



LKQ Corporation

A scale-distribution franchise with a credible, but bounded, strategic catalyst

Ticker / price	Equity / enterprise value	2026E adjusted EPS	Current income yield
Nasdaq: LKQ / \$25.42	\$6.47bn / ~\$10.17bn	\$2.60-\$2.90	4.7% dividend / 10.8% FCF

Market data as of August 14, 2026. Enterprise value uses \$4.0bn debt and \$301m cash at June 30, 2026. FCF yield uses the midpoint of 2026 guidance. [1][9]

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5-YEAR TSR REFERENCE CASE: 15.4% = 4.7% + 5.0% + 5.7%			
15.4%	4.7%	5.0%	5.7%
Annualized TSR	Dividend yield	EPS growth	Multiple reversion

Mechanical five-year bridge: current TTM P/E 12.6x (\$25.42 / \$2.02 GAAP EPS) reverts to the 2016-2025 year-end average of 16.6x, adding ~5.7% per year. EPS growth is the memo base case. The bridge is a reference case, not a target-price forecast. [1][7][9]

Thesis

LKQ owns difficult-to-replicate vehicle-parts distribution networks in North America and Europe. SKU breadth, local inventory, route density, repair-shop relationships, and insurer acceptance form a service moat that should endure even though 2025-2026 execution has been poor. The market is treating Europe's Germany ERP disruption, North American margin compression, and lower repairable claims as permanent. The narrower variant view is that a meaningful share of the damage is reversible: North America has returned to organic growth, alternative-parts utilization is at a record, Europe can recover service and part of its margin, and free cash flow can fund debt reduction. The formal strategic review - including a possible sale of all or part of LKQ, an active multi-party process, and a parallel Specialty review - adds credible optionality. Over a 5-8 year holding period, modest EPS growth plus the dividend can produce a satisfactory return; mean multiple reversion or strategic action provides upside rather than rescue. [1][2][4]

Four-question scorecard

Question	Score	Why it is not higher
Business quality	4.0 / 5.0	Service moat and low capex; current ROIC and Europe complexity cap the score
Price	4.0 / 5	Cheap on depressed earnings and FCF; leverage narrows the margin of safety
People / allocation	3.0 / 5	Better incentives and simplification; mixed buyback, M&A, and execution record
Hidden nugget	4.5 / 5.0	A real multi-party strategic process; sponsor economics limit a simple take-private

2 Business and Industry

A high-quality service network whose scale is valuable only when local execution works

Business model in plain English

LKQ distributes parts used to repair, maintain, and customize vehicles. Customers choose among new OEM parts and lower-cost alternatives: aftermarket, recycled, reconditioned, and remanufactured products. LKQ's economic job is simple: have the right part near the repairer and deliver it fast enough that a technician and repair bay are not left idle. Parts and services represented 97.5% of 2025 revenue. [2]

Segment	2025 revenue	2025 EBITDA margin	Economic role
North America	\$5.65bn	14.4%	Collision, paint/body, mechanical, salvage; best route-density economics
Europe	\$6.31bn	9.3%	Broad mechanical-parts distribution; fragmented and service-intensive
Specialty	\$1.69bn	6.5%	Performance/accessory products; currently under strategic review

2025 segment data from LKQ's Form 10-K. Segment EBITDA is management's non-GAAP segment profit measure. [2]

Why business quality is 4.0 / 5.0

- Scale is physical and local, not merely reported market share. Warehouses, salvage yards, cross-docks, inventory systems, repair-shop relationships, and dense delivery routes reinforce fill rate and speed.
- Demand is recurring and partly non-discretionary. The average U.S. light vehicle reached 12.8 years in 2025; an older fleet supports repair demand even as collision claims fluctuate. [6]
- Capex intensity is modest: 2026 guidance of \$200-\$250m is roughly 1.5%-1.8% of 2025 revenue. Cash can therefore fund debt reduction, dividends, and selective repurchases. [1][2]
- The score stops at 4.0 because customer switching costs are behavioral rather than contractual, insurers and OEMs influence part choice, supplier concentration matters, and Europe has shown that network complexity can destroy service quality.

