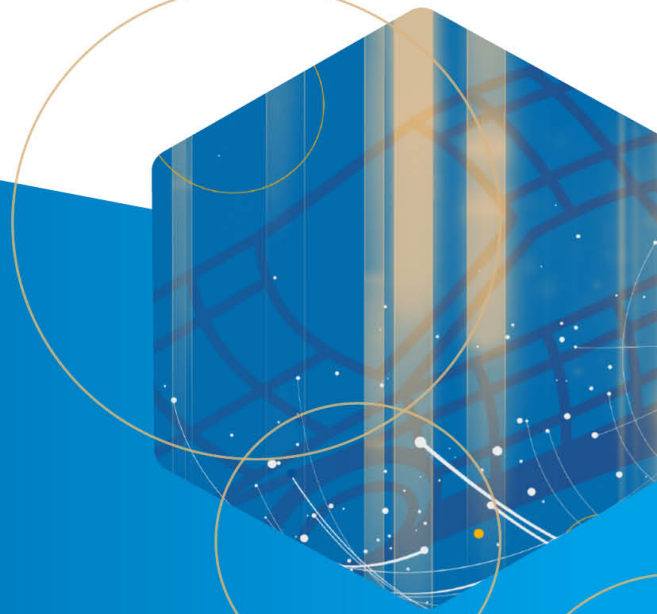




LKQ Corporation

First Quarter 2020 Earnings Call

April 30, 2020

Nick Zarcone - *President & Chief Executive Officer*
Varun Laroyia - *Executive Vice President & Chief Financial Officer*
Joe Boutross - *Vice President, 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 the effects of COVID-19 and 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, 2019 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 is a reconciliation 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

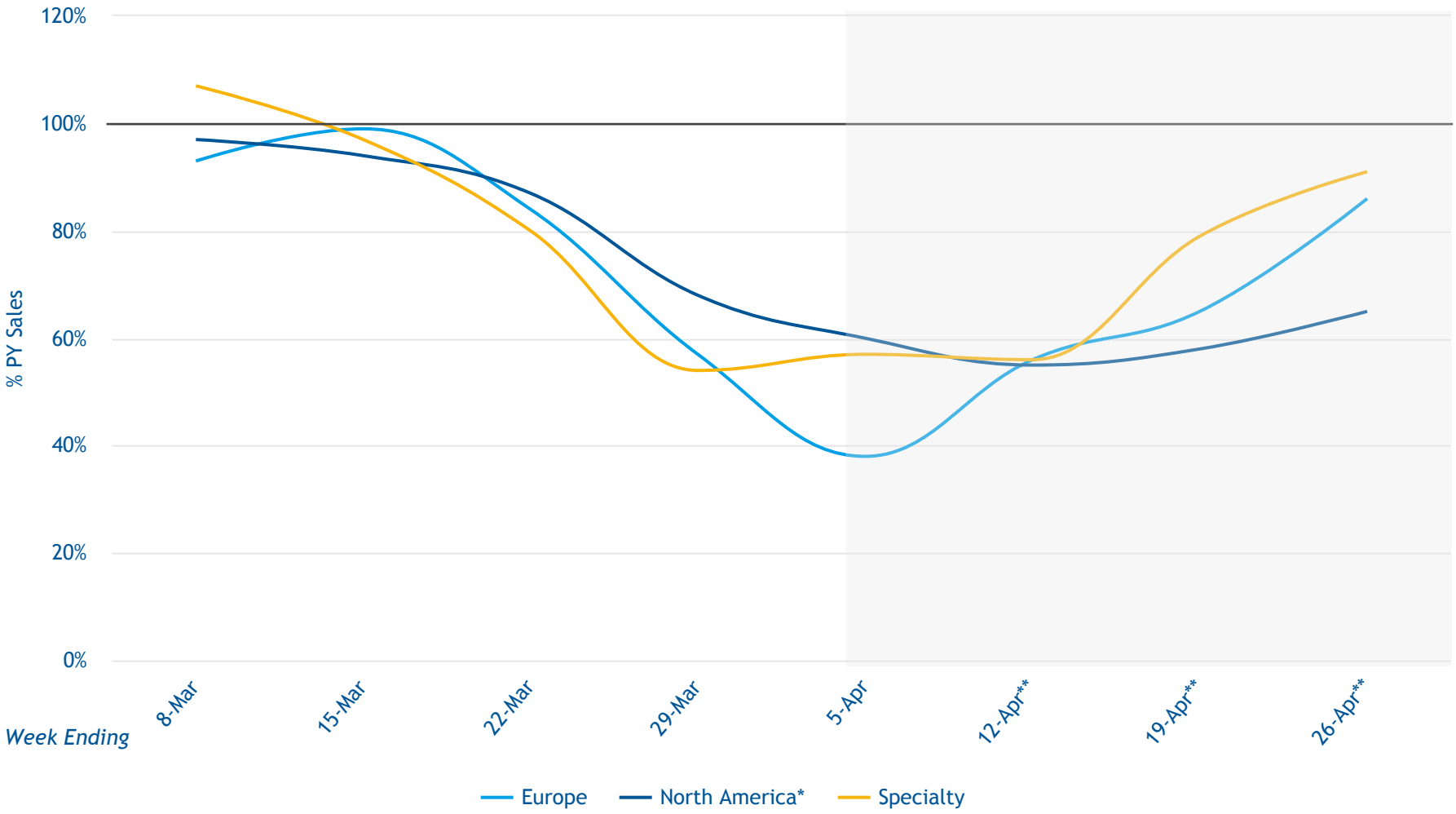
Q1 2020 Key Takeaways

- COVID-19 Pandemic Impact on Operations
  - Many of our customers remain open as essential service providers, and we continue to supply them
  - Efforts by governments to flatten the infection curve have had a profound negative impact on mobility and miles driven
  - Revenue decline started in March and has carried over into April
  - Cost actions and cash management implemented to align with demand
  - No material disruptions to supply chain
  - Liquidity is sufficient to support operations
- Significant variations in performance between the pre-COVID-19 period (YTD February) and March
  - YTD February results were up YoY for organic parts and services revenue, gross margin percentage, EBITDA, and Adjusted diluted EPS
  - March monthly results impacted by shutdown measures, parts and services revenue was down 10.3% (13.9% on a per day basis), impacting profitability
- Q1 2020 Diluted EPS from continuing operations of $0.48 vs. $0.31 (55% increase): Q1 2020 Adjusted Diluted EPS[(1)] of $0.57 vs. $0.56 (2% increase)
- North America Segment EBITDA margin improved 280 basis points vs. Q1 2019
  - Continued benefit of precious metals, improved sequential scrap metal prices and operational programs
- Strong operating cash conversion; generated $195 million in operating cash flows in Q1 2020 (up 10%): free cash flow[(2)] of $150 million (up 21%)
- Paid down $230 million in debt; net leverage declined to 2.5x[(3)] EBITDA
- Initiated cost reduction actions targeting $80-$90 million per month
- Earnings guidance remains suspended

(1) Adjusted Diluted EPS is a non-GAAP measure. Refer to Appendix 4 for Adjusted Diluted EPS reconciliation
(2) Free Cash Flow is a non-GAAP measure. Refer to Appendix 5 for Free Cash Flow reconciliation
(3) 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

Demand Impact

Weekly Sales as a Percentage of Prior Year

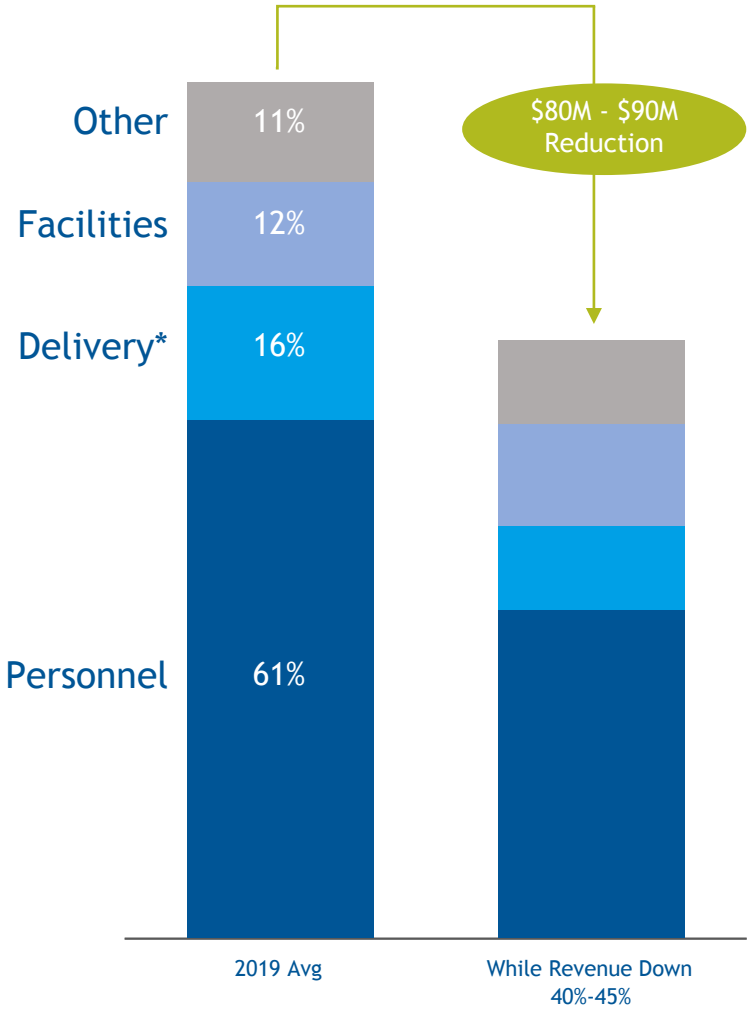


Revenue declined as restrictions on movement were instituted in mid-March

Note: Values shown reflect sales in the individual week and are not cumulative
*North America excludes Self-Service
**Weekly revenue in Europe was affected by the timing of Easter: April 12, 2020 and April 21, 2019

