Jan 17, 2020

Lithia Motors, Inc. (LAD)

$141.30 (As of 01/16/20)

Price Target (6-12 Months): **$150.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/15/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: A | Growth: A	**3-Hold** VGM:A Momentum: B

Summary

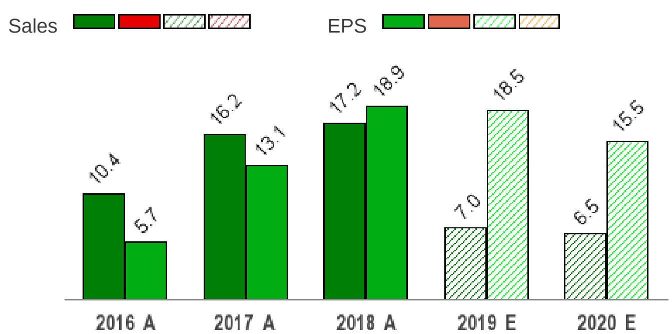
Over the past year, shares of Lithia Motors have outperformed the broader industry. The company's diversified product mix and multiple streams of income bode well for top and bottom-line growth. Expanded physical network combined with enhanced digital solutions allow Lithia Motors to further boost profitability and market presence. Its used vehicle sales unit remains a differentiator, as volumes from the same have been driving growth over the last several quarters. However, the company's new-vehicle unit sales are declining, which is hurting overall results. Continuous rise in expenses is likely to hamper its net income in the future. Rising competition and increasing price transparency can result in lower selling prices, thereby affecting the company's profits. Hence, the investors are recommended to wait for a better point.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$165.27 - $79.75
20 Day Average Volume (sh)	197,387
Market Cap	$3.3 B
YTD Price Change	-3.9%
Beta	1.13
Dividend / Div Yld	$1.20 / 0.8%
Industry	Automotive - Retail and Whole Sales
Zacks Industry Rank	Top 16% (40 out of 254)
Last EPS Surprise	8.0%
Last Sales Surprise	2.7%
EPS F1 Est- 4 week change	1.9%
Expected Report Date	02/12/2020
Earnings ESP	-2.7%
P/E TTM	12.5
P/E F1	10.3
PEG F1	1.2
P/S TTM	0.3

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	3,061 E	3,386 E	3,479 E	3,452 E	13,467 E
2019	2,850 A	3,222 A	3,332 A	3,256 E	12,643 E
2018	2,660 A	3,097 A	3,092 A	2,973 A	11,821 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	$3.22 E	$3.78 E	$4.06 E	$3.56 E	$13.66 E
2019	$2.44 A	$2.95 A	$3.39 A	$3.03 E	$11.83 E
2018	$2.07 A	$2.52 A	$2.83 A	$2.57 A	$9.98 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/16/2020. The reports text is as of 01/17/2020.

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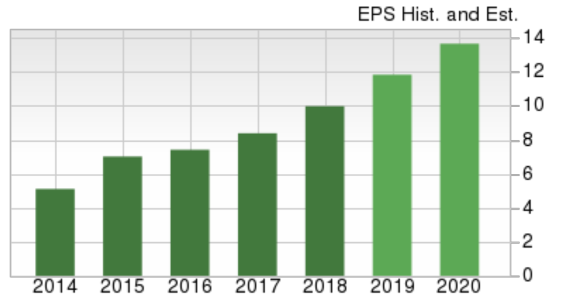
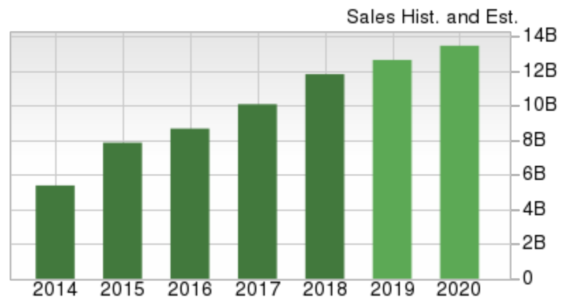
Overview

Lithia Motors, Inc. is one of the leading automotive retailers of new and used vehicles, and related services in the United States. As of Dec 31, 2018, the company offered 28 vehicle brands across 181 stores in 18 states of the United States and its websites — Lithia.com and DCHauto.com. The core brands offered by Lithia Motors include Chrysler, General Motors, Toyota, Subaru, Honda, Acura, Ford, BMW, MINI, Nissan and Hyundai.





