

Lithia Motors, Inc. (LAD)

\$258.46 (As of 08/14/20)

Price Target (6-12 Months): **\$297.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 07/10/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: C

Summary

Over the past year, shares of Lithia Motors have outperformed the broader industry. The firm's diversified product mix and multiple streams of income reduce its risk profile and bode well for top and bottom-line growth. An expanded physical network, combined with enhanced digital solutions, will help Lithia to further boost profitability and market presence. The company aims to expand the proprietary e-commerce home channel to further fuel growth prospects. Lithia's strategic acquisition of dealerships helps to increase its market share and positions it for long term growth. The firm's cost cut efforts amid coronavirus woes are likely to aid margins. Also, Lithia's commitment toward dividend payouts boosts investors' confidence. Considering the tailwinds, Lithia warrants a bullish stance at the moment.

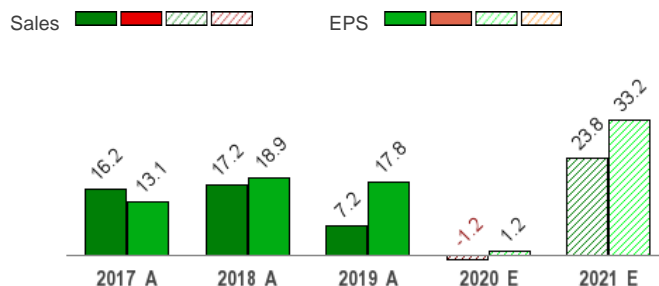
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$263.00 - \$55.74
20 Day Average Volume (sh)	418,251
Market Cap	\$5.9 B
YTD Price Change	75.8%
Beta	1.84
Dividend / Div Yld	\$1.24 / 0.5%
Industry	Automotive - Retail and Whole Sales
Zacks Industry Rank	Top 1% (1 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	146.4%
Last Sales Surprise	19.0%
EPS F1 Est- 4 week change	27.5%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	21.4
P/E F1	21.7
PEG F1	2.4
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,533 E	3,726 E	4,163 E	4,242 E	15,509 E
2020	2,804 A	2,759 A	3,473 E	3,578 E	12,523 E
2019	2,850 A	3,222 A	3,332 A	3,269 A	12,673 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.40 E	\$4.86 E	\$5.27 E	\$4.99 E	\$15.85 E
2020	\$2.01 A	\$3.72 A	\$4.06 E	\$3.98 E	\$11.90 E
2019	\$2.44 A	\$2.95 A	\$3.39 A	\$2.95 A	\$11.76 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 08/14/2020. The reports text is as of 08/17/2020.

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, 2019, 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 —

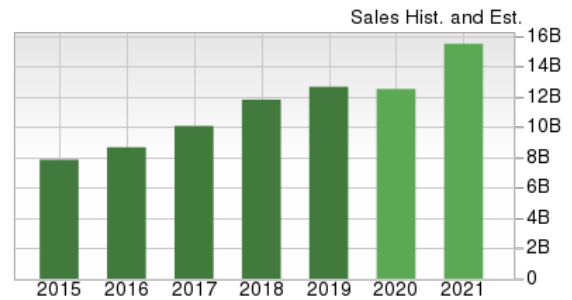
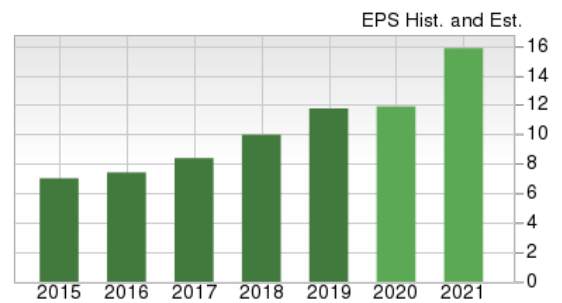
The **Domestic** segment has retail automotive franchises that sell new vehicles manufactured by Chrysler, General Motors and Ford.

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 53.6% of the company's revenues in 2019), Used Vehicles (30.2%), Parts and service (10.4%), Fleet and Other (1.7%) and Finance and insurance (4.1%).



Reasons To Buy:

- ▲ The company's diversified product mix and multiple streams of income bode well. Markedly, these factors reduce its risk profile. The company generates income from businesses including used and new vehicle retail, finance, insurance, as well as automotive repair and maintenance. The diversified portfolio positions it well for top and bottom-line growth. Used vehicle business is especially a bright spot for Lithia Motors. Amid economic slowdown concerns, consumers are getting more inclined toward used vehicles rather than splurging on new cars. As such, sales of used vehicles have held up better than new cars and the momentum is expected to persist.
 - ▲ The firm is widening omni-channel capabilities in order to expand and modernize transportation solutions for customers. A diverse physical network and robust brands will boost the company's sales. Enhanced digital solutions will help Lithia to further boost profitability and market presence. The company aims to expand the proprietary e-commerce home channel to further fuel growth prospects.
 - ▲ Lithia continuously strives to make acquisitions for increasing market share and catering to customer requirements in a better way. It recently announced the acquisition of the Smolich Chrysler Jeep Dodge Ram, Nissan locations in Oregon and Ladin Subaru in California. These transactions are expected to generate \$160 million in steady state annual revenues for the firm. Earlier this year, the company acquired to Lexus stores. For 2020, the firm expects total annualized revenue of \$320 million from acquired locations. The robust network expansion of the firm bodes well.
 - ▲ Cost cut initiatives undertaken by the firm amid coronavirus-led uncertainty will also aid margins. Also, the firm's investor friendly moves boost shareholders' confidence. Despite coronavirus-led uncertainty that has prompted many companies to suspend payouts, Lithia Motors continues to pay dividends, in turn preserving shareholder value. In fact, the board recently hiked the payout by a penny per share. Lithia Motors' ROE of 19.4% compares favorably with the industry's 14.2%, underscoring management's efficiency in rewarding shareholders. The company has managed to grow its dividend for the last 9 consecutive years and is payout seems quite safe.
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Diverse physical network, combined with enhanced digital solutions, will help Lithia to further boost profitability and market presence.

Risks

- Lithia Motors' elevated leverage is a cause of concern. Its total debt-to-capital ratio stands at 0.55, higher than its industry's 0.49. High debt levels restrict the company's financial flexibility to tap onto growth opportunities.
 - 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— especially in the used car market owing to the fragmented nature of the industry— and increasing price transparency can result in lower selling prices, thereby affecting the company's profits.
 - Highly cyclic nature of the auto industry is a major concern. Amid economic slowdown, people are more likely to put off big-ticket purchases like cars, which may affect the earnings of the firm. Coronavirus scare and concerns regarding economic slowdown may weigh on the near term prospects of the auto retailer.
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Last Earnings Report

Lithia Motors Q2 Earnings & Sales Down Y/Y

Lithia Motors reported adjusted earnings of \$3.72 per share in second-quarter 2020, beating the Zacks Consensus Estimate of \$1.51. Higher-than-expected revenues across all units led to the outperformance. The bottom line also increased 26% from the prior-year quarter's \$2.95 per share on the back of operational efficiency.

Cost of sales declined 15.9% year over year during second-quarter 2020. SG&A, as a percentage of gross profit, also declined from the prior-year level. Pretax and net profit margins improved from the year-ago levels. In fact, Lithia Motors claims to have reported the highest quarterly adjusted earnings per share in the company's history.

Total revenues fell 14.4% year over year to \$2,758.6 million. However, the top line surpassed the Zacks Consensus Estimate of \$2,318 million.

Quarter Ending 06/2020

Report Date	Jul 22, 2020
Sales Surprise	19.03%
EPS Surprise	146.36%
Quarterly EPS	3.72
Annual EPS (TTM)	12.07

Key Takeaways

New-vehicle retail revenues declined 19.9% year over year to \$1,367.8 million but topped the Zacks Consensus Estimate of \$952 million. New-vehicle retail units sold decreased 24% from the prior-year quarter to 34,869. The average selling price of new-vehicle retail rose 5.4% year over year to \$39,226.

Used-vehicle retail revenues rose 3.8% year over year to \$922.2 million and beat the Zacks Consensus Estimate of \$515 million. Used-vehicle retail units sold grew 1.5% from the year-ago quarter to 43,505. The average selling price of used-vehicle retail improved 2.3% to \$21,196 from the year-ago figure of \$20,724. Meanwhile, revenues from used-vehicle wholesale contracted 37.2% year over year to \$51.3 million but surpassed the consensus mark of \$15.5 million.

Revenues from service, body and parts were down 17.9% from the prior-year period to \$275.5 million but beat the consensus mark of \$230 million. The company's F&I (Finance & Insurance) business recorded a 3.2% year-over-year decline in revenues to \$124.9 million. The metric, however, topped the consensus estimate of \$81 million. Revenues from fleet and others were \$16.9 million, down 78.8% year over year.

While same-store new vehicle sales decreased 23.5% year over year, same-store used vehicle retail sales increased 0.5%. Same-store revenues from the F&I business and service, body and parts unit dropped 6.9% and 20.6%, respectively.

Dividend & Financials

Despite coronavirus-led uncertainty that has prompted many companies to suspend payouts, Lithia Motors continues to pay dividends, in turn preserving shareholder value. In fact, the board recently hiked the payout by a penny per share. The dividend of 31 cents a share will be payable on Aug 28 to shareholders of record as of Aug 14, 2020.

The company had cash and cash equivalents of \$120.3 million as of Jun 30, 2020. Long-term debt was \$1.36 billion, marking a decrease from \$1.43 billion as of Dec 31, 2019.

Valuation

Lithia Motors' shares are up 75.8% in the year-to-date period and 96.9% over the trailing 12-month period. Stocks in the Zacks Automotive - Retail and Whole Sales industry and the Zacks Auto sector are up 16% and 27.7%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 32.4% and 50%, respectively.

The S&P 500 index is up 4.5% in the year-to-date period and 15.4% in the past year.