Cost Structure Actions

Current opex monthly run rate



*Delivery Costs include freight, vehicle & fuel

Key actions implemented (to date)

- Headcount actions totaling ~17,000 (34%) FTEs include furlough, RIFs, decreased hours, elimination of overtime, temp workers, and hiring freeze; leveraging European government programs announced
- Salary reduction of 10% – 20% implemented effective in April for employees compensated above certain thresholds and delayed merit increase
- Reduction in discretionary, professional services and non-mission critical spend (e.g. T&E, advertising)
- Branch closures (temporary and permanent)
- Optimization in number of deliveries & routes across each segment
- Lower vehicle expenses and fuel spend
- Restructuring program announced of $50-$60 million, of which approximately 20% is expected to be non-cash

Liquidity as of March 31, 2020

Credit Rating	• Rated Ba2 / BB by Moody's and S&P, respectively
Debt Structure	• Fixed Interest Rate Bonds: €1,500 million ($1,655 million) • Variable Interest Rate Bank Debt: $1,900 million • Receivables Securitization Facility: $98 million • Other Debt (capital leases, local lines of credit): $136 million
Maturities	• Current maturities: $91 million; No significant maturities until January 2024
Financial Covenants[(1)]	• Credit Facility maximum leverage ratio covenant: 4.25x (4.00x in Q2 2020) o Net debt to EBITDA as of March 31, 2020: 2.5x • Credit Facility minimum interest expense coverage ratio: 3.0x o Interest expense to EBITDA as of March 31, 2020: 11.3x • Euro Notes do not include financial maintenance covenants
Liquidity	• Cash on balance sheet of $333 million • $3,150 million revolving credit facility: $1,517 million available • Receivables securitization facility: 89% drawn • Total Liquidity: $1,861 million
Cash Flows	• Q1 2020 free cash flow of $150 million (21% higher than prior year)
COVID-19 Actions	• Reduced CapEx by over $100M (down ~40%) vs. prior guidance; only mission critical programs and Fource CDC progressing • Reducing inventory replenishment rates across each segment to reflect current demand outlook • Actively monitoring customer receivables • Continuing to push European vendor financing program and overall payment terms initiative • Tax payment deferral programs • Share repurchase program halted on March 16, 2020
Subsequent Event	• Approximately $20-$30 million in debt repayments projected for April

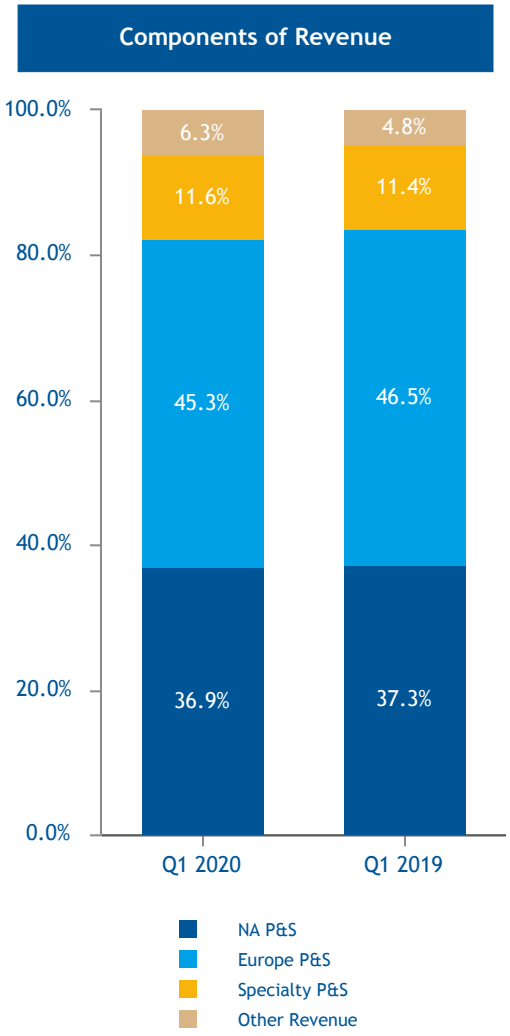
(1) See the definition of Net Debt, interest expense and EBITDA in the credit agreement filed with the SEC for further details

LKQ Corporation

Financial Results

Q1 2020 Revenue

Revenue Changes by Source:	Organic	Acquisition and Divestiture	Foreign Exchange	Total[1]
North America	(4.2)%	0.1%	(0.1)%	(4.2)%
Europe	(3.4)%	0.1%	(2.5)%	(5.8)%
Specialty	(1.4)%	0.1%	(0.1)%	(1.5)%
Parts and Services	(3.5)%	0.1%	(1.3)%	(4.6)%
Other Revenue	23.2%	1.4%	(0.1)%	24.5%
Total	(2.2)%	0.2%	(1.2)%	(3.2)%



- One additional selling day in Q1 2020 compared to the same period in the prior year
- Organic revenue for parts and services declined 3.5% (4.7% on a per day basis) largely due to a sharp decline in March, with the onset of the COVID-19 pandemic stay at home mandates across all three segments
  - March organic revenue decline of 10.3% (13.9% on a per day basis)
- North America organic revenue declined 4.2% (5.6% on a per day basis) for parts and services; collision and auto liability claims were down 9.9% for the quarter[2] (roughly 20% in March); cancellation of FCA battery contract in Q4 2019 had a negative 80 basis point impact on Q1 revenue
- Europe organic revenue declined for parts and services by 3.4% (4.5% on a per day basis); growth of 0.3% through February QTD
- Unfavorable F/X impact on European parts and services revenue of $36 million; European constant currency parts and services revenue declined 3.3%[3]
- Specialty organic revenue declined by 1.4% (2.9% on a per day basis); growth of 4.3% through February QTD
- Increase in other revenue was primarily attributable to higher prices of precious metals, partially offset by lower prices of scrap steel and other metals. Scrap steel prices were down 15% versus Q1 2019; and up sequentially by 23%

(1) The sum of the individual revenue change components may not equal the total percentage due to rounding
(2) Per CCC 2020 First Quarter Industry Update
(3) Constant currency is a non-GAAP financial measure. Refer to Appendix 1 for constant currency reconciliation

Operating Results - Continuing Operations

($ in millions, except per share data)	First Quarter 2020	First Quarter 2019	Change
Revenue	$3,001	$3,100	(3.2)%
Gross Margin	1,214	1,208	0.5%
Operating Income	242	222	8.7%
Pre-tax Income	207	190	8.7%
Net income from continuing operations attributable to LKQ stockholders	146	98	49.1%
Segment EBITDA[(1)]	322	320	0.6%
Diluted EPS from continuing operations attributable to LKQ stockholders:			
Reported	$0.48	$0.31	54.8%
Adjusted[(2)]	$0.57	$0.56	1.8%

- Our effective income tax rate for the three months ended March 31, 2020 was 29.2% compared to 27.1% for the comparable prior year period.
- Q1 2019 includes $55 million of pretax impairment charges in Operating Income; $52 million after tax or ($0.17) per share
- Segment EBITDA Margin[(1)] of 10.7% in Q1 2020 vs. 10.3% in Q1 2019

(1) Segment EBITDA is a non-GAAP measure. Refer to Appendix 3 for Segment EBITDA reconciliation
(2) Adjusted Diluted EPS is a non-GAAP measure. Refer to Appendix 4 for Adjusted Diluted EPS reconciliation

Q1 2020 Consolidated Margins - Continuing Operations

(as a % of Revenue)	Q1 2020	Q1 2019	Change F/(U)	Q1 Commentary
Revenue	100.0%	100.0%	—%	
Gross Margin	40.4%	39.0%	1.4%	Increase primarily attributable to North America
Selling, General and Administrative Expenses	30.0%	28.9%	(1.1)%	Increase primarily attributable to Europe
Restructuring and Acquisition Related Expenses	0.2%	0.1%	(0.1)%	Up year-over-year due to restructuring programs announced in Q2 2019
Operating asset impairment	(0.0)%	0.5%	0.5%	Q1 2019 includes $15 million net assets held for sale impairment charge
Depreciation and Amortization	2.2%	2.3%	0.1%	
Operating Income	8.1%	7.2%	0.9%	
Segment EBITDA[1]	10.7%	10.3%	0.4%	

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

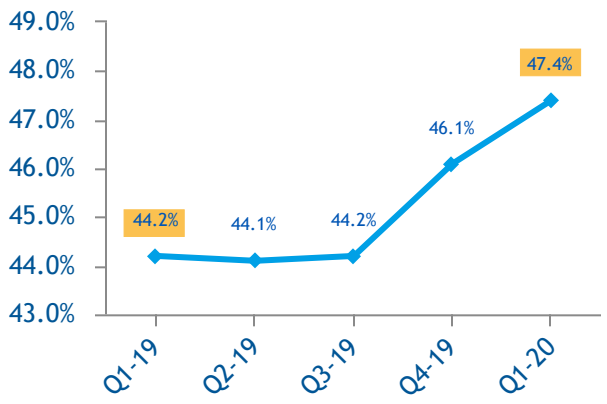
(1) Segment EBITDA is a non-GAAP measure. Refer to Appendix 3 for Segment EBITDA reconciliation. Segment EBITDA is a measure of segment profitability. Refer to individual segment slides for drivers of Segment EBITDA.

