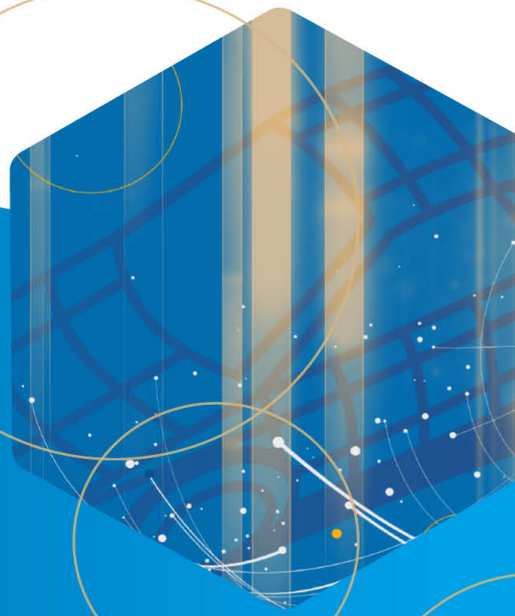




LKQ Corporation

Third Quarter 2020 Earnings Call

October 29, 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.

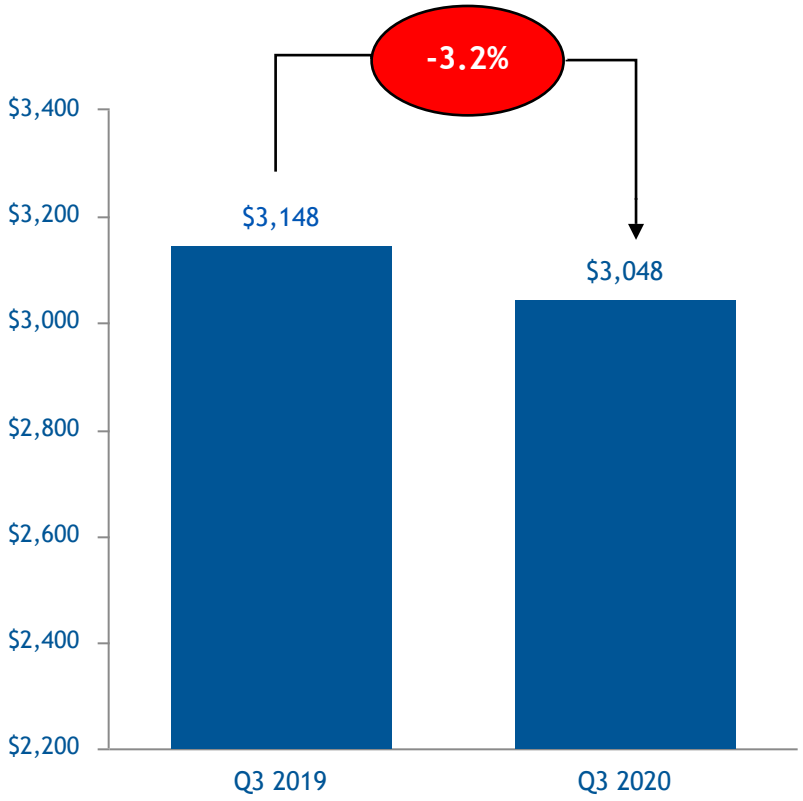
Q3 2020 Highlights

- COVID-19 Pandemic Impact on Operations
  - Revenue recovery continued in Q3 as mobility restrictions and resulting impacts lessened sequentially, but improvement leveled off by quarter end
  - Revenue impact through September 2020 has not been as significant as initially expected when first quarter results were announced
  - Continued cost actions and cash management delivering as planned
  - No material disruptions to supply chain, except in the Specialty segment
- Sequential improvement in organic revenue from Q2 to Q3
  - Q3 organic parts and services revenue down 4.5% vs. prior year, trend improving from a decrease of 16.8% in Q2
- Continued cost reduction actions resulting in savings of nearly $90 million (down 10%) in Q3 compared to Q1 2020
- All three segments generated year over year improvements in Segment EBITDA margin
  - North America reported its highest Segment EBITDA margin of 17.6% in LKQ's history
  - Europe on track to meet or exceed its second half Segment EBITDA margin projection from Investor Day
- Q3 2020 Diluted EPS from continuing operations of $0.64 vs. $0.49 (30.6% increase); Q3 2020 Adjusted Diluted EPS[(1)] of $0.75 vs. $0.61 (23.0% increase)
- Strong operating cash conversion; generated $222 million in operating cash flows in Q3 2020: free cash flow[(2)] of $189 million; $1,135 million in operating cash flows YTD 2020 (up 18%): free cash flow[(2)] of $1,025 million (up 28%)
- Paid down $256 million in debt in Q3 and $1,038 million YTD; net leverage declined to 2.0x EBITDA[(3)] as of September 30
- Net debt[(4)] of $2.7 billion is the lowest figure since Q2 2017

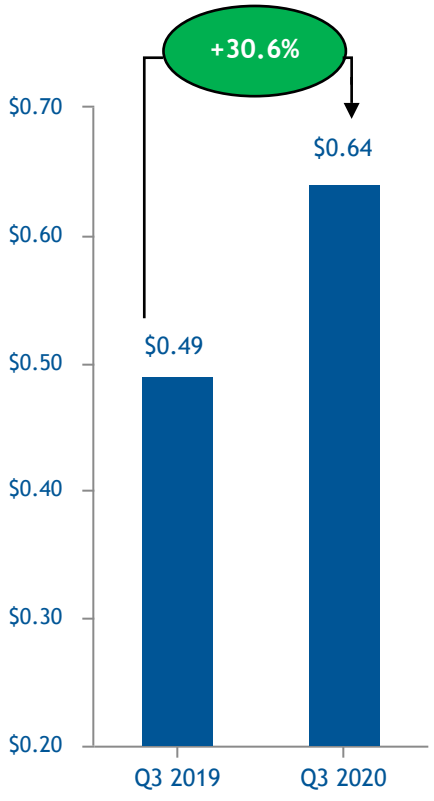
(1) Adjusted Diluted EPS is a non-GAAP measure. Refer to Appendix 4 for Adjusted Diluted EPS reconciliation
(2) Free Cash Flow is a non-GAAP measure. Refer to Appendix 6 for Free Cash Flow reconciliation
(3) Net leverage per bank covenants is defined as Net Debt/EBITDA. See the definitions of Net Debt and EBITDA in the credit agreement filed with the SEC for further details
(4) Net debt is a non-GAAP financial measure. Refer to Appendix 7 for Net Debt reconciliation

Consolidated Results - Continuing Operations

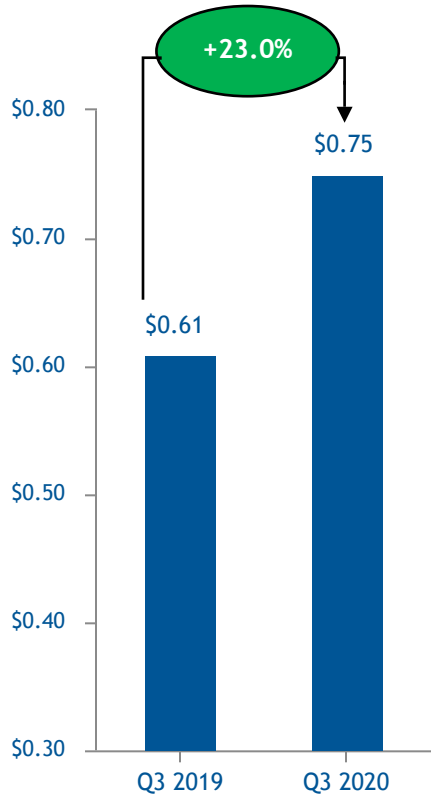
Q3 2020 Revenue[1]



Q3 2020 EPS[2]



Diluted EPS

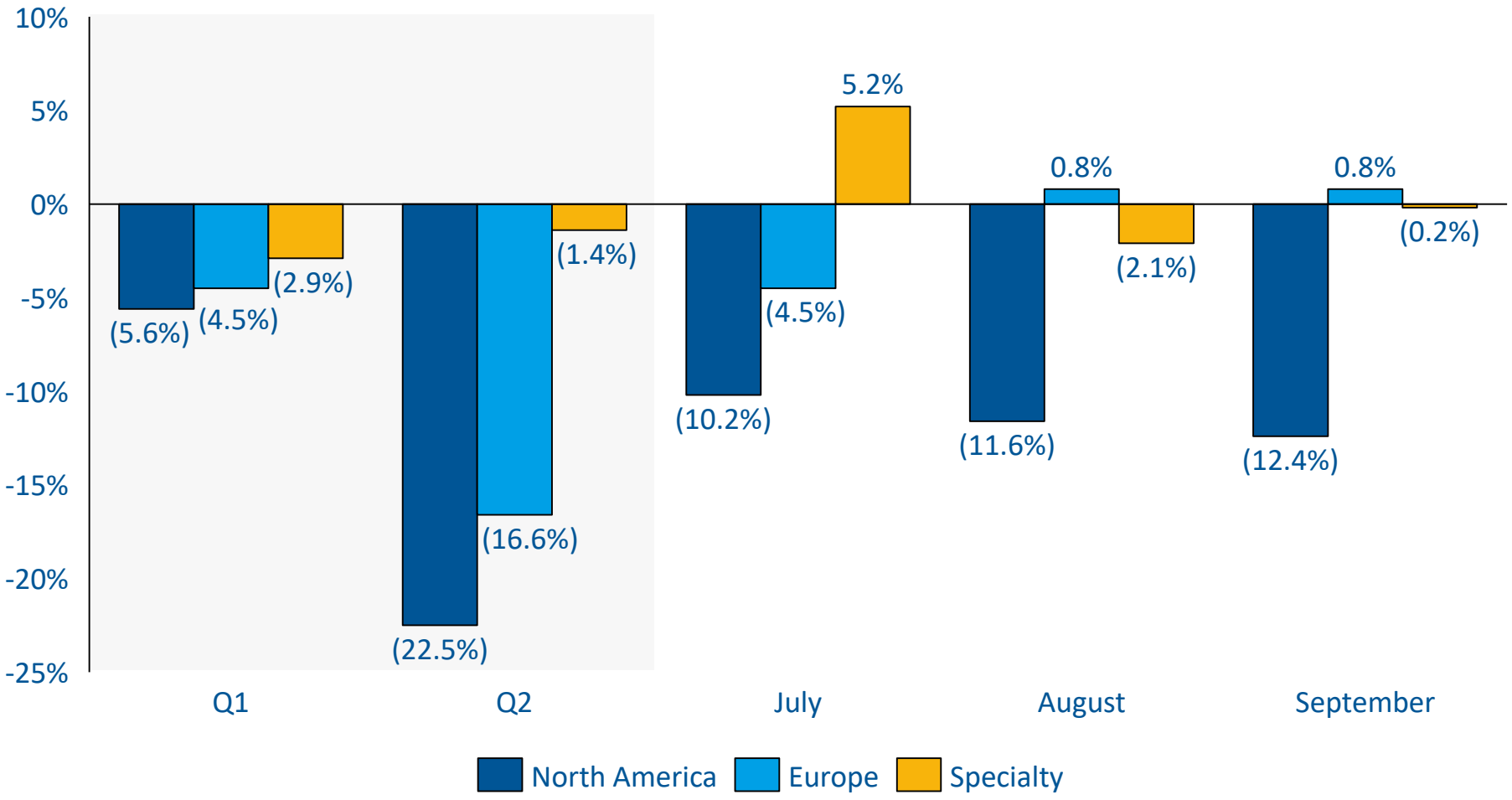


Adjusted Diluted EPS[3]

(1) Revenue in millions
(2) Net income and earnings per share figures refer to net income from continuing operations attributable to LKQ stockholders
(3) Adjusted Diluted EPS is a non-GAAP measure. Refer to Appendix 4 for Adjusted Diluted EPS reconciliation

Demand Impact

Organic Parts & Services Revenue Change (Per Day)

