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LKQ Corp. (LKQ)

Q4 2025 Earnings Call

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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
- A 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

Performance

- Before we get into the quarter, I want to start with an important message to our LKQ team
- This past year tested us in meaningful ways, and yet it also showcased the strength, discipline and resilience of LKQ
- We accomplished a lot in 2025 and are focused on keeping this momentum going in 2026

- In February of last year, I committed to delivering \$825mm of FCF in 2025, and despite multiple headwinds, our colleagues around the world executed, adapted, and delivered on that commitment
 - Importantly, we also made meaningful progress simplifying our portfolio
- The divestiture of our Self Service segment was a key element of the simplification strategy we outlined at our 2024 Investor Day, and we delivered on that commitment in 2025
- Transactions of this scale and complexity require significant leadership focus and discipline
- Executing successfully in the midst of a challenging year across our global enterprise reflects the strength of our teams and our ability to deliver against our strategy

Headwind

- I am proud of the outcome and our continued focus on creating long-term value for shareholders
- The headwinds of 2025 were real and significant
- A continued decline in recurrable claims, the impact of tariffs, and persistent softness in the European market
- Any one of those would have been a challenge on its own
- Taken together, they created a difficult environment
- And yet, our people found ways to serve customers, maintain discipline, and deliver on our FCF commitment
 - That is an exceptional achievement and a testament to the grit of our employees

Management Team

- As many of you are aware, in late January of 2026, LKQ's board of directors formally initiated a comprehensive review
- Given the strength of our underlying performance, even in a year defined by significant headwinds, it has become increasingly clear that our current stock price does not reflect the true value or long-term potential of our businesses
- The board and I, along with our entire management team, are aligned in our confidence at LKQ's future, and that confidence compels us to explore whether alternative structures could unlock value more effectively than the market is recognizing today
 - This review will run in parallel with our relentless focus on operational execution
- Please note that we will not be answering any questions or commenting further on our strategic review process until further disclosure is appropriate or required

Operating Highlights

- Let me focus for a few moments on the operating highlights in Q4 and the full year across our business
- In North America, organic revenue decreased 1% on a per-day basis in Q4, and decreased 1.9% for the full year 2025, reflecting a continued environment of weak repairable claims
- Even so, we gained market share by deepening relationships with MSOs and insurers, maintain pricing discipline, and leveraged the scale and breadth of our branch and distribution networks to outperform repairable claims

Bumper to Bumper

- Throughout 2025, each quarter we saw improving comparables
- Repairable claims were down approximately 10% in Q1 and improved sequentially each quarter

- In Q4, repairable claims were down in the range of negative 4% to 6%, demonstrating steady recovery from the early year low point
- Our Bumper to Bumper hard parts business continued to grow in Canada and we plan to expand this business further given the still fragmented do-it-for-me hard parts market across North America

Europe

- Now, I would like to provide you with an update on our performance in Europe
- In 2025, our organic revenue experienced a decline of 5.2% on a per-day basis in Q4 and a 3.9% decrease for the full year
 - This was primarily due to continued weak consumer confidence, macroeconomic uncertainty and competitive pricing pressures
- In response, we implemented a more aggressive pricing strategy in select markets to protect share and accelerated our focus on private label growth
- We expanded private label inventory in Q4 with introductory pricing to drive adoption
- While these actions have pressured revenue and margins in the near term, we believe they will deliver meaningful long-term benefits
- We also completed a review of more than 85% of our Europe SKUs portfolio, bringing the total delisted SKUs to 71,000 or roughly half of our overall target
 - While we anticipate eventual market recovery, we're not being passive

Integration Plan

- Our team is proactively making bold decisions
- This year, we're streamlining key business areas to improve cost efficiencies through targeted productivity initiatives
- Our efforts include fast tracking our integration plan throughout Europe, streamlining our product lineup, sharpening our go-to-market approach and applying successful tactics from our North American strategy
- And we are on track to go live with a key system integration in early Q2 of 2026, which will serve as a significant catalyst for cost-reduction opportunities

