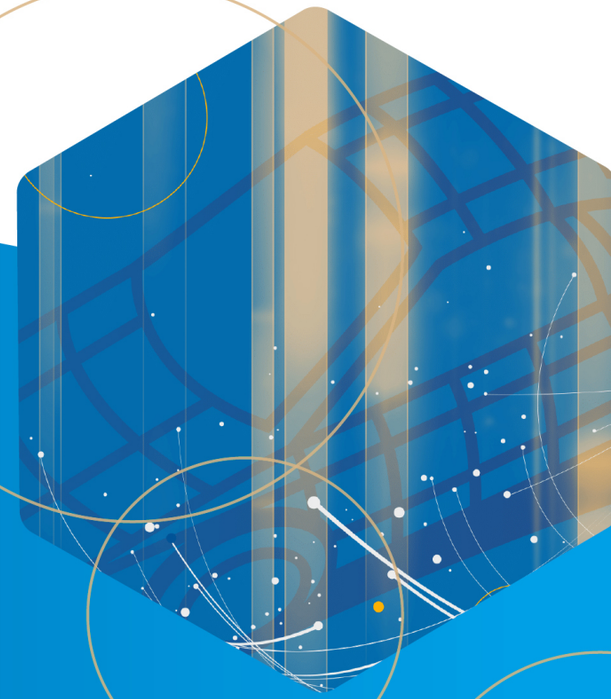


LKQ Corporation

September 2020 Virtual Investor Day



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, 2019 and in our subsequent Quarterly Reports on Form 10-Q. The 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.

Agenda

8:30AM-8:35AM	Welcome - Joe Boutross
8:35AM-8:50AM	LKQ Corporations Overall Strategy and Mission - Nick Zarcone
8:50AM-9:05AM	Strategy & Innovation - Bob Reppa
9:05AM-9:35AM	North America Operations - Justin Jude
9:35AM-9:45AM	**Break**
9:45AM-10:15AM	Europe Operations - Arnd Franz
10:15AM-10:45AM	Specialty Operations - Bill Rogers
10:45AM-11:05AM	Financial - Varun Laroyia
11:05AM-11:45AM	***Closing Remarks and Open Q&A***



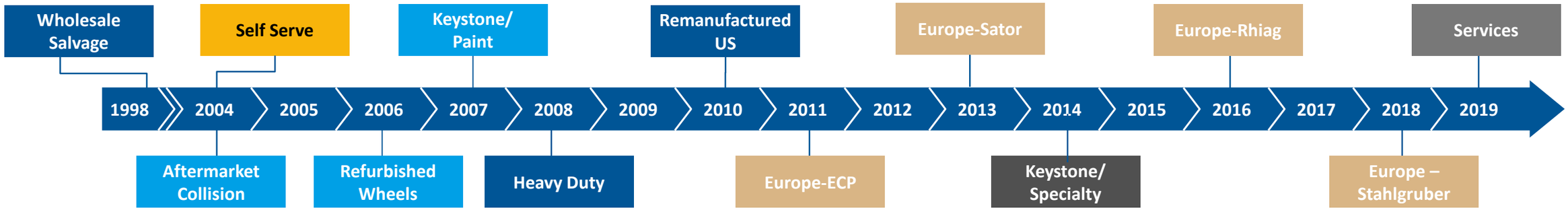
Nick Zarcone

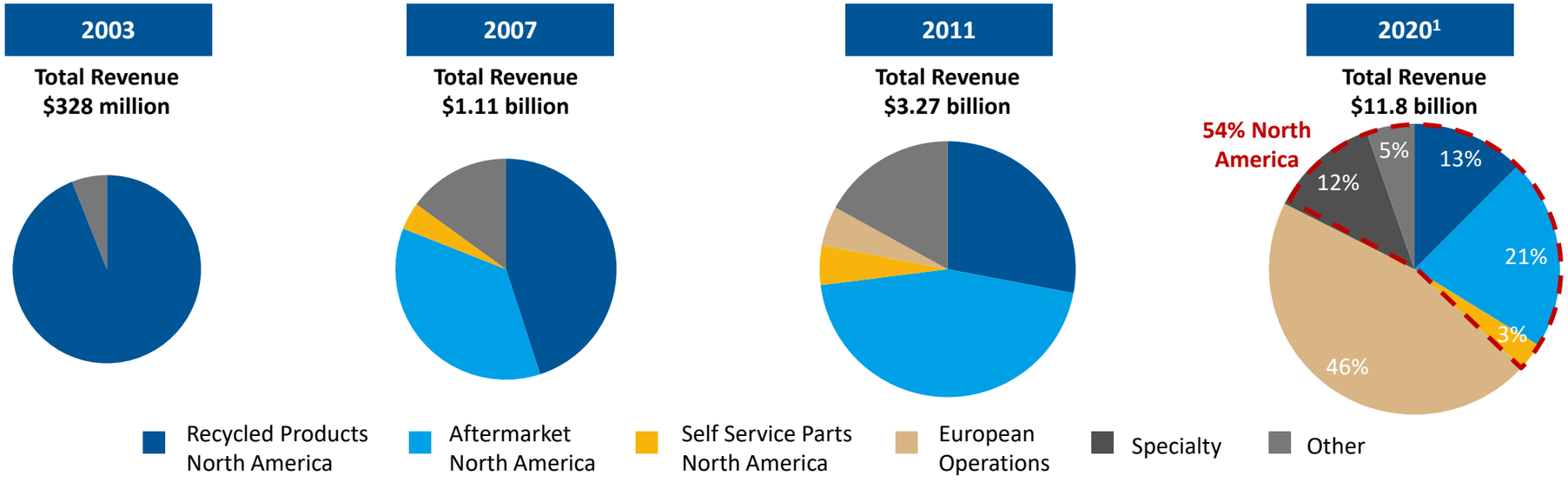
President & Chief Executive Officer

Our 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.

Over 16 Years of Diversified Growth



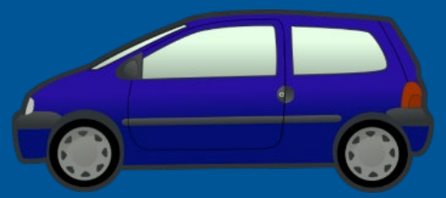


LKQ has grown from a North American collision operation to a globally diversified aftermarket distributor

1) TTM reflects period through 6/30/2020.

Key Strategic Pillars

Grow



Diversified Offerings

Expand



Global Footprint

Adapt



To Evolving Technology

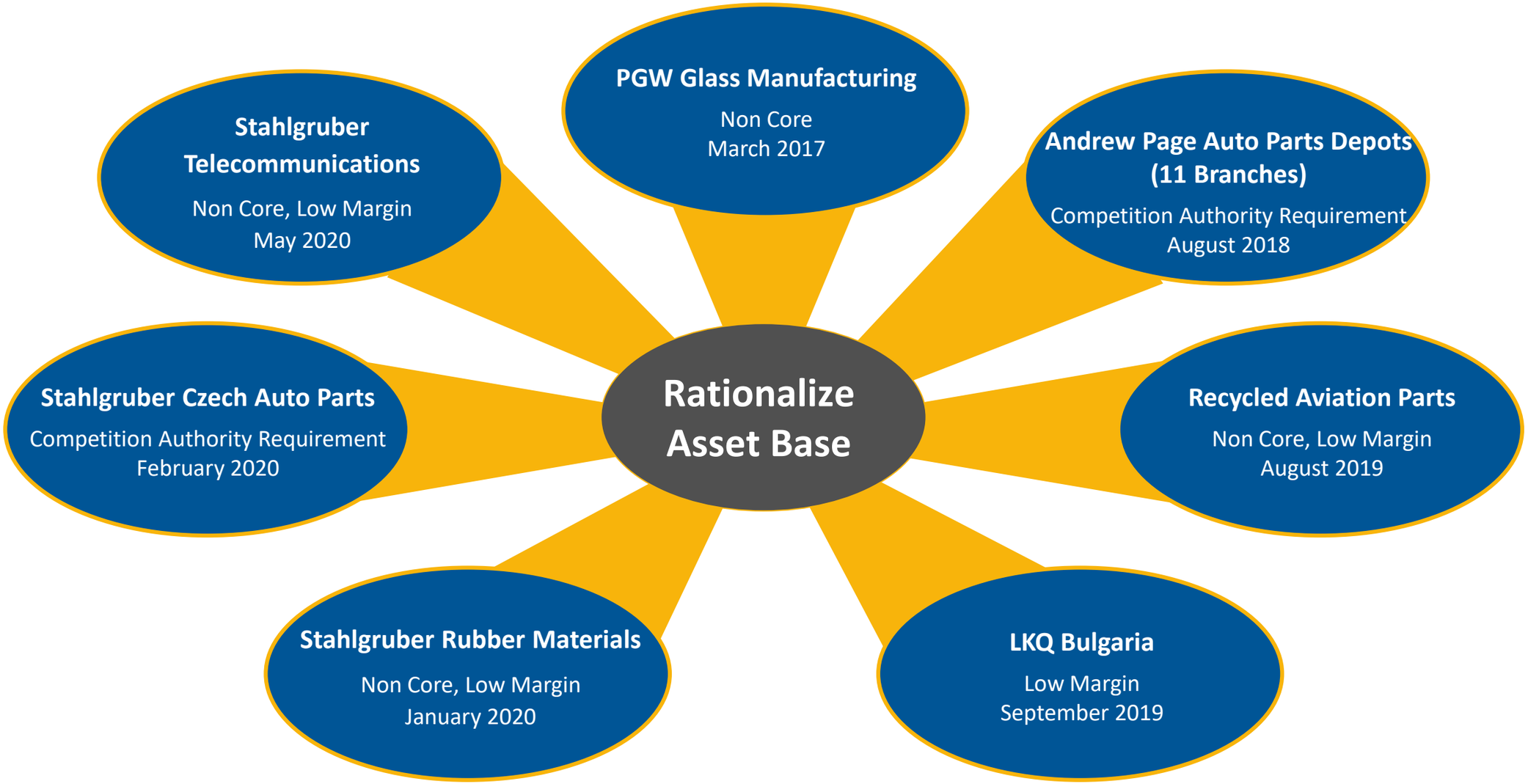
Rationalize



Asset Base

GEAR Forward!

Recent Business Divestitures



Since 2017, LKQ has divested seven businesses with a combined trailing twelve months revenue of ~$860mm

Key Priorities



Profitable Growth



Cash Flow Generation



European Integration



Talent Acquisition

Overview of Recent Talent Additions

	North America	Europe	Specialty	Corporate
Internal Hires	• Vice President Self Service	• CEO Euro Car Parts • CEO Stahlgruber • CHRO LKQ Europe • Controller LKQ Europe	• Controller Specialty	
External Hires	• CFO North America • SVP Government Affairs • CIO North America	• CEO LKQ Europe • CFO LKQ Europe • CEO Fource • CEO Rhiag Italy • CEO LKQ CEE		• Global CIO • Global IT Infrastructure • Global Cyber Security • Chief Privacy Officer

Over the last two years, LKQ has significantly strengthened its talent base through 6 internal and 12 external additions at various levels across the enterprise

LKQ's Directors are Well Equipped to Drive Shareholder Value Creation

Photo	Name	Years on Board	Age	Relevant Experience	Key Skills	Independent
	**Joseph Holsten**	17	68	Former CEO of LKQ	• Unparalleled knowledge of LKQ business and industry	
	**Dominick Zarcone**	3	62	President and CEO	• Extensive finance experience	
	**Patrick Berard** (Effective October 2, '19)	<1	67	CEO and Director of Rexel Group	• Variety of leadership positions in European distribution businesses	✓
	**Meg Divitto**	2	49	General Motors/Motorola/IBM	• Expertise in automotive technology	✓
	**Robert Hanser**	4	67	Robert Bosch GmbH	• Extensive European automotive aftermarket experience	✓
	**Blythe McGarvie**	8	63	Bic CFO/Harvard Business School professor	• CPA with experience in European operations	✓
	**John Mendel**	2	66	American Honda Motor Company Automotive Division/Mazda/Ford	• Knowledge of automotive industry	✓
	**Jody Miller**	2	62	Board member TRW/CEO of Business Talent Group	• Diverse technology, automotive, and Board experience	✓
	**John O'Brien**	17	77	CEO of Allmerica Financial	• Board experience, insurance and financial expertise	✓
	**Guhan Subramanian**	7	49	Professor at both Harvard Business School and Harvard Law School	• Knowledge of corporate governance and Board of Directors legal processes	✓
	**Xavier Urbain** (Effective December 9, '19)	<1	63	Previous Group CEO at CEVA Logistics	• Significant global supply chain and logistics experience	✓
	**Jacob H. Welch** (Effective August 12, '20)	<1	36	Partner of ValueAct Capital	• Investment management and public market experience	✓

Ongoing refreshment program that has resulted in six new directors added over the last two years

Indicates Directors Who Have Joined the LKQ Board Since 2018

Sustainable Business Practices

Environmental

- Our North American recycling operations harvest vehicle components for reuse in the repair of vehicles
- Remaining materials are repurposed for use in the manufacturing of new materials such as steel, aluminum, plastic and rubber
- Our recycling efforts preserve natural resources, reduce the demand for scarce landfill space, and help decrease air and water pollution
- Extract fluids that we recycle or utilize in our own operations, such as gas to run our own truck fleet

2019 Results(1)

887,000
Number of vehicles procured

1.5 million
Catalytic converters

2.6 million
Tires

630,000
Batteries

4.2 million
Fuel (in gallons)

2.6 million
Waste oil (in gallons)

1.2 million
Tons of Crush Auto/Scrap

15.2 million
Total number of individual parts sold

Social

- We have shared with our employees some of the benefits we received as part of the Tax Reform Act of 2017, such as reducing medical care premiums, increasing paid time off, increasing the Company's matching contribution under our retirement plan, creating a tuition reimbursement program, and enhancing a scholarship program for the children of our employees
- We have established a fund to help employees that experience catastrophic losses
- We strive to improve the communities in which we operate. The employees at our facilities are encouraged to volunteer in local community activities, and we have established a charitable foundation to distribute funds to local causes

Governance

- Experienced and diverse Board of Directors
- We have added six new Directors since 2018 including two women
- Over 80% of Directors are Independent
- Ongoing Board refreshment
- Our Board of Directors recently adopted a revised Code of Ethics to help ensure that everyone at LKQ is clear on our mission, values and guiding ethical principles
- Majority voting for director elections
- We have implemented proxy access

Creating shareholder value and growing earnings while enhancing the lives of our employees and the communities in which we operate

1) Represents the North American recycling operation's efforts in 2019 to minimize the environmental impact of total loss and end-of-life vehicles with effective and proper vehicle disposition, and lists the approximate number or amount of parts or other materials removed from such vehicles and sold or used by us in our operations.

One of our top priorities is the health & safety of our employees, customers and the communities in which we operate

- Exercised best efforts to follow the guidance provided by the CDC, WHO, OSHA and other public health authorities and resources
- Procured and provided PPE to our employees
- Implemented protocols across our business units to help ensure health and safety and communicated such protocols to our employees
- Asked employees to self-assess their health condition before coming to work
- Enhanced cleaning and disinfecting practices within our buildings and work environments
- Adhered to social distancing guidelines
- Restricted building access to essential employees and instituted remote work arrangements for many of our employees
- Restricted business travel to minimize the risk of exposure



Bob Reppa

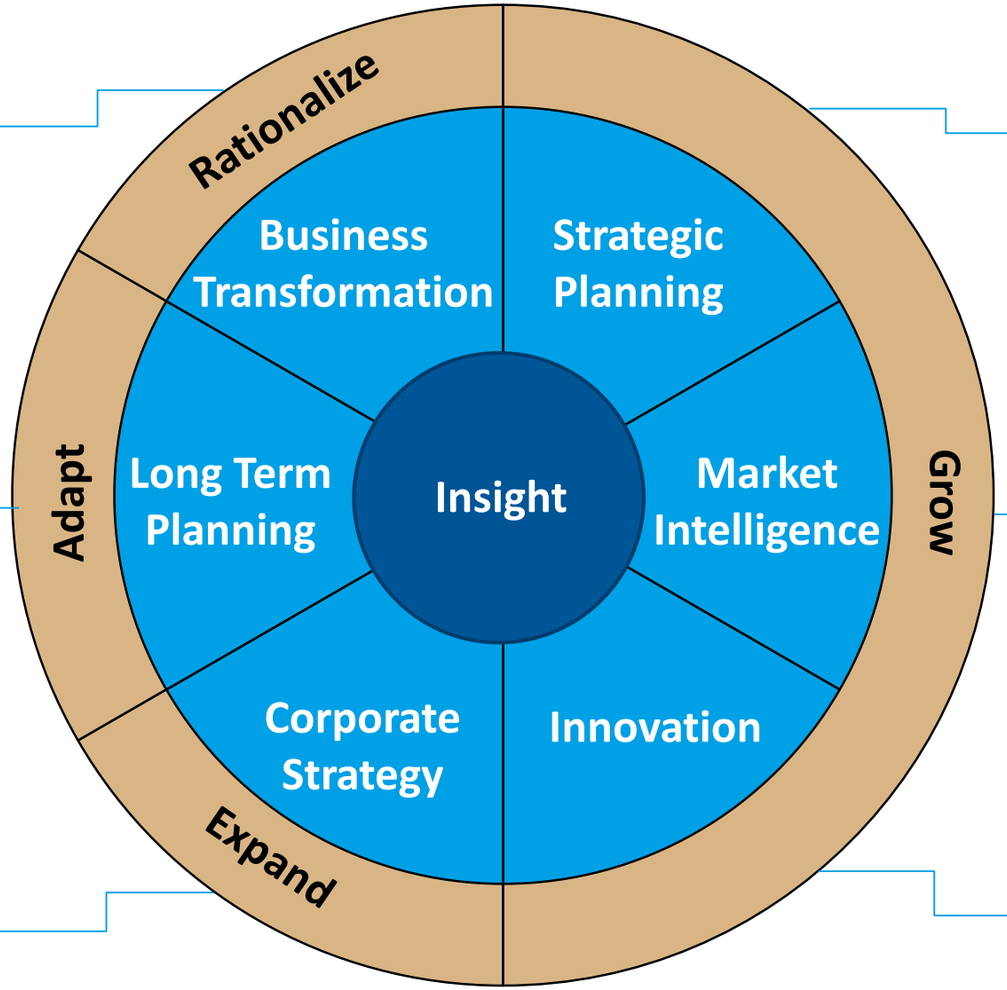
Senior Vice President - Strategy & Innovation

Strategy and Innovation

- Identify and implement productivity initiatives
- Design and execute business transformations

- Monitor megatrends
- Analyze long term opportunities and threats
- Develop LKQ strategic response

- Identify and analyze new growth markets
- Assess LKQ portfolio



- Execute strategic planning process
- Develop growth strategies
- Measure and monitor progress

- Generate customer insights
- Analyze demand drivers
- Monitor competitive landscape

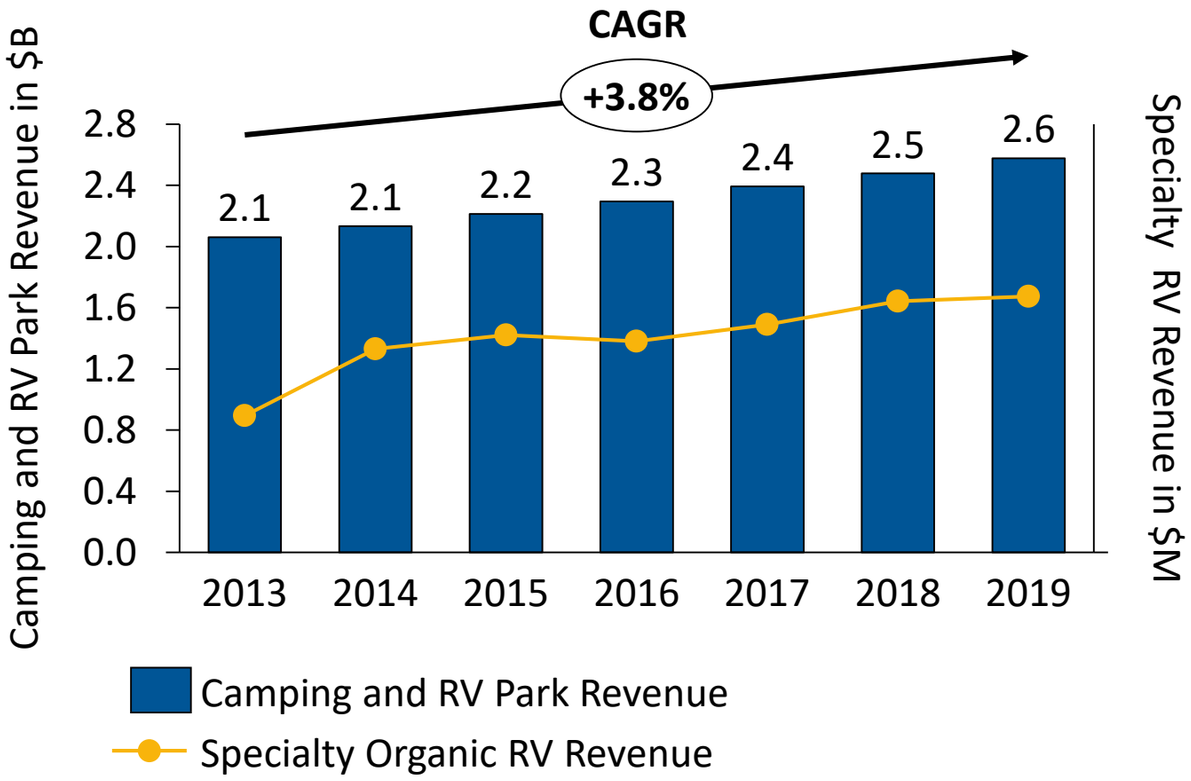
- Develop new business models and offerings
- Enhance digital capabilities and leverage data
- Monitor start-up and venture capital landscape

Supporting LKQ to GEAR Forward!

