

Lithia Motors, Inc. (LAD)

\$106.89 (As of 04/27/20)

Price Target (6-12 Months): **\$91.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/23/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: D

Summary

With 'shelter-in-place' policies implemented in March, vehicle unit sales of Lithia Motors tumbled 50%, dealing a blow to both used and new vehicle sales. Depressed demand of vehicles and weak consumer confidence amid COVID-19 pandemic is likely to put further pressure on the firm's earnings and sales, going forward. Continuous rise in SG&A expenses is likely to further clip margins. Further, 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. Bringing in unpleasant news for the investors, the company has suspended stock buyback amid coronavirus-led uncertainty and financial crisis. As such, the stock is viewed as a risky bet at the moment.

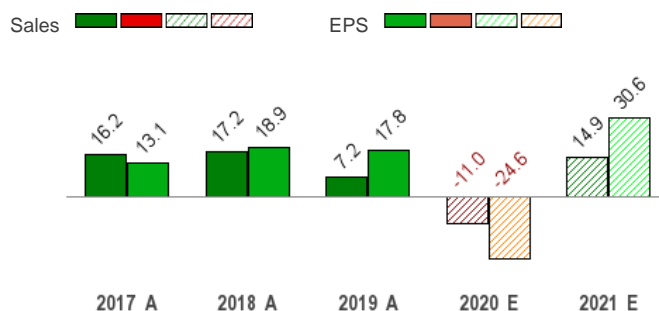
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|---|
| 52 Week High-Low | \$165.27 - \$55.74 |
| 20 Day Average Volume (sh) | 339,459 |
| Market Cap | \$2.5 B |
| YTD Price Change | -27.3% |
| Beta | 1.40 |
| Dividend / Div Yld | \$1.20 / 1.1% |
| Industry | Automotive - Retail and Whole Sales |
| Zacks Industry Rank | Bottom 8% (233 out of 253) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|------------|
| Last EPS Surprise | 1.5% |
| Last Sales Surprise | -1.4% |
| EPS F1 Est- 4 week change | -17.5% |
| Expected Report Date | 07/22/2020 |
| Earnings ESP | 0.0% |
| P/E TTM | 9.5 |
| P/E F1 | 12.1 |
| PEG F1 | 1.4 |
| P/S TTM | 0.2 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|---------|---------|---------|---------|----------|
| 2021 | 3,196 E | 2,608 E | 3,289 E | 3,589 E | 12,955 E |
| 2020 | 2,804 A | 2,176 E | 2,859 E | 3,222 E | 11,277 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 | \$2.39 E | \$1.81 E | \$3.05 E | \$3.26 E | \$11.58 E |
| 2020 | \$2.01 A | \$0.84 E | \$2.65 E | \$2.78 E | \$8.87 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 04/27/2020. The reports text is as of 04/28/2020.

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 —

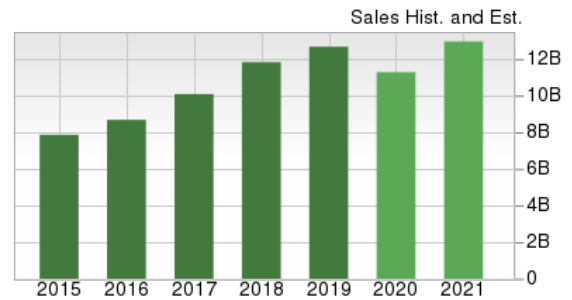
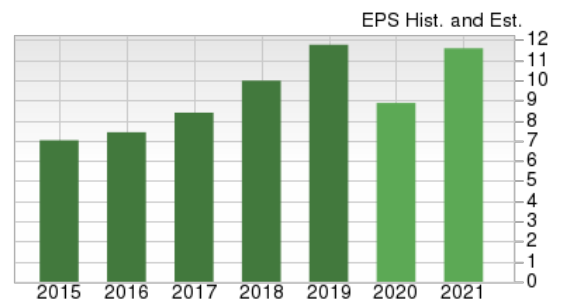
The **Domestic** segment has retail automotive franchises that sell new vehicles manufactured by Chrysler, General Motors and Ford.

