

LKQ Corporation

Recommendation BUY ★★☆☆☆

Price
USD 25.44 (as of Aug 09, 2019 4:00 PM ET)

12-Mo. Target Price
USD 34.00

Report Currency
USD

Investment Style
Mid-Cap Value

Equity Analyst Garrett Nelson

GICS Sector Consumer Discretionary
Sub-Industry Distributors

Summary LKQ is a global distributor of vehicle products, including replacement parts, components and systems.

Key Stock Statistics (Source: CFRA, S&P Global Market Intelligence (SPGMI), Company Reports)

52-Wk Range	USD 34.74 - 22.74	Oper. EPS 2019E	USD 2.35	Market Capitalization(B)	USD 7.841	Beta	1.33
Trailing 12-Month EPS	USD 1.34	Oper. EPS 2020E	USD 2.60	Yield (%)	NA	3-Yr Proj. EPS CAGR[%]	11
Trailing 12-Month P/E	19.42	P/E on Oper. EPS 2019E	11.04	Dividend Rate/Share	NA	SPGMI's Quality Ranking	B+
\$10K Invested 5 Yrs Ago	\$9,582	Common Shares Outstg.(M)	308.21	Institutional Ownership [%]	96		

Price Performance



Source: CFRA, S&P Global Market Intelligence

Past performance is not an indication of future performance and should not be relied upon as such.

Analysis prepared by Equity Analyst **Garrett Nelson** on Jul 26, 2019 05:05 PM, when the stock traded at **USD 27.58**.

Highlights

- ▶ We see a combination of organic growth (0.5%-2.0% for parts and services) and recent acquisitions as the primary drivers of earnings growth in 2019. The purchase of Germany's Stahlgruber (sales of 1.6 billion euros) closed in the second quarter of 2018 and acquisitions totaled \$1.2 billion in 2018. We expect revenues to advance by about 6% in 2019 after increasing by 22% in 2018. LKQ intends to sell several small, non-core businesses over the course of the next year in order to simplify its operating model and improve margins. We believe proceeds will go primarily towards debt reduction.
- ▶ We estimate gross margin of 38.8% in 2019, compared to 38.5% in 2018, due to acquisition profiles. With projected well-controlled SG&A spending and acquisitions, we forecast improved operating efficiency in 2019. We expect positive free cash flow of about \$590 million in 2019, up from \$461 million in 2018.
- ▶ We expect LKQ to post adjusted EPS of \$2.35 in 2019, up from \$2.19 in 2018. Cash flow from operations will likely total between \$800-\$875 million in 2019, with capital spending between \$225-\$275 million.

Investment Rationale/Risk

- ▶ Our Buy recommendation reflects LKQ's attractive valuation and favorable underlying fundamentals for auto parts distributors. We think LKQ will continue to benefit over the long term from organic growth, as well as acquisitions, including internationally. Many markets that LKQ operates in are highly fragmented. While growth and acquisitions have shifted mix and margins for the company, LKQ will likely continue to benefit from organic as well as strategic and bolt-on acquisition growth. We think the 2018 acquisition of Stahlgruber enhanced the company's geographic presence in Europe as well as improving its procurement buying power.
- ▶ Risks to our recommendation and target price include unfavorable vehicle accident trends, currency rates swings and poorer-than-expected results from acquisitions. Increased financial leverage is a concern, as is the potential negative Brexit impact on European business. Lower-than-expected cost reductions and volatility in raw material and scrap prices are also risks.
- ▶ Our 12-month target price of \$34 reflects a P/E of 13.1x our 2020 EPS estimate of \$2.60, a discount to the stock's 10-year average forward P/E of 19.3x.

Analyst's Risk Assessment

LOW MEDIUM HIGH

Our risk assessment reflects the company's steady sales and profit growth offset by risk from international operations (including exchange rate swings).