North America - Q1 2020 Results

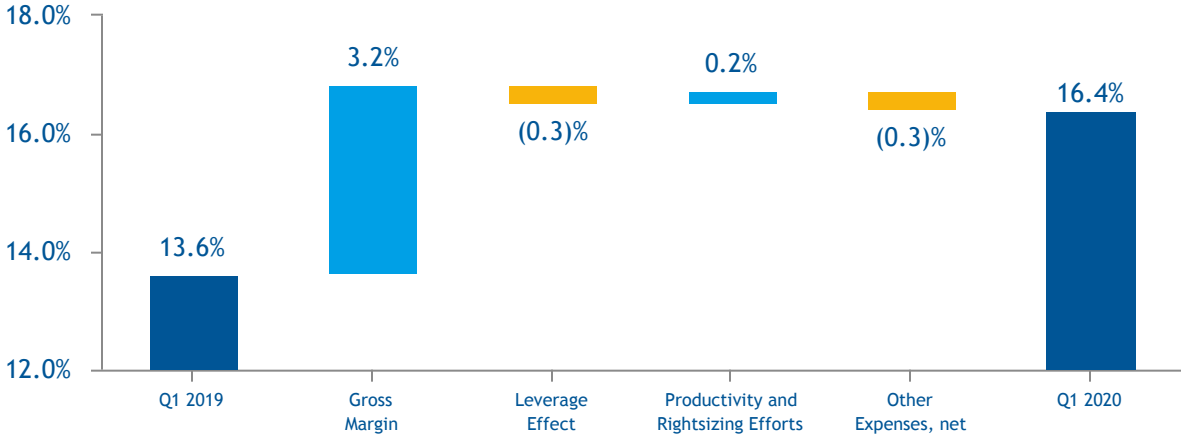
($ in millions)	2020	2019	Change F/(U)	% of Revenue 2020	% of Revenue 2019
Total Revenue	$1,290	$1,302	(0.9)%		
Gross Margin	$612	$576	6.2%	47.4%	44.2%
Operating Expenses	$405	$407	0.7%	31.4%	31.3%
Other Income, net	$4	$7			
Segment EBITDA[(1)]	$211	$177	19.7%	16.4%	13.6%

(1) Segment EBITDA for each respective segment is a GAAP measure, while total Segment EBITDA is a non-GAAP measure. Refer to Appendix 3 for total Segment EBITDA reconciliation and Appendix 2 for the breakout of Segment EBITDA for each respective segment.

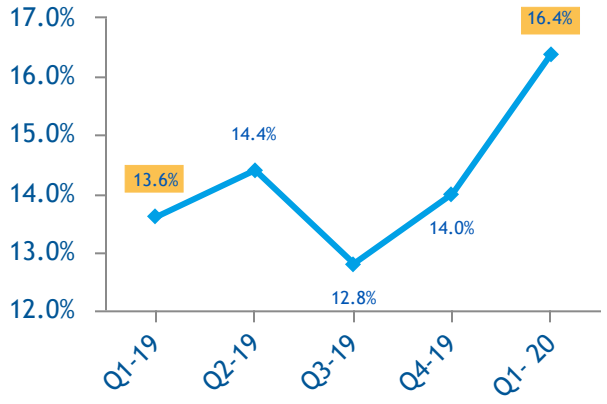
Gross Margin



North America Segment EBITDA Margin Bridge

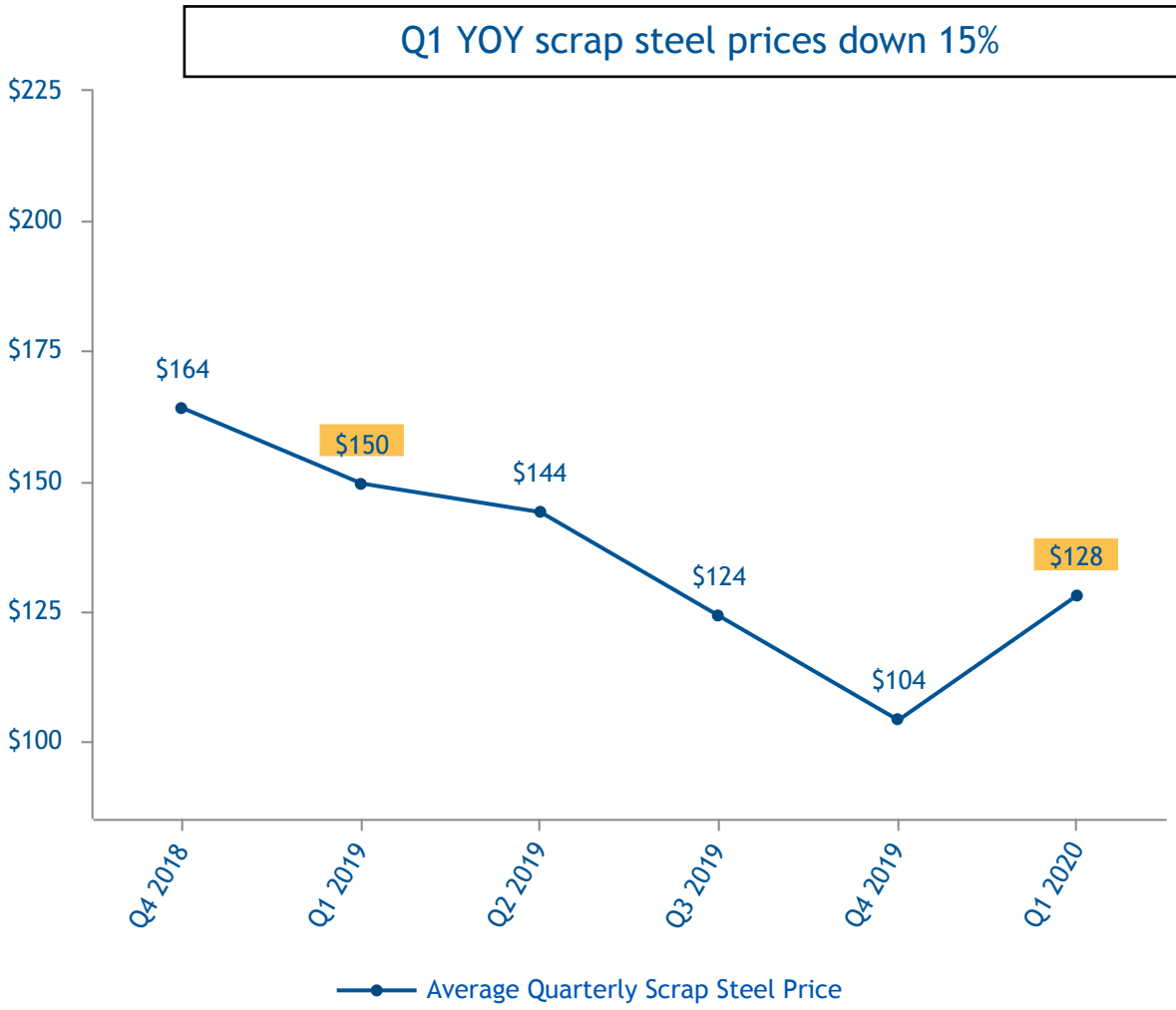


Segment EBITDA Margin



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

Scrap Steel Prices



- Average price realized for scrap steel decreased by 15% from $150 per ton in Q1 2019 to $128 per ton in Q1 2020
- Sequential change from last quarter was positive $24 per ton, or up 23%
- Changes in scrap steel prices impacted Segment EBITDA:
  - Q1 2020: favorable $6 million
  - Q1 2019: unfavorable $4 million

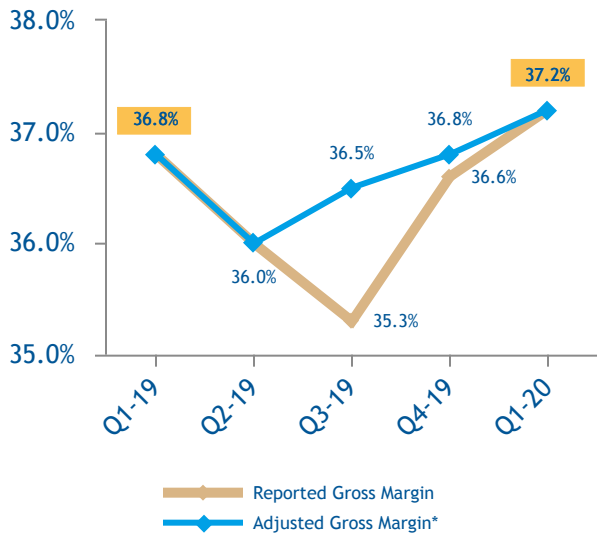
Europe - Q1 2020 Results

($ in millions)	2020	2019	Change F/(U)	% of Revenue 2020	% of Revenue 2019
Total Revenue	$1,364	$1,446	(5.7)%		
Gross Margin	$507	$532	(4.7)%	37.2%	36.8%
Operating Expenses	$431	$426	(1.3)%	31.6%	29.4%
Other (Expense), net	$(1)	$(4)			
Segment EBITDA[(1)]	$78	$105	(25.7)%	5.7%	7.3%
Transformation Expenses	$7	$2			
Segment EBITDA[(1)] excluding Transformation Expenses[(2)]	$85	$107	(20.7)%	6.2%	7.4%

