LKQ Corporation Announces Results for Second Quarter 2023

July 28, 2023

- Revenue of $3.4 billion; parts and services organic revenue increased 4.8% (5.4% on a per day basis)
- Diluted EPS[2] of $1.05; adjusted diluted EPS[1, 2] of $1.09
- Second quarter operating cash flow of $480 million; free cash flow[1] of $414 million
- Dividend of $0.275 per share approved to be paid in the third quarter of 2023
- Completed an offering of $1.4 billion of senior unsecured notes
- Uni-Select Inc. acquisition on track to close on or around August 1, 2023

Chicago, IL. LKQ Corporation (Nasdaq: LKQ) yesterday reported second quarter 2023 financial results. "I am pleased to report strong operational performance for the quarter despite several headwinds, which is a testament to the strength and resilience of our diversified portfolio of businesses. Our largest segments, Wholesale - North America and Europe, produced exceptional second quarter revenue growth and margins by focusing on operational excellence. These outstanding performances offset a steep year over year downturn in commodity prices impacting our Self Service segment and the decrease in demand for our Specialty segment's offerings, headwinds that will impact these segments for the balance of 2023," noted Dominick Zarcone, President and Chief Executive Officer. "We also had excellent cash flow during the quarter. Taken as a whole, I am very pleased with the results and extremely proud of our global teams."

Second Quarter 2023 Financial Results

Revenue for the second quarter of 2023 was $3.4 billion, an increase of 3.2% as compared to $3.3 billion in the second quarter of 2022. For the second quarter of 2023, parts and services organic revenue increased 4.8% (5.4% on a per day basis), foreign exchange rates increased revenue by 0.6% and the net impact of acquisitions and divestitures was flat year over year, for a total parts and services revenue increase of 5.4%. Other revenue for the second quarter of 2023 fell 23.9% primarily due to weaker commodity prices relative to the same period in 2022.

Net income[2] for the second quarter of 2023 was $281 million as compared to $420 million for the same period in 2022. Diluted earnings per share[2] for the second quarter of 2023 was $1.05 as compared to $1.49 for the same period of 2022, a decrease of 29.5%. The Company completed the sale of PGW Auto Glass on April 18, 2022, which generated a pretax gain of $155 million ($127 million after-tax), or $0.45 per share in the second quarter of 2022.

On an adjusted basis, net income[1, 2] in the second quarter of 2023 was $291 million as compared to $307 million for the same period of 2022, a decrease of 5.1%. Adjusted diluted earnings per share[1, 2] was $1.09 for both the second quarter of 2023 and 2022.

Operating improvements had a positive year over year impact on diluted earnings per share[1] in the second quarter to mitigate the net headwind generated by: (i) decreases in commodity prices, which had a negative effect of approximately $0.08, (ii) higher interest rates and average debt balances in the second quarter of 2023, which drove a year over year increase in net interest expense resulting in an unfavorable effect of $0.07 ($0.05 on an adjusted basis) and (iii) the lower share count in 2023, which provided a $0.04 benefit.

Cash Flow and Balance Sheet

Cash flow from operations and free cash flow[1] were $480 million and $414 million, respectively, for the second quarter of 2023. Cash flow from operations and free cash flow[1] were $703 million and $567 million, respectively, for the six months ended June 30, 2023. As of June 30, 2023, the balance sheet reflected total debt of $4.0 billion and total leverage, as defined in our credit facility, was 2.3x EBITDA.

Stock Repurchase and Dividend Programs

During the six months ended June 30, 2023, the Company invested $5 million to repurchase 0.1 million shares of its common stock. Since initiating the stock repurchase program in late October 2018, the Company has repurchased approximately 55 million shares for a total of $2.4 billion through June 30, 2023.

On July 25, 2023, the Board of Directors declared a quarterly cash dividend of $0.275 per share of common stock, payable on August 31, 2023, to stockholders of record at the close of business on August 17, 2023.

