LKQ Corporation (LKQ)

$25.98 (As of 06/18/20)

Price Target (6-12 Months): **$22.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 06/03/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: A | Growth: B | Momentum: B	**3-Hold** VGM:A

Summary

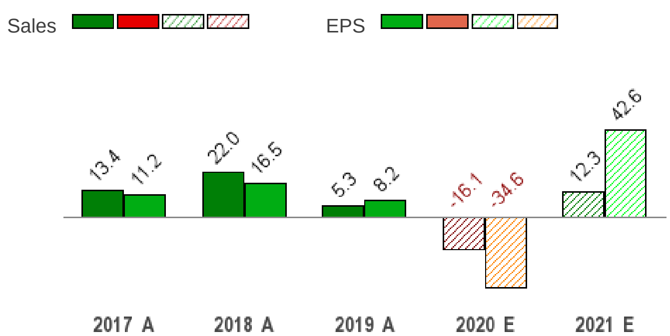
Low production and demand for vehicles in the wake of coronavirus is likely to hurt LKQ Corp's sales and earnings in the near future. Notably, the company withdrew the 2020 guidance and suspended its existing share-repurchase program in response to the uncertainty caused by the coronavirus pandemic. The firm is also bearing the brunt of rising selling, general and administrative expenses over the past several quarters and the trend is likely to continue. Further, development of technically-enhanced components, along with tariff charges on aluminum and steel sourced from outside the United States, has escalated the manufacturing costs of replacement parts and components. Weak balance sheet with high debt and low cash balance also plays a spoilsport for LKQ Corp. On account of these headwinds, LKQ Corp is currently viewed as a risky bet.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$36.63 - $13.31**
20 Day Average Volume (sh)	**2,813,031**
Market Cap	**$7.9 B**
YTD Price Change	**-27.2%**
Beta	**1.65**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Automotive - Replacement Parts**
Zacks Industry Rank	**Bottom 25% (190 out of 253)**
Last EPS Surprise	**18.8%**
Last Sales Surprise	**0.6%**
EPS F1 Est- 4 week change	**-1.3%**
Expected Report Date	**07/23/2020**
Earnings ESP	**2.3%**
P/E TTM	**11.0**
P/E F1	**16.8**
PEG F1	**1.3**
P/S TTM	**0.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	2,992 E	2,937 E	2,981 E	2,945 E	11,789 E
2020	3,001 A	2,155 E	2,569 E	2,772 E	10,497 E
2019	3,100 A	3,248 A	3,148 A	3,010 A	12,506 A

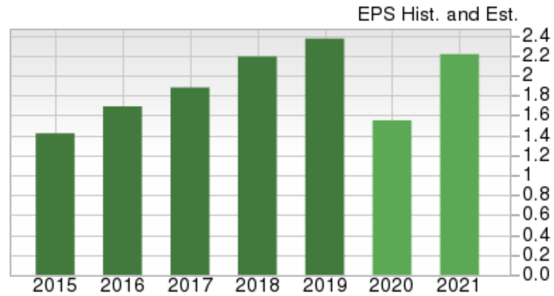
EPS Estimates

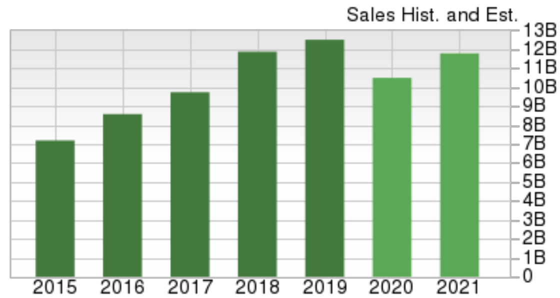
	Q1	Q2	Q3	Q4	Annual*
2021	$0.55 E	$0.50 E	$0.54 E	$0.57 E	$2.21 E
2020	$0.57 A	$0.11 E	$0.37 E	$0.46 E	$1.55 E
2019	$0.56 A	$0.65 A	$0.61 A	$0.54 A	$2.37 A

*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 06/18/2020. The reports text is as of 06/19/2020.