Revenue/Earnings Data

Revenue (Million USD)	1Q	2Q	3Q	4Q	Year
2019	3,100	3,248	--	--	--
2018	2,721	3,031	3,122	3,003	11,877
2017	2,343	2,458	2,466	2,470	9,737
2016	1,921	2,305	2,207	--	8,584
2015	1,774	1,838	1,832	1,749	7,193
2014	1,626	1,709	1,721	1,684	6,740

Earnings Per Share (USD)

Earnings Per Share (USD)	1Q	2Q	3Q	4Q	Year
2020	E 0.60	E 0.72	E 0.66	E 0.62	E 2.60
2019	0.31	0.48	E 0.60	E 0.54	E 2.35
2018	0.49	0.50	0.42	0.13	1.53
2017	0.45	0.49	0.39	0.41	1.74
2016	0.36	0.45	0.35	--	1.47
2015	0.35	0.39	0.33	0.31	1.38

Fiscal year ended Dec 31. Next earnings report expected: Late Oct. EPS Estimates based on CFRA's Operating Earnings; historical GAAP earnings are as reported in Company reports.

Dividend Data

No cash dividends have been paid in the last year.

LKQ Corporation**Business Summary** July 26, 2019

CORPORATE OVERVIEW. Headquartered in Chicago, LKQ Corporation is a leading global distributor of vehicle products, including replacement parts, components and systems used in the repair and maintenance of vehicles, as well as specialty vehicle products and accessories. At year-end 2018, the company had approximately 1,700 facilities located in 25 countries (550 in the U.S. and 1,150 in other countries). LKQ had roughly 51,000 employees (22,500 North America / 28,500 elsewhere). Approximately 1,200 North American employees [or about 5% of all North American employees] were covered by collective bargaining agreements as of December 31, 2018, as were many of its European employees.

LKQ has four reporting segments: North America (44% of total revenues in 2018), Europe (44%) and Specialty and Eliminations (12%). Looking at EBITDA margins by segment, the North American operations generated margins of 12.7%, Europe 8.1%, and Specialty 11.4% in 2018. The breakdown of 2018 revenues by geographic area was: United States (44%), U.K. (14%), Germany (8%) and other countries (32%).

CORPORATE STRATEGY. LKQ is focused on creating value for shareholders primarily through organic growth opportunities and acquisitions. It does not pay a dividend and has not bought back stock historically. The company aims to enhance its position as a leading source for alternative collision and mechanical repair products, and by expanding into other product lines and businesses. The company thinks a supply network with a broad inventory of quality alternative collision and mechanical repair products, specialty vehicle aftermarket products, high fulfillment rates and superior customer service provides it with a competitive advantage.

Other than OEMs, the competition in the markets that it serves is fragmented and the supply of products tends to be localized, often leading to low fulfillment rates, particularly with recycled products. In North America, the distribution channels for aftermarket and refurbished products have historically been distinct and separate from those for recycled and remanufactured products despite serving the same customer segment. LKQ provides value to customers by bringing these two channels together to provide a broader product offering and more efficient distribution process. To execute its strategy in North America, LKQ expanded its network of parts warehouses and dismantling plants in major metropolitan areas and employs a distribution system that allows for order fulfillment from regional warehouses located across the U.S. and Canada. By increasing local inventory levels and expanding its network to provide timely access to a greater range of parts, LKQ increased fulfillment rates beyond the levels that most of its competitors realize, particularly for recycled products.

FINANCIAL TRENDS. LKQ's total revenues have increased from \$8.58 billion in 2016 to \$9.74 billion in 2017 and \$11.88 billion in 2018, while its adjusted EPS jumped from \$1.69 in 2016 to \$1.88 in 2017 and \$2.19 in 2018. In the first half of 2019, LKQ's adjusted EPS increased by 4.3% (\$1.21 versus \$1.16 in the year-ago period), as revenues were up 10.4% and its gross margin expanded by 20 bps to 38.7%.

As of June 30, 2019, the company had \$376 million of cash and equivalents, down from \$332 million as of December 31, 2018. LKQ's total debt of \$5.39 billion was up from \$4.35 billion at year-end 2018. It had approximately \$1.7 billion of total liquidity when including borrowing availability under its revolving credit facility as of December 31, 2018.

LKQ does not currently pay a dividend, but announced a \$500 million share repurchase program authorization with a 3-year expiration in tandem with its Q3 2018 earnings release. LKQ then repurchased 2.3 million shares at an average price of \$26.41 for \$60 million in Q4 2018, 2.6 million shares at an average price of \$26.66 for \$70 million in Q1 2019 and 4.4 million shares at an average price of \$27.27 for \$120 million in Q2 2019.

