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

Thank you, operator. Good morning, everyone, and welcome to LKQ's Second 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. Good morning, everyone, and thank you for joining us.

The question I hear most often is why investors should have confidence in LKQ's ability to improve performance. The answer is simple. Confidence comes from evidence.

As I look across LKQ today, I see a company that has a unique global distribution network for auto parts and a relentless focus on serving our customers. While this quarter fell short of our expectations, this is a company that is stronger and better than the reported results may suggest.

Our North America segment returned to positive organic growth for the first time in nine quarters. Repairable claims showed another quarter of sequential improvement and alternative-part utilization continued to increase. Specialty also continued to deliver organic growth, demonstrating the resilience of its market position.

In Europe, our reported results were affected by ERP implementation challenges in Germany and softer performance in certain European markets. We take accountability for those results. While the implementation has been more challenging and taken longer to stabilize than planned, we've identified the issues, implemented recovery actions, and remain confident in the long-term strategic value of the ERP investment. It expands our common-platform footprint, creates the foundation for a more integrated operating model, and supports better service, productivity, and margin performance over time.

The investments we're making today are designed to increase LKQ's earnings power for many years, and this quarter does not fully reflect the underlying earnings potential of the business. We continue to execute on our strategic initiatives designed to enhance our long-term competitive position and earnings power.

This morning, I will review the progress in North America and Specialty, discuss our recovery actions and long-term opportunity in Europe, and then address our full-year outlook and strategic review before turning the call over to Rick for a more detailed financial review.

Now, let me address each segment in a little more detail, beginning with North America.

The progress in North America was solid. North America delivered positive growth in the quarter of 0.5%, compared to a decline in repairable claims of 1 to 3% for the quarter, showing once again how North America can outperform the market. While the market has not fully recovered, several external indicators continue to reinforce our belief that collision markets and drop conditions are improving. Not only has used car pricing continued to improve, both May and June showed negative insurance CPI on a year-over-year basis, putting pressure on carrier margins, creating a need to reduce repair costs. One of the most effective levers they have to reduce cost of repair is to utilize more alternative parts. And alternative part usage, or APU, was over 40% for the quarter, surpassing the previous record achieved in Q1, which is a positive trend for our business. While there is still room for further improvement, the underlying trends are moving in the right direction.

Our execution also improved. Salvage gross margin exceeded our expectations through improved procurement and operations, there was sequential improvement in fill rates, and North America exceeded our free-cash flow expectations. Paint volume remained a headwind, but the broader trajectory in collision and salvage improved.

North America remains focused on enhancing our salvage procurement, improving fill rates, strengthening our pricing and analytics capabilities, and consistently executing against our operational initiatives.

Turning to our Europe segment, the challenges we faced in Europe are ours to address. While market demand was softer in certain regions, the primary drivers of our underperformance were implementation and execution challenges that are actively being addressed. As I mentioned earlier, the ERP conversion remains an important and needed step in modernizing the business.

While the implementation created disruption, we moved with urgency to address the issues. The customer impact lingered longer than expected, but our recovery has gained momentum. The system performance has improved and operational processes have normalized, and we finished last week above 85% of our normal revenue run rate in Germany. This is a meaningful milestone that demonstrates the progress our teams have made. While there is still work ahead, we are encouraged by the trajectory of the business and remain confident in our ability to restore service levels, win back our share of wallet and realize the long-term benefits of this transformation.

This conversion was a scaling event and increases the share of our European business operating on a common platform from approximately 5% to more than 30%, providing a strong foundation for a more integrated operating model. Over time, we expect this to drive productivity gains, simplify our technology landscape, enhance customer service capabilities, and support margin improvement across Europe.

The most difficult scaling step is now behind us, the recovery is underway, and the long-term benefits of the program remain fully intact.