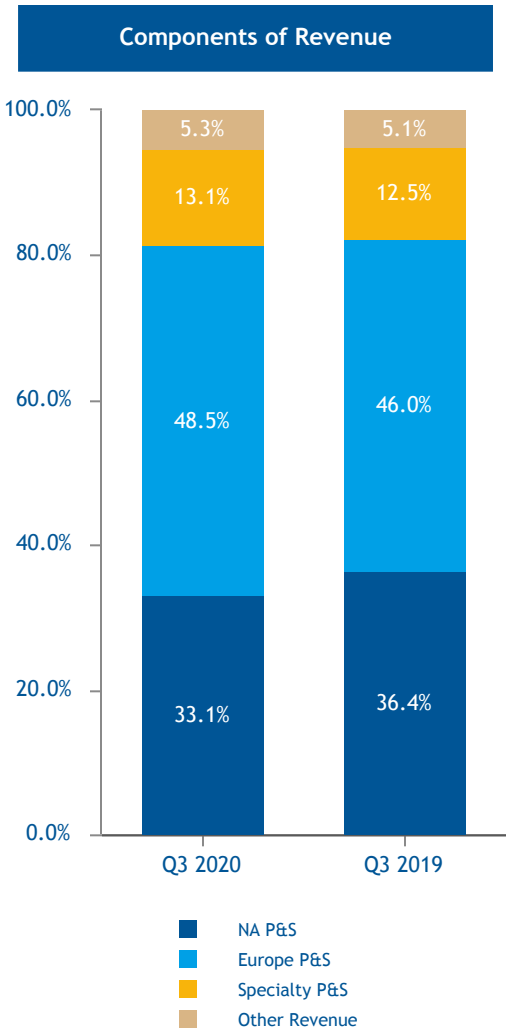


Revenue recovery has leveled off since late June

Q3 2020 Revenue

Revenue Changes by Source:	Organic	Acquisition and Divestiture	Foreign Exchange	Total[1]
North America	(11.3)%	(0.7)%	(0.1)%	(12.1)%
Europe	(0.7)%	(1.5)%	4.5%	2.3%
Specialty	1.1%	0.3%	(0.1)%	1.4%
Parts and Services	(4.5)%	(1.0)%	2.1%	(3.4)%
Other Revenue	(0.1)%	—%	0.2%	0.1%
Total	(4.3)%	(0.9)%	2.0%	(3.2)%

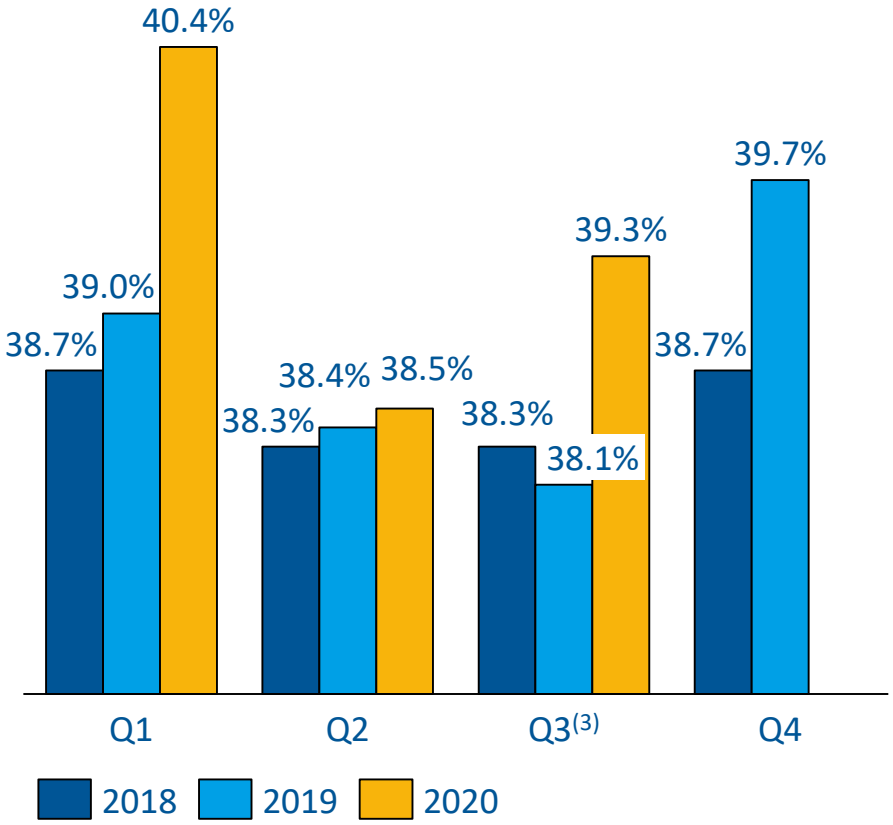
- Organic revenue for parts and services declined by 4.5%, largely due to the COVID-19 pandemic
- North America organic revenue for parts and services declined by 11.3%; collision and auto liability claims were down 24.4%[2]; outperformance of claims trend attributable to share gains, mechanical part sales and self service parts and admissions
- Europe organic revenue for parts and services declined by 0.7%; not all regions were impacted by the pandemic to the same degree, creating a different growth profile for each of our European businesses - the U.K., the Netherlands and Germany recovered at a faster rate, with Eastern Europe and Italy recovery lagging behind
- Favorable F/X impact on European parts and services revenue of $64 million; European constant currency parts and services revenue declined 2.2%[3]
- Specialty organic revenue for parts and services increased by 1.1%; relative strength in a down economy due to solid demand for recreational vehicle products and from drop shipment customers
- Other revenue remained relatively flat, as lower volumes and lower scrap steel prices were offset by higher precious metals prices compared to the prior year.



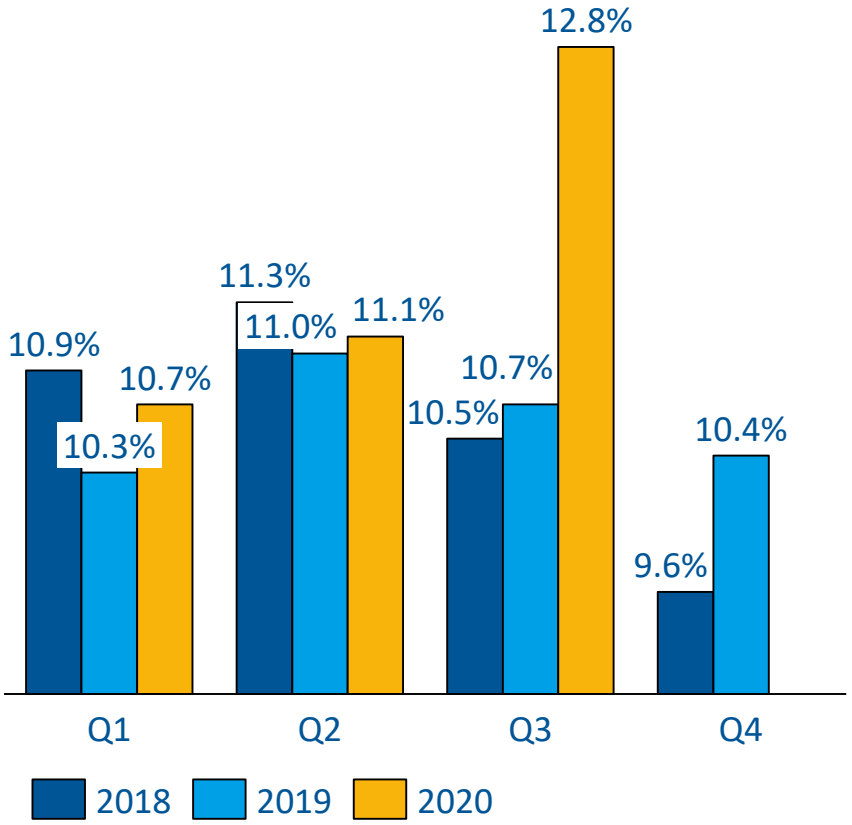
(1) The sum of the individual revenue change components may not equal the total percentage due to rounding
(2) Per CCC Information Services, Inc. 2020 Third Quarter Industry Update
(3) Constant currency is a non-GAAP financial measure. Refer to Appendix 1 for constant currency reconciliation

Gross Margin and Segment EBITDA Trends

Gross Margin[2]

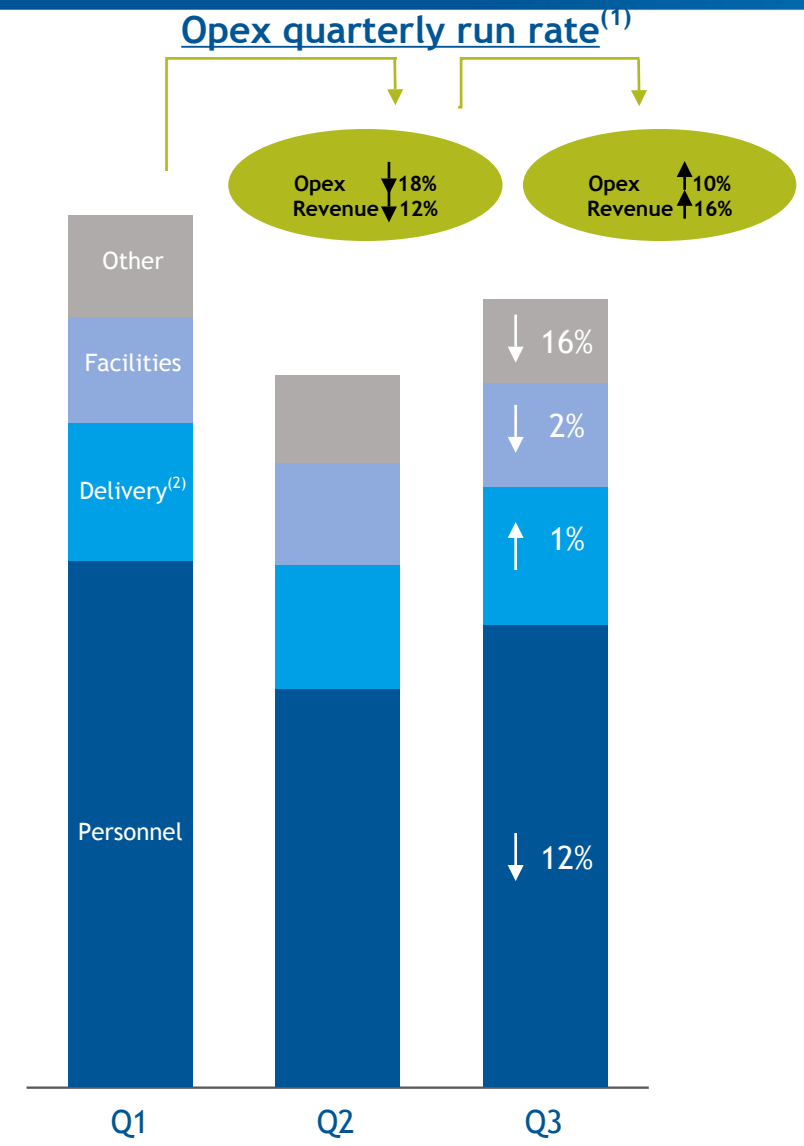


Segment EBITDA[1] [2]



(1) Segment EBITDA is a non-GAAP measure. Refer to Appendix 3 for Segment EBITDA reconciliation
(2) Statistics are as a percentage of revenue
(3) Q3 2019 Adjusted Gross Margin was 38.7% . Adjusted Gross Margin is a non-GAAP measure. Refer to appendix 6 for reconciliation of Gross Margin to Adjusted Gross Margin

Cost Structure Actions



(1) Percentage changes reflect comparison against Q1 2020 figures
(2) Delivery Costs include freight, vehicle & fuel