Europe's Results

- As CEO, I want to express my disappointment in Europe's results
- While we never promised that progress would be linear and understand the risks involved in our three-year strategy, I remain fully confident in our team and the decisive actions we've taken
 - We are committed to overcoming these setbacks and delivering sustainable value for our shareholders
- We remain confident in our leading position across our core markets and I remain committed to delivering the margin expansion we had previously communicated as we execute through near-term challenges

Specialty

- Now, turning to Specialty
- This segment remains a strong performer, delivering 7.8% organic revenue growth on a per-day basis in Q4 and 2.7% growth for the full year 2025
 - We've seen improving results from targeted initiatives to sharpen focus, improve pricing execution and strengthen channel relationships

- As discussed last quarter, we returned to positive organic growth for the first time in 14 quarters and sustained that momentum again this quarter

NORTH AMERICA

- We continue to move forward with the previously-announced process to explore the potential sale of our Specialty segment
- Interest in our Specialty segment remains robust and we expect to provide updates in H1 2026 as appropriate
- In 2025, our teams gained share in North America while maintaining pricing discipline
 - We grew our Bumper to Bumper business, made progress on our European initiatives, simplified the portfolio through the sale of our former Self Service segment and grew FCF.
- We enter 2026 with stronger management teams, pricing and cost measures supporting margins, ongoing efficiency improvements and productivity initiatives supported by a recently approved restructuring plan and early signs of demand improvement across our businesses

Rick Galloway

Chief Financial Officer & Senior Vice President

FINANCIAL HIGHLIGHTS

Accomplishments

- Before turning to Q4, I'd like to echo Justin's comments on some of our accomplishments from 2025
- We completed the sale of our Self Service business, further simplifying the portfolio and sharpening our focus on core assets
- We delivered strong FCF in what remained a challenging market environment and we continued to aggressively reduce costs through restructuring and productivity initiatives to better align our cost structure with demand
- In Europe, these actions improved the efficiency of our logistics footprint and reduced facilities and overhead costs
- In North America, we focused on rationalizing overhead to more efficiently serve our customer base

Q4 RESULTS

Revenue, Diluted EPS and Capital Allocation

- Turning to fourth quarter results for continuing operations
- We reported revenues of \$3.3B, up 2.7% y-over-y
- Diluted EPS were \$0.29, which includes \$52mm or approximately \$0.20 per share goodwill impairment related to our Specialty business
- On an adjusted basis, diluted EPS was \$0.59 compared to \$0.78 in the prior year on a comparable basis
- It's worth highlighting that the prior year included \$0.10 per share benefit from a non-recurring legal settlement in North America
- Our balanced capital allocation strategy contributed positively to earnings, with share repurchases and interest expense each adding \$0.01 and favorable FX and tax rates contributing an additional \$0.02 each
 - These benefits were more than offset by organic revenue declines and lower EBITDA in North America and Europe

Diluted EPS and FCF

- For the full year, diluted EPS was \$2.31, and adjusted diluted EPS was \$3.01, at the lower end of the range we guided to in October
- FCF in the quarter was \$274mm, bringing full-year FCF to \$847mm, exceeding our expectations and driven primarily by trade working capital initiatives
 - We returned \$116mm to shareholders during the quarter through share repurchases and dividends

North America

- In North America, top line performance remained solid despite headwinds from repairable claims and tariffs
- And we believe we continue to gain share
 - That said, pricing remains competitive, and our ability to fully pass through higher costs while maintaining margins, continues to be constrained
- Segment EBITDA margin was 12.7%, down 380BPS y-over-y
- Gross margin accounted for approximately 140BPS of the decline, driven by tariff pass through dynamics and customer mix
- Overhead leverage accounted for approximately 260BPS, primarily reflecting the impact from the prior-year non-recurring favorable legal settlement that I mentioned earlier
- Importantly, our ongoing productivity and restructuring actions continued to support cost discipline in the current demand environment

Europe

- Looking ahead to 2026, we expect EBITDA margins to be slightly down from 2025 as we annualize the impact from tariffs
- In Europe, revenue pressure weighed on margins, and segment EBITDA margin declined 180BPS to 8.3%
- Gross margin declined approximately 160BPS due to heightened price competition and higher input costs
 - While lower volumes pressured overhead leverage, productivity and restructuring initiatives helped offset this impact, positioning the business well when market conditions normalize