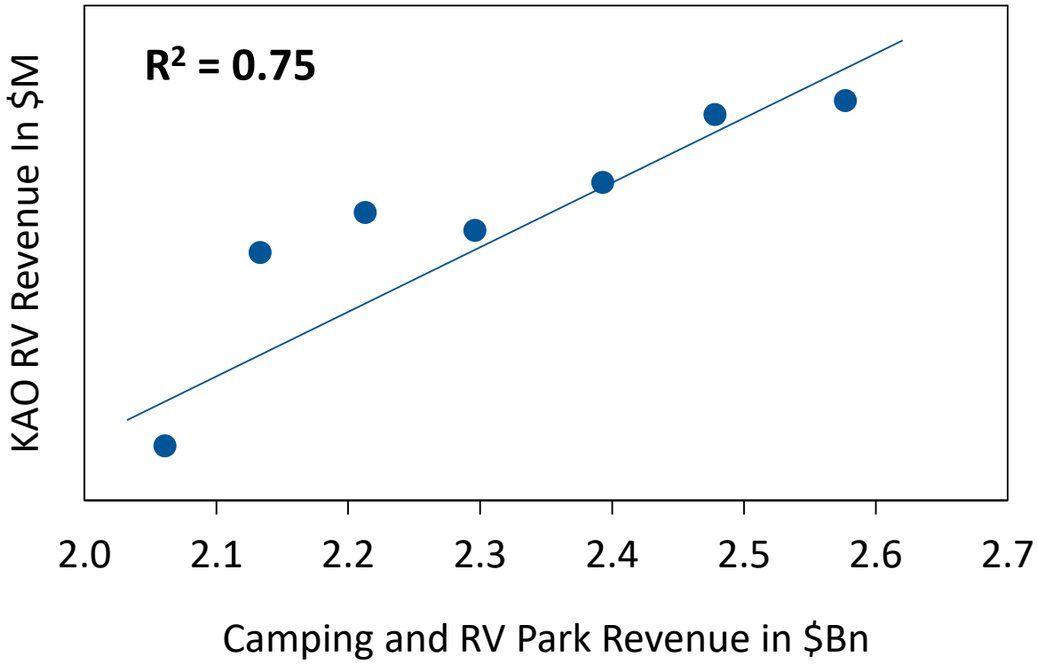
Specialty RV demand drivers

Strategic Planning

Historical Camping and RV Park Revenue[1] and Specialty Organic RV Revenue



Regression Analysis of Camping and RV Park Revenue[1] and Specialty Organic RV Revenue

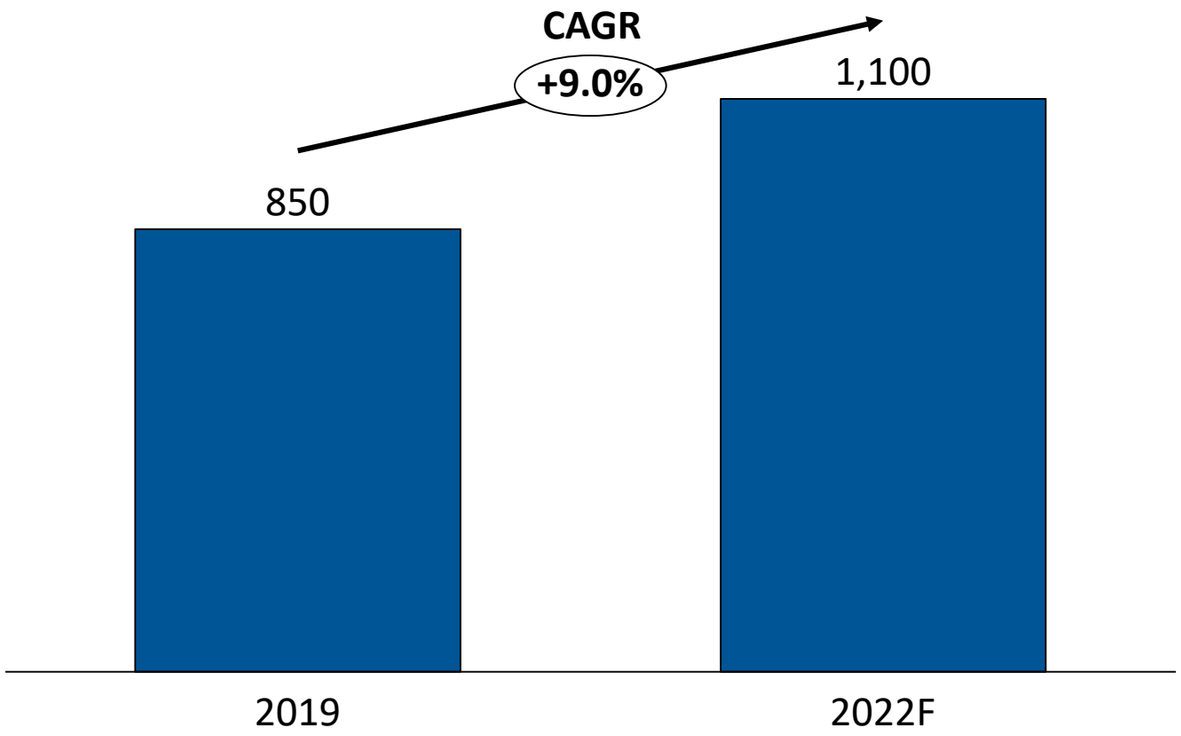


1) Barnes reports: RV Parks & Campgrounds Industry (NAICS 721211)

Diagnostics, calibration and sublet repairs offering

Innovation

US Market for Diagnostics, Calibration and Complex Sublet Repairs in $M



Diagnostic and Repair Services



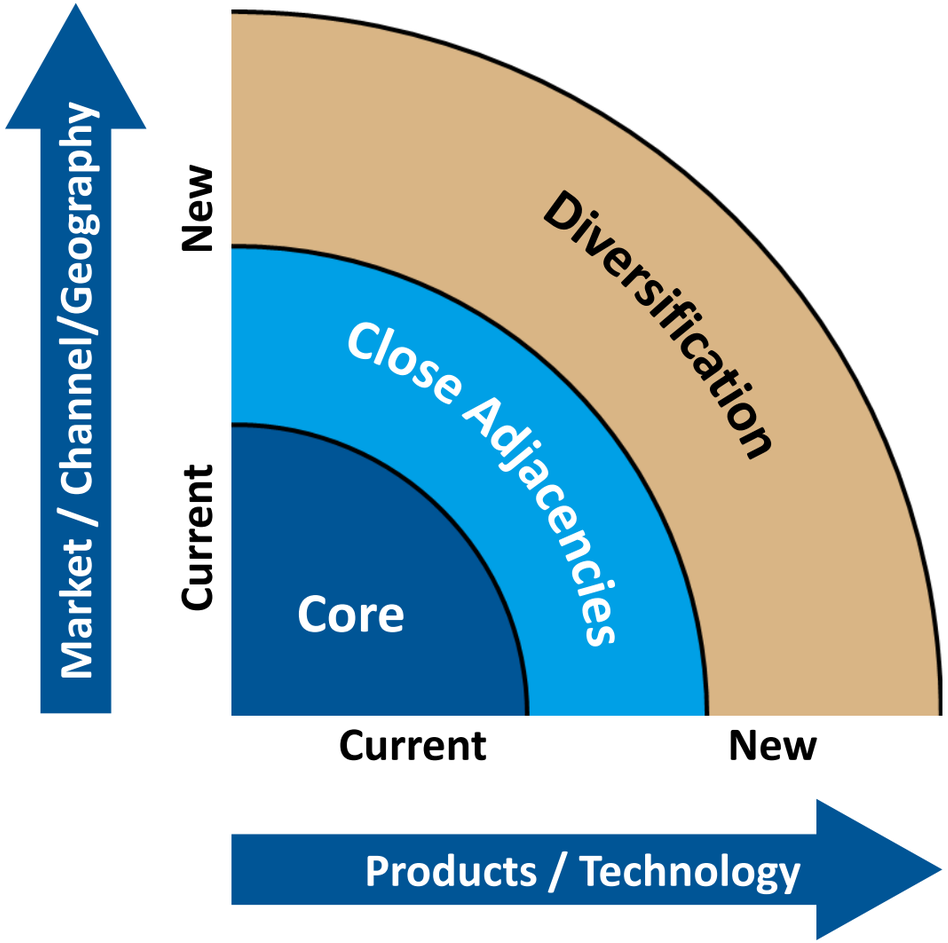
Collision Shop Customers Sublet Complex Tasks

Market assessment framework

Corporate Strategy

Evaluation Framework and Opportunity Assessment

	Points / Score →	1	2	3	4	5
Market Attractiveness	Growth (in % per year)	1 – 2	2 – 3	3 – 4	4 – 5	>5
	Size (in $B)	0.5 – 1.0	1 – 3	3 – 5	6 – 10	>10
	Profitability (EBITDA%)	<5	5 – 8	8 – 11	11 – 14	>14
	Stability (Non-Volatile)	Very Low	Low	Moderate	Strong	Very Strong
	Disruption Risk	Very Strong	Strong	Moderate	Low	Very Low
Industry Structure	Supplier, Distributor and Customer Concentration Structure	Mature Supply Chain	Manufacturer Concentrated with Brand Power	Manufacturer Concentrated – No Brand Power	Mature, with Fragmented Customers	All Fragmented or Hourglass
Fit with LKQ	Go-to-Market Overlap	Very Low	Low	Moderate	Strong	Very Strong
	Fit with Existing Assets	Very Low	Low	Moderate	Strong	Very Strong
	Fit with Existing Distribution Capabilities	Very Low	Low	Moderate	Strong	Very Strong



North American collision parts market

Long Term Planning

Market Drivers

- Parc growth
- Parts proliferation
- Parts inflation
- Parts technology mix
- Distracted driving growth*
- Impaired driving growth*
- Increasing speed limits*
- Consumers disabling ADAS*

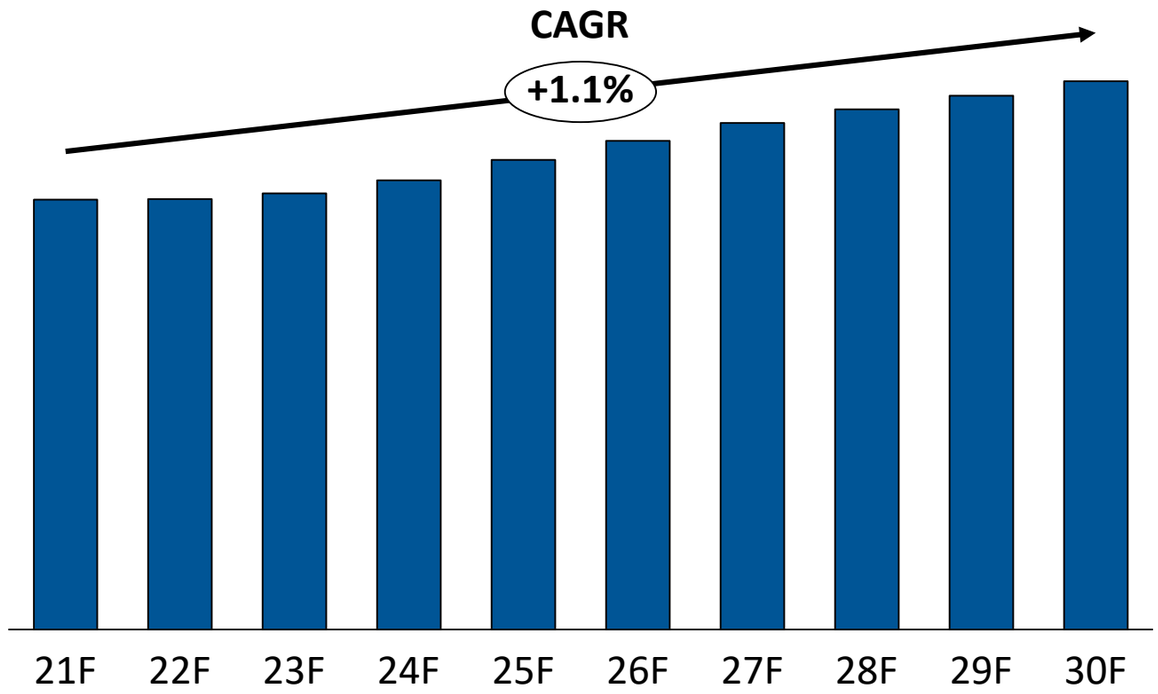
Tailwinds

- ADAS technology effectiveness and penetration
- ADAS technology improvement
- Total loss rate
- Level 4/5 autonomy*

Headwinds

* Effect not modelled or included in market growth analysis

Total NA Collision Replacement Parts Market Size
Vehicles Aged 0 to 15 Years

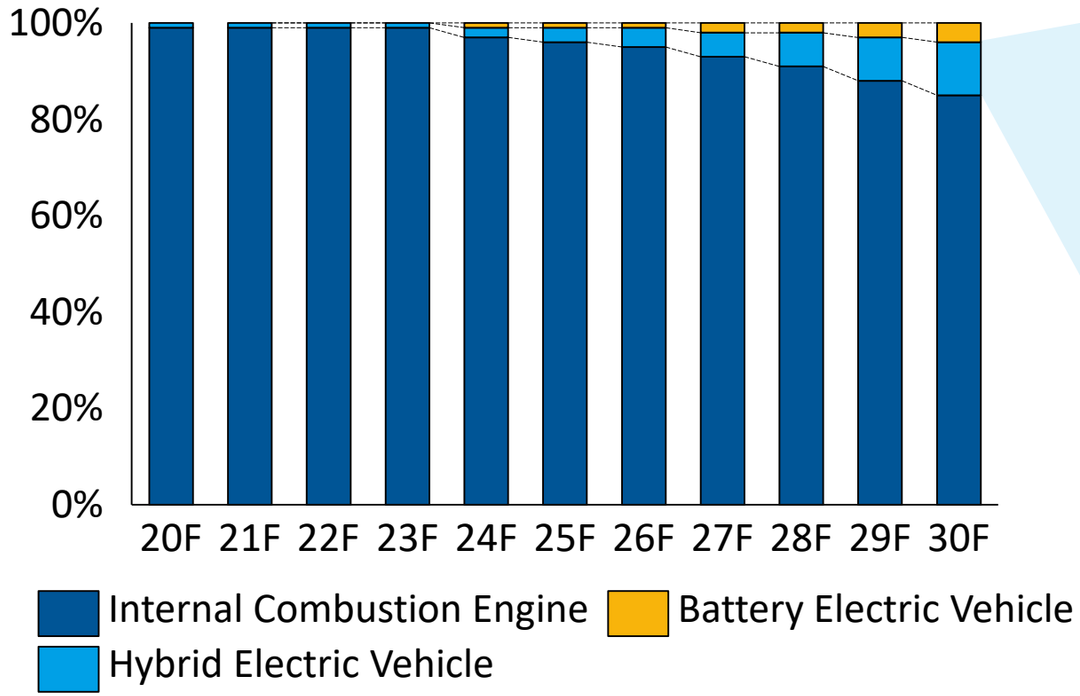


Source: Proprietary multi-factor LKQ collision market demand model.

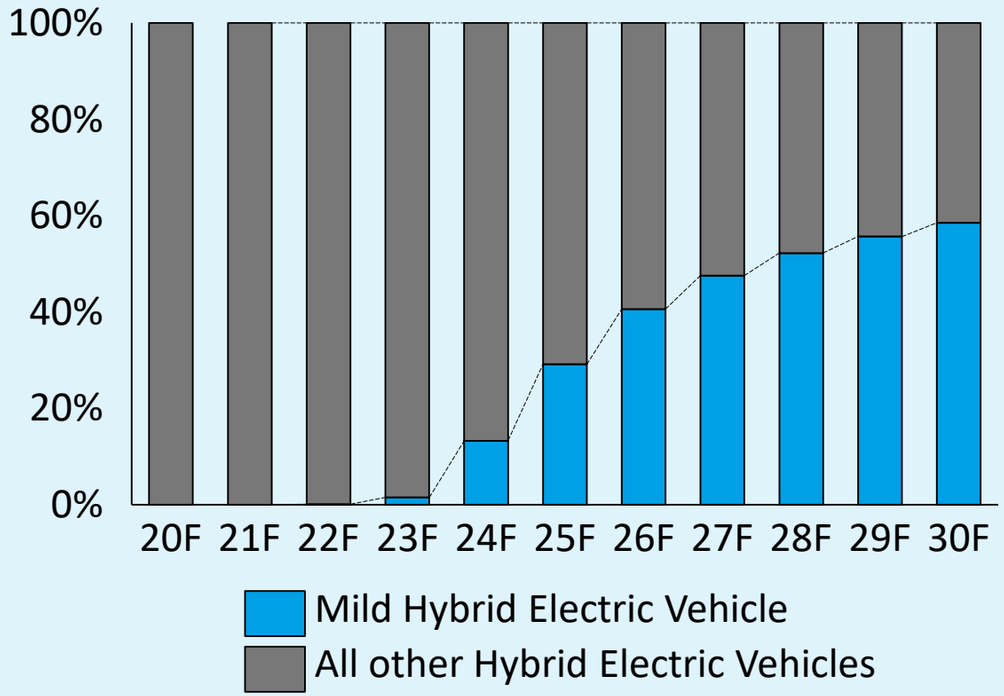
European parc electrification

Long Term Planning

Powertrains in LKQ's Primary European Operating Regions
5+ Year Old Vehicle Parc



Hybrid Powertrains in LKQ's Primary European Operating Regions
5+ Year Old Vehicle Parc



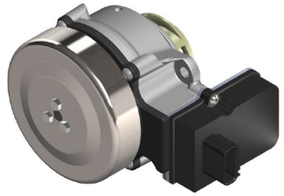
Source: IHS Markit, WARDS, LKQ Analysis for LKQ key European regions.

