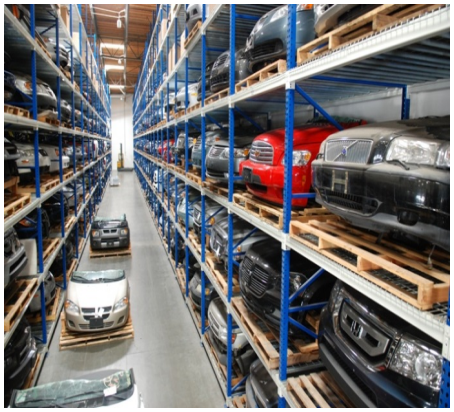
# First Quarter 2017 Earnings Call

April 27, 2017

Rob Wagman - *President & Chief Executive Officer*
Nick Zarcone - *Executive Vice President & Chief Financial Officer*
Joe Boutross - *Director, Investor Relations*






# Forward Looking Statements and Non-GAAP Financial Measures

Statements and information in this presentation 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 results to differ from the results predicted or implied by our forward-looking statements include the factors 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, 2016 and in our subsequent Quarterly Reports on Form 10-Q . These reports are available on our investor relations website at lkqcorp.com and on the SEC website at sec.gov.

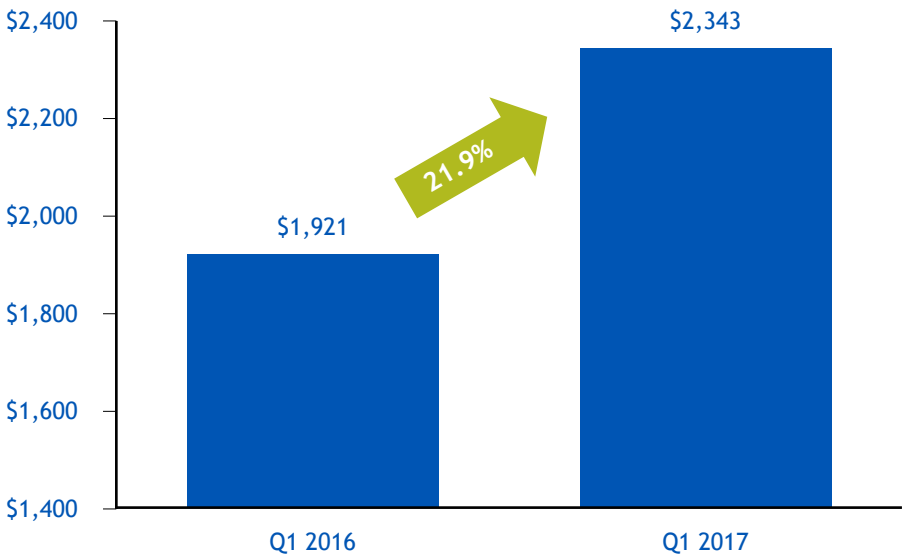
This presentation contains non-GAAP financial measures. Included with this presentation are reconciliations of each non-GAAP financial measure with the most directly comparable financial measure calculated in accordance with GAAP.

# Mission Statement

**To be the leading global value-added distributor of vehicle parts and accessories by offering our customers the most comprehensive, available and cost effective selection of part solutions while building strong partnerships with our employees and the communities in which we operate**

# Consolidated Results - Continuing operations

## Q1 2017 Revenue*




- Organic growth of parts and services revenue of 4.5%
- Income from continuing operations $140.8 million Q1 2017 vs. $112.2 million Q1 2016
- Segment EBITDA Margin** 12.4% Q1 2017 vs. 12.3% Q1 2016

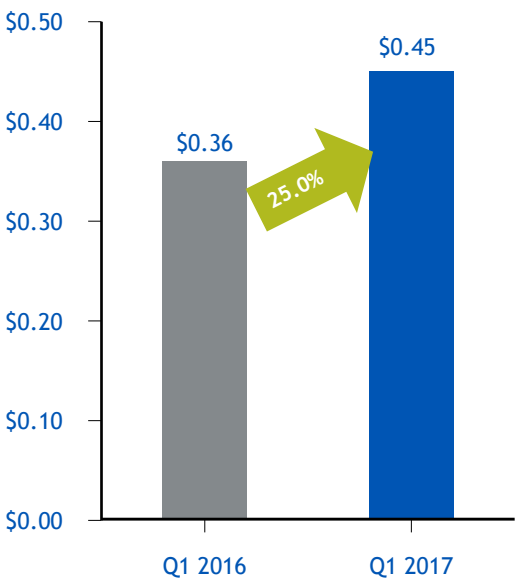
* Revenue in millions

** Segment EBITDA is a non-GAAP financial measure. Refer to Segment EBITDA reconciliation on page 28

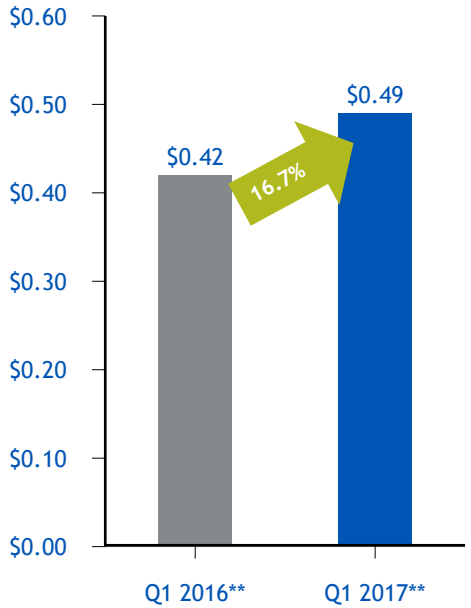
Note: On March 1, 2017, LKQ completed the sale of its automotive glass manufacturing business. Glass manufacturing results are presented as discontinued operations for all periods.

# Consolidated Results - Continuing operations

## Q1 2017*




Diluted EPS




Adjusted Diluted EPS

* Earnings per share figures refer to income from continuing operations
** Adjusted Diluted EPS is a non-GAAP measure. Refer to page 30 for Diluted EPS reconciliation

# Q1 2017 Revenue Growth

| Revenue Changes by Source: | Organic | Acquisition | Foreign Exchange | Total[1] |
|---|---|---|---|---|
| North America | 1.8% | 8.3% | 0.2% | 10.4% |
| Europe | 8.5% | 51.5% | (9.9)% | 50.1% |
| Specialty | 6.3% | 0.1% | 0.3% | 6.7% |
| Parts and Services | 4.5% | 20.0% | (2.8)% | 21.7% |
| Other Revenue | 25.9% | 0.2% | (0.1)% | 25.9% |
| Total | 5.7% | 18.9% | (2.7)% | 21.9% |

- Organic growth in North America parts and services revenue was largely attributable to increased sales volumes in our wholesale operations, primarily in our salvage operations
- ECP organic revenue growth for parts and services was 6.8%. Revenue growth for branches open more than 12 months was 5.1% and collision parts revenue growth was 18.9%. There were two more selling days in Q1 2017 compared to Q1 2016
- Sator organic revenue growth for parts and services was 3.4%; there were two more selling days in Q1 2017 compared to Q1 2016
- Unfavorable F/X impact on European revenue of $54 million; European constant currency parts and services revenue growth of 60.0%[2]
- European acquisition growth was $281 million, most of which was generated by Rhiag-Inter Auto Parts Italia S.p.A. ("Rhiag") (acquired March 18, 2016)
- On March 1, 2017, LKQ completed the sale of its automotive glass manufacturing business. The aftermarket automotive replacement glass business of PGW ("ARG") that is part of continuing operations is reflected in North America acquisition revenue
- Increase in Other Revenue was primarily attributable to higher scrap steel and other metals prices. Scrap steel prices were up 55% year over year

(1) The sum of the individual revenue change components may not equal the total percentage due to rounding
(2) Constant Currency is a non-GAAP financial measure. Refer to constant currency reconciliation on page 26

# Q1 2017 Operating Highlights

## North America

- In Q1 2017, we closed the sale of the automotive glass manufacturing business of PGW to a subsidiary of Vitro S.A.B., a glass manufacturer based in Mexico. This divestiture allows our team to focus on the existing aftermarket glass distribution business and the potential synergies that exist within our core North American network and customer base
- We have integrated 3 ARG warehouses into LKQ warehouses
- Productivity initiatives provided $9.4 million QTD cost savings