Corporate Information**Investor Contact**

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Officers**Executive VP & CFO**

V. Laroyia

Senior VP, General Counsel & Corporate Secretary

V. M. Casini

President, CEO & Director

D. P. Zarccone

Executive Chairman

J. M. Holsten

Chief Operating Officer

A. Franz

Board Members

A. C. Allen

B. J. McGarvie

D. P. Zarccone

G. Subramanian

J. F. O'Brien

J. G. Miller

J. M. Holsten

J. W. Mendel

M. A. Divitto

R. M. Hanser

W. M. Webster

Domicile

Delaware

Auditor

Deloitte & Touche LLP

Founded

1998

Employees

51,000

LKQ Corporation

Quantitative Evaluations											
Fair Value Rank	4										
	<table border="1"> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td>LOWEST</td> <td></td> <td></td> <td></td> <td>HIGHEST</td> </tr> </table> <p>Based on CFRA's proprietary quantitative model, stocks are ranked from most overvalued [1] to most undervalued [5].</p>	1	2	3	4	5	LOWEST				HIGHEST
1	2	3	4	5							
LOWEST				HIGHEST							
Fair Value Calculation	<p>USD 27.43</p> <p>Analysis of the stock's current worth, based on CFRA's proprietary quantitative model suggests that LKQ is slightly undervalued by USD 1.99 or 7.8%.</p>										
Volatility	<table border="1"> <tr> <td>LOW</td> <td>AVERAGE</td> <td>HIGH</td> </tr> </table>	LOW	AVERAGE	HIGH							
LOW	AVERAGE	HIGH									
Technical Evaluation	<p>NEUTRAL</p> <p>Since July, 2019, the technical indicators for LKQ have been NEUTRAL.</p>										
Insider Activity	<table border="1"> <tr> <td>UNFAVORABLE</td> <td>NEUTRAL</td> <td>FAVORABLE</td> </tr> </table>	UNFAVORABLE	NEUTRAL	FAVORABLE							
UNFAVORABLE	NEUTRAL	FAVORABLE									

Expanded Ratio Analysis				
	2018	2017	2016	2015
Price/Sales	0.63	1.30	1.11	1.27
Price/EBITDA	6.04	11.51	9.50	10.69
Price/Pretax Income	7.57	14.30	11.08	13.76
P/E Ratio	15.47	23.38	20.85	21.47
Avg. Diluted Shares Outsg.(M)	316	311	310	307

Figures based on fiscal year-end price

Key Growth Rates and Averages				
Past Growth Rate [%]		1 Year	3 Years	5 Years
Sales		21.98	18.20	18.59
Net Income		-10.05	4.29	9.03
Ratio Analysis [Annual Avg.]				
Net Margin [%]		NM	NM	NM
% LT Debt to Capitalization		46.02	NA	NA
Return on Equity [%]		10.78	NA	NA

Company Financials Fiscal year ending Dec. 31

Per Share Data [USD]	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Tangible Book Value	-1.67	-0.27	-0.64	1.90	0.61	0.86	0.56	0.20	1.07	0.61
Free Cash Flow	1.47	1.10	1.39	1.23	0.82	1.13	0.40	0.43	0.34	0.38
Earnings	1.53	1.74	1.47	1.38	1.25	1.02	0.87	0.71	0.57	0.44
Earnings [Normalized]	1.46	1.59	1.48	1.35	1.22	1.01	0.82	0.73	0.58	0.44
Dividends	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Payout Ratio [%]	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Prices: High	43.86	41.42	36.35	32.25	32.90	34.32	NA	15.63	11.63	10.04
Prices: Low	23.14	27.85	23.95	22.90	24.46	20.09	NA	10.19	8.64	5.38
P/E Ratio: High	26.5	25.1	25.0	24.9	33.2	36.5	NA	46.9	54.7	56.1
P/E Ratio: Low	12.9	19.0	18.0	18.9	21.3	23.2	NA	33.5	33.3	27.9

Income Statement Analysis [Million USD]										
Revenue	11,877	9,737	8,584	7,193	6,740	5,063	4,123	3,270	2,470	2,048
Operating Income	947	867	801	724	665	540	423	369	299	234
Depreciation + Amortization	294	230	198	128	125	86	70	55	41	38
Interest Expense	146.4	101.6	88.3	57.9	64.5	51.2	31.4	24.3	29.8	32.3
Pretax Income	679	773	677	643	586	476	409	336	270	205
Effective Tax Rate	28.2	30.5	32.6	34.2	34.9	34.5	36.2	37.4	38.1	38.1
Net Income	480	534	464	423	382	312	261	210	169	128
Net Income [Normalized]	462	494	458	414	374	307	247	217	169	127

