

LKQ Corporation

2022 Investor Day

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PRESENTATION

Joseph Boutross

Good morning everyone and thank you for joining us today for LKQ's 2022 Investor Day.

I want to welcome and thank those joining us here in Nashville, and those joining us virtually, hopefully across the globe.

My name is Joe Boutross and I am the Vice President of Global Investor Relations for LKQ Corporation. We have a very robust day planned for you all. One of the benefits of Investor Days, despite all the work that goes into them, it's a great opportunity for me to introduce the people that make it happen every day because I think at some point you probably get tired of talking to the Investor Relations Department. These are the people that make it happen. There's a lot pride and a lot of effort that went into today's presentation.

Before I move on to some housekeeping items, I want to thank all those across the organization that had some input and some tremendous amount of effort that went into today's event. In particular, I would like to thank Lois Rostine, Chris Stigers, Adam Swartout and my good friend Maksim Mayarovich—got to make sure I get his name correct—for stepping up and really managing key roles in all the components at play, as I said, planning today's event.

Turning to Slide 2, I think most people in this room have read a Forward-Looking Statement. I won't take your time reading it line by line, but we know what that is.

Now, on to the agenda. The agenda speaks for itself. Nick is going to be kicking us off, followed by our Wholesale North America business. Justin is the president of that operation, Rick Galloway—some in here have had the opportunity to meet both of them. They're going to kick us off. Then we're going to introduce Mike Dufresne who now is running our fourth operating segment, which we announced at the end of the first quarter during our earnings call.

We will then take a break and fly over to Zug, Switzerland where we'll have Arnd and Yanik Zoom in for our presentation today. Then move on to Specialty and Bill Rogers will be speaking and Gary Mann. Gary, I don't think has had the opportunity to talk to the investment community—investor community so we're glad to have him here today. Then we'll move on to Varun for a financial discussion.

For those joining us here in Nashville, following the end of Q&A we're going to be hosting a luncheon off in the patio here, which will also include a product showcase and really provide the opportunity to meet some team members based here in Nashville in areas such as Supply Chain, Vehicle Procurement, HR, Remanufacturing, Industry Relations and many others. As I mentioned, it's really a great opportunity to interact with our teams. We always like showing off the people that make it happen each and every day. LKQ is all about culture and teamwork and I think today you'll truly get a sense of that.

I do know that a few people had asked about guest WiFi. We charge about $2.50—no. The website address, is it guestnet, Justin? Guestnet and the password is LKQ capitalized, small caps the word 'delivers'. Now you have access.

Also for the folks here in Nashville, it was in an announcement that Lois sent out, we have shuttles leaving at 1:30, 2:30 and 3:30 for those that need a ride to the airport.

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Of course, now on to the good stuff and let the festivities begin. As always, it's my pleasure to turn the kickoff of the presentation to Nick Zarcone, our President and Chief Executive Officer. Nick?

Nick Zarcone

Thanks Joe, and again, thank you to everyone who is joining us here today. For those who have made the trek to Nashville, we really appreciate the effort to get here. And for all those who are listening either to the webcast or the audiocast, we certainly appreciate you freeing up several hours of your morning here to listen to the LKQ story.

We have, as those in the room can tell, we have transformed what is otherwise the Pit Stop Café into our soundstage here, and very happy to have everyone in person.

I'm going to address a few kind of high level topics and then really turn the podium over to the individuals who run each of our businesses to provide significantly more detail.

Now, at an event like this I know the audience always want to hear 100% of everything going on at LKQ. The reality is we are too large; we're too big. We're too different across our businesses to hit 100% of everything, so we're going to focus on some key highlights that based on interaction with our shareholders over the last 18 months or so since our last Investor Day, we think are top of mind, but when we get to questions and answers, everything is fair game. Just keep that in mind.

There are no 'Aha' moments or big reveals at this session, so for those that are thinking there may be a big announcement, there are no big announcements. What you're going to hear is really what we're focused on over the next several years to continue to drive the performance of our business. And as Joe indicated, the most significant benefit of today I think for everyone in this room is to see the next layer of leadership beyond myself and Varun, so you can really get an appreciation of the talent that we have at LKQ, because we think that is a key differentiator, is the depth and breadth of our leadership team and having the opportunity to engage with them, not just through Q&A and their formal presentations, but for those of you in the room activities over lunch, we probably have another two dozen LKQers who will be out there from across the organization. Use that as an opportunity to engage with our team. I'm highly confident, highly confident that you will walk away even more impressed with the overall leadership team.

I always start every presentation, whether it's for insiders or outsiders, with our mission statement, because this is why we come to work each and every day. All 46,000 of us across the globe come to work to fulfill this statement, and it's pretty simple. We want to be the leading global value-added and sustainable distributor of vehicle parts and accessories.

We're 24 years old. That's a pretty big statement, I understand, but that's where we're headed. To do that and to get there, there are really three constituents that we need to serve each and every day: our customers, the folks who are going to pay us somewhere around the order of $13.5 billion for the parts we're going to deliver at their shops during 2022. Customers are always critical to any business and we have them right in the sweet spot of our focus and attention. But importantly, and equally as important are the 46,000 people who come to work at LKQ each and every day around the globe in some 32 different countries.

Our people make the difference. Every time I get a group of employees together, I remind them that they are our most important asset. For those of you in the investment community you know that because your business is all about people, right? (Inaudible) used to say the assets go up and down the elevator, right? The same is true at LKQ. We may not have elevators at most of our facilities, but our people make the difference and we need to form really tight partnerships with our global workforce. Then those 1,500

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communities across the globe where we have a presence, we need to form a deep and long-lasting partnership with each of them.

How are we going to be successful on our mission? Well, there's several reasons listed on this slide, which is Slide 6 for those listening online. But I'm going to highlight three of them that I think are critical for us to truly be able to fulfill our mission.

First is we have the broadest and deepest array of part types and the broadest geographic coverage of any publicly traded auto parts distributor on the planet. That depth and breadth of the inventory, the array of different part types, where we do our business is unmatched. That makes us unique. That makes us unique.

Second, as a distributor we have invested heavily in best-in-class inventory management and logistics capabilities because at the end of the day we buy product, we warehouse it and we deliver it to our customers. The whole inventory management and logistics is critically important for us to be able to fulfill our promise to our customers across the globe.

Lastly, we have leading market positions in almost everything we do and everywhere we do it. We have a really deep competitive moat and our goal is to deepen and widen that moat in everything that we do in the future, okay? We think we are in a unique position to do that in each of our businesses, and long term, we think that's going to create a lot of shareholder value.

When I became CEO back in 2017, my very first board meeting I set forth to my Board kind of the key strategic pillars as to how we were going to drive the business going forward. That hasn't changed. You've seen this, but I think it's worth re-examining, right? Four key elements. First, we want to grow our customer offering. Up from 1998 when we were founded to 2018, really, it was all about finding one more part to put on the truck, okay? But there is significant value that we can create for our customers that has nothing to do just with parts. Again, that's critical of everything we do, but key value-added services is another way we can create value for our customers. And we've started to do that.

You all know that we've built a business called Elitek Services. We're actually going to have a couple of Elitek vans out in the parking lot here during lunch for you to take a look at. This is the business where we are going into our customers' collision repair shops and helping them with the scanning diagnostic work and calibration to take all the newer vehicles that have technology on it and help them be in a position to get those vehicles back on the road. Because before the collision repair shop can hand the keys back to the customer, they need to ensure all that technology is working properly, okay? The reality is most of the 40,000 body shops in this country don't have the equipment, they don't have the technology and they don't have the people to do that. That's what we're doing with our customers, is we're providing those services, those scanning diagnostic and calibration services such that our customers can return the vehicles to their customers.

The second element is to expand, and that's really a geographic footprint strategy. We've been doing that in Europe, as you know. This time, in 2011, we had nothing in Europe, and now we're the largest distributor by a multiple of 2 or 3 in Europe, and we're going to continue to focus on geographic expansion in Europe and perhaps other areas.

Third is we need to adapt. There is no doubt that the carpark around the globe is evolving and we need to evolve as well, whether it relates to connectivity, the advanced driver assistance systems or ADAS technology, obviously electric vehicles, fleet ownership. There's a whole myriad of things that over a long, long period of time are going to change in the carpark, and we need to change right along with them. We've been doing some of that already.

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A year ago we bought a company called Green Bean Battery Recycling. A couple of months ago we bought a second business called Bumblebee. Those two businesses are all about remanufacturing batteries in hybrid vehicles, nickel hydride batteries. We're going to take that technology ultimately to learn and to be a leader in the remanufacturing of lithium ion batteries that are in these or battery electric vehicles. That's something we're doing today that is really addressing an opportunity that is probably eight to 10 years out, but we're making the strategy come alive today because you can't wait until the opportunity is in front of you. You need to get out in front. As Wayne Gretzky used to say, part of his success was based on not going to where the puck is but going to where the puck is going to be. That's exactly what we're trying to do.

And lastly, we need to rationalize the asset base. Some of this is all about just productivity, but some of it is truly taking a really critical look at the assets that we own and asking the hard question that all of you want us to ask: Is LKQ the best owner of that business?

We have sold some things over the past couple of years. In the first 20 years of our existence we sold nothing, right? Most recently, back on the 18th of April, we sold the PGW automotive glass distribution business. It was a very solid business, a good fundamental business, but we weren't the best owner. It had margins that were going to dilute our North American margins forever. It was a 10% margin business; it wasn't a 16%, 17% or 18% margin business. It was never going to get there. So we made the decision to free up $316 million of capital that we can use to invest back in our business.

There's no big divestitures on the roadmap right now, but rest assured, every year we're going and we will continue to take a really critical eye and ask the question, when we look at our portfolio of activities across the globe, are we the best owner? Is it in the best interest of our shareholders to own the businesses that we own?

Grow, expand, adapt and rationalize; I call it the Gear Forward strategy. It's served us well today. You can see that they're not just words on the page. We are putting effort and talent and capital to work, to make this come alive real-time. This is going to continue to be the strategy moving forward.

Now, again, from 1998 to 2018 most of you know LKQ was all about gathering best-in-class assets. We did a pretty good job of that, I think. The reality though is starting in 2019 we did a major pivot point. The pivot was to focus on operational excellence. I've had a number of people tell me that that's not what they expected from a recovering investment banker like myself, okay? But the reality is, is what I've learned in my business career is you need to focus on what you need to focus on. And coming off a couple of rough quarters in early 2018 it was clear to me that LKQ needed to focus on operational excellence, and that's exactly what we've done over the last several years.

We set four key priorities that everything within our organization evolves around and is focused on. It's not just at the corporate level; we've driven these priorities all the way down through the organization to the local operating level.

It's not just about being big. Yes, we want to grow but we want to grow profitably. The focus isn't just on adding revenue, but adding profitable revenue, and it's about enhancing our margins. Ultimately, it's enhancing net income margins, but to do that you need to enhance your operating margins, your EBITDA margins. It's hard to do that unless you enhance your gross margins, right? So from top down we're focused on enhancing our margins.

For the first 20 years of the company's history, nobody at LKQ had ever paid a nickel, not a nickel to generate cash, but it was clear that we had a huge opportunity to become more efficient at how we create cash and manage and deploy our cash, and so the focus on free cash flow became a top priority. Then, as I said earlier, you can't do any of this without the best talent in the industry. So, augmenting the

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tremendous talent that we had acquired along the way with some fresh outside ideas and perspectives became a critical part of our focus and our priorities.

Again, profitable revenue growth, enhancing margins, really accelerating free cash flow generation, and acquiring great talent are the four key priorities that we focused on starting in 2019.

With that, we needed to do a couple of things. We needed to wrap our strategy, our incentive program, our capital allocation priorities and our balance sheet, we needed to wrap those around the priorities, not the other way around. Right? And that's exactly what we have done. What's it given us?

Well, we've got the highest margins in our North American and Specialty businesses in the history of the Company, our 24-year history. By far, the best margins. Our European team has generated over a 200 basis point improvement in margins since we started the 1LKQ Europe program in late 2019. We have been generating over the last couple of years and we'll continuously into the future be able to generate more than a billion dollars of free cash flow that will fund our continued growth and allow us to return capital to our shareholders. We've repurchased over $1.8 billion worth of our stock. We've initiated a dividend of $1 a share, which is about a 2% yield. While doing all that, we have dramatically delevered the balance sheet. We've delevered the balance sheet and we now, as of yesterday, have all three major rating agencies awarded us with an investment grade credit rating.

That is what the focus on operational excellence has done for LKQ over the last three years, and I'll put that record up against any other public company auto parts distributors or industrial distributors.

We have focused our energy and we have achieved real results that we believe will set LKQ apart in the future, and just continue to widen the competitive moat that we've built for our company.

Now, over the last couple of years we've gotten a number of questions from investors about the whole incentive program, so I wanted to take a few minutes and really summarize what is probably 10 pages in our proxy statement down to a single page. Right?

And again, what I learned earlier in my business career was that if you really want to effect change throughout an organization, you need to tie people's checkbooks to those changes. We needed to align what we were trying to achieve in terms of profitable revenue growth, better margins, better free cash flow, better returns on capital, we needed to tie people's compensation to those key priorities or else we were never going to be successful.

Up until 2018, everyone at LKQ, their annual bonus plan was all tied to earnings per share. A hundred percent of compensation was tied to EPS. EPS is an important metric, make no mistake, but there's way you could drive EPS that had nothing to do with profitable revenue growth, enhanced margins or better free cash flow, right?

