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LKQ Corp. (LKQ)

Q1 2025 Earnings Call

CORPORATE PARTICIPANTS

Joseph P. Boutross
Vice President-Investor Relations

Justin L. Jude
President, Chief Executive Officer & Director

Rick Galloway
Chief Financial Officer & Senior Vice President

OTHER PARTICIPANTS

Scott L. Stember
ROTH MKM

Craig R. Kennison
Robert W. Baird & Co., Inc.

Jash Patwa
JPMorgan Securities LLC

Gary Frank Prestopino
Barrington Research Associates, Inc.

Bret Jordan
Jefferies LLC

MANAGEMENT DISCUSSION SECTION

Joseph P. Boutross
Vice President-Investor Relations

GAAP AND NON-GAAP FINANCIAL MEASURES

- During this call we will present both GAAP and non-GAAP financial measures, our reconciliation of GAAP to non-GAAP measures is included in today's earnings press release and slide presentation

Justin L. Jude
President, Chief Executive Officer & Director

BUSINESS HIGHLIGHTS

Opening Remarks

- Since the tariffs were announced on April 2 much has changed, capturing the interest of all of us on this call and affecting the global economy
- Before discussing tariffs, I would like to address several topics concerning our people, our operations and our performance
- What sets us apart from our competition is our dedicated workforce which we consider to be our most valuable asset

In-Cab Monitoring Equipment

- To ensure their safety we implemented an in-cab monitoring equipment in our fleets last year, achieving 95% coverage in North America by the end of Q1
- This initiative has led to a nearly 40% reduction in on-the-road accidents and we aim to implement these features in Europe where feasible
- We value talent development and have launched our global talent development function to unify our workforce through leadership competencies and career planning
- In February, a cohort of high potential global leaders began attending sessions to promote learning and idea sharing
- This initiative will also help facilitate best practice sharing between our North America and European operations

Strategy and Goals

- During the quarter, we also held both our North American and European leadership conferences, bringing together more than 1,300 of our top global leaders to align on our strategy and goals
- As we anticipated, part of the discussion revolved around navigating recent tariff developments in challenging macroeconomic conditions
- Despite these challenges, our team managed to meet our expectations, achieving EPS at $0.79 for the quarter
- Although the markets present uncertainties, we must continue executing our simplification strategy without delay
- I will highlight some of our operational accomplishments during the segment breakout and Rick will provide more detail later in the call
- Regarding our ongoing strategy to simplify the portfolio, we divested two operations, a self-serve yard in Florida and a Europe-based non-core leisure business, demonstrating our commitment to streamlining our portfolio

Capital Allocation Strategy

- We remain committed to a balanced capital allocation strategy, incorporating dividends, share repurchases and maintaining our investment grade rating
- During the quarter, we repurchased 1mm shares for about $40mm and paid $78mm in dividends in March

North America

ORGANIC REVENUE

- Now, moving to our segments
- North America's organic revenue fell by 4.1% per day, which is less of a decline than the last three quarters of 2024, amid a nearly 10% decline in repairable claims
- The drag on repairable claims resulting from declining used car pricing and rising insurance premiums really started worsening in Q2 of 2024, so the comps will start to ease as we progress through the year
- Since 2015, we have outperformed the repairable claims count growth by over 400BPS per year and Q1 was 570BPS better, indicating market share gains against a low demand environment
- North America also benefited from having a diversified portfolio of products and services, mitigating potential shortfalls in other business areas

- We generated positive growth for our Elitek calibration and diagnostics business and our Bumper to Bumper hard parts business in Canada

Europe

ORGANIC REVENUE AND PRICING

- In Europe, organic revenue declined by 1.8% per day, compared to a growth of 4.4% in Q1 of 2024
- On a two-year stack, organic revenue growth was 2.6%
- There was noticeable softness in many markets impacted by consumer confidence
- Europe also experienced a relatively mild winter y-over-y, impacting certain products such as batteries which are higher in demand during periods of inclement weather
- Competitive pricing in some countries also contributed to challenging conditions that we believe will stabilize long-term
- Our comprehensive product and service offerings are best-in-class across Europe, and we consciously avoid making brash short-term pricing decisions that dilute the value proposition we offer in Europe
- Best practices support our daily success at LKQ