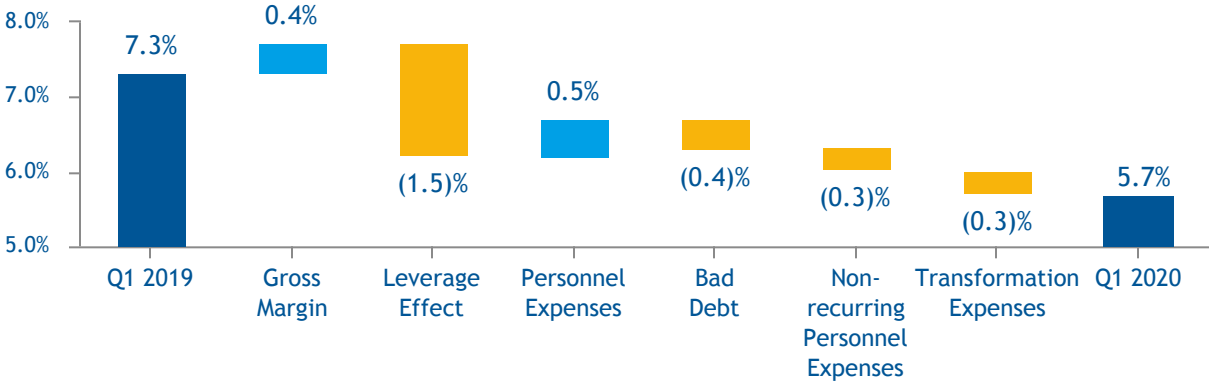
(1) Segment EBITDA for each respective segment is a GAAP measure, while total Segment EBITDA is a non-GAAP measure. Refer to Appendix 3 for total Segment EBITDA reconciliation and Appendix 2 for the breakout of Segment EBITDA for each respective segment.

(2) Transformation expenses are period costs to execute the 1 LKQ Europe program that are expected to contribute to ongoing benefits to the business (e.g. non-capitalized implementation costs related to a common ERP system). These expenses are recorded in Selling, general and administrative expenses.

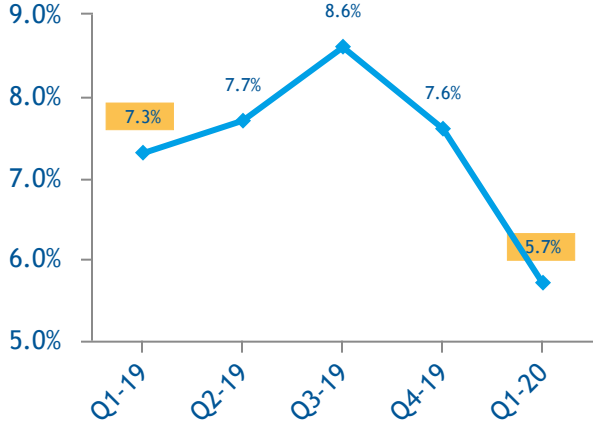
Gross Margin



Europe Segment EBITDA Margin Bridge



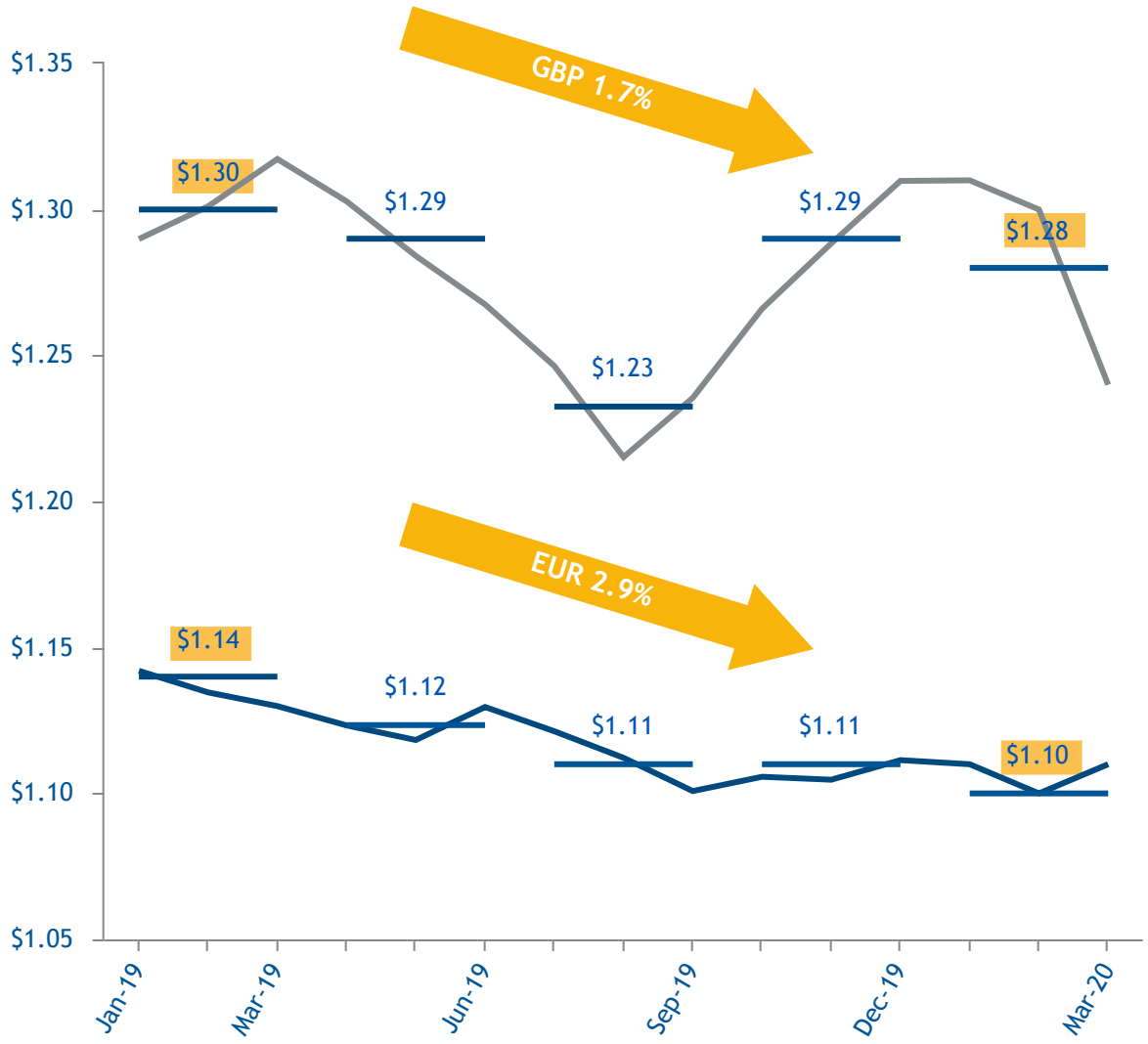
Segment EBITDA Margin



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

*Adjusted Gross Margin is a non-GAAP measure. Refer to Appendix 6 for Reconciliation of Gross Margin to Adjusted Gross Margin.

Foreign Exchange



- £ down 1.7% Q1 2020 vs Q1 2019
- € down 2.9% Q1 2020 vs Q1 2019
- $36 million unfavorable impact of translation of weaker Q1 rates relative to the US dollar on European parts and services revenue growth
- European constant currency(1) parts and services revenue decrease YoY of 3.3% in Q1 2020
- Foreign exchange impact:
  - Q1 2020 flat EPS impact; Adjusted EPS impact of ($0.01)

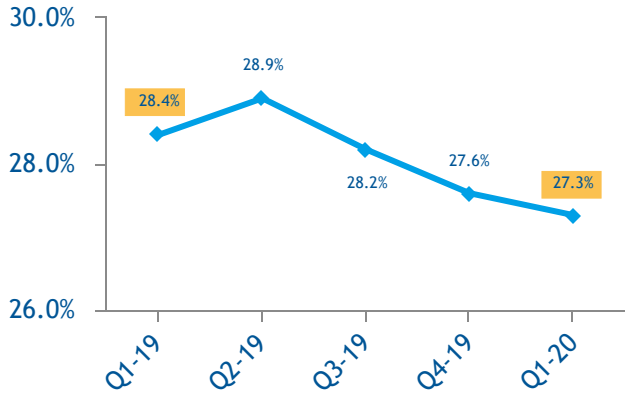
(1) Constant currency is a non-GAAP financial measure. Refer to Appendix 1 for constant currency reconciliation.