So, starting in 2019 and today, we scrapped the EPS metric from our annual bonus plan; instead, have a weighting that is focused on organic revenue growth. Not just total revenue growth but organic revenue growth—excuse me—EBITDA dollars or euros, as the case may be, EBITDA, absolute EBITDA margins and free cash flow. Again, no one had ever been paid a nickel on cash flow up until 2019, and it's amazing that when you compare free cash flow in 2018 to 2021, it was up threefold. That's not just serendipity; that's a direct cause and effect of paying people to generate cash and having them do exactly that.

The long-term incentive plan, which looks at performance over a three-year period of time, again, the old program was based on total revenue growth, again earnings per share, so we were doubling up the EPS component in both the short-term and the long-term program, and return on equity. We had more than a

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couple of shareholders suggest that maybe we could generate great payouts on the long-term program if we used debt-funded acquisitions to grow revenue and grow return on equity. So, we scrapped that and we went to a program that focused long term on organic revenue growth, earnings per share because our earnings per share was important, and return on invested capital, not just the equity capital but the total capital of the organization.

The other thing we did that was pretty significant is the old long-term incentive plan paid out 100% in cash. The current long-term program pays out 50% in cash and 50% in shares. So to the extent that the share value goes up, the value of those payouts goes up, which is important.

Then most recently, over the last couple of years, we've taken the cash portion of that long-term incentive plan and we've attached a modifier that says that could go up or it can go down, the cash portion, based on the progress we're making on our ESG goals. Okay? It's important if we want to make progress on ESG, we need to pay people to make progress on ESG. We need to put the right incentive structure in place.

And so there has been a wholesale shift as to how we have approached the compensation of our people, and that's not just Varun and myself. These metrics are true for everybody in the organization that gets paid a bonus. Now, plant manager in Topeka, Kansas, or in Tampa, or in Tacoma, we can't generate and manage free cash flow at a operating unit basis because they have no—one, it wouldn't be fair; they have no control over when we pay our vendors. They have no control as to the inventory that's in their warehouse; that's all done centrally, but they are the face to the customer so even at the plant manager level, it's their EBITDA dollars, their EBITDA margin and days sales outstanding because they can collect those receivables and keep the receivables under control.

So everybody—and we're talking thousands and thousands of people get a bonus every year, all tied to three key metrics. Then for everybody who is on the long-term incentive plan, we are all operating off of the exact same metrics. Myself, Varun, all the corporate executives all the way down to the people in the field who are on the long-term incentive plan on the same metrics, and so we are making change.

Now, I talked on an earlier slide that the carpark is evolving in many different ways. There's two key trends that I mentioned. One would be the very slow, and it is a very slow shift in the composition of the carpark towards electric vehicles. This is going to take decades, not years. And the other one is the ADAS technology. As you can see, on the left side of this slide the most important part on an EV is the battery. You can argue that the most important part on an internal combustion engine is the engine; on an EV it's the battery. So we are investing in battery technology to position ourselves to create new opportunities to grow our business as it relates to battery technology. Then, on the right side, you can see the increase in need for diagnostics and calibrations on cars; it's a marketplace that's going to growing at 7% a year, and again, we have created the leading remote diagnostic and mobile diagnostic unit in the country. We're going to continue to invest more dollars.

At the end of the day, nobody is better positioned than LKQ given our size, our access to capital, our access to talent, to create real value for shareholders out of these evolving trends. It's very easy to assume that these changes in the carpark are headwinds. If you ask us here at LKQ, these are huge opportunities for us to further deepen and widen our competitive moat because our smaller competitors simply don't have the talent, they don't have the technology, they don't have the capital to address these evolving businesses. And so we're really excited. You're going to hear more about this from both Justin and Arnd over the next few minutes.

Everyone knows we started the business in 1998, in consolidating the auto salvage business, and today we are the largest recycler of automobiles on the planet. Second place is miles, miles behind us, and we're very proud of that. Last year we processed almost 800,000 vehicles, and what's amazing is almost

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none of the vehicle ends up in the landfill. Everything gets repurposed some way, somehow, and so we in some ways we are the ultimate circular economy company. We are the ultimate environmental company because we are taking masses of automobiles and repurposing them, not just by selling parts but also all the remnants of the car. So we are a natural ESG story.

When we look at ESG, while this may be the tip of the spear, we're spending no time really focused on this because this is just part of our business; this is a given. Where have we decided to focus our time and energy from an ESG perspective? Well, no surprise, it's exactly aligned with our mission statement and that is a really heavy emphasis on our people and on the communities in which we operate.

First and foremost, the carbon footprint. No surprise. The reality is we have thousands of facilities and tens of thousands of delivery vehicles that are on the road every day. Our ability to reduce the carbon footprint is really focused on those two key asset bases: our facilities and our fleet.

But our people are our most important asset and employee engagement is critical, critical to us as a company. So we're spending a fair amount of time and attention focused on employee engagement, talent development, right, diversity, equity and inclusion. Those are all items focused on the 46,000 employees of LKQ. We need sustainable supply chain. We manufacture almost nothing. We do some remanufacturing and we've got a couple of businesses in our specialty group that truly manufacture a product, but most everything we do is we buy product from somebody else. And so we need to go back into the supply chain and make sure that our vendors are being sustainable as well.

Then, those communities, those 1,500 communities where we operate, we need to make sure we're being really good partners and supporting them where we can. After the presentation, I'll be happy to chat about and say what we're doing in the Ukraine right now for our employees and the community in the Ukraine.

Last week, we published our second annual Corporate Sustainability Report. A couple of key items that changed from our first report is we've set some hard targets on just a couple of items. First as it relates to climate change and the carbon footprint, our goal is to be carbon neutral by 2050, and we can't wait until 2040 to start that program. So we have a target to have a 30% reduction in our carbon footprint by 2030. How are we going to get there? By focusing on our facilities and focusing on our fleet.

On the other side, employee engagement as I said is critically important. We had our first ever employee engagement survey in the history of the company in 2021. We didn't get to everybody across the globe; in 2022 we will. We had pretty good participation, but we think there's a direct correlation between the participation in the survey because it's optional for our employees, but there's a direct correlation between participation in the survey and where employee engagement is. And so our goal is to improve the participation rate in the survey and obviously to improve the engagement score. We have targets for 2030 and then longer-term targets as well.

Those are the two key areas that we wanted to highlight out of the CSR report. Here are some statistics that are included in that report as well. Again, this is all largely coming out of our recycling and salvage operations. Recycling almost 4 million gallons of fuel, over 2 million gallons of oil. We sold 13.8 million used vehicle parts last year. That's 13.8 million parts that did not need to be manufactured, did not need to be packaged, did not need to be shipped from around the world. Okay? That is a true, a positive impact on our planet. Then obviously reduced our electric usage and saved thousands of tons of CO2.

So, in closing, again, four key priorities. Nothing has changed. Nothing will change. But we have some key targets, right? You see on the slide that from a growth perspective, when you take a look at all of our businesses, we think over the medium- and the long term, we can grow somewhere between 2% and 3%. Now, it's very important that all of you understand we have stripped out the impact of inflation from that

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number, so there's no inflation in that number. This is just core growth which we believe is basically 1% industry growth packaged together with 1% to 2% in the form of growth coming from market share gains.

I have no ability to predict what inflation is going to be a year or two or three from now. I've seen estimates suggesting that in 2023 inflation in the United States will run between 2% and 3%. I'll take the over on that with anybody in the room. Okay? We don't know how to project inflation. What we do know is we need to stay ahead of inflation. We need to be very aggressive on pricing. And all of my leadership knows that if we fall behind on inflation we will never catch up. Okay?

We're a humble distributor. We buy product, we put it in a warehouse and we deliver it to our customers. There is no reason we should be caught holding the inflation bag, and we have no intention of doing that.

These growth numbers, it's important you understand those exclude the impact of any material inflation. Obviously inflation, if it continues to run at 8% or 9% in the U.S. or 4% to 5% in Europe, our growth should be significantly higher than what's on this page.

We do expect to get margin enhancement, 15 to 25 basis points every year, by grinding it out. There's nothing fancy here. It's hard work but that's what our operating leaders are great at, and they will continue to perform.

Then lastly, generating cash, we're very confident we can generate more than a billion dollars of free cash flow, which after paying the dividend gives us $700 million to $750 million of cash to invest in our businesses, to buy back shares and to create more value for our shareholders.

Lastly, our goal is to be both a great company and a great stock. We don't think those are mutually exclusive. We think they actually go hand-in-hand and our goal is to do just that. It is to create a great company for our customers, for our employees and for the communities in which we operate, and obviously to create value for all of our shareholders, and that's what we're going to stay incredibly focused on.

That's the opening comments. I'm thrilled to turn the podium over to Justin and Rick who are going to talk about our North American Wholesale business.

Justin Jude

Thank you Nick.

As Nick said, my name is Justin Jude. I am the President of our North American Wholesale operations. To my right is Rick Galloway, our CFO. He kind of has a dual role; he's the CFO of my business as well as Mike Dufresne's, which you'll get to hear from shortly.

Rick and I are pleased to host you guys here in Nashville at the headquarters that supports our business, primarily because him and I didn't have to travel to the airport. I know you guys have flown here or traveled here; we do appreciate you coming in. For those all virtual, thank you for joining in as well.

On behalf of my 13,000 employees, in 2021 we finished around $4.4 billion, so I want to say on behalf of them thank you once again for attending. And to my employees, thank you for the hard work that you guys did in 2021 as well.

One thing always when I go to investor meetings, there's a lot of questions about North America. Are only in collision? Are we in used? What are we? So I wanted to talk about the four main areas, and some of this Nick covered, but the four main areas of products and services that we offer in North America.

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The first is Aftermarket. We have become the leading aftermarket parts provider. Now, we have competition in every single market, but in the overall North America, in Canada and the U.S., I would say we are still in just the Aftermarket side 20 times the next size of our closest competitors. But make no mistake, in every market we have competitors. In some markets such as Dallas we have a lot more competitors, in L.A., less in some of the rural areas, but overall we have a lot of competition in there. But we have become the leader in aftermarket collision parts. So, hoods, fenders, headlights. We also provide consumables that shops need to refinish that vehicle, what they call PB&E, paint, body and equipment. That's primer, paints and tapes and what-have-you.

But where we started was on the Recycled OEM side. As Nick talked about, overall LKQ is the largest recycler of automotive vehicles in the U.S., or in the world, actually. My business did about 240,000 vehicles last year. We typically buy the total loss vehicles from auctions, bring them in. These vehicles were running perfectly they got in a wreck and totaled out. But we'll bring those vehicles in, detox them, so we recover all the fluid out of those, and in some cases take that fuel, filter it and put it back in our delivery fleet to help us on the cost side. That's allowed us—with that number of vehicles it's allowed us to become the number one provider of major mechanical, so engines and transmissions on the used side. Last year alone we sold 220,000 used engines and almost that many transmissions as well.

That business is good because we also have the collision piece of the used parts. So when a car gets hit in the side we've still got doors on the opposite side, we've got front left headlights if it's hit in the right or what-have-you, so we are able to procure mechanical parts off that vehicle and sell it, as well as collision side.

But the nice thing about my business as well as my friend Mike Dufresne, since we produce over 800,000 vehicles, we produce a lot of cores. In the remanufacturing world, core is king. Having the ability to choose these best core can produce the best remanufactured item. We entered into the remanufacturing space over a decade ago on engines and transmissions. We're also doing rear axles. We've started doing turbos. And as Nick mentioned, I'll cover it in a little bit more detail, reman hybrid batteries.

When you talk ESG, whether it's the used side or the remanufactured side, a lot of opportunity, especially not just in the environmental piece and the less disruption to the environment, but also from the supply chain issues that we talked about, these two businesses haven't really been impacted. So on the used side as well as the reman side, that's all domestically sourced typically. So we have not had the struggles of supply chain on these two businesses and they've done quite well during the supply chain issues.

The other piece I'll talk about that Nick mentioned is our Elitek operation, our Services. That's where we don't sell any parts but we provide services, and once again, I'll cover that in a little bit more detail.

As I mentioned, every space we play in today has competition. But no one has all the full breadth of North American Wholesale, let alone the full breadth that we have globally, but in North America. There may be some aftermarket people that dabble in reman or some used people that dabble in reman, or some services that might dabble in aftermarket parts, but nobody that we compete with today has the full line of offering that we have. So not only do we have that breadth, but we've also got that scale to make sure that we've got the best leading class fill rates and the best leading class service levels across North America. The nice thing is it's done in our fleet; we don't rely on third-party to ship it to our customers. It's all handled internally.

That scale that we have, we've been able to survive through the pandemic and actually do pretty well through the pandemic. Even through the supply chain since we have a diverse offering in North America—we have seen some struggles on one product line; we've been able to shift it and grow the

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revenue on another product line. That diversification that LKQ North America brings has been strong for us.

That strength that we have on that coast-to-coast, so consistent quality of products, consistent quality of service levels, they all come at a competitive price to that OEM expensive piece. So that scale that we have, the offerings that we have allows us to build strong partnerships with the insurance carriers as well as the MSOs because they both rely on us. As they get bigger they rely on consistency. They don't like to call multiple different people across different locations or different markets; they like to have that consistent and LKQ is the only one that provides that nationwide, coast-to-coast consistent coverage of fill rate, warranty and quality products.