Industry structure and profit pool

Repair shops value availability, accuracy, fit, and delivery speed because labor and bay time are scarce. Insurers influence collision-part utilization, while OEMs control proprietary parts and benefit from brand preference. A national distributor earns an attractive spread when its inventory breadth and delivery density reduce the repairer's total cost. It does not possess unlimited pricing power: local distributors can undercut price, OEMs can narrow the alternative-parts opportunity, and poor fulfillment quickly erodes share. [2]

Force	Assessment	Investment implication
Customer power	Medium-high	Repairers can switch; availability and service reliability matter more than contracts
Supplier power	Medium	Top six NA vendors are 44% of aftermarket purchases; the largest is 13%
Rivalry	High	OEMs, local distributors, recyclers, remanufacturers, and online sellers compete
Substitution	Medium	OEM and alternative parts substitute; regulation, patents, and insurer rules shift mix
New entry	Low nationally / high locally	A national network is hard to copy; local price competition remains easy

CUSTOMER VALUE PROPOSITION LKQ does not need customers to love the brand. It needs repairers to trust that the right part will arrive quickly, fit correctly, and cost less than the OEM alternative. The moat is thousands of reliable local repetitions across a dense network.

3 Financials and Business Quality

Cash generation is real; the underwriting question is how much margin and service can normalize

Metric	2023	2024	2025	H1 / FY 2026
Revenue	\$13.27bn	\$13.82bn	\$13.65bn	\$6.88bn H1
Total segment EBITDA	\$1.71bn	\$1.69bn	\$1.51bn	\$696m H1
North America margin	18.1%	16.3%	14.4%	14.1% H1
Europe margin	9.7%	9.9%	9.3%	7.6% H1
Free cash flow	\$998m	\$810m	\$847m	\$625-\$775m FY guide

2023 FCF is operating cash flow less capex; 2024-2025 reported FCF includes the divested Self Service business. 2026 is company guidance. [1][2]

What deterioration is already in the price

Revenue was roughly flat while segment EBITDA fell 12% from 2023 to 2025, before the 2026 Germany ERP disruption. North America's margin declined 370 basis points as repairable claims, paint/body demand, pricing, tariffs, and costs moved against LKQ. Europe entered 2026 below 10% and then lost service levels and customers during the German rollout. The investment case therefore underwrites only partial recovery; a return to peak margins is not required and should not be assumed. [1][2]

Evidence that the network remains relevant

- Q2 North American parts-and-services organic revenue grew 0.5%, the first positive quarter in nine, while alternative-parts utilization exceeded 40% and private-label penetration reached 26.6%. [1]
- Specialty organic revenue grew 4.5%; consolidated gross margin improved 20 basis points year over year in Q2. [1]
- The counterevidence is severe: Europe organic revenue fell 12.6%, its Q2 margin dropped to 7.5%, adjusted EPS fell to \$0.67 from \$0.84, and first-half FCF was negative \$36m. [1]

Five-year operating bridge used in the memo

Metric	2026E base	2031E base	5-year change	What must happen
Revenue	\$13.4bn	\$14.6bn	~1.7% CAGR	Low-single-digit NA growth; Europe stabilizes
Segment EBITDA	\$1.40bn	\$1.65bn	~3.4% CAGR	Europe ~9%; NA ~15%-16%; no peak-margin case
Free cash flow	\$700m	\$850m	~4.0% CAGR	Working capital normalizes; capex stays moderate
Adjusted EPS	\$2.75	\$3.50	~5.0% CAGR	Operating repair, debt reduction, modest share shrink

Analyst assumptions, not company guidance. 2026E uses the midpoints of current adjusted EPS and FCF guidance and approximately \$1.40bn of annualized segment EBITDA. [1]

ROIC REALITY CHECK The 2026 proxy reports 2023-2025 average ROIC of 9.4% before compensation-plan adjustments and 12.3% after adjustments. The long-term award paid zero because adjusted EPS, organic growth, and ROIC all missed threshold. LKQ is not currently a pristine compounder; the 4.0/5.0 quality score rests on the network and cash economics, with better ROIC still to be proven. [3]

