Joseph P. Boutross
Vice President-Investor Relations, LKQ Corp.

Thank you operator. Good morning, everyone, and welcome to LKQ's First Quarter 2026 earnings conference call. With us today are Justin Jude, LKQ's President and Chief Executive Officer, and Rick Galloway, our Senior Vice President and Chief Financial Officer.

Please refer to the LKQ website at lkqcorp.com, for our earnings release issued this morning, as well as the accompanying slide presentation for this call.

Now let me quickly cover the Safe Harbor. Some of the statements that we make today may be considered forward-looking. These include statements regarding our expectations, beliefs, hopes, intentions or strategies. Actual events or results may differ materially from those expressed or implied in the forward-looking statements as a result of various factors. We assume no obligation to update any forward-looking statements.

For more information, please refer to the risk factors discussed in our Form 10-K and subsequent reports filed with the SEC.

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.

Hopefully everyone has had a chance to look at our 8K which we filed with the SEC earlier today. As normal, we are planning to file our 10-Q in the coming days.

And with that, I am happy to turn the call over to our CEO, Justin Jude.

Justin Jude
President and CEO of LKQ Corp

Thank you, Joe, and good morning, everyone. We appreciate you joining us today.

The first quarter was another quarter of solid progress across our operating segments, and we're increasingly confident in our positioning as North America continues to recover. This quarter reflected the team's operating discipline and relentless focus on the things within our control; taking market share, protecting margins, and improving productivity.

LKQ has started 2026 with a strong foundation, featuring a more focused organization, disciplined execution, and an unwavering commitment to long-term value creation.

Now I'll provide a brief update on each segment, highlighting demand trends, commercial execution, and the actions we're taking to expand profitability.

North America organic revenue declined 0.5% on a per day basis, an improvement over last year's Q1 decline of 4.1% and a sequential improvement from Q4's decline of 1.0%. These results highlight a gradual recovery and reinforce our confidence in the direction of our North American operations.

Repairable claims were down approximately 2 to 4%, demonstrating steady recovery from the levels we saw throughout 2025. Importantly, we achieved strong performance in our aftermarket collision product line, surpassing the growth levels of the segment. This positive momentum was partly driven by an increase in the utilization of alternative parts, which reached a record high of nearly 40% through February. We anticipate that this favorable trend continues in March as well.

We also renewed several MSO agreements and are further integrating ordering capabilities with our key partners. These integrations are designed to increase the ease and velocity of ordering, improve procurement workflows, and position us to capture more share of wallet.

Elitek, our calibrations and diagnostics business, delivered strong organic growth and healthy EBITDA margins in the quarter. For context, an increasing share of collision repairs require calibration and diagnostics, and we estimate that requirement has risen to roughly 75% today from about 62% three years ago. We view this as a durable, long-term tailwind and a compelling opportunity to extend our service offering.

Our Bumper-to-Bumper hard parts business in Canada again delivered positive growth, and as I've mentioned in the past, we plan to methodically expand this business further given the still fragmented DIFM hard parts market across North America.

We're seeing promising signs of stabilization in North America that reinforce our optimism for the business. Used car prices are climbing, non-comprehensive total loss rates are declining, and auto insurance premiums are easing—all positive indicators for our industry. Notably, used car values improved every month this quarter, with March alone up 6.2%. These trends will drive a reduction in total loss frequency and boost the proportion of accidents that translate into repairable claims, supporting continued growth and opportunity for our company.   While we can't predict the exact timing of a broader recovery, the indicators are moving in a direction that supports our model. And importantly, we believe we've built a stronger operating foundation—so as volumes improve, we're confident in our ability to convert that into growth and margin expansion.

In Europe, we saw softness early in the quarter similar to what we experienced in Q4 followed by steady, month-over-month improvement, with March showing stronger demand. While the macro backdrop remains mixed, we're focused on controlling what we can control: service levels, execution, and cost. Overall, performance was in line with our expectations as we continue to execute operational initiatives to improve service and further optimize our cost structure. Eastern Europe and Germany delivered positive organic revenue growth, and while the U.K. and Italy were down year over year, we were encouraged to see sequential improvement.

