we look at even off-cycle renewals with our landlords in exchange for term that for stores that we're committed to, we'll look to renew early and get the benefit of lower rent.

So that's always happening. And same thing with advertising. We're always optimizing our advertising channels, making sure we have the right mix of awareness and direct response. And ultimately, we help ourselves the most when we're able to really drive organic search, which comes from having a good star rating and being very relevant to the consumer and showing up in that top 3 pack, which we have really focused on in order to get the benefit of that basically what it would be free advertising and take pressure off any paper clip that we do.

Analyst

Right. And then I guess, one area that's probably hard to do much with is interest expense because not a huge swing factor given your balance sheet. So can you spend some time talking about your approach to leverage?

Brian D'Ambrosia

Yes, absolutely. Monro has always had a very rock-solid balance sheet. And I would say that at about 100 – a little over $100 million of that $120 million of debt against our EBITDA were leveraged about 0.7x. And that provides us a lot of flexibility. So as we bought back through Q3 about $97 million of our own stock, we've delivered about $29 million in dividends, spent about $25 million in CapEx, operating lease pay downs, all of that and still maintain an attractive leverage profile.

So what that really does is it allows us to continue to use our free cash flow to return to shareholders, grow appropriately and maintain a leverage profile on our balance sheet that just gives us a lot of optionality as we go forward for growth opportunities. And that's really the point of being of that. And I think it's coming through COVID and maintaining really strong leverage profile, it's really where we wanted to be because it provides us again with a lot of optionality. And what we feel is that a balanced approach right now to our share in capital deployment around share return – cash return to shareholders as well as growth opportunities is the right place to be.

Analyst

Great. And I guess probably every economist has their forecast for what a recession could look like this year if it happens. So I'm just – I'm thinking about your goals that you laid out and your top priorities, how much risk do you think there is to those priorities if we do land in a recession this year?

Brian D'Ambrosia

Yes. The auto aftermarket industry, one of the reasons why it's very attractive is because of its resilience during a recession. The nondiscretionary nature of our business really lends itself to having strong performance and resiliency during an – an example is if you go back to post Great Financial Crisis, '09 through '12, the company comped at about – over 6% comps. And it was not an inflationary period, obviously, it was disinflationary.

So I think that it was a good example of – in a period of higher unemployment and maybe more normalized inflation levels, if that's the trade-off that's going to be made over the coming year, then this business is set up to perform during that. So it doesn't – a looming recession doesn't really change our profile in terms of our investments in technicians, the CapEx we want to deploy in the business because we think that the business will perform well throughout that cycle.

Analyst

Yes. Recession is ever sort of opportunities in terms of just disruption to what's a pretty fragmented market.

Brian D'Ambrosia

Yes. You saw during the Great Financial Crisis that Monro did a lot of acquisitions during that time period. And the reason for that is that some of the cost advantages that we're talking about our relationships with strategic suppliers, those aren't enjoyed by all, right. And it Is that we talked about earlier, the scale that we have allows us to differentiate our business from the smaller operators. And it's periods of times like that where those smaller operators might feel inclined to look at other options for their business.

Analyst

And I guess it's just been interesting. I think I followed the auto aftermarket for the last 16 years as research analyst. And what's fascinating to me is just how fragmented it continues to be. So I'm curious why you think that is? And is it just small operators can still make a lot of cash and so they're fine? Or like what do you think is the reason for that, like ongoing fragmentation?

Brian D'Ambrosia

Yes. I think that there's over, I think, over 100,000 locations, service locations in the U.S. And I believe the top 10 only have about 15% of the share. You can be less than 10 stores and be in the top 100 of tire stores. So it's a long tail in that fragmentation. There's a lot of 5-and-below chains that are in all essence, sole proprietorships. And I think one of the things that's made those chains successful is they provide excellent customer service. They know their customers. Their customers trust them and they build a lot of brand loyalty. So they can be successful even though they've got the pressures of higher input costs and lack of ability to invest in certain technology, equipment or get ready for oncoming trends like electrification and things like that.

So that's why they become attractive candidates for roll-up because they bring with them a strong business, but they just don't have – they can benefit from the scale that somebody else can bring. But the consolidation has largely been driven by demographics in that first and second generation owners of these businesses, just don't have succession options. And I think that continues. That's the main catalyst for the consolidation. But I do think the lack of ability to invest in some of the things that are going to be necessary, like technology or investments for what the next generation of cars will be, I think those are further catalysts that could further accelerate some of the consolidation.

Analyst

Great. I have a follow-up on that. But I want to make sure I open up the floor but if anyone else has questions, so I don't hog the mic here. Okay. Well, I will follow up on that actually. So about EVs and the potential there. I mean I think – and a lot of my conversations with investors, they view that as a sort of existential threat to the auto aftermarket. How do you see it from Monro's standpoint?