Key cost reductions

- In the third quarter brought back operating expenses as revenue activity improved, though costs remain at a lower level than pre-pandemic in Q1 owing to permanent cost reductions
- **Personnel costs down 12%**
  - Headcount actions totaling ~5K FTEs include furlough, RIFs, decreased hours, reduction of overtime, temp workers and hiring freeze; leveraging European government programs
  - Salary reduction of 10% - 20% effective during Q2 for employees compensated above certain thresholds and delayed merit increase
    - Salary trim and merit reinstated in Q3
  - Additional personnel savings reflected in COGS
- **Delivery costs up 1%**
  - Optimization in number of deliveries & routes across each segment and lower vehicle expenses and fuel spend, offset by mix-driven increase in third party freight cost
- **Facilities costs down 2%**
  - Lower utilities expense; branch closure benefits will be largely prospective owing to restructuring undertaken
- **Other costs down 16%**

LKQ Corporation

Financial Results

Operating Results - Continuing Operations

($ in millions, except per share data)	Third Quarter 2020	2019	Change
Revenue	$3,048	$3,148	(3.2)%
Gross Margin	1,199	1,200	(0.1)%
Operating Income	296	231	27.9%
Pre-tax Income	268	205	30.7%
Net income from continuing operations attributable to LKQ stockholders	193	152	27.4%
Segment EBITDA[(1)]	389	336	15.7%
Segment EBITDA Margin[(1)]	12.8%	10.7%	2.1%
Diluted EPS from continuing operations attributable to LKQ stockholders:			
Reported	$0.64	$0.49	30.6%
Adjusted[(2)]	$0.75	$0.61	23.0%

- Effective income tax rate for the three months ended September 30, 2020 was 29.3%, compared to 28.1% for the three months ended September 30, 2019

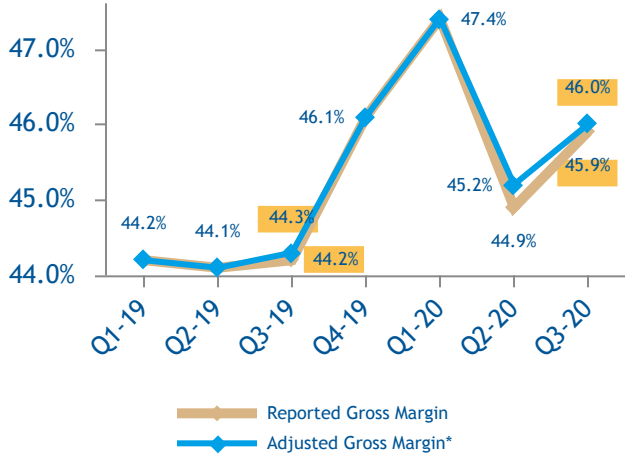
(1) Segment EBITDA is a non-GAAP measure. Refer to Appendix 3 for Segment EBITDA reconciliation
(2) Adjusted Diluted EPS is a non-GAAP measure. Refer to Appendix 4 for Adjusted Diluted EPS reconciliation

North America - Q3 2020 Results

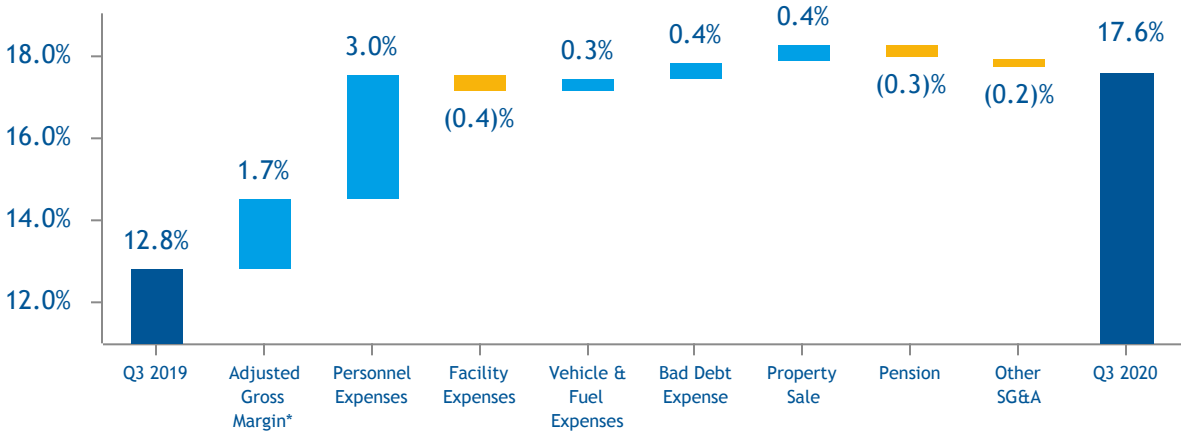
($ in millions)	2020	2019	Change F/(U)	% of Revenue 2020	% of Revenue 2019
Total Revenue	$1,164	$1,302	(10.6)%		
Gross Margin	$534	$576	(7.2)%	45.9%	44.2%
Adjusted Gross Margin*	$535	$576	(7.1)%	46.0%	44.3%
Operating Expenses	$332	$417	20.4%	28.5%	32.0%
Other Income, net	$0	$5			
Segment EBITDA[(1)]	$205	$166	23.2%	17.6%	12.8%

(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.

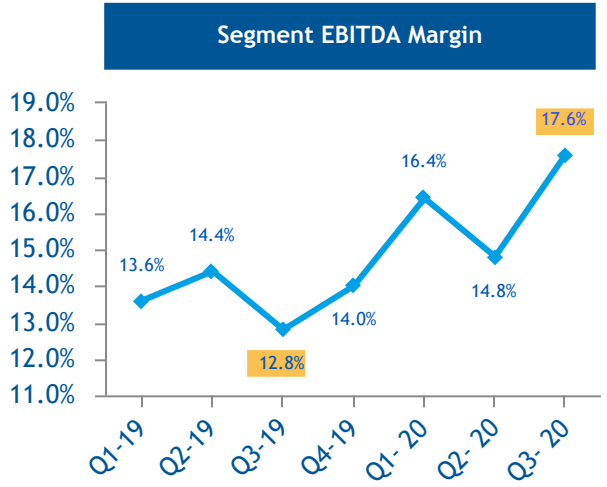
Gross Margin



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

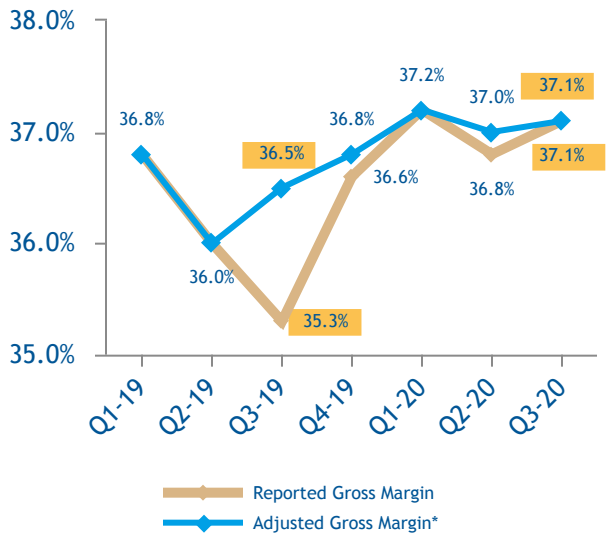
Europe - Q3 2020 Results

($ in millions)	2020	2019	Change F/(U)	% of Revenue 2020	% of Revenue 2019
Total Revenue	$1,484	$1,451	2.2%		
Gross Margin	$550	$513	7.3%	37.1%	35.3%
Adjusted Gross Margin*	$550	$530	3.8%	37.1%	36.5%
Operating Expenses	$415	$409	(1.6)%	28.0%	28.2%
Other (Expense) Income, net	$(3)	$1			
Segment EBITDA[(1)]	$136	$125	9.2%	9.2%	8.6%
Transformation Expenses	$5	$3			
Segment EBITDA[(1)] excluding Transformation Expenses[(2)]	$141	$127	10.6%	9.5%	8.8%

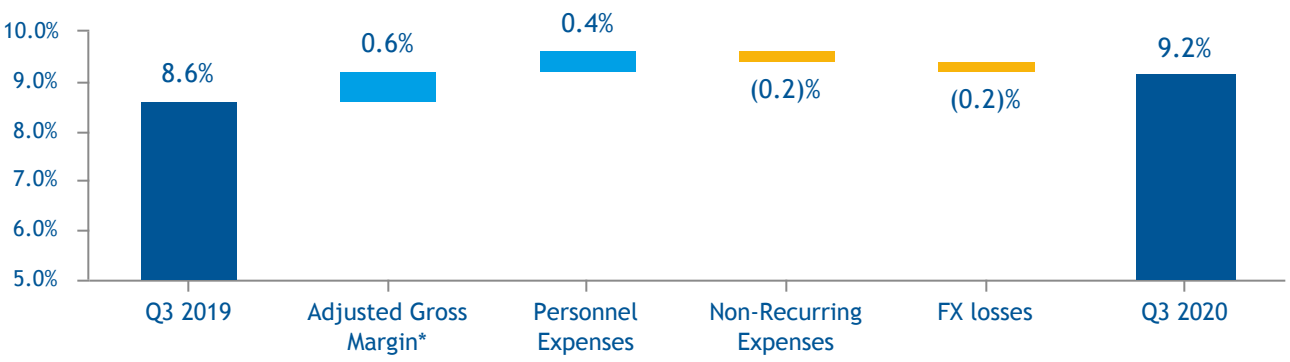
(1) Segment EBITDA for each respective segment is a GAAP measure, while total Segment EBITDA is a non-GAAP measure. Refer to Appendix 3 for total Segment EBITDA reconciliation and Appendix 2 for the breakout of Segment EBITDA for each respective segment.

(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.

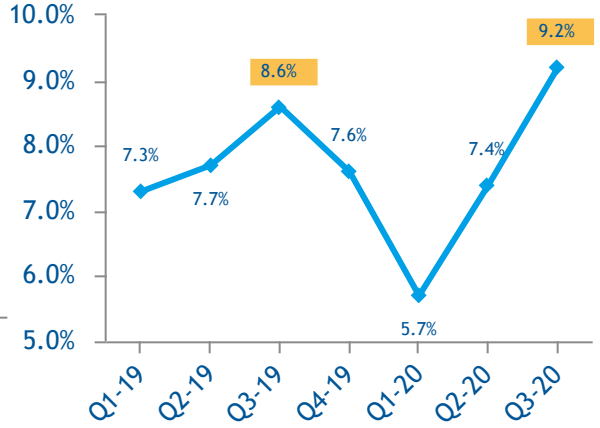
Gross Margin



Europe Segment EBITDA Margin Bridge



Segment EBITDA Margin



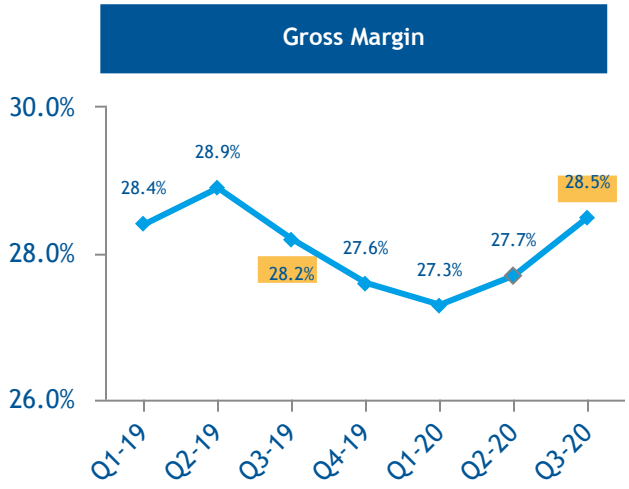
Note: In the table and Segment EBITDA Margin Bridge above, the sum of the dollars and individual percentages may not equal the total due to rounding