Our private label initiative continues to make progress in the quarter, with volume penetration reaching 25.3%, up from 25.1% in Q4, which aligns with our objective of reaching 30% over the coming years. We are continuing to use targeted introductory pricing to support adoption, and we expect to thoughtfully improve pricing as customers gain confidence in the quality and reliability of our exclusive branded products.

As previously communicated, we executed a planned ERP migration in one of our key European markets, which was completed during the first week of April. We anticipated temporary sales disruption associated with the conversion and appropriately reflected that in our full year guidance. The project is progressing ahead of our initial expectations, and while we are not yet fully optimized post-conversion, our priority is maintaining customer service and we are seeing daily improvements in sales levels. ERP conversions are intensive projects, but we approached it with deliberate execution. This achievement supports our integration roadmap and enables future process standardization, cost reduction initiatives and enhancing the ability to become a seamless Pan-European distributor.

Lastly, turning to Specialty.

Specialty delivered another solid quarter, with organic revenue up 3.4%. That marks three consecutive quarters of positive organic growth. RV revenue growth was nearly double digits, and we also saw strong growth in marine, reflecting continued demand and strong execution by the team.

Last quarter, I noted that the Specialty process was robust, with strong interest from both strategic buyers and financial sponsors. That remains true. At the same time, the recent geopolitical tensions have introduced uncertainty into the credit markets, and some potential buyers have seen their lenders tighten financing terms as a result.

We haven't shut the process down, but given the environment, we felt it was important to be transparent with our shareholders about the timing and the dynamics we're seeing.

Before I hand the call over to Rick, I want to provide an update on our ongoing Strategic Review

We are still early in the process, and we intend to be thoughtful and pragmatic. We have engaged both BofA Securities and Goldman Sachs, alongside the Board and management, to identify and evaluate a full range of alternatives with the objective of maximizing long-term shareholder value. We believe there are multiple paths to create value, and we are committed to evaluating them rigorously.

Management and the Board are aligned to take a careful, strategic look at the business. We know we have a strong company and we will be active, thoughtful, and deliberate as we assess the best path forward.

Given where we are in the process, investors should not expect an immediate update, but you should expect that we are treating this with urgency and evaluating alternatives thoroughly.

Finally, to be clear, our teams remain fully focused on executing day to day, and the Strategic Review does not change our operating priorities or our commitment to serving customers and delivering results, something our teams never lose sight of and for that I am extremely proud of their continued dedication.

With that, I'll turn the call over to Rick to walk through the quarter in more detail.

Rick Galloway
CFO, LKQ Corp.

Thank you, Justin, and welcome to everyone joining us today.

Our performance reflected solid execution in North America, improving trends throughout the quarter in Europe, and continued focus on productivity and cost actions. These positives were partially offset by headwinds from fuel, bad debt, and pricing and mix pressure in certain areas.

We reported revenues of $3.5 billion, a 4.3% increase year over year. Diluted EPS was $0.30 and includes a $0.17 per share impairment related to our equity method investment in Mekonomen, which is excluded from adjusted net income. On an adjusted basis, diluted EPS was $0.67 compared to $0.74 in the prior year.

On free cash flow, the quarter tracked close to our expectations and reflected normal seasonality. As we have observed historically, first-quarter working capital is a headwind, with receivables increasing from year-end as volumes built through each month of the quarter. Free cash flow was negative $96 million versus negative $57 million a year ago. As in prior years, we expect Q1 to be a use of cash and the remaining quarters to generate positive free cash flow.

In North America, topline performance remained solid despite year-over-year headwinds from repairable claims and tariffs, and we believe we continue to gain market share. Consistent with prior quarters, pricing remains competitive, and our ability to fully pass through higher costs while maintaining margins is constrained. As we anniversary the tariff increases in cost of sales in the back half of the year, we expect to see EBITDA margins normalizing on a year-over-year basis.

Other revenue grew due to higher metals prices and higher volumes.