Specialty - Q1 2020 Results

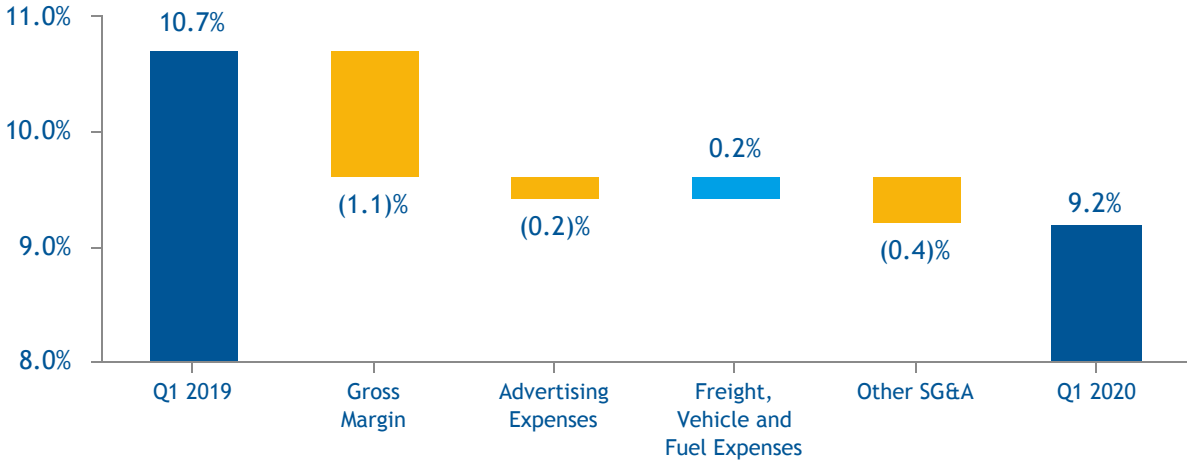
($ in millions)	2020	2019	Change F/(U)	% of Revenue 2020	% of Revenue 2019
Total Revenue	$349	$354	(1.5)%		
Gross Margin	$95	$100	(5.4)%	27.3%	28.4%
Operating Expenses	$64	$63	(0.4)%	18.3%	17.9%
Segment EBITDA[(1)]	$32	$38	(15.1)%	9.2%	10.7%

(1) Segment EBITDA for each respective segment is a GAAP measure, while total Segment EBITDA is a non-GAAP measure. Refer to Appendix 3 for total Segment EBITDA reconciliation and Appendix 2 for the breakout of Segment EBITDA for each respective segment.

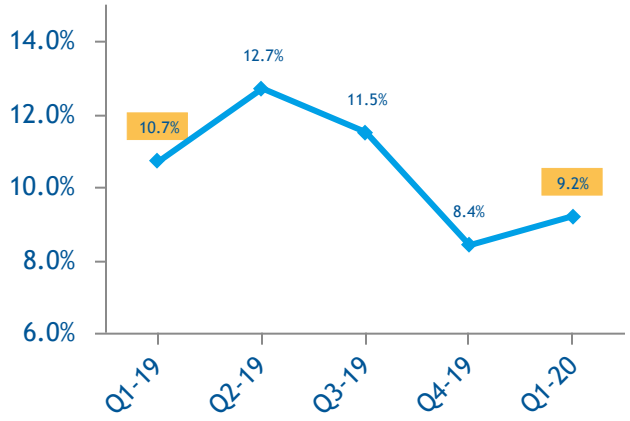
Gross Margin



Specialty Segment EBITDA Margin Bridge

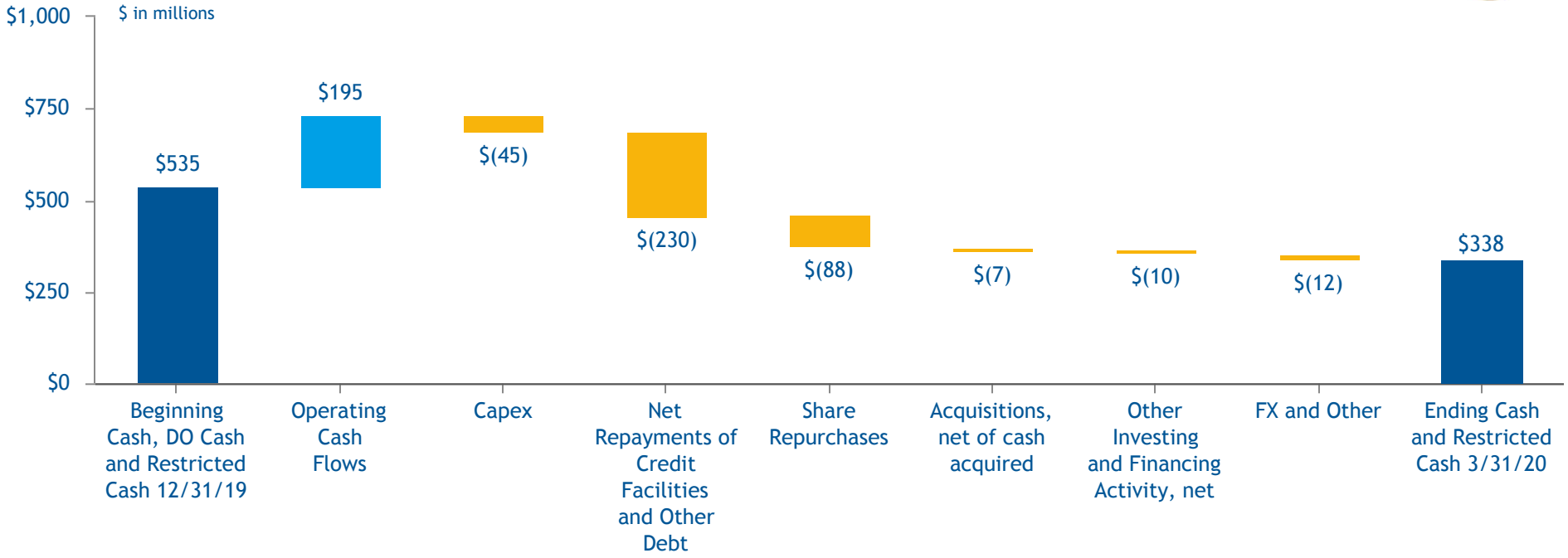


Segment EBITDA Margin



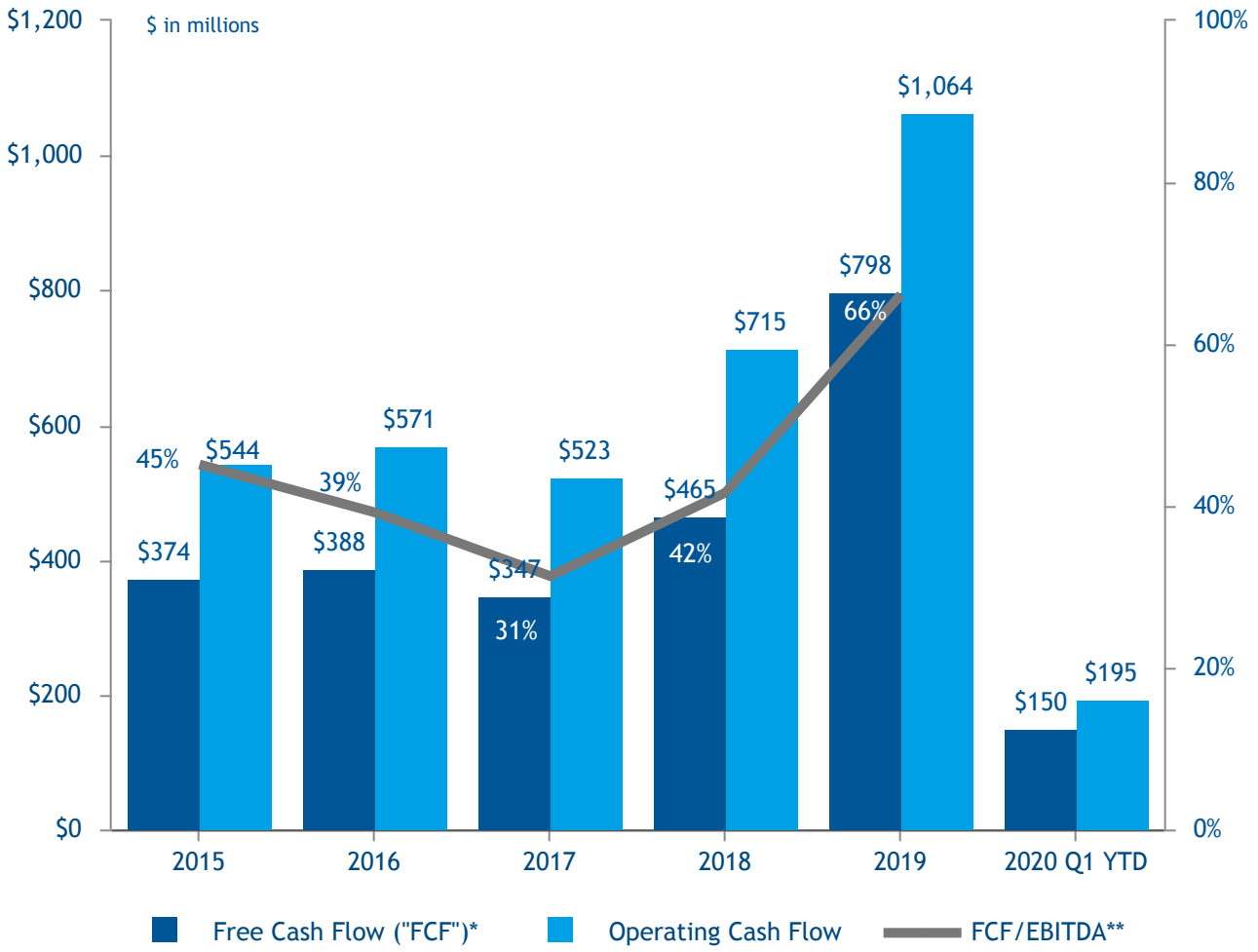
Note: In the table above, the sum of the individual percentages may not equal the total due to rounding