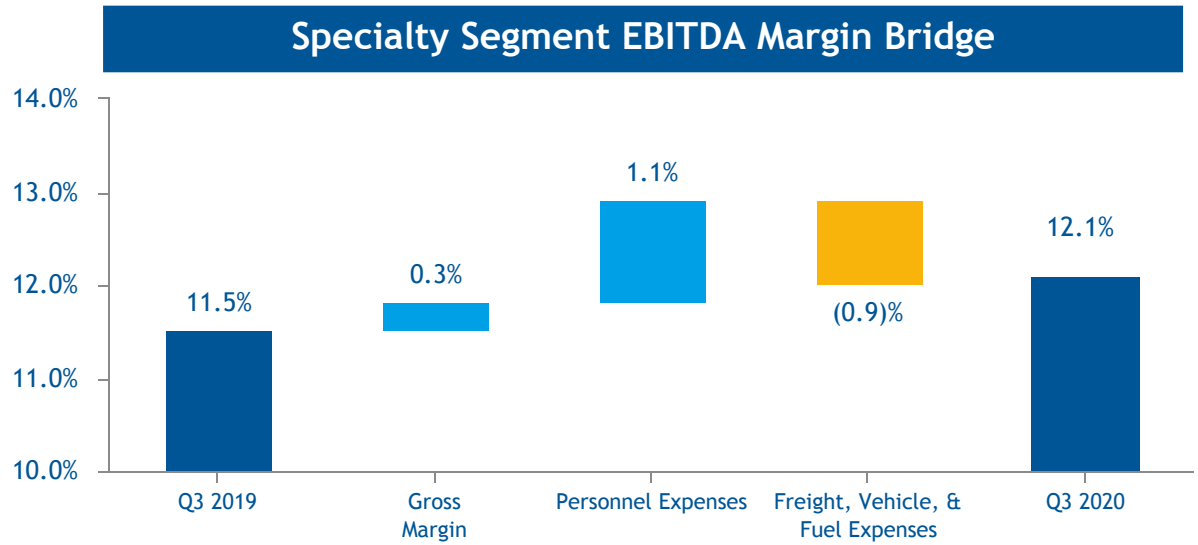
*Adjusted Gross Margin is a non-GAAP measure. Refer to Appendix 6 for Reconciliation of Gross Margin to Adjusted Gross Margin. Reported Gross Margin % increase of 1.8% was partially offset by 1.2% of COGS related restructuring expenses which are excluded from the bridge and Segment EBITDA Margin chart above

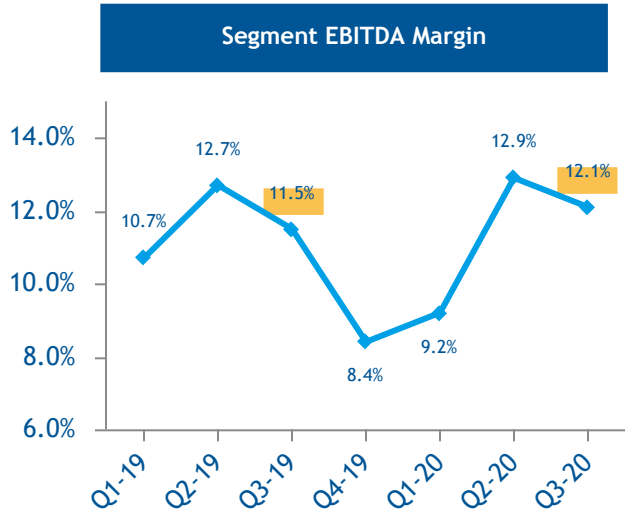
Specialty - Q3 2020 Results

($ in millions)	2020	2019	Change F/(U)	% of Revenue 2020	% of Revenue 2019
Total Revenue	$400	$395	1.3%		
Gross Margin	$114	$111	2.4%	28.5%	28.2%
Operating Expenses	$67	$67	(0.0)%	16.7%	16.9%
Segment EBITDA[(1)]	$48	$45	6.3%	12.1%	11.5%

(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.

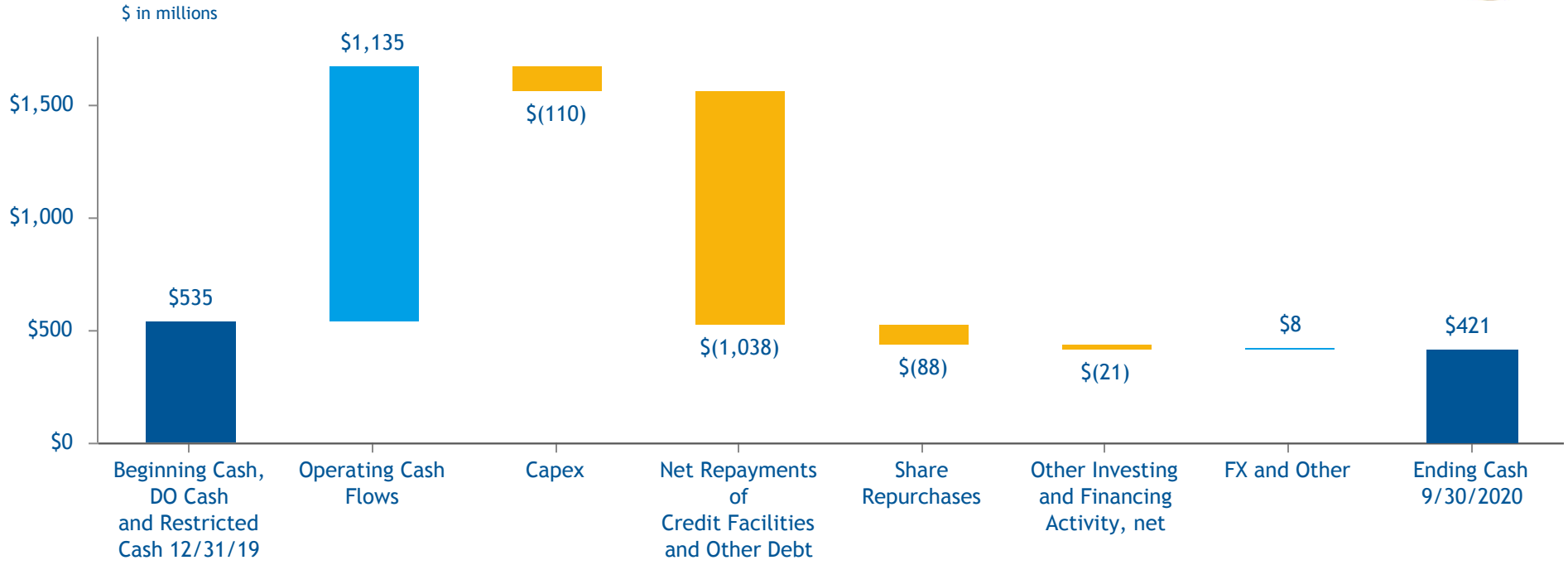






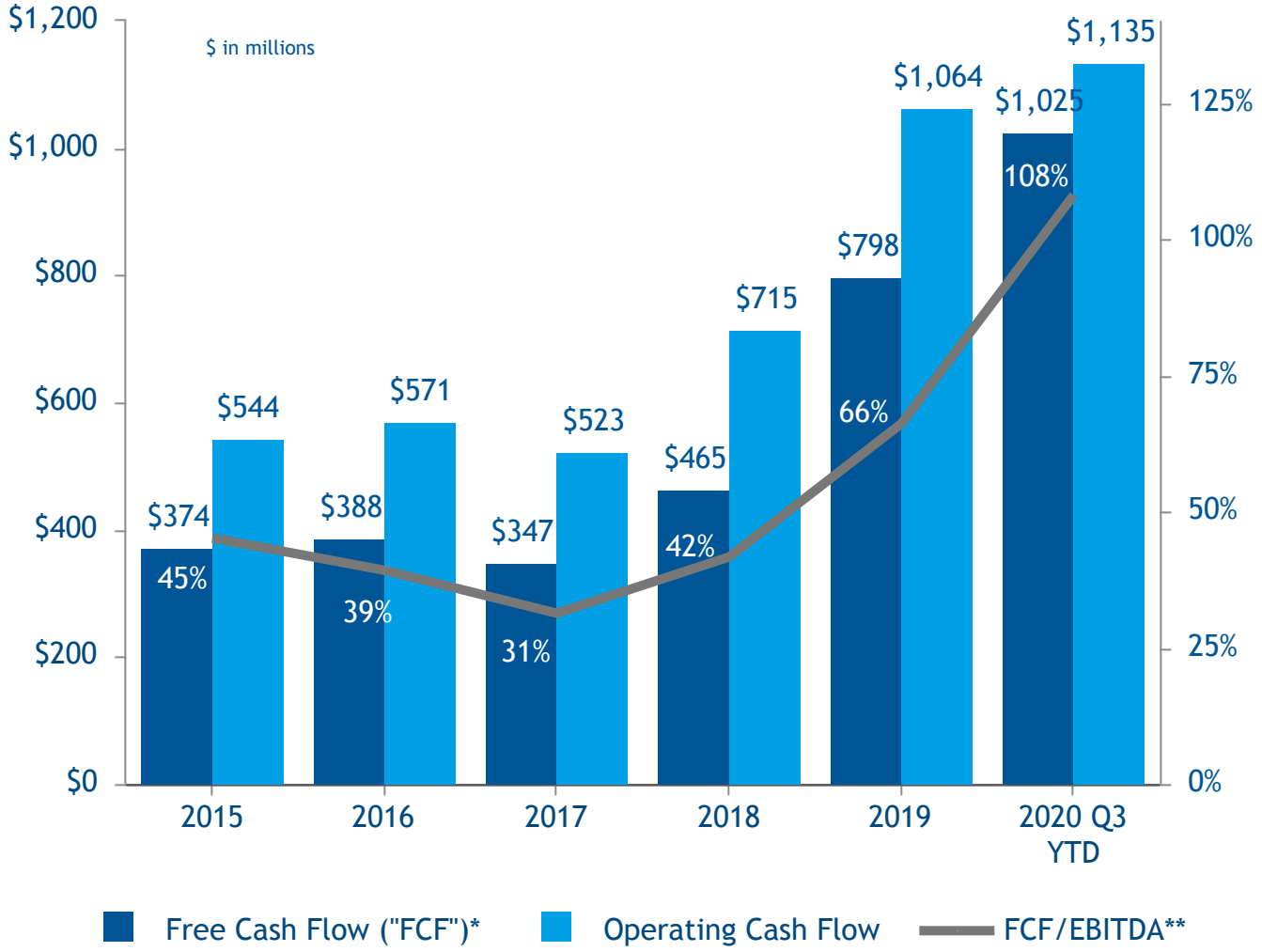
Note: In the table and Segment EBITDA Margin Bridge above, the sum of the individual percentages may not equal the total due to rounding

