LKQ Corporation LKQX [Nasdaq] | ★★★★

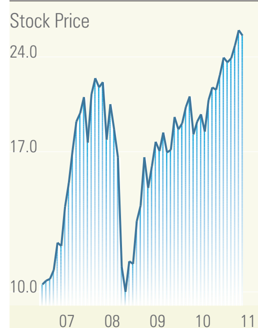
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
26.74 USD	33.00 USD	23.10 USD	46.20 USD	Medium	Narrow	C	—	Industrial Distribution

LKQ Reports Record 1Q Results; Stock Still Has Legs

by Richard Hilgert
Securities Analyst
Analysts covering this company do not own its stock.

Pricing data through July 01, 2011. Rating updated as of July 01, 2011.

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.



Analyst Note May 03, 2011

We are maintaining our fair value estimate for LKQ of $33 per share and our earnings per share estimates of $1.39 and $1.63 for 2011 and 2012, respectively. Even though our 2011 EPS estimate is below the Street consensus of $1.43, we are comfortable with it, given the headwinds the company faces from higher prices for auctioned vehicles. Even so, our fair value estimate is roughly 28% higher than where the stock is currently trading, affording investors good upside potential. Our seemingly disparate comments are reconciled by our view that LKQ's cash flow generation should continue to grow at a significant pace thanks to the insurance industry's greater reliance on recycled parts to reduce costs, as well as the company's acquisition strategy and size advantage over would-be competitors.

Consolidated revenue for the first quarter jumped 30.3% to $786.6 million compared with $603.5 million last year, the result of 13.6% growth in base revenue and 16.5 percentage points of incremental acquisition revenue. Recycled and remanufactured parts revenue popped 28.1% to $275.8 million from $215.2 million in the same period last year. Acquisitions added 17.0 percentage points to the segment's increase. Aftermarket and refurbished revenue rose 22.0% to $381.1 million from $312.4 million a year ago. Acquisitions added 11.9 percentage points to the segment's increase. Sales of scrap metal and other skyrocketed 70.9% to $129.8 million from $75.9 million because of higher steel prices versus the first quarter of 2010.

Operating income was $107.4 million, representing an increase of 19.4% from the year-ago quarter's result of $89.9 million. The increase did not match the jump in sales as the company battled higher year-over-year costs to obtain auctioned vehicles, reflected in the increase in cost of goods sold as percentage of sales, which rose to 56.3% from 53.1% in the prior year. Partially offsetting the higher cost, LKQ was able to manage a reduction in facility and warehouse expenses by 70 basis points to 8.9% of sales from 9.6% and a 100-basis-point decline in selling, general, and administrative expense to 11.4% of sales from 12.4%. Diluted earnings per share were $0.42 versus $0.36, an increase of 16.7% from last year.

Thesis Mar. 01, 2011

LKQ has grown quickly since its inception in 1998, mainly through acquisitions but also through incremental market penetration. The company is the leading provider of recycled and aftermarket auto parts to collision repair shops, also known as body shops, as well as mechanical repair shops. After acquiring its largest competitors, Keystone Automotive Industries and Greenleaf Auto Recyclers, we expect LKQ's acquisition pace will slow as there are no other competitors the size of LKQ in this highly fragmented market. Without meaningful competition, LKQ is in a great position to capture market share. The wholesale parts industry represents a $53 billion addressable market, including $15 billion in collision replacement parts and $38 billion in mechanical replacement parts.

Use of alternative parts (recycled and aftermarket) has steadily increased to account for more than 30% of all products used in collision repairs compared with about 23% in 2000. Alternative parts generally cost 20%-50% less than new original-equipment manufacturer (OEM) products. The recycled OEM product market (engines, transmissions, doors, and so on) is composed of more than 6,000 companies, and roughly 90% of those have less than $3 million of annual revenue. In contrast, LKQ had $2.5 billion of revenue in 2010, with $888 million coming from recycled OEM parts and services. With a far larger capital base to fuel growth, LKQ now owns about 300 facilities. An integrated IT system allows each facility to stock the right parts for customers. The result of this scale and integration is that LKQ is out of stock far less than the 50%-60% industry average.