Balance sheet

Position. At June 30, 2026, LKQ had \$3.96bn of debt, \$301m of cash, \$1.93bn of liquidity, and company-defined leverage of 2.8x EBITDA. **Credit ratings.** The June 2026 investor presentation showed S&P BBB-/Stable, Moody's Baa3/Stable, and Fitch BBB-/Positive - all investment grade. **Covenants.** The senior credit agreement caps total leverage at 4.0x (2.8x achieved) and requires at least 3.0x interest coverage (7.4x achieved); the U.S. and euro note indentures have no financial-maintenance covenants. [1][10][11]

H2 2026	2027*	2028	2029	2030	Thereafter
\$26m	\$532m	\$1,111m	\$515m	\$304m	\$1,473m

Contractual debt maturities at June 30, 2026. *The 2027 amount includes a \$500m term loan prepaid on July 29 with revolver borrowings, moving the financing into the December 2030 facility rather than reducing gross debt. [10]

4 Valuation, Strategic Review and LBO

Standalone value is attractive; the strategic process is credible, but bid economics are not unlimited

Current valuation and five-year public-market cases

At \$25.42, LKQ trades at 8.8x-9.8x 2026 adjusted EPS guidance and a 9.6%-12.0% FCF yield. The \$1.20 annualized dividend yields 4.7%. A reverse DCF using a 10% cost of equity and 1.5% perpetual growth implies only about \$550m of normalized annual equity FCF, 21% below the midpoint of 2026 guidance. [1][9]

Current TTM	10-year low	10-year average	10-year high
12.6x	12.7x	16.6x	23.5x

Year-end P/E range for 2016-2025; average is the simple mean. The current TTM multiple is approximately the decade low. Third-party series; reconcile to a terminal-quality source before IC. [7]

Case	Prob.	2031 adj. EPS	Exit P/E	Value incl. dividends	5-year IRR
Bear	25%	\$2.50	10x	\$31	~4%
Base	55%	\$3.50	13x	\$52	~15%
Bull	20%	\$4.25	15x	\$70	~22%

Includes \$6.00 of cumulative dividends over five years, without reinvestment. Probability-weighted proceeds are ~\$50, or ~15% annualized. Analyst assumptions; no case includes a takeover premium.

Hidden nugget: the strategic review is a real process

- On January 26, 2026, the Board announced a comprehensive review that expressly includes a sale of all or part of LKQ. BofA and Wachtell were named advisers; Goldman Sachs was added by Q1. [4][5]
- At Q2, management said the process remained active and that LKQ was engaging with multiple parties. Specialty is now evaluated within the broader review rather than on an isolated timetable. [1]
- Execution evidence exists: the 2025 Self Service sale followed a competitive process, produced \$410m of enterprise value, and funded roughly \$390m of debt repayment. [2]
- The optionality is bounded. Press reports have placed Specialty near \$1bn, about 9x its 2025 EBITDA, but taxes, lost EBITDA, stranded costs, and dis-synergies determine the net value. [2][8]

Illustrative five-year take-private analysis

Stage	Purchase / operating case	Leverage / multiple	Debt	Sponsor equity outcome
Entry	\$33.05 offer; \$12.11bn EV	8.7x EV / EBITDA	\$7.00bn / 5.0x	\$5.11bn equity check
Exit	\$1.65bn EBITDA; \$13.20bn EV	8.0x exit	\$3.75bn	\$9.45bn equity value
Return	\$3.25bn cumulative debt paydown	No dividend or buyback	Incremental interest embedded	1.85x MOIC / 13.1% IRR

Illustrative analyst model: 30% premium, 2026E EBITDA of \$1.40bn, 5.0x debt financing, five-year hold, no fees, no Specialty proceeds, and all post-LBO FCF swept to debt. Not a financing commitment or fairness opinion.