## Europe

- ECP's new national distribution center (Tamworth 2) is on budget. We expect to test the automation in Q2 2017 and start deliveries in Q3 2017, with the full facility going live Q1 2018
- ECP closed six UK paint locations in Q1 (as well as six paint locations in Q4 2016). Those 12 locations had operations that were integrated into existing ECP hubs
- Rhiag opened a total of 12 ELIT and Auto Kelly locations in eastern Europe during Q1

## Specialty

- Successful "show season" with year over year at-show sales growth exceeding expectations
- The sale of light trucks and RV’s continue their upward trend at a solid pace
- Continued focus on streamlining fulfillment process, optimizing routes, ensuring best in class inventory availability, and expanding product and service offerings including dealer-friendly online solutions

# Inventory

| Inventory Procurement: ($ in millions, Vehicles purchased in 000s) | Q1 2017 | Q1 2016 | % Change |
|---|---|---|---|
| Total aftermarket procurement | $1,025 | $821 | 24.8% |
| Wholesale salvage cars and trucks | 75 | 72 | 4.2% |
| Europe wholesale salvage cars and trucks | 7 | 6 | 16.7% |
| Self service and "crush only" cars | 133 | 125 | 6.4% |

- We believe aftermarket inventory levels are sufficient to achieve our growth targets
- Inventory purchases for Rhiag totaled $202M for Q1 2017 compared to $21M for Q1 2016
- Average cost per vehicle in our self service operations increased 12% year over year due primarily to increases in scrap steel prices
- Average cost per vehicle in our full service salvage operations was flat year over year

# Acquisition Activity

| | Number of Q1 Acquisitions | TTM Revenue* |
|---|---|---|
| North America | 1 | $51.1 million |
| Europe | 1 | $4.0 million |
| Specialty | 1 | $1.3 million |
| Total | 3 | $56.4 million |

- In Q1, we acquired a parts recycling business in Michigan and Sweden and a Specialty products business in Pennsylvania

* Approximate TTM Revenue as of acquisition date

# Financial Results

# Operating Results - Continuing Operations

| ($ in millions,except per share data) | First Quarter 2017 | 2016 | Change |
|---|---|---|---|
| Revenue | $2,343 | $1,921 | 21.9% |
| Gross Margin | 930 | 760 | 22.3% |
| Operating Income | 236 | 186 | 26.9% |
| Pre-tax Income | 213 | 166 | 28.4% |
| Income from continuing operations | 141 | 112 | 25.5% |
| Segment EBITDA* | 290 | 237 | 22.7% |
| Continuing operations EPS - Diluted | $0.45 | $0.36 | 25.0% |
| Continuing operations EPS - Adjusted** | $0.49 | $0.42 | 16.7% |

- Our effective income tax rate for the three months ended March 31, 2017 was 33.9%, compared with 32.1% for the comparable prior year period. The effective tax rate for the three months ended March 31, 2017 and 2016 reflects the impact of favorable discrete items related to excess tax benefits from stock-based payments in the amount of $3.3 million and $4.4 million, respectively. The increase in our effective tax rate for the three months ended March 31, 2017 compared to the prior year period also reflects our expected geographic distribution of income, with a slightly larger proportion of our pre-tax income expected to be earned in the U.S., which has a higher tax rate than the rates applicable to our foreign operations.

* Segment EBITDA is a non-GAAP measure. Refer to Segment EBITDA reconciliation on page 28

** Adjusted Diluted EPS is a non-GAAP measure. Refer to Diluted EPS reconciliation on page 30

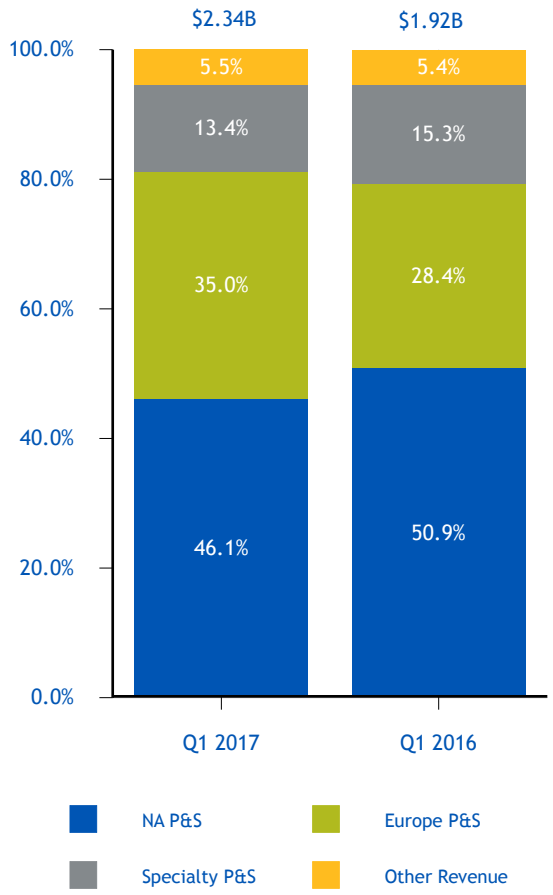
# Q1 2017 Consolidated Margins - Continuing operations

| (as a % of Revenue) | Q1 2017 | Q1 2016 | Change F/(U) | QTD Commentary |
|---|---|---|---|---|
| Revenue | 100.0% | 100.0% | —% | |
| Gross Margin | 39.7% | 39.6% | 0.1% | Cost of goods sold decreased 1.2% as a result of our North America segment. Partially offsetting this decrease was an increase of (i) 0.8% from our European operations, primarily related to Rhiag and (ii) 0.4% from our Specialty operations |
| Facility and Warehouse Expenses | 8.1% | 8.2% | 0.1% | The change in facility and warehouse expense primarily reflected a decrease of 0.3% from our acquisition of Rhiag. Partially offsetting this decrease were a number of individually insignificant increases in facility and warehouse expenses as a percentage of revenue across our other businesses |
| Distribution Expenses | 7.9% | 7.9% | —% | Distribution expense as a percentage of revenue reflected (i) a positive impact of 0.5% from our acquisition of Rhiag partially offset by (ii) an unfavorable impact of 0.3% related to our acquisition of ARG |
| Selling, General and Administrative Expenses | 11.4% | 11.4% | —% | SG&A as a percentage of revenue increased 0.4% as a result of our Rhiag acquisition. Offsetting this increase were a number of individually insignificant decreases in SG&A expense as a percentage of revenue across our other businesses |
| Restructuring and Acquisition Related Expenses | 0.1% | 0.8% | 0.7% | Q1 2016 acquisition related expenses, which primarily related to the Rhiag and PGW transactions, were $10.1 million higher than Q1 2017 |
| Depreciation and Amortization | 2.1% | 1.6% | (0.5)% | The increase in depreciation expense primarily reflected the depreciation expense for property and equipment recorded related to our acquisitions of Andrew Page and Rhiag of $1.2 million and $1.1 million, respectively. The increase in amortization expense related to the Rhiag and ARG acquisitions was $11.7 million and $2.3 million, respectively |
| Operating Income | 10.1% | 9.7% | 0.4% | |
| Segment EBITDA* | 12.4% | 12.3% | 0.1% | |

Note: In the table above, the sum of the individual percentages may not equal the total due to rounding

* Segment EBITDA is a non-GAAP measure. Refer to segment EBITDA reconciliation on page 28. Segment EBITDA is a measure of segment profitability. Refer to individual segment slides for drivers of Segment EBITDA.

