

LKQ Corporation (LKQ)

\$34.02 (As of 02/20/20)

Price Target (6-12 Months): **\$36.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 05/02/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: D

Summary

LKQ has been benefiting from increasing revenues from its North American segment. The firm anticipates further margin improvement from its North American market segment. LKQ's strategic buyouts and sell offs are streaming its portfolio to enable the firm yield stronger results. For 2020, LKQ Corp forecasts adjusted diluted EPS of \$2.46-\$2.58, higher than \$2.37 recorded in 2019. Additionally, investor friendly moves also bode well. However, declining sales in Europe amid softer economic environment remain a headwind. The company is also bearing the brunt of rising selling, general and administrative expenses over the past several quarters. Further, development of technically-enhanced components along with tariff charges on aluminum and steel are increasing the manufacturing costs of replacement parts. As such, LKQ warrants a cautious stance.

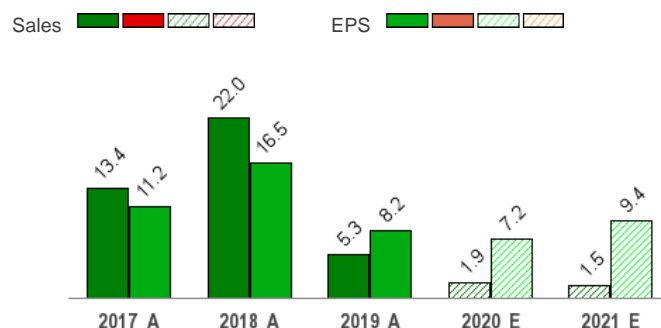
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$36.63 - \$24.44
20 Day Average Volume (sh)	1,534,310
Market Cap	\$10.4 B
YTD Price Change	-4.7%
Beta	1.31
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Replacement Parts
Zacks Industry Rank	Bottom 38% (159 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.9%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	-1.0%
Expected Report Date	04/23/2020
Earnings ESP	-10.1%
P/E TTM	14.4
P/E F1	13.4
PEG F1	1.0
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,213 E	3,374 E	3,231 E	3,106 E	12,935 E
2020	3,144 E	3,311 E	3,203 E	3,099 E	12,746 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		\$0.81 E	\$0.69 E	\$0.59 E	\$2.78 E
2020	\$0.61 E	\$0.72 E	\$0.65 E	\$0.57 E	\$2.54 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 02/20/2020. The reports text is as of 02/21/2020.

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.

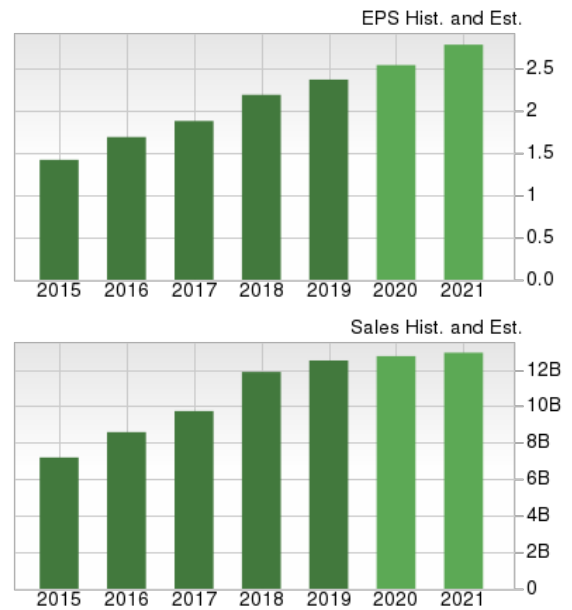
The company has four operating segments — Wholesale - North America, Europe, Specialty and Self Service. However, since Self Service unit is present only in the United States, the segment and Wholesale - North America have been aggregated into one.

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 Buy:

- ▲ For 2020, LKQ Corp forecasts adjusted diluted EPS of \$2.46-\$2.58, higher than \$2.37 recorded in 2019. Adjusted net income is estimated to be \$757-\$793 million, up from \$541.2 million. Organic revenue growth for parts & services is projected at 0.5-2.5%. In 2019, the company 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. The trend is expected to continue, with cash flow from operations forecasted in the band of \$1-\$1.5 billion in 2020. Additionally, investor friendly moves also bode well. In October 2019, the firm boosted its buyback program by an additional \$500 million, raising the aggregate authorization to \$1 billion.
- ▲ With growth in the U.S. used-car vehicle markets and increase in the average number of automobiles, the company has been benefiting from increasing revenues from its North American segment. The firm anticipates further margin improvement from its North American market segment on the back of improved facility expenses and acquisition benefits.
- ▲ LKQ'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 entered the new-services market with the acquisition of Elite Electronics. Meanwhile, the firm has divested AeroVision International. Also, LKQ merged its subsidiary, Auto Kelly Bulgaria with Elit Kar 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.