Aftermarket parts are new parts such as mirrors, fenders,

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Close Competitors	Currency(Mil)	Market Cap	TTM Sales	Oper Income	Net Income
LKQ Corporation	USD	3,901	2,653	315	173

Morningstar data as of July 01, 2011.

and hoods that are manufactured by non-OEM firms, primarily from Taiwan. Aftermarket parts were a little more than 50% of LKQ's 2010 revenue. These items are gaining popularity with insurance companies, which typically have the final say as to how the body shop will repair a vehicle. Also, like the recycled parts business, aftermarket distributors are highly fragmented and LKQ has no real competition.

LKQ's business model cannot easily be replicated. Its size allows the firm to have a nationwide fleet of trucks that can deliver to repair shops and move inventory around within a region to best meet local demand. This network cannot be matched by a local parts yard, and new entrants would have to undergo lots of time and expense to obtain zoning, environmental, and dismantling permits. Without any large competitors to acquire, LKQ should still enjoy organic revenue growth in the mid- to high-single digits in this minimally cyclical industry where it is the only player with a national presence and network.

Valuation, Growth and Profitability

We are raising our fair value estimate to $33 per share from $20 as we transition coverage to a new analyst. The change reflects greater market penetration than previously modeled, but also a lower weighted average cost of capital than other companies in the automotive sector, albeit more commensurate with narrow-moat rated growth companies. We forecast revenue to increase 15% on a five-year compound annual basis compared with a previously modeled 11% rate. We forecast that operating margin will average 12.5%, in line with the previous forecasted margin, with capital expenditures averaging just over 3.5% of revenue per year. Our weighted average cost of capital is 8.3%, down from the previously modeled 9.5% WACC. Although we think LKQ has a great business model, the company will need to focus on generating organic growth as fewer large acquisition targets remain. To reflect the lower rate of growth, we also changed our long-term ROIC assumption to 10% from 12% and reduced our long-run free cash flow growth assumption to 5% from 7%. However, our fair value estimate is offset by $229.5 million, the same net present value amount as the previous model, which is derived from our assumption of the company's future cash outlays for acquisitions during the next five years.

Risk

Like all acquisitive companies, LKQ faces the risk of overpaying for an acquisition and then taking a loss in the disposition or a fair value impairment charge in a subsequent period. LKQ also could have operational problems integrating acquisitions that could negate any synergies. Another risk comes from the Anti-Car Theft Act passed in 1992, which requires all parts recyclers to catalog vehicle identification numbers for most parts they recycle. In January 2009, the Justice Department authorized implementation of an electronic system but has yet to issue final rules. If LKQ were ever forced to comply with this regulation, it could represent a significant expense, causing operational inefficiency as each individual, recycled part is painstakingly identified and cataloged.

Bulls Say

- The settlement agreement with Ford regarding the carmaker's patent case enables LKQ to be the sole U.S. distributor of non-OEM aftermarket Ford collision parts

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protected by Ford patents. LKQ must pay a royalty to Ford for each part sold until the agreement expires in September 2011.

- State Farm left the aftermarket business after losing a lawsuit in 1999 relating to not using OEM parts to repair damaged vehicles. The Illinois Supreme Court reversed this decision in 2005, and the U.S. Supreme Court refused to hear the case in 2006. Management is convinced that State Farm will re-enter the aftermarket business soon, which would boost top-line growth.
- If successful, the Last Look program will help the company solidify and expand relationships with insurance companies and repair shops and strengthen LKQ's brand as the one-stop shop for alternative repair parts.
- LKQ can keep acquiring firms and penetrating the alternative replacement parts market with little to no competition.

Bears Say

- If the Justice Department ever forces LKQ to comply with the Anti-Car Theft Act, it will burden the company with a distraction and higher expense to keep more detailed records on most of its recycled parts inventory.
- The market has paid a premium for LKQ's earnings in the past, which means bad news may cause the share price to tumble, as is typical with growth companies.
- Over the long term, the firm could be threatened by local recycling companies forming alliances that could help them to match LKQ in price or product offering.