# Components of Quarterly Revenue



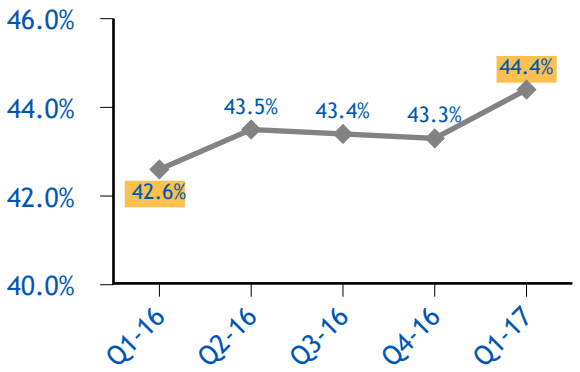

- A portion of the change in margins on a consolidated basis is attributable to change in revenue mix
- North America historically has highest gross margins and EBITDA margins
- Increase in YTD revenue as a % of consolidated revenue for our European businesses reflects the acquisition of Rhiag
- Other Revenue is a small percentage of total revenue as we grow our other lines of business

# North America - Q1 2017 Results

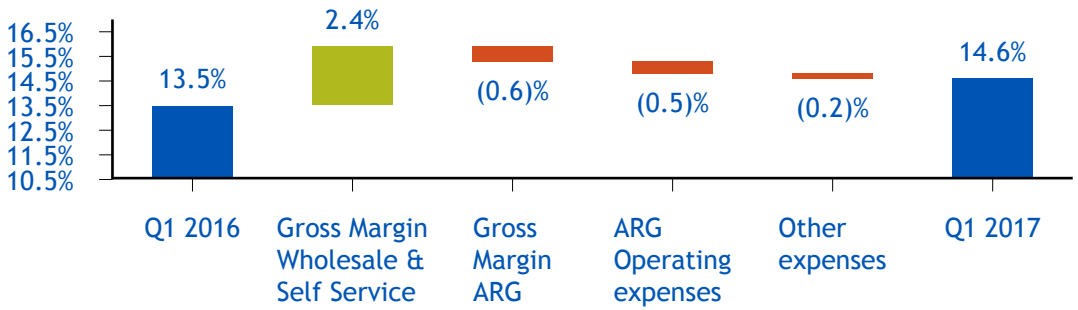
| ($ in millions) | 2017 | 2016 | Change | % of Revenue 2017 | % of Revenue 2016 |
|---|---|---|---|---|---|
| Total Revenue | $1,208 | $1,081 | 11.8% | | |
| Gross Margin | $536 | $461 | 16.4% | 44.4% | 42.6% |
| Operating Expenses | $362 | $318 | 13.8% | 29.9% | 29.4% |
| Segment EBITDA* | $176 | $146 | 20.9% | 14.6% | 13.5% |

*Segment EBITDA is a non-GAAP measure. Refer to total segment EBITDA reconciliation on page 28 and the breakout of Segment EBITDA by each respective segment on page 27

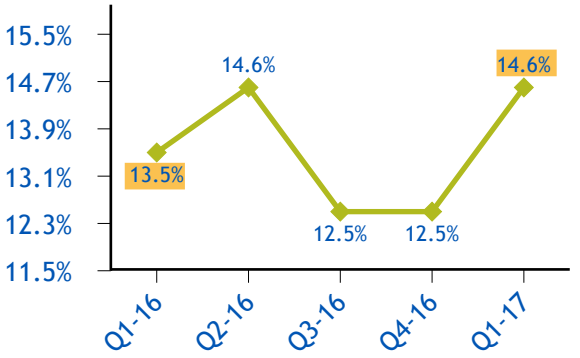
## Gross Margin




## North America Segment EBITDA Margin Bridge

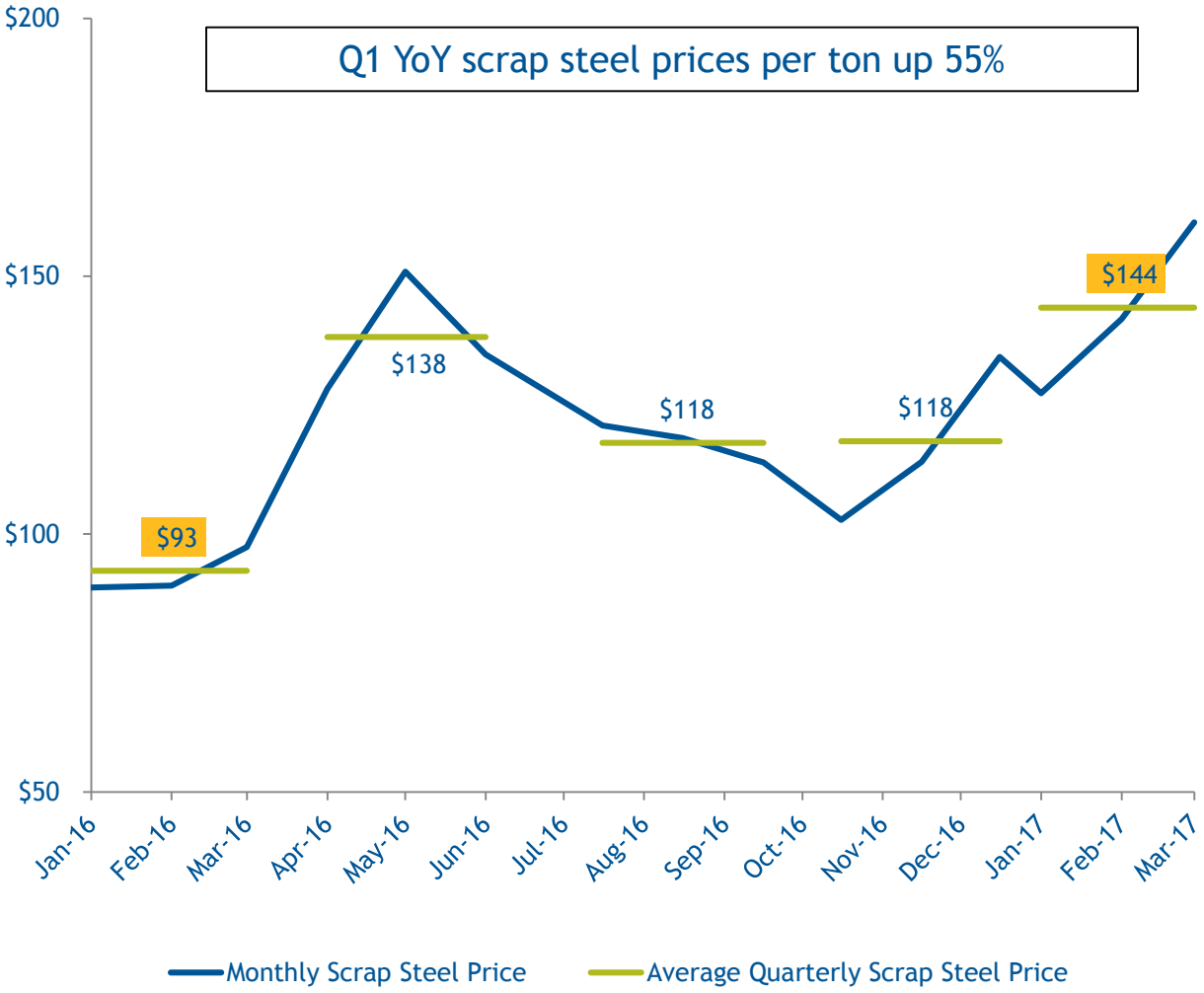



## Segment EBITDA Margin




Note: In the table above, the sum of the individual percentages may not equal the total due to rounding

# Scrap Steel Prices



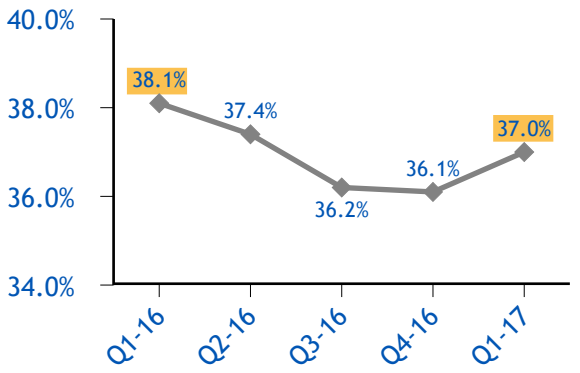

- Average price we received for scrap steel in Q1 increased by 55%, from $93 per ton in Q1 2016 to $144 per ton in Q1 2017
- Estimated positive EPS impact of slightly more than a penny in Q1
- Scrap steel has become small portion of global revenue mix