Electrification of parts

Long Term Planning

New Categories of Service Parts For Electrified Vehicles

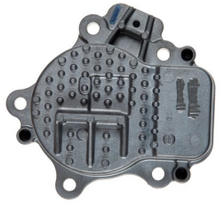
Electric Battery Coolant Pump



Electric Turbo Chargers



Electric Main Coolant Pump



Electric A/C Compressor



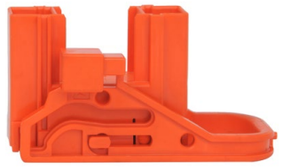
Electric Motor Transmission Stator



Electric Battery Cooling Fan



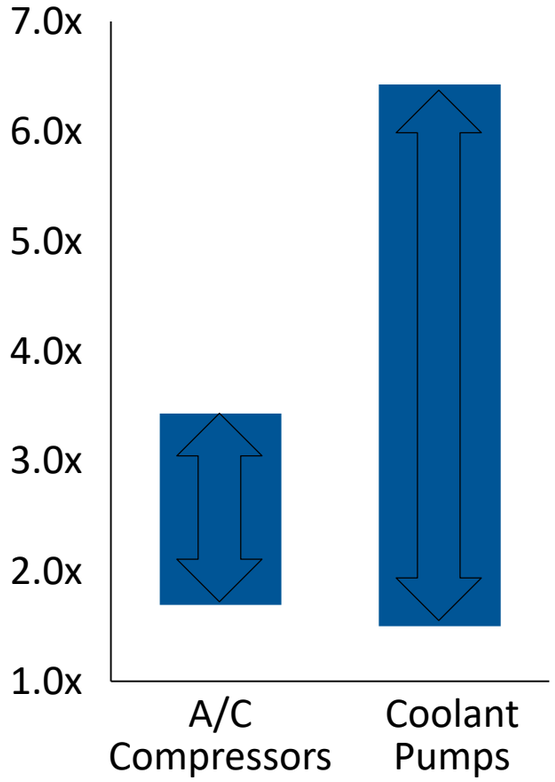
Hybrid Safety Service Plug



Electric Drive Motor Inverter Cooler



Price Premium Multiple Range of Hybrid to ICE Components



Nickel Metal Hydride Battery Remanufacturing





Takeaways

- **Great businesses with solid underlying market fundamentals**
- **Strong competitive advantage protected by scale position, differentiated capabilities and unmatched footprint**
- **Strategy and Innovation team focused on driving insight and enhancing fact based decision making across the corporation to propel LKQ to GEAR Forward!**

LKQ Corporation

Justin Jude

President - North America

Agenda

- Introduction to North America
  - Business overview
  - Proven record of success

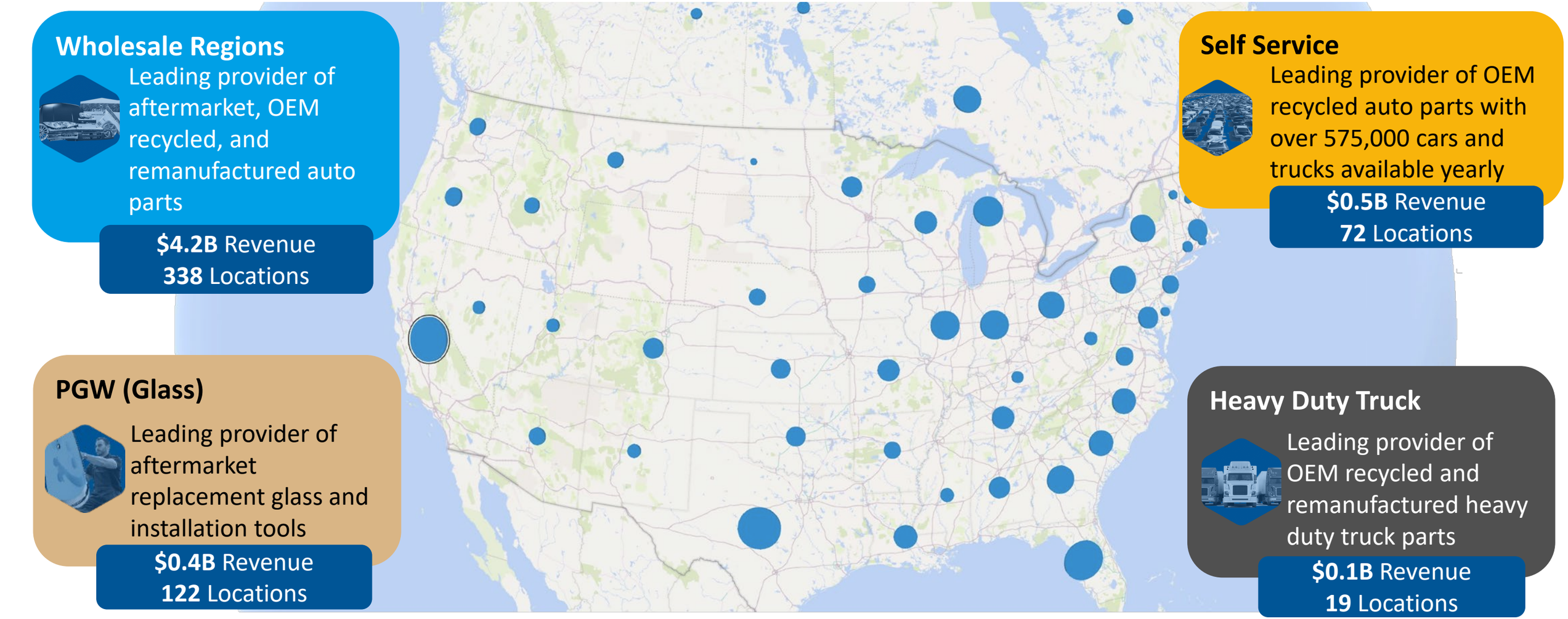
- 2020 Year in review
  - Disruptions due to COVID-19
  - Cost control and operational excellence

- North America's future is strong
  - Positive market dynamics
  - Positioned for growth

Profitable Growth + ***Accretive Margins*** + ***Cash Generation***

Largest provider of Collision, Mechanical, Heavy Truck, and Self Service alternative parts

2019 Revenue: $5.2B | 2019 Segment EBITDA Margin: 13.7% | ~17.5K Employees | 551 Locations



Wholesale Regions

Leading provider of aftermarket, OEM recycled, and remanufactured auto parts

$4.2B Revenue
338 Locations

Self Service

Leading provider of OEM recycled auto parts with over 575,000 cars and trucks available yearly

$0.5B Revenue
72 Locations

PGW (Glass)

Leading provider of aftermarket replacement glass and installation tools

$0.4B Revenue
122 Locations

Heavy Duty Truck

Leading provider of OEM recycled and remanufactured heavy duty truck parts

$0.1B Revenue
19 Locations

LKQ wins with industry leading fill-rates, strong value proposition and strategic partnerships

High Fulfillment Rates

- Highly fragmented space
- Nationwide coverage
- Industry leading fill-rates

	AFM	Salvage
Competition	65%	25%
LKQ	95%	75%

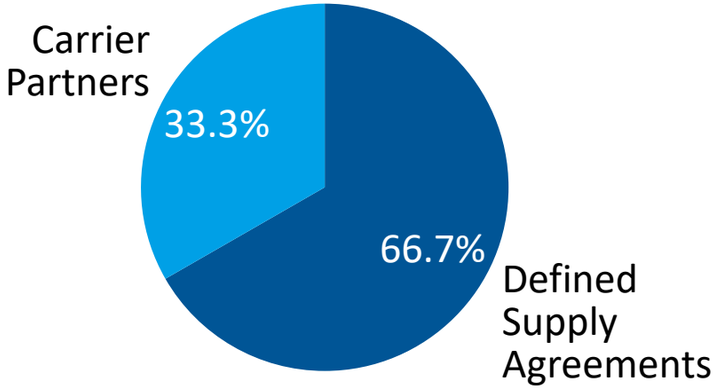


Value Proposition

	2011 Chevrolet Equinox Hood	2017 Nissan Altima Headlamp	2014 GMC Sierra 1500 Transmission
New OEM	$720	$470	$2,940
Remanufactured	N/A	N/A	$2,304
Recycled OEM	$468	$341	$1,730
New A/M	$612	$400	N/A
Competitor	$602[1]	$335[1]	$2,250[2]
Average Savings to OE	**25%**	**21%**	**31%**

1)Aftermarket competitor. 2)Remanufactured competitor.

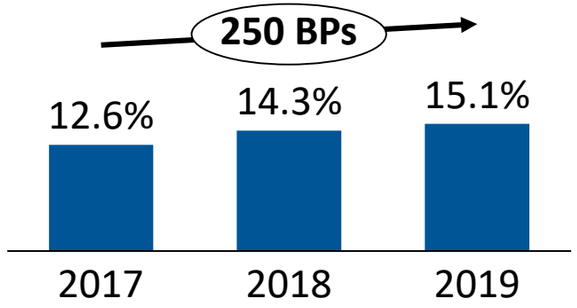
Strong Relationships with Top Insurance Carriers



Note: Data represents US Automotive Insurance Providers.
Source: "Auto Insurance Report" Brian Sullivan, Editor.

Partnering with National Multi-Shop Operators (MSO)

Top 3 MSO's increase market share



Source: LKQ Analysis, Romans Group LLC.

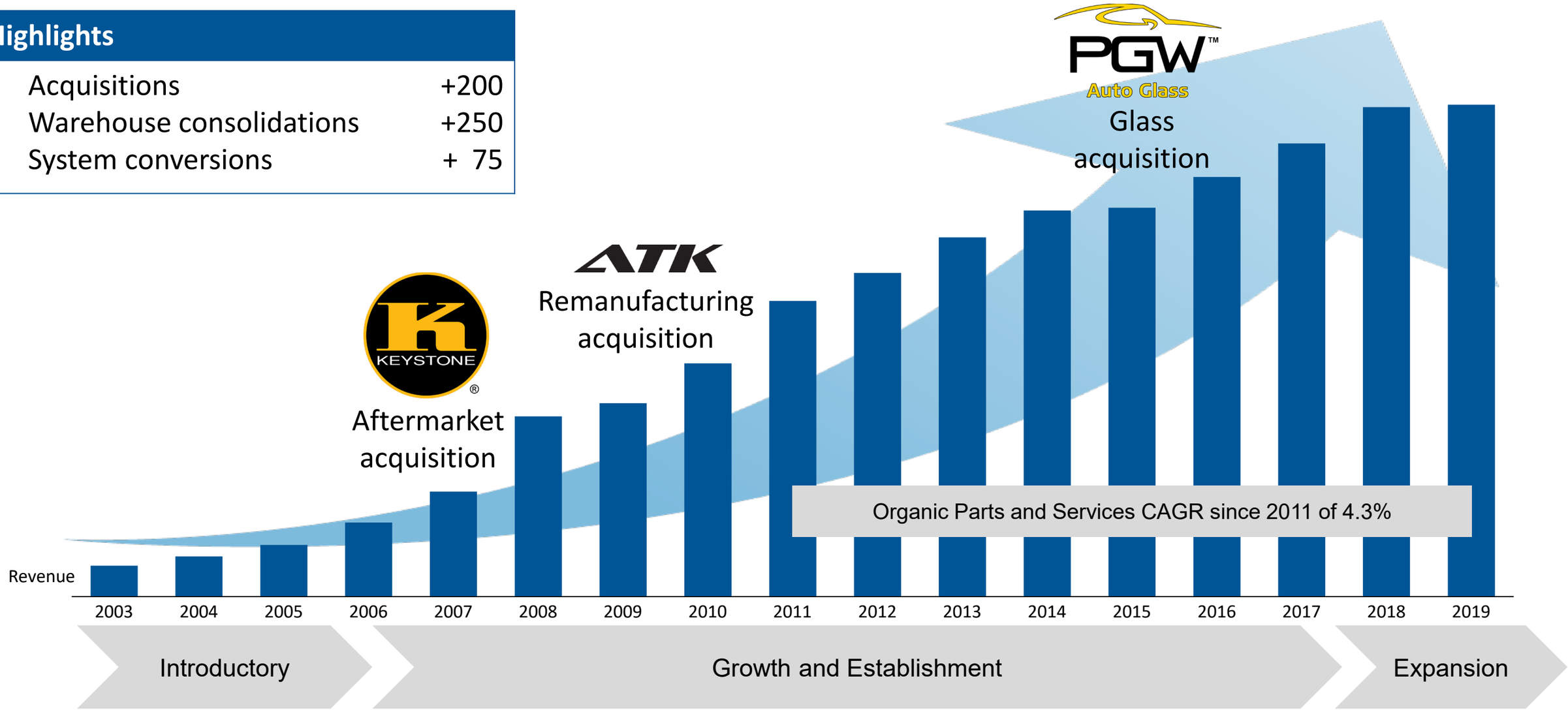
CALIBER COLLISION
RESTORING THE RHYTHM OF YOUR LIFE®

gerber COLLISION & GLASS

ServiceKing COLLISION REPAIR CENTERS

North America's breadth and scale creates a strategic advantage for long-term success

Highlights	
• Acquisitions	+200
• Warehouse consolidations	+250
• System conversions	+ 75



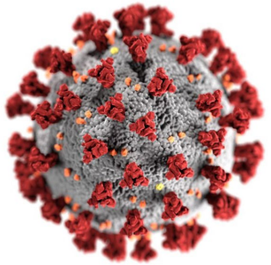
North America enters the expansion stage; driving profitable growth and operational excellence

	Growth and Establishment 2006 - 2017	Expansion 2018 & Beyond
Business Focus	• Top-Line Revenue Growth • Significant Acquisitions	• Profitable Revenue Growth • Strategic/Tuck-in Acquisitions
Commercial	• Minimal focus on customer profitability • Deliver at all costs • One more part on the truck	• Exit unprofitable businesses • Focus on customer value proposition • Grow customer share of wallet
Operational	• Capitalize on acquisition synergies • Level one integration • Expanding workforce	• Establish continuous improvement • Align incentive plans • Strategically upgrade talent
Cash	• Cash generation not a priority • Significant growth in working capital • Utilize liquidity for acquisitions	• Highly focused on cash generation • Improve trade working capital • Establish capital investment ROIC

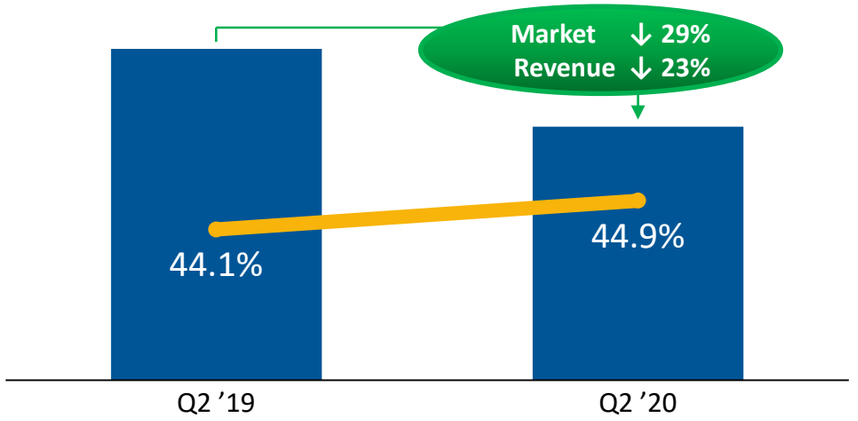
COVID-19 created disruption but increased market share and expedited planned cost reductions

Safety during COVID-19

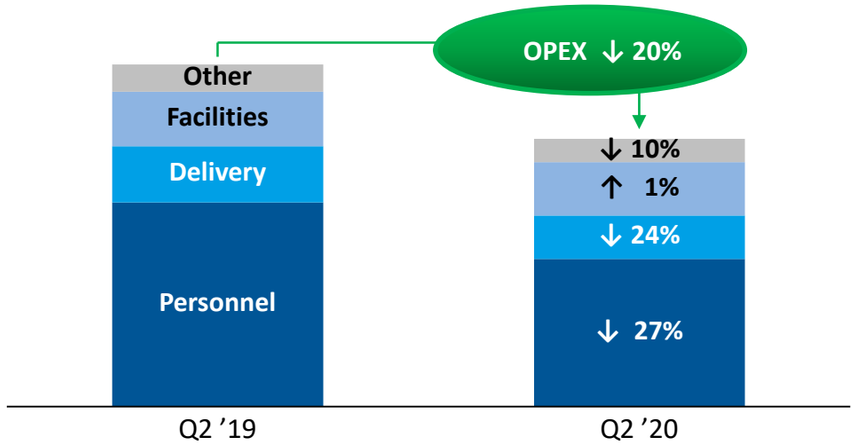
- Considered essential business throughout
- Created North American COVID-19 Task Force
  - Implemented customer facing protocols
  - Developed corporate guidelines
  - Remote work requirements



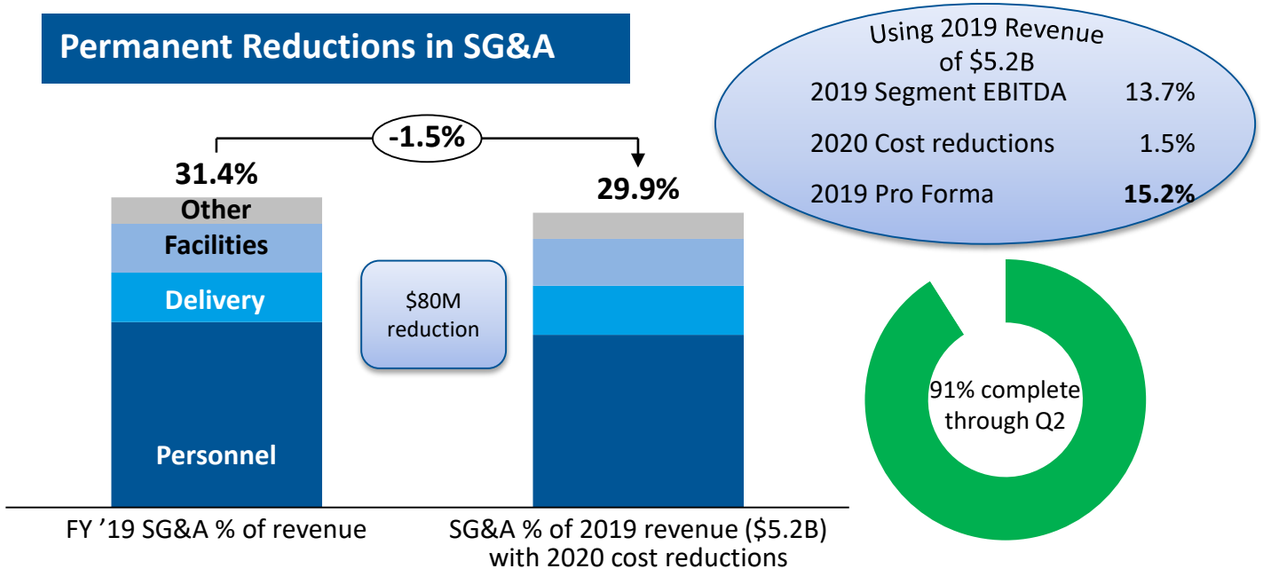
Revenue and Gross Margin %



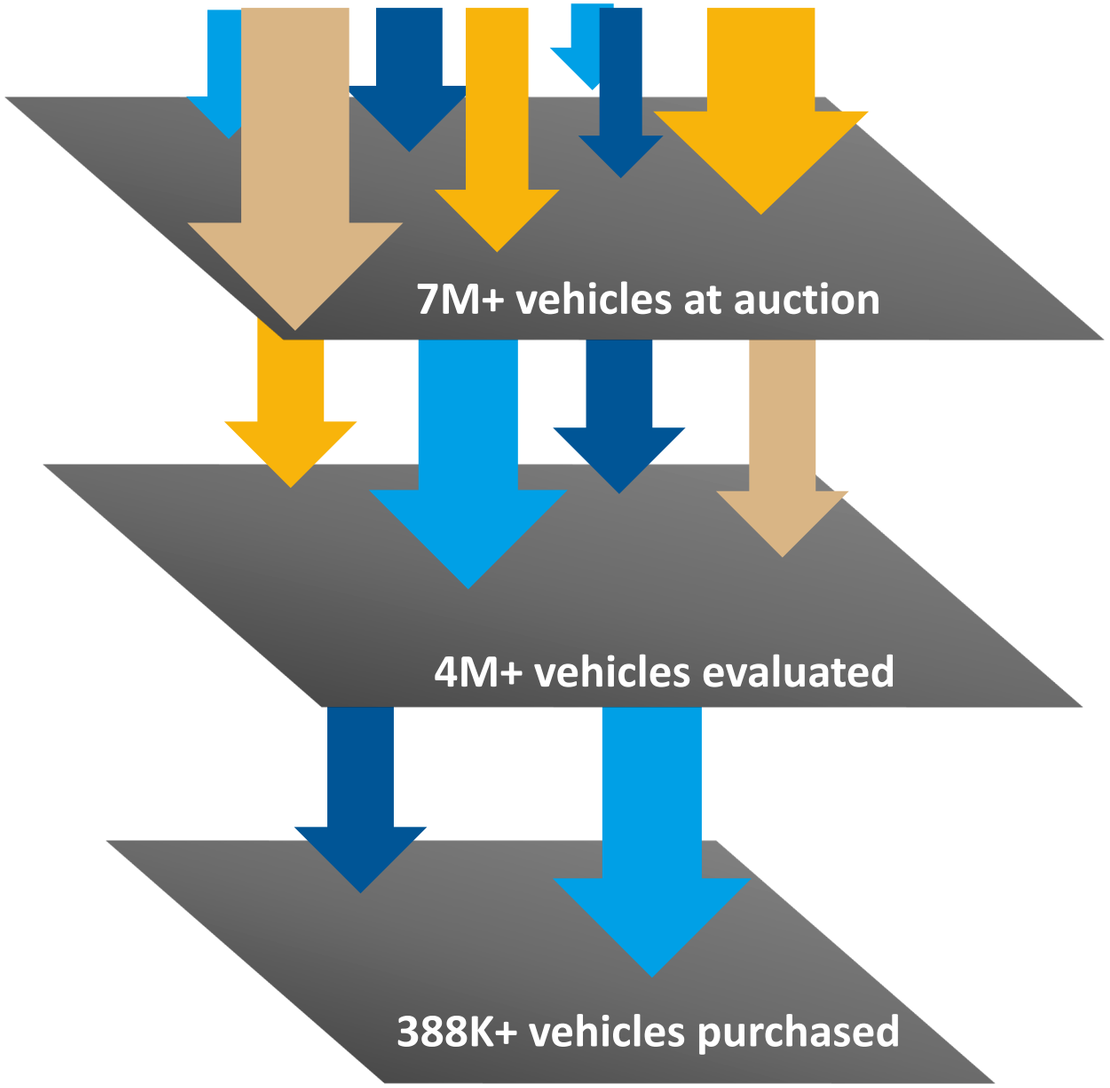
Significant OPEX reductions



Permanent Reductions in SG&A



North America continues to invest in technology to further improve its cost position