EBITDA MARGIN

- Our expectation is that Europe will get back to near double-digit EBITDA in 2026, with aggressive execution on our strategic initiatives and further cost actions
- Specialty delivered an EBITDA margin of 4.5%, approximately 40BPS better than last year
 - While mix weighed modestly on gross margin, strong cost control drove favorable overhead leverage
- With two consecutive quarters of organic growth, we believe Specialty is well positioned as its end markets continue to recover

Balance Sheet

- Turning to the balance sheet
- We paid down more than \$500mm of debt in Q4 following the Self Service divestiture and strong FCF generation

- With the help of our lending group, we also extended the maturity of our revolver to December 2030, and our Canadian term loan to March 2029, improving our maturity profile while preserving the liquidity and flexibility

DEBT AND INTEREST RATE

- At year-end, total debt was \$3.7B, with leverage at 2.4 times EBITDA, down sequentially
- We remain committed to maintaining a strong balance sheet and our investment grade rating
- Our effective interest rate was 5.0%, slightly lower than the prior quarter
- In total, we returned \$469mm to shareholders in 2025, 55% of FCF, exceeding the capital return commitment we outlined in our 2024 Investor Day

GUIDANCE

Market Recovery

- Turning to guidance for 2026, our outlook reflects current market conditions and recent trends, and assumes tariffs in effect as of February 1
- Importantly, we believe it is prudent to not reflect a meaningful market recovery in our guidance until we begin to see sustained improvements in underlying volumes
- As a result, our assumptions remain intentionally conservative
 - While we are cautious on demand, our confidence in the outlook is grounded in execution, particularly the actions we are taking on costs, productivity, and capital allocation, which are largely within our control
- That said, we are encouraged by several early indicators that could support improved demand over time, including easing insurance premium pressures, improve consumer confidence in automotive, and continued stabilization and improvement in used car prices
 - While these trends are not yet reflected in our guidance, we believe they represent positive developments for LKQ as volumes recover

Organic Parts and Services Revenue Growth

- We expect organic parts and services revenue growth between negative 0.5% and a positive 1.5%
- North America is expected to be slightly positive
- Europe remains challenged and is expected to be slightly negative
- And Specialty is expected to grow closer to mid-single digits
- Adjusted diluted EPS is expected to be in the range of \$2.90 to \$3.20

Productivity Initiatives

- We remain focused on offsetting volume and inflationary pressures through productivity initiatives, additional restructuring actions, and disciplined capital allocation
- As part of our continued focus on execution and discipline, we recently approved a restructuring plan designed to better position our cost structure to more efficiently serve our strategic markets and support improved performance over time
 - This plan is expected to result in costs of approximately \$60mm to \$70mm in 2026, and supports our broader strategic transformation objectives, including sharpening our go-to-market approach, rationalizing our logistics footprint, and further consolidating back office functions

FCF and Working Capital

- We expect these actions will generate more than \$50mm in annualized cost savings, with over half to be realized in 2026
- FCF is expected to be between \$700mm and \$850mm
- The midpoint reflects more normalized working capital expectations compared to 2025, while maintaining disciplined capital spending
- As in prior years, we expect Q1 to be a use of cash, followed by positive cash generation throughout the remainder of the year

Justin L. Jude

President, Chief Executive Officer & Director

Q4 HIGHLIGHTS.....

North America

- Before we begin Q&A, I'd like to note some positive early signs of improving market conditions in North America
- We're seeing lower insurance premiums, rising used car prices, and major insurers suggesting claims could return to historical patterns by late 2026
- At the same time, as I've emphasized on our second quarter and 2025 call, we will not build a recovery into our base case until we see it clearly materialize in the marketplace
 - We are being cautious and conservative as we enter 2026

SUMMARY.....

- Stepping back, I'm highly optimistic about the future of our company
- We begin this year on stronger operational footing, with a more focused organization
- Our foundation is solid
- Our opportunities are compelling
- And our people continue to prove why LKQ is such a powerful organization

QUESTION AND ANSWER SECTION

Scott L. Stember

ROTH Capital Partners LLC

Q

Yeah. Just to follow up on the comments about, I guess, some potential green shoots in North America. Just trying to maybe dive into that a little bit more. What are you hearing? And I know that there's a chance that maybe by the end of this year, but just trying to get a sense of the reality of when we could actually start to see things balance out.

