

Lithia Motors, Inc. (LAD)

\$153.14 (As of 06/29/20)

Price Target (6-12 Months): **\$161.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/26/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: D

Summary

Over the past year, shares of Lithia Motors have outperformed the broader industry. Its 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. However, its new-vehicle unit sales are declining, which is hurting overall results. the company 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 the company's 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.

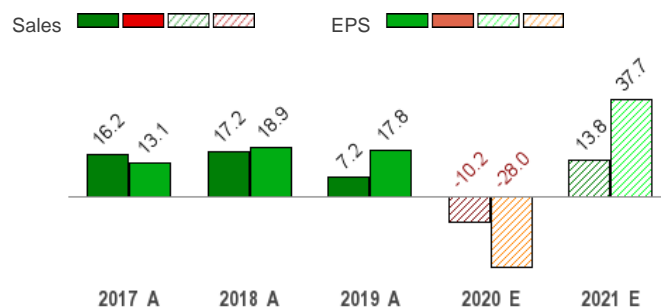
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$165.27 - \$55.74
20 Day Average Volume (sh)	266,105
Market Cap	\$3.5 B
YTD Price Change	4.2%
Beta	1.61
Dividend / Div Yld	\$1.20 / 0.8%
Industry	Automotive - Retail and Whole Sales
Zacks Industry Rank	Top 15% (38 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	1.7%
Expected Report Date	07/22/2020
Earnings ESP	0.0%
P/E TTM	13.6
P/E F1	18.1
PEG F1	2.0
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,084 E	2,718 E	3,468 E	3,628 E	12,948 E
2020	2,804 A	2,259 E	2,959 E	3,225 E	11,379 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	\$2.99 E	\$2.39 E	\$1.81 E	\$3.05 E	\$11.66 E
2020	\$2.01 A	\$1.98 E	\$0.82 E	\$2.73 E	\$8.47 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 06/29/2020. The reports text is as of 06/30/2020.

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 —

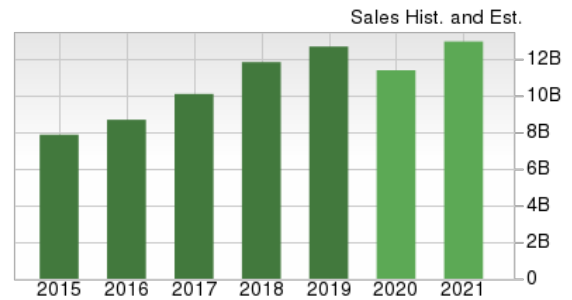
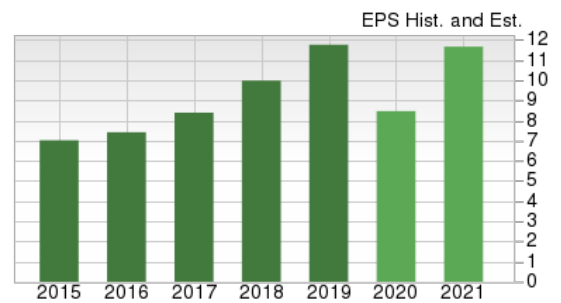
The **Domestic** segment has retail automotive franchises that sell new vehicles manufactured by Chrysler, General Motors and Ford.

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:

- ▲ 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.

Widening omni-channel capabilities through acquisitions, partnerships and investments will strengthen its market share.

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 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. Its weakening balance sheet with low cash and high debt also plays spoilsport. As of Mar 31, 2020, its long-term debt was \$1.49 billion, marking an increase from \$1.43 billion as of Dec 31, 2019. Its total debt-to-capital ratio stands at 0.55, higher than its industry's 0.49. A high total debt-to-capital ratio often indicates that a firm may not be able to generate enough cash to satisfy its debt obligations.
- ▼ 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.

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.

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

Recent News

Lithia Sees Recovery in Sales as Lockdown Restrictions Ease

On **Jun 2**, Lithia Motors provided an update on the recoveries across all business lines as states continue to ease the shelter-in-place strategies and begin reopening processes, which were imposed due to the coronavirus outbreak.

Significant progress was witnessed by the end of May, with same-store new vehicle unit sales declining roughly 16% year over year compared with the 28% year-over-year fall registered during the first week of the month. Sales of the same-store used vehicle unit increased around 22% year over year during the last week of May compared with the 5% decline witnessed in the beginning of the month.

The rise in unit sales of used vehicles in May returned to the solid levels achieved during the first two months of 2020 and before the pandemic. Moreover, for the last week of May, the same-store web traffic, reflecting new visits to the company's websites, jumped almost 40% year over year.

Valuation

Lithia Motors' shares are up 4.2% in the year-to-date period and up 27.8% over the trailing 12-month period. Stocks in the Zacks Automotive - Retail and Whole Sales industry and the Zacks Auto sector are down 22.6% and 0.8%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 8.8% and up 10.1%, respectively.

The S&P 500 index is down 6.6% in the year-to-date period and up 2.1% in the past year.

The stock is currently trading at 15.23X forward 12-month earnings, which compares to 11.13X for the Zacks sub-industry, 23.39X for the Zacks sector and 21.54X 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 10.6X.