Financial Overview

Financial Health: Debt/EBITDA was just above 1 in 2006 but increased to 4.6 in 2007 following $650 million of new debt to pay for the Keystone deal in October 2007. Even after acquiring Greenleaf, this ratio was reduced to 2.2 times at the end of 2009. Earnings covered interest expense by 10.5 times in 2010 compared with the trough at 5.3 times in 2008. No large debt maturities exist until 2013, and the company had $95.7 million in cash as of Dec. 31.

Company Overview

Profile: LKQ is the largest nationwide provider of aftermarket, recycled and refurbished collision and mechanical replacement products for cars and trucks. Indicative of the fragmented nature of the industry and despite being the industry s 800-pound gorilla, LKQ holds only a 30% share in the aftermarket and refurbished markets and a 20% share in the recycled OEM parts market. Repair shops and insurance companies (which fund 85% of U.S. collision repairs) want to use alternative parts which are up to 50% below the cost of new OEM replacement parts.

Management: Joe Holsten, 57, has been president and CEO since 1998. The rest of the management team has extensive auto-parts industry experience. We like that the chairman and CEO roles are separated and that directors and officers own more than 7% of the company, which properly aligns their interests with outside shareholders'. We do not like that management's bonus is based on earnings per share because this is a metric with a near-term focus and is more susceptible to accounting interpretation. This risk is magnified in a company that does extensive acquisition accounting.

President and CEO Joe Holsten will become vice chairman and co-CEO effective Jan. 1. Robert Wagman, vice president of operations for wholesale parts, will become president and co-CEO at that time. Holsten will resign as co-CEO "on or about" Dec. 31, 2011, after which time he will remain vice chairman and serve as a consultant. Holsten has been CEO since 1998, so we are not

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concerned about the timing of this announcement. We like that the company is clearly spelling out a succession plan and giving Wagman plenty of time to adjust to the CEO role. Wagman has been with LKQ since 1998 and has over 20 years of experience in the auto parts sector. Although the company has not explicitly said that Wagman will become CEO when Holsten leaves, we think it is clear the job is his to lose.

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Analyst Notes

May 03, 2011

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Mar. 01, 2011

LKQ Reports Record Results for 2010, Pedal's to the Metal in 2011

Despite higher prices for salvage vehicles at auction cutting into LKQ's margins, the company still turned in record results for full-year 2010 and our fair value estimate of $33 per share remains unchanged. Offsetting the margin pressure in recycled parts, higher commodity costs drove strong revenue generation in the company's scrap business. In addition, 2010 SG&A as a percent of sales was 90 basis points lower than the previous year as management kept staff wage growth under control relative to the increase in sales. While U.S. new vehicle sales remain at anemic levels and commodity prices remain high, we expect used vehicle prices to remain high and hence, bids at auctions for salvage vehicles also will remain high. We have been aware of these dynamics as they have developed throughout 2010. We see this industry condition remaining through 2012 and have already included this outlook in our fair value estimate.

For the full year ended Dec. 31, 2010, LKQ's revenue

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Analyst Notes (continued)

jumped 21% to $2.5 billion versus $2.0 billion a year ago. Even though the company made 20 acquisitions in 2010, organic revenue growth remained strong at 7% as collision repair shops continued their transition to alternative parts. Looking ahead, LKQ management expects 6% to 8% organic growth in 2011, which we view as reasonable given industry trends toward greater use of alternative parts and we expect an increase in miles driven by U.S. drivers this year as the economy continues to recover.

Management also expects to continue its aggressive acquisition strategy in 2011. LKQ has plenty of gas to press the acquisition pedal to the metal. However, average transaction size is likely not to match previous activity given the company already has swallowed up its largest competitors. At the end of 2010, the company's cash position was $95.7 million and there was no outstanding balance on LKQ's $100 million revolving line of credit. Including cash and revolver, less letters-of-credit outstanding, we calculate the company had very healthy total availability of $168.7 million for operations and acquisitions. Long-term debt to total capital was a respectable 30% but total adjusted debt to EBITDAR was higher than we like to see, at 2.6 times. However, our concern for this high leverage ratio, which takes into account the company's operating leases, is offset by the healthy level of liquidity LKQ carries on its balance sheet.