Uni-Select Inc. Acquisition Update

On February 26, 2023, we entered into an arrangement agreement in order to implement a plan of arrangement (the "Arrangement") under the provisions of the Québec Business Corporations Act pursuant to which we will acquire all of Uni-Select Inc.'s ("Uni-Select") issued and outstanding shares for Canadian dollar ("CAD") 48.00 per share in cash, representing a total enterprise value of approximately CAD 2.8 billion ($2.1 billion at the June 30, 2023 exchange rate). During the second quarter of 2023, we received the required approvals from Uni-Select's shareholders, the Superior Court of Québec and regulators in the United States and Canada with respect to the Arrangement. On July 21, 2023, the United Kingdom's ("U.K. ") Competition and Markets Authority ("CMA") issued its Phase 1 decision on the Arrangement, and in response we submitted proposed undertakings relating to the divestiture of Uni-Select's GSF Car Parts business in the U.K. As a result of the satisfaction or waiver of all the closing conditions relating to required regulatory approvals on July 26, 2023, Uni-Select and LKQ Corporation will proceed with the remaining procedures necessary to give effect to the Arrangement. Subject to the satisfaction or waiver of the remaining closing conditions pursuant to its terms, the Arrangement is currently anticipated to be completed on or around August 1, 2023 and we plan to divest the GSF Car Parts business soon thereafter.

Other Events

On May 24, 2023, we completed an offering of $1.4 billion aggregate principal amount of senior unsecured notes, consisting of $800 million senior notes due 2028 (the "U.S. Notes (2028)") and $600 million senior notes due 2033 (the "U.S. Notes (2033)") and together with the 2028 Notes, (the "U.S. Notes (2028/33)"). The net proceeds from the offering of the U.S. Notes (2028/33) will be used, together with borrowings under our delayed draw term loan, (i) to finance a portion of the consideration payable for the Uni-Select acquisition, including repaying existing Uni-Select indebtedness, (ii) to pay associated fees and expenses, including fees and expenses incurred in connection with the offering, and (iii) for general corporate purposes.

2023 Outlook

Rick Galloway, Senior Vice President and Chief Financial Officer, commented, "The Wholesale - North America and Europe segments continue to perform ahead of expectations and are mitigating softness in our Specialty segment. However, continued effects from falling commodity prices and higher interest expense are driving changes to our prior EPS guidance range."

For 2023, management updated the outlook as set forth below:

	2023 Previous Full Year Outlook	2023 Updated Full Year Outlook
Organic revenue growth for parts and services	6.0% to 8.0%	6.0% to 7.5%
Diluted EPS[2]	\$3.68 to \$3.98	\$3.65 to \$3.85
Adjusted diluted EPS[1, 2]	\$3.90 to \$4.20	\$3.90 to \$4.10
Operating cash flow	approx. \$1.275 billion	approx. \$1.275 billion
Free cash flow[1]	approx. \$975 million	approx. \$975 million
Free cash flow conversion of EBITDA[1]	55% to 60%	55% to 60%

Our outlook for the full year 2023 is based on current conditions and recent trends, and assumes a global effective tax rate of 27.0%, the prices of scrap and precious metals hold near the June average, and no further deterioration due to the Ukraine/Russia conflict. We have applied foreign currency exchange rates near June average levels, including \$1.09 and \$1.25 for the euro and pound sterling, respectively, for the balance of the year. Prior guidance issued on April 27, 2023 had currency exchange rate levels of \$1.08 and \$1.23 for the euro and pound sterling, respectively. Changes in these conditions may impact our ability to achieve the estimates. The full year GAAP outlook includes transactions and costs related to the potential Uni-Select acquisition that occurred through June 30, 2023 but does not include any projected operational results for Uni-Select, which will only be incorporated after the closing date. Adjusted figures exclude (to the extent applicable) the impact of restructuring and transaction related expenses; amortization expense related to acquired intangibles; excess tax benefits and deficiencies from stock-based payments; losses on debt extinguishment; impairment charges; direct impacts of the Ukraine/Russia conflict (including provisions for and subsequent adjustments to reserves for asset recoverability and expenditures to support our employees and their families), interest and financing costs related to the Uni-Select transaction prior to closing and gains and losses related to acquisitions or divestitures (including changes in the fair value of contingent consideration liabilities and gains or losses on foreign currency forward contracts related to the Uni-Select acquisition).