# Europe - Q1 2017 Results

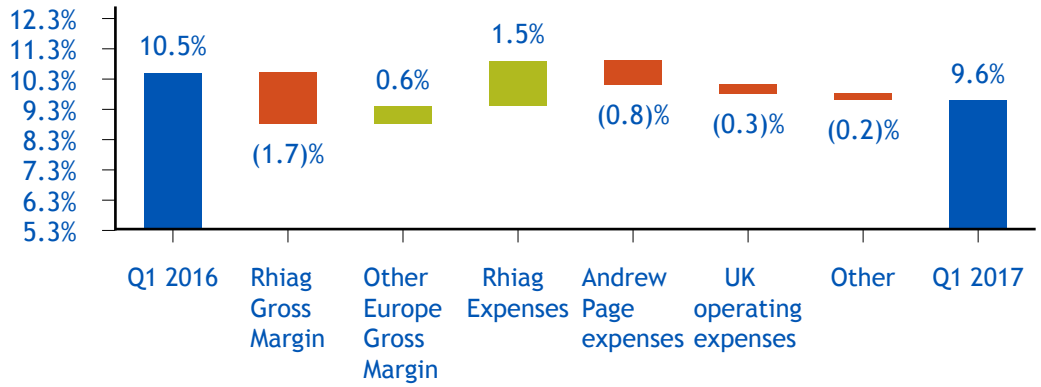
| ($ in millions) | 2017 | 2016 | Change | % of Revenue 2017 | % of Revenue 2016 |
|---|---|---|---|---|---|
| Total Revenue | $821 | $547 | 50.1% | | |
| Gross Margin | $304 | $209 | 45.7% | 37.0% | 38.1% |
| Operating Expenses | $226 | $152 | 48.6% | 27.6% | 27.9% |
| Segment EBITDA* | $79 | $57 | 36.9% | 9.6% | 10.5% |
| ECP Branches | 212 | 199 | 13 | | |
| Sator Branches | 94 | 84 | 10 | | |
| Rhiag Branches | 299 | 247 | 52 | | |
| Andrew Page Branches | 99 | — | 99 | | |

*Segment EBITDA is a non-GAAP measure. Refer to total segment EBITDA reconciliation on page 28 and the breakout of Segment EBITDA by each respective segment on page 27.

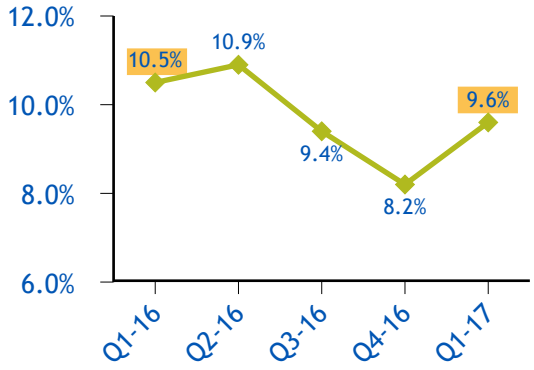
## Gross Margin




## Europe Segment EBITDA Margin Bridge

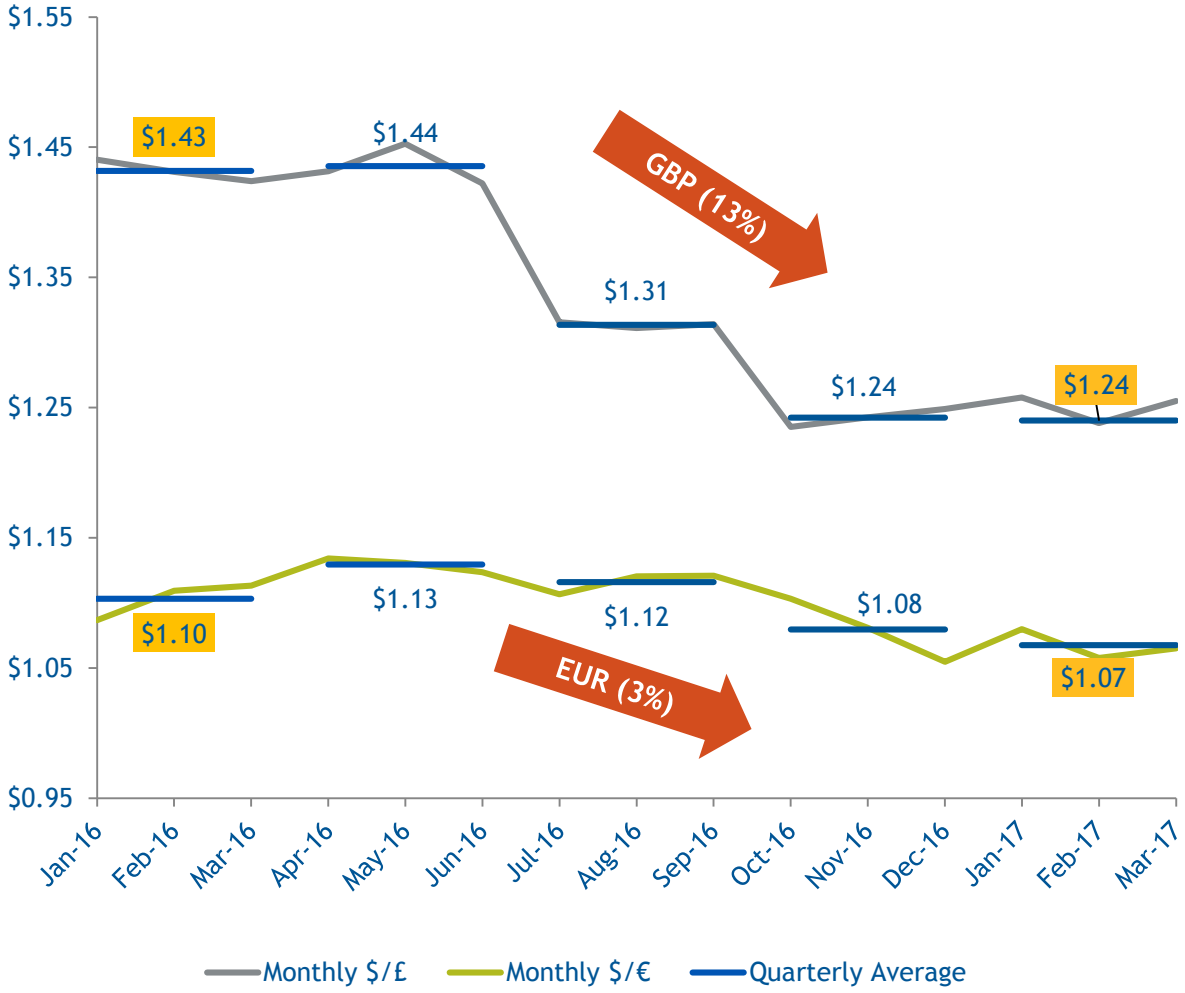



## Segment EBITDA Margin




Note: In the table above, the sum of the individual percentages may not equal the total due to rounding

# Foreign Exchange




- UK referendum to leave the EU had an impact on Q1 2017 average rate
- £ down 13% Q1 2017 vs. Q1 2016
- € down 3% Q1 2017 vs. Q1 2016
- Translation impact of stronger dollar on Europe revenue growth:
  - Q1: $(54) million
- Europe constant currency parts and services revenue growth*:
  - Q1: 60.0%
- Estimated currency impact on EPS growth**:
  - Q1: 1¢ negative impact

* Refer to constant current reconciliation on page 26

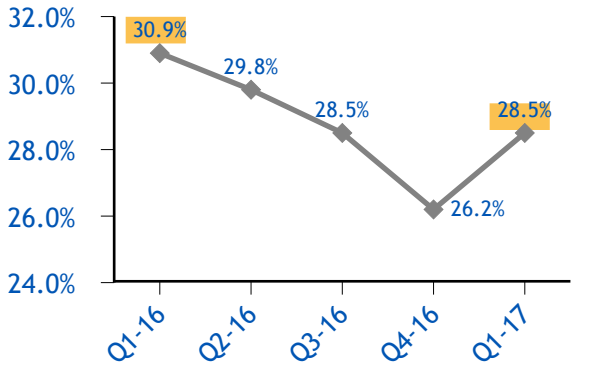
** Reflects the combined impact of all currencies on consolidated EPS growth (all segments); charts and revenue figures above reflect only GBP and EUR currencies related to Europe segment

