Lithia Motors, Inc. (LAD)

$83.66 (As of 03/24/20)

Price Target (6-12 Months): **$71.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 03/23/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**5-Strong Sell**
	Zacks Style Scores:	VGM:C
	Value: D | Growth: A	Momentum: F

Summary

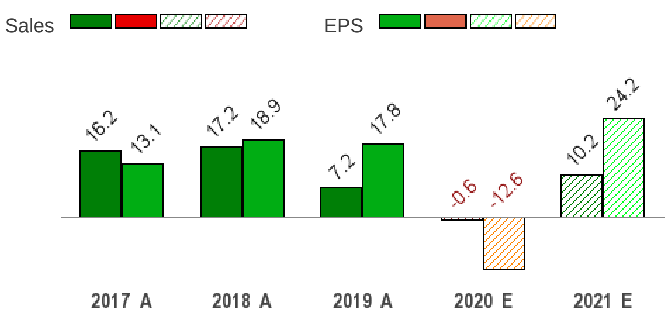
Lithia Motors' new-vehicle unit sales are declining, which is hurting overall results. The decline is majorly due to disrupted distribution of vehicles at domestic stores across the United States due to COVID-19. It is also witnessing a continuous rise in SG&A expenses, primarily due to acquisition costs and insurance reserves, partially offset by store sales. Lithia Motors' finance and insurance business faces strong competition from various financial institutions, and other third parties. Further, rising competition and increasing price transparency can result in lower selling prices, thereby affecting the company's profits.Moreover, Lithia Motors' weakening balance sheet with low cash and high debt plays spoilsport. As such, the stock is viewed as a risky bet at the moment.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$165.27 - $55.74**
20 Day Average Volume (sh)	**357,516**
Market Cap	**$2.0 B**
YTD Price Change	**-43.1%**
Beta	**1.15**
Dividend / Div Yld	**$1.20 / 1.4%**
Industry	**Automotive - Retail and Whole Sales**
Zacks Industry Rank	**Bottom 3% (246 out of 254)**
Last EPS Surprise	**-4.2%**
Last Sales Surprise	**0.4%**
EPS F1 Est- 4 week change	**-20.5%**
Expected Report Date	**04/22/2020**
Earnings ESP	**-4.9%**
P/E TTM	**7.1**
P/E F1	**8.1**
PEG F1	**0.9**
P/S TTM	**0.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					13,880 E
2020	2,936 E	2,821 E	3,274 E	3,365 E	12,597 E
2019	2,850 A	3,222 A	3,332 A	3,269 A	12,673 A

EPS Estimates

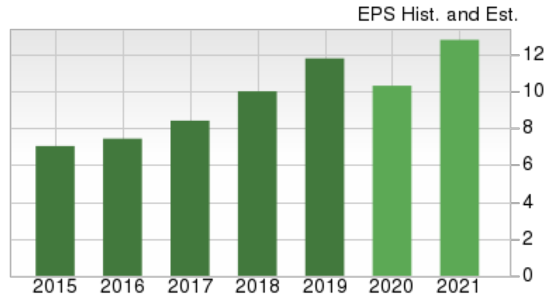
	Q1	Q2	Q3	Q4	Annual*
2021	$3.17 E	$3.79 E	$4.12 E	$3.66 E	$12.77 E
2020	$2.48 E	$2.19 E	$3.19 E	$3.15 E	$10.28 E
2019	$2.44 A	$2.95 A	$3.39 A	$2.95 A	$11.76 A

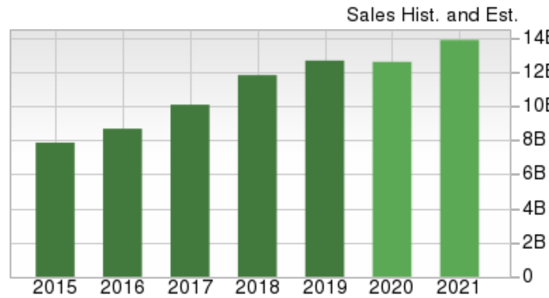
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/24/2020. The reports text is as of 03/25/2020.

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 Sell:

- The coronavirus pandemic has crippled the auto industry and will lead to decline in sales, hurting the automotive retailer of new and used vehicles, and related services. The company's new-vehicle unit sales are declining, which is hurting overall results. The decline is majorly due to disrupted distribution of vehicles at domestic stores across the United States due to COVID-19. 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. Long-term debt was $1.43 billion as of Dec 30, 2019, marking an increase from $1.36 billion recorded as of Dec 31, 2018.