Outside of Germany, the UK and Benelux regions underperformed on the revenue side. While softer demand contributed to the results, our commercial execution in these regions did not meet our expectations. To combat the lower volumes, we delivered more than $40 million of year-over-year improvement in the quarter through the initiatives we put in place, including cost structure optimization, procurement savings, productivity gains, and the closure of underperforming locations. We also changed leadership where performance was unacceptable and sharpened our recovery plans around commercial execution, cost control and customer retention.

We made additional progress in the quarter with respect to our SKU rationalization objectives. I am pleased to say that we have completed our review of our full product brands portfolio. As I have previously stated, completion of this review is required before further delisting actions can be considered to ensure full understanding of both opportunities and risks are known. Our private label initiative continued to make progress in the quarter, with volume penetration reaching 26.6%, which puts us well on our way toward meeting our objective of reaching 30% over the coming years.

Our priorities in Europe are to restore service levels in Germany, recapture revenue, improve commercial execution, maintain gross-margin discipline and continue to align the cost structure with current demand. We know what needs to be done, and we will hold ourselves accountable for delivering it. Ultimately, we see our European business being more efficient, more productive, serving the best customers in the market and generating double-digit EBITDA margins.

Turning to Specialty, the segment delivered resilient top-line performance. Organic revenue increased 4.5% for the quarter, and revenue was essentially in line with our expectations for both the quarter and the first half of the year.

Operationally, we continue to see opportunities to improve gross margin, enhance operating efficiency, and better leverage our existing cost structure. Our priority is to convert Specialty's resilient revenue profile into stronger and more consistent earnings performance.

Turning to our full-year outlook, we are confident that North America remains firmly on track to meet its full-year plan, and Specialty continues to consistently demonstrate resilient revenue, although we still have work to do to improve its margins. Europe remains challenged.

The result of all this combined is that we are reducing our outlook to reflect the reality of Europe's performance, but we are not changing our long-term strategic priorities. Our focus remains on disciplined execution, improving returns on invested capital and creating long-term shareholder value.

Let me close with an update on our previously announced strategic review. The process remains active, and the Company, together with its advisors at Bank of America and Goldman Sachs, continues to engage with multiple parties. We will share updates when appropriate.

Rick will now review the consolidated and segment results and our revised outlook. With that, I will turn the call over to Rick.

Rick Galloway
Chief Financial Officer, LKQ Corp.

Thank you, Justin, and good morning, everyone.

I will be discussing our consolidated and segment results, cash flow and balance sheet, and revised full-year outlook.

Beginning with our consolidated results, second-quarter revenue was approximately $3.4 billion, compared with $3.5 billion in the prior year period.

Diluted earnings per share were $0.52, and adjusted diluted earnings per share were $0.67, compared with adjusted diluted EPS of $0.84 in the prior year period. The year-over-year decline largely reflects lower revenue and profitability in Europe due to the factors Justin mentioned earlier.

Turning to segment results, North America parts and services organic revenue increased 0.5%, the segment's first quarter of growth since 2023. Aftermarket collision revenue increased approximately 2.0% and our Canadian hard parts business grew in the mid-single digits, while Paint remained a headwind to the overall growth rate.

As Justin noted, repairable claims are showing signs of improvement. And while we are encouraged by the progression, we are not assuming a significant market recovery in our revised outlook.

North America segment EBITDA was $207 million, representing a segment EBITDA margin of 14.1%. The quarter included a $10 million expense related to a legal reserve, resulting in a drag on segment EBITDA margin of approximately 70 basis points, meaning the underlying performance was in the high-14% range. This reserve relates to an isolated one-time event, and it helps explain the difference between the reported margin and the operational progress we saw in the quarter.

Europe parts and services organic revenue declined 12.6%. The primary driver was the disruption relating to the ERP implementation in Germany. We estimate the quarterly revenue impact was approximately $140 million.