# Specialty - Q1 2017 Results

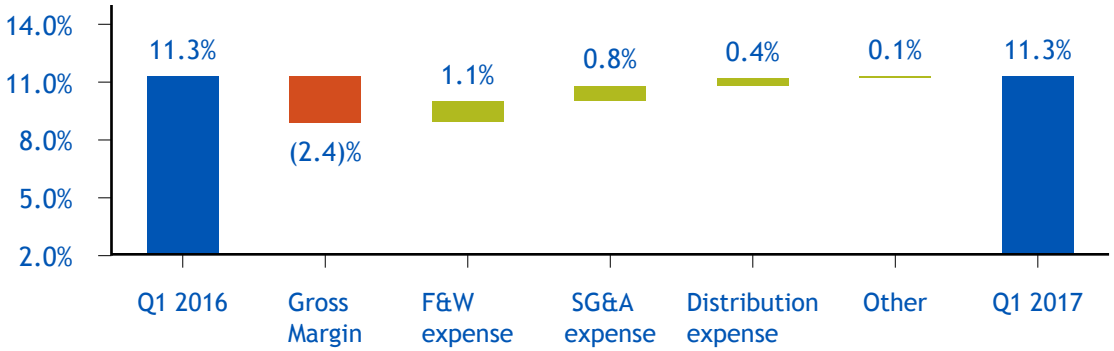
| ($ in millions) | 2017 | 2016 | Change | % of Revenue 2017 | % of Revenue 2016 |
|---|---|---|---|---|---|
| Total Revenue | $315 | $295 | 6.7% | | |
| Gross Margin | $90 | $91 | (1.3)% | 28.5% | 30.9% |
| Operating Expenses | $55 | $58 | (5.8)% | 17.4% | 19.7% |
| Segment EBITDA* | $35 | $33 | 6.0% | 11.3% | 11.3% |

*Segment EBITDA is a non-GAAP measure. Refer to total segment EBITDA reconciliation on page 28 and the breakout of Segment EBITDA by each respective segment on page 27.

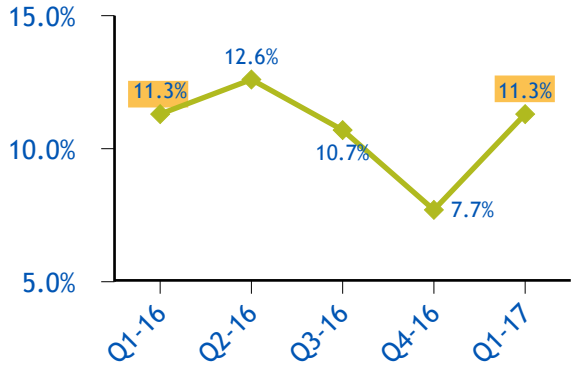
## Gross Margin




## Specialty Segment EBITDA Margin Bridge

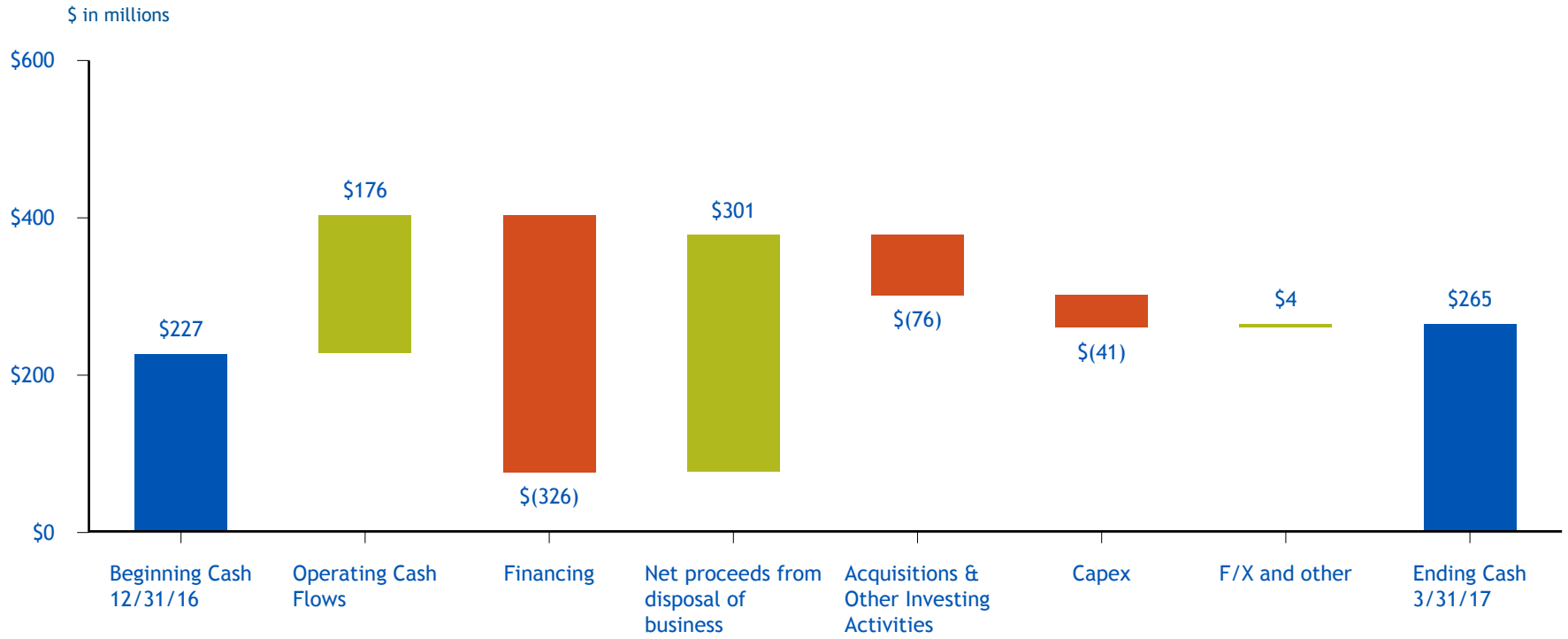



## Segment EBITDA Margin



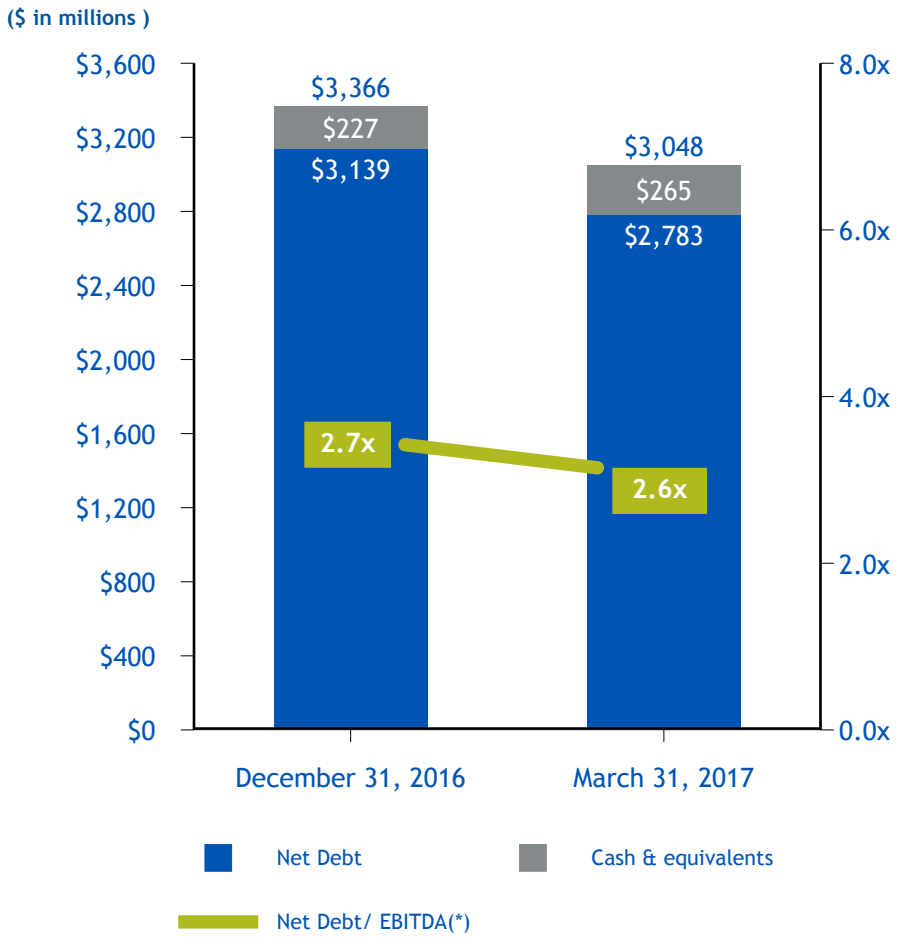

Note: In the table above, the sum of the individual percentages may not equal the total due to rounding

