

DESK NOTE

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LKQ Corp (LKQ US) – *Limited upside in light of current challenges. Stay clear for now!*

Conclusive Summary: While LKQ Corporation has significant long-term upside potential due to its leadership in the automotive aftermarket industry and robust FCF generation, near-term uncertainties and unfavorable industry dynamics warrant caution. These challenges include profitability pressures, elevated leverage, higher insurance premiums, declining used car prices, and the ongoing shift to EVs, particularly the adoption of ADAS technology. Although the stock appears undervalued by most metrics, the timing of achieving a higher valuation remains uncertain, contingent on the successful execution of integration initiatives and a reversal of medium-term trends in auto insurance and the used car market. Additionally, LKQ's new management must work to restore shareholder confidence, which was partially eroded following the costly acquisition of Uni-Select in 2023. Confirmation of industry stabilization, particularly in used car prices and insurance premiums, would be welcomed during the next conference call scheduled for February 20. **We recommend monitoring LKQ for now and reconsidering the stock near \$30.**

Competitive Position: LKQ benefits from the aging U.S. vehicle fleet, which reached an average of 12.6 years in 2024, sustaining demand for replacement parts and repairs. The acquisition of Uni-Select in 2023 significantly expanded LKQ's European presence, particularly in mechanical and specialty parts. However, challenges persist. The net debt-to-EBITDA ratio increased due to the acquisition from 1.73 in 2022 to 2.72 in 2023. Additionally, restructuring costs associated with recent acquisitions rose significantly in 2024, reaching \$99 mln for 3 quarters, compared to \$65 mln for the full 2023, further pressuring margins.

Valuation: Our valuation analysis, based on discounted FCFF and market multiples, estimates a **12-month blended target price of \$40.19**, offering an **insufficient 11% upside** given current challenges. To account for unfavorable long-term industry trends, such as the shift to EVs and the rise of ADAS technology, we assume a conservative terminal growth rate of 1%.

Ticker: LKQ US

Previous day close price: \$36.34

Price range (52w): \$ 35.56 - \$53.68

Target price (12m): \$40.19

Upside: +11%

Recommendation: *Avoid*

Description: LKQ Corporation, founded in 1998, is a global leader in distributing alternative parts to OEM aftermarket, recycled, and refurbished auto parts with (\$9.49B market cap). Operating through 1,700 facilities across North America and Europe, it serves professional repair shops with collision and mechanical parts. Its four segments include: Aftermarket Parts, Recycled Parts, Self-Service Salvage Yards (with 70+ pick-your-part locations), and Specialty Segment (RV, marine, and performance vehicle products). LKQ processes ~250,000 salvage vehicles annually, extracting reusable components for resale. Additionally, it supplies parts to improve vehicle performance and aesthetics while leveraging an extensive network to streamline distribution and logistics. Dividend yield 3.3%

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Multiple (Historical 5 year avg.)		Factor	Target EV	Net Debt	Target MCap	Shares	Target Price
EV/EBITDA	8.3	1,778	14,761	5,418	9,343	261.2	\$35.77
EV/Sales	1.11	14,629	16,238	5,418	10,820	261.2	\$41.42
P/E	11	3.5			9,925	261.2	\$38.00
Avg. Multiple Price							\$38.40
DCF Price							\$41.98
Avg. Multiple & DCF Price							\$40.19

AVOID

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