Overview





LKQ Corporation is one of the leading providers of replacement parts, components, and systems that are required to repair and maintain vehicles. Using these parts improve the functionality and performance of vehicles. The company distributes aftermarket collision and mechanical products, recycled collision and mechanical products bumper covers and lights; as well as remanufactured engines and transmissions. LKQ Corp provides alternative vehicle collision replacement products and alternative vehicle mechanical replacement products in the United States and Canada. Further, the company provides alternative vehicle replacement and maintenance products in the U.K., Germany, the Benelux region (Belgium, Netherlands, and Luxembourg), Italy, Czech Republic, Poland, Slovakia, Austria and various other European countries. Besides wholesales, it also offers recycled automotive products at its self-service retail facilities across the United States.

The company has four operating segments — Wholesale - North America, Europe, Specialty and Self Service. However, since Self Service unit is present only in the United States, the segment and Wholesale - North America have been aggregated into one.

Currently, the company's three reportable segments are:

North America (41.6% of revenues in 2019): The segment sells aftermarket, recycled, remanufactured, refurbished and OEM parts to professional collision and mechanical automobile repair businesses. The self-service operation works under the name "LKQ Pick Your Part" that enables consumers to pick parts off salvage vehicles.

Europe (46.6%): The segment is expanding its presence in Europe through acquisitions. The latest acquisition is of a leading European wholesale distributor of aftermarket spare parts, Stahlgruber in 2018. Prior to this, it acquired Rhiag in 2016, Sator in 2013 and ECP in 2011.

Specialty (11.8%): The segment was formed after the acquisition of Keystone Specialty in 2014. The business line specialty vehicle aftermarket equipment and accessories across major markets in the United States and Canada for six product segment include RV, truck and off-road, towing, speed and performance, wheels, tires and performance handling as well as miscellaneous accessories.

Reasons To Sell:

- The coronavirus has crippled the auto industry, and will lead to decline in sales and production, hurting the auto parts company. The pandemic has affected LKQ Corp's customers in the United States and the U.K., leading to temporary plant closures, change in processes and cut in production levels, in line with the nationwide campaign addressing the crisis.Depressed demand of vehicles and weak consumer sentiment amid the COVID-19 pandemic is likely to hurt LKQ Corp's sales and earnings in the near future. Notably, the company withdrew the 2020 guidance and suspended its existing share-repurchase program in response to the uncertainty caused by the pandemic.

Weak consumer sentiment amid the COVID-19 is likely to hurt the firm's sales and earnings in the near future.

- LKQ Corp's high debt levels remain a concern. As of Mar 31, 2020, the company had total debt of $3,672.2 million which is much higher when compared to its cash and cash equivalents of $332.8 million. Its long-term debt-to-capital ratio stands at 0.49, higher than the industry's 0.46. A high long-term debt-to-capital ratio often indicates that a firm might be unable to generate enough cash to satisfy its debt obligations. Moreover, the company's times interest earned ratio of 7.29 is unfavorable to the industry ratio of 8.02.
- The company is also bearing the brunt of rising selling, general and administrative expenses over the past several quarters. In 2019, SG&A costs rose 6.8% year over year. The trend is likely to continue, which might clip its overall profit levels. Restructuring and acquisition-related expenses are other headwinds.
- While the growing demand for high-quality auto parts to comply with regulatory emission standards has created opportunity for auto part suppliers, it has also flared up costs. Development of technically-enhanced components, along with tariff charges on aluminum and steel sourced from outside the United States, has escalated the manufacturing costs of replacement parts and components.
- Declining sales in Europe amid softer economic environment remains a headwind. Though the company is working on continuing its growth plans in the region, including 1 LKQ Europe program, it expects the challenging sales environment in Europe to persist through the second-half of 2020.

Risks

- LKQ Corp fares well in the cash flow parameter. In 2019, LKQ Corp generated record cash flow from operations of over $1 billion and free cash flow of nearly $800 million, reflecting year-over-year increases of 50% and 73% respectively. Additionally, in first-quarter 2020, the company reported cash flow from operations of over $195 million and free cash flow of nearly $150 million, reflecting year-over-year increases of 10% and 21% respectively.

- In response to the uncertainty caused by the coronavirus pandemic, the company has initiated a series of costs savings throughout the enterprise, including substantial staffing adjustments, to help mitigate the business disruption, and position LKQ Corp for earnings growth when the U.S. and European economies rebound. The focus on cost discipline is likely to result into potential annualized run-rate savings of more than $1 billion.