Balance Sheet and Other Financial Data [Million USD]										
Cash	332	280	227	87	115	150	60	48	96	109
Current Assets	4,521	3,822	3,568	2,341	2,236	1,800	1,384	1,150	837	703
Total Assets	11,393	9,367	8,303	5,648	5,476	4,519	3,723	3,200	2,300	2,020
Current Liabilities	1,690	1,323	1,211	752	745	678	488	398	225	168
Long Term Debt	4,230	3,339	3,279	1,529	1,787	1,273	1,062	937	548	598
Total Capital	9,190	7,672	6,788	4,701	4,572	3,665	3,098	2,611	2,017	1,793
Capital Expenditures	250	179	207	170	141	90	88	86	61	56
Cash from Operations	711	519	635	544	389	428	206	212	159	164
Current Ratio	2.67	2.89	2.95	3.11	3.00	2.65	2.84	2.89	3.71	4.17
% Long Term Debt of Capitalization	46.0	43.5	48.3	32.5	39.1	34.7	34.3	35.9	27.2	33.4
% Net Income of Revenue	4.04	5.48	5.41	5.88	5.66	6.16	6.34	6.43	6.85	6.23
% Return on Assets	5.70	6.13	7.18	8.14	8.31	8.19	7.63	8.39	8.64	7.50
% Return on Equity	10.8	14.0	13.9	14.5	15.0	14.4	14.5	13.8	12.9	11.6

Source: S&P Global Market Intelligence. Data may be preliminary or restated; before results of discontinued operations/special items. Per share data adjusted for stock dividends; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

LKQ Corporation

Sector Outlook

CFRA recommends marketweighting the S&P 500 consumer discretionary sector. Year to date through July 12, 2019, the S&P 500 Consumer Discretionary Index, which represented 10.4% of the S&P 500 Index, was up 26.1% in price, compared with a 20.2% increase for the S&P 500. In 2018, this sector index fell 0.5% versus a price decline of 6.2% for the 500. There are 24 sub-industry indices in this sector. Internet & Direct Marketing Retail is the largest, representing 37.1% of the sector's market value, while specialized consumer services is the smallest, accounting for 0.2% of the sector.

The cap-weighted average of this sector's component company CFRA STARS (Stock Appreciation Ranking System) is 3.9 out of 5.0, as compared to a cap-weighted average of 3.7 for the S&P 500. The sub-industries within this sector that currently show the highest average STARS are automotive retail, footwear, internet & direct marketing retail and specialty stores. The sub-industries with the lowest average STARS include computer & electronics retail, home furnishings, household appliances and motorcycle manufacturers. According to S&P Capital IQ consensus estimates, the sector is projected to record a 3.1% year-over-year increase in operating earnings per share in 2019, as compared with the S&P 500's estimated EPS gain of 1.5%. Sector EPS is projected to advance 13.9% in 2020 versus an 11.8% expected increase for the S&P 500. In addition, revenues for the sector are forecast to increase by 7.7% in 2019 and 5.8% in 2020 versus the S&P 500's projected rise of 4.6% and 6.7%, respectively. The sector's price-to-earnings ratio of 23.0x, based on the consensus forward-12-month operating EPS estimate, is well above the S&P 500's forward P/E of 18.0x. S&P Capital IQ also reports that the consensus long-term EPS growth

estimate for this sector is 19.5% versus the S&P 500's 12.1%, giving the sector a P/E-to-projected EPS growth rate (PEG) ratio of 1.2x, which is below the broader market's PEG of 1.5x. Finally, this sector pays a dividend yield of 1.3%, as compared with the yield of 1.9% for the S&P 500.