MSOs are growing. There's no doubt. They're creating some more efficiencies in an industry that is already inefficient. But when those MSOs grow and they win, LKQ wins too because once again, they rely more and more on that consistent supply chain of alternative parts. And LKQ always fits the bill for that.

In 2020—and Nick talked about this—but in 2020 we shared the shift that LKQ had really in 2018 on focusing on growth to focusing on profitable growth. Once again, as Nick mentioned, we changed it and not only did we put budgets in place to make sure that happened, we changed the compensation to make sure they were motivated and incentivized to grow where we needed to grow. But this is a slide that we shared in 2020, and Rick and I are going to go through these four bullet points: Business Focus, Commercial, Operational, and Cash, to kind of give you an update of where we are and other things that we're doing each one of these areas of focus.

As Nick talked about, our Elitek services business. If you go back, when we started looking at this industry it was for two different reasons. One, a new revenue stream. But with that ADAS technology coming in, it was very complex. Not only one year of one model to the next year was changing pretty quickly, but one brand to another brand is much, much different. Different processes for calibration, different tools, different training. We were seeing a shift of some of our body shops couldn't repair these vehicles. They could hang the fender. They could paint it. They couldn't do the calibration or they couldn't do some of the other technical repairs that were needed. We saw some of those vehicles migrating into a dealership where we have less chance of selling alternative parts.

So, we doubled down on this space, bought a company called Elitek about three years ago, and so far we are now in 55 different markets on the mobile side. But how our business operates, we start with a remote piece where we can sell a tool to a customer, remote into that computer or remote into the car's computer and tell them, "Here's what's wrong with the vehicle and here's what needs to be repaired." In some cases, they take that and they go do the repair. In other cases, they can't and we'll dispatch our mobile team in there to finish up the diagnostics work, physically do the technical repair that needs to happen, whether it's replacing modules, airbags, redoing wiring harnesses, and then after that vehicle is fully done and ready to be delivered to the customer, we'll do that calibration.

We see as this ADAS technology continues to grow and expand, and the complexity grows, there's more and more growth opportunities for our Elitek business, and it does generate much higher EBITDA margins than our core business in North America. So, we see that as a great investment for us, to continue as the car technology changes. It's a good opportunity for North America to be in that business.

The other thing we're seeing on a change, as Nick talked about, is the EV world. We know combustible engines are going to be migrating to EV, but unlike EVs today, there is a lot more hybrid vehicles on the road in North America than there are EV. They've been on the road for a lot longer and they're having batteries fail. The nice thing about a hybrid is we can sell them a used or remanufactured engine as well as a remanufactured battery.

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We entered this space, as Nick said, about 12 months ago when we acquired Green Bean where we not only remanufacture batteries, we actually go out to the customer—whether it's a business or a consumer—and do the installation. The big benefit of being in the reman business is once again having that core, having the best choice of core, and our business generates—between myself and Mike Dufresne's business—generates plenty of cores for us to get the best core to deliver the best quality of remanufactured hybrid battery.

We're beginning to work on and invest in the research and development to make sure we can do the EV world as well, so when the demand for EV failed batteries is there, LKQ will be ready to capitalize as well.

I think you've heard a lot from me. I'm going to now turn it over to you, Rick.

Rick Galloway

Very good.

One of the things we've talked about a couple of times, you heard it from Nick, you heard it from Justin was this business focus of profitable growth with a really big focus on the profitability side and making sure that we're going in the right area. Obviously the pandemic that we've all witnessed and experienced along with the global supply chain issues have made it a little bit more difficult, but what we're pleased to see is what our folks have delivered over and over again is constant improvement over and over, whether we're talking about how to deal with the COVID world or how to deal with the supply chain world.

One of the things that we were able to do is expand in 2021 12% more in our overall capacity for our salvage yards. What that allows us to do is say yes more often. So when we're out there—and Justin mentioned it—this doesn't require anything coming in. We're sitting there sourcing it from the U.S. and then we're able to say yes more often as we expand that overall capacity. We are seeing demand come back. We're really excited about the demand coming back, but we also have this limited supply chain issue that we're going through that we think will probably happen for the rest of this year, and then we're going to come back and recover on the Aftermarket side.

But as we look at this thing and as we look at the overall profitability, it's important for us to take another thing into a view of is this inflationary impact. We're all seeing the inflation. We're all talking about it. Nick just talked about it. One of the things that's important for us is as a distributor we don't believe we should be stuck holding the product inflation, so we are able to push that off into our customers. Then what we look at—and Justin is going to talk about it in a little bit—is we look at the overall productivity to offset some of our cost inflationary increases with labor or those kind of things.

You can see, as we've been able to do that, that bottom chart on the bottom right of your screen, we're really pleased to see that this thing keeps improving, whether it's gross margin or EBITDA percent, and looking at that overall profitability. So we would tell you that strategy is working pretty well.

Justin, if you want to go on to the next slide, the other thing that Nick kind of mentioned was on PGW. We are going into the business and we are looking at all of our businesses and whether or not we're the best owner or not. What we're really pleased to see is PGW had really significant improvements over the last three years through productivity, delivery, sourcing, overall cost reductions, and the business continued to improve. It's a great business. However, the business is not synergistic with LKQ. It goes on a different truck. It goes to a different customer.

So, as we looked at that business and we looked at the overall profitability, we weren't going to be able to get it to the margins that we thought that we should be able to make, plus we didn't think LKQ was the best owner. So as Nick mentioned, back in April, April 18th, we announced and we closed the deal to

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divest PGW, and we'll continue to do that. That's some of the commitment we've made to all of you when we said, "Look, commercial actions, we're going to exit margin dilutive businesses," and we're going to continue to look at that.

The second thing that we've got is on our overall commitment and relationship with MSOs, as Justin was talking about. The relationship with our MSOs is very strong. We're able to go into our MSOs or our larger customers and say yes more often and get another part on the truck. So, as we look at our overall portfolio and what we're able to source, we look at our aftermarket. We've gone into PBE. When we started, we were really a parts supplier; now we kind of look at ourselves as a solution. We talk to our customers. We look at our customers and we see what their issues are. One of the great examples is something like a headlight. A headlight now requires a module that goes into the headlight, and then calibration that goes on top of that. It had become a more complex repair. What we're able to do is with the Elitek and the parts that we're able to provide, we can provide an overall solution for these locations to deliver the part and be able to calibrate that part back for the customer to be able to use the vehicle.

Back to you, Justin.

Justin Jude

As Rick talked about, deep in with the collision side, but I would say that today we have less—less of my business is collision than it was last year, and next year it will be even less. As we shift to these different business lines that we have, we are less and less reliant on the collision side. But if we look at what happened in the collision market during the pandemic, obviously we saw a huge drop in demand, but then that also spurred a lot of more working from home. Even though vehicle miles travelled has almost recovered to pre-pandemic, those types of miles that are travelled are completely different. Less, congestion on the roads leads to less accidents with that working from home.

In addition, we talked about ADAS. I mean ADAS, the intent of that is to reduce accidents and we saw some slight reduction of accidents, but overall through all these headwinds that we had, including the supply chain that Rick talked about, we were able to still grow revenue and grow our operating profitability. A lot of our competitors did not have that luxury. They had to downsize a lot more whereas we expanded, not only—we expanded from a profitable growth standpoint.

But we did it by a couple of different ways. One, investing in the new businesses that we talked about, also investing in the operational excellence piece, and one piece—and really, the business focus piece was trying to get new business. When the supply chain constraints were happening, there was a lot of people in the industry that weren't buying from LKQ, they started calling us again because even though our fill rates may have come down, we're still much, much better off than our aftermarket competitors and our recycle competitors, and in some cases even the OEs. So, we started gaining more of those customers calling, but we needed a way to make sure that we tracked it, not only to get that one-time sale but to get more and more share of their wallet and keep that customer buying.

So, about a year ago we started investing into a CRM solution called Sales Assistant. LKQ collects a lot of data, and so our sales team led this off to say, "How do we get that data? How do we formalize it to give our sales reps the best, highest probable opportunity for a sales call?"

It isn't just calling a customer now and saying, "Hey, we see you're buying hoods and fenders but you're not buying radiators. What can we do?" It's more real-time of, "We see this order that you had for a headlight. In order for that headlight to get damaged, more than likely the fender was damaged, the bumper cover was damaged. We have them in stock right now and here's the prices." We're turning those into sales immediately on a transactional basis real-time. We saw in Q1 roughly a 6%—I'm sorry, last year roughly a 6% in revenue lift just associated to the Sales Assistant tool.

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Right now, we're in Phase 1. We haven't even deployed it across all of North America sales reps yet, but we have multiple phases coming to make sure that once again we turn our—we arm our sales force team with the best information they can to make the best real-time decisions and long-term decisions when it comes to getting customers' share of wallet.

Other things we're doing, investing in the operational excellence piece is leveraging the whole digital transformation. One piece I talked about in 2020 was us using AI when we bid on vehicles. For those that didn't listen in 2020, we were rolling out this AI on the salvage bidding process. We bid on roughly 3 million to 4 million cars a year to get the best 250,000 cars that will bring us the best quality, the best margin opportunity. But when you bid on 3 million to 4 million cars, it's costly and it also runs a higher risk because it's laborious to do that. So we've invested into an AI technology to help streamline that process to not only minimize our costs, so maybe we could bid on 5 million cars, expand that to even get the best 250,000 or 300,000 cars we need, but to do it cost effectively and to do it more accurately.

We've seen a cost reduction occur through this and we've also seen a gross margin improvement. The nice thing about AI, it has a machine learning piece that will continually get tuned up and refined to drive better and better results.

Another piece that we're leveraging digital transformation to help us on an operational standpoint is looking at our network, our warehouses, our 4,000 delivery fleet. We have the largest scale operation in our industry by far, but it is complex. So there's always risk of making changes that say, "If we close this location and relocate it 10 miles, or downsize or add more truck or add more shuttles or what-have-you, what does that do from a customer service standpoint and fill rate? What does it do from a cost standpoint? What does it do from an inventory value standpoint?" That risk is something that we don't like to do physically, so we invested in a software system called Llamasoft which we can create a digital twin of our network, put in all of the inputs that tells us what happens with fill rates, what happens with inventory valuations, service levels, delivery times and what-have-you, and we can run different scenarios through this digital twin to see what the results are, to make sure that we're making the best choice. Overall, we're not fully deployed yet, but we've already started to see some benefits as we begin the infancy of rolling this out. But once again, it will allow us to look at leveraging the right trade working capital of inventory, ultimately try and increase customer service levels to our customers, but then see if we can reduce our footprint or get it more and more optimized.

The other piece of operational excellence that we're looking on is kind of helping to change our culture on a lean daily management. A lot of teams have always been very reactionary in some cases versus proactive, so a new position that we hired this year this year was a VP of Lean Daily Management. He will create a team that will go kind of cross-functional through all the regions to make sure we're sharing the best practices, we're thinking outside the box, but ultimately driving down that daily behavior to problem solve and make sure that the fires that occur today don't even occur, and at the same time, pushing safety as …

One biggest thing that keeps Rick and I up isn't P&Ls, it's the safety of our employees. This whole process will help us continue to get better at the operational excellence, as well as the safety piece.

Rick?

Rick Galloway

I think the other piece to close the business loop out is we have a strong focus, as we talked about—we talked about this in 2020—whether it's the business focus, the commercial aspect, the operational, it

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really comes down to how much free cash flow are you generating. That is one thing that Nick mentioned. One thing that we're highly focused on.

One of the things that LKQ is able to do with the size that we have is further integrate with our customers. We can integrate with our systems, our systems with their systems, and what we've found is when we were going after this cash opportunity, there is a big opportunity with our AR cycle to link up with our customers and make sure that there's less questions, less past dues. One of the things that we're really pleased over the last couple of years, we've been able to increase our past dues from a 90% number percent current up to upper 90s consistently. Now we're sitting there, working with our customers on a regular basis with things that are really value-add within the business. Furthering that, we have the network optimization that's helping to drive our inventories down, and this lean daily management is overall take out the waste, and inventory essentially is a bit of waste. How do we get that number down? How do we control that number? We're able to do that through this lean daily process.

One thing that's important to note is with the supply chain issues, we will see a little bit of an uptick on our Aftermarket inventory as that starts to recover, so just to make sure that all of you are aware of that.

Why don't I send it over to you to close it out?

Justin Jude

Thanks Rick.

In closing, I hope you guys see that the shift that North America has had, or really that the Company has had in 2018 on expansion of margins, not just focusing on growth has paid off. The results should speak for themselves. In North America, over a 400 bp improvement in EBITDA, but if we take all the different strategic investments that we have done and will continue to do, we look at the operational excellence piece and trying to be disciplined on cash management, we feel that sustainable improvements in revenue—just looking at volume; not taking into account inflation or price or what-have-you—is in that 2% to 3% range.

Now, in the last couple of years, as Nick talked about, we're a humble distributor, so when inflation happens we pass it on and we've done a great job of passing on to our customer. So, depending what happens with inflation, obviously there is upside in these numbers, but just looking at volume, through share gains and what-have-you, we see a 2% to 3% growth over the next several years.

In addition, a lot of the things we're doing from an operational excellence standpoint, whether it's going after lean daily management, more digital transformation to make our teams better and more efficient, we see a 10 bp to 30 bp improvement on average as well on the EBITDA side.