2020 Capital Allocation



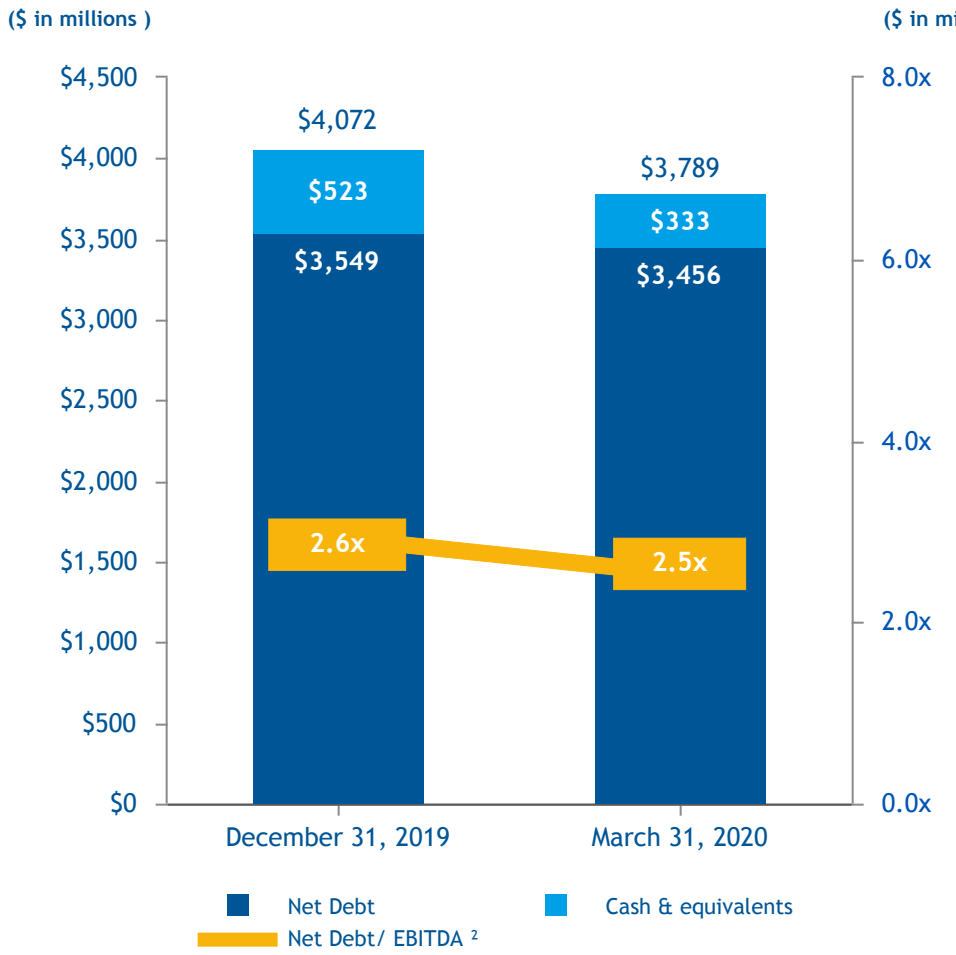
- Operating cash flows:
  - Operating cash flows of $195 million represent a $17 million (or 10%) year over year increase, primarily driven by a $12 million decrease in trade working capital (receivables favorable by $141 million, offset by increased outflows in inventory by ($79 million) and payables by ($50 million)) compared to prior year
- Investing cash flows:
  - Capex of $45 million vs. $53 million in 2019
- Financing cash flows
  - $230 million of net repayments on our borrowings, including the redemption of our $600 million 4.75% Senior Notes due 2023
  - $88 million in share repurchases
- Discontinued Operations ("DO") cash was $6 million at 12/31/19 relating the the Stahlgruber Czech Republic business, there is no DO cash included in the ending balance as the business was sold during Q1

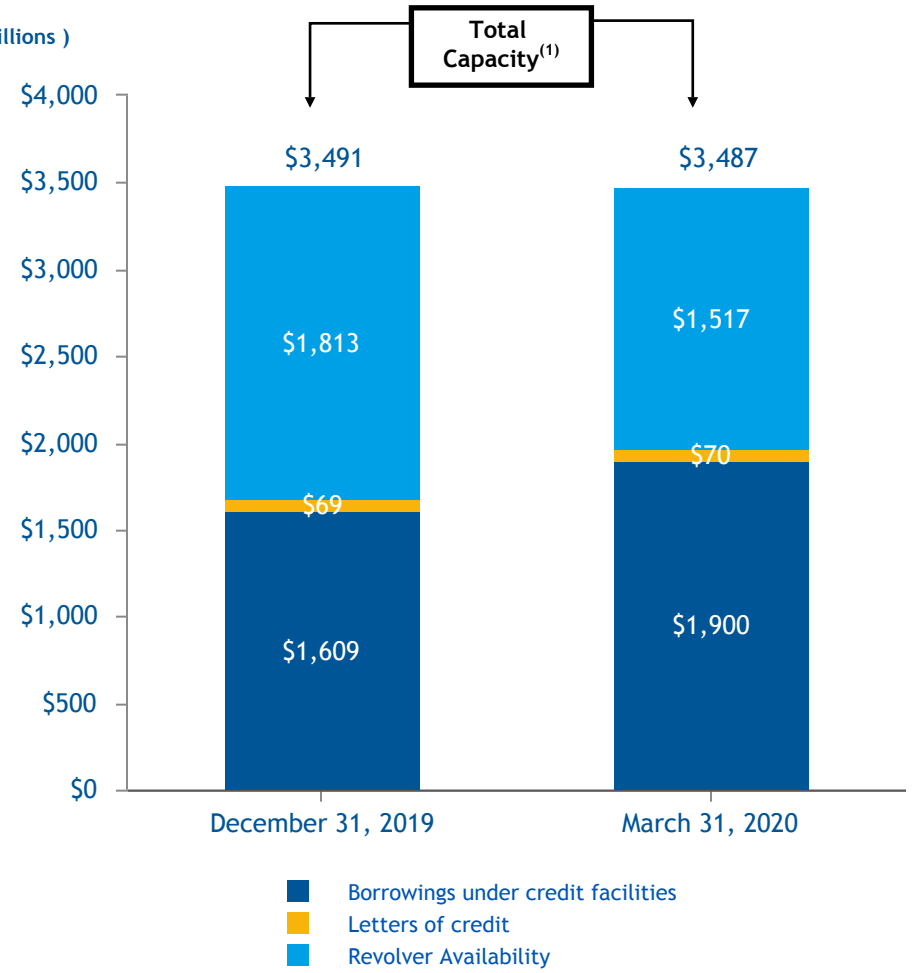
Free Cash Flow



Note: FCF amounts only include FCF generated by continuing operations
* Free Cash Flow is a non-GAAP measure. Refer to Appendix 5 for Free Cash Flow reconciliation
** EBITDA is a non-GAAP measure. Refer to Appendix 3 for EBITDA reconciliation

Leverage & Liquidity

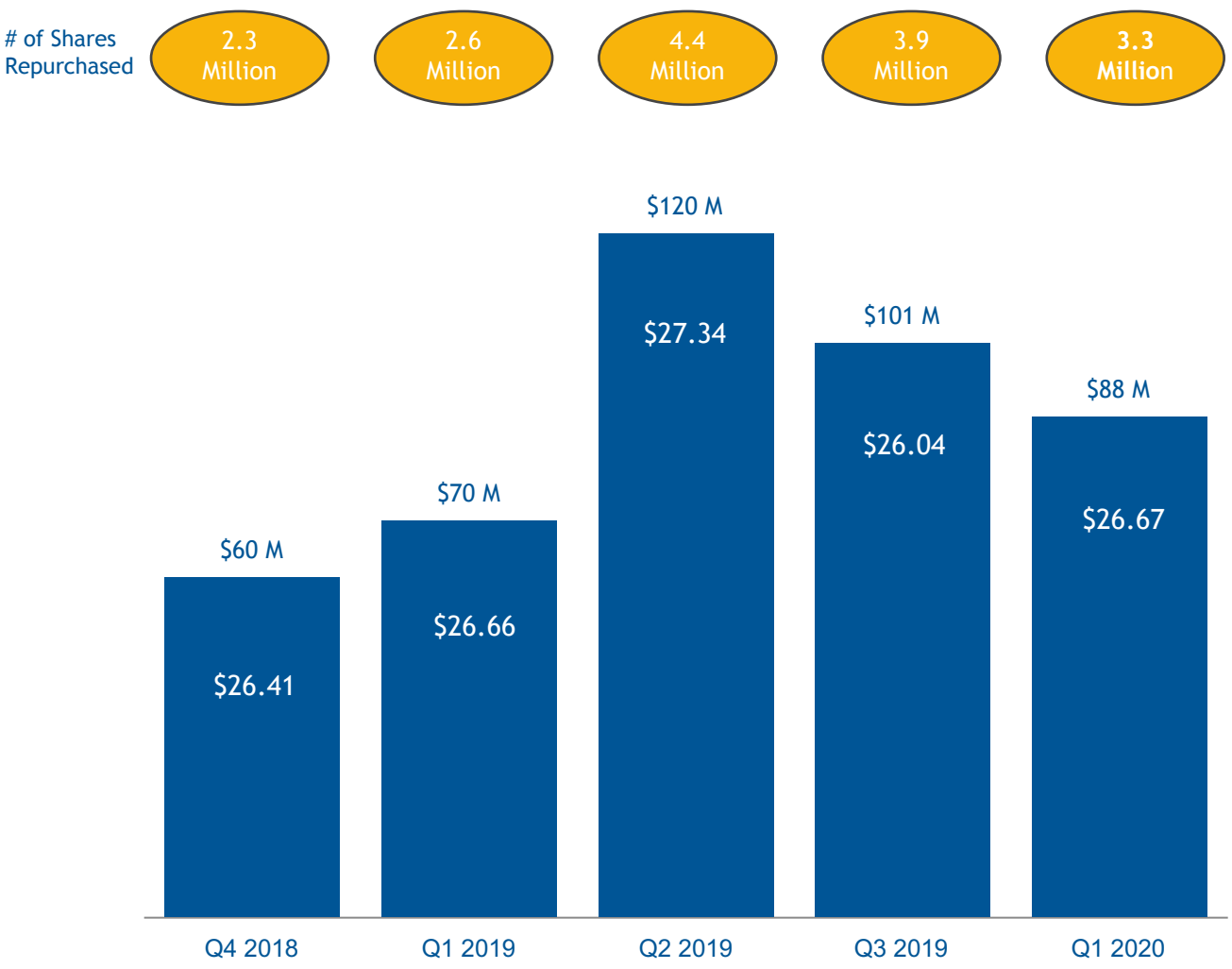




Effective borrowing rate for Q1 2020 was 2.7% (3)