SKU RATIONALIZATION PROJECT

- Our SKU rationalization project in Europe aims to reduce complexity and simplify our distribution network across all markets
- We have reviewed over 60% of our product brands and reduced stocking by an additional 17,000 SKUs
- Additionally, our private label penetration increased by 20BPS
- As Andy and I mentioned at the Investor Day, integration of Europe is mission critical and accelerating that effort is imperative given it has not progressed at the cadence we promised in the past
- In order to drive change management, we need the right leaders in place to truly achieve the benefits of the scale of One LKQ Europe represents
- Since taking the helm in Europe, Andy alongside Rick and I have replaced a fair number of the previous leadership team and have onboarded individuals that are aligned with the operational excellence and lean management initiatives necessary to optimize our European operations
- Our focus is on people, process, and performance

SPECIALTY

- Regarding Specialty, our organic revenue declined by 4.9% on a per day basis, which is a sequential improvement compared to Q4 of 2024
- At the start of 2025, there was optimism about Specialty stabilizing later in the year, but consumer sentiment decreased significantly due to anticipated tariff pricing pressures
- This sentiment, along with inflationary pressures, will likely continue throughout the year

Tariffs

- Now, turning to tariffs
- While the current headlines of the tariffs are broadly known, the final decisions remain unclear
- There are many dynamics of this tariff situation than there was in the past
- We have established an internal global tariff task force, which includes leaders from procurement, operations, finance, risk management, sales and marketing to help navigate and make decisions

PRODUCT COST AND THE SUPPLY DEMAND

- If everyone remembers the supply chain constraint following COVID where inflation was driving up product cost and the supply demand imbalance created huge increase in ocean freight, the team proved their agility of mitigating the impact and we came out financially stronger
- Specific to our tariff exposure, less than 15% of our US businesses' cost of goods are directly imported from outside the US with the majority of that product coming out of Taiwan
- LKQ's advantage over our aftermarket collision parts competitors lies in our supply of recycled products, which we anticipate will see an increase in demand given their competitive pricing relative to new OE parts
- We expect the tariffs will raise part prices and increase used car values
- Historically, these increases have benefited the industry, as used car values are expected to rise faster than the vehicle repair cost, potentially leading to more cars being repaired and kept on the road longer
- Our tariff task force is working on mitigating tariff impacts through potential cost concessions from vendor partnerships and identifying supply chain optimization and SG&A reductions
- The non-discretionary nature of the North American business and the industry allows for needs based pricing, power enabling LKQ to pass on select price increases, thus insulating the wholesale dynamic from the other parts suppliers in the market

2024 Sustainability Report

- And before I turn the call to Rick to discuss our Q1 results, I am pleased to announce that we will be publishing our 2024 sustainability report at the end of May
- Sustainability continues to be at the heart of what we do, especially in our North American and Europe salvage operations

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Rick Galloway
Chief Financial Officer & Senior Vice President

FINANCIAL HIGHLIGHTS

Costs and EBITDA

- We are pleased with our start to 2025
- Cost actions taken in 2024, including exiting underperforming businesses and driving our lean operating model have positioned us well to offset the top line headwinds across each of our segments
- Overall, Q1 results were largely consistent with the trends we saw throughout the last several quarters
- Europe continued its solid performance with a 60 basis point y-over-y improvement in segment EBITDA
- In North America, we were pleased with our performance given the anticipated top line pressure as we work through the decline in repairable claims
- Self Service delivered another quarter of y-over-y improvement in both EBITDA dollars and percentage
- Specialty's results remained under pressure with soft demand in the RV and SEMA space, partially driven by softening consumer sentiment, in light of the ongoing macroeconomic instability, including uncertainty around the effect of tariffs

Diluted EPS and EBITDA

- Now, turning to Q1 consolidated results

- Our first quarter performance was in line with our expectations
- We reported diluted EPS of $0.65, $0.06 increase compared to Q1 2024
- On an adjusted diluted EPS basis, we reported $0.79, a decrease of $0.03 per share vs. prior year
- The decrease in adjusted EPS is largely due to lower segment EBITDA dollars, predominantly from our wholesale North America segment
- Higher legal and professional fees were also $0.01 headwind as we reached the cooperation agreement with Ancora and Engine Capital in Q1
- The impacts from interest and FX rates largely offset each other, with interest being a slight positive and FX being a slight negative
- On a positive note, lower share counts resulting from our disciplined share repurchase program drove $0.03 of incremental adjusted EPS vs. prior year
- Now for segment results