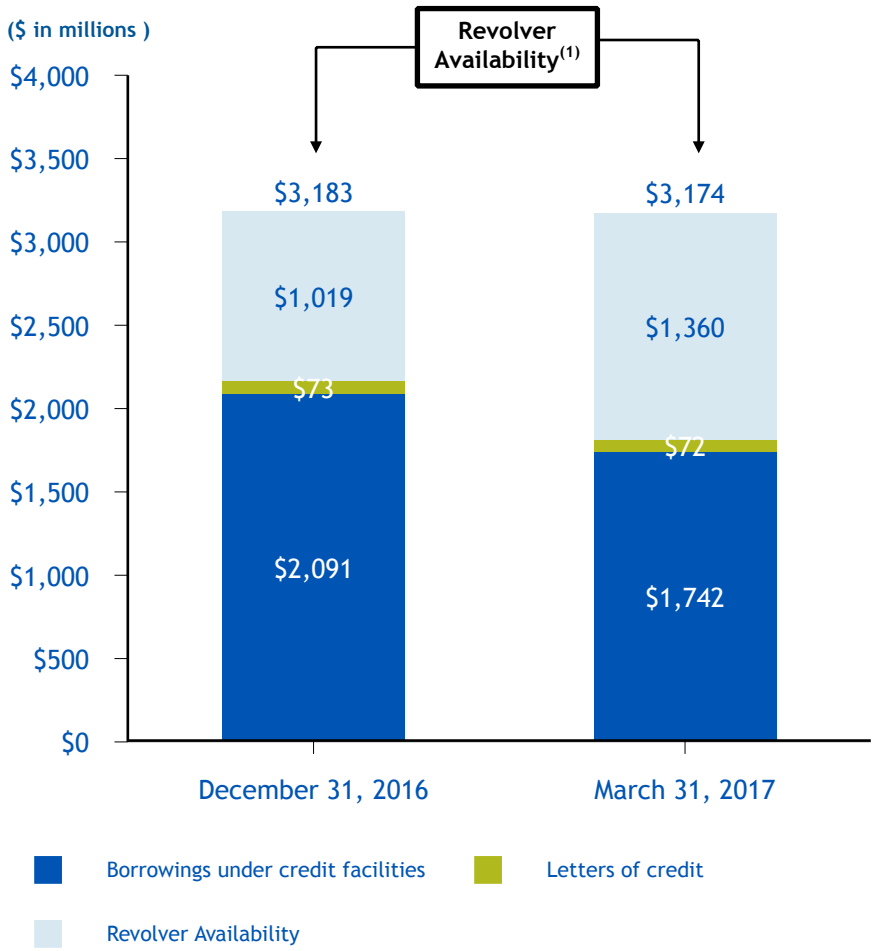
# 2017 Capital Allocation - Continuing operations




- Operating cash flows:
  - Increase driven primarily by higher cash earnings in the first quarter of 2017
  - $32M net cash outflow from operating assets and liabilities due mainly to an increase of $109M of receivables partially offset by an increase of $61M in income taxes payable (based on the timing of estimated payments) and $24M in accounts payable
- Received net proceeds from the sale of the OEM business of $301M and invested $77M in acquisitions in Q1 2017
- We used $301 million of net cash proceeds from the sale of the OEM business to repay revolver borrowings

# Leverage & Liquidity



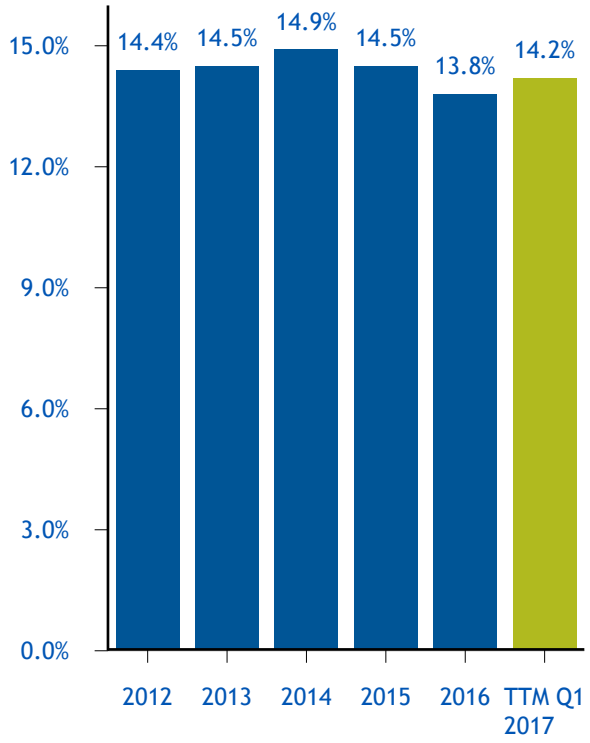




**Effective borrowing rate for Q1 2017 was 2.9%**

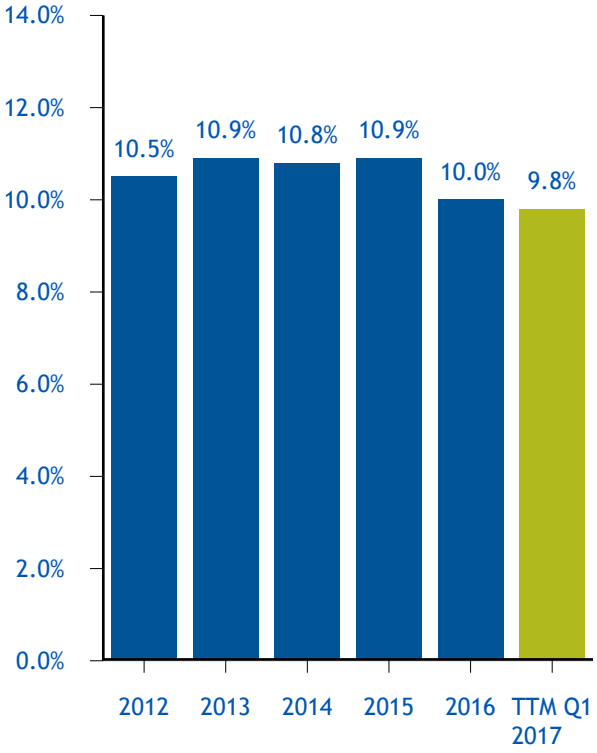
(1) Revolver availability includes our term loans and revolving credit facilities
(*) Net leverage per bank covenants is defined as Net Debt/EBITDA. See the definitions of Net Debt and EBITDA in the credit agreement filed with the SEC for further details

# Key Return Metrics

## Return on Equity




## Return on Invested Capital*




* Amortization of intangibles has been excluded from the calculation of Return on Invested Capital