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, thereby hurting the automotive retailer of new and used vehicles, and related services. With 'shelter-in-place' policies implemented in March, vehicle unit sales of Lithia Motors tumbled 50%, dealing a blow to both used and new vehicle sales. Sales from service, body and parts sank 30% in March. This is indeed an alarming sign for the company, more so as the second quarter began with 'stay-at-home' orders in full swing. Depressed demand of vehicles and weak consumer confidence is likely to put further pressure on the firm's earnings and sales, going forward.
 - ▼ Lithia Motors' rising debt levels remain a concern. Its long-term debt stood at \$1.49 billion as of Mar 31, marking an increase from \$1.43 billion in the prior quarter. Further, decreasing cash balance is also a dampener. The company's cash and cash equivalents stood at \$56.6 million as of Mar 31, decreasing from \$84 million as of Dec 31, 2019. Bringing in unpleasant news for the investors, the company has suspended stock buyback amid coronavirus-led uncertainty and financial crisis.
 - ▼ Lithia Motors is witnessing increasing SG&A expenses since the past several quarters primarily due to acquisition costs and insurance reserves. Notably, the firm's SG&A as a percentage of revenue increased to 12.3% from 11.3% in the prior year quarter. Continuous rise in SG&A expenses is likely to hamper its operating income, going forward. 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.
 - ▼ Huge availability of off-lease used vehicles in the market is contributing to the decline in new-vehicle sales. Further, used vehicle market has also started to bear the brunt of the pandemic. Weak demand, unusually timed off-lease inventory and lower auction prices are resulting in a drop in used car values. This is likely to reduce the profits of the company from its most lucrative segment. Stay-at-home orders and similar travel restrictions have resulted in an industry-wide demand headwind, as many vehicle owners appear to be deferring or delaying service. This is likely to impact the near term results of the company's service, body and parts segment.
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Depressed demand of vehicles and weak consumer confidence amid coronavirus is likely to put further pressure on the firm's earnings and sales, going forward.

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. However, given the current gloomy scenario amid coronavirus, all acquisitions have been deferred until the second half of 2020. To conserve cash, the firm is suspending discretionary capex and implementing other cost-cut measures.
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Last Earnings Report

Lithia Motors Q1 Earnings & Sales Down Y/Y

Lithia Motors reported adjusted earnings per share of \$2.01 in first-quarter 2020, which beat the Zacks Consensus Estimate of \$1.98. However, the bottom line decreased 18% from the prior-year quarter's \$2.44 per share.

Revenues from new vehicles, used vehicles, F&I and service, and body and parts increased 4%, 22%, 18% and 6%, respectively, in the first two months of 2020. However, lockdown measures to contain the spread of coronavirus hit the company hard in March, which in turn dented overall operating results in the first quarter.

Total revenues fell 1.6% year over year to \$2,803.8 million. The figure also missed the Zacks Consensus Estimate of \$2,842 million.

Key Takeaways

New-vehicle retail revenues declined 6% year over year to \$1,373.5 million and missed the Zacks Consensus Estimate of \$1,559 million. New-vehicle retail units sold decreased 9.5% from the prior-year quarter to 35,907. The average selling price of new-vehicle retail rose 3.9% year over year to \$38,252.

Used-vehicle retail revenues rose 5.6% year over year to \$874.4 million but missed the Zacks Consensus Estimate of \$956 million. Revenues from used-vehicle wholesale contracted 13.8% year over year to \$66.7 million and missed the consensus mark of \$81 million. Used-vehicle retail units sold grew 4.8% from the year-ago quarter to 42,631. The average selling price of used-vehicle retail improved 0.8% to \$20,510 from the year-ago figure of \$20,353.

Revenues from service, body and parts were up 3.9% from the prior-year period to \$329.9 million. The company's F&I business recorded 3.7% year-over-year growth in revenues to \$121.9 million. Revenues from fleet and others were \$37.4 million, down 22.7% year over year.

While same-store new vehicle sales decreased 10.6% year over year, same store used vehicle retail sales increased 2.7%. While same-store revenues from the F&I business dropped 0.7% year over year, sales from the service, body and parts unit were up 0.5%.

Dividend, Buyback & Financials

Despite coronavirus-led uncertainty that has prompted many companies to suspend payouts, Lithia Motors intends to maintain dividends, in turn preserving shareholder values. The board approved a dividend of 30 cents per share. The amount will be payable on May 22 to shareholders of record as of Mar 8, 2020. Nonetheless, the firm announced the suspension of buybacks when it reported preliminary first-quarter results. On a year-to-date basis, Lithia Motors has repurchased 563,953 shares, with around \$188 million remaining under the current buyback authorization.