North America

EBITDA & GROSS MARGIN AND REVENUE

- Going to slide 8
- North America posted a segment EBITDA margin of 15.7%, a 60 basis point decrease relative to last year, primarily due to the organic revenue decline
- The decline in organic revenue was driven by a reduction in repairable claims and having one less selling day, partially offset by targeted actions to increase market penetration
- Gross margin improved by 20BPS as a result of product mix and pricing initiatives

OVERHEAD EXPENSES

- Overhead expenses declined by $16mm relative to prior year, including $24mm of decreased personnel costs due to Uni-Select synergies and productivity initiatives
- These were partially offset by inflationary cost pressures related to facilities and vehicle expenses, as well as higher legal and professional fees
- The leverage effect of the organic revenue decline largely drove the increase in OpEx as a percentage of revenue
- We expect headwinds on repairable claims to continue in 2025, but abate somewhat toward the back half of the year
- Excluding any potential impacts from tariffs over the balance of the year, we still believe North America's EBITDA margins will be in the low-16s on a full year basis

Europe

- Looking at slide 9, Europe reported a segment EBITDA margin of 9.3%, a 60 basis point improvement over last year
- The y-over-y improvement was driven by higher gross margins, the ongoing efforts to simplify the operations and portfolio, as well as productivity efforts to offset inflationary pressures on overhead costs
- Overhead costs were also negatively affected in the prior year due to union-related negotiations
- Given the actions we've taken to drive productivity and simplify the portfolio and absent any macroeconomic impact from the tariff situation, we continue to project EBITDA margin will be double digits on a full year basis in 2025

Specialty's EBITDA Margin

- Moving to slide 10, Specialty's EBITDA margin of 5.4% is 100BPS below the prior year, primarily driven by a decline in organic revenue and resulting leverage effect on overhead costs
- Demand softness in the light vehicle and RV product lines remain challenges for the business
- Economic instability stemming from tariffs has resulted in declines in consumer sentiment, which negatively impacts discretionary spending in some of the markets in which specialty operates
- Given the ongoing uncertainty and demand softness, we expect segment EBITDA margin to be around the low end of the 7% to 8% range we provided when we issued full year 2025 guidance
- Self Service generated $20mm in segment EBITDA in Q1, an increase of $4mm and a 290 bp improvement as a percentage of revenue
- Disciplined vehicle procurement, combined with overhead cost controls, helped to drive the fourth consecutive quarterly improvement in y-over-y profitability

BALANCE SHEET

Cash Flows

- Shifting to cash flows in the balance sheet
- FCF during the quarter was a net outflow of $57mm
- This performance was in line with our expectations due to the timing of our payables, partially related to the investment in inventory in North America in anticipation of possible Q1 port strikes and higher interest payments for the 2031 euro senior notes due to timing
- We anticipate generating positive FCF in the next three quarters will bring us in line with our full year guidance, absent any significant tariff-driven market turbulence

Share Repurchases and Dividend

- Moving to slide 11, we remained active in the market, allocating $40mm in share repurchases for 1mm shares
- We also paid our quarterly dividend totaling $78mm
- As a continuation of our disciplined capital allocation strategy, we did not make any acquisitions in Q1
- We borrowed approximately $170mm in the quarter

LEVERAGE RATIO AND INTEREST RATE

- As of March 31, we had total debt of $4.4B with a total leverage ratio of 2.5 times EBITDA
- Although the leverage ratio is slightly higher than the prior quarter, we anticipated the increase as we built trade working capital in Q1, largely associated to the seasonal nature of our business, and the increase in inventory purchases in Q4 and Q1 to get ahead of potential disruptions at the ports and from tariffs
- We remain committed to maintaining a manageable debt level and our investment grade rating
- As of March 31, 2025, our current maturities were $558mm, including the $500mm term loan coming due in Q1 2026
- As normal practice, we actively manage our capital structure and we are working through our options with our lending group
- We have no significant concerns regarding our ability to extend the maturity date
- Our effective interest rate was 5.2% at the end of Q1, slightly down from Q4

- We have $1.8B in variable rate debt, of which $700mm has been fixed with interest rate swaps, which effectively provide fixed rate on approximately 75% of our debt