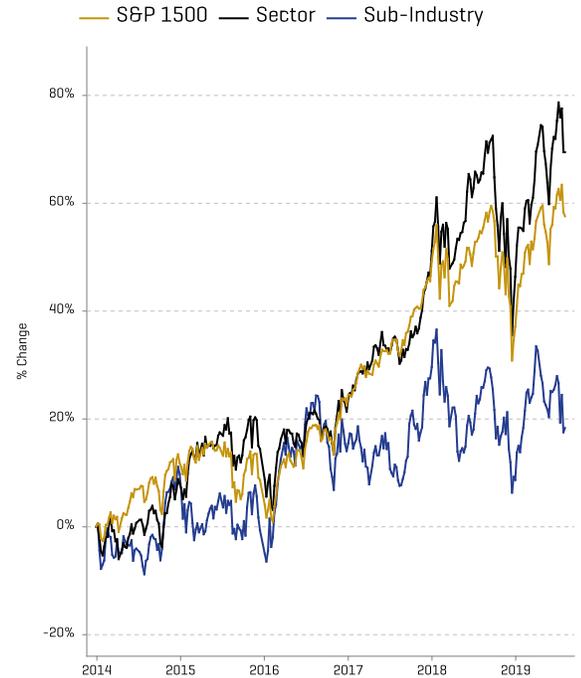
CFRA's proprietary technical indicator for this sector currently shows a positive reading. In researching the past market history of prices and trading volume for each company, CFRA's computer models apply special technical methods and formulas to identify and project price trends for the sector.

/Sam Stovall

Industry Performance

GICS Sector: Consumer Discretionary
Sub-Industry: Distributors

Based on S&P 1500 Indexes
Five-Year market price performance through Aug 10, 2019



NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS).

Past performance is not an indication of future performance and should not be relied upon as such.

Source: S&P Global Market Intelligence

Sub-Industry: Distributors Peer Group*: Distributors

Peer Group	Stock Symbol	Exchange	Currency	Recent Stock Price	Stk. Mkt. Cap. [M]	30-Day Price Chg. [%]	1-Year Price Chg. [%]	P/E Ratio	Fair Value Calc.	Yield [%]	Return on Equity [%]	LTD to Cap [%]
LKQ Corporation	LKQ	NasdaqGS	USD	25.44	7,841	-2.8	-25.1	19	27.43	Nil	10.8	46.0
Boss Holdings, Inc.	BSHI	OTCPK	USD	14.65	29	-7.0	-13.8	15	NA	Nil	4.6	1.1
Core-Mark Holding Company, Inc.	CORE	NasdaqGS	USD	33.75	1,548	-15.3	8.6	28	31.00	1.3	8.1	33.2
D'Ieteren SA	SIET.Y	OTCPK	USD	23.86	2,578	5.8	11.0	2	NA	2.3	2.1	4.1
Educational Development Corporation	EDUC	NasdaqGM	USD	6.440	54	-8.0	-36.4	8	86.80	3.1	28.8	41.2
Genuine Parts Company	GPC	NYSE	USD	91.43	13,356	-12.2	-8.0	17	86.80	3.3	23.4	36.8
Jardine Cycle & Carriage Limited	JCYG.Y	OTCPK	USD	45.26	8,943	-15.2	-12.1	12	NA	3.8	14.2	4.2
Pool Corporation	POOL	NasdaqGS	USD	199.35	7,958	8.9	23.6	33	201.03	1.1	NM	73.9
TreeCon Resources, Inc.	TCOR	OTCPK	USD	0.480	14	10.3	38.7	3	NA	Nil	NA	43.2
Uni-Select Inc.	UNS	TSX	CAD	10.97	465	-10.1	-49.7	27	4.150	3.4	7.0	43.6
Weyco Group, Inc.	WEYS	NasdaqGS	USD	24.31	241	-5.3	-33.9	12	NA	3.9	9.7	NA

*For Peer Groups with more than 10 companies or stocks, selection of issues is based on market capitalization.

NA-Not Available NM-Not Meaningful.

Note: Peers are selected based on Global Industry Classification Standards and market capitalization. The peer group list includes companies with similar characteristics, but may not include all the companies within the same industry and/or that engage in the same line of business.

LKQ Corporation**Analyst Research Notes and other Company News****July 25, 2019**

09:03 am ET... CFRA Reiterates Buy Opinion on Shares of LKQ Corporation [26.24***]: We lower our 12-month target price by \$1 to \$34, representing 13.1x our revised '20 EPS estimate and a late-cycle discount to the stock's 10-year mean forward P/E of 19.3x. We reduce our EPS estimates by \$0.05 to \$2.35 for '19, and by \$0.05 to \$2.60 for '20. LKQ posts Q2 adjusted EPS of \$0.65 vs. \$0.61 [+6.6%], a penny ahead of consensus. Revenues rose 7.2% to \$3.25B, boosted by the May 2018 Stahlgruber acquisition. Its gross margin expanded by 10 bps to 38.4%, helping alleviate concerns regarding scrap spread deterioration and exchange rate fluctuations. LKQ lowered 2019 adjusted EPS guidance to \$2.30-\$2.38 from \$2.34-\$2.46, driven by lower organic revenue growth expectations [0.5%-2.0% vs. 2.0%-4.0% prior], but it expects to generate more free cash flow as operating cash flow guidance was higher and capex guidance lower. LKQ also boosted its share repurchase activity, buying back 4.4M shares of stock at an average price of approximately \$27.27/share in Q2 [up from 2.6M shares in Q1]. /Garrett Nelson

