

LKQ CORPORATION AND SUBSIDIARIES

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

	Year Ended December 31,		
	2018	2017	2016
Revenue	\$ 11,876,674	\$ 9,736,909	\$ 8,584,031
Cost of goods sold	7,301,817	5,937,286	5,232,328
Gross margin	4,574,857	3,799,623	3,351,703
Selling, general and administrative expenses ^{(1), (2)}	3,352,731	2,715,407	2,359,110
Restructuring and acquisition related expenses	32,428	19,672	37,762
Impairment of goodwill	33,244	—	—
Depreciation and amortization	274,213	219,546	191,433
Operating income	882,241	844,998	763,398
Other expense (income):			
Interest expense	146,377	101,640	88,263
Loss on debt extinguishment	1,350	456	26,650
Gains on foreign exchange contracts - acquisition related	—	—	(18,342)
Gains on bargain purchases	(2,418)	(3,870)	(8,207)
Interest income and other income, net ⁽²⁾	(6,499)	(19,855)	(2,247)
Total other expense, net	138,810	78,371	86,117
Income from continuing operations before provision for income taxes	743,431	766,627	677,281
Provision for income taxes	191,395	235,560	220,566
Equity in (losses) earnings of unconsolidated subsidiaries	(64,471)	5,907	(592)
Income from continuing operations	487,565	536,974	456,123
Net (loss) income from discontinued operations	(4,397)	(6,746)	7,852
Net income	483,168	530,228	463,975
Less: net income (loss) attributable to noncontrolling interest	3,050	(3,516)	—
Net income attributable to LKQ stockholders	<u>\$ 480,118</u>	<u>\$ 533,744</u>	<u>\$ 463,975</u>
Basic earnings per share: ⁽³⁾			
Income from continuing operations	\$ 1.55	\$ 1.74	\$ 1.49
Net (loss) income from discontinued operations	(0.01)	(0.02)	0.03
Net income	1.54	1.72	1.51
Less: net income (loss) attributable to noncontrolling interest	0.01	(0.01)	—
Net income attributable to LKQ stockholders	<u>\$ 1.53</u>	<u>\$ 1.73</u>	<u>\$ 1.51</u>
Diluted earnings per share: ⁽³⁾			
Income from continuing operations	\$ 1.54	\$ 1.73	\$ 1.47
Net (loss) income from discontinued operations	(0.01)	(0.02)	0.03
Net income	1.53	1.71	1.50
Less: net income (loss) attributable to noncontrolling interest	0.01	(0.01)	—
Net income attributable to LKQ stockholders	<u>\$ 1.52</u>	<u>\$ 1.72</u>	<u>\$ 1.50</u>

⁽¹⁾ Selling, general and administrative expenses contain facility and warehouse expenses and distribution expenses that were previously shown separately.

⁽²⁾ Certain amounts for 2017 have been recast to reflect the 2018 adoption of ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." See "Other Recently Adopted Accounting Pronouncements" within Note 4, "Summary of Significant Accounting Policies" for further information.

⁽³⁾ 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,	
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 331,761	\$ 279,766
Receivables, net	1,154,083	1,027,106
Inventories	2,836,075	2,380,783
Prepaid expenses and other current assets	199,030	134,479
Total current assets	4,520,949	3,822,134
Property, plant and equipment, net	1,220,162	913,089
Intangible assets:		
Goodwill	4,381,458	3,536,511
Other intangibles, net	928,752	743,769
Equity method investments	179,169	208,404
Other assets	162,912	142,965
Total assets	<u>\$ 11,393,402</u>	<u>\$ 9,366,872</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 942,398	\$ 788,613
Accrued expenses:		
Accrued payroll-related liabilities	172,005	143,424
Other accrued expenses	288,425	218,600
Refund liability	104,585	—
Other current liabilities	61,109	45,727
Current portion of long-term obligations	121,826	126,360
Total current liabilities	1,690,348	1,322,724
Long-term obligations, excluding current portion	4,188,674	3,277,620
Deferred income taxes	311,434	252,359
Other noncurrent liabilities	364,194	307,516
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value, 1,000,000,000 shares authorized, 318,417,821 shares issued and 316,146,114 shares outstanding at December 31, 2018; 309,126,386 shares issued and outstanding at December 31, 2017	3,184	3,091
Additional paid-in capital	1,415,188	1,141,451
Retained earnings	3,598,876	3,124,103
Accumulated other comprehensive loss	(174,950)	(70,476)
Treasury stock, at cost; 2,271,707 shares at December 31, 2018	(60,000)	—
Total Company stockholders' equity	4,782,298	4,198,169
Noncontrolling interest	56,454	8,484
Total stockholders' equity	4,838,752	4,206,653
Total liabilities and stockholders' equity	<u>\$ 11,393,402</u>	<u>\$ 9,366,872</u>