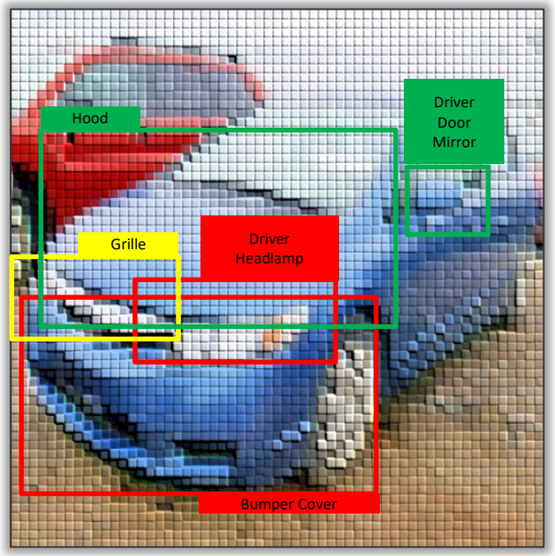


Continuous Improvements

- Towing Centralization
- Part Cataloguing

Implementation of Artificial Intelligence



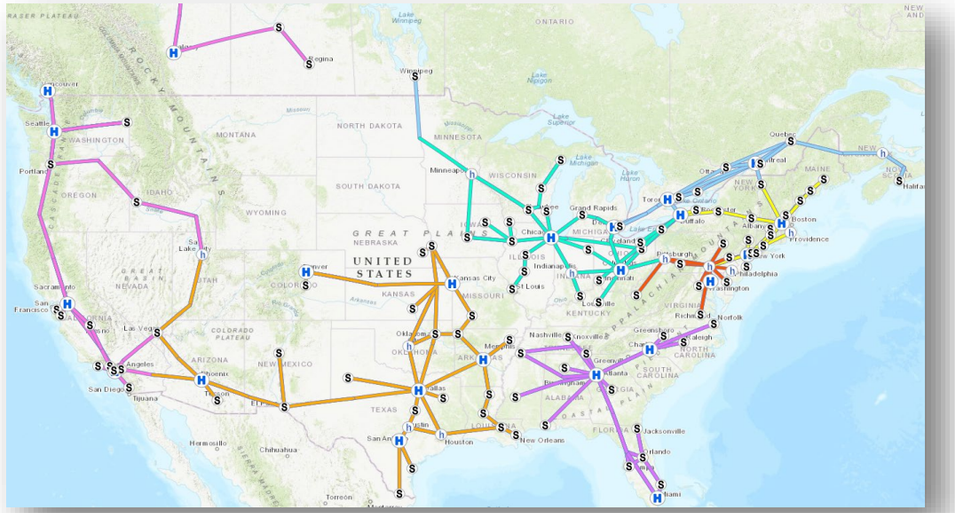


Part	Human conclusion	AI conclusion
Driver Headlamp	Negative	Negative
Hood	Positive	Positive
Grille	Positive	Negative
Driver Door Mirror	Positive	Positive
Bumper cover	Negative	Negative

Network optimization and alignment around KPIs will help create sustainability with operational excellence

Network Optimization

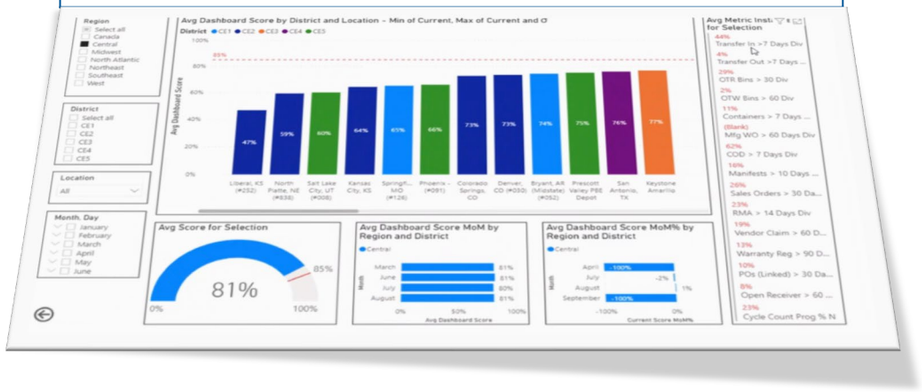
- Maintain or improve delivery performance
- Align with changing market
- Identify most effective use of assets



Operational sustainability

- Aligned on 6 critical key performance indicators
- Developed daily operational dashboard
- Comparison to best in class performance

KPI #	KPI	Target Cost
#1	Pieces handled/hour	Warehouse/Cross Dock
#2	Stops/hour	Delivery
#3	Work orders/hour	Sales



Management has united the team on clear and concise objectives for long-term sustainability

Responsibly

Focus on people through continued improvements in environmental, social, and governance (ESG)

Grow

Organically & profitably grow revenue 2%-3% CAGR

Profits

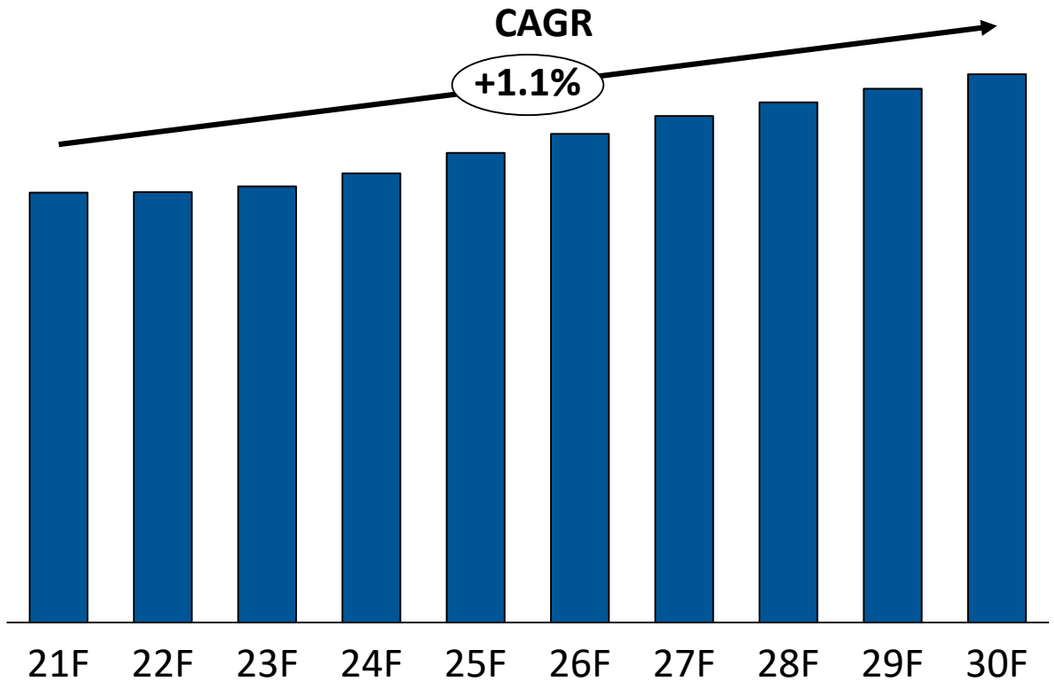
Improve operating leverage of 20-30 bps per year (excluding commodities)

Cash

Drive FCF through continued optimization of trade working capital

Market growth plus LKQ's strategic position will deliver growth expectations with increased optimism

Total NA Collision Replacement Parts Market Size
Vehicles Aged 0 to 15 Years



* Proprietary multi-factor LKQ collision market demand model.

- **APU Growth**
- **Market share gain**
- **Diagnostics and calibrations**
- **Adjacent products**
- **Inorganic opportunities**

North America is well positioned to capture sustainable growth and margin expansion

01

Breadth and scale that LKQ North America has developed is a strategic advantage

02

Market growth, product expansion, and ability to take advantage of adjacent markets leave room for future growth

03

Focus on continuous improvement and operational excellence provides for continued margin expansion



Justin Jude

Questions and Answers



BREAK



Arnd Franz

Chief Executive Officer - LKQ Europe

Segment Overview: The Market Leader in Europe

$5.8 B
Revenue 2019

> 900,000
Unique SKUs

~ 1,000
Locations

22
 # countries we operate in[1]



#1 Market Position in Top 6 Markets[2]


Germany


United Kingdom


Italy


Czech Republic


Netherlands


Belgium

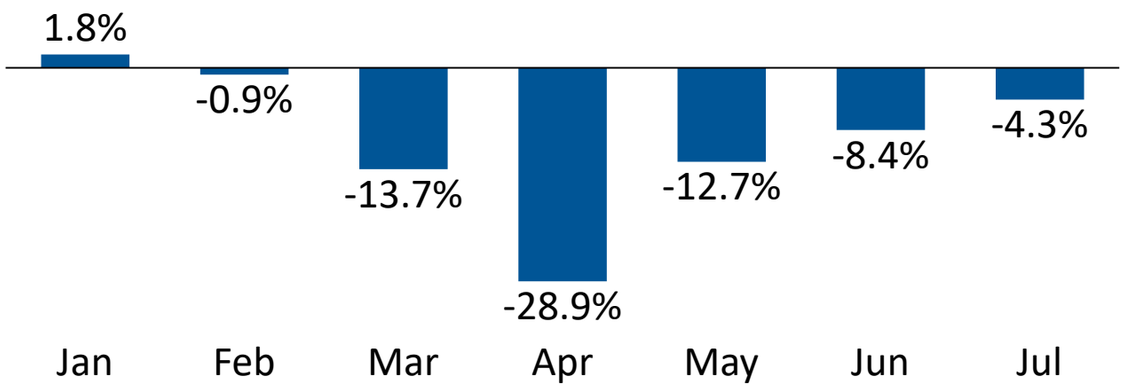
1) Includes countries where LKQ operates via companies with minority shares. All other figures exclude LKQ minority investments.
2) Source: Competitor filings and LKQ management estimate.

The Leading Auto Service System in Europe

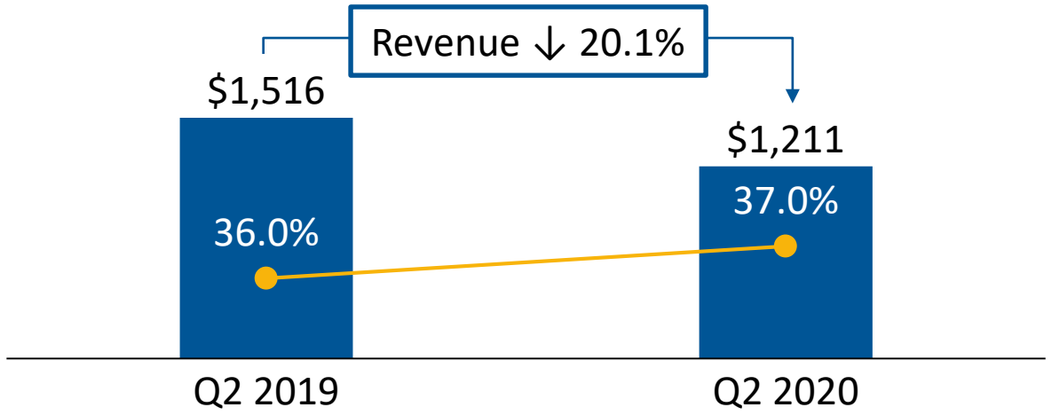
1	OPERATIONAL EXCELLENCE	• Largest distribution network in Europe • Well diversified across top European markets • Strong private label brands • Continuous Improvement mindset
2	1 LKQ EUROPE	• Purchasing Leverage / Supply Chain Financing • Strong 1 LKQ Europe organizational structure • Product Strategy initiatives • Common ERP system
3	GROWTH through TOTAL CUSTOMER SATISFACTION	• Unmatched reputation with customers and suppliers • Digital Strategy • LKQ Academy • Sustainability and Corporate Responsibility

COVID-19 Business Impacts

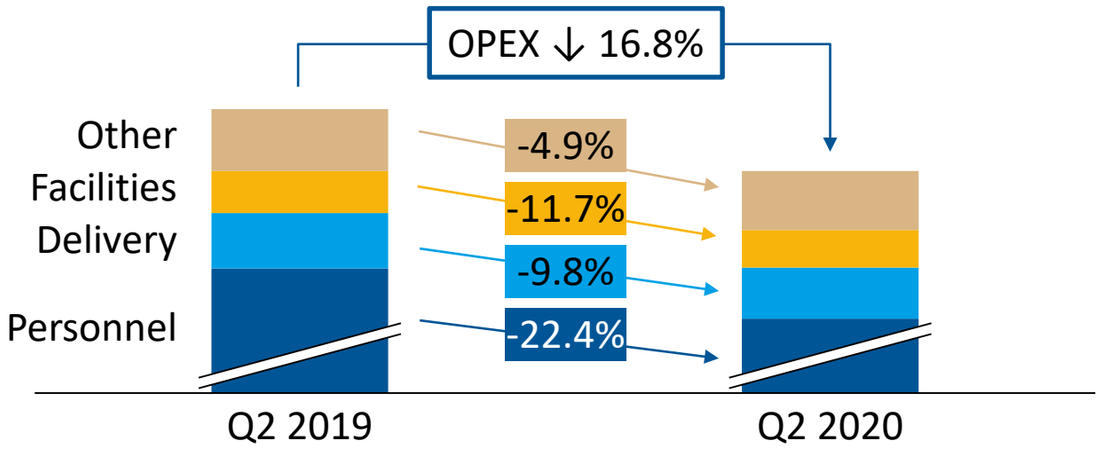
Monthly Organic Growth[1]



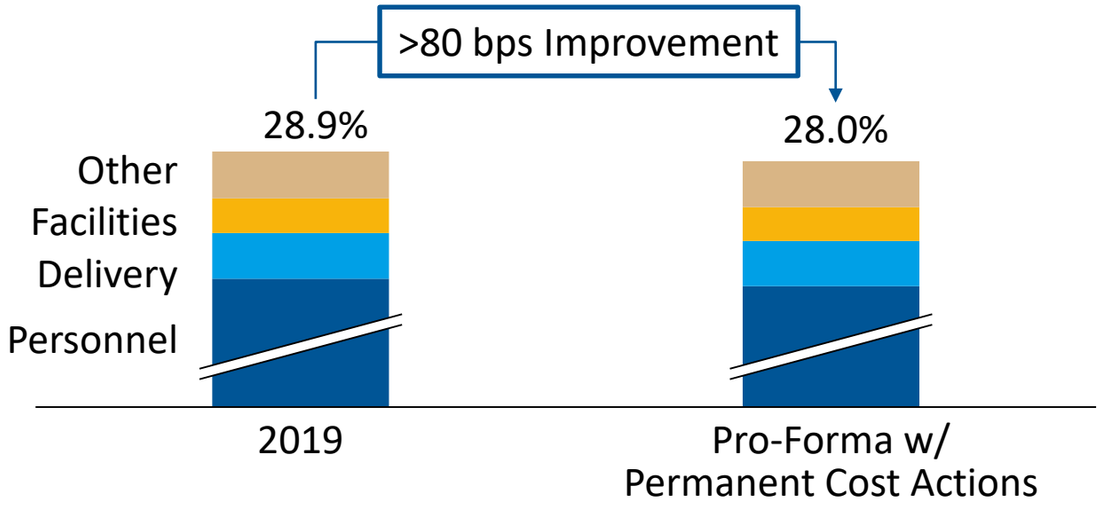
Revenue and Gross Margin[2]



OPEX Reductions



Expected Permanent Reduction in SG&A



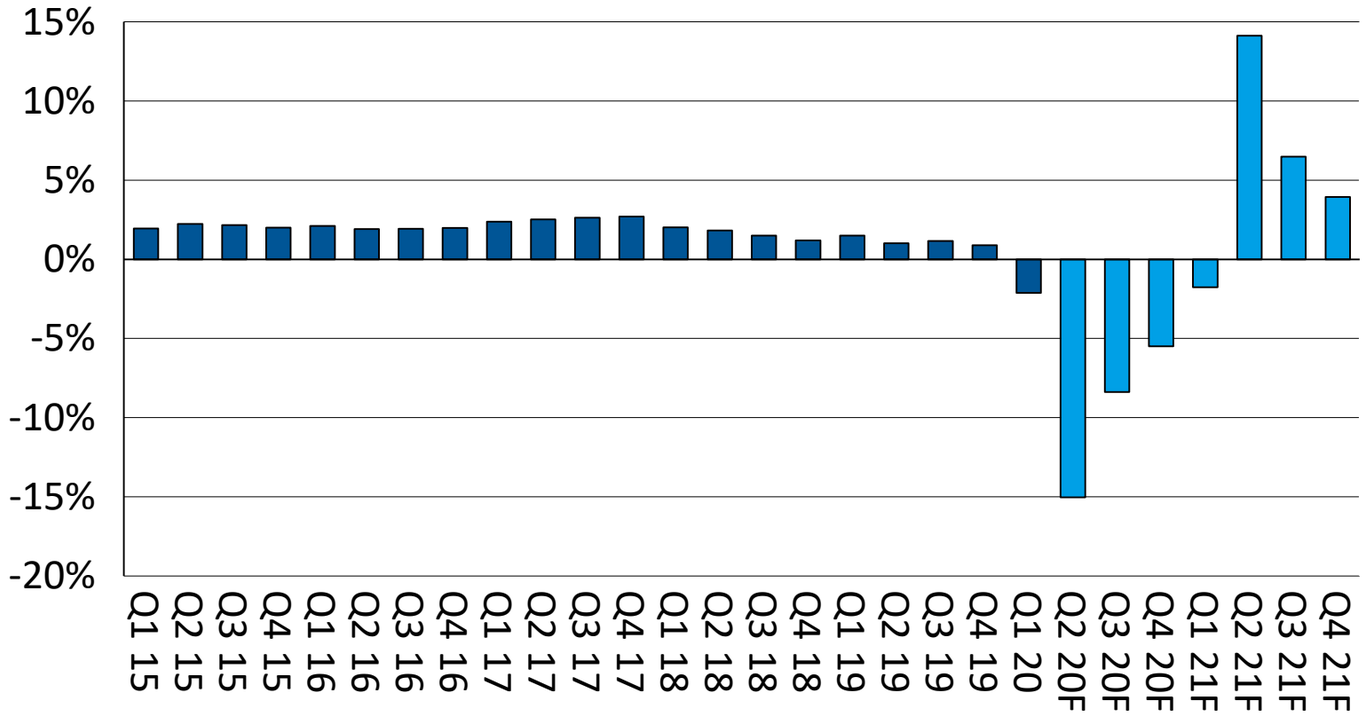
1) Organic Parts and Services Revenue Growth on a Per Day Basis
2) Adjusted Gross Margin is a non-GAAP measure. See the Appendix for reconciliations of non-GAAP measures

Note: Numbers may not foot due to rounding

European GDP Historical Data and Forecasts

Historical and Forecasted European GDP Growth by Quarter

Real GDP Growth vs. PY for LKQE's Top 6 Markets[1]



Historical and Forecasted GDP Growth

By Year and Country, Real GDP Growth vs. PY

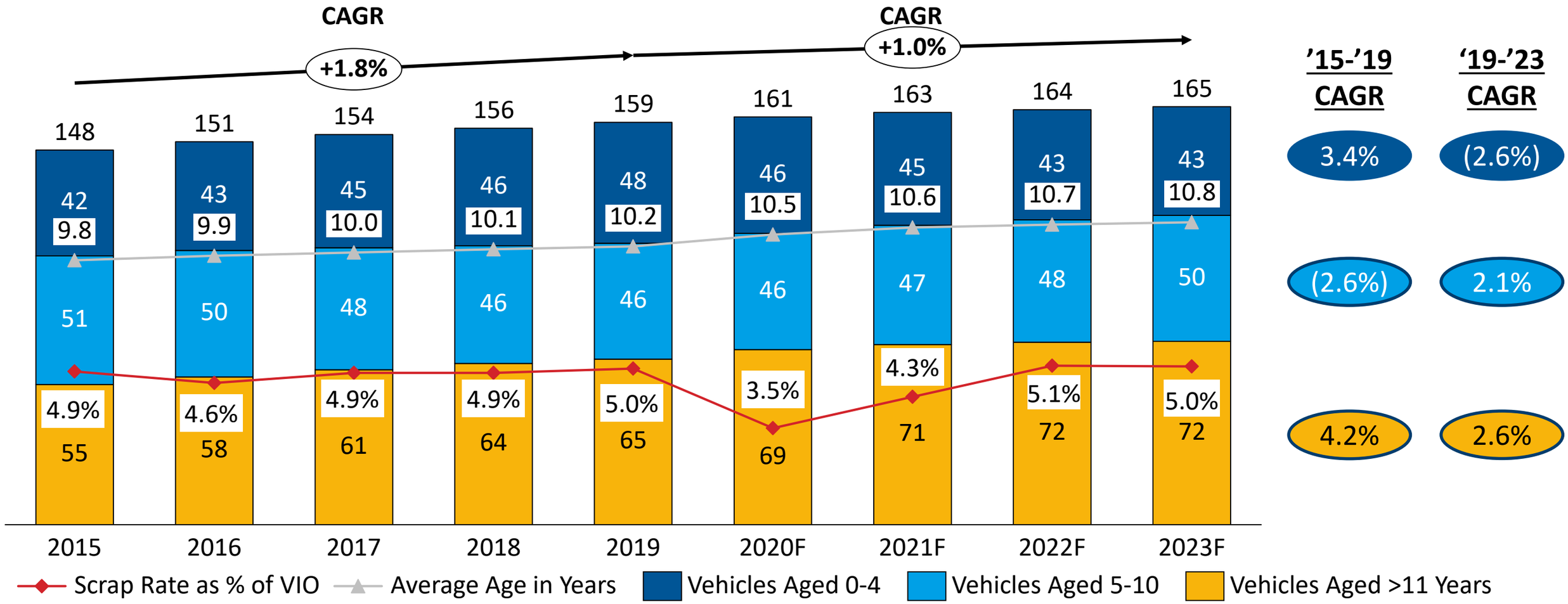
	2019	2020F	2021F	2022F
Germany	0.6%	-6.3%	5.0%	1.9%
UK	1.5%	-9.0%	6.0%	2.6%
Italy	0.3%	-10.4%	5.7%	2.2%
Czech Rep.	2.3%	-6.8%	4.8%	2.8%
Netherlands	1.7%	-5.9%	4.0%	2.1%
Belgium	1.4%	-7.3%	4.5%	1.6%

Sources: FRED, Bloomberg.
1) Weighted by 2020 Forecast; forecast numbers as of 8/3/2020.