GUIDANCE

- I will conclude with our thoughts on 2025 guidance as shown on slide 12
- Although there are always uncertainties, we believe we can deliver on our guidance provided back in February, excluding any material impacts from tariffs
- The discussions around tariffs may affect our markets directly and indirectly
- Companies have taken a variety of methods in addressing the remainder of the year
- We will wait to fully analyze the pending changes and update you during our Q2 call when we believe the tariff situation becomes clearer
- That being said, our guidance is based on current market conditions and recent trends, excluding the potential impacts of tariffs and assume scrap and precious metal prices hold near first quarter prices

Foreign Exchange, Tax Rate, EPS, FCF and CapEx

- On foreign exchange, our guidance is near March average rates, including the euro at $1.08, the pound sterling at $1.28, and the Canadian dollar at $0.70
- The global tax rate is at 27.0%, which is consistent with our original guidance and prior year
- In our original guidance, we expected organic parts and services revenue growth between 0% and 2% given our Q1 results
- We are likely headed toward the lower end of that range
- Excluding potential tariff impacts, our adjusted diluted EPS remains in the range of $3.40 to $3.70, and our FCF remains in the range of $750mm to $900mm
- We will balance our trade working capital and CapEx needs to fund our strategic growth objectives for 2025 and beyond

Justin L. Jude
President, Chief Executive Officer & Director

CLOSING REMARKS

- Before we open up for questions, I would like to remind everyone we remain committed to our long-term key strategic priorities, and our team is agile to navigate short-term challenges
- First, we need to grow above the market; next, simplify, simplify our operations by ensuring lean thinking is in everything we do and simplify our portfolio across our markets, businesses and product lines; improve FCF by growing profitably and strengthening our balance sheet; invest in growth organically and via small, highly synergistic tuck-ins for the continuation on the moratorium of any large acquisitions; focus on our capital allocation strategy around returning capital to our shareholders through a combination of share repurchases and dividends
- In Q1, we met most of our strategic goals with our 46,000 employees adeptly managing volatile markets
- Whether it's tariffs or some other challenge, no matter what our company may face, I'm truly proud of how consistent our team emerges stronger and better prepared for the future

QUESTION AND ANSWER SECTION

Scott L. Stember
ROTH MKM

Q

Regarding North America, it sounds as if the comparisons get a lot easier in Q2 just on a repairable claim basis. But can you talk about what trends or, in real time basis what you're seeing from the insurance companies regarding used car pricing, if there's been any change in their behavior regarding whether or not they will junk a car or repair it?

Justin L. Jude
President, Chief Executive Officer & Director

A

Throughout the 2024 there's been a lot of shift in market share with insurance carriers. We talked about a lot about the high rising insurance cost premiums, people raising their deductibles. I think with a lot of the shift of competition we will not expect, I don't expect to see rising insurance prices anymore, for the time for, at least for the next year or so. I think they're going to be more competitive. From the used car standpoint, we had a almost two-year, I think, decline of used car values, we saw in April that number actually ticked up. Obviously, it's only one month, but it's nice to see that used cars have, used car pricing has plateaued and started to improve.

Those dynamics of flattening insurance premiums, rising used car prices, we're going to talk about tariffs, probably somebody's going to ask that question, but tariffs typically will drive up car pricing, and that will be good for the industry. We actually had also one state that approved an increase in the repairable, total loss value. So, it used to be 70%, and it was a small, small state called Rhode Island, but it was 70%, they raised it to 85% to help improve keeping cars on the road and getting them repaired, and we're seeing some of that noise start to happen in a good way in other states where they will increase the threshold of when a car totals out.

So, overall, really we only got one good month of used car pricing, but we're starting to see some trends that hopefully will improve the repairable claims.

Scott L. Stember
ROTH MKM

Q

Got you. And then the last question, of course, on tariffs, it seems like your biggest exposure in North America is Taiwan. It seems like there's, I think, a blanket reciprocal tariff on most countries for 10%. I think Taiwan is in there as well. How would that have an impact on your business? Do you think you could put price increases through to cover that? Or is it just too soon to say right now?

Justin L. Jude
President, Chief Executive Officer & Director

A

Yeah. I'll probably answer that question and a few more, and my guess is tariffs are on a lot of people's mind on the call, so Rick and I are going to spend a few minutes talking about that. First, I'll tell you, historically, when the industry has seen tariffs, they've been good for the industry and they've been good for LKQ. One caveat of LKQ, we have a global footprint, nearly 50% of our business in Europe is currently not subject to tariffs, but there's a lot of volatility right now with the tariffs. The news seems like it's changing every day. As I mentioned on my, on the call, we put a task force together to really dig into this. We'll talk about, we'll talk about Taiwan.