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,		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 483,168	\$ 530,228	\$ 463,975
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	294,077	230,203	206,086
Impairment on Mekonomen equity method investment	70,895	—	—
Impairment of goodwill	33,244	—	—
Stock-based compensation expense	22,760	22,832	22,472
Loss on debt extinguishment	1,350	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	(2,418)	(3,870)	(8,207)
Deferred income taxes	(2,180)	(46,537)	(16,162)
Other	9,534	1,301	19,550
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:			
Receivables, net	241	(55,979)	(50,801)
Inventories	(127,153)	(203,857)	(64,114)
Prepaid income taxes/income taxes payable	(2,125)	8,376	14,944
Accounts payable	(77,621)	45,136	18,577
Other operating assets and liabilities	6,967	(20,185)	(6,291)
Net cash provided by operating activities	<u>710,739</u>	<u>518,900</u>	<u>635,014</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(250,027)	(179,090)	(207,074)
Proceeds from disposals of property, plant and equipment	27,659	8,707	3,510
Acquisitions, net of cash and restricted cash acquired	(1,214,995)	(513,088)	(1,349,339)
Proceeds from disposals of business/investment	—	301,297	10,304
Investments in unconsolidated subsidiaries	(60,300)	(7,664)	(185,671)
Proceeds from foreign exchange contracts	—	—	18,342
Receipts of deferred purchase price on receivables under factoring arrangements	36,991	—	—
Other investing activities, net	1,733	5,243	—
Net cash used in investing activities	<u>(1,458,939)</u>	<u>(384,595)</u>	<u>(1,709,928)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of stock options	5,303	7,470	7,963
Taxes paid related to net share settlements of stock-based compensation awards	(5,567)	(5,525)	(4,438)
Debt issuance costs	(21,128)	(4,267)	(16,554)
Proceeds from issuance of Euro Notes (2024)	—	—	563,450
Proceeds from issuance of Euro Notes (2026/28)	1,232,100	—	—
Purchase of treasury stock	(60,000)	—	—
Borrowings under revolving credit facilities	1,667,325	839,171	2,636,596
Repayments under revolving credit facilities	(1,528,970)	(946,477)	(1,748,664)
Borrowings under term loans	—	—	582,115
Repayments under term loans	(354,800)	(27,884)	(255,792)
Borrowings under receivables securitization facility	10,120	11,245	106,400
Repayments under receivables securitization facility	(120)	(11,245)	(69,400)
Payment of assumed debt and notes issued from acquisitions	(54,888)	—	—
(Repayments) borrowings of other debt, net	(11,730)	19,706	(31,156)
Payments of Rhiag debt and related payments	—	—	(543,347)
Other financing activities, net	5,350	5,239	(1,436)
Net cash provided by (used in) financing activities	<u>882,995</u>	<u>(112,567)</u>	<u>1,225,737</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	<u>(77,311)</u>	<u>23,512</u>	<u>(3,704)</u>
Net increase in cash, cash equivalents and restricted cash	<u>57,484</u>	<u>45,250</u>	<u>147,119</u>

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