(1) Total capacity includes our term loans and revolving credit facilities
(2) 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
(3) Including our interest rate swaps, approximately 70% of our outstanding debt at March 31, 2020 is effectively at a fixed interest rate

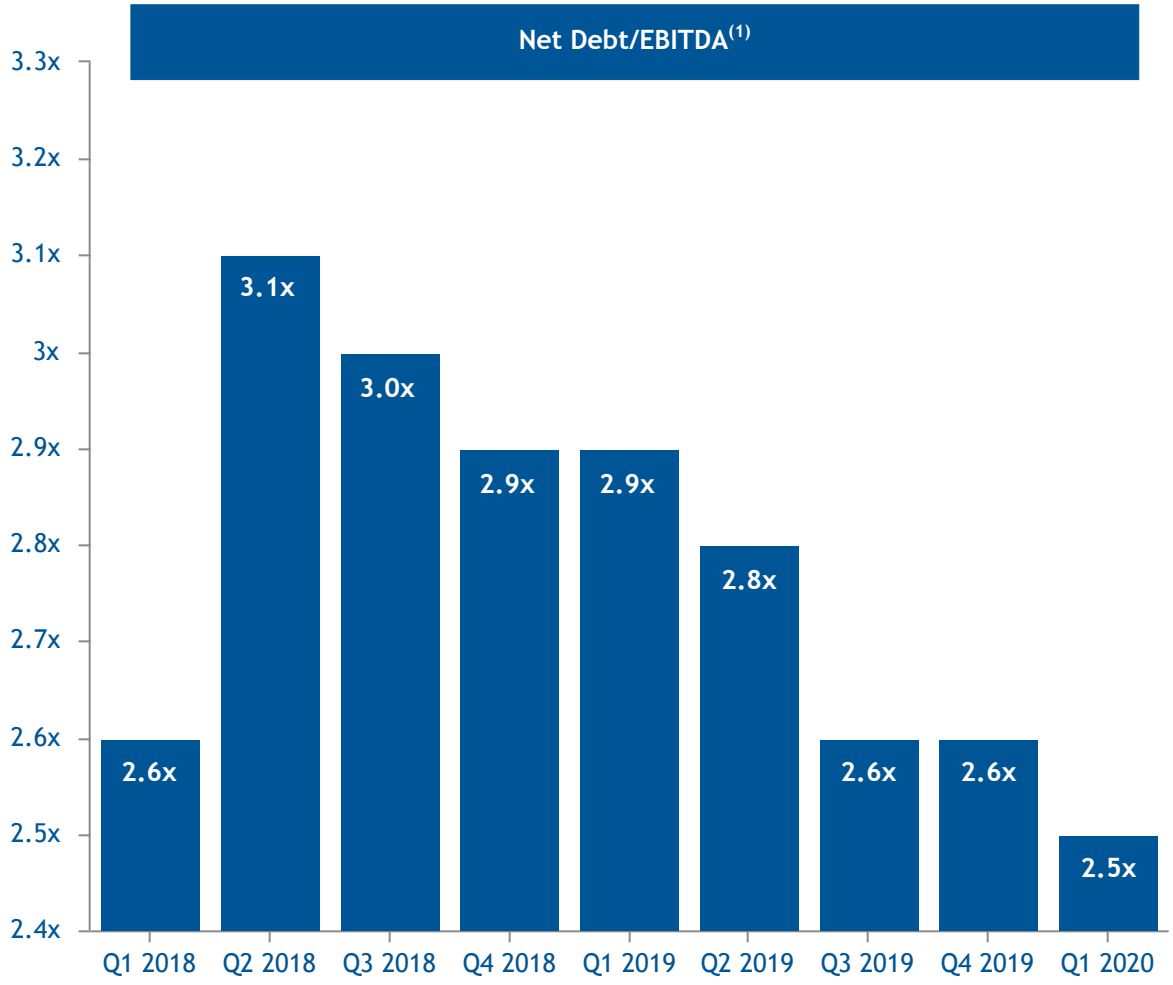
Share Repurchase Program



- We have utilized approximately 44% of our $1 billion share repurchase program
- Repurchased 16.5 million shares through March 31, 2020 with an average purchase price of $26.66
- Halted share repurchases on March 16, 2020
- We are presently inclined to preserve capital until the full economic effects of COVID-19 are better understood

Note: No stock was repurchased in Q4 of 2019

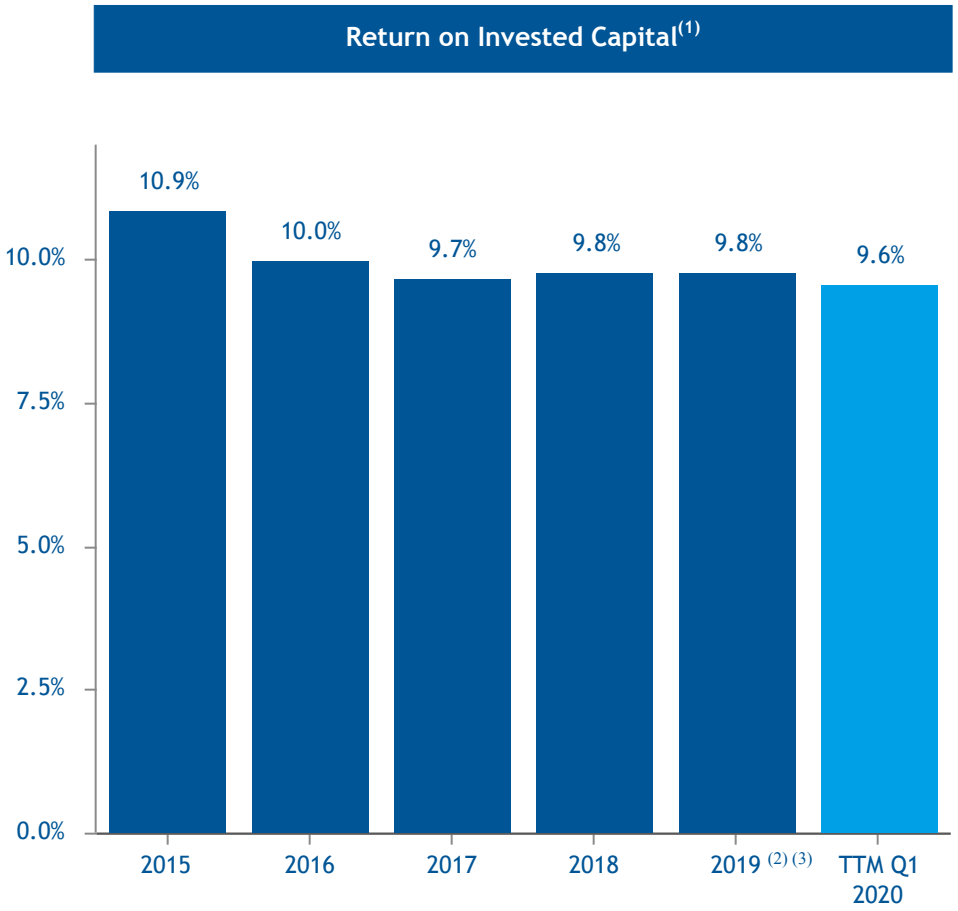
Net Leverage Trend



- Maximum net leverage ratio of 4.25x; decreases to 4.00x for Q2 2020 through maturity of the credit facility
- Net Debt/EBITDA increased in Q2 2018 due to the Stahlgruber acquisition
- Strong cash flow generation has allowed us to reduce our net leverage to pre-Stahlgruber acquisition levels within 6 quarters
- Able to de-lever while also repurchasing $440 million in LKQ stock program-to-date

(1) 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

Return on Invested Capital



(1) Return on Invested Capital is calculated as Net Operating Profit After Taxes (NOPAT) over the trailing four quarters divided by the average invested capital ending balance over the trailing five quarters. Amortization of acquired intangibles and lease obligations have been excluded from the calculation of Return on Invested Capital
(2) All income, transaction costs, capital and equity related to Stahlgruber GmbH are excluded from Q2 2018 to Q2 2019
(3) 2018 and 2019 exclude the effect of the Mekonomen and other impairment charges on income

LKQ's Business Model Supports Sustainable Growth Across a Range of Macro Environments

Select North American Brands

Select European Brands



Appendix - Non-GAAP Financial Measures

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

Appendix 1 - Constant Currency Reconciliation

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

	Three Months Ended March 31, 2020	
	Consolidated	**Europe**
Parts & Services		
Revenue growth as reported	(4.6)%	(5.8)%
Less: Currency impact	(1.3)%	(2.5)%
Revenue growth at constant currency	(3.3)%	(3.3)%

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-named 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[1] 2020	% of revenue	2019	% of revenue
Revenue				
North America	$1,290		$1,302	
Europe	1,364		1,446	
Specialty	349		354	
Eliminations	(1)		(1)	
Total Revenue	$3,001		$3,100	
Segment EBITDA				
North America	$211	16.4%	$177	13.6%
Europe	78	5.7%	105	7.3%
Specialty	32	9.2%	38	10.7%
Total Segment EBITDA	$322	10.7%	$320	10.3%

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 and underlying trends in our ongoing operations. We calculate Segment EBITDA as EBITDA excluding restructuring and acquisition related expenses (which includes restructuring expenses recorded in Cost of goods sold), change in fair value of contingent consideration liabilities, other gains and losses related to acquisitions, equity method investments or divestitures, equity in losses and earnings of unconsolidated subsidiaries, and impairment charges. EBITDA, which is the basis for Segment EBITDA, is calculated as net income, less net income (loss) attributable to continuing and discontinued noncontrolling interest, excluding discontinued operations and discontinued noncontrolling interest, depreciation, amortization, interest (which includes gains and losses 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. This financial measure is included in the metrics used to determine incentive compensation for our senior management. 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 general and administrative expenses are allocated to the segments based on usage, with shared expenses apportioned based on the segment's percentage of consolidated revenue. Refer to the table on the following page for a reconciliation of net income to EBITDA and Segment EBITDA.

