LKQ

LKQ Corporation Announces Results for Third Quarter 2023

October 27, 2023

- Revenue of $3.6 billion (a 15% increase compared to the same period in 2022); parts and services organic revenue increased 3.0% (4.3% on a per day basis)
- Diluted EPS[2] of $0.77; adjusted diluted EPS[1, 2] of $0.86
- Third quarter operating cash flow of $441 million; free cash flow[1] of $344 million
- Increased dividend by 9%; $0.30 per share approved to be paid in the fourth quarter of 2023
- Completed Uni-Select Inc. acquisition on August 1, 2023
- Completed divestiture of GSF Car Parts Limited on October 25, 2023
- Europe Segment EBITDA margins impacted by 110 basis points due to a legacy value-added tax issue related to our Italian operations and strikes in Germany
- Annual guidance updated

Chicago, IL. LKQ Corporation (Nasdaq: LKQ) yesterday reported third quarter 2023 financial results. “Our third quarter results reflected some tailwinds and headwinds. On the positive side, we experienced strong organic growth in our Wholesale - North America and Europe segments, drove excellent margins in Wholesale - North America, and generated robust free cash flow. Unfortunately, these strengths were offset by a combination of unusual, transitory items in Europe, continued softness in commodity prices, and difficult market conditions impacting our Specialty and Self Service segments. Our success since implementing the operational excellence strategy in 2019 gives us confidence in our ability to take decisive actions and drive improved execution. We have great assets and an exceptional team, which we believe will enable long-term growth and value creation. The fundamentals of our business remain strong,” noted Dominick Zarcone, President and Chief Executive Officer.

Third Quarter 2023 Financial Results

Revenue for the third quarter of 2023 was $3.6 billion, an increase of 15.0% as compared to $3.1 billion for the third quarter of 2022. For the third quarter of 2023, parts and services organic revenue increased 3.0% (4.3% on a per day basis), foreign exchange rates increased revenue by 3.6% and the net impact of acquisitions and divestitures increased revenue by 10.5% year over year, for a total parts and services revenue increase of 17.1%. Other revenue for the third quarter of 2023 fell 17.5% primarily due to weaker commodity prices relative to the same period in 2022.

Net income[2] for the third quarter of 2023 was $207 million as compared to $261 million for the same period in 2022. Diluted earnings per share[2] for the third quarter of 2023 was $0.77 as compared to $0.95 for the same period of 2022, a decrease of 18.9%.

On an adjusted basis, net income[1, 2] in the third quarter of 2023 was $231 million as compared to $266 million for the same period of 2022, a decrease of 13.2%. Adjusted diluted earnings per share[1, 2] was $0.86 for the third quarter of 2023 as compared to $0.97 for the same period of 2022, a decrease of 11.3%.

Diluted earnings per share[2] decreased in the third quarter of 2023 with negative effects from: (i) unusual items in Europe related to a legacy value-added tax issue related to our Italian operations and strikes in Germany, which had an estimated $0.06 impact, (ii) fluctuations in commodity prices, which had a $0.04 effect, (iii) higher interest rates and average debt balances in the third quarter, which drove a year-over-year increase in net interest expense, excluding the effect of Uni-Select borrowings, of $0.04 and (iv) continued underperformance of our Specialty segment of $0.03. As a partial offset to these factors, the lower share count and favorable foreign currency translation provided a combined $0.10 year over year benefit ($0.04 on an adjusted basis), and our North America operations, excluding Uni-Select, performed favorably compared to the prior year period.

Cash Flow and Balance Sheet

Cash flow from operations and free cash flow[1] were $441 million and $344 million, respectively, for the third quarter of 2023. Cash flow from operations and free cash flow[1] were $1,144 million and $911 million, respectively, for the nine months ended September 30, 2023. As of September 30, 2023, the balance sheet reflected total debt of $4.4 billion and total leverage, as defined in our credit facility, was 2.3x EBITDA.

Stock Repurchase and Dividend Programs

During the nine months ended September 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 September 30, 2023.

On October 24, 2023, the Board of Directors declared a quarterly cash dividend of $0.30 per share of common stock, payable on November 30, 2023, to stockholders of record at the close of business on November 16, 2023. This represents a 9% increase over the prior quarterly dividend of $0.275 per share.

Uni-Select Inc. Acquisition Update

On August 1, 2023, we announced the completion of the acquisition of Uni-Select Inc. ("Uni-Select") by way of a plan of arrangement (the "Arrangement") under the provisions of the Business Corporations Act (Québec). Under the terms of the Arrangement, we acquired all of the issued and outstanding shares of Uni-Select for C$48.00 per share in cash, representing a total enterprise value of approximately CAD 2.8 billion ($2.1 billion).

In October 2023, we entered into a definitive agreement to sell GSF Car Parts Limited. The sale was completed on October 25, 2023.

2023 Outlook

Rick Galloway, Senior Vice President and Chief Financial Officer, commented, “We are reducing our full year guidance on revenue and earnings per share due to our underperformance in the third quarter and expected fourth quarter effects from additional strike activity in Germany, the anticipated dilution from the Uni-Select acquisition, soft commodity prices, and a continuation of difficult market conditions for our Specialty and Self Service segments. We are raising our free cash flow guidance due to our continued solid cash flow generation.”

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 7.5%	4.75% to 5.75%
Diluted EPS[2]	$3.65 to $3.85	$3.41 to $3.55
Adjusted diluted EPS[1, 2]	$3.90 to $4.10	$3.68 to $3.82
Operating cash flow	approx. $1.275 billion	approx. $1.3 billion
Free cash flow[1]	approx. $975 million	approx. $1.0 billion
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 September average, and no further deterioration due to the Ukraine/Russia conflict. We have applied foreign currency exchange rates near current average levels, including $1.06 and $1.23 for the euro and pound sterling, respectively, for the balance of the year. Prior guidance issued on July 27, 2023 had foreign currency exchange rate levels of $1.09 and $1.25 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 projected Uni-Select operational results from the acquisition date through year-end. 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 investor 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.

Webcast and Presentation Details

LKQ hosted an investor conference call and webcast on October 26, 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. 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 November 10, 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 UK & Ireland, 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, and we may not be able to successfully divest certain businesses;
- 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