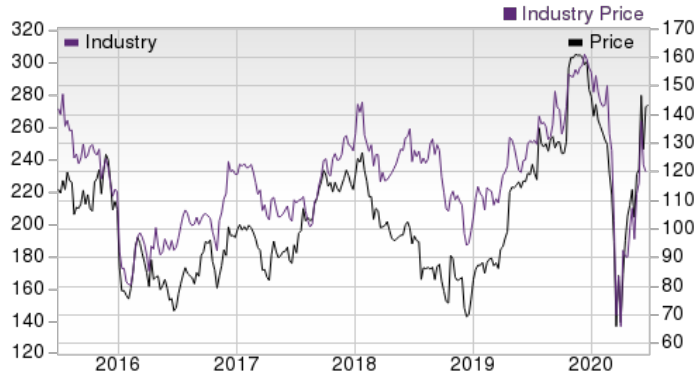
Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$161 price target reflects 16.02X F12M.

The table below shows summary valuation data for LAD:

Valuation Multiples - LAD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.23	11.13	23.39	21.54
	5-Year High	17.31	13.29	23.39	22.14
	5-Year Low	4.9	6.45	8.2	15.25
	5-Year Median	10.6	9.96	9.9	17.51
EV/EBITDA TTM	Current	9.16	6.12	10.58	11.14
	5-Year High	12.31	9.71	11.3	12.86
	5-Year Low	5.33	4.58	6.94	8.25
	5-Year Median	8.15	7.35	9.24	10.85
P/S F12M	Current	0.29	0.16	0.74	3.37
	5-Year High	0.39	0.25	0.75	3.44
	5-Year Low	0.11	0.11	0.49	2.53
	5-Year Median	0.24	0.18	0.61	3.02

As of 06/29/2020

Industry Analysis Zacks Industry Rank: Top 15% (38 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Asbury Automotive Group, Inc. (ABG)	Neutral	2
AutoNation, Inc. (AN)	Neutral	3
Americas CarMart, Inc. (CRMT)	Neutral	2
Group 1 Automotive, Inc. (GPI)	Neutral	2
CarMax, Inc. (KMX)	Neutral	3
Penske Automotive Group, Inc. (PAG)	Neutral	3
Sonic Automotive, Inc. (SAH)	Neutral	2
Rush Enterprises, Inc. (RUSHA)	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)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	2	2
VGM Score	A	-	-	A	A	C
Market Cap	3.49 B	1.37 B	21.46 B	1.51 B	1.19 B	1.37 B
# of Analysts	5	3	14	6	3	5
Dividend Yield	0.78%	0.39%	1.95%	0.00%	1.84%	1.26%
Value Score	A	-	-	A	A	B
Cash/Price	0.02	0.12	0.07	0.28	0.02	0.14
EV/EBITDA	8.71	5.78	12.54	5.78	5.82	6.00
PEG Ratio	2.04	3.74	2.81	0.72	4.50	NA
Price/Book (P/B)	2.40	1.22	2.93	2.29	1.02	1.89
Price/Cash Flow (P/CF)	9.94	5.68	11.53	6.26	4.47	6.60
P/E (F1)	18.10	14.84	20.96	13.40	9.62	22.68
Price/Sales (P/S)	0.28	0.21	2.25	0.21	0.10	0.13
Earnings Yield	5.53%	6.75%	4.53%	7.47%	10.40%	4.40%
Debt/Equity	1.18	0.84	0.76	1.76	1.18	1.63
Cash Flow (\$/share)	15.41	8.34	7.01	12.52	14.63	4.83
Growth Score	A	-	-	A	C	D
Hist. EPS Growth (3-5 yrs)	14.01%	14.01%	10.93%	14.64%	10.50%	3.89%
Proj. EPS Growth (F1/F0)	-27.99%	-36.83%	-10.50%	-38.11%	-37.82%	-47.02%
Curr. Cash Flow Growth	11.96%	6.74%	5.51%	6.74%	8.93%	20.48%
Hist. Cash Flow Growth (3-5 yrs)	17.29%	8.47%	8.62%	7.11%	6.43%	5.19%
Current Ratio	1.20	1.15	1.30	1.48	0.91	1.06
Debt/Capital	54.16%	46.87%	44.51%	63.83%	54.17%	61.95%
Net Margin	2.07%	1.72%	10.62%	2.28%	1.38%	-0.94%
Return on Equity	19.10%	14.15%	15.82%	28.33%	16.32%	13.54%
Sales/Assets	2.14	1.69	0.55	2.46	2.21	2.55
Proj. Sales Growth (F1/F0)	-10.21%	-9.30%	-2.61%	-14.53%	-10.44%	-8.39%
Momentum Score	D	-	-	F	C	D
Daily Price Chg	6.93%	5.51%	1.71%	7.33%	3.22%	5.92%
1 Week Price Chg	0.57%	0.18%	-3.90%	-2.52%	-1.97%	0.07%
4 Week Price Chg	24.75%	4.56%	-2.17%	7.84%	4.76%	24.66%
12 Week Price Chg	111.23%	55.69%	14.42%	64.64%	57.58%	145.95%
52 Week Price Chg	27.79%	-8.90%	-8.82%	-6.77%	-20.79%	36.40%
20 Day Average Volume	266,105	251,861	2,732,041	237,617	310,961	518,486
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.68%	3.04%	0.00%	5.78%	0.00%	14.15%
(F1) EPS Est 12 week change	-21.23%	-32.44%	-10.60%	-35.10%	-24.46%	-32.44%
(Q1) EPS Est Mthly Chg	18.05%	18.05%	0.00%	740.00%	105.07%	157.71%

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	D
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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