Once again, this will wrap up North America. On behalf of myself and Rick, thank you for the time this morning. I look forward to entertaining you guys out and during the lunch, but now, without further ado, I'm going to introduce my friend Mike Dufresne that runs our Self Serve business.

Mike Dufresne

Thank you, sir.

Good morning. My name is Mike Dufresne and I'm proud to present our LKQ Self Service segment.

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As you know, we made the decision in Q1 to break out our Self Service business into its own reporting segment to help provide better visibility to the investment community. Over the next few minutes, I'd like to take this opportunity to help shed some light on all the work our team puts into this thriving business.

Let me tell you a little bit about myself before I get into specifics about the business. As far as I can remember, I've always been an auto enthusiast. On my summer break from college, I decided to pursue my hobby as a career and purchased a salvage yard in 1983, recognizing there were opportunities in selling used auto parts. I learned the ins and outs of the trade and the business eventually flourished. In 1998, I was LKQ's fifth acquisition.

I've had the privilege of working many of the businesses Justin just mentioned: Full Service, Aftermarket, Paint and the APO retail business. In 2019, I was asked to take over the Self Service business following the previous business leader's retirement. I couldn't be more excited to run this line of the business as it encompasses so much of what I've learned over my past 30 years in the industry.

I'm proud to represent more than 1,650 employees of LKQ's Self Service segment. Our business procures end-of-life vehicles from various sources, including the general public, auto shops, peddlers and auctions, just to name a few. These vehicles tend to be a few years older compared to the Full Service business. Our team processes these vehicles by extracting all the fluids to safely reuse, recycle or properly dispose of where necessary, and promptly sets these vehicles in one of our 69 locations where customers can remove parts. We operate our yards as retail establishments where the general public pays a nominal entrance fee to access our vehicles and gives them the opportunity to disassemble desired vehicle parts for purchase.

Our team has developed an optimal procurement-to-crush process to help meet customers' needs and optimize our order-to-cash cycle of about 90 days.

We are pleased to share in 2021 we achieved revenue of $787 million with a margin of 22.3%. As you can see on the map, we have a strong presence in various areas of the country, but we also recognize there's ample opportunity for further expansion in many major cities.

We're very pleased with our long history of recycling and our strong commitment to ESG. We procured and recycled 554,000 cycles, over 1.2 million tires, and over 2.5 million gallons of fuel in 2021 alone.

To help give you a picture of our competition, Schnitzer and Nucor have subsets of their business that compete directly with our Self Service business. However, the majority of the industry is highly fragmented regionally. We've provided a few of the larger players on this slide.

Between 2019 and 2021 we saw high volatility in the commodity markets, and thus our Metals revenue ranged from 63% up to 73% of our total revenue. While we cannot control the volatility in the metals market, through our superior operating model, we have decreased our order-to-cash cycle to 90 days, thus minimizing the impact on metal volatility.

The process time is important for us to more closely align vehicle procurement costs with the scrap metal market. I believe our team does this the best in the industry.

What we do have more control over is our Parts & Service revenue where I'm pleased to say we've seen a 3.8% compound annual growth over our last three years. Our team takes great pride in providing an outstanding customer experience, and thus, the ability to continue to grow this part of the business is very exciting for us.

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People, process, customer offerings and digital strategy, we do these things better than anyone in the industry. Our people have extensive industry knowledge, which allows us to obtain a better all-around customer experience, and helps us drive significant standardization across the country through operational excellence. Our team is results orientated and our compensation structure is aligned with LKQ's focus on continued profitable growth.

In addition, my team has deep roots in our local communities and has been awarded various recognitions across the country for our dedication to making our communities a better place to live.

Disciplined process execution is critical in operating 69 facilities across the country. We have developed processes that allow us to have industry-leading yields on our cores and parts. Our breadth and depth of inventory is second-to-none. Our extensive geographical footprint is unmatched, and we're also able to provide a better customer experience through a superior parts guarantee program.

One of our newer areas of focus is on our digital presence. Our customers range from someone wanting to sell us a vehicle to another person needing a tail light for their 15-year-old vehicle. One way we can better serve these customers is through enhancements in our digital presence. We are proud of the steps we have already taken with completion of our digital app allowing customers to receive push notifications on vehicles of interest, communicating a listing of current vehicles, and communicating upcoming promotional sales.

Now I'd like to take you through just two of our strategic initiatives to help you better understand some further opportunities we have in our business. The first is on centralized buying and dispatch, and the second, we'll go into some detail on our digital strategy.

As I mentioned, we are focused on both the purchase of the vehicles as well as the sale of parts. The first initiative surrounds search engine marketing and optimization.

The way I think about these two items is, one, I'm paying for clicks, and two, organic growth from the website traffic.

We've made various investments to help sellers understand we are interested in the vehicle they are selling and would like an opportunity to quote it at a fair price. When someone does a Google search to sell their junk car, our desire is for LKQ Self Service to come up first in that listing. By increasing this traffic, we'll be able to procure more vehicles directly from sellers and avoid any additional fees associated with purchases down the value chain. In addition, our research suggests that these marketing efforts help build trust and encourage return customers.

Our objective is to be the most customer-focused business, and completing that purchase transaction is very important to us. One way we would be doing that is to utilize our Central Procurement team to dispatch an internal fleet to pick up the vehicle. Doing this will help eliminate inefficiencies using third-party towing agencies who are less reliable. In addition, we believe this will reduce our quote-to-pickup time by at least 50%. Having success in this initiative improves our cost structure, increases our speed of procurement and delivers an overall improved customer experience.

As an example of how we're continuing to innovate and enhance our industry, we have developed a digital strategy to help further differentiate us from our competition. We've spoken about the top two items in our previous slide, so let me expand a bit on the other four.

Based on our customer demand data, we know there is the need for certain fast moving parts that are being sold through online marketplaces throughout the country. Using this data, we're able to remove these parts to sell online prior to scrapping the vehicle, thus improving our profitability.

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We continue to improve our data collection and master data management which help drive our last two strategic initiatives of improved pricing and vehicle valuation models. Our current pricing model lacks the level of detail needed to properly price items by interchange data and demand. The enhancements we are working on will help price based on market data demand and resulting in an increase in volumes and overall profitability. In addition, we are partnering with Justin's Full Service business to enhance our vehicle valuation process, allowing better precision on the vehicle procurement. We will combine our existing inventory with known customer demand to reflect the bid price more accurately, and thereby, win the right vehicles for our customers' needs. This is the power of LKQ, as we believe we are the only company in the industry that can provide this to our customers.

As I conclude, I believe our Self Service segment has the industry-leading operations with a significant focus on optimal order-to-cash cycle, all while driving a superior customer experience. As I mentioned earlier, our focus on operational excellence and standardization has created an operational hedge on commodities, converting procurement-to-cash between 30 and 90 days, thereby decreasing the impact of market fluctuations.

Our exceptional people, combined with our LKQ proprietary data, is a catalyst for continued growth and profitability, and utilizing our digital strategy will help us better source vehicles and allow us to enhance our product offerings, resulting in a superior customer experience.

Thank you for your time.

Joseph Boutross

Speaking of mics, I don't think mine's on. Now I have two different mics. Here we go.

We're at break time. I think we all know what a break is. I do want to remind folks that have dialed into the webcast that we have a Q&A session and feel free to submit questions and we'll try to get to them today, if possible. If not, the IR department will follow-up accordingly after the Investor Day. Thank you.

I think you clearly saw the passion, the industry knowledge and the enthusiasm of the initial segments that presented today, and there's more good stuff to follow, so thanks. Break time.

Announcer

Our program will resume in five minutes. Five minutes, thank you.

Ladies and gentlemen, please find your seats. Our program will start in one minute. One minute.

Joseph Boutross

Well, that was a very quick break. We are now moving on to our European business segment. We have the benefit of Arnd Franz and Yanik Cantieni, our CFO for the European business, livestreamed from Zug, Switzerland. I think the results of the 1LKQ Europe program speaks for themselves. Today, you're going to hear where do we go from here. Arnd and Yanik.

Arnd Franz

Thank you Joe, and good day from our LKQ Europe head office in Zug, Switzerland. My name is Arnd Franz, CEO of LKQ Europe, and with me is Yanik Cantieni, our European Chief Financial Officer. Yanik will explain some of the details of our profitability improvement later on.

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Welcome to all the attendants, whether in Nashville or virtual, of the 2022 LKQ Investor Day. Welcome to our presentation here about LKQ Europe, and we'll see Yanik in a few moments.

Yanik Cantieni

Thank you, Arnd.

Arnd Franz

Today, LKQ is the largest independent European distributor of vehicle parts and accessories. With our 1,000 branches, we sell to more than 100,000 workshops across Europe multiple times a day. Over the past years, we have developed a resilient business that is generating industry-leading margins with high capital efficiencies and an attractive outlook for the long-term growth.

Our teams are creating a seamless digital experience for our customers across multiple channels with our used parts offering green manufacturing capabilities and our CO2 footprint strategy; we're also a leader on sustainability in the independent aftermarket.

Let's take a look at LKQ Europe's footprint today. Together with LKQ's investment in Mekonomen in Scandinavia, we are present in 20 countries, from Sicily through the Polar Circle. In 12 of these 20 markets, LKQ is the number one player. Our geographical expansion continues. In France, we are growing our distribution footprint with two new distribution centers in Paris and Nantes this year.

Our assortment includes 900,000 centrally managed part numbers. Our 26,000 employees serve thousands of customers multiple times a day. More than 10,000 of them rely on workshop concepts provided and coordinated by LKQ. We are the leading distributor of automotive aftermarket parts for cars, commercial vans and industrial vehicles in Europe.

LKQ is a decade-long success story, starting with the acquisition of Euro Car Parts in 2011, and its subsequent strong organic growth to become the market leader in the U.K. and Ireland, LKQ has acquired some of the best assets in the independent aftermarket in Europe. With the acquisition of Sator and Benelux in France, Rhiag in Italy and Switzerland, and Central in Eastern Europe, and finally Stahlgruber in 2018, we have become the leader in the market consolidation, taking the European independent aftermarket to the next level.

Over the past two and a half years, with our 1LKQ Europe program, we have invested in the integration of the acquired companies and have seen the first effects of a more productive and joint organization, moving towards carbon best-in-class practices. At the same time, we keep the proximity to our customers and the entrepreneurial spirit that has been the key to success for our distribution platforms. We invest in our people and we continue to drive operational excellence.

On this slide, we can see the positive development of both revenue, EBITDA margin and trade working capital as a result of the LKQ Europe program and the productivity measures implemented with it. Our EBITDA margin has reached a solid double-digit percentage, and our working capital performance has improved significantly. Although it is almost impossible to predict the political and economic environment with inflation and supply chain disruption, we feel comfortable that the team and the tools that we have will put us in place to deliver double-digit margins sustainably, and also deliver a strong working capital performance in 2022.

Yanik Cantieni will now explain some more examples of the actions we have deployed to secure our performance. Yanik?

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Yanik Cantieni

Thank you very much, Arnd.

Our margin improvement is a result of our strong team focus on our procurement excellence initiatives, including our tendering actions and negotiations of pan-European prices with suppliers, which has contributed to $85 million between 2019 and 2021. This is equal to nearly 140 basis points of margin improvement. In addition, we've improved the quality of our revenue, we've looked at managing our product portfolio effectively, such as by reducing lines and focusing on product margin, and we've made great progress on expanding the penetration of the private label brand products in existing markets, and we are introducing brands into new markets. Since 2019, we've grown our revenue of private label brands by nearly 20%, and these products are contributing favorably toward gross margin expansion.

In addition, we've diversified on the performing assets, such as the Stahlgruber telecom business and the Croatia business, further improving our EBITDA margin. Our teams are also working really hard to improve our trade working capital position by negotiating extended payment terms and by using our supply chain financing program. With these programs, we've been able to increase our accounts payable on inventory ratio, and this is continuously improving. The recent announcement that LKQ is considered investment-grade will certainly provide us with even more power to improve this going forward.

Again, our commitment to procurement and pricing excellence is very important, especially in the context of significant inflation, and we know that the tools and the disciplines we've built will make us successful in managing inflation.

Our efficiency and productivity initiatives are not isolated to logistics and branch network structure. We're also focusing on delivering high service levels to our customers at both the internal and the external customers, and which we are achieving by using new technologies and by continuously standardizing and improving our business processes.

One of our key enablers to achieve this is a very close collaboration with our colleagues at the Shared Service Center located in Bangalore, and at the Innovation Service Center located in Katowice, Poland, which we opened mid-2021. As of today, out of nearly 1,200 employees that are located at both locations, more than 435 employees are working with the European team, compared to 79 employees at the end of 2019, so here we've made really good progress. We continue building the talent pool in both locations. In fact, these locations are not only providing essential transactional and administrative support, but they are developing digital capabilities with a strong focus on providing innovative customer solutions.

To continuously improve on productivity, we are streamlining our organization in Europe, and we've been able to increase our revenue by employees by 12% between 2019 and 2021.

All in all, we are establishing a strong foundation based on which we are continuously improving our performance.

Arnd, back to you, regarding operational excellence.

Arnd Franz

Thank you, Yanik.

Let's take a quick look at what's happening in the operational backbone of our company. Since 2019, we've of course made efforts to optimize our network; we have already taken significant steps in

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optimizing our footprint, and we've closed more than 100 of roughly 1,100 branches that we had in 2019, driving revenue per branch and demonstrating our ability to improve efficiency.