Lithia Motors offers tailored service complemented through its nationwide network. Further, it has the largest online inventory with competitive pricing on vehicles and service.

Apart from a wide range of new and used vehicles, the company offers finance and insurance products, and automotive repair and maintenance. It focuses on diversification of products, services, brands and geographic locations to reduce dependence on one manufacturer along with reducing exposure to shifting consumer preferences.

Lithia Motors has three reportable segments as follows —

The **Domestic** segment has retail automotive franchises that sell new vehicles manufactured by Chrysler, General Motors and Ford.

The **Import** segment comprises retail automotive franchises that sell vehicles manufactured primarily by Honda, Toyota, Subaru, Nissan and Volkswagen.

The **Luxury** segment comprises retail automotive franchises that sell new vehicles manufactured primarily by BMW, Mercedes-Benz and Lexus.

Apart from new vehicles, all the above segments deal in used vehicles, parts and automotive services, and automotive finance and insurance products for the brands.

Lithia's business mix consists of New vehicles (accounted for about 58% of the company's revenues in 2018), Used Vehicles (28%), Parts and service (10%) and Finance and insurance (4%).

Reasons To Buy:

> Used-vehicle sales will drive Lithia Motors' revenues. Further, widening omni-channel capabilities through acquisitions, partnerships and investments will strengthen its market share.

- Lithia Motors' diversified product mix and multiple streams of income bode well. Markedly, these factors reduce its risk profile. The company generates income from six distinct businesses that offer used and new vehicle sales, finance, insurance, as well as automotive repair and maintenance. The diversified portfolio positions it well for top and bottom-line growth.

- Lithia Motors is widening omni-channel capabilities in order to expand and modernize transportation solutions for customers. A diverse physical network and strong brands will drive Lithia Motors' sales. Expanded physical network combined with enhanced digital solutions will allow Lithia Motors to further boost profitability and market presence.

- With the rapid growth of the market for purchasing dealerships, Lithia Motors continuously strives to make acquisitions for increasing its market share and catering to customer requirements in a better way. For instance, it recently acquired Williams Automotive's Honda and Toyota dealerships in Florida. Acquisitions of Lincoln Morgantown and Hazleton Honda dealerships are also expected to generate higher returns for the company, going forward. Notably, the dealer M&A market remains robust, with the company's addition of more than $320 million of additional revenues on a year-to-date basis and expansion of its national reach to 82% through purchasing dealerships.

- Among several business lines, used vehicle sales remain a standout unit, as volumes from the same have been driving growth over the last several quarters. Sourcing the used-vehicle inventory from auctions, car dealers and independent wholesalers aid the company to keep inventory costs lower. With increasing prices of new vehicles, customers are getting inclined to spend on used vehicles rather than buying new ones. Robust demand is likely to drive growth of the company's used vehicle unit.

Reasons To Sell:

- Lithia Motors' new-vehicle unit sales are declining, which is hurting overall results. The decline was majorly due to disrupted distribution of vehicles at domestic stores in Northwest. Also, huge availability of off-lease used vehicles in the market might have partly contributed to the decline in new-vehicle sales.

> Lithia Motors is under pressure due to a drop in new vehicle sales, Also, rising competition is a concern.

- Lithia Motors is witnessing a continuous rise in SG&A expenses, primarily due to acquisition costs and insurance reserves, partially offset by store sales. Continuous rise in expenses is likely to hamper its net income in the future.

- Lithia Motors competes with publicly and privately-owned dealerships, along with Internet-based vehicle brokers. Some of its competitors are larger, and have greater financial and marketing resources. Lithia Motors' finance and insurance business faces strong competition from various financial institutions, and other third parties. Rising competition and increasing price transparency can result in lower selling prices, thereby affecting the company's profits.

- Lithia Motors weakening balance sheet with low cash and high debt plays spoilsport. The company's long-term debt was $1.29 billion as of Sep 30, 2019. Debt-to-capital ratio stands at 52.84%, which restricts the firm's financial flexibility.

