

LKQ Corporation (LKQ)

\$33.92 (As of 01/22/20)

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: B

Summary

LKQ's strategic acquisitions has helped it to expand geographic footprint, improve customer offering and adopt new technologies. The acquisition of diagnostics and calibration business in North America bodes well with its future prospects. Further, the company increased its cash flow guidance for 2019 and buyback program lifting investors' confidence. Also, demand for repair products is expected to rise which will have a favorable impact on the company's results. However, amid the macroeconomic headwinds and softness in the European markets, the full year EPS and sales forecast has been cut, which is a major headwind, going forward. Moreover, the company is bearing the brunt of rising SG&A costs, which may increase its overall costs and clip its profits. As such, investors are recommended to wait for a better entry point.

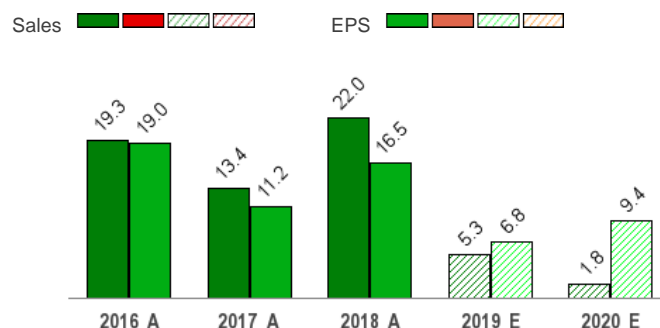
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$36.63 - \$24.44
20 Day Average Volume (sh)	1,416,503
Market Cap	\$10.4 B
YTD Price Change	-5.0%
Beta	1.31
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Replacement Parts
Zacks Industry Rank	Top 45% (116 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.0%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/20/2020
Earnings ESP	0.0%
P/E TTM	14.8
P/E F1	13.3
PEG F1	1.0
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	3,144 E	3,311 E	3,203 E	3,099 E	12,737 E
2019	3,100 A	3,248 A	3,148 A	3,016 E	12,512 E
2018	2,721 A	3,031 A	3,122 A	3,003 A	11,877 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.62 E	\$0.72 E	\$0.65 E	\$0.57 E	\$2.56 E
2019	\$0.56 A	\$0.65 A	\$0.61 A	\$0.52 E	\$2.34 E
2018	\$0.55 A	\$0.61 A	\$0.56 A	\$0.48 A	\$2.19 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 01/22/2020. The reports text is as of 01/23/2020.

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.

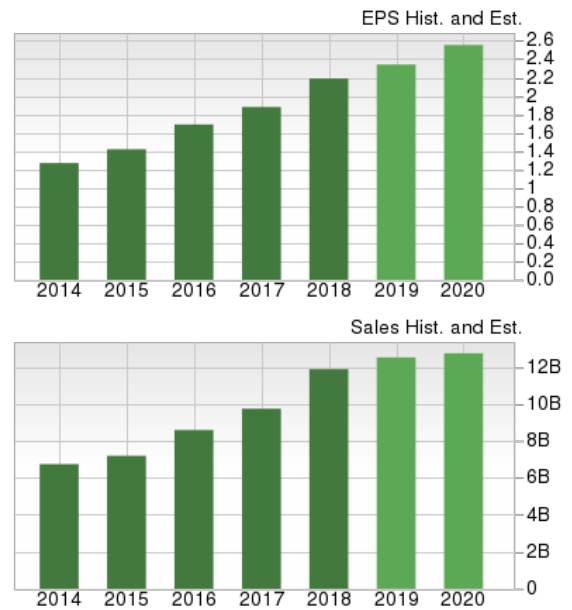
The company has four operating segments — Wholesale - North America, Europe, Specialty and Self Service. However, since Self Service unit is present only in the United States, the segment and Wholesale - North America have been aggregated into one.

Currently, the company's three reportable segments are:

North America (43.63% of revenues in 2018): 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 (43.96%): 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 (12.44%): 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:

- ▲ 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. A couple of months back, it closed the acquisition of another diagnostics and calibration business in North America to become a leader in this market. 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.
- ▲ LKQ's operational efficiency and capital discipline is helping the company to boost its operating cash flows and FCFs along with revving up its investor-friendly moves. In this regard, the company has revised upward its cash flow guidance to \$950-\$1000 million, up from the prior guidance of \$800-\$875 million. Moreover, in October, the firm boosted its buyback program by an additional \$500 million, raising the aggregate authorization to \$1 billion.