April 25, 2019

10:59 am ET... CFRA Reiterates Buy Recommendation on Shares of LKQ Corporation [30.05***]: We maintain our 12-month target price of \$35, representing 13.2x our '20 EPS estimate and a late-cycle discount to the stock's 10-year average forward P/E of 19.5x. Our EPS estimates remain \$2.40 for '19 and \$2.65 for '20. LKQ posts Q1 adjusted EPS of \$0.56 vs. \$0.55 [+1.8%], in-line with consensus. Revenues rose 13.9% to \$3.1B, boosted by the May 2018 Stahlgruber acquisition in Europe. Its gross margin expanded by 30 bps to 39.0%, helping alleviate concerns regarding scrap spreads and exchange rate moves related to the euro and British pound. LKQ also repurchased 2.6M shares of stock at an average price of \$26.66/share in Q1. LKQ maintained prior 2019 adjusted EPS guidance of \$2.34-\$2.46, but likely a relief to investors concerned about possible Brexit impacts. We continue to consider LKQ one of the most attractively-valued names in the automotive space, an industry where value is increasingly hard to find after the significant equity price run-up so far in 2019. /Garrett Nelson

February 28, 2019

11:14 am ET... CFRA Reiterates Buy Recommendation on Shares of LKQ Corporation [28.15***]: We maintain our 12-month target price of \$35, representing 14.6x our '19 EPS estimate and a late-cycle discount to the stock's 10-year average forward P/E of 19.6x. We reduce our EPS estimates to \$2.40 from \$2.55 for '19, and to \$2.65 from \$2.80 for '20. LKQ posts Q4 adjusted EPS of \$0.48 vs. \$0.41 [+17.1%], a penny short of consensus. Revenues rose 21.6% to \$3.0B, boosted by the May 2018 Stahlgruber acquisition in Europe. Its gross margin expanded by 30 bps to 38.7%, helping alleviate concerns regarding scrap spread deterioration and exchange rate moves related to the euro and British pound. LKQ continues to grow via bolt-on acquisitions, closing deals totaling \$1.2 billion in 2018. LKQ also repurchased 2.3M shares of stock at an average price of \$26.41/share in Q4. LKQ introduced 2019 adjusted EPS guidance of \$2.34-\$2.46 [vs. 2018 EPS of \$2.19], the midpoint of which was slightly below the \$2.45 consensus, but likely a relief to investors concerned about possible Brexit impacts. /Garrett Nelson

October 26, 2018

08:39 am ET... CFRA RAISES OPINION ON LKQ CORPORATION SHARES TO BUY FROM HOLD [26.6***]: We lower our 12-month target price by \$2 to \$35, representing 13.7x our '19 EPS estimate and a late-cycle discount to the stock's 10-year average forward P/E of 19.7x. Our EPS estimates are lowered to \$2.25 from \$2.29 for '18, \$2.55 from \$2.60 for '19, and we introduce a '20 estimate of \$2.80. LKQ posts Q3 EPS of \$0.56 vs. \$0.45 [+24.4%] and in-line with consensus. Revenues rose 26.6%, helped by the May 2018 Stahlgruber acquisition in Europe. Its gross margin contracted slightly by 50 bps to 38.3% but was flat sequentially, helping alleviate concerns regarding further deterioration from scrap spreads and exchange rate moves related to the euro and British pound. LKQ continues to grow via bolt-on acquisitions, closing three new deals in Q3 [bringing YTD purchases to nine]. We also viewed positively the announcement of a \$500 million share repurchase authorization. A full exercise of the authorization would equate to a 5.9% reduction in LKQ's common share count at the current price. /Garrett Nelson