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LKQ Corporation LKQX

Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
2,653	3,901	Industrial Distribution	Industrials

LKQ is the largest nationwide provider of aftermarket, recycled and refurbished collision and mechanical replacement products for cars and trucks. Indicative of the fragmented nature of the industry and despite being the industry s 800-pound gorilla, LKQ holds only a 30% share in the aftermarket and refurbished markets and a 20% share in the recycled OEM parts market. Repair shops and insurance companies (which fund 85% of U.S. collision repairs) want to use alternative parts which are up to 50% below the cost of new OEM replacement parts.

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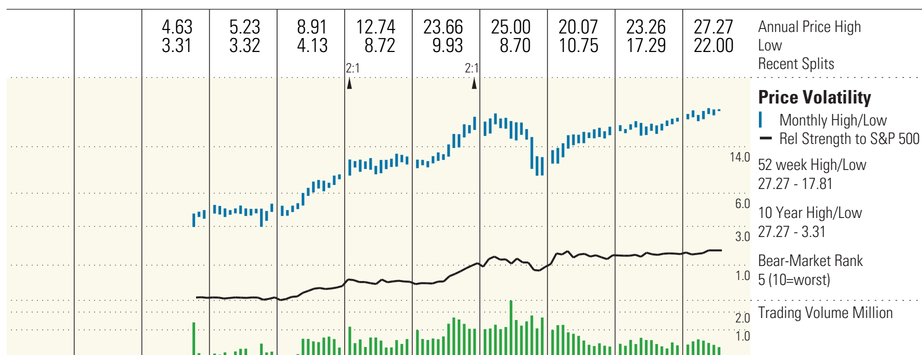
Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat™	Stewardship Grade
★★★★	26.74	33.00	Medium	Narrow	C

per share prices in USD

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD
Annual Price High			4.63	5.23	8.91	12.74	23.66	25.00	20.07	23.26	27.27
Low			3.31	3.32	4.13	8.72	9.93	8.70	10.75	17.29	22.00
Recent Splits						2:1	2:1				



Growth Rates Compound Annual

Grade: B	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	20.6	29.9	35.2	27.0
Operating Income %	28.7	34.4	41.3	51.7
Earnings/Share %	30.7	27.9	29.6	—
Dividends %	—	—	—	—
Book Value/Share %	17.1	15.1	23.5	—
Stock Total Return %	39.3	13.3	23.0	—
+/- Industry	-6.5	-2.1	10.7	—
+/- Market	11.2	12.2	22.2	—

Profitability Analysis

Grade: C	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	12.7	11.6	16.0	23.2
Return on Assets %	7.8	6.9	8.7	8.8
Fixed Asset Turns	8.4	7.4	8.7	7.3
Inventory Turns	3.3	3.2	4.5	14.7
Revenue/Employee USD K	221.1	204.1*	—	951.5
Gross Margin %	43.5	44.8	32.9	39.5
Operating Margin %	11.9	10.9	9.5	15.4
Net Margin %	6.5	5.9	5.5	10.4
Free Cash Flow/Rev %	3.0	3.2	5.1	0.1
R&D/Rev %	—	—	—	9.8

Financial Position

Grade: A	12-10 USD Mil	03-11 USD Mil
Cash	96	65
Inventories	493	515
Receivables	191	223
Current Assets	837	852
Fixed Assets	331	342
Intangibles	1102	1125
Total Assets	2300	2355
Payables	76	96
Short-Term Debt	53	15
Current Liabilities	225	208
Long-Term Debt	548	544
Total Liabilities	885	870
Total Equity	1414	1485

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	22.6	25.1	22.0	15.4
Forward P/E	15.9	—	—	13.5
Price/Cash Flow	26.4	24.2	19.5	8.8
Price/Free Cash Flow	49.0	—	29.7	18.0
Dividend Yield %	—	—	1.4	1.8
Price/Book	2.6	2.5	3.7	2.1
Price/Sales	1.5	1.5	1.2	1.3
PEG Ratio	0.8	—	—	1.6