The stock is currently trading at 17.98X forward 12-month earnings, which compares to 11.97X for the Zacks sub-industry, 24.89X for the Zacks sector and 22.87X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.41X and as low as 4.9X, with a 5-year median of 10.6X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$297 price target reflects 20.66X F12M.

The table below shows summary valuation data for LAD:

Valuation Multiples - LAD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.98	11.97	24.89	22.87
	5-Year High	20.41	12.54	25.62	22.87
	5-Year Low	4.9	6.45	8.2	15.25
	5-Year Median	10.6	9.97	9.9	17.58
EV/EBITDA TTM	Current	12.71	8.57	16.48	12.72
	5-Year High	12.74	9.71	16.48	12.84
	5-Year Low	5.33	4.58	6.82	8.24
	5-Year Median	8.15	7.33	9.33	10.9
P/S F12M	Current	0.41	0.23	0.92	3.7
	5-Year High	0.42	0.24	0.92	3.7
	5-Year Low	0.11	0.11	0.49	2.53
	5-Year Median	0.24	0.18	0.61	3.05

As of 08/14/2020

Industry Analysis Zacks Industry Rank: Top 1% (1 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Asbury Automotive Group, Inc. (ABG)	Outperform	1
AutoNation, Inc. (AN)	Outperform	1
Americas CarMart, Inc. (CRMT)	Outperform	3
Penske Automotive Group, Inc. (PAG)	Outperform	1
Rush Enterprises, Inc. (RUSHA)	Outperform	1
Sonic Automotive, Inc. (SAH)	Outperform	1
Group 1 Automotive, Inc. (GPI)	Neutral	1
CarMax, Inc. (KMX)	Neutral	3

Industry Comparison Industry: Automotive - Retail And Whole Sales				Industry Peers		
	LAD	X Industry	S&P 500	ABG	GPI	SAH
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Neutral	Outperform
Zacks Rank (Short Term)	1	-	-	1	1	1
VGM Score	A	-	-	A	A	A
Market Cap	5.90 B	1.78 B	23.68 B	2.09 B	1.74 B	1.88 B
# of Analysts	5	3	14	5	3	5
Dividend Yield	0.48%	0.00%	1.68%	0.00%	0.00%	0.91%
Value Score	B	-	-	A	A	A
Cash/Price	0.02	0.06	0.07	0.31	0.04	0.07
EV/EBITDA	12.44	6.72	13.36	6.91	7.50	7.09
PEG Ratio	2.44	2.83	2.99	NA	3.51	NA
Price/Book (P/B)	3.85	1.56	3.22	2.94	1.43	2.53
Price/Cash Flow (P/CF)	16.77	7.80	12.82	8.67	6.53	9.14
P/E (F1)	21.72	13.20	22.06	10.88	11.56	14.96
Price/Sales (P/S)	0.48	0.31	2.51	0.31	0.16	0.19
Earnings Yield	4.60%	7.57%	4.30%	9.19%	8.66%	6.68%
Debt/Equity	1.03	0.56	0.77	1.77	1.34	1.38
Cash Flow (\$/share)	15.41	7.56	6.94	12.52	14.63	4.83
Growth Score	A	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	13.73%	13.73%	10.41%	14.20%	11.38%	5.28%
Proj. EPS Growth (F1/F0)	1.19%	0.25%	-6.32%	5.45%	-24.37%	11.32%
Curr. Cash Flow Growth	11.96%	4.77%	5.20%	6.74%	8.93%	20.48%
Hist. Cash Flow Growth (3-5 yrs)	17.29%	8.31%	8.55%	7.11%	6.43%	5.19%
Current Ratio	1.20	1.12	1.33	1.78	1.03	0.99
Debt/Capital	50.76%	41.29%	44.59%	63.85%	57.19%	57.93%
Net Margin	2.28%	1.53%	10.13%	2.32%	1.31%	-0.94%
Return on Equity	19.36%	14.21%	14.51%	27.07%	17.34%	14.21%
Sales/Assets	2.08	1.59	0.51	2.31	2.09	2.51
Proj. Sales Growth (F1/F0)	-1.18%	-1.74%	-1.43%	-2.29%	-11.42%	-5.79%
Momentum Score	C	-	-	F	F	D
Daily Price Chg	-0.32%	0.78%	0.12%	0.22%	1.65%	-2.73%
1 Week Price Chg	5.27%	3.86%	2.30%	2.36%	9.64%	4.91%
4 Week Price Chg	49.03%	12.94%	4.41%	7.28%	31.48%	11.10%
12 Week Price Chg	117.69%	42.84%	13.66%	48.76%	52.09%	82.13%
52 Week Price Chg	105.75%	21.47%	5.80%	22.30%	26.36%	65.22%
20 Day Average Volume	418,251	287,464	1,984,154	259,819	287,464	464,827
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	27.46%	21.87%	2.08%	2.48%	21.87%	19.19%
(F1) EPS Est 12 week change	45.05%	57.12%	2.66%	85.20%	31.92%	159.68%
(Q1) EPS Est Mthly Chg	33.70%	25.02%	0.94%	9.94%	16.33%	55.46%

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	B
Growth Score	A
Momentum Score	C
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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