But we really had, wanted the task force to react pretty quick just because it seems to be changing every day. And that, what we've identified obviously is based on what we know, there's more tariffs than just Taiwan. There's other countries that we import product from. And if you look at our product cost, we really broke those into two different buckets. The first bucket, I would say is what's direct, meaning we import from China, we import from Mexico, we import from Taiwan, understanding what the tariff impact on where we stand today with what we know on tariffs, that's a little bit easier to identify and quantify.

When you, when we talk about the indirect piece, that's – that gets a little bit more complex. So, if you think about one of our businesses in the US, buying a product from a US distributor, that product could have been 100% imported from China or Taiwan. That product could have components. Take a Jeep lift kit that our Specialty division sells. The supplier that we buy from could get the fasteners, and nuts and bolts from China, they could get the brackets from Mexico. So, understanding the impact of our indirect is a little bit more complex. We're working with all of our suppliers on that, but we do have some quantifications of those buckets, Rick, if you want to talk about that.

Rick Galloway
Chief Financial Officer & Senior Vice President

A

Sure. Yeah. Let me try to address a couple things that I'm sure are on people's minds as well and quantify these things. So, look, certain new tariffs took effect within the quarter. The financial impact was immaterial for us within the quarter. Also, it's important to note that we've been living with the previous Trump tariffs and we've been able to pass those along. So, Scott, to your point, are we able to pass them along? Historically, we've been very, very successful in being able to pass those along. If I quantify the couple different things that Justin talked about, the direct imports, those are the ones that are really exposed to the new tariffs in a direct way.

The way we are looking at that and to help quantify for the folks on the call is overall cost of goods sold, if I look at 2024's cost of goods sold, so, it's kind of a baseline with the 10-K, be able to quantify that, less than 10% of our global cost of goods sold are in the bucket that Justin talked about being direct imports. So, less than 10% of that is in there. The quantification before any mitigations is less than $200mm of cost, that would be the quantification of that 10%, a little less than 10%.

On the indirect population, to quantify that and give you guys a little bit of visibility on the indirects, that's the ones Justin was talking about, they're essentially purchased from a US company, but they're importing from somewhere else. That's roughly 20% of our global cost of goods sold. So, the direct portion is a little less than the 10%. The indirect portion is little a less than 20% of our global cost of goods sold. That 20% we can't really quantify at this point in time because we're not sure what is going to be passed along and we're not sure what components of those items are imported by our suppliers.

And so, the key – couple key points is, look, these are, as of tariffs, as of today, those could change in the coming hours or days as we all have seen. And these will evolve rapidly over the changing landscape. And we're going to work diligently with our vendor partners to try to figure out how we can mitigate some of these things. I don't know if you wanted to cover anything else.

Justin L. Jude
President, Chief Executive Officer & Director

A

Yeah. And, Scott, I know you talked about pricing. Before we get to that lever, we really, as Rick talked about, we work with our supplier partners, making sure that they're – we're in this together. Can we share the burden of some of these tariffs? Are there opportunities where we can resource that product somewhere else to a different country, different supplier, reduce the impact on the tariff? Are there any inefficiencies within our supply chain or logistics that we can remedy and help offset some of the cost?

And then ultimately, if you think about the products that we import from Taiwan, and your specific question on Taiwan, every aftermarket supplier that we compete with today, I'm sorry, every aftermarket competitor and distributor that we compete with today is importing those same exact product types from Taiwan. So, we're all in this at the same level. So, anything that's going to impact to us is going to impact our pure aftermarket competitor. And so, if we can't reduce the tariff impact by some of these other mitigating levers, then, we're going to obviously pass that through to the customer. We won't be left holding the bag.

Craig R. Kennison
Robert W. Baird & Co., Inc.
Q

Hey, good morning. Thanks for the additional color on tariffs. That's helpful. Maybe to pivot to Europe. Justin, have you seen any impact on revenue or on your fulfillment rates due to your SKU reduction program?