For 2020, LKQ Corp forecasts adjusted diluted EPS of \$2.46-\$2.58, higher than \$2.37 recorded in 2019.

Reasons To Sell:

- ▼ Declining sales in Europe amid softer economic environment remain a headwind. Although the company is working on continuing growth plans in the region, including 1 LKQ Europe program, it expects challenging sales environment in Europe to persist through early 2020.
- ▼ The company is 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 going forward, which may 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 parts suppliers, it has also led to rise in costs. Development of technically-enhanced components along with tariff charges on aluminum and steel sourced from outside the United States has increased manufacturing costs of replacement parts and components.

Challenging macroeconomic environment in Europe is likely to hurt LKQ Corp. Further, inflating SG&A costs is a headwind.

Last Earnings Report

LKQ Delivers Improved Y/Y Results in Q4

LKQ Corporation reported adjusted earnings of 54 cents per share in the fourth quarter of 2019, surpassing the Zacks Consensus Estimate of 52 cents. The bottom line also increased 13% year over year. Higher year-over-year revenues from the North American segment led to this outperformance.

Quarterly revenues came in at 3,009 million, missing the Zacks Consensus Estimate of \$3,015 million. However, the top line increased from the year-ago level of \$3,002 million. The company witnessed 0.9% organic revenue growth in parts and services. Revenue growth from acquisitions was 0.2% year on year.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	-0.16%
EPS Surprise	3.85%
Quarterly EPS	0.54
Annual EPS (TTM)	2.36

Segment Highlights

Revenues from the North American unit totaled \$1,283 million, up 2.3% year over year. EBITDA from the segment came in at \$179.96 million, up from the year-ago figure of \$153.38 million.

Revenues from the European segment totaled \$1,425 million, down 0.14% year over year. EBITDA from the segment came in at \$107.93 million, up 0.93% year over year.

Revenues and EBITDA from the Specialty segment came in at \$303.35 million and \$25.39 million, down from the year-ago figure of \$322.95 million and \$27.55 million, respectively.

Financial Position

LKQ Corp had cash and cash equivalents of \$523.02 million as of Dec 31, 2019. Long-term debt amounted to \$3,715 million. Its debt-to-capital ratio stands at 44.46%. At the end of fourth-quarter 2019, the company generated net cash of \$98.86 million from operations, lower than the \$189.57 million witnessed in the comparable year-ago period. The company generated negative free cash flow of \$1.31 million in the quarter compared with the year-earlier quarter's \$111.3 million.

2020 Outlook

For 2020, LKQ Corp forecasts adjusted diluted EPS of \$2.46-\$2.58. Organic revenue growth for parts & services is projected at 0.5-2.5% and adjusted net income is estimated to be \$757-\$793 million. Capex is anticipated to lie in the range of \$250 million to \$300 million, and cash flow from operations is forecast in the band of \$1-\$1.5 billion.

Valuation

LKQ Corp's shares are down 4.7% year to date and up 24.5% over the trailing 12-month period. Stocks in the Automotive - Replacement Parts industry is down 6.5% while the Zacks Auto sector is up 8.7%, over the past year. Over the past year, the Zacks sub-industry and sector are down 6.6% and up 16.6%, respectively.

The S&P 500 index is up 4.7% in the year-to-date period and 20.1% in the past year.

The stock is currently trading at 13.21X forward 12-month earnings, which compares to 15.47X for the Zacks sub-industry, 11.81X for the Zacks sector and 19.39X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.25X and as low as 9.34X, with a 5-year median of 16.16X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$36 price target reflects 14X F12M.