2020 YTD Capital Allocation



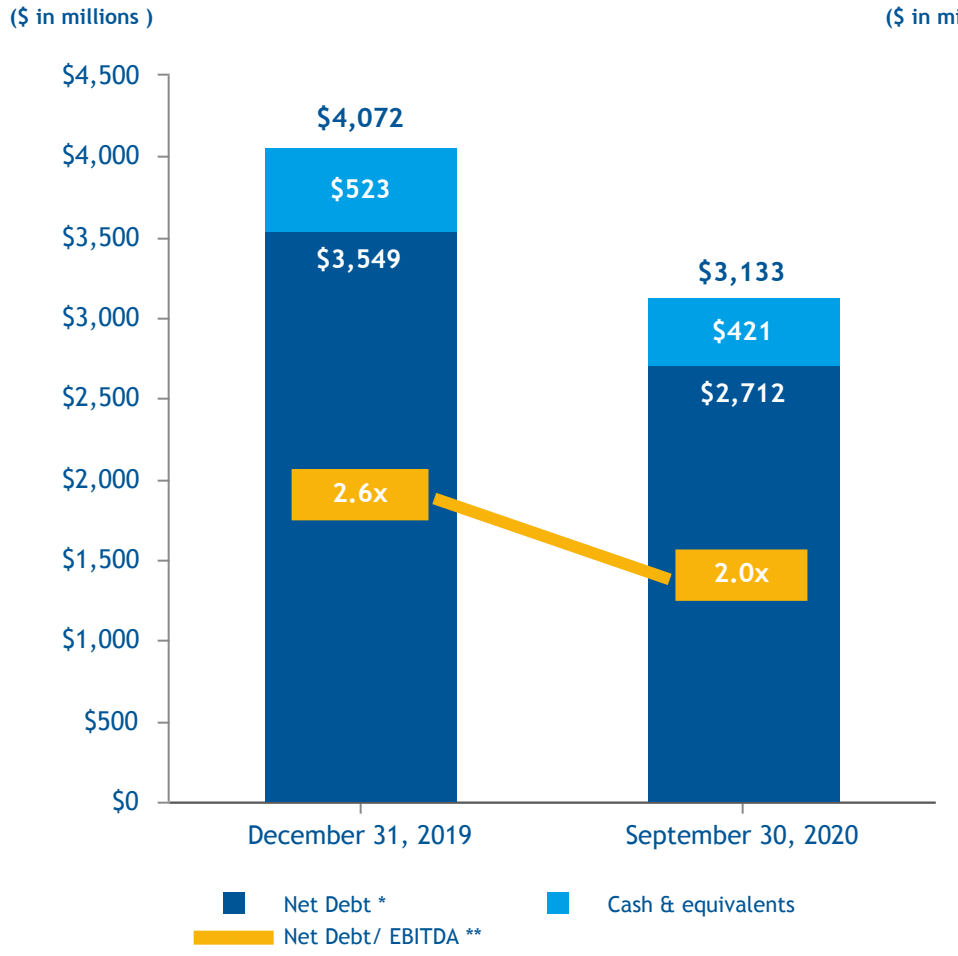
- YTD Operating cash flows:
  - Operating cash flows of $1,135 million represent a $169 million (or 18%) year over year increase owing to cash inflows from inventory and net receivables, partially offset by cash outflows from accounts payable and income tax payments
- YTD Investing cash flows:
  - Capex of $110 million vs. $166 million in 2019; down 34% year over year
- YTD Financing cash flows
  - $1,038 million of net repayments on our borrowings, including the redemption of our $600 million 4.75% Senior Notes due 2023 in Q1
  - $88 million in share repurchases; program is recommencing in Q4 2020
- Discontinued Operations ("DO") cash was $6 million at 12/31/19 relating to the Stahlgruber Czech Republic business; there is no DO cash included in the ending balance as the business was sold during Q1 2020
- Restricted cash was $5 million at 12/31/19; there is no restricted cash included in the ending balance as the cash was repaid during Q2 2020

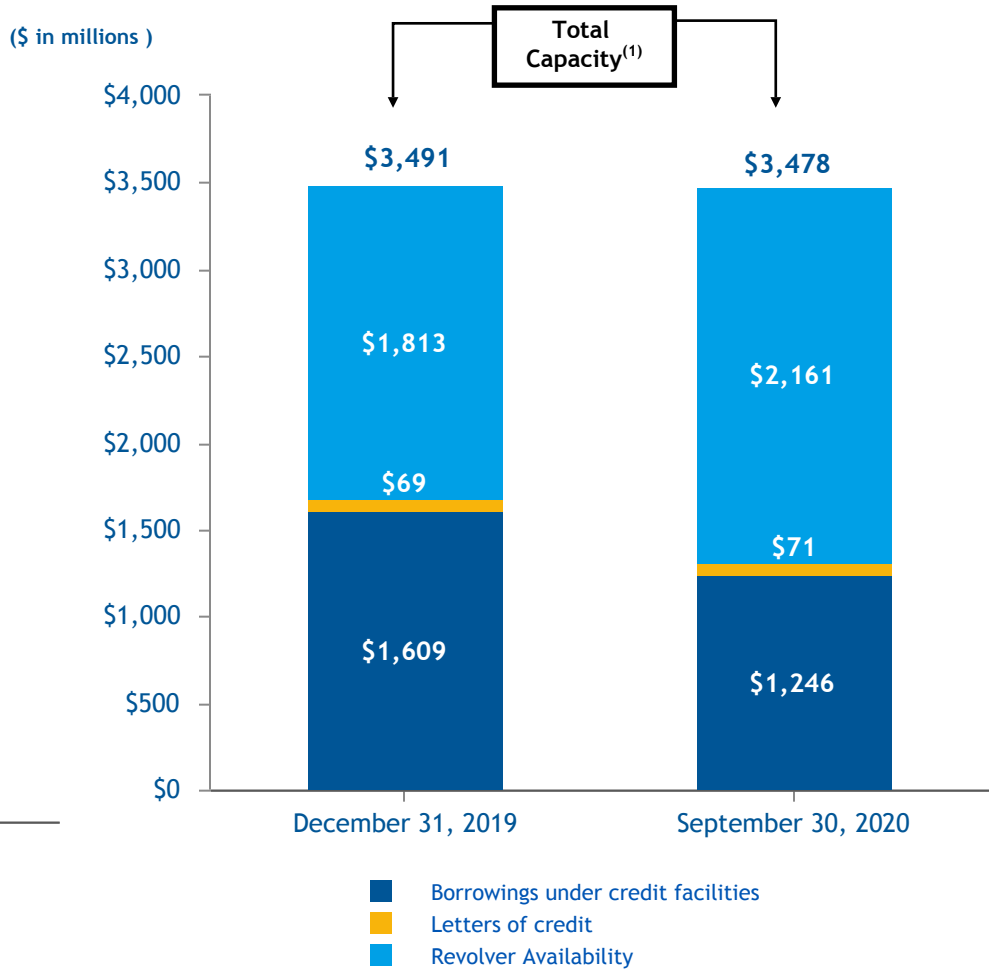
Free Cash Flow*



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 Q3 2020 was 3.1% (2)

(1) Total capacity includes our term loans and revolving credit facilities
(2) Including our interest rate swaps, approximately 90% of our outstanding debt at September 30, 2020 is effectively at a fixed interest rate
* Net debt is a non-GAAP financial measure. Refer to Appendix 7 for Net Debt reconciliation
** 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

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

Q3 2020 Results[1]

209,000
Number of vehicles procured

361,000
Catalytic converters

542,000
Tires

191,000
Batteries

990,000
Fuel (in gallons)

581,000
Waste oil (in gallons)

286,000
Tons of Crush Auto/Scrap

3.7 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

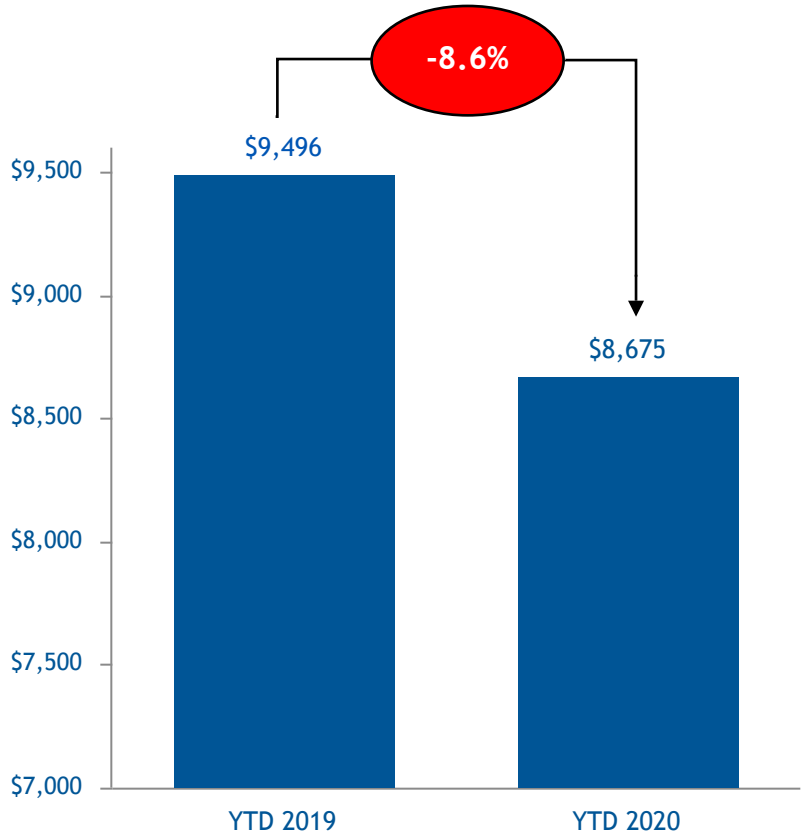
Creating shareholder value and growing earnings while enhancing the lives of our employees and the communities in which we operate

(1) Represents the North American recycling operations efforts in Q3 2020 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

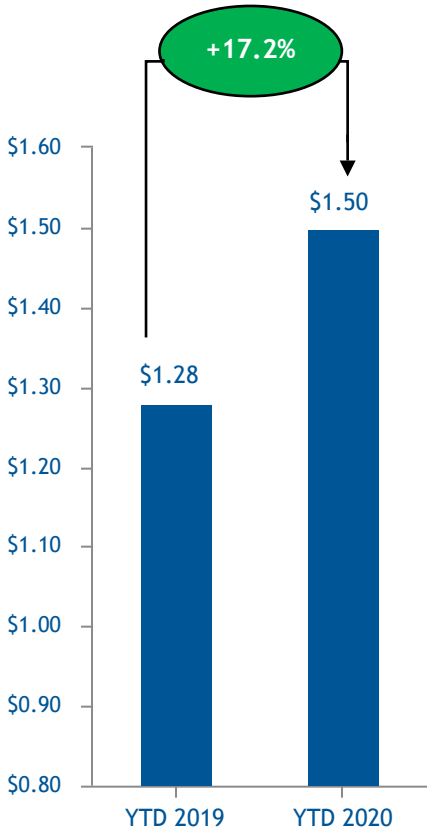
YTD Results and Supplementary Information

Consolidated Results - Continuing Operations

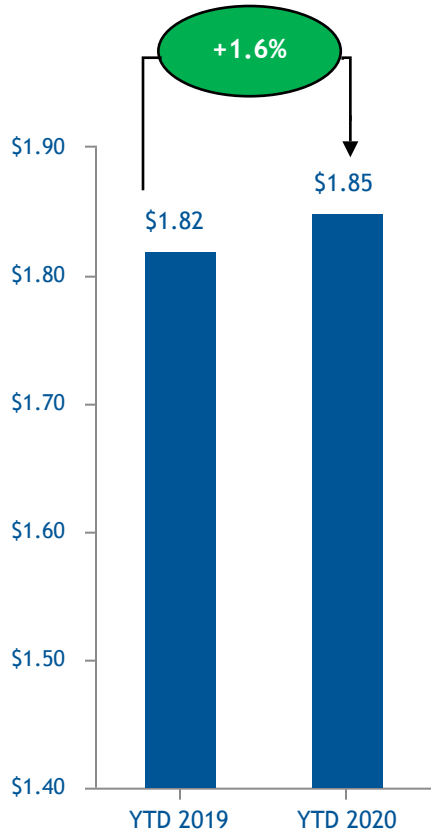
YTD 2020 Revenue[1]



YTD 2020 EPS[2]



Diluted EPS



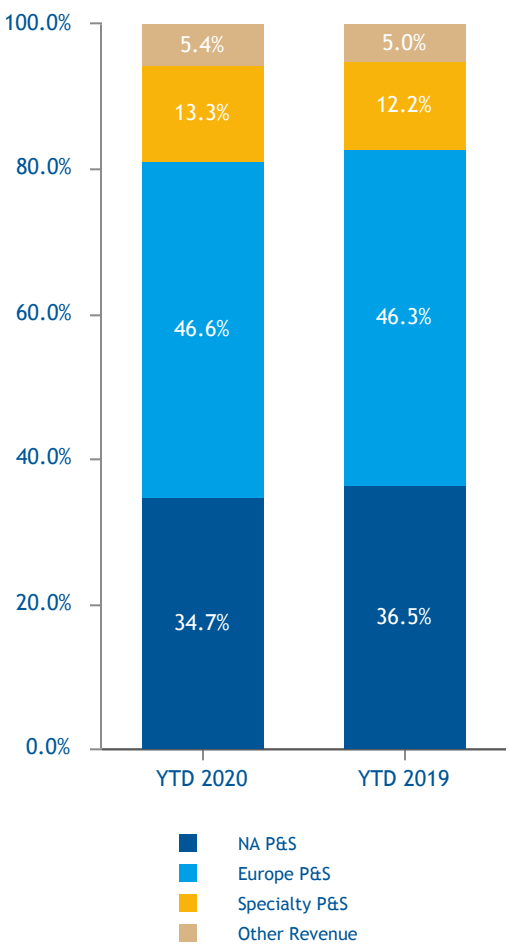
Adjusted Diluted EPS[3]