The company had cash and cash equivalents of \$56.6 million as of Mar 31, 2020. Long-term debt was \$1.49 billion, marking an increase from \$1.43 billion as of Dec 31, 2019. Debt-to-capital ratio stands at 50.6%.

Cost-Cutting Measures Amid COVID-19 Crisis

As mentioned during its preliminary earnings release, Lithia Motors is implementing a number of cost-containment actions in a bid to sail through the coronavirus crisis. Anticipating bleak scenario ahead, the company has reduced its headcount by 37%, mainly through furloughs. It also slashed or put controls on spending for marketing, vendors and inventory. The firm suspended approximately \$65 million in planned discretionary capex. All acquisitions have been deferred until the second half of 2020. In a bid to preserve financial flexibility, Lithia Motors also suspended stock buybacks.

Quarter Ending 03/2020

| Report Date | Apr 22, 2020 |
|------------------|--------------|
| Sales Surprise | -1.35% |
| EPS Surprise | 1.52% |
| Quarterly EPS | 2.01 |
| Annual EPS (TTM) | 11.30 |

Valuation

Lithia Motors' shares are down 27.3% in the year-to-date period and down 6.1% over the trailing 12-month period. Stocks in the Zacks Automotive - Retail and Whole Sales industry and the Zacks Auto sector are down 33.4% and 11%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 21% and 4.9%, respectively.

The S&P 500 index is down 12% in the year-to-date period and down 4.2% in the past year.

The stock is currently trading at 10.81X forward 12-month earnings, which compares to 9.5X for the Zacks sub-industry, 15.97X for the Zacks sector and 19.82X 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 10.62X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$91 price target reflects 9.21X F12M.

The table below shows summary valuation data for LAD:

| Valuation Multiples - LAD | | | | | |
|---------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M | Current | 10.81 | 9.5 | 15.97 | 19.82 |
| | 5-Year High | 17.31 | 13.44 | 15.97 | 19.82 |
| | 5-Year Low | 4.9 | 6.59 | 8.23 | 15.19 |
| | 5-Year Median | 10.62 | 9.95 | 9.93 | 17.45 |
| EV/EBITDA TTM | Current | 7.43 | 5.68 | 9.17 | 10.37 |
| | 5-Year High | 13.09 | 9.71 | 11.34 | 12.87 |
| | 5-Year Low | 5.33 | 4.63 | 6.97 | 8.27 |
| | 5-Year Median | 8.19 | 7.42 | 9.26 | 10.78 |
| P/S F12M | Current | 0.21 | 0.22 | 0.95 | 4.81 |
| | 5-Year High | 0.39 | 0.25 | 0.95 | 4.81 |
| | 5-Year Low | 0.11 | 0.11 | 0.5 | 2.54 |
| | 5-Year Median | 0.24 | 0.18 | 0.62 | 3.01 |

As of 04/27/2020

Industry Analysis Zacks Industry Rank: Bottom 8% (233 out of 253)



Top Peers

| Company (Ticker) | Rec | Rank |
|-------------------------------------|--------------|------|
| AutoNation, Inc. (AN) | Neutral | 3 |
| Americas Car-Mart, Inc. (CRMT) | Neutral | 4 |
| Group 1 Automotive, Inc. (GPI) | Neutral | 3 |
| Asbury Automotive Group, Inc. (ABG) | Underperform | 5 |
| CarMax, Inc. (KMX) | Underperform | 5 |
| Penske Automotive Group, Inc. (PAG) | Underperform | 3 |
| Rush Enterprises, Inc. (RUSHA) | Underperform | 4 |
| Sonic Automotive, Inc. (SAH) | Underperform | 5 |