European VIO & Market Growth Forecasts

Vehicles In Operation (VIO) and Average Vehicle Age – LKQ Europe's Top 6 Markets

Millions of Vehicles by Vehicle Age, Average Parc Age



	'15-'19 CAGR	'19-'23 CAGR
Vehicles Aged 0-4	3.4%	(2.6%)
Vehicles Aged 5-10	(2.6%)	2.1%
Vehicles Aged >11 Years	4.2%	2.6%

Sources: IHS, LKQ Analysis.

1 LKQ Europe Project



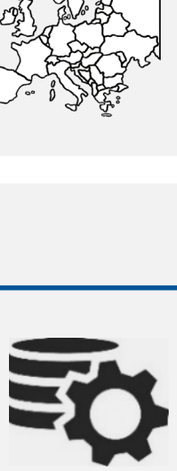
22
Different
Countries

Improved Customer
Experience….

… In the Hands of
Local Managers

Maintain Strong
Entrepreneurial Culture





Multiple ERP,
financial, E-mail,
Phone systems…

… And Fragmented Procurement and
Product Management

Transformation

Benefit from Scale

Stronger Competitive Position

ONE LKQ Europe

Common ERP Platform

Rationalized Product Portfolio

LKQ Europe Headquarters

1 LKQ Europe Organizational Design

Build a common 1 LKQ Europe corporate culture → **Establish common policies / procedures** → **Leverage best practices** → **Create and maximize value based on effective decision making / accountability**

Regions | European Functions

CEO LKQ Europe
Arnd Franz



LKQ Corporate



CEO, Euro Car Parts *(UK & ROI)*
Andy Hamilton



CEO, Fource *(Netherlands, Belgium & France)*
Alex Gelbcke



CEO, LKQ Central Eastern Europe
Andras Lorincz



CEO, STAHLGRUBER Group *(Germany & Austria)*
Frank Schöller



CEO, Rhiag Group *(Italy & Switzerland)*
Serafino Bartolozzi



CEO, Atracco *(Scandinavia)*
Magnus Tagesson



Product Management & Procurement
Ferdinando Imhof



Components
Martin Conrad



IT
Chad Cowan



HR
David Brookfield

…



Finance
Yanik Cantieni

1 LKQ Europe – Key Initiatives

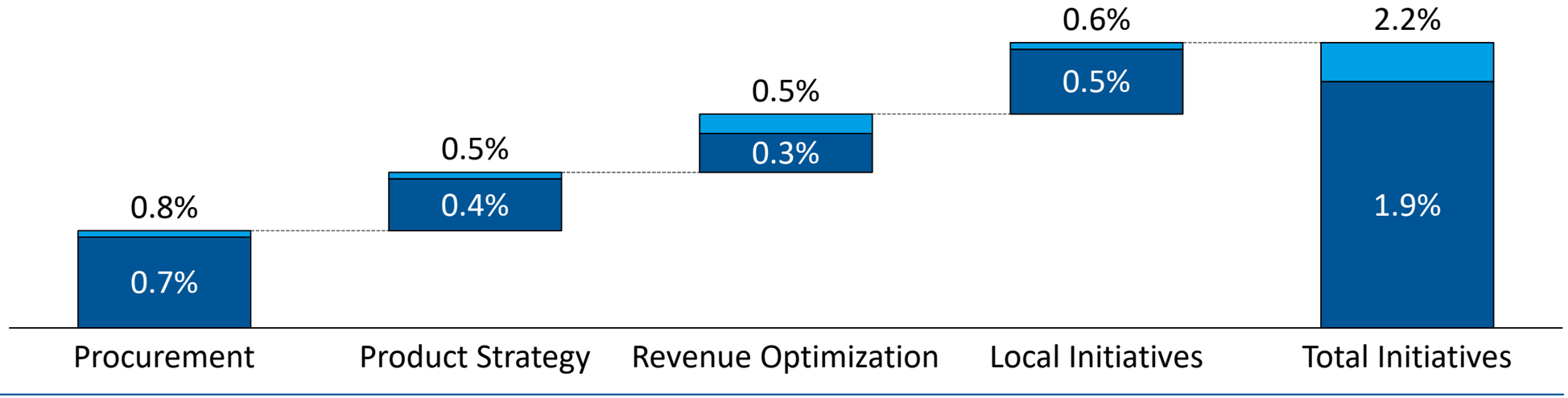
Procurement	Direct & Indirect Procurement / Vendor Financing Program	• Pan-European Programs • Leverage Scale • Working Capital Improvement
Product Strategy	Components Brands Rationalization / Product Management / Catalog	• Standardized Product Portfolio • Improve Speed to Market • Leverage Scale • Focused Marketing Activities
Revenue Optimization	Data Analytics / Yield Management	• Reduce Complexity • Increase Customer Value • Improve Margins
Local Initiatives	Shared Services / Platform Rationalization	• Operational Synergies • Process Simplification • Improved Customer Experience

Covid Impact on 1 LKQ Europe Initiatives: Some Minor Delays, But Generally on Track

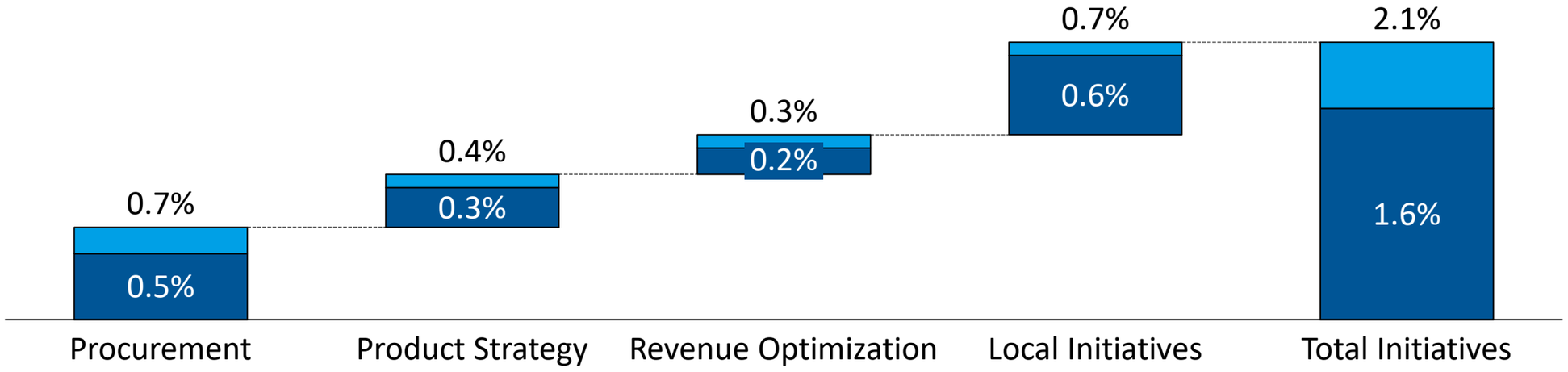
Delayed 2 – 4 Months	Accelerated 3 – 12 Months
• Procurement initiatives	• Talent Management
• Headquarters in Switzerland	• Platform rationalization
• EOS (Common ERP) and IT harmonization projects	• Shared Services
• Product and Yield Management	• Digital Strategy

Key Initiatives – Updated Impact on Segment EBITDA: Confident in Achieving Our Committed Performance

September 2019 LKQE Initiatives Expected Segment EBITDA Contribution 2019 – 2021[1]



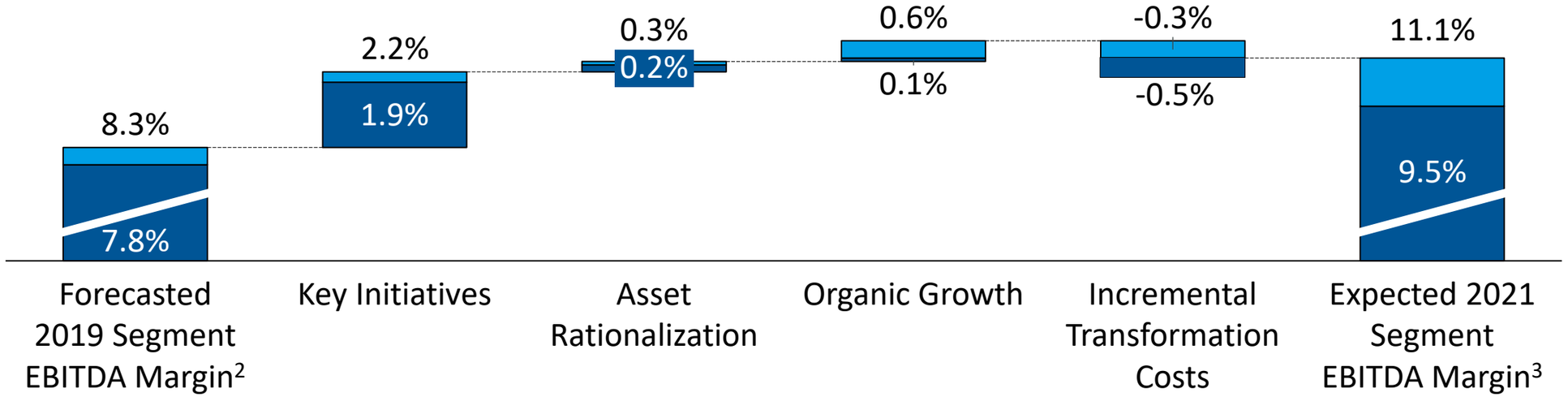
Current LKQE Initiatives Expected Segment EBITDA Contribution 2019 – 2021[1]



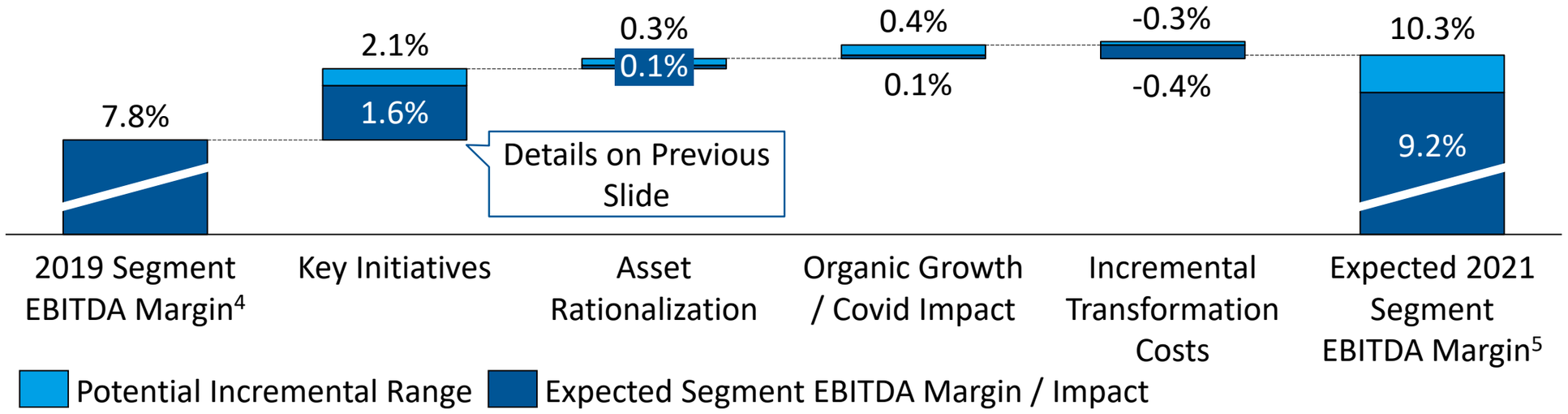
1) Numbers may not foot due to rounding.

Confident in Achieving Our Committed Performance

September 2019 LKQE Segment EBITDA Margin Bridge[1]

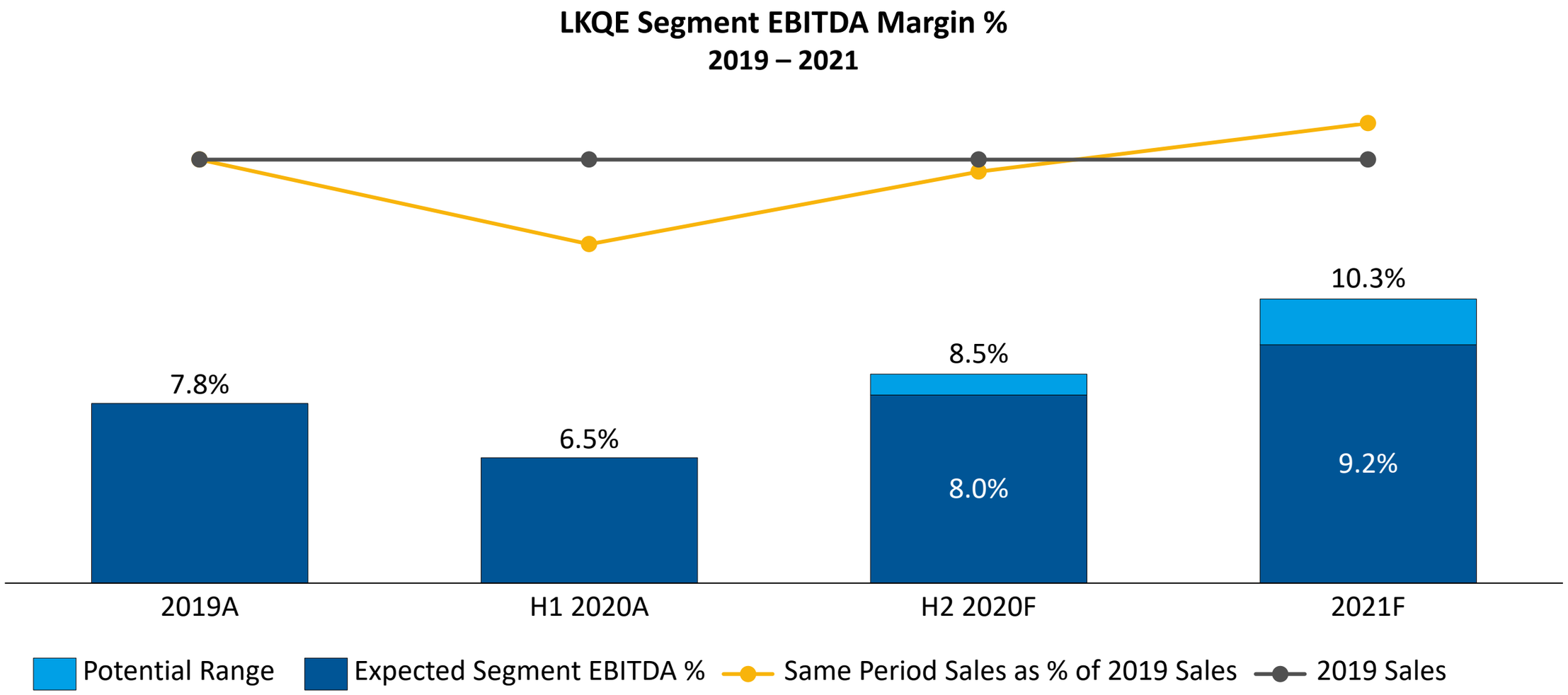


Current LKQE Segment EBITDA Margin Bridge[1]



1) Numbers may not foot due to rounding.
2) Includes 30 bps negative impact from transformation costs.
3) Includes 60-80 bps negative impact from transformation costs.
4) Includes 25 bps negative impact from transformation costs.
5) Includes 55-65 bps negative impact from transformation costs.

EBITDA Margin 2019-2021



Well positioned to exceed expectations on cash flow generation

TWC / Cash Flow

- Trade Working Capital (TWC) improvement in Europe launched as a key objective in 2019
  - Supplier payment terms negotiations
  - Better alignment of stock levels to demand outlook
  - Past due receivables improvement
- Expect transformation and restructuring costs to be entirely funded by the improved TWC

Supplier Payment Terms & Vendor Financing Program

- European annual direct spend over $3.5B
  - Top 40 suppliers represent ~60%
- Negotiating with suppliers representing ~80% of annual spend
  - To date ~$800M of annual spend renegotiated
    - Extended payment terms, and / or
    - Enrolled on Vendor Financing Program
  - Average improvement is > 100 days
- Well on track to further expand the Program

LKQ Europe Digital Strategy

Primary Drivers of Market Digitalization

INEFFICIENCIES IN THE AFTERMARKET



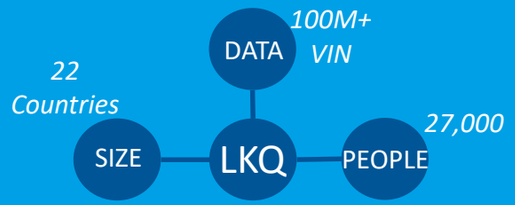
…lack of service repair data
…multifaceted systems
…complexity of service

ADVENT OF DIGITAL PLAYERS & MARKETPLACES



…eBay, Amazon, Tmall
…COVID impacts
…consumer demands rising

OPPORTUNITY IN INTEGRATED ECOSYSTEMS



…access to repairers
…valuable data insights
…integrated platforms

TECHNOLOGY INNOVATION ON DRIVING NORMS



…hydrogen, electric, hybrid
…connected cars
…autonomous driving

Our Digital Vision

B2B

To create the leading European fully integrated digital experience for B2B customers to support the longevity of the IAM and our customers

TRADITIONAL



B2B PORTAL

+ VALUE ADDS

B2C

To be one of the leading Automotive Aftermarket eCommerce providers in Europe by 2023

Emerging



Note: LMS=Learning Management System; IAM=Independent After Market; GMS=Garage Management System; VIN=Vehicle Identification Number

Main Takeaways

- **Acceleration in car parc aging provides growth opportunities, recovery likely in 2021.**
- **Covid-19 has delayed 1 LKQ Europe projects and lower volumes are affecting EBITDA product related improvements. We remain committed to achieve our targets.**
- **Accelerating restructuring and physical integration, productivity initiatives.**
- **Roadmap moving to common digital solutions for Europe.**



Arnd Franz

Questions and Answers



Bill Rogers

Senior Vice President - Specialty

Specialty Overview: Focused on Profitable Growth

Key Facts	
2019 Sales:	~$1.5B
Employees:	2,500+
Customers:	20,000+
Suppliers:	1,000+
Stocking SKUs:	185,000+
Locations:	7 DCs
	38 Cross Docks
	9 Call Centers
	2 Manufacturing

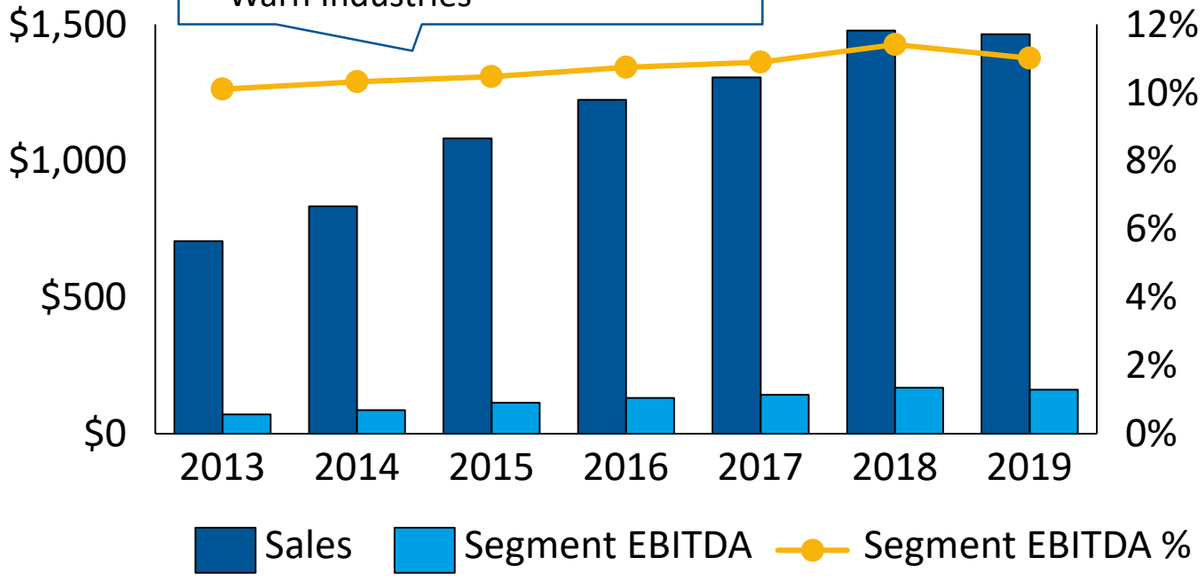
#1

- Distributor in Specialty Aftermarket
- Distributor in RV Aftermarket
- Manufacturer Off-Road Recovery Equipment