- LKQ Corp's strategic acquisitions and divestments bode well. The firm frequently acquires companies to expand geographic footprint, improve customer offering and adopt new technologies. In 2019, LKQ Corp entered the new-services market with the acquisition of Elite Electronics. Further, in February 2020, LKQ Corp sold its equity interests in two Czech wholesale automotive parts distributors to Swiss Automotive Group AG. Also, LKQ Corp merged its subsidiary, Auto Kelly Bulgaria with ElitKar, creating one of Bulgaria's leading distributors of automotive spare parts. These buyouts and sell offs are streamlining the company's portfolio and aiding its future prospects.

Last Earnings Report

LKQ Corp Q1 Earnings & Revenue Surpass Estimates

Quarter Ending	03/2020
Report Date	**Apr 30, 2020**
Sales Surprise	**0.55%**
EPS Surprise	**18.75%**
Quarterly EPS	**0.57**
Annual EPS (TTM)	**2.37**

LKQ Corp reported adjusted earnings of 57 cents per share in first-quarter 2020, surpassing the Zacks Consensus Estimate of 51 cents. The bottom line also increased 1.8% year over year. Higher year-over-year revenues and EBITDA from the North American segment led to this outperformance.

Quarterly revenues came in at 3,000.9 million, topping the Zacks Consensus Estimate of $2,984 million. However, the top line decreased from the year-ago level of $3,100.3 million. Parts and services organic growth also fell 3.5% year over year.

Segment Highlights

Revenues from the North American unit totaled $1,290.2 million, down from $1,302.3 million recorded in the prior-year quarter. EBITDA from the segment came in at $211.4 million, up 19.7% year over year.

Revenues from the European segment totaled $1,363.6 million, down from $1,445.5 million recorded in the prior-year quarter. EBITDA from the segment came in at $78.3 million, down 25.6% year over year.

Revenues and EBITDA from the Specialty segment came in at $348.6 million and $32.2 million, down from the year-ago respective figures of $353.7 million and $37.9 million.

Financial Position

LKQ Corp had cash and cash equivalents of $332.8 million as of Mar 31, 2020. Long-term debt amounted to $3,672.2 million. At the end of first-quarter 2020, the company generated net cash of $194.5 million from operations, higher than the $177.2 million in the comparable year-ago period. It generated negative free cash flow of $150 million in the quarter compared with the year-earlier figure of $124.2 million.

During first-quarter 2020, LKQ Corp bought back 3.3 million shares of common stock for a total consideration of $88 million. However, amid coronavirus-led uncertainty and financial crisis, the company has suspended share buybacks as well as withdrawn its view for 2020.

Recent News

LKQ Provides Q2 Business Update as Lockdown Restrictions Ease

On **Jun 15**, LKQ provided updates for second-quarter 2020 and on the momentum witnessed in its operations through May, as states continue to ease the shelter-in-place strategies and begin reopening processes, which were imposed due to the coronavirus outbreak. Parts and services organic revenues in the second quarter (through May) have declined roughly 25%, year on year, the April and May monthly revenues being down 30% and 20%, respectively. The company noted that revenues are tracking ahead of its initial projections and it expects to finish the quarter on a strong note. It has witnessed weekly sequential revenue improvement across its segments since mid-April.

Valuation

LKQ Corp's shares are down 27.3% year to date and down 2.6% over the trailing 12-month period. Stocks in the Automotive - Replacement Parts industry and the Zacks Auto sector are down 20.8% and up 3%, respectively. Over the past year, the Zacks sub-industry and sector are down 15.8% and up 13.7%, respectively.

The S&P 500 index is down 3.3% in the year-to-date period and up 5.4% in the past year.

The stock is currently trading at 14.01X forward 12-month earnings, which compares to 17.58X for the Zacks sub-industry, 25.14X for the Zacks sector and 22.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.25X and as low as 5.5X, with a 5-year median of 15.81X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our $22 price target reflects 11.89X F12M.