| Industry Comparison Industry: Automotive - Retail And Whole Sales | | | | Industry Peers | | |
|---|--------------|------------|-----------|----------------|----------|--------------|
| | LAD | X Industry | S&P 500 | ABG | GPI | SAH |
| Zacks Recommendation (Long Term) | Underperform | - | - | Underperform | Neutral | Underperform |
| Zacks Rank (Short Term) | 3 | - | - | 5 | 3 | 5 |
| VGM Score | B | - | - | C | A | A |
| Market Cap | 2.49 B | 1.17 B | 19.77 B | 1.17 B | 957.30 M | 768.23 M |
| # of Analysts | 5 | 3 | 14 | 5 | 4 | 5 |
| Dividend Yield | 1.12% | 0.56% | 2.13% | 0.00% | 2.30% | 2.22% |
| Value Score | B | - | - | C | A | A |
| Cash/Price | 0.02 | 0.03 | 0.06 | 0.00 | 0.03 | 0.04 |
| EV/EBITDA | 6.64 | 5.36 | 12.09 | 5.36 | 5.86 | 4.36 |
| PEG Ratio | 1.43 | 1.23 | 2.36 | 0.61 | 1.31 | NA |
| Price/Book (P/B) | 1.71 | 1.02 | 2.70 | 1.82 | 0.77 | 0.82 |
| Price/Cash Flow (P/CF) | 6.93 | 4.64 | 10.70 | 4.84 | 3.56 | 3.74 |
| P/E (F1) | 12.71 | 11.38 | 18.72 | 11.38 | 7.21 | 12.21 |
| Price/Sales (P/S) | 0.20 | 0.16 | 2.12 | 0.16 | 0.08 | 0.07 |
| Earnings Yield | 8.30% | 8.79% | 5.19% | 8.79% | 13.88% | 8.20% |
| Debt/Equity | 1.02 | 0.60 | 0.72 | 1.48 | 1.31 | 1.04 |
| Cash Flow (\$/share) | 15.41 | 7.44 | 7.01 | 12.52 | 14.63 | 4.83 |
| Growth Score | B | - | - | C | A | A |
| Hist. EPS Growth (3-5 yrs) | 14.01% | 14.01% | 10.88% | 15.22% | 10.37% | 2.43% |
| Proj. EPS Growth (F1/F0) | -24.57% | -32.06% | -5.87% | -43.70% | -33.87% | -44.23% |
| Curr. Cash Flow Growth | 11.96% | 6.74% | 5.92% | 6.74% | 8.93% | 20.48% |
| Hist. Cash Flow Growth (3-5 yrs) | 17.29% | 8.47% | 8.55% | 7.11% | 6.43% | 5.19% |
| Current Ratio | 1.20 | 1.14 | 1.23 | 1.29 | 1.04 | 0.98 |
| Debt/Capital | 50.56% | 40.93% | 43.90% | 59.76% | 56.68% | 50.85% |
| Net Margin | 2.07% | 2.07% | 11.32% | 2.56% | 1.43% | 1.38% |
| Return on Equity | 19.10% | 15.42% | 16.60% | 31.64% | 17.00% | 12.96% |
| Sales/Assets | 2.14 | 1.70 | 0.55 | 2.52 | 2.25 | 2.54 |
| Proj. Sales Growth (F1/F0) | -11.01% | -13.99% | -1.15% | -20.89% | -17.45% | -12.90% |
| Momentum Score | D | - | - | C | D | C |
| Daily Price Chg | 2.41% | 5.34% | 2.63% | 3.69% | 6.57% | 5.37% |
| 1 Week Price Chg | 8.79% | 0.05% | -1.74% | 0.60% | -2.10% | 4.64% |
| 4 Week Price Chg | 35.41% | 16.16% | 8.71% | 9.68% | 17.21% | 34.10% |
| 12 Week Price Chg | -23.54% | -28.50% | -17.57% | -38.92% | -48.81% | -44.24% |
| 52 Week Price Chg | -6.11% | -26.33% | -11.60% | -23.90% | -33.11% | -13.05% |
| 20 Day Average Volume | 339,459 | 310,197 | 2,734,148 | 302,175 | 326,107 | 432,010 |
| (F1) EPS Est 1 week change | -0.56% | -2.11% | 0.00% | -4.65% | -4.30% | 0.00% |
| (F1) EPS Est 4 week change | -17.49% | -23.42% | -6.57% | -40.97% | -19.67% | -28.87% |
| (F1) EPS Est 12 week change | -34.36% | -36.70% | -12.64% | -51.08% | -36.70% | -49.76% |
| (Q1) EPS Est Mthly Chg | -61.59% | -101.03% | -10.33% | -127.63% | -269.26% | -408.07% |

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 | B |
| Momentum Score | D |
| VGM Score | B |

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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