[1] Non-GAAP measure. See the table accompanying this release that reconciles the actual or forecasted U.S. GAAP measure to the actual or forecasted adjusted measure, which is non-GAAP.

[2] References in this release to Net income and Diluted earnings per share, and the corresponding adjusted figures, reflect amounts from continuing operations attributable to LKQ stockholders.

Non-GAAP Financial Measures

This release contains (and management's presentation on the related conference call will refer to) non-GAAP financial measures within the meaning of Regulation G promulgated by the Securities and Exchange Commission. Included with this release are reconciliations of each non-GAAP financial measure with the most directly comparable financial measure calculated in accordance with GAAP.

Conference Call Details

LKQ will host an investor conference call and webcast on July 27, 2023 at 8:00 a.m. Eastern Time (7:00 a.m. Central Time) with members of senior management to discuss the Company's results. To access the investor conference call, please dial (888) 330-3494. International access to the call may be obtained by dialing (646) 960-0860. The investor conference call will require you to enter conference ID: 5232422.

Webcast and Presentation Details

The audio webcast and accompanying slide presentation can be accessed at (www.lkqcorp.com) in the Investor Relations section.

A replay of the investor conference call will be available by telephone at (800) 770-2030 or (647) 362-9199 for international calls. The telephone replay will require you to enter conference ID: 5232422. An online replay of the audio webcast will be available on the Company's website. Both formats of replay will be available through August 11, 2023. Please allow approximately two hours after the live presentation before attempting to access the replay.

About LKQ Corporation

LKQ Corporation (www.lkqcorp.com) is a leading provider of alternative and specialty parts to repair and accessorize automobiles and other vehicles. LKQ has operations in North America, Europe and Taiwan. LKQ offers its customers a broad range of OEM recycled and aftermarket parts, replacement systems, components, equipment, and services to repair and accessorize automobiles, trucks, and recreational and performance vehicles.

About LKQ Europe

LKQ Europe, a subsidiary of LKQ Corporation (www.lkqcorp.com), headquartered in Zug, Switzerland, is the leading distributor of automotive aftermarket parts for cars, commercial vans, and industrial vehicles in Europe.

It currently employs approximately 26,000 people with a network of more than 1,000 branches and approximately $5.7 billion in revenue in 2022. The organization supplies more than 100,000 workshops in over 20 European countries.

The group includes LKQ Euro Car Parts, LKQ Benelux-France, LKQ RHIAG Group, Elit, LKQ CZ, and LKQ DACH, as well as recycling specialist, Atracco. LKQ is the largest shareholder in MEKO Group.

Forward Looking Statements

Statements and information in this press release and on the related conference call, including our outlook for 2023, as well as remarks by the Chief Executive Officer and other members of management, that are not historical are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and are made pursuant to the “safe harbor” provisions of such Act.

Forward-looking statements include, but are not limited to, statements regarding our outlook, guidance, expectations, beliefs, hopes, intentions and strategies. These statements are subject to a number of risks, uncertainties, assumptions and other factors including those identified below. All forward-looking statements are based on information available to us at the time the statements are made. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

You should not place undue reliance on our forward-looking statements. Actual events or results may differ materially from those expressed or implied in the forward-looking statements. The risks, uncertainties, assumptions and other factors that could cause actual events or results to differ from the events or results predicted or implied by our forward-looking statements include the factors set forth below, and other factors discussed in our filings with the SEC, including those disclosed under the captions “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2022 and in our subsequent Quarterly Reports on Form 10-Q. These reports are available at the Investor Relations section on our website (www.lkqcorp.com) and on the SEC's website (www.sec.gov).