Europe segment EBITDA was $109 million, a year-over-year decline of $42 million, representing a margin of 7.5%. The decline primarily reflects the ERP implementation challenges in Germany, as well as softer demand in the UK and Benelux. We estimate the ERP disruption reduced EBITDA by approximately $50 million during the quarter, while the volume pressures predominantly in the UK and Benelux reduced EBITDA by roughly $30 million.

Despite these headwinds, the business delivered meaningful productivity gains and cost reductions through the restructuring and efficiency initiatives we have discussed in prior quarters. Absent the ERP disruption, Europe was on track to generate double-digit EBITDA margins in the quarter, even while absorbing the volume pressures in the UK and Benelux. This demonstrates that the team is controlling the factors within its influence, prioritizing profitable revenue, and steadily improving the underlying earnings power of the region.

Specialty organic revenue increased 4.5%, and segment EBITDA was $33 million with an EBITDA margin of 6.7%. Revenue performance remained resilient, while gross margin and mix remain areas for improvement, and freight and fuel costs were headwinds in the quarter.

Moving on to our cash flow and balance sheet, second-quarter operating cash flow was $111 million, and free cash flow was $60 million. For the first six months of the year, operating cash flow was $55 million and free cash flow was negative $36 million, which was slightly below our expectations due primarily to softer Europe performance.

We ended the quarter with total liquidity of $1.9 billion and net leverage of 2.8 times EBITDA. During the quarter, we returned $129 million to shareholders through share repurchases and dividends. In July, we prepaid the outstanding $500 million US$ term loan originally due in Q1 2027 with proceeds from our revolving credit facility. We expect to use free cash flow generated over the balance of the year to reduce the outstanding balance on our revolving credit facility following the prepayment of the term loan.

Our capital-allocation priorities remain unchanged. We will continue to deploy capital in a disciplined manner, balancing investments that support growth in the business, maintaining a strong balance sheet, and returning capital to shareholders.

Finally, with respect to our guidance, our revised 2026 outlook and assumptions are included on slide 11.

Operationally, North America remains on track against its full-year plan. The outlook assumes repairable claims remain near current levels, with modest improvement during the second half. We are encouraged by the improvement seen during the quarter, particularly in June, but are not assuming a significant market recovery.

Europe remains the primary area of operational focus and is driving the majority of the reduction in guidance. Our revised outlook assumes continued improvement in service levels and revenue in the affected German operations during the second half, but at a more measured pace than we previously expected. It also assumes that conditions in the UK and Benelux remain soft and that the benefits of our leadership, cost and productivity actions build progressively over the remainder of the year.

Specialty continues to grow organically, although our outlook reflects there is work to be done to improve margin and mix.

Based on these assumptions, we expect organic parts and services revenue in the range of negative 1-3%. We expect adjusted diluted earnings per share of $2.60 to $2.90, compared with our previous range of $2.90 to $3.20. We believe the revised range appropriately reflects the current pace of recovery and the operating risks we see in the second half.

Additionally, we now expect full-year free cash flow of $625 million to $775 million, compared to our previous outlook of $700 million to $850 million.

In summary, North America is showing encouraging sequential improvement, Specialty continues to grow, but our key focus is on getting Europe back on track. Our priorities are restoring service levels in Germany, improving execution in the U.K. and Benelux, and continuing to manage cash flow and the balance sheet with discipline.

With that, I will turn the call back over to Justin.

Justin Jude

President and CEO of LKQ Corp

Thanks, Rick.

North America is showing meaningful progress, and Specialty continues to demonstrate resilient revenue.

We are focused on sustaining the strength of North America and Specialty and executing the recovery of Europe with urgency and discipline. We have clearer operating visibility and measurable service targets. We will continue to communicate candidly about our progress and hold ourselves accountable for the results. While we are reducing our outlook to reflect the reality of Europe's performance, our long-term strategy hasn't changed.

Lastly, I want to thank our more than 42,000 employees around the world for their work through a demanding quarter and thank you to our customers and shareholders for their continued engagement.

With that, we are happy to open the call for questions.