Justin L. Jude

President, Chief Executive Officer & Director

A

Yeah. Thanks for the questions. We're not only hearing it, but we're seeing it. I mean if you paid attention to some of the insurance premiums in 2025, they've been reduced around 6%. We expect those numbers to continue to drop, which will make insurance more affordable. Then, consumers will lead to more – the number of actions, as we talked about in the past, isn't really down. It's just the repairable claims. So, people use their insurance to get their vehicle repaired as insurance becomes more affordable and we are seeing it become more affordable, that'll be good for us.

I think a couple large carriers also mentioned that they're expecting to see claims increase in the back half of the year, which will drive their profits down, but, obviously, lead to more repairable claims and more cars getting fixed. In addition, it's one month, but in January, we actually saw the – Manheim saw the used car value increase 2.5% over December, but really up 2.5% or 2.4% y-over-y.

So, those are good things that lead to more cars getting repaired. So, those are the kind of green shoots we talked about.

Scott L. Stember

ROTH Capital Partners LLC

Q

Got it. And then, a follow-up question about Europe. Can you maybe talk about performance, both sales and, I guess, competition by market?

Justin L. Jude

President, Chief Executive Officer & Director

A

Yeah. We won't disclose necessarily by market, but we are still seeing a lot of pressure in the overall demand. Just the economies in most of the countries we operate are still struggling. A lot of consumers are cutting spending. That is leading to aggressive price cutting by some of our competition. I would say we were a little bit more aggressive in Q4 on combating price than we have in the past to make sure that we hold share.

We intentionally increased our private label. So, we've talked about it in the past to try to drive our private label. To increase that adoption, we pushed it out in new markets and we pushed new product lines in our private label with introductory pricing. So, that came in more aggressive.

As we get that adoption rate up and we see the volume increase on our private label, we can then start moving pricing up. And as you can imagine, margins, long term, are better on private label. Trade working capital is better on private label. But as we move in that private label and we're replacing some of those tertiary brands, we're not

replacing the primary brands, but we replace those second and third tier brands. We got a little bit more aggressive on prices of those to make sure that we're not left with excess inventory.

So, some of that was our own doing intentionally. But the majority of the headwinds that we see over there is still just market demand.

Jash Patwa

JPMorgan Securities LLC

Q

I wanted to start with your comments on expanding relationships with MSOs. Could you maybe peel the onion a bit further and provide some color on the developments and share gains with MSOs over the past year?

Additionally, I'm curious if you could share any insights on the differential in alternative parts utilization between MSO and non-MSO customers? Thanks. And I have a follow-up.

Justin L. Jude

President, Chief Executive Officer & Director

A

Yeah. Thanks, Jash. On the MSO side, I mean if you look at the stats, repairable claims we said were down around that 4% to 6% range, which is good news. It's improving. It's still down, but it's improving from prior quarters. But if we look at our volumes with MSOs compared to our volume with non-MSOs and if we back into what we feel market share gains have been had with MSOs, we're up, I would say, in the teens with the MSOs from an actual volume. Most MSOs that we talk to are probably flat to slightly up a few percent.

So, if you look at our share of wallet with the MSOs, that is outperforming their overall volume growth and we're up with every MSO that we have today. So, we just feel that the value prop that LKQ offers, competitive price, great quality of products, great service levels, it allows us to continue to win with the MSOs.

We won't report on the exact stats of APU by the MSOs, but for sure, with the MSOs, they have more direct contracts with insurance carriers. That drives more alternative parts utilization as part of their agreements with the insurance companies. So, we do see, as MSOs gain share, the APU grows. And so, that's great for us. And the MSOs, as you can imagine, have much, much more volume at a rooftop level than a non-MSO. So, we gained efficiencies just by delivering more products to them. So, when the MSOs grow, it's been good for us.