July 26, 2018

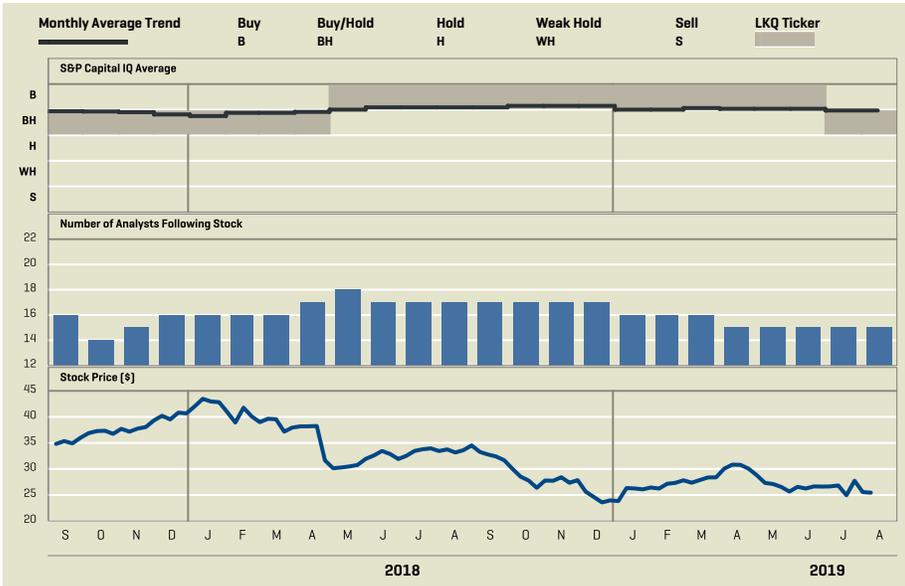
12:48 pm ET... CFRA LOWERS OPINION ON SHARES OF LKQ CORP. TO HOLD FROM BUY [33.7***]: We raise our 12-month target price to \$37 from \$35 and apply a 14.2 target P/E multiple to our '19 EPS estimate of \$2.60 [up from \$2.50], keeping the company's discount to its three-year average forward P/E. We increase our '18 EPS forecast to \$2.29 from \$2.25. We expect organic revenues in '18 to outperform regional market growth. Our forecast includes recent acquisitions: Stahlgruber GmbH [1.6 billion euros in sales] and some smaller transactions. Recent quarterly results have been inconsistent relative to the consensus forecasts and we see potential trade risks. LKQ posts adjusted Q2 EPS of \$0.61 vs. \$0.58, above our \$0.60 estimate and the \$0.58 S&P Capital IQ consensus estimate. Revenues were better than expected, helped by favorable exchange rate movements, but that benefit will likely reverse in the second half. Parts and services organic sales growth was 7.2% in Q2, a sequential improvement from Q1's 3.7% growth. /Efraim Levy, CFA

May 07, 2018

11:04 am ET... CFRA RAISES OPINION ON SHARES OF LKQ CORPORATION TO BUY FROM HOLD [30.13***]: We lower our 12-month target price to \$35 from \$43 and use a 14x multiple to our '19 EPS estimate of \$2.50 [trimmed from \$2.55], below its three-year average forward P/E, after weaker-than-expected recent results. We cut our '18 EPS forecast to \$2.25 from \$2.35. We expect organic revenues in '18 to outperform regional market growth. Our forecast does not include the purchase of Stahlgruber GmbH [Euro 1.6 billion sales], expected to close in Q2, subject to standard approvals. At 12x our '19 EPS forecast, on the low end of its historical range, we find LKQ attractive. LKQ posts adjusted Q1 EPS of \$0.55 vs. \$0.49, below the \$0.59 S&P Capital IQ consensus estimate. Revenues were better-than-expected, helped by favorable exchange rate movements. Parts and services organic sales growth was 3.7%. We expect proceeds from a March Euro 1.8 billion senior note offering to help fund the Stahlgruber acquisition, general corporate purposes and to pay debt refinancing fees. /Efraim Levy, CFA

LKQ Corporation

Analysts' Recommendations



Wall Street Consensus Opinion

BUY/HOLD

Wall Street Consensus vs. Performance

For fiscal year 2019, analysts estimate that LKQ will earn USD \$2.32. For the 2nd quarter of fiscal year 2019, LKQ announced earnings per share of USD \$0.48, representing 20.7% of the total revenue estimate. For fiscal year 2020, analysts estimate that LKQ's earnings per share will grow by 11% to USD \$2.58.