The table below shows summary valuation data for LKQ :

Valuation Multiples - LKQ					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.21	15.47	11.81	19.39
	5-Year High	22.25	19.45	11.81	19.39
	5-Year Low	9.34	13.73	8.23	15.18
	5-Year Median	16.16	17.23	9.93	17.47
EV/EBITDA TTM	Current	10.85	11.87	8.97	12.31
	5-Year High	14.94	15.3	11.25	12.85
	5-Year Low	8.53	11.18	6.9	8.47
	5-Year Median	12.19	13.06	9.2	10.72
P/S F12M	Current	0.82	0.82	0.72	3.59
	5-Year High	1.34	1.19	0.76	3.59
	5-Year Low	0.57	0.71	0.5	2.54
	5-Year Median	1.01	1.05	0.62	3

As of 02/20/2020

Industry Analysis Zacks Industry Rank: Bottom 38% (159 out of 255)



Top Peers

AutoNation, Inc. (AN)	Neutral
Copart, Inc. (CPRT)	Neutral
Dorman Products, Inc. (DORM)	Neutral
Fastenal Company (FAST)	Neutral
Genuine Parts Company (GPC)	Neutral
O'Reilly Automotive, Inc. (ORLY)	Neutral
Standard Motor Products, Inc. (SMP)	Neutral
SPX Corporation (SPXC)	Neutral

Industry Comparison Industry: Automotive - Replacement Parts				Industry Peers		
	LKQ Neutral	X Industry	S&P 500	CPRT Neutral	GPC Neutral	ORLY Neutral
VGM Score	A	-	-	B	B	B
Market Cap	10.43 B	1.19 B	24.34 B	22.62 B	14.47 B	29.90 B
# of Analysts	10	2.5	13	7	5	10
Dividend Yield	0.00%	0.00%	1.78%	0.00%	3.06%	0.00%
Value Score	B	-	-	F	B	D
Cash/Price	0.04	0.03	0.04	0.01	0.03	0.00
EV/EBITDA	12.20	15.35	14.18	28.29	12.44	16.06
PEG Ratio	1.00	1.34	2.09	NA	3.66	1.49
Price/Book (P/B)	2.07	3.92	3.30	10.65	3.92	75.25
Price/Cash Flow (P/CF)	9.93	13.18	13.49	35.89	12.21	17.95
P/E (F1)	13.00	16.81	19.28	35.14	16.85	20.30
Price/Sales (P/S)	0.83	1.02	2.68	10.16	0.75	2.95
Earnings Yield	7.47%	5.95%	5.17%	2.85%	5.93%	4.93%
Debt/Equity	0.96	0.29	0.70	0.23	0.98	13.96
Cash Flow (\$/share)	3.43	3.14	7.03	2.71	8.16	22.02
Growth Score	A	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	14.16%	4.99%	10.84%	27.30%	4.99%	19.31%
Proj. EPS Growth (F1/F0)	7.26%	9.03%	7.09%	23.05%	3.87%	8.90%
Curr. Cash Flow Growth	3.18%	13.41%	6.72%	25.44%	10.00%	4.97%
Hist. Cash Flow Growth (3-5 yrs)	19.94%	10.75%	8.25%	19.27%	5.65%	11.32%
Current Ratio	2.15	1.78	1.22	2.13	1.24	0.86
Debt/Capital	49.01%	27.93%	42.37%	18.48%	49.54%	93.31%
Net Margin	4.33%	4.65%	11.56%	32.95%	3.20%	13.70%
Return on Equity	14.95%	14.95%	16.80%	32.56%	22.79%	514.91%
Sales/Assets	0.99	0.99	0.55	0.82	1.34	0.98
Proj. Sales Growth (F1/F0)	1.92%	4.43%	3.90%	15.42%	1.01%	5.79%
Momentum Score	D	-	-	A	F	A
Daily Price Chg	0.06%	0.00%	0.01%	-6.89%	0.26%	0.77%
1 Week Price Chg	0.82%	0.82%	1.65%	0.65%	1.14%	0.83%
4 Week Price Chg	-0.98%	-3.58%	0.36%	-2.60%	-0.56%	-9.37%
12 Week Price Chg	-4.60%	-4.60%	4.39%	7.84%	-5.32%	-11.33%
52 Week Price Chg	24.43%	-9.36%	15.29%	72.12%	-9.36%	3.86%
20 Day Average Volume	1,534,310	118,379	1,992,841	1,497,802	649,290	841,902
(F1) EPS Est 1 week change	-0.47%	0.00%	0.00%	0.00%	-1.95%	0.00%
(F1) EPS Est 4 week change	-0.98%	-0.49%	-0.02%	0.00%	-1.95%	-2.85%
(F1) EPS Est 12 week change	-0.78%	-0.82%	-0.17%	0.73%	-2.14%	-2.76%
(Q1) EPS Est Mthly Chg	-1.98%	-0.19%	-0.48%	0.00%	-0.38%	-2.20%

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	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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