Jash Patwa

JPMorgan Securities LLC

Q

Understood. That's super helpful. And then, just as a quick follow-up, we're starting to enter and anticipate a really strong tax refund season that could bring customers back into collision repair shops. Wondering if you sense that optimism from your customers, maybe anecdotally or in terms of sourcing activity to date. Thank you.

Justin L. Jude

President, Chief Executive Officer & Director

A

Yeah, that's a possibility. We haven't really talked with our customers about it. That hasn't been brought up, but that could be another green shoot that could benefit us.

Jeff Lick

Stephens, Inc.

Q

Good morning. Thanks for taking my question. Justin, one of the things that jumped out at us when we visited your facility at Dallas in December was just the growing presence of EVs. And now that we have a pretty big EV

lease return cycle, and guessing now that there's not quite the robust parts network in EVs, wonder if you could just speak a little bit about the potential tailwinds of EVs to your salvage business, and just to your alt parts business.

Justin L. Jude

President, Chief Executive Officer & Director

A

Yeah. I mean, on the EV side, you would've seen probably a little bit more increase in EV just in that specific location, and maybe in other areas because we have some agreements with a few OEMs where when a vehicle gets wrecked or totaled out, it comes to us. If you can think about dismantling some of these EVs, it's very dangerous. Touching a wrong terminal could cause fires and what have you. So they're very – a lot of the OEs and some of the insurance companies are really concerned about the dismantling these vehicles, so we tend to get a more lion's share of those EVs just because of our quality, our overall service level, and just our coverage.

So, we do see LKQ being able to capitalize on the EVs as they get out of the market, whether that's from providing parts off of it, hoods and fenders, doors, or what have you to other collision shops, or some of the components on the recycling side. There's a big push to ensure that the battery and some of the commodities that go into the battery production, or the motors, get left in the US. And so whether we're talking to folks in DC or talking to some of the manufacturers of the battery or manufacturers of the vehicles, they become very interested in talking to LKQ just because of our coverage and our capability. So we see it as a good tailwind for us.

Jeff Lick

Stephens, Inc.

Q

And then as a follow-up on Europe for you, Rick. You guys have talked about the 200-basis-point opportunity, and that was kind of predicated on call it flattish organic revenue, or not needing organic revenue growth. I'm just wondering, obviously at some point there's a fine line of, as revenue leaks a little. But, and then I also know the new team in place in Europe has found maybe some chunky stuff on efficiencies and costs. Just could you talk a little bit about the relationship of what's the art of the possible in terms of getting EBITDA margin expansion on a slightly negative revenue environment?

Rick Galloway

Chief Financial Officer & Senior Vice President

A

Yeah, Jeff, good question. The opportunity we have, the 200BPS expansion that we talked about is mostly within our control. The vast majority is within our control. So, when we're looking at the number, we're starting at a lower baseline than what we thought before. However, the 200BPS of expansion is still within our control.

And we're looking at the opportunity we have in the back half of the year, in particular, when I mentioned my previous comments, that we have the SKU rationalization opportunity. The reduction that we have that Justin mentioned in our overall reduction of SKUs that we've eliminated, we've eliminated over half of those items that we're going after. So in the back half of the year, we're expecting some of those to come through.

I would still say we're still optimistic that we have the 200BPS of margin expansion. We're going to be close to the double digits that we thought within 2026, and still aiming towards that 12% number that Justin has talked about in the past. That's still within range. So obviously we want the market to recover. But we don't need a whole lot of market recovery in order for us to get that expansion that we've been talking about.

Jeff Lick

Stephens, Inc.

Q

Great. Well, thanks very much for taking my questions, and best of luck in Q1.

Craig Kennison

Robert W. Baird & Co., Inc.

Q

Justin, wanted to dig into margin in North America. You talked about competition, but LKQ is significantly larger than any single competitor there. So I'm trying to understand the source of that competition and how pervasive it might be across your competitive landscape.

Justin L. Jude

President, Chief Executive Officer & Director

A

Yeah, the uniqueness of LKQ when it comes to pricing and competition, really, against most other aftermarket or most automotive sectors is, we have both the competitors that provide alternative parts, so the salvage yards, the aftermarket distribution businesses, as well as the OEMs. And when you're in a compressed market, repairable claims are down, everybody's fighting for more volume, sometimes folks feel that they're losing share, they start getting a little bit more aggressive on pricing.