We are focusing on some large and very efficient central distribution centers like the ones in Tamworth in the U.K., or Sulzbach-Rosenberg in Germany. At the moment, we are ramping up our new vertical facility in the Netherlands that will replace multiple other smaller distribution centers across the country.

With the streamlining of our core logistics assets, we are also driving productivity with shop floor organization but also with efficient automation. Software helps us to optimize our demand planning, our replenishment and last-mile transport to further reduce costs, reduce greenhouse gas emissions and take customer satisfaction to the next level. With LKQ operational excellence, we will stay the leading player in Europe.

Let's take a look now at our market environment. Our customer base will continue to grow, even though some low vehicle production volumes in recent years have reduced, a little bit, the longer-term growth of vehicles on European roads, the total market volume will still be growing at around 1% per annum. We have seen the average age of vehicles increase for many years now, due to better technical specifications and initial quality builds, but especially, there was a strong impact during COVID with lower vehicle production and people just hanging onto their vehicles. In the next years, the average age in Europe is going to grow substantially to more than 12 years on average.

Even though it will see electrical vehicles with some lower service requirements penetrating the market more and more, even in 2030, they will represent less than 10% of the market, with most of these younger vehicles serviced in OE dealerships. This, along with the change in distribution models of the vehicle manufacturers, will accelerate the decline of a number of OE dealerships networks rapidly. After a reduction of 20% in the past 10 years, up to 50% of the remaining OE service points will disappear until 2030. A lot of their work will end up in independent garages. We'll only be affected by electrification very late in the decade; all good news for LKQ and its investors.

Let me quickly talk about the trends in European auto service, and therefore, our focus areas. Connectivity will be more and more changing the way of customer interaction in the aftermarket. LKQ engaged with the major platforms that will provide data access to independent aftermarket services to connected vehicles. Electrical vehicles will continuously penetrate the aging vehicle fleet. In the first quarter of 2022, more or less 10% of the newly registered vehicles in Europe were battery electrical vehicles; more about this later.

Driver assistance systems will help us to reduce accident rates and also collisions. The number of collisions will go down, but on the other hand, we will see more valuable parts that will be repaired on vehicles and overall lead to a positive outlook for our body shop customers.

Digital interface and channels, LKQ digital solutions are providing solutions for wholesalers, workshops and customers.

Last but not least, shared mobility, a slow start in Europe so far, but certainly gaining importance over the next years. Fleets and intermediaries will gain an importance.

What does this mean for the workshops? In the future, we expect more cross-functional and multi-brand repair driven by business with new customers like fleets and intermediaries, as insurances. They will require multi-brand workshops to qualify for the software and electrical power trains that today are primarily prevalent in OE dealership shops.

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That's where LKQ comes in with our multiple programs preparing our workshop customers for business of the future with the necessary tools, equipment, but also qualification, for example, through our new LKQ academy training concept.

Let's come back to electrification. While many studies talk about how electrical cars require less service and repair, the lithium battery representing 40% of the value of the vehicle will offer new growth opportunities in the independent aftermarket long term. Our studies, together with one of the leading technical universities in Europe, RWTH Aachen, has shown that 64% of today's batteries reach end-of-life, which is defined by 70% of the original nominal capacity after around 10 to 14 years. That is less than half than the life expectancy of the vehicle. This comes from the battery chemical deterioration in the cells, but also from defects in the cell structure and the modules, the battery management system, or the cooling system. Again, opportunities for the independent aftermarket, but where?

The independent aftermarket operators like LKQ will obviously not be involved in the production or assembly of tracks and batteries, but with our European footprint and our last-mile transportation, salvaged from remanufacturing capabilities, LKQ could become a valuable player in the circular economy for lithium batteries, especially in battery dismantling, testing and sorting, repair and remanufacturing. With more than a million batteries coming back every year in Europe, by 2030, a sizable business opportunity, creating lower cost and more environmentally friendly solutions with LKG competence.

In summary, LKQ Europe is driving operational excellence with innovation, generating value and protecting us from negative inflation impacts, with gross margin improvement through procurement and product management, strong revenue optimization tools and a continuously growing share of LKQ product brands. With operational excellence in our logistics, brand network and back office, with seamless vertical integration of our digital customer solutions and attractive workshop concepts, with answers to the challenges of the future. Our team is confident that we will be able to drive strong, above-market rate organic growth of 2.5% to 3.5% per annum, net of inflation. With the implementation of the 1LKQ Europe program and in spite of unforeseen market volatility, we believe in the sustainable achievement of double-digit EBITDA margins and continued strong cash flow generation from LKQ's European operations.

Thank you very much for following our LKQ Europe presentation. We look forward to your questions later. LKQ, keeping you moving.

Bill Rogers

Good morning. Everybody hear me? Okay, great. My name is Bill Rogers and I'm here today with Gary Mann, and we're going to run through the Specialty segment. Happy to do so, and looking forward to questions-and-answers later in the day.

I wanted to start off by saying, we've grown significantly since 2019, and since being acquired by LKQ. Our growth rate on a reported revenue basis was 12.9% since 2019, and it's been the same since LKQ acquired us. That recognizes the opportunity that we've had to grow, by being part of the LKQ family.

This has been accomplished by servicing our two core markets, which are the automotive aftermarket accessories space and the RV parts and accessories space. In both, we are the number one wholesale distribution business in the market. Our EBITDA has grown at an even faster rate, 18% since 2019 and 15.4% since being acquired by LKQ. The improvement in profitability is the result of a culture of productivity, a commitment to value-added services, a strong discipline regarding price, and through consistent priorities and growth-oriented strategic initiatives.

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Last year, in Q4, we entered into the marine space in a much more meaningful way, through an acquisition of SeaWide. SeaWide was a large wholesale distribution business in the marine electronics area, and a great addition for us to help us establish a base to grow in the marine market. Additionally, we added more premium brands to our vertically owned brands family, the largest of which is Warn Industries.

It's important to show the core fundamentals of the business, which is the reason we are successful. We have a substantial logistics network that allows us to deliver, through our broad and largely independent customer base throughout the U.S. and Canada, from a massive inventory position in both breadth and depth of product, next-day, and with a capability regarding big and bulky type products that is especially hard to replicate.

We have spent significant effort transforming the business from a manual, phone-based, customer support representative oriented and publication-based business to a digital operation. Our business-to-business system drives the large majority of our transactions, and with the customer experience being a top priority for the business, we continue to add functionality and capability to it. This has helped us become more productive, improved timeliness and accuracy. Additionally, this digital transformation has helped us open the door to many new growth areas. One example is Interactive Garage. We partnered up with them to have this tool be a central part of both of our business-to-business systems, and other programs like TurnKey eShop and Parts Via on the business-to-consumer end.

To briefly explain, TurnKey eShop is our program to help customers develop a business selling site where all of the backend inventory, process, delivery systems are hardwired; our systems are hardwired into their solution. The sales from one site will not be significant, but when you think about the thousands of opportunities at some point that we may have, it'll certainly add up to meaningful business.

Parts Via is our solution to full participation in the business-to-consumer channel. Because the program is all about helping out our brick-and-mortar independent customer base and having them participate in the online selling trends, this program does it with superior delivery, with an installation network that is the best of the best that is available out there, and with mobile scheduler tools that enable everything. This Interactive Garage tool is really a game-changer and is unique in the marketplace. You can visualize what it looks like to have your vehicle accessorized, and there really is nothing like it out there.

Marine is a top priority for us and a strategic growth platform which we are just beginning to realize. We see the market size being slightly larger than the RV market. This provides us with a lot of runway to pursue over the next three to five years. We will use our standard M&A playbook to pursue all the growth opportunities. This includes customer expansion, product expansion, customer penetration, private label opportunities, OE warranty opportunities, etc., etc., things that we have been able to do the same on the RV side. We have a lot of upside potential and we are in a great position to pursue these growth opportunities within the marine market space.

Now I'm going to turn it over to Gary to cover some other expansion opportunities.

Gary Mann

Thanks Bill.

One of the keys to continuously growing our business is to look at attractive adjacent market spaces. We certainly have a successful track record in doing just this. We started our penetration into the RV market organically, and then after a few acquisitions we were the number one distributor within four years. Most recently, we made an organic push, as Bill mentioned, into the marine market, and then cemented ourselves as a real player just last year with the acquisition of SeaWide Marine. Our distribution network

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and delivery capabilities allows us to achieve a significant amount of synergies and really gives us the ability to enter these markets and achieve those synergies after we acquire a target, as we fully integrate them into our network.

In addition to that, our towing products provide a real entry point to the customer base in a lot of these adjacent market spaces. Powersports, ebikes and PTVs are three attractive spaces that we have identified and will continue to assess.

As you've heard from other operating segments, our strategy also continues to be focused on driving profitable growth and strong cash flows. The keys to executing that strategy will include maintaining and growing our number one position in the core markets, which is the RV and the automotive space; continuing to penetrate and grow our position in the marine market; continuing to expand through M&A; and then also, continuously enhancing our exceptional digital capabilities.

Our efforts to focus on this strategy should yield around a 3% to 4% annual organic growth rate, 10 to 20 basis points of EBITDA margin improvement each year as we focus on operational excellence and efficiencies, as well as maintaining our strong gross margins, and also maintaining the strong cash flow position that we currently have.

I'll turn it back to Bill to close it out.

Bill Rogers

We're extremely fortunate to be running the LKQ Specialty business. We have a strong leadership position in the two main markets that we serve today, again, being the RV space and the automotive aftermarket, soon to be three with the marine space being the third.

As you can see, we have many elements of the platform that are hard for others to duplicate, many fundamental market advantages that help us from an overall demand basis, and we have a very experienced and strong team driving what we think is a very practical but highly growth-oriented business strategy.

With that, I'll turn it over to Varun for his piece.

Varun Laroyia

Hi. Good morning. A very warm welcome to everyone from our North America headquarters here in Nashville, Tennessee. I just took the latest count; we have well into triple-digit folks that are joining us through the webcast, and then obviously, a really good set of folks joining us here in-person in Nashville also.

This is our fourth Investor Day presentation. Nick started the first one in 2016, in-person. We did a second one in 2018, and then in the depths of the pandemic in September of 2020, we went to a virtual format, and that was well received. As we thought about the every second year Investor Day presentation, and with the economies beginning to open up, it was a tremendous opportunity for us to pick up the best of both and actually have and host this hybrid Investor Day.

We obviously have a number of folks from the buy side; thank you for your support. We have a tremendous set of sell-side analysts that are also here in-person.

We have a number of our leaders that work within the business here with us, though there is one additional constituents that we don't really talk about very much that I would like to take the opportunity to

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acknowledge, and that is a very tight set of our lending partners. These are the individuals and their institutions that have helped develop LKQ to what LKQ is today. We had about 27 lending partners; at last count we currently have 13, and they have stood through with us, through periods of extreme volatility, never, ever doubting us of what we said we would do, and we appreciate the support. As we've kind of gone from a high-growth business with lots of transactions, they have been tremendous toward the leader partners, to myself, as we have transitioned into an operating excellence model, so thank you very much. It is tremendously appreciated. As you all know, we have another 12 to 18 months of a lot of hard work to essentially get our balance sheet also in line with an investment-grade profile, but that is the other set of constituents I certainly want to take an opportunity to acknowledge.

We have our Investor Day every second year, and then in the alternate years is typically when we would host our lending partners, and this was an opportunity for us to combine the two events into one, and so there we go. That's the second piece I wanted to share this morning.

The third one really is, in the next 15-odd minutes, there are three key things that I'd like to share with everyone. The first really is our financial and operating priorities that we initiated about four years ago, and as to how they have stood strong through a period of extreme volatility. I'll give you numbers, I'll show you trends, in terms of what we've been working through.

Secondly, where capital allocation has been over the past few years, and how we think about capital allocation on a go-forward basis.

Then finally, I will wrap it up with ensuring that everyone gets a good sense of the geographic diversity, the strength and market leadership of each of our four segments, coupled with resilient underlying markets and terrific execution, what really LKQ delivers every single day. Let's get on with that.

The first slide is basically a quick financial snapshot. If you think about revenues, despite going through an extreme period of COVID-induced conflict, or COVID-induced inflationary pressures and volumes still being down across the board, our revenues are back to pre-pandemic levels. Our segment EBITDA is structurally above pre-pandemic levels and we expect for it to continue to grow from this new level.

Our net debt is a very manageable 1.3x. We have ample liquidity. And then as of yesterday afternoon, less than 24 hours ago, we are three-for-three with investment grade rating across all three ratings agencies.

If you look at the geographic diversity of our business, about 56% of our business, 54% of our revenue is North America, essentially Canada and the United States; 44%, 46% in Europe; and then from a profitability perspective, about two-thirds of the EBITDA is North America centric, though Europe is catching up fast also.

If you think about the approach to our balance sheet and also our capital allocation, if you go back two years ago, that second line there said targeting investment grade rating. That has now been changed to we have achieved investment grade rating. We are not one of those investment grade tourists; we are there for the long term, in fact will stay, a sustainable investment grade rating. The second one really is with the prodigious level of free cash flow that we have demonstrated and that we are committed to generating for the go-forward, our ability to deploy it for the highest returns, which obviously drives total shareholder returns. That's the kind of key piece, sustainable, investment-grade rating, and also driving total shareholder returns.