Keystone Automotive Operations, Inc. | ntpstag | WARN

Financial Performance
$ in M

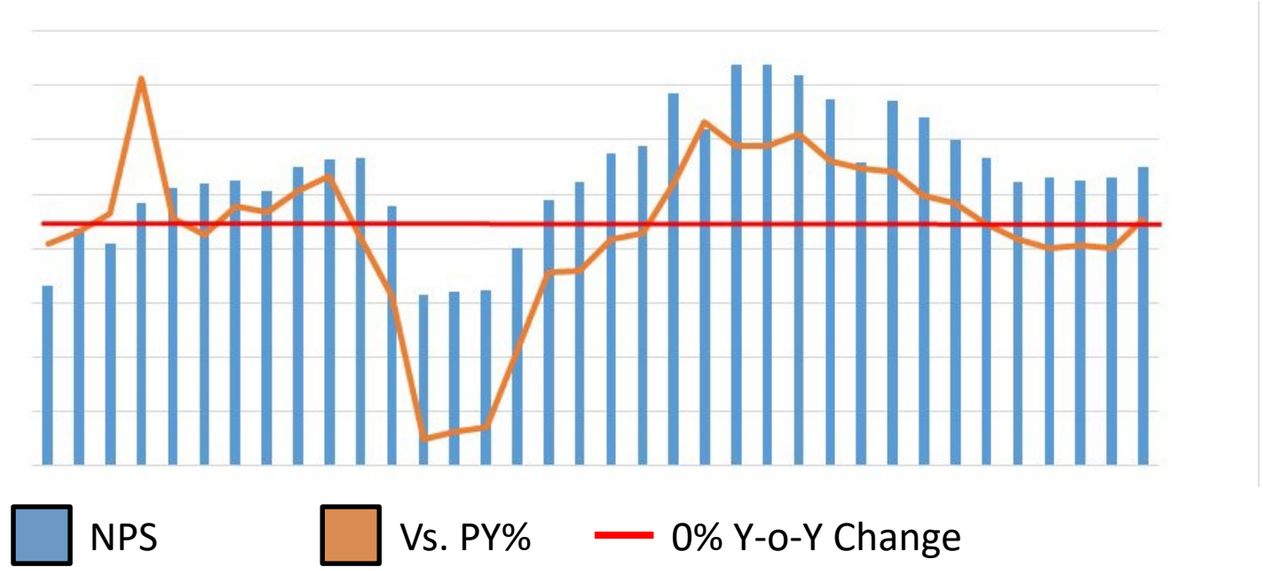
Significant Acquisitions since 2014:
- Stag Parkway Inc
- The Coast Distribution System Inc
- Warn Industries



Sales CAGR : 12.9% **Segment EBITDA CAGR: 14.6%**

COVID-19 Comments: The Business has Navigated Through the Uncertainty

2020 Distribution Net Product Sales (NPS) by Fiscal Week



Key Actions Taken

- Took immediate steps to reduce cost and conserve cash
- Established teams and processes to operate safely and efficiently in all essential functions
- Stayed tightly connected on communications and monitored the changing environment
- Great people, strong systems and processes enabled a very fast recovery
- Benefited from very strong e-Commerce process capability

Future Priorities

- Inventory replenishment – work through supply chain challenges, careful planning
- Careful with expense control – be cautious bringing back non-essential cost and functions
- Address margin challenges caused by customer and product mix changes
- Expand Share – very focused growth initiatives that are opportunistic and achievable

Specialty Network: Continue to Improve on Competitive Advantages



Key Facts

- 2.5M sq ft Warehouse Space
- Fleet of 90 Tractor Trailers and 600 Delivery Vehicles
- 40 million+ miles driven annually
- Next Day delivery to over 90% of North America
- 99.6% Delivery Accuracy Rate

Delivery Illustration: Order to Delivery in Less Than 24 Hours



D



6:30 PM: Tractor trailer leaves Kansas City, KS distribution center

C

5 PM: "Pick ticket" created
5:30 PM: Toolbox picked and placed in holding area
6 PM: Toolbox loaded onto tractor trailer



B



Monday Afternoon

START: ORDER PLACED

3 PM: Construction worker in Eau Claire, WI visits local jobber and orders toolbox



A

4 PM: Jobber calls Keystone Call Center in Dallas, TX to identify and order correct part



G

12 PM: Friendly driver, who knows jobber well, delivers toolbox



F

7 AM: Cube van packed, leaves La Crosse cross-dock

Tuesday Morning

END: TOOLBOX INSTALLED

2 PM: Toolbox installed on truck, less than 24 hours after order

E

D

3:30 AM: Tractor trailer arrives at La Crosse cross-dock; unloading begins immediately



425	80	$95	20
miles driven on a typical route	toolbox weight in lbs.	estimated cost to deliver via third party	hours from jobber call to delivery

Specialty Markets: Leading Position in Hot Markets with Strong Growth Outlook

SEMA Market **$10B***		**Specialty Distribution Revenue**	• Truck Bed • Performance • Cargo Management • Tubular • Chemical • Wheels & Tires • Interior / Exterior Acc. • Suspension • Air Intake & Exhaust • Lighting
RV Market **$1.3B***			• Appliances • Plumbing • Electrical • RV Interior • Hardware / Roofing • Outdoor & Campsite • Service (OE Warranty)
Trailering **$1.2B***			• Heavy Duty Towing • Brake Controls • Electrical • Gooseneck • Trailer Chassis • Receiver Hitch

* Values represent Speciaty's view of the addressable market.

RV OEM Warranty: Leverage Our Position in the Market to Support OE Warranty Fulfilment

Establishing Relationship and Seizing the Opportunity



The Issue

- Typical RV repair takes 18 days, when part is not in stock and peak RV usage season is short

The Relationships

- ~1.3M New RVs sold the last 3 years and NTP-Stag's OEM partners have sold 25.2%.

The Results

- 93% of NTP-Stag's warranty parts are delivered via our own fleet
- NTP-Stag's 2020 YTD warranty parts delivery times, including waiting on back orders, net out to 1.2 to 2.5 days

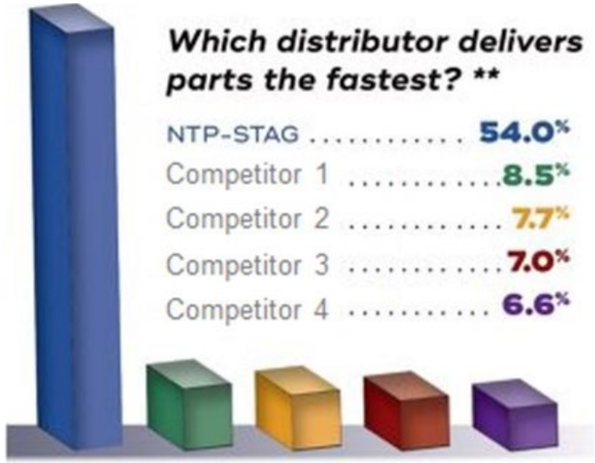
The Opportunity

- Only fulfilling a portion of overall warranty with our existing OEM partners
- OEMs representing 75% of the industry's new unit sales are potential new business



Positive Press Recognition

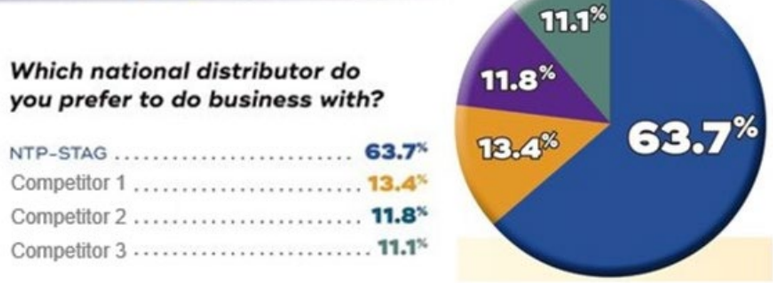
RVPRO
FOR THE RV PROFESSIONAL





DID YOU KNOW?

That three of the top five companies listed for "Easiest to Get Replacement Parts From" have partnered with NTP-STAG to fast track parts delivery. Grand Design, Jayco and Winnebago have all partnered with the national distributor to make getting replacement parts easier. Heartland RV, another Thor subsidiary also has partnered with NTP-STAG.



**Survey results from May 2020 Edition.

Specialty Adjacent Markets: Core Logistics Network, Processes, & Products Enable Expansion

Powersports: $2.0B



Marine: $1.5B

ntp stag MARINE
A Division of Keystone Automotive Operations

Bike Shops: $1.3B



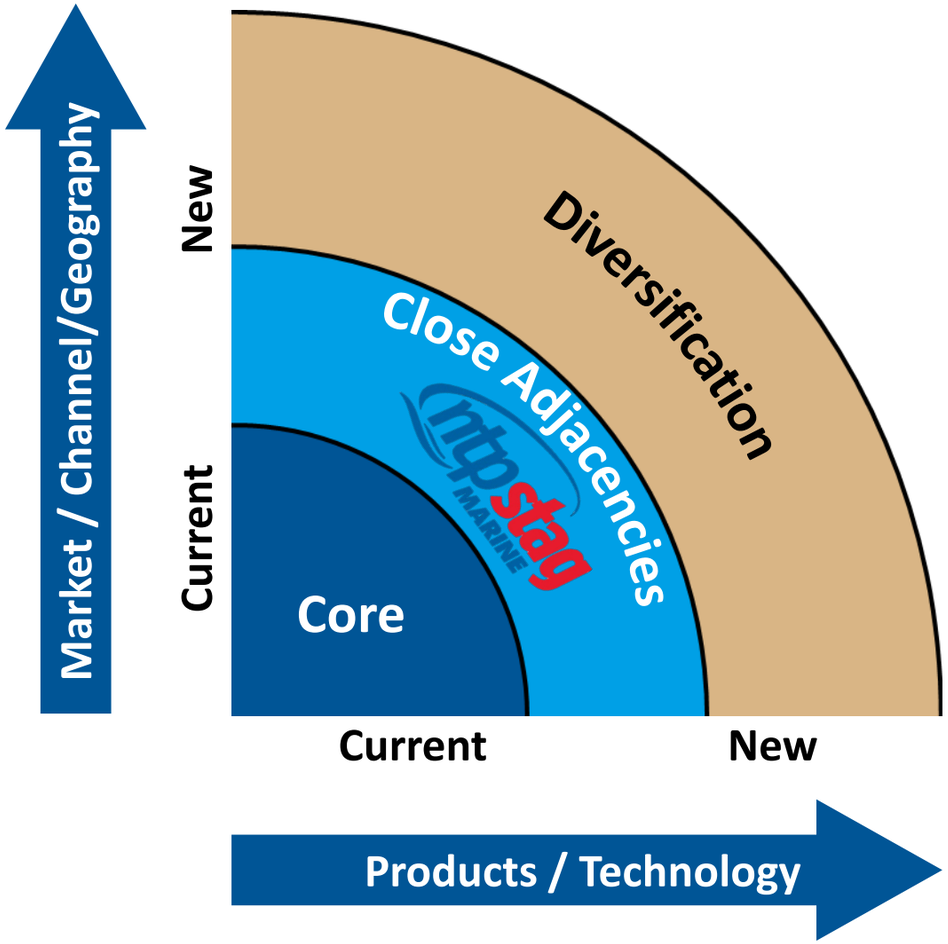
Close Adjacencies

Core

** Values represent Specialty's estimate of the addressable market.

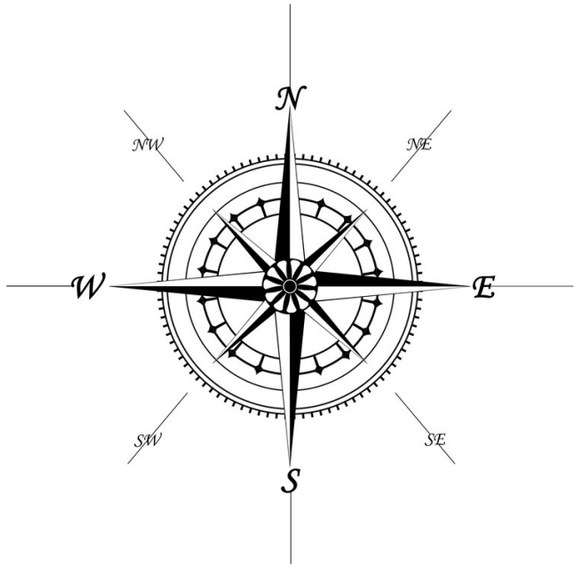
Market Assessment Framework: Systematically Assessing Opportunities to Drive Growth

	Points / Score →	1	2	3	4	5
Market Attractiveness	Growth (in % per year)	1 – 2	2 – 3	3 – 4	4 – 5	>5
	Size (in $B)	0.5 – 1.0	1 – 3	3 – 5	6 – 10	>10
	Profitability (EBITDA%)	<5	5 – 8	8 – 11	11 – 14	>14
	Stability (Non-Volatile)	Very Low	Low	Moderate	Strong	Very Strong
	Disruption Risk	Very Strong	Strong	Moderate	Low	Very Low
Industry Structure	Supplier, Distributor and Customer Concentration Structure	Mature Supply Chain	Manufacturer Concentrated with Brand Power	Manufacturer Concentrated – No Brand Power	Mature, with Fragmented Customers	All Fragmented or Hourglass
Fit with LKQ	Go-to-Market Overlap	Very Low	Low	Moderate	Strong	Very Strong
	Fit with Existing Assets	Very Low	Low	Moderate	Strong	Very Strong
	Fit with Existing Distribution Capabilities	Very Low	Low	Moderate	Strong	Very Strong



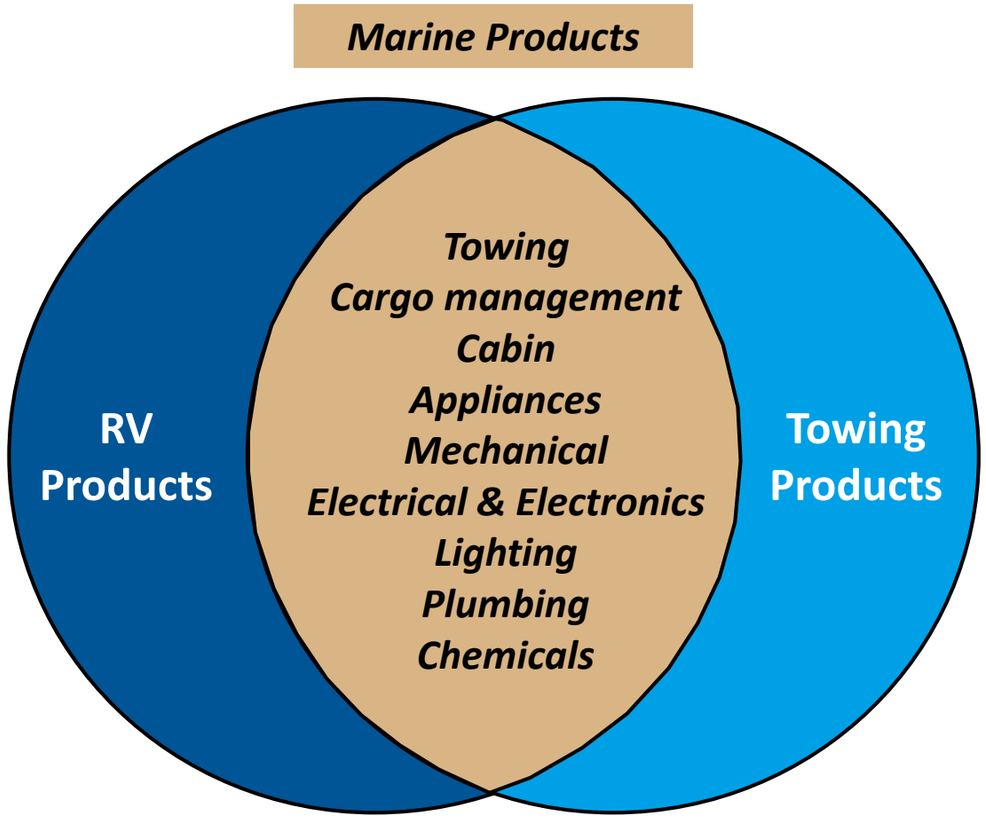
Specialty Adjacent Markets: All Key Attributes are Well in Place to Enter the Marine Market

ntp stag MARINE
A Division of Keystone Automotive Operations



Marine Opportunity	
Market Attractiveness	✓ Market Size
	✓ Market Growth
	✓ Margin Opportunity
Industry Structure	✓ Fragmented Competition
	✓ Acquisition Targets
Fit with Specialty	✓ Product Overlap and Availability
	✓ Big and Bulky Product Characteristics
	✓ Customer Characteristics

Examples of Overlap with RV and Towing Products



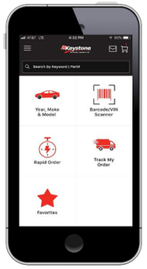
Ecommerce for B2B: Significant Progress Over the Last Several Years

Best B2B Platform in the Industry





Plus: Mobile Application, Innovative Tools & Features, and Digital Marketing Support for Our Customers







Site in a Box

Topline
Dealership Management | Point of Sale

SOCIAL SHARE TOOL

B2C to Support Our Brick & Mortar Customers and Sell Direct to Consumers

PARTS VIA
Ship to Store | Ship to Install | Home

Choose Delivery Method

SHIP TO HOME
Shipping Fees may apply
Please ship to my preferred address.

PICK UP IN STORE
Ship FREE to a local Parts Via Network Dealer.

Step 4: Schedule Installation

What date and time work best for you?

Proceed Without Scheduling

Labor Rate: $75.50

Previous Next

Wednesday 10/17	Thusday 10/18	Friday 10/19	Saturday 10/20	Sunday 10/21	Monday 10/22	Tuesday 10/23
8:00-11:30 1 available	8:00-11:30 1 available	8:00-11:30 1 available	8:00-11:30 1 available	8:00-11:30 0 available	8:00-11:30 1 available	8:00-11:30 1 available
1:00-5:30 1 available	1:00-5:30 1 available	1:00-5:30 1 available	1:00-5:30 0 available	1:00-5:30 0 available	1:00-5:30 1 available	1:00-5:30 1 available

**After your order is submitted, you will be contacted by the dealer to set up a specific time.

Next

Enabling the Manufacturers and Partners to Reach Consumers Through KAO

WARN · IRON CROSS AUTOMOTIVE INC. · J.W. SPEAKER · Hellwig PRODUCTS · PullRite
MICKEY THOMPSON TIRES · HYPERTECH · weather guard · CARGOGLIDE · Fab Fours
RSI SMARTCAP · KARGO MASTER · WESTIN · K&N · TRAILFX
DEMCO · EGR · PUTCO · HUSKY TOWING PRODUCTS
GRID · Hot Wheels CAR CARE PRODUCTS · BLUE ON · PENDA · Trightline

E-Commerce – Consumer Shopping: Big Shift in e-Commerce Share… 50% Higher During COVID-19

Drop Ship	DROP SHIPPING CENTRAL *Your news & information source for Keystone's Drop Shipping Program.*	The Best in the Industry	
D2C	PARTS VIA	Innovative D2C Solution	

Specialty Advantages: Very Difficult to Replicate

Logistics Network	• North America – best coverage, next day • Late cut off times, 99.9% fill rate • Big & bulky items	• Company fleet and drivers (600 cube vans, 90 TT) • Best online sales fulfillment option
Inventory	• Biggest (up to $380M in DC's) • Deepest (185k stocking SKU's)	
Transaction Processing	• Daily relationship with customers (36k cust. Loc.) • Customer Care (1.4M calls, 400k emails, etc.)	• AR / AP (4M invoices, 800k payments)
Product Data Set	• Best data in the industry • Most accurate Y/M/M lookup	• Mobile app w/ VIN lookup • Deep list of alternatives
Sales Team	• Outside • Inside • Customer Support • Customer Services	• Auto • RV • Nat'l Retail • Canada / Export
Technology	• E-Keystone / Via (B2B) • Topline (DMS)	• Magnifinder (service parts) • PartsVia (click 2 Mortar)

Specialty Summary

- Strong leadership position in the markets we serve
- Multiple competitive advantages that are very difficult to duplicate
- Markets are responding favorably to new environmental conditions
- Very strong team responsive to changing market & driving market leadership
- Sound business strategy to expand organically and through M&A

Bill Rogers

Questions and Answers



Varun Laroyia

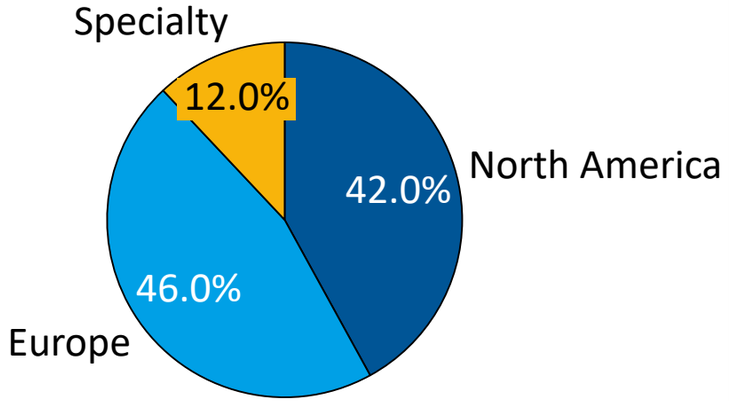
Executive Vice President and Chief Financial Officer