(1) Revenue in millions
(2) Net income and earnings per share figures refer to net income from continuing operations attributable to LKQ stockholders
(3) Adjusted Diluted EPS is a non-GAAP measure. Refer to Appendix 4 for Adjusted Diluted EPS reconciliation

YTD 2020 Revenue

Revenue Changes by Source:	Organic	Acquisition and Divestiture	Foreign Exchange	Total[1]
North America	(12.7)%	(0.4)%	(0.1)%	(13.3)%
Europe	(7.0)%	(0.7)%	(0.4)%	(8.1)%
Specialty	(0.6)%	0.2%	(0.2)%	(0.5)%
Parts and Services	(8.4)%	(0.5)%	(0.2)%	(9.1)%
Other Revenue	(0.7)%	0.5%	(0.0)%	(0.2)%
Total	(8.0)%	(0.4)%	(0.2)%	(8.6)%

- One additional selling day in YTD 2020 compared to the same period in the prior year
- Organic revenue for parts and services declined by 8.4% (8.8% on a per day basis) largely due to the onset of the COVID-19 pandemic in March and the corresponding decrease in mobility across all three segments during Q2 and Q3
- North America organic revenue for parts and services declined by 12.7% (13.1% on a per day basis); collision and auto liability claims were down 25.5% for the year[2]
- Europe organic revenue for parts and services declined by 7.0% (7.5% on a per day basis)
- Unfavorable F/X impact on European parts and services revenue of $15 million; European constant currency parts and services revenue declined 7.7%[3]
- Specialty organic revenue for parts and services declined by 0.6% (1.1% on a per day basis)
- Slight decrease in other revenue attributable to a decrease in revenue from other scrap metals and fluids due to lower volumes and a decrease in revenue from scrap steel due to lower year over year prices and volumes partially offset by an increase in revenue from precious metals due to higher prices compared to the prior year



(1) The sum of the individual revenue change components may not equal the total percentage due to rounding
(2) Per CCC 2020 Third 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)	YTD 2020	YTD 2019	Change
Revenue	$8,675	$9,496	(8.6)%
Gross Margin	3,423	3,656	(6.4)%
Operating Income	718	690	4.1%
Pre-tax Income	638	601	6.1%
Net income from continuing operations attributable to LKQ stockholders	458	400	14.5%
Segment EBITDA[(1)]	1,003	1,015	(1.2)%
Segment EBITDA Margin[(1)]	11.6%	10.7%	0.9%
Diluted EPS from continuing operations attributable to LKQ stockholders:			
Reported	$1.50	$1.28	17.2%
Adjusted[(2)]	$1.85	$1.82	1.6%

- Effective income tax rate for the nine months ended September 30, 2020 was 28.3%, compared to 27.5% for the nine months ended September 30, 2019.
- YTD 2019 includes impairment charges totaling $74 million after tax or ($0.24) per share

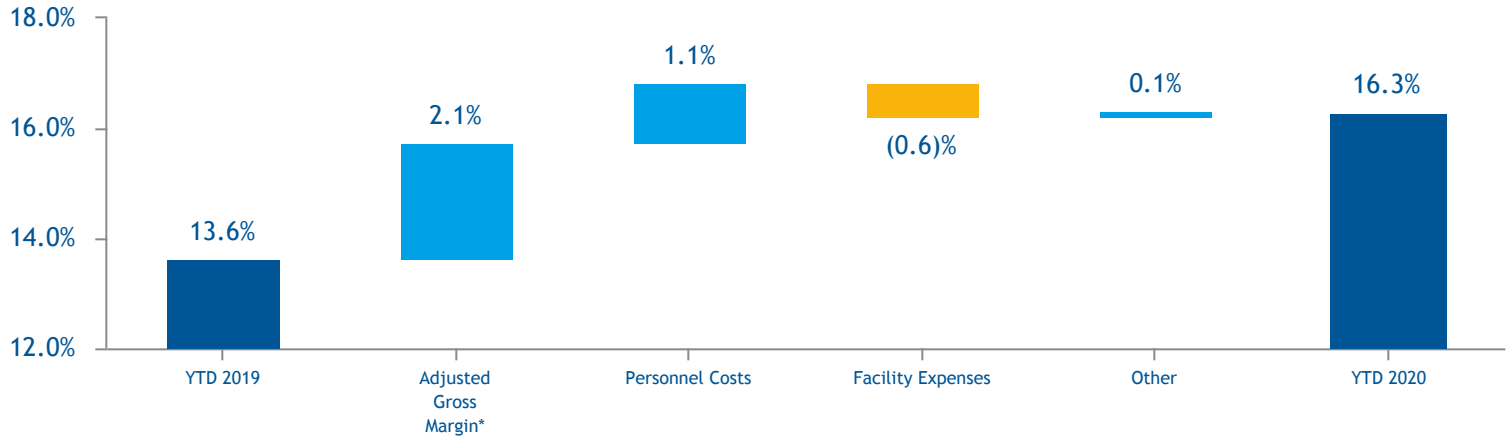
(1) Segment EBITDA is a non-GAAP measure. Refer to Appendix 3 for Segment EBITDA reconciliation
(2) Adjusted Diluted EPS is a non-GAAP measure. Refer to Appendix 4 for Adjusted Diluted EPS reconciliation

North America - YTD 2020 Results

($ in millions)	2020	2019	Change F/(U)	% of Revenue 2020	% of Revenue 2019
Total Revenue	$3,466	$3,926	(11.7)%		
Gross Margin	$1,600	$1,735	(7.8)%	46.2%	44.2%
Adjusted Gross Margin*	$1,604	$1,735	(7.6)%	46.3%	44.2%
Operating Expenses	$1,053	$1,222	13.8%	30.4%	31.1%
Other Income, net	$12	$15			
Segment EBITDA[(1)]	$566	$533	6.2%	16.3%	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.

North America Segment EBITDA Margin Bridge



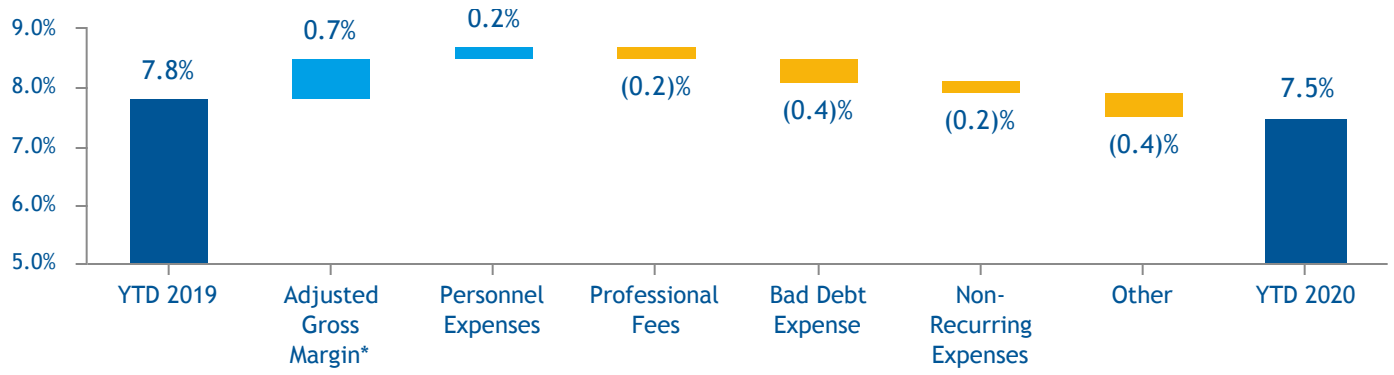
Note: In the table and Segment EBITDA Margin Bridge above, the sum of the individual percentages may not equal the total due to rounding
*Adjusted Gross Margin is a non-GAAP measure. Refer to Appendix 6 for Reconciliation of Gross Margin to Adjusted Gross Margin. Reported Gross Margin % increase of 2.0% was negatively impacted by 0.1% for COGS related restructuring expenses which are excluded from the bridge above

Europe - YTD 2020 Results

($ in millions)	2020	2019	Change F/(U)	% of Revenue 2020	% of Revenue 2019
Total Revenue	$4,059	$4,413	(8.0)%		
Gross Margin	$1,502	$1,590	(5.5)%	37.0%	36.0%
Adjusted Gross Margin*	$1,505	$1,607	(6.4)%	37.1%	36.4%
Operating Expenses	$1,207	$1,268	4.8%	29.7%	28.7%
Other (Expense), net	$(4)	$(1)			
Segment EBITDA[1]	$304	$346	(12.3)%	7.5%	7.8%
Transformation Expenses	$13	$10			
Segment EBITDA[1] excluding Transformation Expenses[2]	$317	$356	(10.8)%	7.8%	8.1%

(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.

Europe Segment EBITDA Margin Bridge



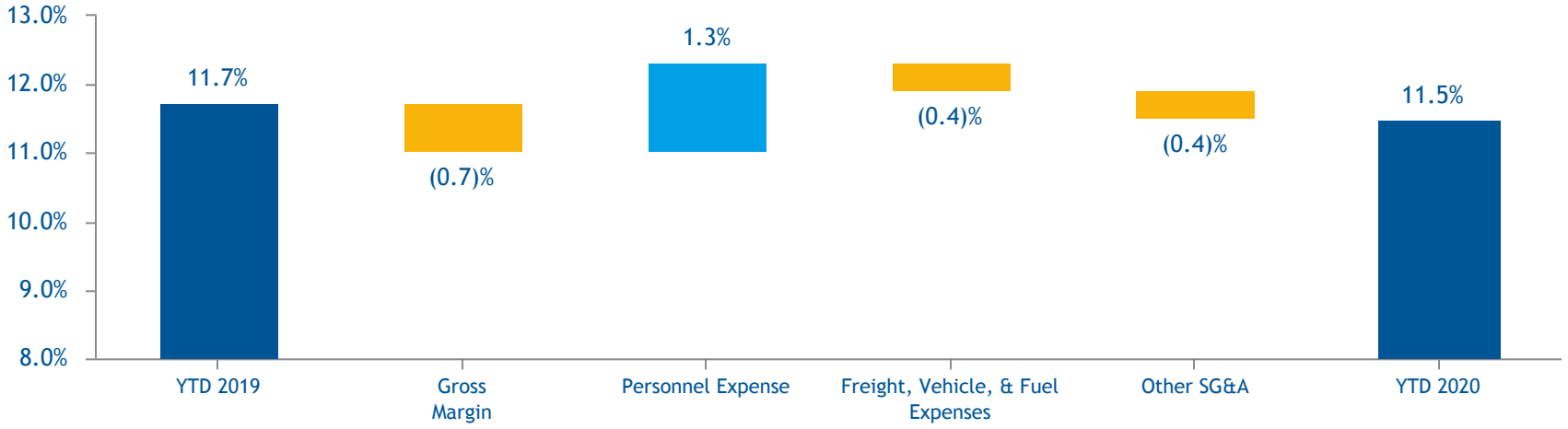
Note: In the table and Segment EBITDA Margin Bridge above, the sum of the individual percentages may not equal the total due to rounding
*Adjusted Gross Margin is a non-GAAP measure. Refer to Appendix 6 for Reconciliation of Gross Margin to Adjusted Gross Margin. Reported Gross Margin % increase of 1.0% was positively impacted by 0.3% for COGS related restructuring expenses which are excluded from the bridge above

Specialty - YTD 2020 Results

($ in millions)	2020	2019	Change F/(U)	% of Revenue 2020	% of Revenue 2019
Total Revenue	$1,154	$1,161	(0.6)%		
Gross Margin	$321	$331	(2.9)%	27.8%	28.5%
Operating Expenses	$191	$198	3.5%	16.5%	17.0%
Segment EBITDA[(1)]	$133	$136	(2.2)%	11.5%	11.7%

(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.