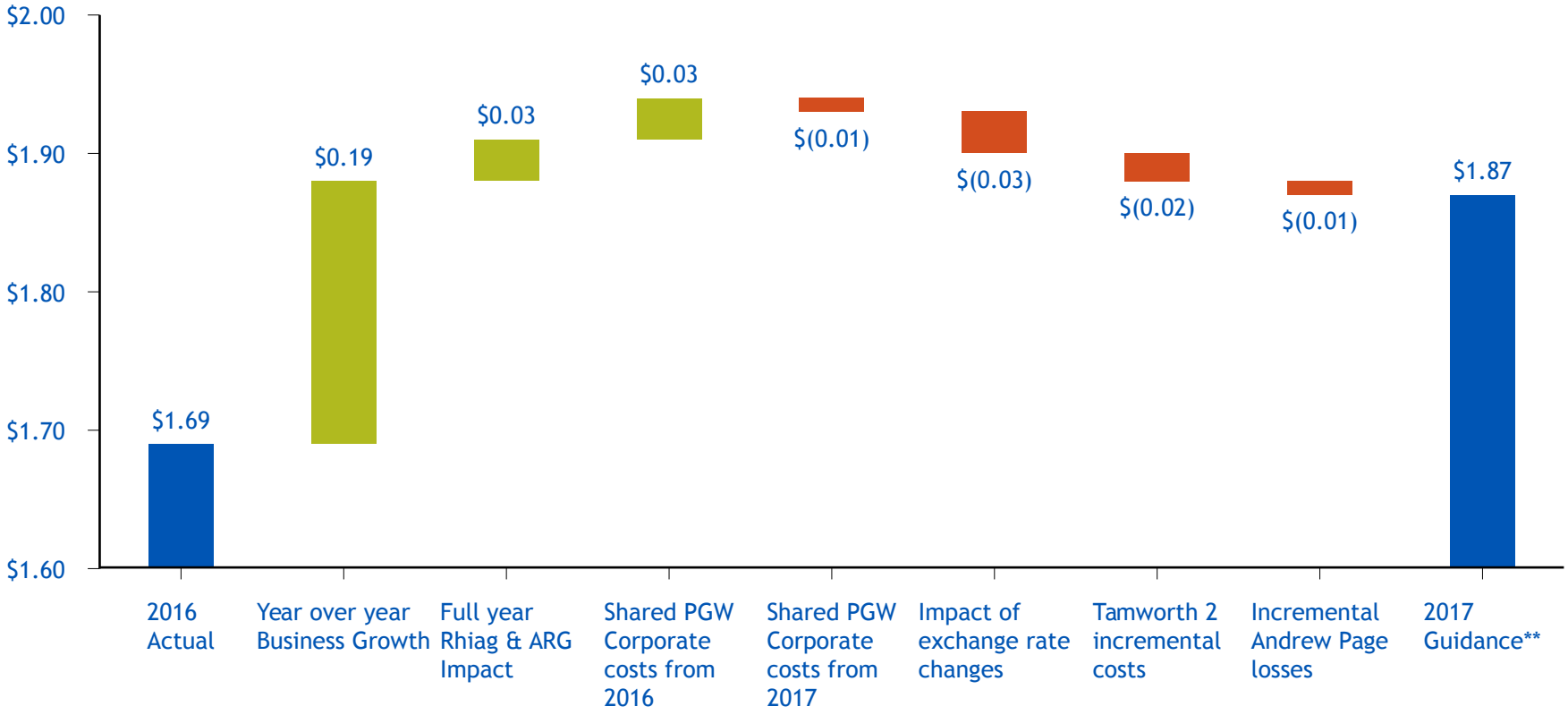
# Guidance 2017
(effective only on the date issued: April 27, 2017)

| ($ in millions excluding EPS) | Full Year 2016 Actual | Full Year 2017 Guidance[1] |
|---|---|---|
| Organic Growth, Parts and Services | 4.8% | 4.0% - 6.0% |
| Adjusted Net Income- continuing operations[2] | $522 | $565 - $595 |
| Adjusted Diluted EPS- continuing operations[2] | $1.69 | $1.82 - $1.92 |
| Capital Expenditures- continuing operations | $183 | $200 - $225 |
| Cash Flow from Operations - continuing operations | $571 | $615 - $645 |

(1) Guidance for 2017 is based on current conditions and excludes the impact of restructuring and acquisition related expenses, excess tax benefits and deficiencies from stock based payments, losses on debt extinguishment and amortization expense related to acquired intangibles. In addition, it excludes gains or losses (including changes in fair value of contingent consideration liabilities) and capital spending related to acquisitions or divestitures. Our forecasted results for our U.K. and other international operations were calculated using current foreign exchange rates for the remainder of the year
Full year 2016 actual figures for Adjusted Net Income and Adjusted Diluted EPS were calculated using the same methodology as the 2017 guidance. Organic revenue guidance refers only to parts and services revenue. LKQ updated its guidance on April 27, 2017, and it is only effective on the date of issuance. It is LKQ's policy to comment on its annual guidance only when the company issues its quarterly press releases with financial results. LKQ has no obligation to update this guidance.

(2) See page 32 for reconciliation of forecasted adjusted net income and forecasted adjusted diluted earnings per share

# 2017 Adjusted Diluted EPS Guidance Bridge*




* See page 32 for reconciliation of forecasted adjusted net income and forecasted adjusted diluted earnings per share
** Reflects midpoint of Adjusted Diluted EPS guidance range

# Q1 2017 Key Takeaways

- Organic revenue growth of 4.5% for parts and services in Q1
- Constant currency* revenue growth of 24.5% for parts and services in Q1
- Income from continuing operations improvement of 25.5% for Q1
- Segment EBITDA** margin improvement primarily due to improvement in gross margin in our North America segment
- Q1 Continuing operations Diluted EPS of $0.45 vs. $0.36, a 25.0% increase
- Q1 Continuing operations Adjusted Diluted EPS*** of $0.49 vs. $0.42, a 16.7% increase

* Constant Currency is a non-GAAP measure. Refer to segment Constant Currency reconciliation on page 26

** Segment EBITDA is a non-GAAP measure. Refer to segment Segment EBITDA reconciliation on page 28

*** Adjusted Diluted EPS is a non-GAAP measure. Refer to EPS reconciliation on page 30

# Consistent Business Model and Strategy



# Appendix 1- Constant Currency Reconciliation

- The following unaudited table reconciles consolidated revenue growth for Parts & Services to constant currency revenue growth for the same measure:

| | Three Months Ended March 31, 2017 | |
|---|---|---|
| | Consolidated | Europe |
| **Parts & Services** | | |
| Revenue Growth as reported | 21.7% | 50.1% |
| Less: Currency impact | (2.8%) | (9.9%) |
| Revenue growth at constant currency | 24.5% | 60.0% |

We have presented the growth of our revenue on both an as reported and a constant currency basis. The constant currency presentation, which is a non-GAAP financial measure, excludes the impact of fluctuations in foreign currency exchange rates. We believe providing constant currency revenue information provides valuable supplemental information regarding our growth, consistent with how we evaluate our performance, as this statistic removes the translation impact of exchange rate fluctuations, which are outside of our control and do not reflect our operational performance. Constant currency revenue results are calculated by translating prior year revenue in local currency using the current year's currency conversion rate. This non-GAAP financial measure has limitations as an analytical tool and should not be considered in isolation or as a substitute for an analysis of our results as reported under GAAP. Our use of this term may vary from the use of similarly-titled measures by other issuers due to the potential inconsistencies in the method of calculation and differences due to items subject to interpretation. In addition, not all companies that report revenue growth on a constant currency basis calculate such measure in the same manner as we do and, accordingly, our calculations are not necessarily comparable to similarly-named measures of other companies and may not be appropriate measures for performance relative to other companies.

# Appendix 2 - Revenue and Segment EBITDA by segment

| (in millions) | Three Months Ended March 31* 2017 | % of revenue | 2016 | % of revenue |
|---|---|---|---|---|
| **Revenue** | | | | |
| North America | $1,208.2 | | $1,080.8 | |
| Europe | 820.9 | | 546.8 | |
| Specialty | 314.9 | | 295.1 | |
| Eliminations | (1.2) | | (1.2) | |
| Total Revenue | $2,342.8 | | $1,921.5 | |
| **Segment EBITDA** | | | | |
| North America | $176.1 | 14.6% | $145.7 | 13.5% |
| Europe | 78.7 | 9.6% | 57.5 | 10.5% |
| Specialty | 35.4 | 11.3% | 33.4 | 11.3% |
| Total Segment EBITDA | $290.3 | 12.4% | $236.6 | 12.3% |

We have presented Segment EBITDA solely as a supplemental disclosure that offers investors, securities analysts and other interested parties useful information to evaluate our segment profit and loss. We calculate Segment EBITDA as EBITDA excluding restructuring and acquisition related expenses, change in fair value of contingent consideration liabilities, other acquisition related gains and losses and equity in earnings of unconsolidated subsidiaries. EBITDA, which is the basis for Segment EBITDA, is calculated as net income excluding discontinued operations, depreciation, amortization, interest (which includes loss on debt extinguishment) and income tax expense. Our chief operating decision maker, who is our Chief Executive Officer, uses Segment EBITDA as the key measure of our segment profit or loss. We use Segment EBITDA to compare profitability among our segments and evaluate business strategies. We also consider Segment EBITDA to be a useful financial measure in evaluating our operating performance, as it provides investors, securities analysts and other interested parties with supplemental information regarding the underlying trends in our ongoing operations. Segment EBITDA includes revenue and expenses that are controllable by the segment. Corporate and administrative expenses are allocated to the segments based on usage, with shared expenses apportioned based on the segment's percentage of consolidated revenue.

