LKQ Corporation (LKQ) CEO Nick Zarcone on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-31-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $0.61 beats by $0.03 | Revenue of $3.15B (0.81% Y/Y) beats by $8.67M

Earning Call Audio

LKQ Corporation (NASDAQ:LKQ) Q3 2019 Results Earnings Conference Call October 31, 2019 8:00 AM ET

Company Participants

Joe Boutross - Vice President of Investor Relations

Nick Zarcone - President and Chief Executive Officer

Varun Laroyia - Executive Vice President and Chief Financial Officer

Conference Call Participants

Craig Kennison - Baird

Bret Jordan - Jeffries

Stephanie Benjamin - SunTrust

Michael Hoffman - Stifel

Daniel Imbro - Stephens

Chris Bottiglieri - Wolfe Research

Ryan Merkel - William Blair

Operator

Good morning. My name is Carol. And I'll be your conference operator today. At this time, I would like to welcome everyone to the LKQ Corporation's Third Quarter 2019 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions].

I'd now like to turn the call over to Joe Boutross, Vice President of Investor Relations. You may begin your conference.

Joe Boutross

Thank you, operator. Good morning everyone and welcome to LKQ's third quarter 2019 earnings conference call. With us today are, Nick Zarcone, LKQ's President and Chief Executive Officer; and Varun Laroyia, Executive 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 8-K, which we filed with the SEC earlier today. And as normal, we're planning to file our 10-Q in the next few days.

And with that, I'm happy to turn the call over to our CEO, Nick Zarcone.

Nick Zarcone

Thank you, Joe, and good morning to everybody on the call. This morning, I will provide some high-level comments related to our performance in the third quarter and then Varun will dive into the segments and related financial details before I come back with a few closing remarks.

We believe Q3 was a strong quarter for our company and we are very pleased with the results despite facing some ongoing macroeconomic headwinds particularly in Europe. Each of our three segments showed important improvements in their respective operating metrics, particularly with respect to EBITDA margins which on a consolidated basis, showed a year-over-year improvement for the first time in several quarters. That gives us confidence that our disciplined approach to the market and keen focus on enhancing margins will continue to create positive outcomes.

During the quarter, we repurchased 3.9 million shares of our stock for a total of $101 million, reflecting an average price of about $26 a share. Since we implemented the share repurchase program last October, our total repurchases have aggregated 13.2 million shares for a total of $352 million or an average price of approximately $26.66 a share. I am pleased to report that this week our Board approved an additional $500 million to the repurchase plan and extended the time period to October 2022. With that, we have almost $650 million of capacity under the amended plan.

As noted on Slide 5, revenue for the third quarter was $3.15 billion, and eight-tenths of 1% increase over the $3.12 billion recorded in the comparable period of 2018. Parts and services organic growth for the third quarter increased 2.3% on a reported basis, and when adjusting for one more selling day in each of our operating segments, the increase in organic revenue growth for parts and services was positive, nine-tenths of 1%. Acquisitions added eight-tenths of 1% of growth, while currencies had a negative impact of 2.3%.

Net income was $152 million compared to the $134 million for the same period in 2018, an increase of 13% year-over-year. Diluted earnings per share for the third quarter was $0.49 a share as compared to $0.42 for the same period of 2018, an increase of 17% year-over-year. On an adjusted basis, net income was $189 million, an increase of 6% as compared to the $177 million for the same period last year.

Adjusted diluted earnings per share for the third quarter was $0.61, as compared to $0.56 for the same period of 2018, a 9% increase. We are pleased with the level of EPS growth considering the marginal uptick in revenue.

Now let's turn to the quarterly segment highlights. As you will note from Slide 7 organic revenue growth for parts and services in our North American segment was 2.9% in the quarter, a nice sequential uptick from Q2 and against a tough Q3 comp year-over-year. When adjusting for one more selling day in the quarter, North American organic revenue growth increased 1.4%, which was also a sequential uptick from Q2.

We continue to perform well in North America, especially when you consider that collision and liability related auto claims increased just five-tenths of 1% in the quarter. Encouragingly, the CCC data represents the first quarterly year-over-year increase in repairable claims since the third quarter of 2018. The uptick in frequency is related to an increase in miles driven, more severe and frequent weather in certain markets and the ongoing increase in distracted driving.

