

LKQ CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income (In thousands, except per share data)

	Year Ended December 31,		
	2017	2016	2015
Revenue	\$ 9,736,909	\$ 8,584,031	\$ 7,192,633
Cost of goods sold	5,937,286	5,232,328	4,359,104
Gross margin	3,799,623	3,351,703	2,833,529
Facility and warehouse expenses	797,388	688,918	556,041
Distribution expenses	784,485	683,812	602,897
Selling, general and administrative expenses	1,131,214	986,380	828,333
Restructuring and acquisition related expenses	19,672	37,762	19,511
Depreciation and amortization	219,546	191,433	122,120
Operating income	847,318	763,398	704,627
Other expense (income):			
Interest expense	101,640	88,263	57,860
Loss on debt extinguishment	456	26,650	—
Gains on foreign exchange contracts - acquisition related	—	(18,342)	—
Gains on bargain purchases	(3,870)	(8,207)	—
Interest and other income, net	(17,535)	(2,247)	(2,263)
Total other expense, net	80,691	86,117	55,597
Income from continuing operations before provision for income taxes	766,627	677,281	649,030
Provision for income taxes	235,560	220,566	219,703
Equity in earnings (loss) of unconsolidated subsidiaries	5,907	(592)	(6,104)
Income from continuing operations	536,974	456,123	423,223
Net (loss) income from discontinued operations	(6,746)	7,852	—
Net income	530,228	463,975	423,223
Less: net loss attributable to noncontrolling interest	(3,516)	—	—
Net income attributable to LKQ stockholders	\$ 533,744	\$ 463,975	\$ 423,223
Basic earnings per share: ⁽¹⁾			
Income from continuing operations	\$ 1.74	\$ 1.49	\$ 1.39
Net (loss) income from discontinued operations	(0.02)	0.03	—
Net income	1.72	1.51	1.39
Less: net loss attributable to noncontrolling interest	(0.01)	—	—
Net income attributable to LKQ stockholders	\$ 1.73	\$ 1.51	\$ 1.39
Diluted earnings per share: ⁽¹⁾			
Income from continuing operations	\$ 1.73	\$ 1.47	\$ 1.38
Net (loss) income from discontinued operations	(0.02)	0.03	—
Net income	1.71	1.50	1.38
Less: net loss attributable to noncontrolling interest	(0.01)	—	—
Net income attributable to LKQ stockholders	\$ 1.72	\$ 1.50	\$ 1.38

⁽¹⁾The sum of the individual earnings per share amounts may not equal the total due to rounding.

The accompanying notes are an integral part of the consolidated financial statements.

LKQ CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets (In thousands, except share and per share data)

	December 31,	
	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 279,766	\$ 227,400
Receivables, net	1,027,106	860,549
Inventories	2,380,783	1,935,237
Prepaid expenses and other current assets	134,479	87,768
Assets of discontinued operations	—	456,640
Total current assets	3,822,134	3,567,594
Property, plant and equipment, net	913,089	811,576
Intangible assets:		
Goodwill	3,536,511	3,054,769
Other intangibles, net	743,769	584,231
Equity method investments	208,404	183,467
Other assets	142,965	101,562
Total assets	\$ 9,366,872	\$ 8,303,199
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 788,613	\$ 633,773
Accrued expenses:		
Accrued payroll-related liabilities	143,424	118,755
Other accrued expenses	218,600	209,101
Other current liabilities	45,727	37,943
Current portion of long-term obligations	126,360	66,109
Liabilities of discontinued operations	—	145,104
Total current liabilities	1,322,724	1,210,785
Long-term obligations, excluding current portion	3,277,620	3,275,662
Deferred income taxes	252,359	199,657
Other noncurrent liabilities	307,516	174,146
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value, 1,000,000,000 shares authorized, 309,126,386 and 307,544,759 shares issued and outstanding at December 31, 2017 and December 31, 2016, respectively	3,091	3,075
Additional paid-in capital	1,141,451	1,116,690
Retained earnings	3,124,103	2,590,359
Accumulated other comprehensive loss	(70,476)	(267,175)
Total Company stockholders' equity	4,198,169	3,442,949
Noncontrolling interest	8,484	—
Total stockholders' equity	4,206,653	3,442,949
Total liabilities and stockholders' equity	\$ 9,366,872	\$ 8,303,199

The accompanying notes are an integral part of the consolidated financial statements.