*The sum of the individual components may not equal the total due to rounding

# Appendix 3 - Reconciliation of Net Income to EBITDA and Segment EBITDA

| (in millions) | Three Months Ended March 31** 2017 | 2016 |
|---|---|---|
| Net income | $136.3 | $112.2 |
| Subtract: | | |
| Loss from discontinued operations, net of tax | (4.5) | — |
| Income from continuing operations | $140.8 | $112.2 |
| Add: | | |
| Depreciation and Amortization | 50.6 | 33.2 |
| Interest Expense, Net | 24.0 | 14.6 |
| Loss on debt extinguishment* | — | 26.7 |
| Provision for Income Taxes | 72.2 | 53.1 |
| EBITDA | $287.6 | $239.7 |
| **Subtract:** | | |
| Equity in earnings of unconsolidated subsidiaries | 0.2 | (0.4) |
| Gains on foreign exchange contracts - acquisition related | — | (18.3) |
| **Add:** | | |
| Restructuring and acquisition related expenses | 2.9 | 14.8 |
| Change in fair value of contingent consideration liabilities | — | 0.1 |
| Segment EBITDA | $290.3 | $236.6 |
| EBITDA as a percentage of revenue | 12.3% | 12.5% |
| Segment EBITDA as a percentage of revenue | 12.4% | 12.3% |

* Loss on debt extinguishment is considered a component of interest in calculating EBITDA
** The sum of the individual components may not equal the total due to rounding

# Appendix 3- Reconciliation of Net Income to EBITDA and Segment EBITDA

We have presented EBITDA solely as a supplemental disclosure that offers investors, securities analysts and other interested parties useful information to evaluate our operating performance and the value of our business. We calculate EBITDA as net income excluding discontinued operations, depreciation, amortization, interest (which includes loss on debt extinguishment) and income tax expense. EBITDA provides insight into our profitability trends and allows management and investors to analyze our operating results with and without the impact of discontinued operations, depreciation, amortization, interest (which includes loss on debt extinguishment) and income tax expense. We believe EBITDA is used by investors, securities analysts and other interested parties in evaluating the operating performance and the value of other companies, many of which present EBITDA when reporting their results.

We have presented Segment EBITDA solely as a supplemental disclosure that offers investors, securities analysts and other interested parties useful information to evaluate our segment profit and loss and underlying trends in our ongoing operations. We calculate Segment EBITDA as EBITDA excluding restructuring and acquisition related expenses, change in fair value of contingent consideration liabilities, other acquisition related gains and losses and equity in earnings of unconsolidated subsidiaries. Our chief operating decision maker, who is our Chief Executive Officer, uses Segment EBITDA as the key measure of our segment profit or loss. We use Segment EBITDA to compare profitability among our segments and evaluate business strategies. Segment EBITDA includes revenue and expenses that are controllable by the segment. Corporate and administrative expenses are allocated to the segments based on usage, with shared expenses apportioned based on the segment's percentage of consolidated revenue.

EBITDA and Segment EBITDA should not be construed as alternatives to operating income, net income or net cash provided by (used in) operating activities, as determined in accordance with accounting principles generally accepted in the United States. In addition, not all companies that report EBITDA or Segment EBITDA information calculate EBITDA or Segment EBITDA in the same manner as we do and, accordingly, our calculations are not necessarily comparable to similarly named measures of other companies and may not be appropriate measures for performance relative to other companies.

# Appendix 4 - Reconciliation of Net Income and EPS to Adjusted Net Income and Adjusted EPS from continuing operations

| (in millions, except per share data) | Three Months Ended March 31* 2017 | 2016 |
|---|---|---|
| Net income | $136.3 | $112.2 |
| Subtract: | | |
| Loss from discontinued operations, net of tax | (4.5) | — |
| Income from continuing operations | $140.8 | $112.2 |
| Adjustments: | | |
| Restructuring and acquisition related expenses | 2.9 | 14.8 |
| Loss on debt extinguishment | — | 26.7 |
| Amortization of acquired intangibles | 21.3 | 8.9 |
| Change in fair value of contingent consideration liabilities | — | 0.1 |
| Gains on foreign exchange contracts - acquisition related | — | (18.3) |
| Excess tax benefit from stock-based payments | (3.3) | (4.4) |
| Tax effect of adjustments | (8.5) | (11.1) |
| Adjusted net income from continuing operations | $153.2 | $128.7 |
| | | |
| Weighted average diluted common shares outstanding | 310,300 | 309,193 |
| Diluted earnings per share - continuing operations | $0.45 | $0.36 |
| Adjusted diluted earnings per share - continuing operations | $0.49 | $0.42 |

*The sum of the individual components may not equal the total due to rounding.

# Appendix 4 - Reconciliation of Net Income and EPS to Adjusted Net Income and Adjusted EPS from continuing operations

We have presented Adjusted Net Income and Adjusted Diluted Earnings per Share from Continuing Operations as we believe these measures are useful for evaluating the core operating performance of our continuing business across reporting periods and in analyzing the company's historical operating results. We define Adjusted Net Income and Adjusted Diluted Earnings per Share from Continuing Operations as Net Income and Diluted Earnings per Share adjusted to eliminate the impact of discontinued operations, restructuring and acquisition related expenses, loss on debt extinguishment, amortization expense related to acquired intangibles, the change in fair value of contingent consideration liabilities, other acquisition-related gains and losses, excess tax benefits and deficiencies from stock-based payments, and any tax effect of these adjustments. The tax effect of these adjustments is calculated using the effective tax rate for the applicable period or for certain discrete items the specific tax expense or benefit for the adjustment. These financial measures are used by management in its decision making and overall evaluation of operating performance of the company and are included in the metrics used to determine incentive compensation for our senior management. Adjusted Net Income and Adjusted Diluted Earnings per Share from Continuing Operations should not be construed as alternatives to Net Income or Diluted Earnings per Share as determined in accordance with accounting principles generally accepted in the United States. In addition, not all companies that report Adjusted Net Income and Adjusted Diluted Earnings per Share from Continuing Operations calculate such measures in the same manner as we do and, accordingly, our calculations are not necessarily comparable to similarly-named measures of other companies and may not be appropriate measures for performance relative to other companies.

# Appendix 5 - Forecasted EPS reconciliation*

| (in millions, except per share data) | For the year ending December 31, 2017 Minimum Guidance | Maximum Guidance |
|---|---|---|
| Income from continuing operations | $511 | $541 |
| Adjustments: | | |
| Amortization of acquired intangibles | 85 | 85 |
| Restructuring and acquisition related expenses | 3 | 3 |
| Excess tax benefit from stock-based payments | (3) | (3) |
| Tax effect of adjustments | (31) | (31) |
| **Adjusted net income- continuing operations** | $565 | $595 |
| Weighted average diluted common shares outstanding | 311 | 311 |
| Diluted earnings per share - continuing operations | $1.65 | $1.74 |
| Adjusted diluted earnings per share - continuing operations | $1.82 | $1.92 |

We have presented forecasted Adjusted Net Income and forecasted Adjusted Diluted Earnings per Share from Continuing Operations in our financial guidance. Refer to the discussion of Adjusted Net Income and Adjusted Diluted Earnings per Share for details on the calculation of these non-GAAP financial measures. In the calculation of forecasted Adjusted Net Income and forecasted Adjusted Diluted Earnings per Share from Continuing Operations, we included estimates of income from continuing operations and amortization of acquired intangibles for the full fiscal year 2017 and the related tax effect; we included for all other components the amounts incurred as of March 31, 2017.

*The sum of the individual components may not equal the total due to rounding