*3Yr Avg data is displayed in place of 5Yr Avg

Stock Performance

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD	Stock Performance
—	—	—	11.8	72.5	32.8	82.9	-44.5	68.0	16.0	17.7	Total Return %
—	—	—	2.8	69.5	19.2	79.4	-6.0	44.6	3.2	12.7	+/- Market
—	—	—	-26.0	61.9	24.8	66.0	-18.6	41.7	-23.8	4.4	+/- Industry
—	—	—	—	—	—	—	—	—	—	0.0	Dividend Yield %
—	—	349	406	872	1225	2799	1630	2782	3305	3901	Market Cap USD Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Financials
250	287	328	425	547	789	1127	1937	2048	2470	2653	Revenue USD Mil
47.1	46.2	46.9	46.5	47.1	45.3	44.9	44.2	45.3	44.3	43.5	Gross Margin %
13	21	26	35	53	77	123	198	231	298	315	Oper Income USD Mil
5.2	7.3	7.9	8.2	9.7	9.8	10.9	10.2	11.3	12.1	11.9	Operating Margin %
4	-39	15	21	31	44	66	100	128	169	173	Net Income USD Mil
0.06	-0.50	0.20	0.23	0.32	0.40	0.55	0.71	0.89	1.16	1.18	Earnings Per Share USD
—	—	—	—	—	—	—	—	—	—	—	Dividends USD
77	78	73	89	98	111	120	141	144	146	147	Shares Mil
—	—	2.24	2.52	3.39	3.76	6.38	7.30	8.31	9.72	10.18	Book Value Per Share USD
—	18	21	26	38	52	54	133	164	159	148	Oper Cash Flow USD Mil
—	-7	-9	-26	-26	-36	-38	-67	-56	-61	-69	Cap Spending USD Mil
—	11	12	0	11	16	16	66	108	98	80	Free Cash Flow USD Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Profitability
1.8	-19.3	7.7	8.4	8.5	8.8	5.8	5.6	6.5	7.8	7.8	Return on Assets %
2.7	-27.7	9.9	10.9	11.3	12.0	10.5	10.7	11.6	13.0	12.7	Return on Equity %
1.7	-13.5	4.4	4.8	5.6	5.6	5.8	5.2	6.2	6.8	6.5	Net Margin %
1.09	1.42	1.73	1.73	1.50	1.57	1.00	1.08	1.05	1.14	1.19	Asset Turnover
1.4	1.5	1.2	1.4	1.3	1.4	2.0	1.8	1.7	1.6	1.6	Financial Leverage

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	03-11	Financial Health
—	51	74	78	104	122	389	442	534	612	644	Working Capital USD Mil
—	28	2	50	46	92	642	621	593	548	544	Long-Term Debt USD Mil
160	121	174	204	341	401	850	1021	1179	1414	1485	Total Equity USD Mil
—	0.23	0.01	0.24	0.13	0.23	0.75	0.61	0.50	0.39	0.37	Debt/Equity

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Valuation
—	—	22.4	21.8	27.5	28.7	38.2	16.4	22.3	19.8	22.6	Price/Earnings
—	—	—	—	—	—	—	—	—	1.1	1.5	P/E vs. Market
—	—	1.0	1.1	1.5	1.6	2.2	0.8	1.4	1.3	1.5	Price/Sales
—	—	2.0	2.0	2.6	3.0	3.3	1.6	2.4	2.3	2.6	Price/Book
—	—	15.6	17.3	21.4	24.4	46.3	12.4	17.2	20.8	26.4	Price/Cash Flow

Quarterly Results

Revenue USD Mil	Jun 10	Sep 10	Dec 10	Mar 11
Most Recent Period	584.7	607.6	674.1	786.6
Prior Year Period	492.8	494.8	555.9	603.5

Rev Growth %	Jun 10	Sep 10	Dec 10	Mar 11
Most Recent Period	18.7	22.8	21.3	30.3
Prior Year Period	1.7	0.8	18.2	16.5

Earnings Per Share USD	Jun 10	Sep 10	Dec 10	Mar 11
Most Recent Period	0.26	0.25	0.28	0.39
Prior Year Period	0.20	0.20	0.26	0.37