Consistent with the year-to-date results, during the third quarter, the growth in recycled products was higher than that for aftermarket, though the aftermarket line showed improving trends as we moved through the quarter. Again, our North America's team's focus on profitable growth drove excellent year-over-year margin improvements.

Segment gross margins were 44.2% and EBITDA margins were 12.8% reflecting improvements of 100 basis points, and 50 basis points respectively when compared to the third quarter of 2018. These are among the best third quarter margins our North American team has achieved in five years. Furthermore, when removing the self-service business, which experienced the greatest downward impact on margins from the continued steep decline in scrap prices, gross margins and EBITDA margins for the rest of our North American segment were up 120 basis points and 80 basis points respectively. These strong margins are evidence that our focus on profitable revenue is working.

As just mentioned, scrap metal pricing tumbled during the quarter and placed pressure on Q3 results. As Varun will discuss, this will unfortunately set an even higher hurdle with respect to our fourth quarter results.

We also continue to grow our parts offerings with aftermarket collision SKU offerings, and the total number of certified parts available growing 5% and 10.3% respectively year-over-year in the third quarter. As evidenced that we continue to take share, during the quarter, our team successfully negotiated a new three year contract with a top tier customer. Under this new agreement, LKQ will be the primary provider of alternative replacement parts for this customer across the United States with incentives to grow their annual volume with us.

Additionally, during the quarter the team launched a regional pilot program with a top five insurance carrier to be their preferred supplier for all recycled parts. As part of this program, we are highlighted within CCC's estimating platform to show our parts first in the search function and are specifically designated as the approved supplier for this carrier. While we don't anticipate this pilot program to have a material impact on our results, if eventually rolled out on a national basis, it could provide an uptick to our salvage volumes.

Lastly on North America, during the quarter our glass business PGW and FCA Mopar, mutually agreed to end the agreement related to the distribution of batteries to the FCA dealer network. Similar to rationalizing our asset base, we are continuously looking at our product portfolio to assure we are focusing on profitable revenue. While ending this agreement will negatively impact our organic revenue growth in Q4 and throughout 2020, it will have a nominal impact on earnings in both periods and will improve the future operating margins of our PGW business.

Moving to our European segment, organic revenue growth for parts and services in the third quarter increased 2.1% on a reported basis, and seven-tenths of 1% on a same day basis. Acquisitions added 1.3% of revenue growth to the European results, while the strong dollar resulted in a negative impact of 4.6%. As noted by other public companies with European exposure, the soft economic backdrop continues to create an industry headwind.

That said, our performance on a relative basis appears to be strong, which gives us confidence that we are gaining share. While we don't disclose country-by-country detail, on a same day basis, we witnessed positive organic revenue growth for each of the markets in which we operate, except for Germany, which was essentially flat, and Italy, which was down. The Italian market continues to face significant macroeconomic headwinds.

Across the continent, we expect trade disputes with the U.S. along with Brexit related uncertainty to continue to weigh on the European economies. With respect to Brexit, as most of you know, on October 28, European leaders agreed in principle to extend the Brexit deadline until January 31, 2020. We continue to closely monitor the Brexit situation to ensure our UK business is positioned accordingly with appropriate inventory levels.

As most of you on the call are aware, on September 10, we provided the investment community with an overview of our European strategy. The call focused on our transformation into a sleeker, more agile organization, which internally we refer to as 1 LKQ Europe.

As I stated on the September call, going forward, we will begin to operate more as a single business as opposed to a collection of independent businesses. Today, we are by a wide margin, the largest most profitable distributor of automotive parts in Europe, with metrics that are unparalleled in the industry with respect to the number of countries and customers served, the number of locations operated, SKUs offered and total revenue generated. Our goal now is to optimize all aspects of 1 LKQ Europe.

Importantly, during Q3, we experienced a 90 basis points sequential improvement in EBITDA margins compared to only 20 basis points of sequential growth in 2018. The margin improvement is entirely consistent with the expectations we set forth during our call last month. And as Varun will discuss, the improvement is after covering approximately 10 basis points of transformation expenses.

As Europe has become a larger portion of our global revenue and as part of our Board's ongoing director refreshment process, on October 3, we announced the addition of Patrick Berard to our Board of Directors. As CEO of Rexel Group, Patrick has a successful track record of leading global B2B distribution networks. His operational knowledge and experience of the European markets will provide tremendous value to the Board and the organization as we continue to execute our 1 LKQ Europe strategy, and we welcome his addition to our Board. Alongside Robert Hanser who joined our Board in 2016, Patrick represents the second addition to the Board with extensive experience in the European markets and distribution.