Risks

- 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.

- 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.

Last Earnings Report

Lithia Motors Q4 Earnings & Sales Rise Y/Y

Quarter Ending	12/2019
Report Date	Feb 12, 2020
Sales Surprise	0.40%
EPS Surprise	-4.22%
Quarterly EPS	2.95
Annual EPS (TTM)	11.73

Lithia Motors reported adjusted earnings per share of $2.95 in fourth-quarter 2019, marking a 15% increase from the prior-year quarter's $2.57. However, the bottom line missed the Zacks Consensus Estimate of $3.08. Lower-than-anticipated revenues from new-vehicle retail and used-vehicle wholesale businesses led to the underperformance.

Total revenues grew 9.9% year over year to $3,269 million. The figure also outpaced the Zacks Consensus Estimate of $3,256 million. Total same-store sales grew 7% year over year .Gross profit rose 12.8% to $498.6 million in the reported quarter from $441.9 million in the year-ago quarter.

Key Takeaways

Revenues from new-vehicle retail grew 7% year over year to $1,805.8 million but missed the Zacks Consensus Estimate of $1,832 million. New-vehicle retail units sold increased 2.6% to 46,422. The average selling price of new-vehicle retail rose 4.3% year over to year to $38,884.

Used-vehicle retail revenues rose 18.8% year over year to $894.7 million. Revenues from used-vehicle wholesale declined 13.3% year over year to $67.7 million and also missed the consensus mark of $81 million. Used-vehicle retail units sold grew 17.8% to 42,740. The average selling price of used-vehicle retail improved 0.8% to $20,934 from the year-ago figure of $20,771.

Revenues from service, body and parts went up 5.7% to $331.8 million. The company's F&I business recorded 20.6% growth in revenues to $136 million. Revenues from fleet and others were $33 million, up 23.6% year over year.

Dividend & Financial Position

Lithia Motors' board approved a dividend of 30 cents per share for fourth-quarter 2019. The amount will be payable Mar 27 to shareholders of record as of Mar 13, 2020.

Lithia Motors had cash and cash equivalents of $84 million as of Dec 31, 2019, down from $31.6 million as of Dec 31, 2018. Long-term debt was $1.43 billion as of Dec 30, 2019, marking an increase from $1.36 billion recorded as of Dec 31, 2018. Debt-to-capital ratio stands at 49%.

Valuation

Lithia Motors' shares are down 43.1% in the year-to-date period and down 5.1% over the trailing 12-month period. Stocks in the Zacks Automotive - Retail and Whole Sales industry and the Zacks Auto sector are down 52.5% and 26.4%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 34.8% and 17.9%, respectively.

The S&P 500 index is down 30.2% in the year-to-date period and down 21.1% in the past year.

The stock is currently trading at 6.99X forward 12-month earnings, which compares to 5.56X for the Zacks sub-industry, 8.81X for the Zacks sector and 13.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.31X and as low as 4.9X, with a 5-year median of 10.7X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our $71 price target reflects 5.93X F12M.

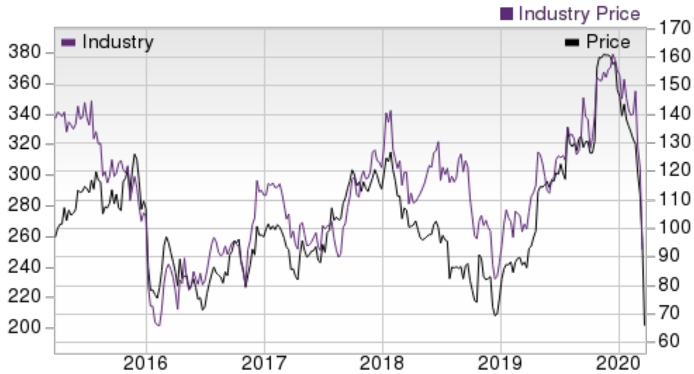
The table below shows summary valuation data for LAD:

Valuation Multiples - LAD

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	6.99	5.56	8.81	13.4
	5-Year High	17.31	13.9	11.75	19.34
	5-Year Low	4.9	5.56	8.23	13.4
	5-Year Median	10.7	9.97	9.88	17.42
EV/EBITDA TTM	Current	6.14	4.82	8.61	8.27
	5-Year High	13.09	9.71	11.34	12.88
	5-Year Low	5.33	4.63	6.97	8.27
	5-Year Median	8.21	7.48	9.3	10.78
P/S F12M	Current	0.14	0.1	0.5	2.43
	5-Year High	0.39	0.25	0.76	3.43
	5-Year Low	0.11	0.1	0.5	2.43
	5-Year Median	0.24	0.18	0.62	3

As of 03/24/2020

Industry Analysis **Zacks Industry Rank:** Bottom 3% (246 out of 254)



Top Peers

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

Industry Comparison Industry: Automotive - Retail And Whole Sales

Industry Peers

	LAD Underperform	X Industry	S&P 500	ABG Neutral	GPI Underperform	SAH Underperform
VGM Score	C	-	-	C	A	A
Market Cap	1.95 B	1.03 B	17.21 B	1.03 B	832.17 M	455.40 M
# of Analysts	4	4	13	4	3	5
Dividend Yield	1.43%	0.72%	2.52%	0.00%	2.65%	3.74%
Value Score	D	-	-	B	C	A
Cash/Price	0.05	0.05	0.07	0.00	0.03	0.06
EV/EBITDA	5.98	4.57	10.28	5.01	5.58	3.57
PEG Ratio	0.91	1.02	1.56	0.29	1.02	NA
Price/Book (P/B)	1.32	0.88	2.27	1.60	0.67	0.49
Price/Cash Flow (P/CF)	5.43	3.97	9.16	4.27	3.10	2.22
P/E (F1)	8.09	6.11	13.51	5.43	5.60	5.13
Price/Sales (P/S)	0.15	0.14	1.74	0.14	0.07	0.04
Earnings Yield	12.29%	16.39%	7.33%	18.40%	17.86%	19.44%
Debt/Equity	1.14	0.60	0.70	1.48	1.31	1.04
Cash Flow ($/share)	15.41	7.44	7.01	12.52	14.63	4.83
Growth Score	A	-	-	C	A	A
Hist. EPS Growth (3-5 yrs)	14.88%	14.88%	10.85%	15.22%	10.37%	2.43%
Proj. EPS Growth (F1/F0)	-12.59%	-8.05%	3.92%	4.18%	-25.98%	-21.36%
Curr. Cash Flow Growth	11.96%	6.74%	5.93%	6.74%	8.93%	20.48%
Hist. Cash Flow Growth (3-5 yrs)	17.29%	7.71%	8.55%	7.11%	6.43%	5.19%
Current Ratio	1.20	1.14	1.23	1.29	1.04	0.98
Debt/Capital	53.21%	40.93%	42.57%	59.76%	56.68%	50.85%
Net Margin	2.14%	2.11%	11.64%	2.56%	1.43%	1.38%
Return on Equity	20.56%	15.42%	16.74%	31.64%	17.00%	12.96%
Sales/Assets	2.18	1.70	0.54	2.52	2.25	2.54
Proj. Sales Growth (F1/F0)	-0.60%	-0.13%	2.57%	5.54%	-9.55%	-0.27%
Momentum Score	F	-	-	F	F	C
Daily Price Chg	18.63%	12.38%	11.24%	16.83%	12.72%	7.21%
1 Week Price Chg	-31.13%	-20.69%	-16.96%	-8.18%	-19.31%	-39.51%
4 Week Price Chg	-34.07%	-39.44%	-26.70%	-44.81%	-54.91%	-63.03%
12 Week Price Chg	-43.09%	-51.46%	-30.27%	-52.12%	-54.71%	-65.48%
52 Week Price Chg	-5.09%	-27.85%	-21.88%	-21.93%	-26.98%	-25.64%
20 Day Average Volume	357,516	352,316	4,249,353	347,117	451,689	617,244
(F1) EPS Est 1 week change	-19.25%	-14.47%	-0.11%	-17.58%	-33.27%	-28.43%
(F1) EPS Est 4 week change	-20.52%	-16.21%	-1.58%	-17.27%	-29.54%	-28.58%
(F1) EPS Est 12 week change	-23.95%	-18.00%	-2.61%	-18.00%	-28.43%	-29.40%
(Q1) EPS Est Mthly Chg	-13.48%	-9.68%	-1.24%	-5.99%	-15.58%	-19.08%

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	D
Growth Score	A
Momentum Score	F
VGM Score	C

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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