These factors include the following (not necessarily in order of importance):

- our operating results and financial condition have been and will likely continue to be adversely affected by the COVID-19 pandemic and could be adversely affected by other public health emergencies;
- our operating results and financial condition have been and could continue to be adversely affected by the economic, political and social conditions in North America, Europe, Taiwan and elsewhere, as well as the economic health of vehicle owners and numbers and types of vehicles sold;
- we face competition from local, national, international, and internet-based vehicle products providers, and this competition could negatively affect our business;
- we rely upon our customers and insurance companies to promote the usage of alternative parts;
- intellectual property claims relating to aftermarket products could adversely affect our business;
- if the number of vehicles involved in accidents or being repaired declines, or the mix of the types of vehicles in the overall vehicle population changes, our business could suffer;
- fluctuations in the prices of metals and other commodities could adversely affect our financial results;

- an adverse change in our relationships with our suppliers, disruption to our supply of inventory, or the misconduct, performance failures or negligence of our third party vendors or service providers could increase our expenses, impede our ability to serve our customers, or expose us to liability;
- if we determine that our goodwill or other intangible assets have become impaired, we may incur significant charges to our pre-tax income;
- we could be subject to product liability claims and involved in product recalls;
- we may not be able to successfully acquire new businesses or integrate acquisitions, including our pending acquisition of Uni-Select, and we may not be able to successfully divest certain businesses;
- our ability to divest Uni-Select's GSF Car Parts business on acceptable terms on or shortly after the closing date for our pending acquisition of Uni-Select;
- we have a substantial amount of indebtedness, which could have a material adverse effect on our financial condition and our ability to obtain financing in the future and to react to changes in our business;
- our senior notes do not impose any limitations on our ability to incur additional debt or protect against certain other types of transactions, and we may incur additional indebtedness under our credit agreement subject to certain limitations;
- our credit agreement imposes operating and financial restrictions on us and our subsidiaries, which may prevent us from capitalizing on business opportunities;
- we may not be able to generate sufficient cash to service all of our indebtedness, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful;
- our future capital needs may require that we seek to refinance our debt or obtain additional debt or equity financing, events that could have a negative effect on our business;
- our variable rate indebtedness subjects us to interest rate risk, which could cause our indebtedness service obligations to increase significantly;
- repayment of our indebtedness is dependent on cash flow generated by our subsidiaries;
- a downgrade in our credit rating would impact our cost of capital;
- the amount and frequency of our share repurchases and dividend payments may fluctuate;
- existing or new laws and regulations, or changes to enforcement or interpretation of existing laws or regulations, may prohibit, restrict or burden the sale of aftermarket, recycled, refurbished or remanufactured products;
- we are subject to environmental regulations and incur costs relating to environmental matters;
- we may be adversely affected by legal, regulatory or market responses to global climate change;
- our amended and restated bylaws provide that the courts in the State of Delaware are the exclusive forums for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees;
- our effective tax rate could materially increase as a consequence of various factors, including U.S. and/or international tax legislation, applicable interpretations and administrative guidance, our mix of earnings by jurisdiction, and U.S. and foreign jurisdictional audits;
- if significant tariffs or other restrictions are placed on products or materials we import or any related counter-measures are taken by countries to which we export products, our revenue and results of operations may be materially harmed.
- governmental agencies may refuse to grant or renew our operating licenses and permits;
- our employees are important to successfully manage our business and achieve our objectives;
- we operate in foreign jurisdictions, which exposes us to foreign exchange and other risks;
- our business may be adversely affected by union activities and labor and employment laws;
- we rely on information technology and communication systems in critical areas of our operations and a disruption relating to such technology could harm our business;

- the costs of complying with the requirements of laws pertaining to the privacy and security of personal information and the potential liability associated with the failure to comply with such laws could materially adversely affect our business and results of operations;
- business interruptions in our distribution centers or other facilities may affect our operations, the function of our computer systems, and/or the availability and distribution of merchandise, which may affect our business;
- if we experience problems with our fleet of trucks and other vehicles, our business could be harmed;
- we may lose the right to operate at key locations; and
- activist investors could cause us to incur substantial costs, divert management's attention, and have an adverse effect on our business.

Investor Relations Contact

Joseph P. Boutross
Vice President, Investor Relations

CONTACT

LKQ Corporation
T +1 312 621-2793
E jpboutross@lkqcorp.com

Media Contact Europe

Christian Weiss
Head of External Communications

CONTACT

LKQ Europe GmbH
T +41 41 884 844 2
E christian.weiss@lkqeurope.com