Exit EBITDA / net debt	7.0x exit	8.0x exit	9.0x exit
\$1.40bn / \$4.00bn	2.6%	7.1%	11.0%
\$1.65bn / \$3.75bn	8.8%	13.1%	16.8%
\$1.87bn / \$3.50bn	13.4%	17.5%	21.1%

Sponsor IRR sensitivity at a 30% purchase-price premium. Only the upside operating case with a 9x exit clears ~20%. At a 15% premium, the base LBO produces ~18% IRR; at no premium, ~24%.

STRATEGIC-REVIEW CONCLUSION A plain financial-buyer take-private does not support a rich premium on conservative assumptions. A strategic buyer with synergies, a separation of North America and Europe, Specialty monetization plus debt reduction, or better operating results can create more value. This is why the hidden nugget earns 4.5/5.0 rather than 5.0/5.0.

5 CEO and Capital Allocation

Justin Jude is unusually relevant to the thesis - both as an operator and as the person accountable for execution

CEO background and fit

Period	Role	Why it matters now
2004-2008	Joined LKQ; North American operating roles	Institutional knowledge across a decentralized network
2008-2014	VP Supply Chain; VP Information Systems - North America	Direct experience in the two capabilities at the center of the thesis
2014-2015	President, Keystone Automotive Operations	Led the business now reported as Specialty
2015-2023	President, Wholesale - North America	Ran LKQ's highest-quality segment and developed the operating bench
2024-present	COO in January; President and CEO from July	Owens the simplification, Europe repair, and strategic-review agenda

Company leadership biography and 2026 proxy. [3]

The fit is unusually strong: Jude has spent more than 20 years inside LKQ and previously led supply chain, information systems, Specialty, and North America. The accountability is equally direct. A CEO with this background should be capable of restoring service and inventory discipline; if Germany's ERP problems persist or North America remains below historical economics, the explanation cannot be lack of relevant experience. As of March 10, 2026, Jude beneficially owned 202,683 shares, worth about \$5.2m at the current price; directors and executives as a group owned less than 1%. [3]

Incentives: improved design, hard evidence of misses

Plan	Measures	Observed outcome / judgment
2025 annual bonus	EBITDA 30%; margin 30%; FCF 40%	EBITDA and margin paid 0%; FCF paid 200%; total payout 80%
2023-2025 LTI	EPS 40%; organic growth 40%; ROIC 20%	All three missed threshold; zero payout
2025-2027 PSU	EPS 40%; organic growth 20%; ROIC 40%	ROIC weight doubled; 11.0% target and \$4.00 EPS target

2026 proxy. The 2023-2025 ROIC result was 9.4% unadjusted and 12.3% after plan adjustments versus a 14.5% threshold. [3]

Capital-allocation audit

Action	Capital deployed / recovered	Value-creation test	Assessment
Uni-Select (2023)	\$2.1bn, largely debt financed	ROIC and integration returns vs. WACC	Expanded Canada/PBE; increased leverage and complexity before a downturn
Self Service sale (2025)	\$410m EV; ~\$390m debt repayment	After-tax proceeds less lost EBITDA	Positive simplification; competitive process demonstrates willingness to act
Repurchases since 2018	71m shares / \$3.0bn through Q2 2026	Discount to conservative intrinsic value	Average ~\$42.25 vs. \$25.42 today; material shrink, mixed timing
Dividend	\$0.30 quarterly / ~\$306m annualized	Coverage after reinvestment and debt service	4.7% yield; covered, but should not outrank leverage repair
Strategic review	Active; multiple parties; no timetable	Net proceeds, stranded costs, tax, dis-synergies	Credible catalyst; outcome and timing remain uncertain

Capital-allocation facts from the 2025 10-K, Q2 2026 results, and 2026 proxy. Average repurchase price is a simple calculation. [1][2][3]

The allocation order that would increase conviction

1. Repair Europe and disclose service-level milestones; do not classify recurring operating costs as temporary.
2. Apply divestiture proceeds and excess FCF to net leverage below 2.5x before another large acquisition.
3. Repurchase shares only when the discount to conservative standalone value is clear and liquidity remains ample.
4. Judge every strategic outcome on after-tax, post-stranded-cost value per share - not headline enterprise value.