Justin L. Jude
President, Chief Executive Officer & Director
A

No, we have not. We've been able to offset the sale of reducing that SKU either to one of our private labels or to another brand that we keep. We talked about some higher numbers, that 17,000 SKUs that we essentially delisted. A lot of those things that were, have those big – a lot of the products that we're delisting right now have very, very low volume at the end of the day, where we have other applications, we have other part numbers that have that application, so we've not seen an impact of that.

Most of the headwinds that we see is either competition, giving up price in a few markets. We do see some countries that we operate in are just in an economic situation where there's some delay in repairs and maintenance or some people are forgoing maintenance or extending maintenance on their vehicles, and we're seeing that impacted. Overall, we were pretty happy with our, once again, we look at it country by country to see how we're doing, and how the market's doing. We're pretty confident we're not losing share. We're still growing, we're still gaining share.

And even with that revenue reduction that we saw in Europe, I was pretty proud of the team to be able to deliver improvement in the EBITDA. When given the volume drops, normally, you lose that leverage, but the team actually has stepped up on some of these initiatives. So, but overall, your main question, I don't – we don't see any risk yet, and we would slow down if we did on the SKU rationalization impacting revenue.

Craig R. Kennison
Robert W. Baird & Co., Inc.
Q

Thanks. And then as a related question, I think in the press release, you mentioned a 20 basis point improvement in your private label program. Can you give us idea of what percentage of your revenue is from private label and where you think that could go over some long period of time?

Justin L. Jude
President, Chief Executive Officer & Director
A

Yeah. We're in that 21% to 22% range today. We think it can go to, up to...

Rick Galloway
Chief Financial Officer & Senior Vice President
A

Yeah. What we talked about in the last call is that, Craig, it would go, by 2030 we're looking at around 30%. So, as we move along, look there'll be some small steps. We're happy with the 20 basis point improvement that we had in the quarter, but we think that that number will likely go close to 30% across all of Europe by the 2030 timeframe.

Jash Patwa Q
JPMorgan Securities LLC

Building on the earlier discussion, I'd just like to focus on the North American business. You highlighted targeted actions to enhance market penetration, of which has positively impacted revenue along with the pricing initiatives that have improved gross margins. Could you provide some additional insight into these strategies? Specifically, is there a link between your pricing initiative and the potentially easing competitive landscape as some smaller competitors who were initially pricing aggressively might have now pulled back amidst the tariff uncertainties? Thanks. And I have a follow-up.

Justin L. Jude A
President, Chief Executive Officer & Director

Yeah. And you may be confusing some of the comments on Europe. Some of the pricing pressures that we've seen have been in Europe and a few countries that have put some pressure on the pricing improvements or some gross margin. I want to make sure, are you specifically want to talk about North America or Europe?

Rick Galloway A
Chief Financial Officer & Senior Vice President

He's talking about the 20BPS that...

Jash Patwa Q
JPMorgan Securities LLC

North America.

Rick Galloway A
Chief Financial Officer & Senior Vice President

...I talked about of improvements. And so...

Jash Patwa Q
JPMorgan Securities LLC

I was just referring to the discussion in the earnings presentation.

Rick Galloway A
Chief Financial Officer & Senior Vice President

Yeah. Yeah. So, we have seen improvements across several different parts of our business to go after some market share gains. We're pleased with the performance of things like our services business going after some new areas of opportunity. There's not a pricing action that we took, Jash. So, it's not – we're not going after and chasing price. Instead, what we're doing is making sure that we have the best service levels across the board, and we're seeing nice gains across that. So, Justin talked about the gap that we have between repairable claims and what we had for revenue, that widened a little bigger than what we've had historically, talking about how we're going after having really good fill rates, nice inventory levels and being able to provide a service level to our customers in order to gain back some of that share.

Jash Patwa
JPMorgan Securities LLC

Q

And then just, following up on the earlier tariff discussion. Thanks again for all the color there. But I just wanted to clarify if aftermarket parts imports are subjective at 10% universal tariff, reciprocal tariff, my understanding was that auto parts are exempt from the reciprocal tariffs. And, while there could be some moving pieces in there, but it would be just helpful to clarify that. And then relatedly, you also mentioned some mitigating strategies in relation to tariffs. Is there an opportunity to introduce private label aftermarket collision repair parts in the US as an – as a way to navigate this industry disruption? Thank you.