If you think about the key pieces that Nick mentioned earlier this morning, it's the same, right? If you're talking about driving increased organic revenue growth and taking share from our competitors, we don't

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expect to do any major transactions, and if you think about the substantial barriers to entry, we continue to widen the moat.

From a consistent and profitable growth and cash flows, you see what that delivers. Strong net income coming through, strong free cash flow coming through also, and really, we continue to deploy, under operational excellence, key programs such as the 1LKQ Europe program, including the deployment of Oracle or Project EOS as we've talked about, shared services. Yanik gave you a quick heads-up in terms of how that's been coming through from a European perspective. Then really, also in terms within North America, as to how we are using artificial intelligence to make our salvage procurement processes more effective, more efficient, and really, that is also driving a lot of benefit across the entire business.

Capital allocation is to drive our valuation, and if you think about it from a capital expenditure perspective, it is a moderate 2% to 2.25% of revenue. We are steady on that perspective. We have the ability to flex during times of extreme volatility. But the ability to continue to invest through cycles, and I'll give you some examples of those also in the coming pages, that really is what sets LKQ apart from anyone of this size and scale within our industry.

Then share repurchases, I think people have become accustomed to that piece. In aggregate, from starting the program in October 2018, in aggregate $2.5 billion, the most recent being a $0.5 billion increase to the overall share repurchase program as of last month. Then obviously, we have initiated a regular quarterly dividend also.

From a leverage perspective, just a conservative leverage philosophy. We don't expect ourselves to be above 2x. We are currently at 1.3x at the end of March, so 3/31/2022, despite the fact, with an investment grade rating, we could go significantly higher, we are very comfortable with where we are, and also from a target leverage perspective at about 2x. We have a tremendous amount of free cash which we can direct towards also growing the business on a profitable basis.

Really, the key takeaways are there for you right on the right-hand side panel of the slide, is strong, stable, market-leading, globally diversified business portfolio; a largely recession-resistant set of businesses; improving margins; strong free cash flow generation; disciplined future growth. It does not mean that our corporate development department has been disbanded, far from that. There's a healthy pipeline and we have ample firepower as and when needed to be able to take advantage as valuations finally come through from a COVID-related high. That also will come through, and we are in a wait-and-watch mode to see as to where we can deploy our capital to continue to grow the business on a profitable basis. The investment grade rating certainly provides us a lot more additional flexibility, but also enhances the overall valuation.

A couple of years ago, I shared the resiliency of our underlying markets, and really what I've done is in the next couple of slides I have fast-forwarded how the last few years have gone by. Really, if you think about, whether it be the North America business, this is really stable, U.S. vehicle miles travelled provide consistent demand for aftermarket auto parts. This is in trillions of miles. You can see what happened in 2000, 2001, how it bounced back. We saw what happened in the Great Recession; bounced back and grew from that. Then also in '20 and '21, while it is down, I think any of you that may have taken an Uber or have driven in your hometowns, or coming in from Nashville airport would have seen, traffic is back, and that certainly is good for our business. Really, the COVID-19-related stay-in-shelter triggered downturn in 2020, and the follow-on effects in 2021 triggered a unique and rare shock to underlying VMT, but we expect recovery similar to prior recessions.

If you think about the European side of things, total vehicle kilometers traveled in Europe also show a similar set of patterns, what we have seen in the United States. Again, with the COVID-19 piece coming through, but over the long run, stable vehicle miles traveled and an aging carpark certainly provide a

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steady demand for aftermarket auto parts. We feel good about the underlying resiliency of the business, at least in the industries that we operate in.

This slide really captures what Nick mentioned upfront with that maniacal focus on operational excellence. The last time we shared this it was about six months into the pandemic in September of 2020. Let's fast-forward that entire timeline, 2019, 2020, 2021, and really, on the left-hand side panel of this chart you see what has happened from an organic parts and services revenue.

Two-thousand nineteen was a time where we were essentially, I'd say, cleansing out certain loss-making contracts, whether it was in our glass business, whether it was in aircraft recycling, whether it was certain subscale markets geographically in Central and Eastern Europe, which we essentially divested. Hence, that's perfectly fine, but again, it was not a growth at all cost. As we did our deep dives into the portfolio of businesses that we had, there were certain businesses that were not even paying their return on the capital that had been invested in those businesses; it was an opportune time to divest those. I will tell you more in terms of what we have been doing, really in terms of how we've been reshaping the business and the portfolio of businesses that we have.

Think of it from a gross margin perspective. From '19 to 2021, gross margin was up 190 basis points. People may say, "Listen, that's all pricing actions and procurement excellence," for sure, but think of it from a segment EBITDA perspective during the same periods. Segment EBITDA has gone from 10.6% to 13.6%. That's a 300 basis points increase. That delta between the 300 and the 190 on gross margin, that's the Opex leverage. That's 110 basis points of leverage on a $13 billion business that we've been able to deliver and we continue to press hard on. It may not be the big bright shiny light that we talk about with regards to some of the operating side of things, but when, in Justin's business, they're talking about a roadmap and as to how we are making sure that we are not getting to face the full brunt of the higher cost of oil at this point in time, we have reset certain expectations within the markets given where we are.

Driving productivity, whether it be in North America, whether it be in Specialty, whether it be in Self Service or in Europe, how our productivity is significantly above, and we are holding onto it for as much as we can, that is certainly working through also. Whether it be technology related to artificial intelligence and as to how we make our salvage procurement that much better. Those are the kind of things that you see come through on the segment EBITDA line, and so that really adds to that 300 basis points that we've been able to deliver and we continue to build from thereon.

Free cash at a billion dollars minimum, that's an expectation. It was interesting, a few months ago, on the virtual sessions, Nick and I were asked a question by someone fairly young and new to the business from a buy side perspective, whether we had modeled out the sustainability of the billion dollars of free cash, and whether we had taken into account any black swan events. I initially thought it was a trick question since Nick gave me a little nudge in my ribs, and we realized that we're actually going through a fairly dark period. Whether it be COVID-19 or whether it be the subsequent conflict related supply chain disruptions, all of those pieces, but I think that's to say it was courteously and politely responded to. But we feel good about the billion dollars of free cash.

If you think about net leverage, that has been de-levering. We've been good about where we are. I talked about that. Adjusted EPS, from $2.37 in 2019 to just under $4.00, that's about $1.59 up, about 67% up. Obviously, you know the guidance that we've given for 2022 at $3.95; again, we continue to operate at that elevated level, that we made a step change through operational excellence and really through the pandemic, getting it on a sustainable basis and really running at this new level of operational performance that people have come to expect and should come to expect from LKQ.

The final piece at the bottom of this six-panel chart, really, is our return on invested capital. Nick had mentioned historically it was a return on equity and total revenue on the long-term incentive plan. We

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changed that piece to return on invested capital. That is a far truer and better metric, we say, and it's more shareholder-friendly also, but that is a true reflection of the strength of the business, and clearly, have made a tremendous change on that front with a step change north of 15%. We expect for ourselves, we continue to operate at around the mid-teens level on a go-forward basis.

Again, three years of strong operational performance; you now see the results of that have delivered outstanding results and reliable performance.

We've talked about the focus on free cash flow, and I just want to give a small history lesson in about three bullet points in terms of how that piece came about, and really look at the right-hand side of the chart. If you look at '15, '16 and '17, the business always generated free cash. It was kind of around the $350 million and $360 million on average. You see what the conversion ratios were; they were volatile conversion ratios from an EBITDA perspective. Q1 of 2022, we delivered what we used to deliver in one year, we delivered that in one quarter at $350 million Q1 of 2022. But how did that piece come about?

The first key piece really was deploying metrics across each of our businesses with key elements of trade working capital, namely inventory, so days inventory on hand, days payable outstanding, and then AR and pass-through AR. Something very, very simple that could be communicated so that we had all 45,000 shoulders pushing in the same direction, every org pulling in the same direction. Because as Nick mentioned, this has to go all the way down to the field, and making sure folks had direct line of sight. That was the key piece. That's really where we spent 2018, getting the foundational elements of operational excellence embedded into the business.

We knew from a European perspective we had a fantastic set of platforms, market-leading businesses, but each of them were running as disparate, fragmented platforms in themselves. As a precursor to 1LKQ Europe, what we did was we deployed, with the help of our lending partners, a cash pool. The income statement is what we drive from a management team perspective, but the balance sheet, I believe, belongs to our stockholders, and that is something that we have to make sure that we run it very, very judiciously on their behalf.

We deployed the European cash pool and we pulled out just under $100 million of excess capital that was stuck out there, again, making sure that we have the right robust foundations. Then really, the key defining piece was changing the incentive program, for the first time in almost 20 years of the Company's formation, to continue to make this a sustainable piece on a go-forward basis. There are a few foundational steps that need to get in place before we really run at this sustainably higher level.

The other piece I think as everyone is aware, the single biggest opportunity that continues to remain, and Yanik also alluded to this, is with our European business. If you think about the nature of the product set that we distribute out there, very similar to what you see, the big four here. Yes, it is a business-to-business, they have certain retail aspects, but we have certain internal targets. That's to say, they're a few hundred million dollars yet to go before we get to our internal benchmarks to be able to continue to push on that front. That goes—and clearly with the investment grade rating now that we have, three-for-three across all three ratings agencies, we certainly feel that that certainly supports a continued increase from a DPO perspective, and also cash flow generation.

A quick slide in terms of—Fitch were the first ones, last May of 2021, when they initiated coverage with investment grade rating; last month, they reaffirmed that piece at BBB- with a stable outlook. S&P upgraded us in April, so about two months ago, from BB to BBB. Then as I mentioned, under 24 hours ago, Moody's also upgraded us. The issuer rating is investment grade and then all the underlying debt also has been upgraded. Certainly it's good to see validation coming from external third parties, and what we've always said is we will continue to focus on the program that a handful of us spent many long days

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and nights, evenings and weekends in establishing. It's really good to see the results of those pieces come through. This is one aspect of it only.

As you think about the balance sheet at this point in time—and this is what I was sharing with all of you in the lead-up before we got into the formal comments—the overall balance sheet is pristine and we feel good about the fact that it's spread to sustain volatile markets. You see a large number out here for 2024, but that really is our credit facility which matures in January of 2024. As I've shared with our lending partners, expect that to decrease in size when we replace our existing facility in the next 12 months.

What we will do is we will take that $3.15 billion credit facility that we currently have and we will partially term it out, and so really create ladders in the overall capital structure, essentially the way one would expect it to be for an investment grade profile business of our size and scale. We do not have any early call option on the 2024 bonds, so those will get redeemed as and when we think the markets are appropriate, if we plan to do any early call, otherwise those are due in April 2024. The call window on the 2028s opens up in just under a year's time, and we'll certainly see what market conditions are. The plan really is to spread the maturities in future years, ensuring the balance sheet work is really what I mentioned. There's a substantial level of work that we need to do from that perspective, along with our lending partners and the debt capital markets side of things.

Let's move onto capital allocation. Really, on the left-hand side of the chart, you see what we've been doing from a capital allocation perspective in that pie chart. You see acquisitions have been about 4%; very targeted, high synergy tuck-in acquisitions. But really, the bulk, almost two-thirds of the capital that's been deployed from an operating cash perspective, is in really getting our debt levels to a very comfortable level that I mentioned previously. Just under 40% of it has gone down towards the debt paydowns; share repurchases have worked out tremendously well for our shareholders, so about a third of it has gone toward share repurchases; dividends, really, will be annualized. That number will increase just because this really only captures two quarterly dividend payments. As you think of the regular quarterly dividend that we have initiated, that will obviously continue to grow, and as our profitability grows on an adjusted net income basis, we would expect to grow our dividend also.

As you think about the priorities for the next three years, operating cash we expect to continue to maintain that high level of conversion; capital expenditures, it's a base stable level that we have, we do not see any major blips, it will be in the 2% and 2.25%. We have the ability to toggle, specifically on the growth-related Capex in times when we have excess free cash that we believe we could accelerate certain pieces.

As you probably recall, in the fourth quarter of 2021 we did accelerate certain aspects because, with inflation upon us, we had to go and place orders for basics to kind of run our business with regards to forklift trucks and racking and certain fleet where we essentially kind of prepaid to ensure at least we would get on the queue, and we still would have to wait the better part of six months to get the vast majority of it, but we did some of that. We certainly found certain opportunities to expand our ESG element with regards to salvage yards. A large yard was acquired in Colorado. Again, our ability to deploy cash during periods of extreme volatility, really investing through cycles.

Acquisitions, as I mentioned, focused on high synergy tuck-ins, no large platforms expected. Share repurchases, it's a steady number. As Nick mentioned, $1 billion of free cash, take out the dividend, and there's still the better part of $700-plus million of our ability to really toggle between certain acquisitions that are going to grow our business on a profitable basis and bring EBITDA associated with it, or the safety valve really becomes in terms of share repurchases. We have a plan in place. We have adequate capacity within the plan also.

Then really from a dividend perspective, similar to what we have been paying for the last two quarters. In fact, tomorrow is the third quarterly dividend which gets paid out on the 2nd of June. That's running at

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about 2% of yield, but it was initiated slightly lower than that, but essentially $1 a share is really what we have and the commitment really is to grow it as adjusted net income continues to grow.

Future cash flow opportunities will be allocated to the highest return opportunities across organic investments, tuck-in acquisitions, share repurchases, and ensuring that there's further shareholder return through a regular quarterly dividend.