The table below shows summary valuation data for LKQ :

Valuation Multiples - LKQ

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.01	17.58	25.14	22.4
	5-Year High	22.25	19.45	25.14	22.4
	5-Year Low	5.5	10.69	8.2	15.23
	5-Year Median	15.81	17.12	9.9	17.49
EV/EBITDA TTM	Current	9.03	10.92	10.85	11.53
	5-Year High	15.26	15.39	11.3	12.85
	5-Year Low	6.51	7.83	6.94	8.25
	5-Year Median	11.96	12.91	9.24	10.82
P/S F12M	Current	0.72	0.76	0.76	3.49
	5-Year High	1.34	1.19	0.76	3.49
	5-Year Low	0.34	0.56	0.49	2.53
	5-Year Median	0.99	1.01	0.61	3.02

As of 06/18/2020

Industry Analysis **Zacks Industry Rank:** Bottom 25% (190 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
AutoNation, Inc. **(AN)**	Neutral	3
Copart, Inc. **(CPRT)**	Neutral	3
Fastenal Company **(FAST)**	Neutral	2
OReilly Automotive, Inc. **(ORLY)**	Neutral	3
SPX Corporation **(SPXC)**	Neutral	3
Dorman Products, Inc. **(DORM)**	Underperform	3
Genuine Parts Company **(GPC)**	Underperform	3
Standard Motor Products, Inc. **(SMP)**	Underperform	4

Industry Comparison Industry: Automotive - Replacement Parts

Industry Peers

	LKQ	X Industry	S&P 500	CPRT	GPC	ORLY
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	C	C	B
Market Cap	7.90 B	896.32 M	21.93 B	20.29 B	12.73 B	31.62 B
# of Analysts	9	2.5	14	7	6	10
Dividend Yield	0.00%	0.00%	1.93%	0.00%	3.58%	0.00%
Value Score	A	-	-	C	B	C
Cash/Price	0.04	0.04	0.06	0.02	0.03	0.01
EV/EBITDA	9.92	11.96	12.69	25.27	12.44	16.99
PEG Ratio	1.29	2.41	2.97	2.92	14.86	1.88
Price/Book (P/B)	1.60	2.79	3.02	8.90	3.75	290.57
Price/Cash Flow (P/CF)	7.58	10.81	11.62	31.88	10.81	19.34
P/E (F1)	16.76	22.29	21.45	37.93	22.29	26.06
Price/Sales (P/S)	0.64	0.81	2.33	9.13	0.66	3.09
Earnings Yield	5.97%	4.49%	4.37%	2.64%	4.49%	3.84%
Debt/Equity	0.96	0.30	0.77	0.21	1.03	56.35
Cash Flow ($/share)	3.43	3.34	7.01	2.71	8.16	22.02
Growth Score	B	-	-	B	C	B
Hist. EPS Growth (3-5 yrs)	13.10%	5.18%	10.87%	28.31%	5.53%	18.82%
Proj. EPS Growth (F1/F0)	-34.60%	-30.02%	-10.65%	1.27%	-30.43%	-8.59%
Curr. Cash Flow Growth	6.66%	12.67%	5.46%	25.44%	10.00%	4.97%
Hist. Cash Flow Growth (3-5 yrs)	15.32%	5.86%	8.55%	19.27%	6.64%	11.32%
Current Ratio	2.29	1.68	1.29	2.77	1.21	0.91
Debt/Capital	48.92%	27.73%	45.14%	17.66%	50.77%	98.26%
Net Margin	4.74%	4.90%	10.53%	30.95%	3.11%	13.41%
Return on Equity	14.85%	15.01%	16.06%	29.08%	21.54%	670.84%
Sales/Assets	0.99	0.95	0.55	0.77	1.32	0.96
Proj. Sales Growth (F1/F0)	-16.06%	-8.82%	-2.61%	2.57%	-8.17%	-1.35%
Momentum Score	B	-	-	D	D	A
Daily Price Chg	-3.42%	-0.77%	-0.07%	-1.05%	-0.51%	-0.09%
1 Week Price Chg	-14.51%	-8.13%	-7.25%	-7.38%	-7.25%	-2.92%
4 Week Price Chg	1.80%	3.00%	6.92%	0.03%	14.38%	5.36%
12 Week Price Chg	16.76%	16.76%	16.91%	19.11%	28.56%	30.36%
52 Week Price Chg	-2.59%	-12.75%	-5.63%	15.63%	-14.98%	13.32%
20 Day Average Volume	2,813,031	144,846	2,574,456	1,588,599	761,855	533,557
(F1) EPS Est 1 week change	0.87%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.27%	0.00%	0.00%	-3.04%	-0.84%	0.48%
(F1) EPS Est 12 week change	-36.88%	-33.87%	-14.21%	-15.30%	-31.67%	-14.47%
(Q1) EPS Est Mthly Chg	10.26%	0.00%	0.00%	-3.20%	2.70%	1.80%

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	B
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock.The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment.This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time.ZIR is not a broker-dealer.ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients.Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.