Specialty Segment EBITDA Margin Bridge



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

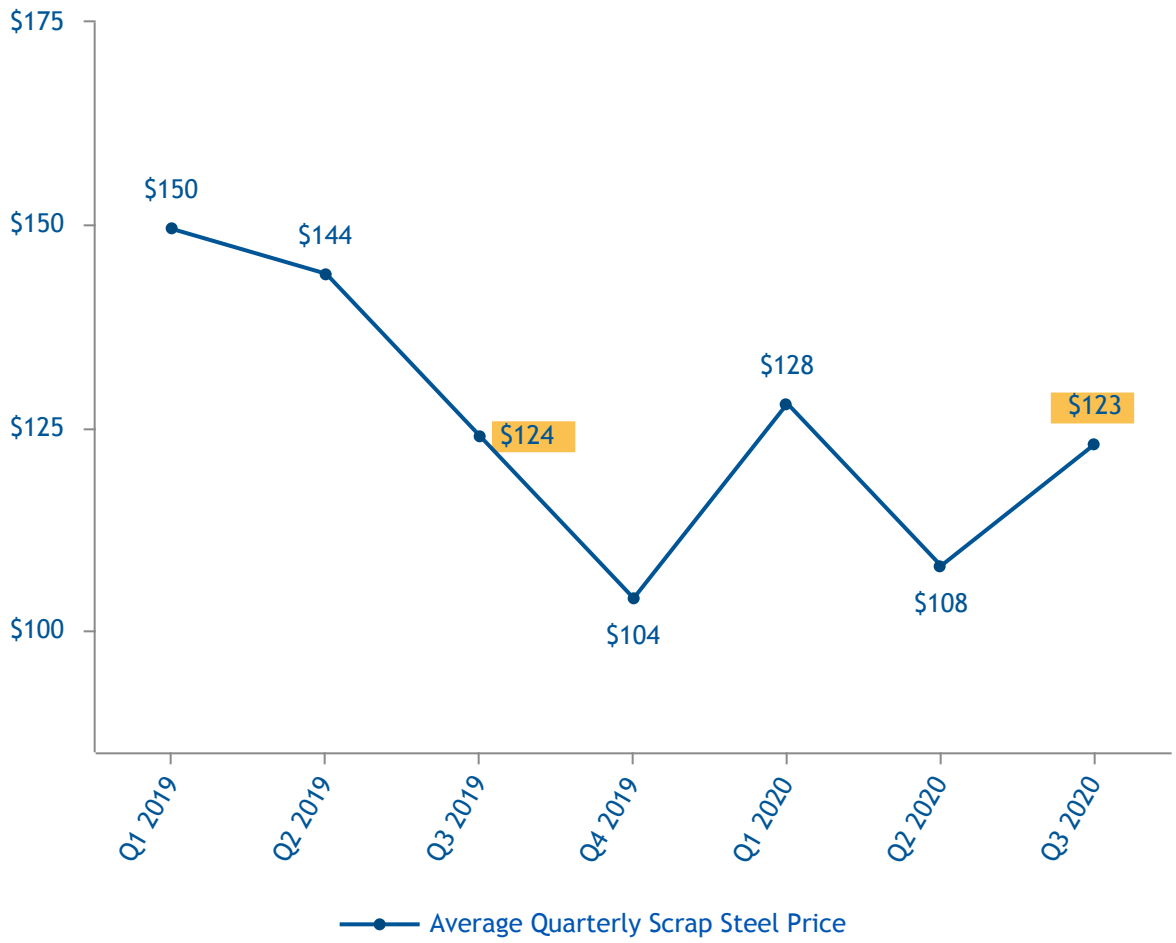
Liquidity as of September 30, 2020

Credit Rating	• Rated Ba2 / BB by Moody's and S&P, respectively
Debt Structure	• Fixed Interest Rate Bonds: €1,500 million ($1,758 million) • Variable Interest Rate Bank Debt: $1,246 million ($935 million hedged to fixed rates) • Receivables Securitization Facility: $0 outstanding balance • Other Debt (capital leases, local lines of credit): $129 million
Maturities	• Current maturities: $98 million; No significant maturities until January 2024
Financial Covenants[1]	• Credit Facility maximum leverage ratio covenant: 5.00x o Net debt to EBITDA as of September 30, 2020: 2.0x • Credit Facility minimum interest expense coverage ratio: 3.0x o EBITDA to interest expense as of September 30, 2020: 13.1x • Euro Notes do not include financial maintenance covenants
Liquidity	• Cash on balance sheet of $421 million • $3,150 million revolving credit facility: $2,161 million available • Receivables securitization facility: $0 outstanding balance ($110 million outstanding capacity) • Total Available Liquidity: $2,692 million
Cash Flows	• YTD 2020 operating cash flow of $1,135 million (18% higher than prior year); YTD 2020 free cash flow[2] of $1,025 million (28% 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; YTD CapEx of $110 million (down 34% year over year) • Reduced inventory replenishment rates across each segment to reflect demand outlook • Actively monitoring customer receivables • European vendor financing program and overall payment terms initiative progressing • Share repurchase program suspended on March 16, 2020; intend to restart program in Q4 2020

(1) See the definition of Net Debt, interest expense and EBITDA in the credit agreement filed with the SEC for further details
(2) Free Cash Flow is a non-GAAP measure. Refer to Appendix 5 for Free Cash Flow reconciliation

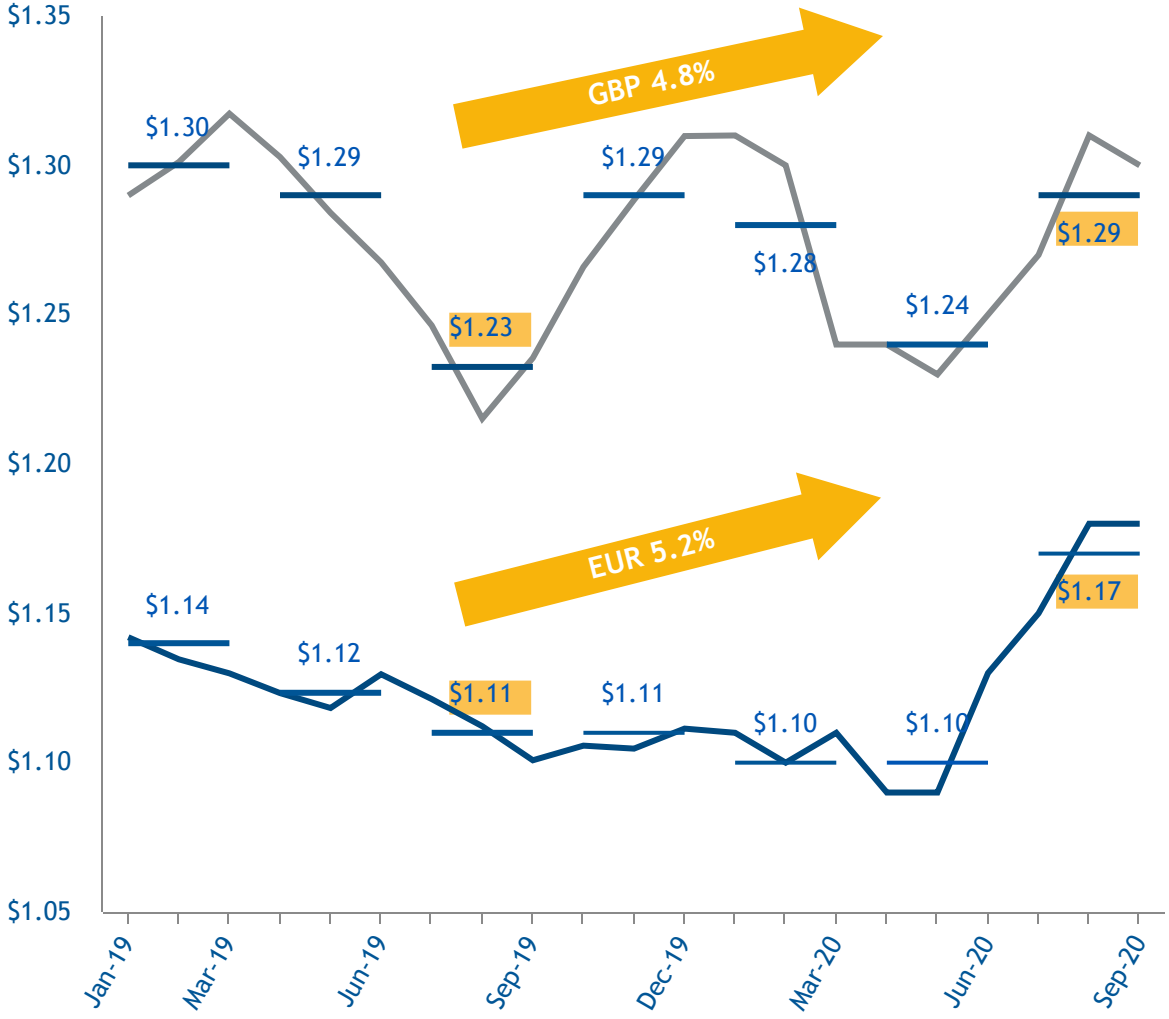
Scrap Steel Prices

Q3 scrap steel prices flat YoY



- Average price for scrap steel was flat from $124 per ton in Q3 2019 to $123 per ton in Q3 2020
- Sequential change was positive $15 per ton, or up 14%
- Sequential changes in scrap steel prices impacted Segment EBITDA:
  - Q3 2020: favorable by $5 million
  - Q3 2019: unfavorable by $8 million

Foreign Exchange



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

- £ up 4.8% Q3 2020 vs Q3 2019
- € up 5.2% Q3 2020 vs Q3 2019
- $64 million favorable impact of translation of stronger Q3 rates relative to the US dollar on European parts and services revenue growth
- European constant currency[(1)] parts and services revenue decrease YoY of 2.2% for Q3 2020 and 7.7% YTD 2020
- Foreign exchange (translation and transaction gains/losses) impact:
  - Q3 2020 flat EPS impact; flat Adjusted EPS impact
  - YTD 2020 EPS impact of ($0.01); Adjusted EPS impact of ($0.01)

Inventory

Inventory Procurement:	Q3			YTD		
($ in millions, Vehicles purchased in 000s)	2020	2019	% Change	2020	2019	% Change
Total aftermarket procurement	$1,463	$1,623	(9.9)%	$3,931	$4,762	(17.5)%
Wholesale salvage cars and trucks	57	78	(26.9)%	165	230	(28.3)%
Europe wholesale salvage cars and trucks	6	5	20.0%	18	19	(5.3)%
Self service and "crush only" cars	148	151	(2.0)%	434	455	(4.6)%

- Net decrease in aftermarket purchases driven by an increased focus on inventory reduction owing to COVID-19 and to align procurement with revenue
- Cost per vehicle in our self service operations increased 20% Y/Y in Q3, and up 12% YTD due primarily to increases in precious metal prices
- Average cost per vehicle in our full service salvage operations increased 33% Y/Y in Q3, and up 10% YTD due primarily to limited supply at the auctions

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 September 30, 2020		Nine Months Ended September 30, 2020	
	Consolidated	**Europe**	**Consolidated**	**Europe**
Parts & Services				
Revenue growth as reported	(3.4)%	2.3%	(9.1)%	(8.1)%
Less: Currency impact	2.1%	4.5%	(0.2)%	(0.4)%
Revenue growth at constant currency	(5.5)%	(2.2)%	(8.9)%	(7.7)%