And so we see that on the OEM side; we see that on the aftermarket side. We still feel our right to win is better. We might have to give up prices on some parts, such as A and B movers, but then we see the offset on some of the slower moving stuff that we carry, and our competition doesn't necessarily carry that in stock quickly to that customer.

So we still feel that there's some pricing competition, but we can navigate through that using some of the AI technology that we've been implementing with one of our partners to just help us react quicker to that.

Craig Kennison

Robert W. Baird & Co., Inc.

Q

Thanks. And maybe you could just shed more light on your use of AI and how it can impact your pricing algorithms.

Justin L. Jude

President, Chief Executive Officer & Director

A

Yeah, we had a pretty good system before. We've leveraged a, like I said, a partner to help us get more real-time, more reactive. Looking at a SKU down to a regional level, maybe even a shop level, understanding the demand. If you look at the data that it's existing out there, understanding the market, when I talked about repairable claims, we probably have more data combined than any other entity out there.

And so how do we take that data, leveraging what the demand is, leveraging what the opportunity is, and acting real-time on pricing to make sure that we can have a right to win. And we're seeing even more opportunity, as I mentioned, on the C and D movers, where we have it, and every time there's a quote we're getting the sale and so, there's an opportunity for us to push price on that. And maybe we need to offset price on some of the faster moving stuff. But it's just becoming more real-time down to the SKU level, down to the location level of a shop. So, we have good sophistication to make sure that we have the right to win.

John P. Babcock

Barclays Capital, Inc.

Q

I just want to delve a little bit more into Europe. Can you just talk about the factors that impacted the business in Q4 vs. what happened in Q3? Just want to understand that a little bit more. And also, if you could break that out between market-related factors and company-specific factors, that'd be useful.

Justin L. Jude

President, Chief Executive Officer & Director

A

Yeah. Thanks, John. The overall competition or – I'd say competition, the market continued to deteriorate from Q3 to Q4. The overall uncertainty, consumer spending was down, the competitive pressure continued on. Some of the headwinds on the revenue side were somewhat self-inflicted intentionally. That was kind of in our guidance when we looked at the overall EPS that we may have to do this. And so, the majority of the headwind on the volume is market.

And when that market comes down, competitors get little bit more aggressive on price. Once again, some of the headwinds was self-inflicted where we intentionally tried to replace and did replace, volume of private label against the tertiary brands that exist out there. And when you're introducing the new products and you want to make sure that customer switches that brand over to you, we came out with introductory pricing. So, there's – a little bit of that headwind was us just getting more aggressive on pricing with the private label to get the adoption rate up.

In addition, as that's replacing some of the delisted product, we cut the prices on some of that delisted product to make sure that it moved off the shelf and we didn't take any excess in obsolete. And so, some of that stuff, we will correct or – I want to say correct, because it was intentional, we will be able to move the pricing up on private label as the volume has grown.

As a percentage of revenue, private label was roughly still flat from Q3 to Q4. But if you look at the actual volume of units, that number increased to around 25%. So, we're seeing market adoption on the private label. We have the pricing power to be able to push that pricing up as the adoption comes. But it's still, the majority of it is just that market headwind. But we're not standing still. As we mentioned and Rick talked about, we're still working on the integration to get the costs out of the business to make sure that when the market does recover, we'll be even that much stronger.

John P. Babcock

Barclays Capital, Inc.

Q

All right. Thanks. And in terms of 2026, I mean it sounds like you're expecting to get back up into the double digits there. Is pricing going to be part of that? Or what else are going to be the big drivers that are going to get you there?

Justin L. Jude

President, Chief Executive Officer & Director

A

Pricing will be part of that, for sure. The majority of it is going to be things that we can control on the cost side. So, I mentioned a ERP migration that we're going to do in a region in early Q2. That will be a catalyst to help us drive significant cost cutting on the business.

So, we are working at continuing to drive productivity initiatives up, get some of the cost out and we will be able to get some price as well in 2026. But the majority of it is things that we can control on the cost cutting side.

John P. Babcock

Barclays Capital, Inc.