MANAGEMENT JUDGMENT - 3 / 5 Jude has the right operating background, incentives now emphasize ROIC, and recent simplification is directionally correct. The offsets are concrete: a debt-funded acquisition legacy, buybacks well above today's price, falling margins, and a major technology execution failure. The next 12-18 months should be judged on service metrics, margin conversion, and transaction net value.

6 Risks and Disconfirming Evidence

The memo should say not only what can go wrong, but how we will know

Risk	Why it matters	Early warning / thesis killer	Response
Europe is structural	ERP disruption may accelerate customer loss in an already competitive market	Service normalizes but 2027 margin remains below 8.5%; customers do not return	Do not add; exit if share loss persists after systems stabilize
North America margin erosion	The best segment fell from 18.1% in 2023 to ~14%	Two normal quarters below 14% despite positive organic growth	Lower normalized margin and valuation; cap at 2%
Accident frequency / autonomy	ADAS and, eventually, autonomous vehicles can structurally reduce collision volume. Higher repair complexity and LKQ share gains are meaningful offsets, not a complete hedge. [1][12]	Repairable claims fall >5% annually for 3 years; LKQ no longer outgrows claims by at least 300 bps; parts and calibration dollars do not bridge the gap	Cut North America terminal growth and multiple; exit if severity and share no longer offset frequency
Cash conversion disappoints	H1 2026 FCF was negative \$36m and leverage is meaningful	FY 2026 below \$625m absent clearly reversible timing	Suspend adds; prioritize debt and working-capital analysis
Balance-sheet risk	\$4.0bn debt magnifies operating and transaction errors	Company-defined leverage >3.0x or refinancing cost jumps	Cut exposure; require explicit deleveraging plan
Supplier / tariff pressure	NA sourcing is concentrated and exposed to Asia/Taiwan	Pricing fails to offset tariffs; fill rate deteriorates	Lower gross-margin assumptions and stress liquidity
Regulatory / OEM response	Patents, safety rules, or insurer policy can restrict alternative parts	Material loss of part eligibility or insurer acceptance	Reassess moat and long-term addressable market
Strategic outcome destroys value	Process can distract management or crystallize stranded costs	Deal depends on aggressive synergies or leaves weak residual economics	Underwrite standalone value; oppose weak net economics

Pre-mortem: it is 2031 and the investment failed

The failure path is a slow bleed, not a collapse. Europe stabilizes its systems but cannot regain customers; persistent price competition keeps margins below 8%. ADAS and increasingly autonomous vehicles drive repairable claims down faster than higher parts and calibration content and LKQ's market-share gains can offset. North American mix, tariffs, and insurer pressure cap margin near 14%. Management treats cost as temporary, maintains the dividend, and pays debt down too slowly. Specialty is sold at a fair headline price, but taxes and stranded costs consume the benefit. The whole-company review ends without a credible bid because sponsor returns do not clear their hurdle. FCF settles near \$500m and the stock remains at an 8x multiple, producing a share price around \$18-\$20 despite years of dividends.

Disconfirming evidence hierarchy

A price decline is not disconfirming evidence. A delayed transaction is not disconfirming because standalone value supports the position. The strongest evidence against the thesis is operational: repairable claims fall more than 5% annually for three years while LKQ ceases to outgrow claims by at least 300 basis points and rising parts/calibration content does not bridge the gap; repair-shop share is lost after service normalizes; margins keep eroding despite volume recovery; cash conversion remains weak after working capital unwinds; or management raises leverage before the network is repaired.

SINGLE MOST IMPORTANT UNKNOWN How much of Europe's 2026 revenue and margin loss is recoverable after Germany's ERP system stabilizes? Before increasing the position, obtain consistent definitions and trend data for fill rate, backlog, on-time delivery, lost customers, win-backs, and recurring versus one-time recovery cost.

TWO-QUARTER DASHBOARD Europe organic revenue: -12.6% toward flat sequentially | Europe margin: 7.5% toward 8.5%-9% | North America growth: sustain >0% | North America margin: 14.1% toward 15% | FY FCF: at least \$625m | leverage: 2.8x with a credible path below 2.5x | collision watch: claims vs. miles, LKQ growth vs. claims, calibration mix, and parts dollars per repair | strategic review: disclose net economics, not just headline value.