Now let's move on to our specialty segment. During Q3, organic revenue growth for parts and services for our specialty segment increased 1.5% on a reported basis and was generally flat when adjusting for one more selling day as we continued to face unfavorable market conditions in Canada. On the plus side, the rollout of our RV OEM warranty programs continues to yield positive results and were well received at the RV Open House event in Elkhart, Indiana in September. Additionally, the team finalized a designated supplier agreement to be the aftermarket parts and services provider to Cap-IT Genuine Truck Ware stores.

Moving on to corporate development. The third quarter was quiet with no acquisitions closing during Q3. On the first day of Q4, we closed on the acquisition of another diagnostics and calibration business in North America. This represents our second transaction in the services sector, and is consistent with our strategy to become a leader in the diagnostics and calibration market. During the third quarter, our development team continued to make solid progress with our assets held for sale efforts, and ongoing rationalization of our asset base and the divestiture of non-core businesses.

On August 8, we announced the divestiture of our recycled aviation parts business AeroVision International. Additionally, on October 1, we announced that we merged our subsidiary Auto Kelly Bulgaria with Elit Kar creating one of Bulgaria's leading distributors of automotive spare parts. LKQ now owns a 20% equity interest in the combined business.

Finally, during Q3, we continued our efforts in rationalizing our branch network in Europe by closing six underperforming branches in Western Europe and two in Eastern Europe.

And with that, I will now turn the discussion over to Varun, who'll run through the details of the segment results and discuss our updated 2019 guidance.

Varun Laroyia

Thanks, Nick, and good morning to everyone joining us on the call. Overall, we are pleased with our third quarter performance, especially related to improvement in segment EBITDA margin, and strong free cash flow generation. These are exciting times for us as the field teams have embraced our key financial priorities of profitable revenue growth, margin expansion and free cash flow generation. The results speak for themselves.

Seeing the positive momentum carrying through the third quarter enhances our confidence about LKQ's strategic priorities and our ability to deliver on them. Before diving into the results, let's start with the key financial highlights.

Operating cash flows in the third quarter were $327 million, the second highest quarterly amount in the company's history, trailing only the most recent previous quarter, that being the second quarter of 2019. Our segment teams are doing a tremendous job managing trade working capital to deliver strong operating cash flows. After two historically high quarters of cash flow generation, we do expect to see a softer fourth quarter in terms of operating cash flows. I'll cover the full year outlook in the guidance discussion.

Free cash flow for the quarter totaled $262 million or $126 million higher than the same period in 2018 and $800 million on a September year-to-date basis. While the absolute number of free cash flow is important, we are also actively analyzing the efficiency of our cash flows and what level of our earnings we can convert to cash on a sustainable basis.

Looking at slide number 25, you can see a positive trend in the free cash flow to EBITDA conversion ratio this year on the programs we put in place in the second half of 2018. This year's growth trajectory is well above our initial expectations. And while that ratio will moderate in the fourth quarter, I am very encouraged about the improvement relative to the last five years. The strong cash flows enabled us to buy back 3.9 million shares of LKQ’s stock for approximately $101 million in the third quarter.

Looking at slide number 26, for the program to-date we have purchased 13.2 million shares at an average price of $26.66, a healthy discount to recent trading levels. Additionally, we paid down debt by $109 million in the quarter and $391 million in the nine months through September 30. By doing so, we were able to decrease our net leverage ratio to 2.6 times, which is the same level as the first quarter of 2018, the last quarter before we acquired Stahlgruber.

Getting back to the pre-acquisition leverage ratio, following the company's largest ever transaction, within five quarters is a terrific accomplishment. And this of course does not reflect the active share repurchase program I referenced earlier. Returning cash to our shareholders while reducing our net leverage ratio speaks to the strength of our business to generate strong cash flows. Nick mentioned the $500 million expansion to the share repurchase authorization, which is supported by our expectation of sustained strong cash flows, and the success of our share repurchase program to-date.

Now I will cover our consolidated and segment results, similar to last quarter, to save myself some words and also as the accompanying earnings deck is largely self explanatory, when I refer to net income and diluted EPS, please note that I will be referring to the amounts from continuing operations attributable to LKQ shareholders. In addition, Nick covered the details on net income and earnings per share, so I will not repeat.