Justin L. Jude
President, Chief Executive Officer & Director

A

Yeah. In regard in to the, I'll start with the private label piece first. Majority of our sales that we have on the aftermarket side are private labeled under Platinum Plus. The uniqueness of collision parts, there's not a lot of brand recognition in the aftermarket collision space world and so to create consistency we've been branding a lot of our products as private label under Keystone Platinum Plus for a few decades. So, the majority of the collision parts, hoods, fenders, bumper covers, headlights are already branded.

Regarding the tariffs, it's pretty complex. If you guys have research that whether it's 10%, 25% or even 32%, some of our product lines fall into different buckets of those, of specifically coming from Taiwan, obviously, if you get into China, some things are 25%, some things are 145%. But on average, I think the Taiwan is roughly 25%.

Rick Galloway
Chief Financial Officer & Senior Vice President

A

Yeah. So, Jash, let me, without going into so much detail because this is really complex issue. There's a section 232 that deals with both steel and aluminum and automotive. The way that the reciprocals work is if it's in those tariffs, which are 25%, they're excluded from the additional 10%. So, what you're seeing is the exclusion of automotive. It's excluded only because it's already got a 25% tariff on that item. So, that's kind of the way to think through this. So, what our team's done is they've gone through every single SKU on the direct basis, looking at whether or not that's included in the detail, and is it part of the steel, aluminum or automotive. And if it's not, then there's a 10% reciprocal tariff.

Gary Frank Prestopino
Barrington Research Associates, Inc.

Q

Could you just remind me what your targets are on your SKU rationalization in Europe?

Justin L. Jude
President, Chief Executive Officer & Director

A

Yeah. So, when we kicked this project off, we did say it's going to take over three years because we want to make sure that we're not going too fast and impacting revenue. We feel as the improvement in private label, so adding more private label SKUs on top of the reduction of our existing SKUs, what's the exact number that we quote, do you know.

Rick Galloway
Chief Financial Officer & Senior Vice President

A

Let me, Gary, let me get back to you on those numbers. I've got to pull them up on the specific items that we talked about. We talked about three different items that we are going to go after. We're talking about SKU rationalization. We started around 750mm items that we had, and we brought that down to around 700mm at this point. Overall, SKU reduction, we believe, is going to get us down to, by about 600mm, by end of 2027. So, we started with 750mm, we're going to get down to about 600mm, that's inclusive of private labeling. So, we're going to obviously go below that 600mm, and we're going to increase based on the private labeling.

And then the other component we have is obviously we got to review these items. So, the goal is to get to 100% of that by the end of 2026. By the end of 2025, we'll be at 80%. So, we're north of 60% at this point. We've got another 20% to go for the rest of the year.

And then the third item that we had was overall private labeling. And that's the one that Scott asked, I think a little bit earlier or maybe Craig did, trying to get up to what, what was that number? And so, what we said was about 30% by 2030.

Bret Jordan
Jefferies LLC

Q

...tariff math and looking at the imports from Taiwan, how does the delta to the OE product shake out here? Is the OE primarily USMCA compliant or domestic? I guess netting out the tariffs, does your value gap to OE remain equal or are you relatively more or less expensive than you were before?

Justin L. Jude
President, Chief Executive Officer & Director

A

Yeah. Great question. I mean, the devil will be in the details of what the final decision is going to come out to. As you know, you followed LKQ for a while. Our pricing is always typically higher than the pure aftermarket competitor just because of our quality of our service and fill rate. And then we hover below the OEM. So, we always kind of play in that space somewhere in the middle between OEM and the other aftermarket pure players. If there's parity, meaning if, if all the tariffs go through and there's really no exemption, we'll be on equal playing field. There's enough margin gap there where we can, we improve price and still be competitive and offer the insurance company and the consumer savings to the OEM. But it will really depend on what happens not only to the tariffs, but then how do the OEMs react.

I mean, we've actually seen a flat price change in the OEs in April and some of the prices that we've seen come through for planning in May. So, we haven't seen them move their needle yet. But if they're going to be experiencing some of those tariffs that we are, then I expect them to raise their prices as well. But it will really depend on what the final decision comes to.

Bret Jordan
Jefferies LLC

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Okay, great. And then on the European price competition, is that primarily GSF or are there others over there that are being aggressive in other markets outside the UK?

Justin L. Jude
President, Chief Executive Officer & Director

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I mean we always have competition on pricing, the most aggressive is in the UK, I would say, we're starting to see some of that slow down, some of their, they've expanded quite a bit, but we've seen that expansion slow down. But the main, the main area has been in the UK