	No. of Recommendations	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	9	60	9	9
Buy/Hold	4	27	4	5
Hold	2	13	2	1
Weak Hold	0	0	0	0
Sell	0	0	0	0
No Opinion	0	0	0	0
Total	15	100	15	15

Wall Street Consensus Estimates



Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2020	2.58	2.93	2.45	15	9.9
2019	2.32	2.37	2.28	15	11.0
2020 vs. 2019	▲11%	▲24%	▲7%	0%	▼-10%
Q3'20	0.63	0.65	0.62	9	40.1
Q3'19	0.58	0.60	0.56	14	44.1
Q3'20 vs. Q3'19	▲9%	▲8%	▲11%	▼-36%	▼-9%

Forecasts are not reliable indicator of future performance.

Note: A company's earnings outlook plays a major part in any investment decision. S&P Global Market Intelligence organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.

Note: For all tables, graphs and charts in this report that do not cite any reference or source, the source is S&P Global Market Intelligence.

LKQ Corporation**Glossary****STARS**

Since January 1, 1987, CFRA Equity and Fund Research Services, and its predecessor S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, we have ranked Asian and European equities since June 30, 2002. Under proprietary STARS (Stock Appreciation Ranking System), equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index [S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index]), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P Global Market Intelligence's Quality Ranking

(also known as **S&P Capital IQ Earnings & Dividend Rankings**) - Growth and stability of earnings and dividends are deemed key elements in establishing S&P Global Market Intelligence's earnings and dividend rankings for common stocks, which are designed to encapsulate the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+	Highest	B	Below Average
A	High	B-	Lower
A-	Above Average	C	Lowest
B+	Average	D	In Reorganization
NR	Not Ranked		

EPS Estimates

CFRA's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, EPS estimates reflect either forecasts of equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by S&P Global Market Intelligence, a data provider to CFRA. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

12-Month Target Price

The equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including Fair Value.

CFRA Equity Research

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Abbreviations Used in Equity Research Reports

CAGR - Compound Annual Growth Rate
 CAPEX - Capital Expenditures
 CY - Calendar Year
 DCF - Discounted Cash Flow
 DDM - Dividend Discount Model
 EBIT - Earnings Before Interest and Taxes
 EBITDA - Earnings Before Interest, Taxes, Depreciation & Amortization
 EPS - Earnings Per Share
 EV - Enterprise Value
 FCF - Free Cash Flow
 FFO - Funds From Operations

FY - Fiscal Year
 P/E - Price/Earnings
 P/NAV - Price to Net Asset Value PEG Ratio - P/E-to-Growth Ratio PV - Present Value
 R&D - Research & Development ROCE - Return on Capital Employed ROE - Return on Equity
 ROI - Return on Investment
 ROIC - Return on Invested Capital
 ROA - Return on Assets
 SG&A - Selling, General & Administrative Expenses
 SOTP - Sum-of-The-Parts
 WACC - Weighted Average Cost of Capital

Dividends on American Depositary Receipts (ADRs) and American Depositary Shares (ADSs) are net of taxes (paid in the country of origin).

Qualitative Risk Assessment

Reflects an equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

STARS Ranking system and definition:**★★★★★ 5-STARs (Strong Buy):**

Total return is expected to outperform the total return of a relevant benchmark, by a notable margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★★ 4-STARs (Buy):

Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★★★ 3-STARs (Hold):

Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★★★★ 2-STARs (Sell):

Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.

★★★★★ 1-STAR (Strong Sell):

Total return is expected to underperform the total return of a relevant benchmark by a notable margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks:

In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

LQK Corporation

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STARS Stock Reports:

Qualitative STARS recommendations are determined and assigned by equity analysts. For reports containing STARS recommendations refer to the Glossary section of the report for detailed methodology and the definition of STARS rankings.

Quantitative Stock Reports:

Quantitative recommendations are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five (six) model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative recommendations refer to the Glossary section of the report for detailed methodology and the definition of Quantitative rankings.

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STARS Stock Reports:

Global STARS Distribution as of March 31, 2019

Ranking	North America	Europe	Asia	Global
Buy	35.5%	32.4%	39.4%	35.4%
Hold	54.8%	54.4%	41.7%	53.2%
Sell	9.7%	13.2%	18.9%	11.3%
Total	100.0%	100.0%	100.0%	100.0%

Analyst Certification:

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