Please turn to slides 12 and 13 of the presentation for a few points on the consolidated third quarter results. The consolidated gross margin percentage decreased 20 basis points quarter-over-quarter to 38.1%, though please note that the reported margin includes $17 million in restructuring related costs classified in cost of goods sold, which represents a 50 basis point negative impact on gross margin. Setting aside the restructuring, we saw improvement in the quarter driven by 100 basis point improvement in North America.

Restructuring and acquisition related costs in operating expenses were $9 million as a result of ongoing expenses related primarily to the restructuring initiative we announced last quarter. Interest expense was favorable by $9 million or lower by 21% compared to the third quarter of 2018, owing to low interest rates and average debt balances and some favorable translation effects.

Moving to income taxes, our effective tax rate was 28.1% for the quarter, which reflects the incremental expense for the year-to-date catch up, caused by a change in our estimate of the annual effective tax rate. We increased the estimated rate to 27.5%, up from 27% this quarter, primarily due to a shift in our projected geographic allocation of income. Equity in earnings of unconsolidated subsidiaries, which relates mostly to our investment in Mekonomen reflected income of $4 million versus expense of $20 million in the third quarter of 2018. You will recall that we recorded a $23 million impairment charge on our Mekonomen investment last year.

Now please turn to Slide 16 for highlights on segment performance starting with North America. Gross margin was 44.2% or 100 basis points higher than last year. For the most part, the margin expansion reflects the continued benefits of initiatives in both of our aftermarket and salvage operations, as well as efforts in our glass business to be recognized for our quality of service and breadth and depth of inventory, and also the ability and successfully to renegotiate underperforming contracts.

While the self-service operation was a drag on segment gross margin, with a quarter-over-quarter decrease due to scrap pricing, the impact was not material on a year-over-year basis. Sequential changes in scrap prices had an unfavorable impact of $8 million for the quarter, compared to a negative impact of $7 million in the third quarter of 2018, creating a $1 million year-over-year negative swing. With scrap trading at even lower levels in October, we are anticipating a further hit in the fourth quarter.

Operating expenses increased by 50 basis points relative to the prior year to 32% for the third quarter of 2019. We picked up a selling day this year, which had a positive leverage effect, but there were several offsetting factors that pushed expenses higher than a year ago.

First, incentive compensation contributed to a 50 basis points increase year-over-year. Last year, the segment fell behind in its bonus targets, causing downward revisions of the bonus accrual, whereas this year's strong performance generated upward revisions in the third quarter.

Second, as mentioned previously, facilities expenses continued to trend higher this year due to expansions and rate increases related to renewals. Facilities expenses increased by 40 basis points relative to a year ago. Our North America team is actively working on monitoring underperforming locations for potential rationalization.

On the positive side, North America showed positive leverage in other personnel costs through lower insurance claim costs as well as disciplined hiring, and implementation of the cost reduction plan I described last quarter. In total, segment EBITDA for North America in the third quarter was $166 million, up $12 million or 60 basis points higher than the prior year.

Closing out on North America, I'd like to recognize the team for following through on the pursuit of the profitable revenue growth objectives. A year ago, we disclosed a 70 basis points decrease in segment EBITDA margin in a period with 5.2% organic parts and services revenue growth. This year, North America has recovered almost the full variance in margin with organic parts and services revenue growth of 1.4% on a per day basis. A disciplined approach of focusing on profitable revenue growth has been a significant enabler of the year-over-year margin improvement.

Moving on to the European segment on Slide 19, gross margin in Europe was 35.3%, down 130 basis points relative to the comparable period of 2018. As Nick previously noted, we recognized restructuring expenses in the United Kingdom for branch and brand rationalization related to the Andrew Page operation. These expenses represented a negative 120 basis point impact for the quarter. Outside of these charges, the segment gross margin was roughly flat, with lower margins in our Central European operations due to pricing and mix mostly offset by benefits of 30 basis points from centralized procurement and improving margins in the United Kingdom.

With respect to operating expenses, we experienced a 30 basis point increase on a consolidated European basis versus the comparable quarter from a year ago. Personnel expenses represented the largest portion of the increase, primarily related to the tightening of bonus accrual adjustments, wage inflation and the negative leverage effect caused by lower sales growth.