Last Earnings Report

Lithia Motors Q3 Earnings & Sales Top Estimates, Up Y/Y

Quarter Ending	09/2019
Report Date	Oct 23, 2019
Sales Surprise	2.71%
EPS Surprise	7.96%
Quarterly EPS	3.39
Annual EPS (TTM)	11.35

Lithia Motors, Inc. reported adjusted earnings per share of $3.39 in third-quarter 2019, marking a 20% increase from the prior-year quarter's $2.83. Further, the bottom line beat the Zacks Consensus Estimate of $3.14. The upside in earnings stemmed from strong gains across all business lines. In the reported quarter, adjusted net income rose 16% year over year to $79 million.

Total revenues grew 8% year over year to $3.3 billion. The figure also outpaced the Zacks Consensus Estimate of $3.24 billion. Total same-store sales grew 7.6% year over year to $3,249.7 million.

Gross profit rose 9.6% to $510.9 million in the reported quarter from $466.2 million in the year-ago quarter.

Q3 Highlights

Revenues from new-vehicle retail grew 5.3% year over year to $1.82 billion. New-vehicle retail units sold declined 0.6% to 48,508. The average selling price of new-vehicle retail rose 5.9% year over to year to $37,618.

Used-vehicle retail revenues rose 13.7% year over year to $916.3 million. Revenues from used-vehicle wholesale declined 19.1% year over year to $74.4 million. Used-vehicle retail units sold grew 11% to 44,143. The average selling price of used-vehicle retail improved 2.4% to $20,756 from the year-ago figure of $20,274.

Revenues from service, body and parts went up 9.4% to $340.5 million. The company's F&I business recorded 12.6% growth in revenues to $136.3 million. Revenues from fleet and others were $40.1 million, up 39.7% year over year.

Financial Position

Lithia Motors had cash and cash equivalents of $27.1 million as of Sep 30, 2019, down from $31.6 million as of Dec 31, 2018. Long-term debt was $1.29 billion as of Sep 30, 2019, marking a decline from $1.36 billion recorded as of Dec 31, 2018.

Dividend Payment

Lithia Motors' board approved a dividend of 30 cents per share for third-quarter 2019. The amount will be payable Nov 22 to shareholders of record as of Nov 8, 2019.

Outlook

Earlier this month, the company acquired John Howard Subaru, Waterfront Jeep and Urse Chrysler Dodge Ram Fiat in Morgantown, WV. So far this year, Lithia Motors has acquired seven stores. These are expected to generate revenues of more than $475 million. Recently, the company activated proprietary technology in the Pittsburgh market. These scalable, digital solutions are expected to drive improvements and efficiencies across Lithia Motors' network.

Valuation

Lithia's shares are up 63.8% in the trailing 12-month period. Over the past year, stocks in the Zacks Automotive - Retail and Whole Sales industry and the Zacks Auto-Tires-Trucks sector are up 29.2% and 11.3%, respectively. The S&P 500 index is up 24.9% in the past year.

The stock is currently trading at 10.26X forward 12-month earnings, which compares to 9.53X for the Zacks sub-industry, 25.46X for the Zacks sector and 18.97X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.31X and as low as 6.7X, with a 5-year median of 10.89X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $150 price target reflects 10.89X F12M.

The table below shows summary valuation data for LAD:

Valuation Multiples - LAD		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.26	9.53	23.46	18.97
	5-Year High	17.31	13.9	26.23	19.34
	5-Year Low	6.7	7.6	19.07	15.17
	5-Year Median	10.89	10.02	22.95	17.44
EV/EBITDA TTM	Current	8.45	7.4	15.47	12.12
	5-Year High	12.93	9.71	15.47	12.86
	5-Year Low	6.31	6.21	10.37	8.48
	5-Year Median	8.25	7.6	12.38	10.67
P/S F12M	Current	0.24	0.18	1.08	3.53
	5-Year High	0.39	0.25	1.11	3.53
	5-Year Low	0.13	0.15	0.8	2.54
	5-Year Median	0.24	0.18	0.91	3

As of 01/16/2020

Industry Analysis **Zacks Industry Rank:** Top 16% (40 out of 254)