Segment EBITDA margin was 14.1%, down 130 basis points year-over-year but up 140 basis points sequentially.

Gross margin in North America was 42.4%. While down year over year, driven primarily by the dilutive effect of passthrough tariff pricing and customer mix, gross margin improved sequentially. The sequential improvement was supported by strength in the aftermarket business and higher commodity prices, partially offset by pressure in salvage due to softer salvage revenue and higher car costs. As we lap the tariff-related cost step-up in the back half, we continue to expect year-over-year margin comparisons to improve.

SG&A in North America improved by 90 basis points as a percentage of revenue compared to the prior year, reflecting our focus on controlling what we can control, strong cost discipline that drove operating leverage on higher revenue.

In Europe, revenue benefited from FX, but organic volumes remained pressured, and top-line pressure flowed through to margins, with Segment EBITDA declining 150 basis points to 7.8%. Gross margin in Europe was 38.3% in the quarter, a 50 basis point reduction due to a competitive pricing environment in certain key markets and higher input costs. SG&A

costs increased approximately 80 basis points to 30.9%. While lower volumes and inflation pressured overhead leverage, aggressive productivity and restructuring initiatives helped partially offset this impact. With the cost actions we've undertaken, we believe the business is well positioned when market conditions normalize.

In our Specialty business, revenue was in line with expectations for Q1. For the quarter, organic revenue was up 3.4% versus prior year while EBITDA decreased by $3 million. Gross margins increased in line with revenue but higher SG&A, primarily related to $6 million in higher than normal credit losses related to a non-trade receivable, more than offset the increases in margin dollars.

Turning to the balance sheet. We ended the quarter with total debt of $3.9 billion and leverage of 2.6 times EBITDA. Our $500 million term loan came current at the end of Q1. We intend to either extend or refinance prior to the scheduled maturity date. We remain committed to maintaining a strong balance sheet and our investment-grade rating. Our effective interest rate was 5.0% in the quarter. We returned $77 million to shareholders during the quarter through our dividend. In line with our disciplined strategic capital allocation policy, we spent $5 million on two small tuck-in acquisitions in Europe.

Turning to guidance for 2026. Following our first quarter performance and considering current market conditions and recent trends, we are reaffirming our full year guidance for organic parts and services revenue, adjusted earnings per share, and free cash flow. The change in GAAP guidance for earnings per share is primarily related to the impairment on our investment in Mekonomen which is excluded from Adjusted Net Income. We continue to expect organic parts and services revenue in the range of negative 0.5% and positive 1.5%, adjusted EPS between $2.90 and $3.20, and free cash flow between $700 million and $850 million. We still believe it is too soon to reflect a meaningful market recovery in our outlook. While we are appropriately cautious on demand, our confidence is grounded in execution. We remain focused on managing our cost structure and continue to expect to realize the more than $50 million in annualized cost savings I mentioned when we first released 2026 guidance, with most of that benefit coming in 2026, and are offsetting volume and inflationary pressures through productivity initiatives, additional restructuring actions, and disciplined capital allocation.

That said, as Justin mentioned, we continue to see green shoots across our business and in particular early indicators that suggest improving demand, including easing insurance premium pressures, improving used-car values, and broader stabilization in the automotive environment.

Thank you for your time. And with that, I will turn the call back to Justin for his closing remarks.

Justin Jude
President and CEO of LKQ Corp

Thanks, Rick.

Before we open up to Q&A, I want to reinforce a few points. Despite the challenging environment, we are pleased with the quarter and the progress we're making through disciplined execution. In North America, we believe the recovery is taking hold, and we are positioning ourselves for success going forward as the environment improves. In Europe, while the macro remains mixed, we are executing on the initiatives within our control, and we're seeing sequential improvement. The actions we've taken to improve performance are beginning to show through, and we believe we are on the right trajectory.

As we move through 2026, we remain focused on the fundamentals: serving customers, taking share, expanding margins, and converting earnings to cash flow. We believe that focus, combined with improving industry indicators, positions us to create long-term value for shareholders.

Operator, we will now open the line for questions.