Industry Peers by Market Cap

	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
LKQ Corporation	3901	2653	22.6	12.7

Major Fund Holders

	% of shares
	—
	—
	—

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

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Morningstar's Approach to Rating Stocks

Our Key Investing Concepts

- Economic Moat™ Rating
- Discounted Cash Flow
- Discount Rate
- Fair Value
- Uncertainty
- Margin of Safety
- Consider Buying/Consider Selling
- Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst's estimate of how much a company's business is worth per share. Our analysts arrive at this "fair value estimate" by forecasting how much excess cash--or "free cash flow"--the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

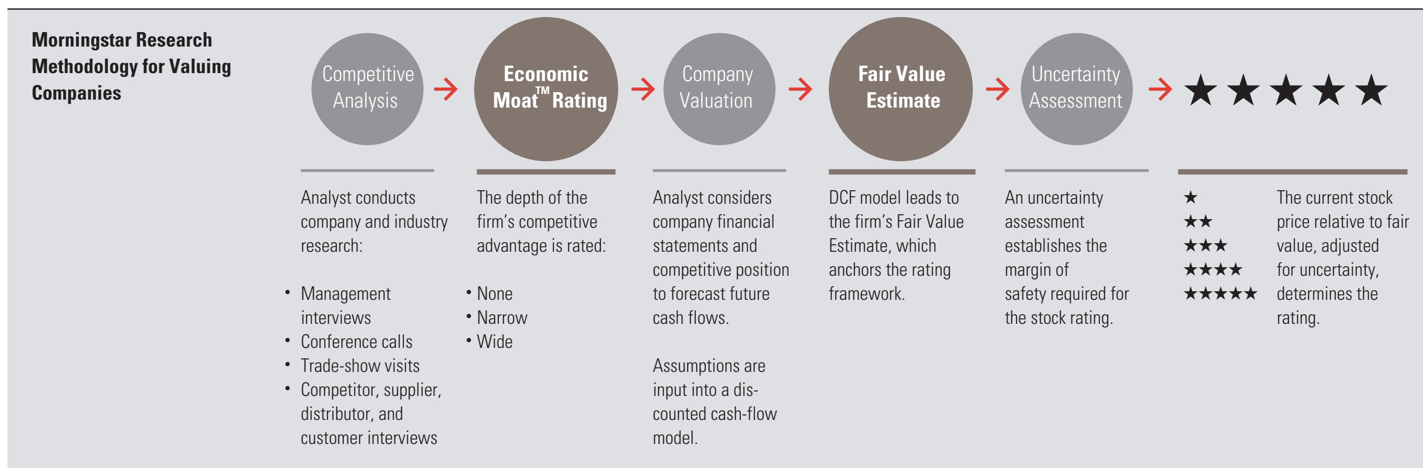
Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based just on movement in the share price. If we think a stock's fair value is $50, and the shares decline to $40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at $40 than they were at $50.

Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they're cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you'll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst's current opinion.

Economic Moat™ Rating

The Economic Moat™ Rating is our assessment of a firm's ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such



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economic profits, but companies that can earn them for an extended time by creating a competitive advantage possess an Economic Moat. We see these companies as superior investments.

Discounted Cash Flow
This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate
We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we'll use a lower discount rate, also known as "cost of capital," than for a firm in a cyclical business with fierce competition, since there's less risk clouding the firm's future.

Fair Value
This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have--for example, we deduct from a company's fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a "target price" in two ways. First, it's an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it's a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty
To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety
This is the discount to fair value we would require before recommending a stock. We think it's always prudent to buy stocks for less than they're worth.The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling
The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.

Stewardship Grades
We evaluate the commitment to shareholders demonstrated by each firm's board and management team by assessing transparency, shareholder friendliness, incentives, and ownership. We aim to identify firms that provide investors with insufficient or potentially misleading financial information, seek to limit the power of minority shareholders, allow management to abuse its position, or which have management incentives that are not aligned with the interests of long-term shareholders. The grades are assigned on an absolute scale--not relative to peers--and can be interpreted as follows: A means "Excellent," B means "Good," C means "Fair," D means "Poor," and F means "Very Poor."

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