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 September 30[1] 2020	% of revenue	2019	% of revenue	Nine Months Ended September 30[1] 2020	% of revenue	2019	% of revenue
Revenue								
North America	$1,164		$1,302		$3,466		$3,926	
Europe	1,484		1,451		4,059		4,413	
Specialty	400		395		1,154		1,161	
Eliminations	(1)		(1)		(4)		(4)	
Total Revenue	$3,048		$3,148		$8,675		$9,496	
Segment EBITDA								
North America	$205	17.6%	$166	12.8%	$566	16.3%	$533	13.6%
Europe	136	9.2%	125	8.6%	304	7.5%	346	7.8%
Specialty	48	12.1%	45	11.5%	133	11.5%	136	11.7%
Total Segment EBITDA	$389	12.8%	$336	10.7%	$1,003	11.6%	$1,015	10.7%

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 attributable to LKQ stockholders 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 September 30[1]		Nine Months Ended September 30[1]	
	2020	2019	2020	2019
Net income	$194	$153	$459	$404
Subtract:				
Net income (loss) attributable to continuing noncontrolling interest	0	(0)	1	2
Net income attributable to discontinued noncontrolling interest	—	0	0	1
Net income attributable to LKQ stockholders	$193	$152	$457	$401
Subtract:				
Net income (loss) from discontinued operations	—	1	(1)	1
Net income attributable to discontinued noncontrolling interest	—	(0)	(0)	(1)
Net income from continuing operations attributable to LKQ stockholders	$193	$152	$458	$400
Add:				
Depreciation and amortization	69	72	200	213
Depreciation and amortization - cost of goods sold	7	5	16	16
Depreciation and amortization - restructuring expenses [2]	1	1	5	1
Interest expense, net of interest income	25	32	77	104
(Gain) loss on debt extinguishment	—	(0)	13	(0)
Provision for income taxes	79	58	181	165
EBITDA	$374	$319	$949	$900
Subtract:				
Equity in earnings (losses) of unconsolidated subsidiaries	4	4	2	(34)
Add:				
Restructuring and acquisition related expenses [2]	20	8	48	20
Restructuring expenses - cost of goods sold	1	17	6	17
(Gain) loss on disposal of businesses and impairment of net assets held for sale	(1)	(4)	2	45
Change in fair value of contingent consideration liabilities	(0)	(0)	(1)	0
Segment EBITDA	$389	$336	$1,003	$1,015
Net income from continuing operations attributable to LKQ stockholders as a percentage of revenue	6.3%	4.8%	5.3%	4.2%
EBITDA as a percentage of revenue	12.3%	10.1%	10.9%	9.5%
Segment EBITDA as a percentage of revenue	12.8%	10.7%	11.6%	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 3 -
Reconciliation of Net Income to EBITDA and Segment EBITDA

(in millions)	Three Months Ended[1] March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
Net income	$153	$158	$134	$38
Subtract:				
Net (loss) income attributable to noncontrolling interest	(0)	1	0	2
Net income attributable to LKQ stockholders	$153	$157	$134	$36
Subtract:				
Net loss from discontinued operations	—	—	—	(4)
Net income from continuing operations attributable to LKQ stockholders	$153	$157	$134	$40
Add:				
Depreciation and amortization	56	63	77	78
Depreciation and amortization - cost of goods sold	5	5	5	5
Interest expense, net of interest income	29	38	41	37
Loss on debt extinguishment	—	—	—	1
Provision for income taxes	50	61	46	35
EBITDA	$292	$324	$303	$197
Subtract:				
Equity in earnings (losses) of unconsolidated subsidiaries	1	1	(20)	(46)
Fair value gain (loss) on Mekonomen derivative instrument	—	—	3	(8)
Gains on bargain purchases	—	0	—	2
Add:				
Restructuring and acquisition related expenses	4	16	7	6
Inventory step-up adjustment - acquisition related	0	—	—	—
Impairment of net assets held for sale and goodwill	—	2	—	33
Change in fair value of contingent consideration liabilities	0	0	(1)	0
Segment EBITDA	$295	$342	$326	$288
Net income from continuing operations attributable to LKQ stockholders as a percentage of revenue	5.6%	5.2%	4.3%	1.3%
EBITDA as a percentage of revenue	10.7%	10.7%	9.7%	6.6%
Segment EBITDA as a percentage of revenue	10.9%	11.3%	10.5%	9.6%

(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[1] March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019
Net income	$99	$152	$153	$141
Subtract:				
Net income attributable to continuing noncontrolling interest	1	1	(0)	0
Net income attributable to discontinued noncontrolling interest	—	0	0	0
Net income attributable to LKQ stockholders	$98	$151	$152	$140
Subtract:				
Net income from discontinued operations	—	0	1	0
Net income attributable to discontinued noncontrolling interest	—	(0)	(0)	(0)
Net income from continuing operations attributable to LKQ stockholders	$98	$150	$152	$140
Add:				
Depreciation and amortization	71	71	72	77
Depreciation and amortization - cost of goods sold	5	5	5	5
Depreciation and amortization - restructuring expenses [2]	—	—	1	1
Interest expense, net of interest income	36	36	32	32
Gain on debt extinguishment	—	—	(0)	—
Provision for income taxes	52	56	58	50
EBITDA	$262	$318	$319	$307
Subtract:				
Equity in (losses) earnings of unconsolidated subsidiaries	(40)	2	4	1
Gain due to resolution of acquisition related matter	—	—	—	12
Gains on bargain purchases and previously held equity interests	—	—	—	1
Add:				
Restructuring and acquisition related expenses [2]	3	8	8	15
Restructuring expenses - cost of goods sold	—	—	17	4
Impairment of net assets held for sale	15	33	(4)	2
Change in fair value of contingent consideration liabilities	0	0	(0)	0
Segment EBITDA	$320	$359	$336	$313
Net income from continuing operations attributable to LKQ stockholders as a percentage of revenue	3.2%	4.6%	4.8%	4.7%
EBITDA as a percentage of revenue	8.4%	9.8%	10.1%	10.2%
Segment EBITDA as a percentage of revenue	10.3%	11.0%	10.7%	10.4%

(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 -
Reconciliation of Net Income to EBITDA and Segment EBITDA

(in millions)	Three Months Ended[1] March 31, 2020	June 30, 2020
Net income	$146	$119
Subtract:		
Net income (loss) attributable to continuing noncontrolling interest	1	(0)
Net income attributable to discontinued noncontrolling interest	0	—
Net income attributable to LKQ stockholders	$145	$119
Subtract:		
Net (loss) income from discontinued operations	(1)	0
Net income attributable to discontinued noncontrolling interest	(0)	—
Net income from continuing operations attributable to LKQ stockholders	$146	$119
Add:		
Depreciation and amortization	65	66
Depreciation and amortization - cost of goods sold	5	4
Depreciation and amortization - restructuring expenses [2]	1	3
Interest expense, net of interest income	26	26
Loss on debt extinguishment	13	—
Provision for income taxes	60	42
EBITDA	$317	$259
Subtract:		
Equity in earnings (losses) of unconsolidated subsidiaries	1	(3)
Add:		
Restructuring and acquisition related expenses [2]	6	22
Restructuring expenses - cost of goods sold	(0)	6
(Gain) loss on disposal of businesses and impairment of net assets held for sale	(0)	2
Change in fair value of contingent consideration liabilities	(0)	(0)
Segment EBITDA	$322	$291
Net income from continuing operations attributable to LKQ stockholders as a percentage of revenue	4.9%	4.5%
EBITDA as a percentage of revenue	10.6%	9.9%
Segment EBITDA as a percentage of revenue	10.7%	11.1%

(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 attributable to LKQ stockholders 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 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 September 30[1]		Nine Months Ended September 30[1]	
	2020	2019	2020	2019
Net income	$194	$153	$459	$404
Subtract:				
Net income (loss) attributable to continuing noncontrolling interest	0	(0)	1	2
Net income attributable to discontinued noncontrolling interest	—	0	0	1
Net income attributable to LKQ stockholders	$193	$152	$457	$401
Subtract:				
Net income (loss) from discontinued operations	—	1	(1)	1
Net income attributable to discontinued noncontrolling interest	—	(0)	(0)	(1)
Net income from continuing operations attributable to LKQ stockholders	$193	$152	$458	$400
Adjustments - continuing operations attributable to LKQ stockholders:				
Amortization of acquired intangibles	25	31	73	94
Restructuring and acquisition related expenses	20	9	52	21
Restructuring expenses - cost of goods sold	1	17	7	17
Change in fair value of contingent consideration liabilities	(0)	(0)	(1)	0
(Gain) loss on debt extinguishment	—	(0)	13	(0)
(Gain) loss on disposal of businesses and impairment of net assets held for sale	(1)	(4)	2	45
Impairment of equity method investments	—	—	—	40
Excess tax expense (benefit) from stock-based payments	0	(1)	(0)	(1)
Tax effect of adjustments	(11)	(16)	(38)	(46)
Adjusted net income from continuing operations attributable to LKQ stockholders	$228	$189	$566	$569
Weighted average diluted common shares outstanding	305	308	305	312
Diluted earnings per share from continuing operations attributable to LKQ stockholders:				
Reported	$0.64	$0.49	$1.50	$1.28
Adjusted	$0.75	$0.61	$1.85	$1.82

(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 September 30[1] 2020	2019	Nine Months Ended September 30[1] 2020	2019
Net cash provided by operating activities	$222	$327	$1,135	$965
Less: purchases of property, plant and equipment	33	64	110	166
Free cash flow	$189	$262	$1,025	$800

(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. 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 6 -
Reconciliation of Gross Margin to Adjusted Gross Margin

Consolidated Adjusted Gross Margin	Three Months Ended[1]		Nine Months Ended[1]	
(in millions)	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Gross margin	$1,199	$1,200	$3,423	$3,656
Add: Restructuring expenses - cost of goods sold	1	17	7	17
Adjusted gross margin	$1,199	$1,218	$3,430	$3,673
Gross margin %	39.3%	38.1%	39.5%	38.5%
Adjusted gross margin %	39.4%	38.7%	39.5%	38.7%

North America Adjusted Gross Margin	Three Months Ended[1]		Nine Months Ended[1]	
(in millions)	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Gross margin	$534	$576	$1,600	$1,735
Add: Restructuring expenses - cost of goods sold	1	0	4	0
Adjusted gross margin	$535	$576	$1,604	$1,735
Gross margin %	45.9%	44.2%	46.2%	44.2%
Adjusted gross margin %	46.0%	44.3%	46.3%	44.2%

Europe Adjusted Gross Margin	Three Months Ended[1]		Nine Months Ended[1]	
(in millions)	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Gross margin	$550	$513	$1,502	$1,590
Add: Restructuring expenses - cost of goods sold	(0)	17	3	17
Adjusted gross margin	$550	$530	$1,505	$1,607
Gross margin %	37.1%	35.3%	37.0%	36.0%
Adjusted gross margin %	37.1%	36.5%	37.1%	36.4%

(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

North America Adjusted Gross Margin	Three Months Ended[1]
(in millions)	June 30, 2020
Gross margin	$454
Add: Restructuring expenses - cost of goods sold	3
Adjusted gross margin	$457
Gross margin %	44.9%
Adjusted gross margin %	45.2%

Europe Adjusted Gross Margin	Three Months Ended[1]	
(in millions)	December 31, 2019	June 30, 2020
Gross margin	$521	$445
Add: Restructuring expenses - cost of goods sold	3	3
Adjusted gross margin	$524	$448
Gross margin %	36.6%	36.8%
Adjusted gross margin %	36.8%	37.0%

(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

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. We believe 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 7 -
Reconciliation of Total Debt to Net Debt

(in millions)	September 30, 2020[1]	December 31, 2019[1]
Current portion of long-term obligations	$97	$326
Long-term obligations, excluding current portion	3,010	3,715
Total debt, net of debt issuance costs	$3,107	$4,042
Add: Debt issuance costs	27	30
Total debt	$3,133	$4,072
Less: Cash and cash equivalents	421	523
Net debt	$2,712	$3,549

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