LKQ – Q2 2020 Snapshot

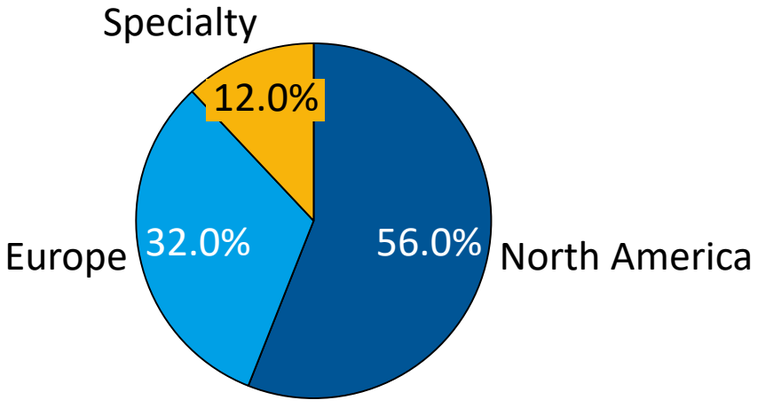
Financial Measures	TTM Q2 2020 in $M
Revenue	$11,785
Segment EBITDA (1)	$1,263
Net Debt (2)	$2,802
Total Liquidity (3)	$2,527
Market Capitalization (4)	$9,766
Credit Rating (5)	Ba2 / BB

(1) Segment EBITDA is a non-GAAP measure. See the Appendix for reconciliations of non-GAAP measures.
(2) Net Debt is a non-GAAP measure. See the Appendix for reconciliations of non-GAAP measures
(3) Total liquidity includes cash and cash equivalents and availability under credit facilities
(4) Based on 9/8/20 closing price of $32.12 and 6/30/20 outstanding shares.
(5) As of 6/30/20.
(6) Reflects TTM Q2 2020

Third Party Revenue (6)



Segment EBITDA (1)(6)



Aligning Corporate Strategy and Financial Policy

	Consolidation Focus (1998 – 2018)	Operational Excellence (2019 – Future)
Strategy	• Professionalize alternative collision part market in North America and develop scale across Salvage and Aftermarket • Assemble pan-European IAM focused mechanical part distributor in fragmented market	• Be the leading distributor for collision parts in North America and mechanical parts in Europe • Organically take market share through leading inventory availability, service reliability and customer service
Incentives	• Incentivize organic and inorganic growth with scale being the primary objective	• Incentivize operational efficiency through organic growth, accretive margins, and judicious working capital management
Capital Allocation	• Using acquisitions to build scale in fragmented markets across North America and Europe	• Utilize Free Cash Flow for highest return investments available. Focus on organic investments, tuck-ins and share repurchases
Balance Sheet	• Flexible balance sheet with capacity to fund acquisitions and pre-payable with cash flow	• Moderate leverage to support organic investment and long-term equity returns

Our Approach to Balance Sheet and Capital Allocation Now Targeting Sustained Investment Grade Profile

Balance Sheet Management and Capital Allocation

Driving Increased Organic Growth / Taking Share from Competitors

- Organic growth focus – outgrow markets and continue to expand in near adjacencies
- Capitalizing on market position to take market share in volatile environment
- Designated as “Essential Critical Infrastructure” business – recession resistant
- Substantial barriers to entry (“wide moat”) for global businesses – customers rely on LKQ
- No major transactions on the horizon; possible non-organic growth though exclusively “targeted tuck-ins” only using free cash flow

Consistent Focus on Profitable Growth and Cash Flows

- Growing profitable revenue from globally diversified portfolio
- Focus on improving margins; meaningful change over next 24 months, continuous improvement beyond
- Continuous improvements (e.g. 1LKQ Europe incl. Oracle deployment and Shared Services; AI in NA)
- Strong net income to free cash flow conversion since 2H 2018

Capital Allocation to Drive Valuation

- Continue to delever toward investment grade credit profile, primarily through EBITDA Growth
- Greater capital structure discipline and stability
- Moderate capital expenditures
- Share repurchases using excess free cash flow

Conservative Leverage Philosophy

- Target sustained investment grade credit metrics
- Focus on improving trajectory for credit ratings
- Transition to an unsecured capital structure over time to improve financial flexibility

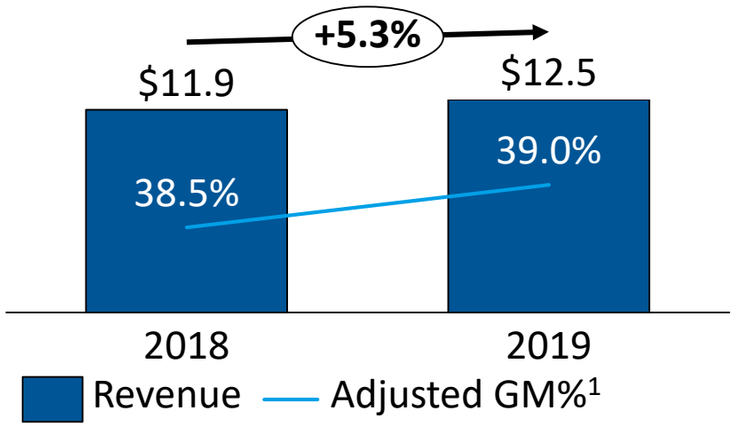
Key Takeaways

- Strong, stable, and market-leading globally diversified business portfolio
- Deemed “Essential Critical Infrastructure” business—recession resistant
- Improving margins and sustainable strong free cash flow
- Disciplined future growth—organic and tuck-in focus
- Targeting investment grade credit profile
- Valuation enhancement by managing financial profile to investment grade

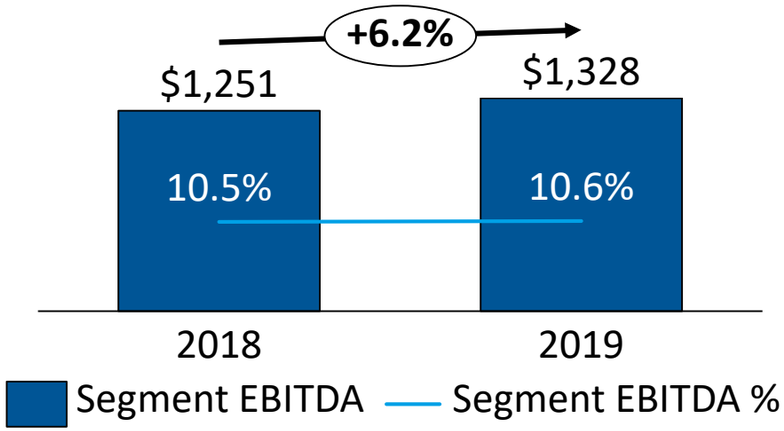
2019 Demonstrates Potential of Operational Focus

A Profitable
Revenue Growth

Revenue
$ in B



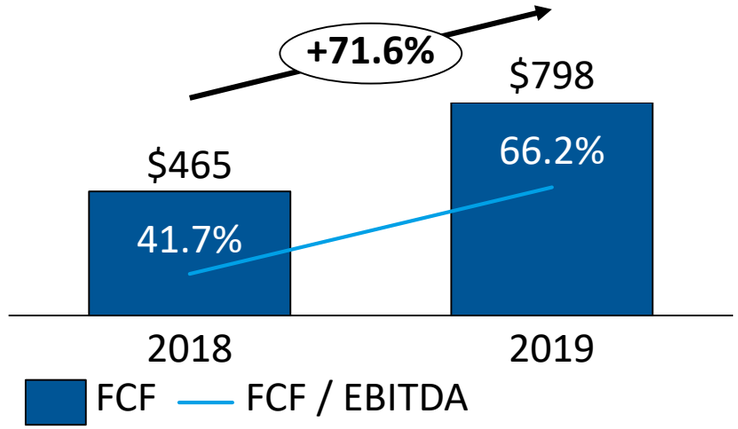
Segment EBITDA[1]
$ in M



B Accretive
Margins

C Strong
Cash Generation

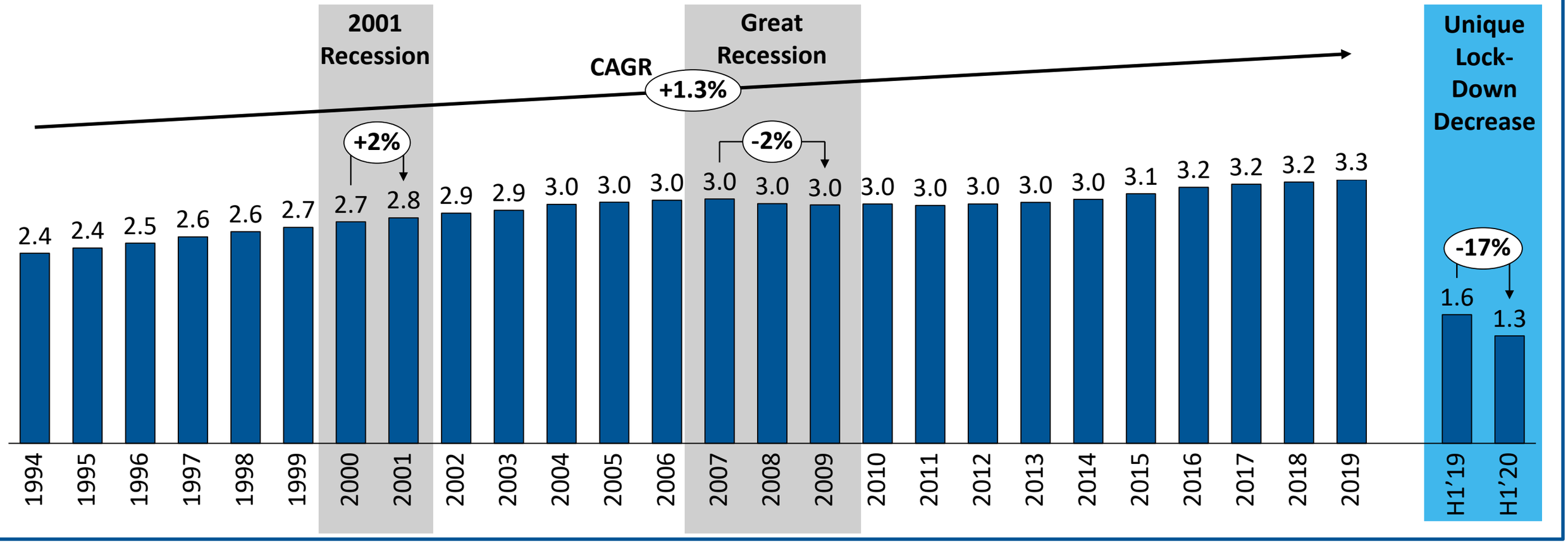
Free Cash Flow[1]
$ in M



1) Represent non-GAAP measures. See the Appendix for reconciliations of non-GAAP measures

LKQ Operates in a Growing and Economically Resilient Industry

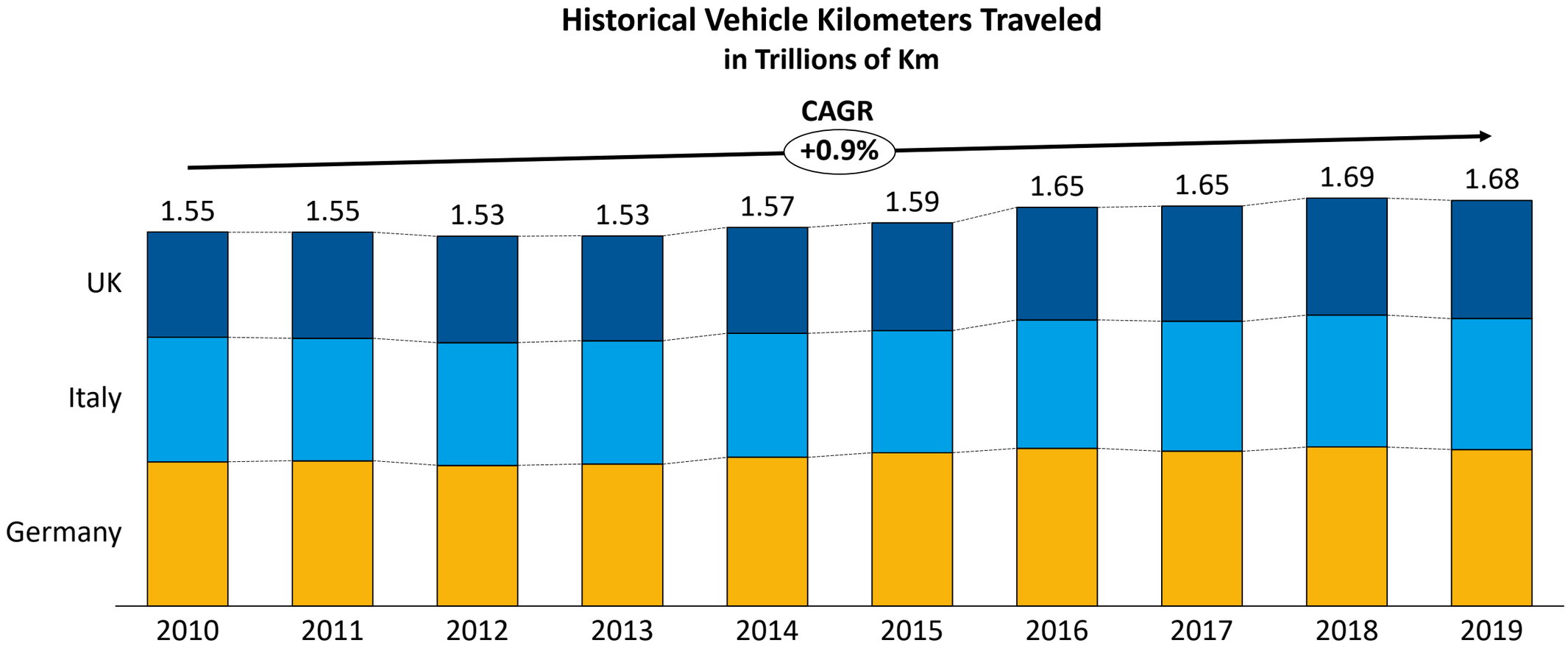
Stable Vehicle Miles Traveled Provide Consistent Demand for Aftermarket Auto Parts (in Trillions of Miles)



Current COVID-19 related stay-in-shelter triggered downturn is a unique and rare shock to underlying VMT driven demand… will recover similar to prior recessions

Source: US Department of Transportation

Total Vehicle Kilometers Traveled in Europe Exhibit Similar Patterns as in the US

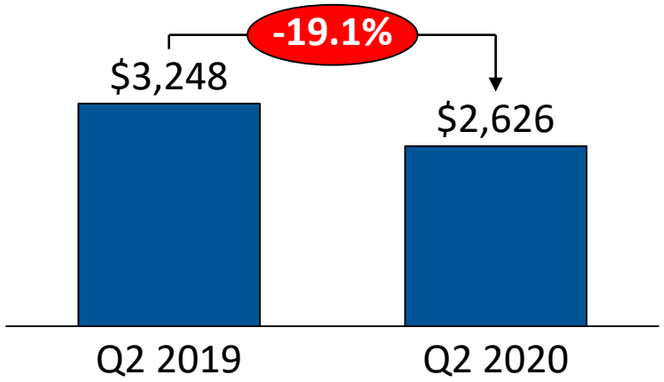


Stable vehicle kilometers traveled and Aging Car Parc provide steady demand for Aftermarket Auto Parts

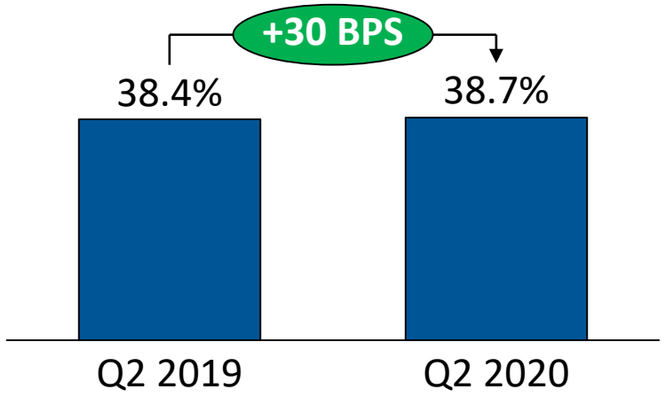
Sources: IHS, GIPA, BMVI

Performance During COVID-19 Reflects Resilience of Business Model and Clear Financial Priorities

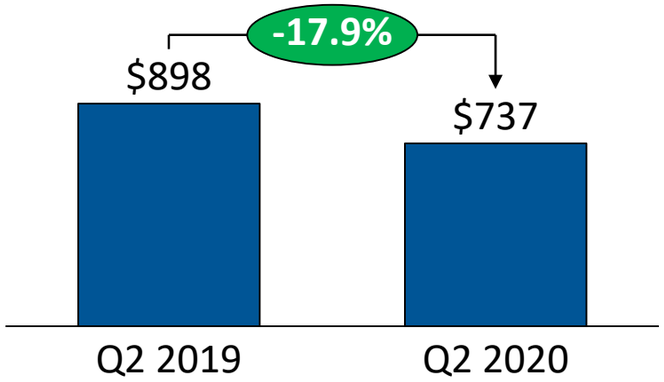
Revenue $ in M



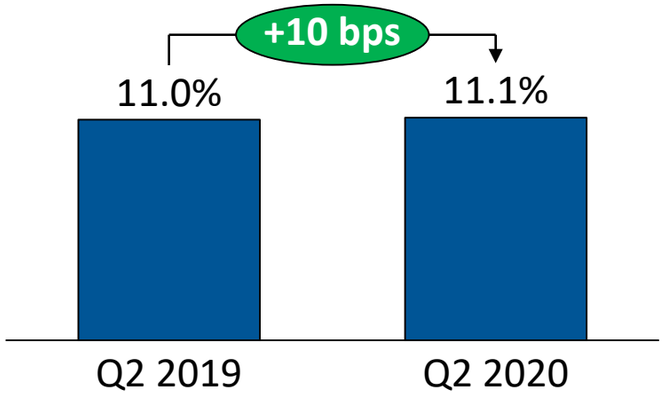
Adjusted Gross Margin[1] in %



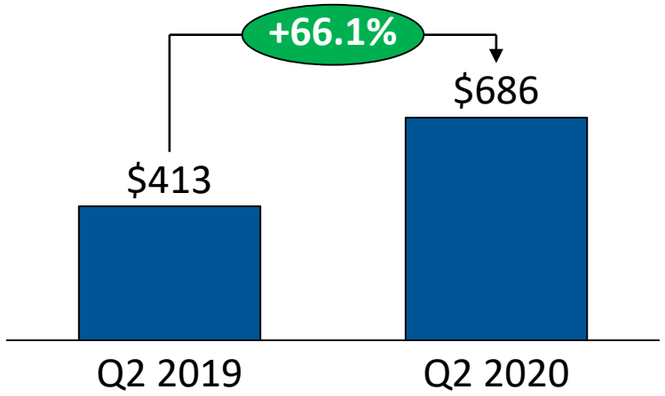
SG&A $ in M



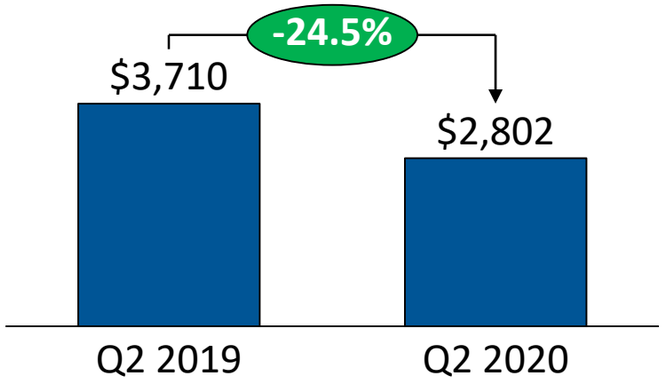
Segment EBITDA[1] in %



Free Cash Flow[1] $ in M



Net Debt[1] $ in M

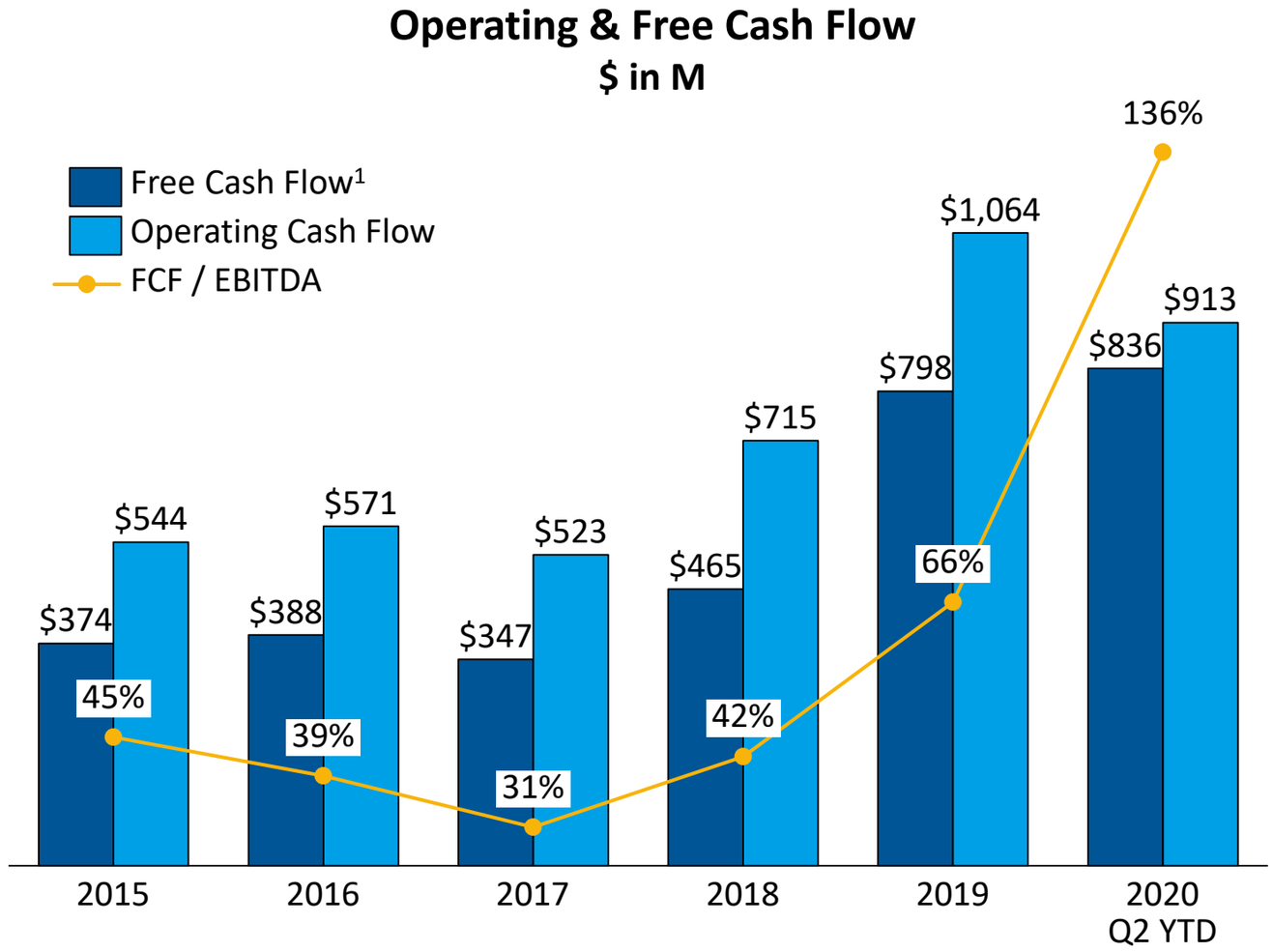


1) Represent non-GAAP measures. See the Appendix for reconciliations of non-GAAP measures