7 Portfolio Decision and Research Plan

The holding period is always 5-8 years; sizing reflects analytical, portfolio, and temporal conviction

Conviction	Score	Reason
Analytical	4 / 5	Valuation and network quality are compelling; Europe recovery remains the key uncertainty
Portfolio	4 / 5	Distinct exposure from financials/technology; liquid, cash-generative, and globally diversified
Temporal	3 / 5	The 5-8 year horizon absorbs near-term noise, but execution and review timing remain uncertain

Position-size recommendation

Initiate at 2% below \$26: enough to matter, small enough to survive a 30%-40% drawdown. Increase toward 3.5% only after measurable European service and margin recovery, or a transaction with demonstrable net value. Reach 5% only when at least \$750m of normalized FCF appears repeatable, leverage is moving below 2.5x, and management has not compromised the balance sheet.

Decision rules

Action	Price / evidence rule	Rationale
Buy starter	At or below \$26 with the base thesis intact	Current FCF and dividend yields compensate for uncertainty
Add	Below \$23 only if decline is price-driven; or after Europe recovery at a higher price	Require better evidence, not merely a cheaper quote
Hold	\$27-\$42 while FCF and margins track the base case	Allow time for operational repair and debt reduction
Trim	Above \$45 unless normalized FCF exceeds \$850m or a binding transaction supports more	Upside becomes less asymmetric
Sell	Any page-6 thesis killer; capital-allocation breach; or superior expected-value idea	Evidence outranks anchoring to purchase price

Next research steps

- Build a customer-level Germany recovery bridge: fill rate, backlog, lost accounts, win-backs, delivery time, and gross margin after service normalizes.
- Reconcile reported and adjusted FCF by segment, including working-capital timing, restructuring cash costs, and the post-Self Service perimeter.
- Value Specialty and Europe separately using after-tax proceeds, stranded costs, dis-synergies, debt repayment, and residual corporate expense.
- Reconcile the 10-year P/E series to a terminal-quality data source before investment committee; compare mean, median, and cycle-adjusted multiples.

FINAL DECISION BUY A STARTER POSITION / MODERATE CONVICTION. Business quality is 4.0/5.0 and the strategic-review hidden nugget is 4.5/5.0, but neither warrants a full weight today. The upgrade path is explicit: service recovery, margin conversion, repeatable FCF, lower leverage, and a strategic outcome measured on net value per share.

Source notes

- [1] [LKQ Q2 2026 results and updated outlook \(July 30, 2026\)](#)
- [2] [LKQ 2025 Form 10-K \(filed February 19, 2026\)](#)
- [3] [LKQ 2026 definitive proxy statement \(filed March 23, 2026\)](#)
- [4] [LKQ initiates strategic review \(January 26, 2026\)](#)
- [5] [LKQ Q1 2026 results: strategic-review advisers \(April 30, 2026\)](#)
- [6] [S&P Global Mobility: U.S. vehicle age reaches 12.8 years \(May 21, 2025\)](#)
- [7] [MLQ.ai annual LKQ P/E history, 2016-2025](#)
- [8] [Reuters: LKQ taps BofA for Specialty sale; ~\\$1bn indicated value \(November 13, 2025\)](#)
- [9] [Nasdaq LKQ market quote: price observed August 14, 2026](#)
- [10] [LKQ Q2 2026 Form 10-Q \(filed July 30, 2026; debt schedule and covenants\)](#)
- [11] [LKQ June 2026 investor presentation: investment-grade ratings panel](#)
- [12] [CCC Crash Course 2026: claim volume, repair severity, parts, and calibration trends](#)

Framework source: Chapter 4 and Appendix E of Investing Book July 34(1). Facts are drawn primarily from company and SEC materials. Valuation, probabilities, LBO assumptions, target values, and position sizes are analyst judgments for research and teaching discussion, not individualized investment advice.



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