The firm frequently acquires companies to expand its geographic footprint, improve customer offering and adopt new technologies.

Reasons To Sell:

- ▼ Challenging macroeconomic environment in Europe and uncertainty over Brexit is having a negative impact on overall consumer demand in the U.K. Europe being a major market for LKQ Corp, weakening consumer demand will hamper its top line.
- ▼ Bleak revenue and income forecast for 2019 is a major headwind. For 2019, LKQ lowered the earnings per share projection to \$1.69-\$1.76 from the previously mentioned \$1.73-\$1.81. Organic revenue growth for parts & services is projected to be 0.25-1%, down from 0.5-2% stated earlier.
- ▼ The company is bearing the brunt of rising selling, general and administrative expenses over the past several quarters. The trend is likely to continue, which may clip its overall profit levels. Restructuring and acquisition-related expenses are other headwinds.

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

Last Earnings Report

LKQ Surpasses Q3 Earnings & Revenue Estimates

LKQ Corporation delivered a comprehensive beat in the third quarter of 2019, wherein it surpassed earnings and revenue estimates. The aftermarket auto parts distributor reported adjusted earnings of 61 cents per share, surpassing the Zacks Consensus Estimate of 57 cents. Higher-than-expected revenues from the North American segment led to the outperformance. The bottom line also increased 8.9% year over year.

Third-quarter revenues came in at 3,147 million, outpacing the Zacks Consensus Estimate of \$3,119 million. The top line also marginally increased from the year-ago level of \$3,122.4 million. The company witnessed 2.3% organic revenue growth in parts and services. Revenue growth from acquisitions was 0.8% year over year.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	0.93%
EPS Surprise	7.02%
Quarterly EPS	0.61
Annual EPS (TTM)	2.30

Segment Highlights

Revenues from the North American unit totaled \$1,302 million, up 3.1% year over year. The top line also significantly outpaced the Zacks Consensus Estimate of \$1,133 million. EBITDA from the segment came in at \$166 million, increasing from the year-ago figure of \$154 million and beating the Zacks Consensus Estimate of \$165 million.

Revenues from the European segment totaled \$1,451.5 million, down 1.3% year over year amid weakening consumer demand and soft economic conditions. However, the figure beat the Zacks Consensus Estimate of \$1,448 million. EBITDA from the segment came in at \$124.7 million, down 3.5% year over year. Nonetheless, EBITDA from the European unit topped the Zacks Consensus Estimate of \$115 million.

Revenues and EBITDA from the Specialty segment came in at \$395.3 million and \$45.5 million, comparing favorably with the year-ago figures of \$390.1 million and \$42.9 million, respectively.

Financial Position& Share Buyback

LKQ Corp had cash and cash equivalents of \$433.4 million as of Sep 30. Long-term debt amounted to \$3,737 million. Its debt-to-capital ratio stands at 43.4%. At the end of third-quarter 2019, the company generated free cash flow of \$262.5 million, higher than \$136.2 million in the comparable year-ago period.

During the quarter under review, LKQ Corp repurchased roughly 3.9 million shares for \$101 million. Since the initiation of the share repurchase program in October 2018, the company has bought back 13.2 million shares for \$352 million. Bringing in pleasant news for investors, LKQ Corp announced plans to boost the share buyback program by an additional \$500 million, raising the aggregate authorization to \$1 billion.

2019 View Tweaked

For 2019, LKQ Corp forecasts EPS from continuing operations in the band of \$1.69-\$1.76, down from the previous view of \$1.73-\$1.81. Organic revenue growth for parts & services is projected within 0.25-1%, down from 0.5-2% expected earlier. Further, adjusted net income is projected to be around \$718-\$738 million, down from \$718-\$743 million expected previously. Capex is now projected between \$240 million and \$260 million versus the previous guided range of \$225-\$275 million. On a positive note, cash flow from operations is now forecast in the band of \$950-\$1,000 million, up from the prior view of \$800-\$875 million.

Recent News

LKQ Announces Sale of Two Czech Distributors

On **Jan 8**, LKQ Corporation announced the execution of a definitive agreement to sell its equity interests in two Czech wholesale automotive parts distributors to Swiss Automotive Group AG. It expects to complete the sale in early 2020, subject to required regulatory approvals.

Valuation

LKQ Corp's shares are up 29.2% over the trailing 12-month period. Stocks in the Automotive - Replacement Parts industry is up 8.5% while the Zacks Auto sector is up 15.1%, over the past year.