For the third quarter of 2019, there was a 10 basis point headwind associated with the ongoing transformation efforts related to the 1 LKQ Europe program. The relatively low amount in the quarter reflects that many projects are in the early stages, and all the costs are currently being capitalized, for example, in the ERP program. We expect the operating expense portion of these costs to increase in the fourth quarter and going forward into 2020.

European segment EBITDA totaled $125 million, a 3.6% decrease over last year. As shown on slide number 21, relative to the third quarter of 2018, both the sterling and the euro weakened by 5% and 4% respectively against the dollar causing a negative effect from translation. The net effect on GAAP EPS this quarter was not material, but represented about a penny headwind on adjusted EPS. Segment EBITDA was 8.6% for the quarter, down 20 basis points compared to the same period last year, with about half of the decrease attributable to transformation costs.

We remain confident in our ability to deliver the outcomes detailed in our September 10 1 LKQ Europe goal and expect to finish the full year within the previously disclosed segment EBITDA margin range of 7.8% to 8.3%.

Turning to the specialty segment on Slide 22, the gross margin percentage declined 80 basis points in Q3 relative to the comparable period of 2018. Of this amount, 40 basis points related to unfavorable product mix, while 20 basis points resulted from higher net product costs, as our supplier discounts were lower than realized in the prior year.

On the other hand, operating expenses improved by 130 basis points with reductions in personnel and freight costs, more than offsetting higher selling expenses. The improvement is partially attributable to the leverage benefit from an additional selling day in the third quarter in 2019. Segment EBITDA for specialty was $45 million, up about 6% from Q3 of 2018 and as a percentage of revenue was up 50 basis points to 11.5%. With a backdrop of low revenue growth, the specialty team has taken decisive action, as evidenced by the year-over-year decrease in operating expense dollars and continues to evaluate the cost structure to protect the segment margin.

Let's move on to liquidity and the balance sheet. As presented on Slide 24, you will note that our operating cash flow for Q3 was $327 million or 70% higher than a year ago. Our key working capital accounts that is trade receivables, inventory and payables generated a cash inflow of $58 million in the quarter compared to an outflow of $64 million a year ago. The purchasing teams continue to take a disciplined approach to inventory, given soft trading conditions, which has contributed to a year-over-year improvement in working capital.

That said, we anticipate inventory to represent a use of cash in the fourth quarter as we take advantage of buying opportunities and build inventory for the expected seasonal revenue increase going into Q1. Do note that while we are making solid progress on the vendor financing program in Europe, we do not expect meaningful benefits till we get into the new year.

CapEx for the quarter was $64 million, resulting in free cash flow for the quarter of $262 million and $800 million on a year-to-date basis.

Finally, moving to Slide number 27, as of September 30, we had $433 million of unrestricted cash, resulting in net debt of about $3.5 billion.

Now, I would like to provide an update on our annual guidance. Please note the guidance assumes that scrap prices and foreign exchange rates hold at current levels. As Nick noted earlier, we are pleased with the third quarter results. North America continues to perform well despite the ongoing challenges in scrap metal prices. Our specialty segment is continuing to create new service offerings that have won industry-wide acclaim and has been decisive on costs given the revenue outlook. We see challenges with European economic conditions, holding for the remainder of the year. And despite the underlying business being resilient, the management team is adapting to the softer market conditions by accelerating the integration and cost efficiency programs in addition to simplifying by thoughtfully evaluating various programs that may not deliver benefit in the near-term.

As you'll recall, details of the European actions were provided at a comprehensive briefing on September 10. As mentioned earlier, we expect scrap metal prices to continue to negatively impact our results in the fourth quarter. Despite this backdrop, we are holding the adjusted EPS at the midpoint of $2.34, while appreciating some headwind in Q4 from scrap metal prices and FX at the current levels. We are increasing our expected cash flows from operations for the year by $150 million at the low end to $950 million and by $125 million to hit $1 billion at the high end.

I'll run you through the updated guidance figures. Organic parts and services revenue growth revised to 25 basis points to 100 basis points for the full year to take into account the actual for the most recent quarter. Diluted EPS on a GAAP basis is updated to a range of $1.69 to $1.76 accounting for the first half activity primarily related to the non-cash impairment charges as well as restructuring charges incurred through September; Adjusted diluted EPS in a narrower range of $2.31 to $2.37, and so $2.34 at the midpoint. Cash flows from operations has been increased to a range of $950 million to a $1 billion and capital spending range is narrowed to $240 million to $260 million.