Brian D'Ambrosia

We do not see it as an existential threat. I think as we look, first of all, there are 300 million cars in the auto aftermarket, and nothing changes quickly in that car park and everything has unintended consequences. So there may be reasons for people to hold on to internal combustion engines even longer if they're unable in certain states to obtain them as a new car. They may want to keep them. And those cars, we could see the average age of ICE vehicles extend because of that. So we don't – we believe that there still will be a need to provide all of the services that are required in internal combustion engine and a hybrid, which obviously includes an internal combustion engine.

The area of differentiation for Monro is in our fluids, in the service category of oil. We only – it's about 10% to 15% of our business. And that is where you will see the transition from 300 million cars needing oil to a portion of that continuing to need oil and a portion of it, you need to have battery services. But outside of that migration, you will still – you still have tire replacement. You still have friction wear, you still have ride control, you still have shocks and struts. You still have all of those things that will be needed to be serviced on that vehicle.

And we – if you went into any one of our California stores now, I'm sure you would see that either a Tesla ready to be serviced or being serviced probably for tires, they tend to wear tires out more because of the size of the vehicle, it's much heavier with the batteries, and it's also higher torque, so it puts more wear on the tires. So it protects on an opportunity in a tire category and an opportunity to build the capabilities when it comes to critical mass to be able to help those owners replace and service their batteries.

I'm not saying it's battery replacement, but there's a lot of coolants, hoses, and other cooling equipment that is used to keep that battery compartment cool, and there are failure points in those, and we can be serviced to those guests. We've already fitted our entire fleet of lifts across our organization with the ability to lift an electric vehicle because they have the battery pack, you need to put some special spacers because you do not want to damage that battery. So you have to put special spaces. There's instructions for how you lift a Tesla in terms of what mode you put it in to make sure it's got enough clearance. All of that's been trained across our fleet.

So we are ready and we are servicing electric vehicles today across the categories that we currently do. we'll migrate that oil category to be battery capable as they become a bigger part of the aftermarket.

Analyst

Yes, I was going to say because we hosted Snap-on earlier, and so Nick Pinchuk was talking about the difference in lifts and it was something I hadn't even thought of that all of these service bays are going to need to be sort of retrofitted to be able to service a whole different type of vehicle.

Brian D'Ambrosia

That's right.

Analyst

Yes. And then here, I'm just going to give 1 more opportunity to the audience, if anyone has a question?

Attendee

Sorry if you hit this earlier, I came a few minutes late. But just on changes in tire technology, thinking about run flats and lower-profile tires, how far along are we in that migration? Is it slowing down at all? And is that an opportunity for you guys?

Brian D'Ambrosia

Yes. Related to the tire industry, the biggest change has been the size of the tires. You've seen the proliferation of large diameter tires and it's been the biggest immediate – most immediate item is you can stock less of them. So you've got – you're really relying more on secondary supply with the larger tires because you just can't keep as many in stock. It does require a different skill set. It probably makes it even harder for an individual to do their own mounting and balancing just because the run flats – some of our tire changes needed to be upgraded to be able to handle the lower profile tires without damaging the rim.

And so I think it's another example of additional investment required to handle next generation of tires, and that does become an opportunity. Those tires – larger tires, high-profile, run flats, they also tend to be at higher price points and they tend to be on higher end vehicles. So to the extent that those are aging into our car park, we're taking advantage of that.

Analyst

Great. I'm going to squeeze in one more since we're talking about EVs and go into some ESG stuff. So what are your current initiatives there? And what are your most recent meetings with ESG-focused investors been kind of touching on?

Brian D'Ambrosia

Yes. I mean I think we're excited that we put out 2 corporate responsibility reports now. I believe our third will be in July. And if you haven't read that, I encourage you to because it does lay out some of the goals that we have across our particularly environmental and social impact. I think that our focus is really on our teammates, our customers and then the communities that we serve.

And we feel that a lot of the initiatives like staffing and providing a better balance by having more staff in the stores, it gives us better flexibility to our teammates to achieve better work-life balance. We've always – that's a big benefit for our teammates, and we continue to focus on other ways that we can enhance the teammate experience. In terms of environmental, we've always been a big recycler of oil of tires, meeting the regulatory standards and have had very little issues related to environmental, but we also are now taking that another step further and have a big LED lighting opportunity for us.

It's going to be beneficial as most things ESG related are beneficial to our business, but also to the environment by reducing our costs of our lighting at the same time saving energy. So we've got a few of those planned. We also have a office – basically a paperless office program moving as well, really minimizing the amount of store paper work that we print, ship, mail, trying to reduce our footprint there.

And then the final piece is that our relationship with ATD also includes ESG goals. It's allowing – going to allow us to take overall miles out of the system by eliminating redundant routes and making – allowing them to optimize their routes as they're delivering to other customers by having a big national anchor tenant like us to reside on those routes.

So there should be a significant amount of reduction there as well, and we'll be reporting on that as we move forward.

Analyst

Great. Well, if there are no other questions, and I think we'll wrap it up there. Thank you.

Brian D'Ambrosia

Thank you. Thank you very much.