The S&P 500 index is up 27.6% in the past year.

The stock is currently trading at 13.19X forward 12-month earnings, which compares to 16.02X for the Zacks sub-industry, 10.84X for the Zacks sector and 19.13X 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 16.23X. 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	13.19	16.02	10.84	19.13
	5-Year High	22.25	19.45	11.75	19.34
	5-Year Low	9.34	13.73	8.23	15.17
	5-Year Median	16.23	17.23	9.93	17.44
EV/EBITDA TTM	Current	10.98	12.67	8.73	12.38
	5-Year High	14.94	15.31	11.33	12.86
	5-Year Low	8.53	11.18	7.05	8.48
	5-Year Median	12.2	13.09	9.27	10.67
P/S F12M	Current	0.82	0.86	0.67	3.56
	5-Year High	1.34	1.19	0.76	3.56
	5-Year Low	0.57	0.71	0.5	2.54
	5-Year Median	1.01	1.05	0.62	3

As of 01/22/2020

Industry Analysis Zacks Industry Rank: Top 45% (116 out of 255)



Top Peers

Copart, Inc. (CPRT)	Outperform
AutoNation, Inc. (AN)	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 Outperform	GPC Neutral	ORLY Neutral
VGM Score	A	-	-	C	B	A
Market Cap	10.40 B	1.26 B	24.65 B	23.16 B	14.56 B	32.97 B
# of Analysts	10	2.5	13	7	6	9
Dividend Yield	0.00%	0.00%	1.77%	0.00%	3.04%	0.00%
Value Score	B	-	-	F	C	C
Cash/Price	0.04	0.02	0.04	0.01	0.03	0.00
EV/EBITDA	12.18	16.34	13.98	29.00	12.47	18.41
PEG Ratio	1.02	1.37	2.05	NA	3.16	1.54
Price/Book (P/B)	2.13	3.97	3.38	12.02	3.97	198.32
Price/Cash Flow (P/CF)	10.60	13.93	13.60	36.75	13.65	21.99
P/E (F1)	13.32	17.21	19.07	35.99	16.76	21.87
Price/Sales (P/S)	0.83	1.01	2.69	10.85	0.75	3.30
Earnings Yield	7.55%	5.82%	5.24%	2.78%	5.97%	4.57%
Debt/Equity	1.00	0.25	0.72	0.27	0.98	32.16
Cash Flow (\$/share)	3.20	2.89	6.94	2.71	7.34	19.81
Growth Score	A	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	14.16%	4.11%	10.60%	27.30%	4.99%	19.58%
Proj. EPS Growth (F1/F0)	9.09%	11.79%	7.53%	23.05%	5.72%	11.29%
Curr. Cash Flow Growth	25.24%	24.26%	13.90%	25.44%	26.30%	22.44%
Hist. Cash Flow Growth (3-5 yrs)	19.94%	10.75%	9.00%	19.27%	5.65%	13.15%
Current Ratio	2.18	1.69	1.22	2.30	1.26	0.81
Debt/Capital	49.97%	30.61%	42.99%	21.04%	49.51%	96.98%
Net Margin	3.50%	4.35%	11.21%	32.59%	4.14%	13.69%
Return on Equity	14.79%	14.79%	17.16%	34.06%	23.20%	527.13%
Sales/Assets	1.02	1.02	0.55	0.85	1.38	1.03
Proj. Sales Growth (F1/F0)	1.80%	3.85%	4.08%	15.42%	1.78%	5.56%
Momentum Score	B	-	-	D	D	A
Daily Price Chg	-0.91%	0.00%	-0.04%	1.05%	-1.19%	-1.11%
1 Week Price Chg	1.53%	2.94%	2.29%	1.90%	3.94%	0.88%
4 Week Price Chg	-5.49%	0.43%	2.05%	9.60%	-5.03%	-0.94%
12 Week Price Chg	7.75%	7.46%	6.92%	18.62%	-2.89%	-0.22%
52 Week Price Chg	31.42%	1.44%	21.50%	102.23%	3.46%	25.24%
20 Day Average Volume	1,416,503	96,817	1,518,423	1,281,852	584,286	489,517
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.28%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	-0.19%	-0.28%
(F1) EPS Est 12 week change	1.31%	1.29%	-0.23%	5.79%	-0.91%	0.57%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-1.88%	0.18%

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	A
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.

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