In summary, the third quarter has several highlights showing where actions are bearing fruit such as North American margins and generating strong free cash flow that's funded the ongoing share repurchase program and the materially higher debt pay down. While the softer macro conditions in Europe and the ongoing downward pressure in scrap gives us full support, we believe there is resiliency in the model to adjust to the market conditions and deliver on our commitments. Overall, we remain optimistic about our prospects for the future.

Now, I'll turn the call back to Nick for closing remarks.

Nick Zarcone

Thank you, Varun for that financial overview. In closing, I would like to review a few of the key initiatives discussed on previous calls that will continue to be points of focus during the balance of 2019 and as we begin our 2020 budgeting process.

First, we will continue to integrate our businesses and simplify our operating model. Second, we will continue to focus on profitable revenue growth and sustainable margin expansion. Third, we will continue to drive higher levels of cash flow, which in turn, give us the flexibility to maintain a balanced capital allocation strategy. And fourth, we will continue to invest in our future.

And as you can see from our third quarter results, these programs and targets are gaining momentum throughout the organization. And our teams are diligently working towards achieving their respective goals.

We have well thought out plans, are focused on crisp execution, and we are achieving positive results. I want to thank our over 51,000 team members who daily endeavor to overcome the short-term variables that are out of our control by tackling opportunities to drive organic sales, aggressively pursue market share gains, implement operational efficiencies to enhance the productivity and profitability of our organization, and to provide industry-leading customer service. We believe that when combined, these factors will create long-term value for our stockholders.

And with that operator, we are now ready to open the call for questions.

Question-And-Answer Session

Operator

[Operator Instructions]. Our first question this morning comes from Craig Kennison from Baird. Please go ahead.

Craig Kennison

Hey, good morning. Thank you for taking my question. And apologies for the background noise. Varun, the cash flow is such an impressive piece of the story right now. And I'm curious, to the extent you're drawing down inventory on a per location basis, if you will, have you seen any impact on fulfillment rates or have you been able to sustain those fulfillment rates?

Varun Laroyia

Craig, hey, good morning. It's Varun here. I think it's a great question. And as I said in some of the upfront remarks, the teams have just been doing a phenomenal job on the trade working capital program.

Just for the quick memory jogger, trade working capital comprises inventory tables offset by trade receivables. And as we said, we were in a overbought position in several locations as we have optimized our overall distribution, including the level of inventory that we were holding in several sites. We have certainly seen a reduction. The other piece to note is, as we've always talked about, as revenue becomes a little bit softer -- and again, this is in line with the pursuit of profitable revenue, so the quality of revenue, inventories will also get readjusted. And that really is what's happening.

To your specific question with regards to are we seeing any stock out scenarios or any drop in fulfillment rates? Absolutely not. This will be done very, very carefully in terms of where we were holding excess inventory, inventory that was not moving for example. And to kind of give you one specific example, you would have noted that we took a COGS restructuring for our Andrew Page operations in the United Kingdom. Again, as part of the branch and brand rationalization, there was inventory that frankly did not fit with the future plans for that business. And that's really how it's taking place. But no, we're seeing no drop off in any fulfillment rates.

Operator

Our next question comes from Bret Jordan from Jeffries. Please go ahead.

Bret Jordon

Hey, could you talk about the impact from this Fiat Chrysler battery distribution shift? I mean, I guess what was it? What would be the revenue comparison with it exiting the business? What's the margin benefit? I think those were sort of profitable sales. And then what's the timing on it? Does it impact the fourth quarter or is that 2020 shift?

Nick Zarcone

Thanks, Brett. We started the FCA agreement in January of 2018. As we ran through last year, clearly the impact on organic growth was about 1% in a positive fashion. So that's basically what we're going to be giving up over the next 12 months. It will start a bit here in Q4. It won't be a full impact, probably 70 to 80 basis points of pressure on organic. And then we'll -- obviously the full revenue give back, if you will, will occur in 2020. But again, the reason for not renewing that contract is it wasn't meeting our internal kind of hurdles as it relates to margins and returns. And I think the folks at FCA appreciated that. So it was a amicable kind of separation, if you will. As I indicated in my prepared remarks, while it will have an impact on our organic growth, the impact on earnings will be nominal. And so margins will be going up by getting rid of that low margin business.

Operator

Our next question comes from Stephanie Benjamin from SunTrust. Please go ahead.