Top Peers

Asbury Automotive Group, Inc. **(ABG)**	Outperform
Americas Car-Mart, Inc. **(CRMT)**	Outperform
Group 1 Automotive, Inc. **(GPI)**	Outperform
Penske Automotive Group, Inc. **(PAG)**	Outperform
Sonic Automotive, Inc. **(SAH)**	Outperform
AutoNation, Inc. **(AN)**	Neutral
CarMax, Inc. **(KMX)**	Neutral
Rush Enterprises, Inc. **(RUSHA)**	Neutral

Industry Comparison Industry: Automotive - Retail And Whole Sales

Industry Peers

	LAD Neutral	X Industry	S&P 500	ABG Outperform	GPI Outperform	SAH Outperform
VGM Score	A	-	-	A	A	A
Market Cap	3.28 B	1.73 B	24.61 B	1.98 B	1.89 B	1.34 B
# of Analysts	5	4	13	6	5	5
Dividend Yield	0.85%	0.42%	1.74%	0.00%	1.14%	1.29%
Value Score	A	-	-	A	A	A
Cash/Price	0.01	0.02	0.04	0.00	0.02	0.00
EV/EBITDA	9.00	7.21	14.24	7.93	8.15	9.16
PEG Ratio	1.17	2.20	2.07	0.66	2.55	3.47
Price/Book (P/B)	2.41	1.51	3.38	3.31	1.60	1.48
Price/Cash Flow (P/CF)	10.18	7.75	13.75	8.85	7.84	7.67
P/E (F1)	10.37	10.34	19.09	9.35	8.99	10.42
Price/Sales (P/S)	0.27	0.27	2.68	0.28	0.16	0.13
Earnings Yield	9.67%	9.67%	5.24%	10.69%	11.12%	9.61%
Debt/Equity	1.12	0.63	0.72	1.55	1.27	1.31
Cash Flow ($/share)	13.89	7.44	6.94	11.58	13.00	4.04
Growth Score	A	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	15.43%	15.41%	10.56%	15.41%	9.91%	0.71%
Proj. EPS Growth (F1/F0)	15.43%	10.65%	7.57%	18.27%	7.03%	16.61%
Curr. Cash Flow Growth	18.93%	19.73%	14.73%	19.73%	9.82%	-0.88%
Hist. Cash Flow Growth (3-5 yrs)	20.71%	10.29%	9.00%	9.51%	6.68%	0.73%
Current Ratio	1.18	1.14	1.24	1.17	1.00	1.04
Debt/Capital	52.84%	42.36%	42.99%	60.74%	55.90%	56.62%
Net Margin	2.13%	1.91%	11.14%	2.55%	1.31%	1.16%
Return on Equity	20.95%	15.69%	17.16%	33.14%	16.48%	12.20%
Sales/Assets	2.19	1.78	0.55	2.53	2.28	2.54
Proj. Sales Growth (F1/F0)	6.51%	5.28%	4.16%	21.97%	2.14%	6.55%
Momentum Score	B	-	-	D	B	D
Daily Price Chg	0.16%	1.19%	0.89%	1.24%	2.39%	1.14%
1 Week Price Chg	-4.72%	-4.31%	0.39%	-7.48%	-1.58%	-5.05%
4 Week Price Chg	-12.32%	-3.23%	2.65%	-13.68%	-3.00%	-2.70%
12 Week Price Chg	-8.42%	-4.35%	7.55%	-0.76%	-2.92%	-5.77%
52 Week Price Chg	64.86%	21.39%	22.12%	44.18%	68.65%	96.27%
20 Day Average Volume	197,387	145,986	1,536,375	188,899	162,028	308,211
(F1) EPS Est 1 week change	-0.07%	0.00%	0.00%	0.09%	0.27%	0.00%
(F1) EPS Est 4 week change	1.88%	0.45%	0.00%	-0.20%	0.87%	1.16%
(F1) EPS Est 12 week change	7.46%	3.84%	-0.40%	10.45%	4.12%	17.26%
(Q1) EPS Est Mthly Chg	5.11%	0.80%	0.00%	0.00%	1.04%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	A
Momentum Score	B
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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