Focus on Free Cash Flow Generation

New Incentives and Operating Initiatives to Drive Free Cash Flow Conversion

- Changed Incentive Program throughout organization starting 2019
- Metrics deployed across all key Trade Working Capital components; consistently & rigorously measured
- Deployed European Cash-Pool in 2019; extracted excess trapped capital
- Improved inventory management with Fill-Rate and ROI focus
- Work with suppliers to match payment terms with broader market convention
- Specific European Vendor Terms focus; expanding Days Payable incl. Vendor Financing Program
- SKU management in Europe to reduce SKU count and complexity

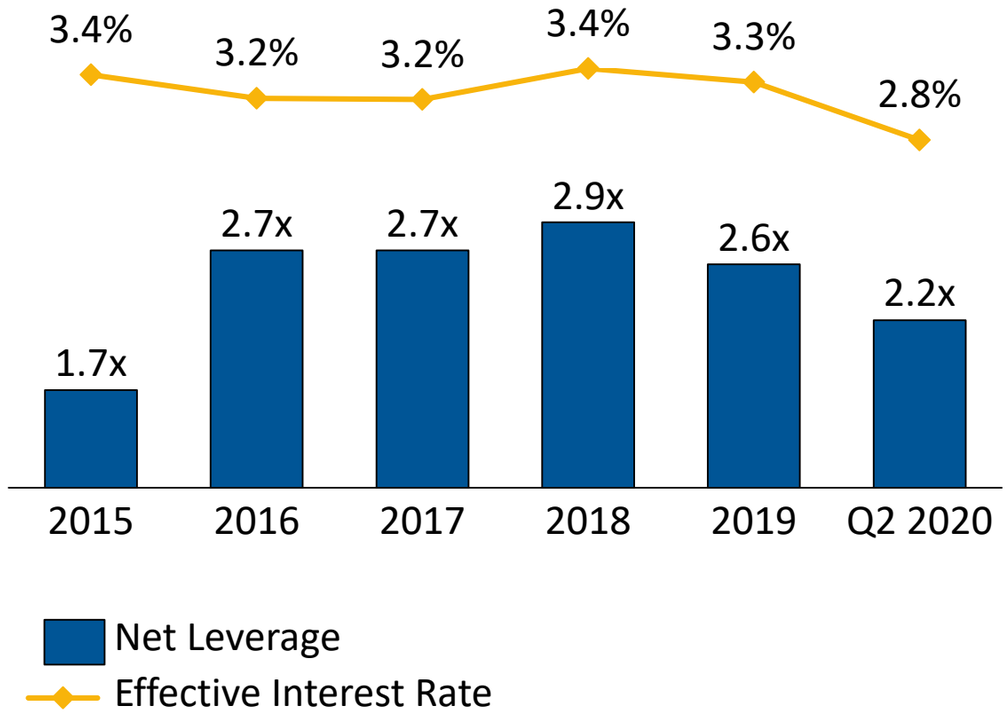


Note: FCF amounts only include FCF generated by continuing operations

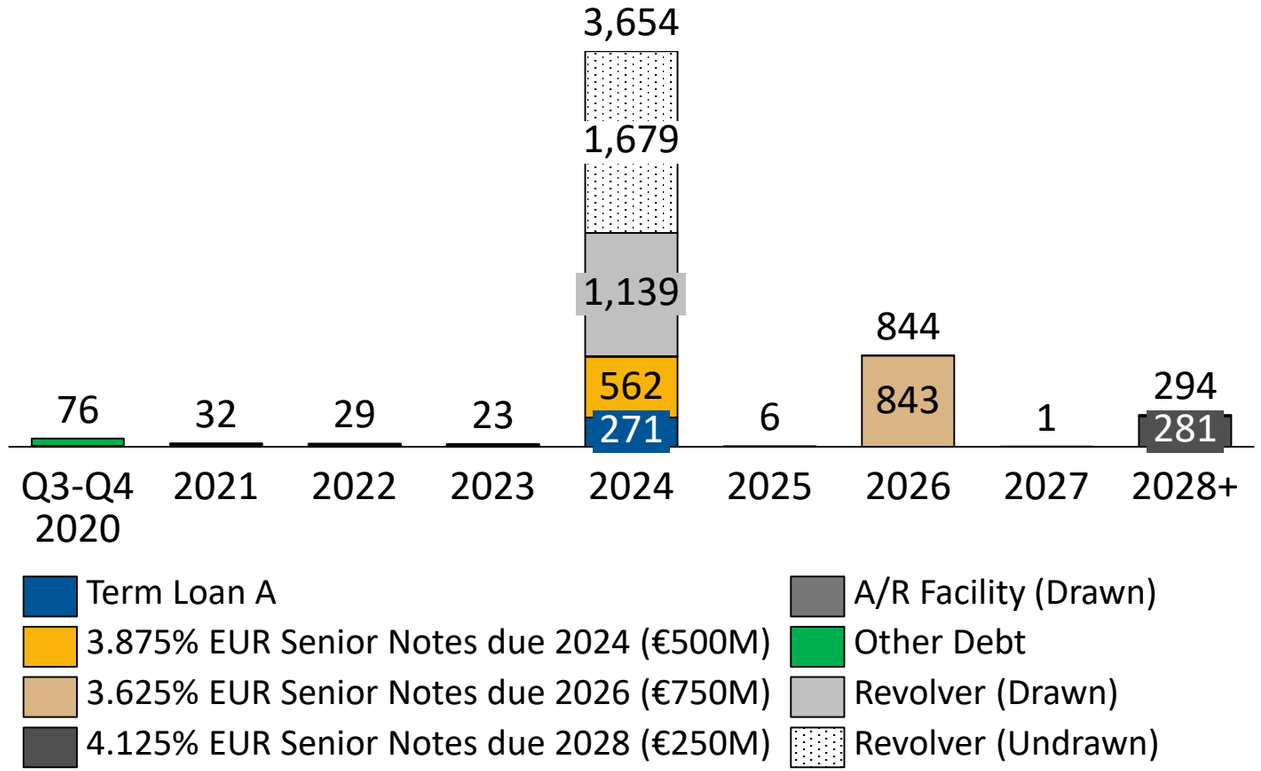
1) Free Cash Flow and EBITDA are non-GAAP measures. See the Appendix for reconciliations of non-GAAP measures

Working Toward Optimal Net Leverage of 2.0x Which Provides Potential for Investment Grade

Historical LKQ Share Net Leverage[1] and Effective Interest Rate[2] in Multiples and %



Debt Maturity Profile[3]



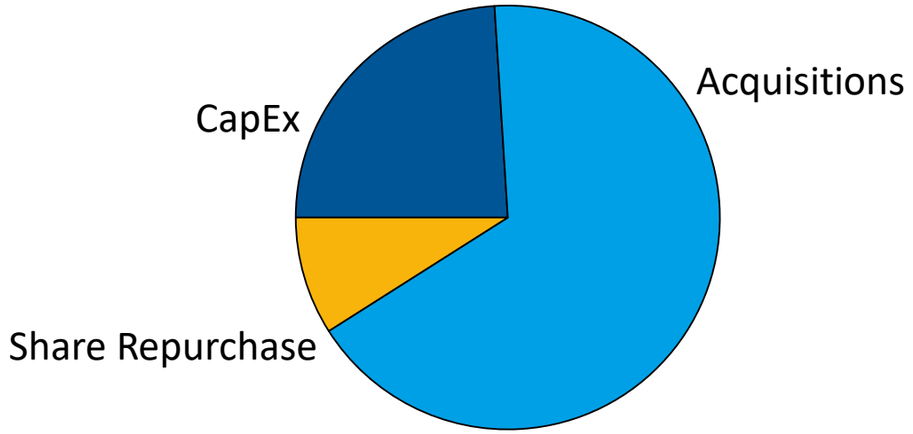
(1) Net leverage per bank covenants is defined as Net Debt/EBITDA. See the definitions of Net Debt and EBITDA in the credit agreement filed with the SEC for further details
(2) Effective interest rate is calculated on a YTD basis
(3) Total debt as of 6/30/20, excluding debt issuance costs. Maturity schedule excludes undrawn A/R securitization of $110M in 2021

Poised to Generate Consistent Free Cash Flow and Allocated to Highest Return Opportunities

2015 to June 2020 - Capital Allocation

$4.4 Billion of Operating Cash Flows

$4.8 Billion of Capital Deployed



Priorities for Next 3 Years

Operating Cash Flow	*Maintain Higher Conversion*	↑
Capital Expenditures	*Similar Level Expected with Focus on High ROIC Projects*	+ / –
Acquisitions	*Focused on High Synergy Tuck-ins with No Large Platforms Expected*	↓
Share Repurchases	*Increase Expected*	↑

Future cash flow will be allocated to highest return opportunities across organic investments, tuck-in acquisitions, and share repurchases

Financial Policy to Enhance Shareholder Value

Focus on Free Cash Flow Generation	• Target organic growth greater than market comps • Achieve 1 LKQ Europe program and NA margin expansion • Convert high levels of EBITDA to Free Cash Flow with a focus on trade working capital efficiencies
Maintain Optimal Leverage	• Targeting investment grade metrics through EBITDA growth and further de-levering • Maintain net leverage around 2.0X Adj. EBITDA • Strong FCF generation will enable significant annual capital deployment
Deploy Capital into Highest Return Opportunities	• **Organic Investments:** Fund high-ROIC projects that contribute to organic growth and margin expansion (e.g. Benelux Distribution Facility) • **Acquisitions:** Focused on tuck-in acquisitions with significant synergies or critical capabilities. Do not expect large M&A. Returns tested against share repurchases • **Share Repurchases:** Acquire LKQ shares when available below long-term intrinsic value. Currently believe LKQ's share represent an attractive opportunity to deploy capital.
Maintain Appropriate Liquidity	• Maintain liquidity to enable LKQ to invest through a market cycle • Current liquidity of $2.5B as of 6/30/2020 through cash and available revolver capacity. In mid-term, reduce available liquidity by amending Credit Facility and partial terming out • No significant debt maturities till 2024

LKQ's Investment Thesis

Strong Market Position	Organic Growth & Operational Excellence	Focus on Cash Flow and Capital Allocation
• Market leadership in all three reporting segments: – North America – Europe – Specialty • Unparalleled customer & geographic diversity • Industry leading service	• Ability to grow revenue organically faster than market growth • Execute near term operational initiatives with 1LKQ Europe and North America programs • Long-term ability to drive continuous improvement in operations and margins	• Convert EBITDA to FCF by maintaining rigorous working capital discipline • Diversity of reporting segments provides opportunity for further growth and driving operating leverage • Excess free cash flow allocated to enhance per share value
Stable business through economic cycles	**Organic revenue growth faster than market & grow EBITDA faster than revenue**	**Allocating capital to grow EPS faster than EBITDA**

Driving toward consistent and strong growth in Adj. EPS growth over the long term

Nick Zarcone

Closing Remarks

Consistent Business Model



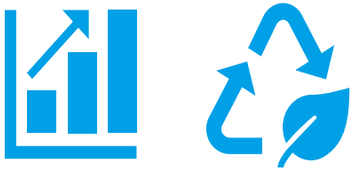
What LKQ Offers Investors

- ✓ Market leading position in almost everything we do
- ✓ The broadest product line amongst automotive parts distributors
  - Mechanical
  - Collision
  - Accessories
- ✓ The broadest geographic coverage amongst automotive parts distributors
  - United States
  - Canada
  - Europe (22 countries – the only pan European distributor)
- ✓ History of delivering organic revenue, EBITDA & Adjusted EPS Growth
- ✓ Environmental leader in the recycling of vehicles and related materials









Organic Growth + Capital Allocation = Earnings Compounder



Appendix - Non-GAAP Financial Measures

Appendix 1 -
Reconciliation of Net Income to EBITDA and Segment EBITDA

(in millions)	Year Ended December 31 (1)					
	2015	2016	2017	2018	2019	TTM Q2 2020
Net income	$423.2	$464.0	$530.2	$483.2	$545.0	$558.6
Subtract:						
Net (loss) income attributable to continuing noncontrolling interest	--	--	(3.5)	3.1	2.8	1.2
Net income attributable to discontinued noncontrolling interest	--	--	--	--	1.0	0.9
Net income attributable to LKQ stockholders	$423.2	$464.0	$533.7	$480.1	$541.3	$556.6
Subtract:						
Net income (loss) from discontinued operations	--	7.9	(6.7)	(4.4)	1.6	0.6
Net income attributable to discontinued noncontrolling interest	--	--	--	--	(1.0)	(0.9)
Net income from continuing operations attributable to LKQ stockholders	$423.2	$456.1	$540.5	$484.5	$540.6	$556.9
Add:						
Depreciation and amortization	122.1	191.4	219.5	274.2	290.8	280.2
Depreciation and amortization - cost of goods sold	6.1	6.9	10.7	19.9	21.3	19.9
Depreciation and amortization - restructuring expenses (2)	--	--	--	--	2.3	6.3
Interest expense, net of interest income	57.3	87.7	100.6	144.5	136.3	115.8
Loss (gain) on debt extinguishment	--	26.7	0.5	1.4	(0.1)	12.6
Provision for income taxes	219.7	220.6	235.6	191.4	215.3	210.2
EBITDA	$828.5	$989.4	$1,107.3	$1,115.9	$1,206.5	$1,201.9
Subtract:						
Equity in (losses) earnings of unconsolidated subsidiaries	(6.1)	(0.6)	5.9	(64.5)	(32.3)	3.6
Gain due to resolution of acquisition related matter	--	--	--	--	12.1	12.1
Gains on bargain purchases and previously held equity interests	--	8.2	3.9	2.4	1.2	1.2
Fair value loss on Mekonomen derivative instrument	--	--	--	(5.2)	--	--
Gains on foreign exchange contracts – acquisition related	--	18.3	--	--	--	--
Add:						
Restructuring and acquisition related expenses (2)	19.5	37.8	19.7	32.4	34.7	50.9
Restructuring expenses - cost of goods sold	--	--	--	--	20.7	26.3
Inventory step-up adjustment – acquisition related	--	3.6	3.6	0.4	--	--
Loss on disposal of businesses and impairment of net assets held for sale and goodwill	--	--	--	35.7	47.1	0.8
Change in fair value of contingent consideration liabilities	0.5	0.2	(4.2)	(0.2)	0.4	(0.3)
Segment EBITDA	$854.5	$1,005.0	$1,116.6	$1,251.4	$1,328.4	$1,262.9
Net income from continuing operations attributable to LKQ stockholders as a percentage of revenue	5.9%	5.3%	5.6%	4.1%	4.3%	4.7%
EBITDA as a percentage of revenue	11.5%	11.5%	11.4%	9.4%	9.6%	10.2%
Segment EBITDA as a percentage of revenue	11.9%	11.7%	11.5%	10.5%	10.6%	10.7%

(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 1 -
Reconciliation of Net Income to EBITDA and Segment EBITDA

(in millions)	Three Months Ended June 30[1] 2020	2019
Net income	$118.8	$152.1
Subtract:		
Net (loss) income attributable to continuing noncontrolling interest	(0.0)	1.4
Net income attributable to discontinued noncontrolling interest	—	0.2
Net income attributable to LKQ stockholders	$118.8	$150.6
Subtract:		
Net income from discontinued operations	0.3	0.4
Net income attributable to discontinued noncontrolling interest	—	(0.2)
Net income from continuing operations attributable to LKQ stockholders	$118.5	$150.4
Add:		
Depreciation and amortization	65.7	70.8
Depreciation and amortization - cost of goods sold	4.0	5.3
Depreciation and amortization - restructuring expenses [2]	3.2	—
Interest expense, net of interest income	25.6	35.9
Provision for income taxes	41.9	55.8
EBITDA	$258.9	$318.2
Subtract:		
Equity in (losses) earnings of unconsolidated subsidiaries	(2.6)	1.6
Add:		
Restructuring and acquisition related expenses [2]	21.8	8.4
Restructuring expenses - cost of goods sold	5.7	—
Loss on disposal of businesses and impairment of net assets held for sale	2.5	33.5
Change in fair value of contingent consideration liabilities	(0.3)	0.2
Segment EBITDA	$291.2	$358.7
Net income from continuing operations attributable to LKQ stockholders as a percentage of revenue	4.5%	4.6%
EBITDA as a percentage of revenue	9.9%	9.8%
Segment EBITDA as a percentage of revenue	11.1%	11.0%

(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 1 -
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, 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. We believe 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 2 - Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow

(in millions)	Three Months Ended June 30[1] 2020	2019	Six Months Ended June 30[1] 2020	2019
Net cash provided by operating activities	$718	$461	$913	$638
Less: purchases of property, plant and equipment	33	48	77	101
Free cash flow	$686	$413	$836	$537

(in millions)	Year Ended December 31[1] 2015	2016	2017	2018	2019
Net cash provided by operating activities	$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
Purchases of property, plant and equipment	170	207	179	250	266
Less: Purchases of property, plant and equipment - discontinued operations	—	24	4	—	—
Continuing purchases of property, plant and equipment	$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. We believe 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 3 - Reconciliation of Gross Margin to Adjusted Gross Margin

Consolidated Adjusted Gross Margin	Three Months Ended[1]	
(in millions)	**June 30, 2020**	**June 30, 2019**
Gross margin	$1,011	$1,247
Add: Restructuring expenses - cost of goods sold	6	—
Adjusted gross margin	$1,017	$1,247
Gross margin %	38.5%	38.4%
Adjusted gross margin %	38.7%	38.4%

Consolidated Adjusted Gross Margin	Year Ended December 31[1]	
(in millions)	**2019**	**2018**
Gross margin	$4,852	$4,575
Add: Restructuring expenses - cost of goods sold	21	—
Adjusted gross margin	$4,873	$4,575
Gross margin %	38.8%	38.5%
Adjusted gross margin %	39.0%	38.5%

Europe Adjusted Gross Margin	Three Months Ended[1]	
(in millions)	**June 30, 2020**	**June 30, 2019**
Gross margin	$445	$545
Add: Restructuring expenses - cost of goods sold	3	—
Adjusted gross margin	$448	$545
Gross margin %	36.8%	36.0%
Adjusted gross margin %	37.0%	36.0%

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

Appendix 3 - Reconciliation of Gross Margin to Adjusted Gross Margin

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.

Appendix 4 - Reconciliation of Total Debt to Net Debt

(in millions)	June 30, 2020 [1]	June 30, 2019 [1]
Current portion of long-term obligations	$93	$133
Long-term obligations, excluding current portion	3,158	3,920
Total debt, net of debt issuance costs	3,251	4,053
Add: Debt issuance costs	28	34
Total debt	3,278	4,086
Less: Cash and cash equivalents	476	376
Net debt	$2,802	$3,710

We have presented net debt solely as a supplemental disclosure that offers investors, securities analysts and other interested parties useful information to evaluate our liquidity and financial position. We calculate net debt as total debt less cash and cash equivalents. We believe net debt provides insight into our liquidity and provides useful information to management and investors concerning our financial position. We believe net debt is used by investors, securities analysts and other interested parties in evaluating the liquidity and financial position of other companies, many of which present net debt when reporting their results. Net debt should not be construed as an alternative to total debt, as determined in accordance with accounting principles generally accepted in the United States. In addition, not all companies that report net debt information calculate net debt 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.