Stephanie Benjamin

I wanted to touch on what you're seeing in the North America aftermarket business. I think you pointed to salvage really outperforming but you were seeing some acceleration on the aftermarket side as we moved throughout the quarter. Is that more function of just seeing some easier comps or how should we kind of think about the performance of really the strength in the salvage and then what's going on in the aftermarket? Thanks.

Nick Zarcone

Sure. On the salvage side, obviously we have a leading position. We've been able to buy cars, total losses at a reasonable price. And so our margins in that business are strong and we believe they will continue to be strong. On the aftermarket side of the business, again, the growth early in the quarter was a little bit slower. We showed progress during the quarter. The early returns here in October look very good as it relates to aftermarket product. We think some of it, again, has to do with the pitch towards higher APU by the insurance companies and obviously aftermarket products are a largest share of the alternative marketplace. We've seen a little bit of positive movement out of the folks down in Bloomington at State Farm. Nothing to write home about, but again, the movement in the positive direction, if you will.

And then actually the GM strike has helped us a little bit as well. So there's a number of things that are kind of gentle tailwinds in the aftermarket business, and we're anticipating that they will continue in Q4.

Operator

Our next question comes from Michael Hoffman from Stifel. Please go ahead.

Michael Hoffman

Hi, thank you very much for questions. Happy Diwali, Varun.

Varun Laroyia

Last weekend.

Michael Hoffman

Yes, it was. Cash flow from operations, is that, one of its best percent of revenues ever. Where can that go and how do I think about that progressing into next year?

Varun Laroyia

Great question, Michael and really appreciate the kind wishes for Diwali also. It is a big event in the Hindu calendar. And again for those of you that celebrate Halloween and my family celebrates all of it, Happy Halloween to everyone, we’re certainly enjoying great LKQ weather here in Chicago, needless to say. Yes, and with regards to cash flow generation, this is something that we've talked to the markets for quite some time. This is a case of operating our businesses with a tremendous amount of focus.

Again, as I kind of said in some of my upfront comments, the pace at which our field teams have taken over this initiative has been phenomenal. We are thrilled about it, and it really gives us various options. If you think about it the way we have deployed the capital over the last year, last four quarters, it's been a balanced capital allocation strategy. Not only have we bought back $352 million worth of LKQ stock, in addition to that last 12 months, we've paid down close to $426 million on our debt that we've been carrying also.

In addition to that, as we think about going into 2020, there will be the seasonal uptick with regards to revenue. And so, we are seeing at this point of time certain buying opportunities in all three of our segments, North America wholesale, Europe and also specialty, and we will judiciously deploy that cash.

And with regards to the share repurchase program, given the success of that program, as we announced earlier this morning, the Board has re-upped for further $500 million. So at this point of time, we have close to $650 million of capacity. And then again the debt pay down will continue. We don't talk about corp dev transactions in any case, but we have made a commitment that there were no large platform transactions that were in the pipeline and it really will be kind of going back towards our debt pay down, share repurchases and things along those lines.

I think the one piece that I'm not sure very many people have noticed that at the high end of our operating cash flows in the upgraded guidance, we're calling out $1 billion of operating cash flows in the current fiscal year. And we think that is tremendous. It doesn't happen overnight. And again, just really a massive thanks to our field teams for really getting back in terms of the focus on this initiative. As we think going forward, various options to move forward in terms of how we deploy the cash. There are plenty of alternatives and I'm happy to report that there are a number of very exciting opportunities of what we can do. We will certainly give further guidance when we give guidance for 2020 in terms of more robustness in terms of how we plan to deploy that capital. But as of now, we do have several levers that we could deploy that cash.

Nick Zarcone

And Michael, one of the things going forward that has had almost no impact thus far is the vendor financing program, as Varun indicated in his prepared remarks, that will really begin to kick in next fiscal year. And so that will be in an incremental lever that we will have on a going forward basis.

Operator

Our next question comes from Daniel Imbro from Stephens. Please go ahead.

Daniel Imbro

I wanted to follow up on the revenue rationalization. You guys have done a great job kind of rationalizing unprofitable business in both the U.S. and Europe. You mentioned the FCA contract, but how far along are we in that process? Is there still further business that you think you can rationalize in Europe and then same question for the U.S. as well?