(1) 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[1] 2020	2019
Net income	$146	$99
Subtract:		
Net income attributable to continuing noncontrolling interest	1	1
Net income attributable to discontinued noncontrolling interest	0	—
Net income attributable to LKQ stockholders	$145	$98
Subtract:		
Net loss from discontinued operations	(1)	—
Net income attributable to discontinued noncontrolling interest	(0)	—
Net income from continuing operations attributable to LKQ stockholders	$146	$98
Add:		
Depreciation and amortization	65	71
Depreciation and amortization - cost of goods sold	5	5
Depreciation and amortization - restructuring expenses [2]	1	—
Interest expense, net of interest income	26	36
Loss on debt extinguishment	13	—
Provision for income taxes	60	52
EBITDA	$317	$262
Subtract:		
Equity in earnings (losses) of unconsolidated subsidiaries	1	(40)
Add:		
Restructuring and acquisition related expenses [2]	6	3
Restructuring expenses - cost of goods sold	(0)	—
(Gain on disposal of business) and impairment of net assets held for sale	(0)	15
Change in fair value of contingent consideration liabilities	(0)	0
Segment EBITDA	$322	$320
Net income from continuing operations attributable to LKQ stockholders as a percentage of revenue	4.9%	3.2%
EBITDA as a percentage of revenue	10.6%	8.4%
Segment EBITDA as a percentage of revenue	10.7%	10.3%

(1) The sum of the individual components may not equal the total due to rounding
(2) The sum of these two amounts represents the total amount that is reported in Restructuring and acquisition related expenses

Appendix 3 -
EBITDA and Segment EBITDA Reconciliation

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, less net income (loss) attributable to continuing and discontinued noncontrolling interest, excluding discontinued operations and discontinued noncontrolling interest, depreciation, amortization, interest (which includes gains and losses 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 the impact of continuing noncontrolling interest and without the impact of discontinued noncontrolling interest, discontinued operations, depreciation, amortization, interest (which includes gains and losses 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 (which includes restructuring expenses recorded in Cost of goods sold), change in fair value of contingent consideration liabilities, other gains and losses related to acquisitions, equity method investments or divestitures, equity in losses and earnings of unconsolidated subsidiaries, and impairment charges. 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. This financial measure is included in the metrics used to determine incentive compensation for our senior management. Segment EBITDA includes revenue and expenses that are controllable by the segment. Corporate general 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 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[1] 2020	2019
Net income	$146	$99
Subtract:		
Net income attributable to continuing noncontrolling interest	1	1
Net income attributable to discontinued noncontrolling interest	0	—
Net income attributable to LKQ stockholders	$145	$98
Subtract:		
Net loss from discontinued operations	(1)	—
Net income attributable to discontinued noncontrolling interest	(0)	—
Net income from continuing operations attributable to LKQ stockholders	$146	$98
Adjustments - continuing operations attributable to LKQ stockholders:		
Amortization of acquired intangibles	24	32
Restructuring and acquisition related expenses	7	3
Restructuring expenses - cost of goods sold	0	—
Change in fair value of contingent consideration liabilities	(0)	0
Loss on debt extinguishment	13	—
(Gain on disposal of business) and impairment of net assets held for sale	(0)	15
Impairment of equity method investments	—	40
Excess tax benefit from stock-based payments	(1)	(0)
Tax effect of adjustments	(13)	(12)
Adjusted net income from continuing operations attributable to LKQ stockholders	$176	$176
Weighted average diluted common shares outstanding	306,757	316,018
Diluted earnings per share from continuing operations attributable to LKQ stockholders:		
Reported	$0.48	$0.31
Adjusted	$0.57	$0.56

(1) 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 Attributable to LKQ Stockholders as we believe these measures are useful for evaluating the core operating performance of our continuing business across reporting periods and in analyzing our historical operating results. We define Adjusted Net Income and Adjusted Diluted Earnings per Share from Continuing Operations Attributable to LKQ Stockholders as Net Income and Diluted Earnings per Share adjusted to eliminate the impact of continuing and discontinued noncontrolling interest, discontinued operations, restructuring and acquisition related expenses, amortization expense related to all acquired intangible assets, gains and losses on debt extinguishment, the change in fair value of contingent consideration liabilities, other gains and losses related to acquisitions, equity method investments or divestitures, impairment charges, 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. Given the variability and volatility of the amount and frequency of costs related to acquisitions, management believes that these costs are not normal operating expenses and should be adjusted in our calculation of Adjusted Net Income from Continuing Operations Attributable to LKQ Stockholders. Our adjustment of the amortization of all acquisition-related intangible assets does not exclude the amortization of other assets, which represents expense that is directly attributable to ongoing operations. Management believes that the adjustment relating to amortization of acquisition-related intangible assets supplements the GAAP information with a measure that can be used to assess the comparability of operating performance. The acquired intangible assets were recorded as part of purchase accounting and contribute to revenue generation. Amortization of intangible assets that relate to past acquisitions will recur in future periods until such intangible assets have been fully amortized. Any future acquisitions may result in the amortization of additional intangible assets. These financial measures are used by management in its decision making and overall evaluation of our operating performance 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 Attributable to LKQ Stockholders 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 measures similar to Adjusted Net Income and Adjusted Diluted Earnings per Share from Continuing Operations Attributable to LKQ Stockholders 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 - Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow

(in millions)	Three Months Ended March 31[1] 2020	2019
Net cash provided by operating activities	$195	$177
Less: purchases of property, plant and equipment	45	53
Free cash flow	$150	$124

(in millions)	Year Ended December 31[1] 2015	2016	2017	2018	2019
Operating Cash Flows	$544	$635	$519	$711	$1,064
Less: Operating Cash Flows - Discontinued Operations	—	64	(4)	(4)	—
Operating Cash Flows from Continuing Operations	$544	$571	$523	$715	$1,064
Capital Expenditures	170	207	179	250	266
Less: Capital Expenditures - Discontinued Operations	—	24	4	—	—
Continuing Capital Expenditures	$170	$183	$175	$250	$266
Free Cash Flow from Continuing Operations	$374	$388	$347	$465	$798

We have presented free cash flow solely as a supplemental disclosure that offers investors, securities analysts and other interested parties useful information to evaluate our liquidity. We calculate free cash flow as net cash provided by operating activities, less purchases of property, plant and equipment. Free cash flow provides insight into our liquidity and provides useful information to management and investors concerning our cash flow available to meet future debt service obligations and working capital requirements, make strategic acquisitions and repurchase stock. We believe free cash flow is used by investors, securities analysts and other interested parties in evaluating the liquidity of other companies, many of which present free cash flow when reporting their results. This financial measure is included in the metrics used to determine incentive compensation for our senior management. Free cash flow should not be construed as an alternative to net cash provided by operating activities, as determined in accordance with accounting principles generally accepted in the United States. In addition, not all companies that report free cash flow information calculate free cash flow in the same manner as we do and, accordingly, our calculation is not necessarily comparable to similarly-named measures of other companies and may not be an appropriate measure for liquidity relative to other companies.

(1) The sum of the individual components may not equal the total due to rounding

Appendix 6 - Reconciliation of Gross Margin to Adjusted Gross Margin

Europe Adjusted Gross Margin (in millions)	Three Months Ended[1] September 30, 2019	December 31, 2019
Gross margin	$513	$521
Add: Restructuring expenses - cost of goods sold	17	3
Adjusted gross margin	$530	$524
Gross margin %	35.3%	36.6%
Adjusted gross margin %	36.5%	36.8%

We have presented adjusted gross margin solely as a supplemental disclosure that offers investors, securities analysts and other interested parties useful information to evaluate the operating performance of our continuing business across reporting periods and in analyzing our historical operating results. We calculate adjusted gross margin as gross margin plus restructuring expenses recorded in cost of goods sold. Adjusted gross margin provides insight into our operating performance and provides useful information to management and investors concerning our gross margins. We believe adjusted gross margin is used by investors, securities analysts and other interested parties in evaluating the operating performance of other companies, many of which present adjusted gross margin when reporting their results. Adjusted gross margin should not be construed as an alternative to gross margin, as determined in accordance with accounting principles generally accepted in the United States. In addition, not all companies that report adjusted gross margin information calculate adjusted gross margin in the same manner as we do and, accordingly, our calculation is not necessarily comparable to similarly-named measures of other companies and may not be an appropriate measure for performance relative to other companies.

(1) The sum of the individual components may not equal the total due to rounding