LKQ CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (In thousands)

	Year Ended December 31,		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 530,228	\$ 463,975	\$ 423,223
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	230,203	206,086	128,192
Stock-based compensation expense	22,832	22,472	21,336
Loss on debt extinguishment	456	26,650	—
Loss on sale of business	10,796	—	—
Impairment on net assets of discontinued operations	—	26,677	—
Gains on foreign exchange contracts - acquisition related	—	(18,342)	—
Gains on bargain purchases	(3,870)	(8,207)	—
Deferred income taxes	(46,537)	(16,162)	22,388
Other	1,301	19,550	7,348
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:			
Receivables, net	(55,979)	(50,801)	14,704
Inventories	(203,857)	(64,114)	(83,188)
Prepaid income taxes/income taxes payable	8,376	14,944	17,474
Accounts payable	45,136	18,577	(4,222)
Other operating assets and liabilities	(20,185)	(6,291)	(2,973)
Net cash provided by operating activities	<u>518,900</u>	<u>635,014</u>	<u>544,282</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(179,090)	(207,074)	(170,490)
Acquisitions, net of cash acquired	(513,088)	(1,349,339)	(160,517)
Proceeds from disposals of business/investment	301,297	10,304	—
Investments in unconsolidated subsidiaries	(7,664)	(185,671)	(9,682)
Proceeds from foreign exchange contracts	—	18,342	—
Other investing activities, net	13,950	3,510	10,696
Net cash used in investing activities	<u>(384,595)</u>	<u>(1,709,928)</u>	<u>(329,993)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of stock options	7,470	7,963	8,168
Taxes paid related to net share settlements of stock-based compensation awards	(5,525)	(4,438)	(7,581)
Debt issuance costs	(4,267)	(16,554)	(97)
Proceeds from issuance of Euro Notes (2024)	—	563,450	—
Borrowings under revolving credit facilities	839,171	2,636,596	313,142
Repayments under revolving credit facilities	(946,477)	(1,748,664)	(445,282)
Borrowings under term loans	—	582,115	—
Repayments under term loans	(27,884)	(255,792)	(22,500)
Borrowings under receivables securitization facility	11,245	106,400	3,858
Repayments under receivables securitization facility	(11,245)	(69,400)	(35,758)
Borrowings (repayments) of other debt, net	19,706	(31,156)	(29,696)
Payments of Rhiag debt and related payments	—	(543,347)	—
Payments of other obligations	(2,077)	(1,436)	(22,791)
Other financing activities, net	7,316	—	—
Net cash (used in) provided by financing activities	<u>(112,567)</u>	<u>1,225,737</u>	<u>(238,537)</u>
Effect of exchange rate changes on cash and cash equivalents	23,512	(3,704)	(2,960)
Net increase (decrease) in cash and cash equivalents	<u>45,250</u>	<u>147,119</u>	<u>(27,208)</u>
Cash and cash equivalents of continuing operations, beginning of period	227,400	87,397	114,605
Add: Cash and cash equivalents of discontinued operations, beginning of period	7,116	—	—
Cash and cash equivalents of continuing and discontinued operations, beginning of period	234,516	87,397	114,605
Cash and cash equivalents of continuing and discontinued operations, end of period	279,766	234,516	87,397
Less: Cash and cash equivalents of discontinued operations, end of period	—	(7,116)	—
Cash and cash equivalents, end of period	<u>\$ 279,766</u>	<u>\$ 227,400</u>	<u>\$ 87,397</u>
Supplemental disclosure of cash paid for:			
Income taxes, net of refunds	\$ 273,019	\$ 230,036	\$ 180,126
Interest	95,707	86,021	54,917
Supplemental disclosure of noncash investing and financing activities:			
Contingent consideration liabilities	\$ 6,234	\$ —	\$ —

The accompanying notes are an integral part of the consolidated financial statements.

LKQ CORPORATION AND SUBSIDIARIES**Consolidated Statements of Cash Flows****(In thousands)**

Notes payable and other financing obligations, including notes issued and debt assumed in connection with business acquisitions	59,045	568,032	28,348
Noncash property, plant and equipment additions	18,122	10,715	8,846
Notes and other financing receivables in connection with disposals of business/ investment	4,000	—	—

The accompanying notes are an integral part of the consolidated financial statements.