Okay. This was a slide I was talking about as to how we've been morphing our overall portfolio of businesses. On the top left-hand side, Justin gave you an insight in terms of what we've been doing with regards to targeting critical capabilities. Think about the Green Bean and Bumblebee Battery acquisitions; it gets us a ticket into the funfair of EVs and nickel hydride battery recycling. We now play in that market. And it was a natural adjacency for us because we had salvage vehicles that we were selling the cores, specifically for the hybrid batteries to certain customers. When the opportunity came for us to vertically integrate those pieces, it was a low-risk investment because we knew the businesses, we understood the margin profile, and we knew what more we could do with them.

Elitek Services, another piece which the North America team called out. Again, from a standing start of nothing about three years ago, it is the market-leading diagnostic and calibration services business across North America, serving over 60 markets in person, and then obviously, with the remote diagnostic capabilities, being able to have an even broader coverage.

I talked about certain high return capital projects to continue to make the moat deeper across our business. The Benelux central distribution center, highly automated advanced logistics distribution centers, similar to what we have at Sulzbach-Rosenberg, serving the Stahlgruber business, or for that matter, Tamworth, or T2 as we formerly called it, serving our U.K. and Republic of Ireland markets. This is the third in our portfolio with future-proofing the business. This essentially takes out four manual distribution centers and replaces them with one heavily automated business.

We talk about talent, and we talk about labor inflation. We talk about minimum wages. In Europe, as we know, there's a concept of a living wage, and this essentially allows us to drop in capital, create a deeper moat around our business, because we know none of our competitors have the ability to set one up in a very short period of time. It's a good three- to five-year exercise from planning stage to execution and really getting it to hit its stride. We're happy with how we've deployed capital and we certainly see the returns continue to accrete.

In addition to that, we've also advanced our ESG initiative with regards to an energy efficient facility. This was a retrofit that we did, that we've deployed in solar panels to be able to ensure that we reduce our carbon emissions, it is a green excellent certification gas-free site that we have set up, and we are already being recognized for what we have put up out there. We expect more in the next three to five years as we continue to future proof the business in terms of how we make the moat deeper around our business.

Salvage land acquisitions is the other piece I talked about, as and when the opportunity comes, we certainly are in the market to make sure we can expand our salvage business. With all the supply chain disruption that's taken place, the salvage business and this dual sourcing strategy we have in the North America Wholesale business has really been huge in terms of being able to fulfill the order that was coming through. We are going deeper and broader from a salvage perspective on that business with how we inventory the parts that we extract from our salvage businesses.

Tuck-in acquisitions. Again, this is a very specific focus that I have out here as a case in point within our specialty business. Fabtech and Fab Fours, vertical integration, ability to cross-sell and really utilize our distribution capabilities within the Specialty business to throughput more product. SeaWide Marine is the

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third leg in the stool of our Specialty business. Really, for the SEMA product business, we serve the RV leg, and now SeaWide is a third leg that the Specialty leadership team has come through with. We closed the transaction on October 1 of last year, and really happy with how the team is progressing from a synergies perspective, really driving that opportunity hard also.

Finally, I think it's a case that for the longest period of time, people always told that LKQ was a serial acquirer, but we have been selectively divesting businesses also. Again, good businesses in its own right, but whether we were the rightful parents to be able to help the business grow to the next level. So, we have divested, PGW Glass being the most recent one that we closed on the 18th of April, so just over a month ago. AeroVision, which was our aircraft recycling business; it was an adjacency which did not work out. But again, we backed out of it and wish the team that's running it at this point of time. And Stahlgruber Telecom. Certain noncore assets come with some of the larger acquisitions, and we've just taken a very surgical approach to ensuring that we swim within our swim lanes with regards to what we do as a business, but also continue to expand at the edges. Anything that we can do to make our customers more productive and more efficient, our customers win, we win.

This is a financial policy update. Really, I think most of you have seen this in the past in any case, but just to kind of highlight the focus on free cash flow generation remains undiminished. Our target free cash flow to EBITDA conversion, as you've heard me say time and time again, roughly the 55% to 60%, that will remain. Optimal leverage, roughly 2x, we're kind of comfortable going up to that level. We are perfectly fine with that. Deploying capital into the highest return opportunities. I've given you a few examples as to where we do that. Returning shareholders through a regular quarterly dividend, and then obviously topped up with share repurchases and then maintaining appropriate liquidity, as I mentioned, no significant debt maturities until 2024 but really making sure that we maintain adequate liquidity to continue to invest and operate the business and grow the business, even through a market cycle.

Last two slides, and this really kind of brings it all together is the investment thesis. Very similar to what you've been hearing, not just from Nick when he kind of set the stage for this session today, but what you've really heard from each of our operating leadership teams as to what they've been doing. This really brings it together in terms of there should be no doubt in your mind of the market position that we have built up through the hard graft and some thoughtful planning across our entire business. We have stable businesses that continue to grow through economic cycles.

Organic growth and operational excellence. I've given you examples of what we've done out there, but we really expect organic revenue growth to be faster than market, so we will continue to outrun the market, i.e., take share, and we expect to grow our EBITDA faster than revenue growth.

Then the third leg really comes in capital allocation—is really allocating capital to grow earnings per share faster than EBITDA, so if you think of the algo revenue growth faster than market, EBITDA growth will be higher than that revenue growth and then with judicious capital allocation, have that continue to spin out accretive earnings per share across for our shareholders. Driving consistent and strong growth in adjusted EPS and rewarding our shareholders over the long term.

In closing, before I hand it back to Nick for his final closing thoughts, just to reiterate what Nick mentioned earlier this morning, embed operational excellence across the entire global enterprise. If anyone thinks we're completely done with operational excellence, there's still some way to go. We feel good about the fact that these are things that we control ourselves rather than the market. So, when you think about accretive margins and free cash flow generation, these are largely within our wheelhouse that we've proven, and we believe there is further opportunity in those. So, profitable revenue growth, enhancing our margins, cash flow generation materially without having the best talent, bar none, across the markets in creating a world-class company. Talent, you saw a small subset of it earlier today, and those of you that

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are here in person will get an opportunity to interact with several others as we break for lunch and we also showcase some of our products and services.

Sustainable targets with regards to organic revenue growth, 2.2% to 3.2% excluding inflation. We believe trying to predict inflation is a fool's errand. We do not plan to get overanalyzing that piece, whatever inflation is, that's what the market is, but we will continue to grow above that. With regards to EBITDA margin improvement, we believe 15 to 25 basis points sustainable margin growth is very much doable, so continue to lead. We've now set the foundation at a higher level, continue to grow from there, and then really free cash flow brings it all together with regards to at least $1 billion, if not more, on an ongoing basis.

Thank you once again for your time. I know we have a number of questions getting queued up, both on the webcast, but obviously, a number of you will also have.

Nick, I'm going to turn it over to you for your final closing comments before we get into the formal Q&A.

Nick Zarcone

Thanks Varun.

Hopefully by now, you can appreciate why we are so excited about the future of LKQ and why we are so proud to be here. Again, as I ended my formal comments a bit earlier, we've got a number of priorities, but really at the end of the day we want to be a great company for our customers, for our employees, and for the communities in which we operate. But we also know that as a publicly held company, we are entrusted and have a fiduciary responsibility to be a great stock and to create value for our shareholders, and we are all focused on doing just that. These go hand-in-hand. We don't view them as mutually exclusive. In order to be a great stock, you have to be a great company. In order to be a great company, you need to be a good stock because that really goes to the ability to attract talent. So, it's a combination of core business strategy, financial strategy, and investor strategy that bring it all together.

I'm so excited to be the leader of this organization. I think I've got the best team in the industry. You've seen a cross-section of some of those folks thus far; you're going to see more people as we head out to lunch. I am so honored to have this team by my side. I wouldn't want to go into the trenches with anybody else. I'll put my team up against any other team in the industry because I know what the results will be.

That is the close of the formal comments that we have. We're going to break the stage down and open it up to Q&A where there'll be, I think, seven or eight of us up here on stage. Again, you can ask us questions about anything you've heard this morning. You can ask us questions on things you haven't heard this morning. It's really fair game, and it's really to give you all an opportunity to ask us what's on your mind.

Thank you very much, and we're going to take a very quick break here to get rid of the podium and bring up some chairs and answer your questions. Thank you.

(Video Presentation)

Joseph Boutross

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All right. Now, the fun stuff, Q&A. Again, thank you everybody for your participation. Those participating on the webcast, you have the opportunity to click into the question box, and I'll direct it to who I think is best suited to answer it today.

I hope today gave you a better sense and appreciation of the power of LKQ, our market-leading positions in each of our operating segments, the strength of our global teams, which you had an ability to see, and the results that they've delivered in a very challenging market environment really speak for themselves, and you've heard that multiple times today, but that is a key message.

Importantly, today's presentation is focused on the trajectory and long-term opportunities that lie ahead for LKQ. We look forward to questions related to those opportunities and specific questions related to today's presentations.

I'll give the folks here an opportunity to formulate their questions. Someone sent in a question here, and I think I'll direct this to Nick. It says LKQ has witnessed a tremendous amount of change, not only in your strategic vision, but also with the operating environment we faced all over the last years, yet LKQ thrived. That said, what allowed LKQ to perform so well through such a challenging environment and what gives you the confidence that LKQ will continue the success and strategy going forward?

Nick Zarcone

Okay. Multifaceted question. As I think about it, let's all transform and go back in time, I don't know, 24 months, 26 months, and what's happened during that period of time. Clearly more change than I've ever experienced in my business career.

First, a pandemic, right? The worst pandemic in the history of the world. Over a million of our human colleagues have perished because of COVID-19, and that sent economies globally into shock. Two years ago in May of 2020, unemployment in this country was 30%. Three-zero percent, right? Economies around the globe were in freefall. So, what did governments around the world do? This massive fiscal stimulus to try and protect all the economies globally. In large part you have to argue it worked, but there is no free lunch, right? I think today, we're seeing the cost of all that investment.

You start with the labor situation what was meant to get people back to work in some ways resulted in what we refer to as the great resignation. At least in this country, the number of people who exited the labor force was an unprecedented high. We are all scrambling for labor. There's 11 million open jobs in this country today.

The supply chain debacle. You've all seen pictures of 100 ships sitting out on the Pacific Ocean waiting to get unloaded off the Long Beach and L.A. ports, and the ability to get all of those containers through the ports and into the heartland of America, just everything has multiplied both time and expense.

Inflation is everywhere, right? By last count, I had $32 trillion of federal stimulus by global governments over the last two years. When you pump in $32 trillion of capital into a marketplace where the net output of goods and services remain relatively flat, yes, you're going to get inflation, okay? So, you have inflation in raw material cost, inflation in labor, inflation in fuel in this country of $4.50 to $5 a gallon of gas; that's really good, if you're in Europe, you're paying north of 10 euros a gallon in gas, right? So massive inflation that we've had to deal with.

Now sprinkle in on top of that, things like pretty widespread global racial riots, a election in this country that has divided our population, a Russian president that decided to usurp the Ukraine. All that has happened in the last 22 months. Think about it. And yet as Varun talked about, LKQ has never performed better.

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So, Joe, the question was why? On the fly, I would say three things. Three words: resiliency, focus, and talent. Okay? We operate in a very resilient industry. The parts and services that we provide are not discretionary by a large amount, right? The reality is people around the globe depend on their personal vehicle to get along with life, whether it's to go to and from work. Whether it's to go to the grocery store, to the doctor, vacation, whatever, people use their vehicle to get through life. If the car is broken, either because of a mechanical failure or a collision, people get their cars fixed. They don't say, “You know what? The economy is really soft. I'm going to wait for two quarters before I replace my battery.” Because our car doesn't start without a new battery, right? This is not a discretionary type of part or service that we sell. It's non-discretionary, it's essential. And so we operate in a really resilient industry, and we have an incredibly resilient workforce, those 46,000 people at LKQ, who come every day to achieve our mission, right?

The second is focus. When things are really tough, you need to figure out real fast what's important. And everything cannot be important, okay? What we started with this focus on profitable revenue growth, better margins and better cash flow, we just put that into overdrive when the pandemic hit to make sure that we had a business and a financial structure that was sustainable.

Then, it's talent. What we really separate our company from most all of our competitors is the talent that you see on stage to my left and to my right, and all the folks out in the field, all the ladies and gentlemen sitting in the back of the room there, we've got the best in the industry. That is what has made the difference of us being so successful in the market environment over the last 22 months that was beyond any of our comprehension on January 1, 2020. When you think about everything that has changed in the world, and us to be able to post up the results that we have: resilience, focus, and talent.

Joseph Boutross

Great. Thank you. Mostly I’m getting questions via text, so let's put it out to the group here and they'll start. Okay, I got many choices.

We'll start with you, Ryan.

Ryan Brinkman

Thanks. Ryan Brinkman from J.P. Morgan. Thanks for taking my question. If we were to think big picture about the roughly $13 billion of revenue that you generated last year versus the, I think, $12.5 billion pre-pandemic, are you able to disaggregate at all the relative drivers of the revenue increase between volume and price? Are you shipping the same amount of products, I don't know, in units or tonnage or however you look it at higher prices? Or are you shipping fewer units at still higher prices? What is the implication to LKQ financials from this, assuming re-composition of revenue away from volume toward price? I would imagine a certain level of revenue, it's more price and less volume, it's less shipping and handling costs, etc.?