Nick Zarcone

Yes, so in the U.S., we think we're largely done. Again, we spent a lot of time last year, early this year really focusing on profitable revenue growth and margins, gross margins in our North American business. Clearly, the FCA contract didn't fit within that, those parameters. So again, we decided to exit. In Europe it's less of a product line review and more of a kind of a country-by-country review. I mean part of the reason for exiting Bulgaria was, it was an incredibly low margin opportunity. We still have some other businesses that are being held for sale in Europe and they are lower margin businesses as well.

We continue to monitor and will continue to monitor both on a product line basis and kind of a legal entity basis to find opportunities we're looking forward. It's just -- those activities or businesses just are not going to return on the level of margins and return on capital that we believe our shareholders desire. And we will continue to be aggressive in kind of pruning opportunities, but there's no one big material item out there, Daniel. It's kind of pruning some smaller businesses and/or lines of business.

Operator

[Operator Instructions]. Our next question comes from the line of Chris Bottiglieri from Wolfe Research. Please go ahead.

Chris Bottiglieri

So yes, first off a great job on the free cash flow and North America margins really impressive. I did want to focus on Europe with that said. Relative to the guidance that you gave on 9/10, just wanted to get a sense where it looks like kind of a steep implied ramp in Q4, did something change at all at the margin when you gave that guidance or was this

Q4, did something change at all at the margin when you gave that guidance or was this always meant to be Q4 weighted? And then -- nothing that's out of the way. And then this is a related thought. I don't speak Dutch, but it seems like you've made some branding efforts in the Netherlands and Belgium with rebranding Fource. I was hoping you can kind of comment on what you're doing there and kind of what that means for the overall portfolio. If you see a broader rebranding taking place? Thank you.

Nick Zarcone

Yes, so I'll start and Varun can fill in. The results for the third quarter for Europe were exactly in line with our expectations when we set forth the guidance back on September 10th. And yes, we anticipate that Q4 will be a decent quarter for us in Europe. And so there's no change if you will in the kind of the quarterly progression from what we anticipated back on September 10th.

As it relates to your comment in the Netherlands and Fource, the reality is, while we refer to Sator as the broader organization in the Benelux region, and that's the name of the holding company, our go-to-market brand has always been Fource. And that's been the case for many, many years. I think what you may have seen is, some programs where that -- kind of has bubbled up to the surface. But there's no change there. That's always been our trade name in the Benelux region.

Operator

Our next question comes from Ryan Merkel from William Blair. Please go ahead.

Ryan Merkel

I want to follow-up on EBITDA for Europe in the fourth quarter if I could. I'm just curious, do you think you can expand margins year-over-year or is the macro still too much to overcome?

Varun Laroyia

Ryan, it's Varun. Yes, we do believe we can expand it. I'll give you a couple of data points to think through. First of all from the investor discussion we had seven weeks ago, on the 10th of September with regards to Europe, we were very careful in terms how we were putting forward the cadence of the margin progression, not only for 2019 but the next few years also. Nothing has changed on that front, even including the macroeconomic piece, it has been playing out exactly the way we thought it to be.

You will probably recall in the second quarter we had called out a restructuring plan. And the restructuring plan essentially was to contemplate across all three of our reporting segments, optimizing the infrastructure costs, given the macroeconomic outlook with regards to revenue, we know that there was a certain level of revenue that we needed, given the relatively high fixed costs nature of the European business. And with regards to that, we have been taking action. And you would have noted in addition to the $17 million of COGS restructuring we took another $9 million was taken in the third quarter. We will see some of those benefits come through also.

So overall, it was planned along those lines, and we do fundamentally believe that our European business will be within the range of the 7.8 to be 8.3 that we had called out seven weeks ago, so nothing has changed from that perspective.

Nick Zarcone

And on a year-to-date basis, we're at 7.8 in Europe, so the fourth quarter does not need to be hard if you will to hit the guidance that we set forth on September 10.

Operator

[Operator Instructions]. We have no one in queue at this time. I'll turn the call over to you.

Nick Zarcone

Okay. Thank you, operator. Well to everybody on the other ends of the call, we greatly appreciate your time and attention. We understand this is a very busy reporting season and we appreciate you spending this past hour with us. Again, we look forward to chatting with everybody again in late February, as we announce our 2019 year-end results, which I believe is going to be on February 20. And we're looking forward to a good conversation then as well. So thank you and we'll talk to you soon.

Operator

This concludes today's conference. Thank you for your participation. You may now disconnect.