Q

Okay. Thanks. And then, just last question before I turn it over. Just on repairable claims in North America, just kind of curious like how you're thinking that in 2026. Do you expect the trend to improve steadily? What are you thinking there?

Rick Galloway

Chief Financial Officer & Senior Vice President

A

Yeah. So, in our number, John, what we've got is we – we said we're not going to put a lot of improvement into our forecast. So, as Justin mentioned, there's a lot of good news that we're seeing, but until we see it actually in our numbers, we're not going to put it in our forecast or in our budget or guidance.

So, what we've got is similar to what we had in Q4, we're assuming that kind of goes through the full year of 2026 with a little bit of improvement throughout the year. So, the back half of the year, we expect to be a little bit better than H1.

Bret Jordan

Jefferies LLC

Q

That comment about up with every MSO, I guess market share in 2025, do you expect that to be the case in 2026? Is there anything out there sort of moving around on longer-term volume contracts in the competitive landscape?

Justin L. Jude

President, Chief Executive Officer & Director

A

No. I mean, we saw our share and our volume grow throughout 2025. Some contracts just became renewed. I don't see any risk. If anything, maybe some more growth on that side just because on a run rate coming out of 2025, we saw a good improvement on that.

Bret Jordan

Jefferies LLC

Q

Okay. And then, within Specialty, could you talk about the strength and then, obviously, rebounding? Is it light vehicle or RV or both, I guess, as you look at maybe divesting that? Is it strong across the board supporting maybe a better valuation? Or is it sort of spotty where you're seeing the recovery?

Justin L. Jude

President, Chief Executive Officer & Director

A

It's across the board, both on the automotive side, the accessory side, obviously, and then the RV side. So it's good for us. And that process is still ongoing for the sale. It has been robust. Great interest on it. And with the market recovering on both sides, once again, the automotive and the RV, we see that one being a pretty positive turnout.

Gary Frank Prestopino

Barrington Research Associates, Inc.

Q

If you can answer this question, Justin, in what you're experiencing in Europe, is that more or less just on the continent itself, or does that also include UK operations? So I seem to recall that when you bought Euro Car Parts

years and years ago, that was a pretty steady business. So if you could parse that out, and if you don't want do that, I understand.

Justin L. Jude

President, Chief Executive Officer & Director

A

Yeah. So, it is across the board in Europe. There is pockets that are doing a little bit better than others, and UK was one that we talked about in the past that had – the economy was tough over there. Consumer spending and discretionary spending was low. The good news is we're still seeing vehicle aging grow. But right now, with the environment on the economic side, consumers are just still spending less. So it is across the board that we're seeing some pressure. Higher in some areas than others. And I know there are some markets in Europe that are positive, and some of those markets are where we don't operate yet today. But overall I would say on average, it's really across all Europe.

Gary Frank Prestopino

Barrington Research Associates, Inc.

Q

And then just, in Europe, are you doing things with recycled parts there in that market? I seem to recall you had some activities going on there vs. – there's very few recycled parts on the continent itself.

Justin L. Jude

President, Chief Executive Officer & Director

A

Yeah. One of our initiatives has been to drive, salvaged or recycled parts over there and leveraging our North American talent and some of our processes over there. We have been in salvage in a very small scale. We've increased that volume with an acquisition of a joint venture with Ritchie Brothers, our insurance auto auction called SYNETIQ in the UK.

We see, as we enter that space, there's more and more demand growing for green parts, more for used parts. The industry just needs a solid distributor of those parts to make sure that they can deliver on time and quality. And that's what we bring. And so we see that as a good growth opportunity. But we're still in, I would say, in the infancy stage as we introduce more and more recycled into those markets.

Justin L. Jude

President, Chief Executive Officer & Director

CLOSING REMARKS

- For the group, I just want to make sure you guys know, we remain highly, highly enthusiastic about our business
- Despite the challenges of the environment in 2025, I feel our team successfully executed on our core business strategies
 - We streamlined our portfolio, generated strong, very strong FCF, and maintained a disciplined approach on capital allocation
- The resilience of our underlying business coupled with the anticipated market recovery in the latter half of 2026 should translate into positive results.

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