Then, what is the outlook for volume and price do you think going forward and potential impact to LKQ financials?

Joseph Boutross

Yes. I think, Varun, that might…

Varun Laroyia

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Yes.

Joseph Boutross

You leaned in. Let's give it to you.

Varun Laroyia

Let me answer. It's a great question, Ryan, and thank you for asking that question.

In each of our businesses, we do track PVM, so price volume analysis, right? We actually run that piece across each of our businesses. Frankly, each of our businesses has a slightly different story. But if you think about our European businesses, it's a combination roughly 50-50 in terms of volume and price, in terms of—as you think about organic revenue growth. As you think about our salvage business here in North America, that's actually up both in volume and price relative to pre-pandemic levels.

We've made no doubt about the fact that on our Aftermarket business here in North America, given the supply chain challenges, volume continues to be down, but it is not as down as what repairable claims have been, but that is continuing to be on an upward trajectory. And we are well positioned to be able to take advantage as volumes come back on that front, so on that it is largely price. And as you think about our Specialty business, it again is volumes are coming back in certain parts of the portfolio.

Really, the reason I kind of say this is, across the board it's a combination of both price and volume. As you think more importantly about the future, we do expect volume to come back as things begin to stabilize. The question is, a year ago if you had asked us the question would've been, listen, we think supply chain challenges will perhaps abate by the middle of 2022. Today, things are getting pushed back a little bit further. Whether it be exacerbated owing to the China lockdowns or the zero-COVID policy, things along those lines, but we feel good about the fact that even as volume continues to move up, the productivity initiatives that we've already embedded in the business will continue to help drive a stronger, more resilient business on a go-forward basis. Having the parts in inventory will continue to allow us to take share as we have been even over the past few years.

Ryan Brinkman

Very helpful. Thank you. Great.

Joseph Boutross

Thanks, Varun.

I'll take one more from the group here, and then I'll go back to—I know Bret had his hand up. Thank you.

Bret Jordan

Bret Jordan with Jefferies. Could you talk a bit more about the AI initiative? I think it came up in a couple of different slides. I guess, is that something you're seeing the return on already, as you're buying salvage vehicles better? I guess that would apply into the battery purchasing going forward. Is that going to be sort of a one-step function up as you get the return on that, or is that going to be something that's more gradual to margin?

Joseph Boutross

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I think that's probably a question for Justin and Rick.

Justin Jude

Yes, I can take on the AI for salvage procurement. So, we definitely saw a step up in gross margin and a cost reduction. We expect to see a continual gradual improvement for the years to come with it. But it really enhances—once again, we have a lot of bidders. I mean, you look at 3 million cars that we did last year where we bid on to win roughly 240,000 cars, every vehicle they're looking at has 12 pictures and they're trying to identify 20 to 30 parts at a minimum out of all those photos as to what is the interchange, what does it fit? What year range does it fit? Is it a good sellable part? Does it have damage on it? That AI technology started off to originally enhance them, hence, the people that are bidding on those vehicles, but then also correct some things that the human eye doesn't catch. You get kind of burned out when you're looking at so many photos. I mean you can imagine 12 photos against 3 million cars, it's a lot of photos for people, for teams to look at.

We saw when we started rolling it out a step up, and then we were continuing to see gradual improvements as we tweak things and continually let the AI learn from feedback, not only from the bidders that we have out there, but then when that vehicle gets procured and shipped to the yard, then they're actually physically looking at it going in and correcting something and then constantly training that machine, constantly training the AI to make it even more accurate going forward.

Then you had a question on the battery side, I think?

Bret Jordan

Whether the AI was applicable to buying batteries going forward as from core standpoint.

Justin Jude

Yes. So, one thing we looked at—I don't know if you want to take it or you want me?

Rick Galloway

No, go ahead.

Justin Jude

On the AI, it's helped us identify sub models. A lot of times when you're looking at—when you're bidding on vehicles at the auction, you know the year, make, and model, but then what is the trim level, and what is the different sub models represent? So, we began to leverage that data on photo recognition with AI to then help us understand, once again, the sub model and then know all the different options that it came with because it isn't necessarily clear that it's a hybrid. If it's a Tesla, it's clear that it's EV, but it's not always clear the EV type, but we are starting to expand the ability of AI to eventually look at that type of interchange availability to look at batteries or other product lines.

Joseph Boutross

Great. Thanks. Now, I'll switch to a question we got through our portal. This one, I'll direct to Arnd and Yanik. What gives you the confidence that you can achieve double-digit margins in Europe this year, given Q1 came in at 8.8%? I think that's a question that you both can answer.

Arnd Franz

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Yes. Thank you Joe. Thank you Joe. Thank you Joe. Of course, that's a very valid question. Looking at the beginning of this year, which of course was everything but in line with our budget assumptions. Not only from an inflation standpoint, but also from a standpoint of what our political and economic environment look like, other than just inflation and supply chain.

One thing was certainly the events in and around the Ukraine, we have around 900 employees in the Ukraine, 45 branches and that business went pretty much to zero. That certainly was a burden.

We had a couple of one-time items, including some customer bankruptcies on three-step level distribution, but the main thing was overall softness of volumes and the fact that we saw a strong increase of the energy prices and transportation prices on some of our SG&A line items.

In essence, the first quarter was untypical. We took a lot of actions immediately to respond to all those short-term challenges. The Ukraine situation as one, the inflation pressures on our SG&A, whereas we had to focus a lot on the product prices and on the SG&A. We got caught a little bit by the energy prices around the Ukraine crisis, and that has now all been factored in our revenue optimization and pricing activities.

Also, in the second quarter now, the volumes are picking up quite substantially and that's certainly something that among other things makes us quite comfortable with sticking to our double-digit margin expectations for 2022. I believe we also have the necessary tools in place to make it happen, both from a top line as well as from a cost management standpoint.

Yanik may give some further details.

Yanik Cantieni

Sure, Arnd. Thank you. Again, as you mentioned, Arnd, we are really confident that the double-digit EBITDA margin in 2022 is achievable, and I'll say three additional points.

First, the entire team is sharp focused on achieving double-digit, not only in 2022 but beyond, obviously, so that's got to be sustainable.

The second point is as Nick mentioned earlier, resiliency. We built really resiliency in our operating model, and we are extremely focused on expanding our gross margin through procurement, projects which we have and also our pricing initiatives. This is not only to offset our cost of goods sold inflation but the OpEx inflation. So, we believe that by deploying the actions on the pricing side and the procurement side, we will be having some favorability from a P&L viewpoint in 2022.

The third point is the productivity initiatives we've launched, the efficiency initiatives which we've launched, this is really helping us to make sure that we have the right level of expenses, operating expenses, SG&A, which is in line with our revenue growth.

Again, overall, we are confident that a double-digit margin in 2022 is achievable.

Joseph Boutross

Great. Thanks.

Yanik Cantieni

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Thanks for the question, Joe.

Joseph Boutross

Yes. Thank you and thank you for the very detailed answer. I'm sure everyone appreciates that.

I'm going to go back to the group here and see. Daniel Imbro from Stephens is next up on the order here.

Daniel Imbro

Yes. Thanks. Daniel Imbro from Stephens. Maybe two quickly on North America for Justin and Rick. Maybe Justin, on demand, when do you think ADAS begins to more meaningfully impact accident frequency? And when you guys look at your long-term projections, are you baking in kind of a headwind on the collision side from that?

Then on the profitability, you guys talked about assuming that there is no inflation or pricing going forward, but if we did get inflation on top of that, should there be additional margin leverage that would drive more than what you laid out in the slide, I think 10 basis points to 30 basis points on top of that?

Justin Jude

I'll take the first question and let you cover the second one. So yes, more meaningful on ADAS. I think it's going to continue to roll in at the same rate it has, and we've seen accidents reduce because of ADAS, right? Make no mistake. Arnd kind of touched on this, but the benefit that we're seeing, even though the volume of repairable claims is going down, the number of parts on the estimate, the pricing of those parts in the estimate and the availability of service to provide on that estimate, such as Elitek, is outrunning right now the ADAS side of it.

I think a couple of things are going to come to play. ADAS will continue to work and function as it should and reduce the accidents, but a couple of things that are going on as we talked about, I think less and less work from home. You're going to see over the next two to three years, less of that, to some extent, more congestion on the road leading to an offset of some accidents.

In addition, we struggled on—when we talk about price versus volume, we struggle on the Aftermarket side. We have more demand right now that we can fulfill. As the supply chain improves, whether that's the early 2023 or the back half of 2023, what have you; we will see fill rates go up, we will have the ability to say yes, so we'll be able to offset more of that with growth and volume. In addition, Rick talked about we've expanded salvage yards. We're continuing to expand salvage yards to make sure we can hold that car longer and have the ability to say, yes.

I also mentioned we've seen a shift. Less and less of my businesses is relying on collision, more and more on mechanical and then other avenues. So, I see from an LKQ standpoint, we'll still be able to outrun, hit those targets of 2% to 3% from a volume standpoint, regardless of what happens with ADAS. But we've already seen some of the reduction of accidents because of ADAS, you're going to continue to see that, but we have enough diversification in North America that we can offset that.

Rick Galloway

Yes. I think, Dan, on the inflationary questions, it's a good question. Obviously, it's going to help revenue, right? So, we'll work on that to pass that through. We keep talking about it, and we're cautious on the way we talk about it for the products, right? The product increases, we would expect to pass that through, but there's other inflationary increases, right? You've got fuel, you've got labor cost increases that we're

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seeing across the board. So, I'm sensitive to not commit to a broader margin expansion. The goal would be to hit those numbers that we're talking about on the margin expansion piece that we've committed to, but I wouldn't necessarily take inflation and say percent margins will actually increase.

We've got a ceiling obviously with the products that we sell, and that's one of the things that we look at with our customers.

Daniel Imbro

Okay.

Joseph Boutross

Great. I'll switch back to a e-question. I don't want to Bill to feel left out, so I'll direct this to the Specialty group. And there's probably a component of this that Nick or Varun can touch on.

The question is, is the capital that Specialty needs—acquisitions, Capex—self-sustaining or does it compete for capital under the corporate umbrella?

Second, how do you think about the cyclicality of this business versus the broader LKQ business?

Varun Laroyia

Maybe I'll take the first one with regards to the question being does the capital from an acquisition perspective within the Specialty segment compete with other priorities? Yes, it does. As we've talked about, there's very disciplined allocation of capital that comes through. The good part is each of our segments has got exciting opportunities that they can expand, whether it be acquisitions or organic investments.

We risk adjust acquisitions versus organic revenue growth opportunities, we prefer the organic revenue growth opportunities, lower risk and more certainty with the outcomes associated with that. But overall, yes, I mean, those are being tested against various other alternatives.

I feel very comfortable about every transaction that Bill and Gary have brought to Nick and myself; they've been very well thought through. They go hit their marks right from day one. We have seen no slippage in any of those pieces.

In terms of the operational excellence mantra across the enterprise, arguably, I'd say our Specialty segment was perhaps the precursor of having already gone down that path because they understood the kind of markets that they operated within. The operational excellence within that Specialty segment is top-notch. From that perspective, I certainly want to share that.

Overall, listen, we have access to capital. Capital has never really been the constraining factor for growing our business. Really, what we do is very thoughtful capital allocation, and that's the key piece really to talk about, to say great to have a bunch of opportunities. Again, we means test them against, say, where the other returns could be, including our share repurchases. That's the kind of rigor we run them through.

Nick Zarcone

Before I turn it over to Bill, just for the sake of clarity, we've never had to say no to one of our business units who had a great idea to grow their business organically or inorganically because of the lack of

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capital. Never have we done that. Between our $1.7 billion of EBITDA, which gets to a billion of free cash flow, $700 million after the dividend between $700 million on the one hand and the ability to flex the balance sheet up to, say, 2x, there's another $1 billion of capital there potentially. That gives us $1.7 billion of capital. We've never had to say no to really good projects. I have no intent of saying no to really good projects that can create shareholder value over the longer term.

Bill, I'll let you take the hard part of the question.

Bill Rogers

Well, I guess on that point, I would say we're very competitive in the Specialty segment, and we don't mind competing for capital anywhere. I think our main characteristic is credibility. It really goes to the organization and the ability to follow through on what we say we're going to do. Like Nick said, the capital has been there when we need it and much of the process is something that we do ourselves in terms of a discipline not to bring something that we don't think is worthwhile.

On the front of just the discretionary spending question, our business in the Specialty segment has transformed really a lot in the last 10 years from primarily a performance-oriented accessories business to what is now somewhat close to a hardware store for the RV business and the Marine business. If you think about those markets, someone invested in RV, that might be a discretionary spend. But after they buy it, they are going to use it. Whether they travel a long distance to use it or they travel locally to use it, it's really a service and maintenance type activity where we support that in every way.

If you need an awning or you need an air conditioner, you're going to get it if you're using the RV. That's where we come in, and the Marine market, we see very similarly, so we're excited about where we've taken the business from a transformation perspective in terms of what we inherited.

Joseph Boutross

Great. Thank you both. I think maybe three people answered that.

Next question comes from—maybe not Bret, if anybody else has (inaudible). Okay. We'll bounce it around.

Craig? And then I'll go back to you, Bret.

Craig Kennison

Okay. Thanks. This is Craig Kennison from Baird.

To the European team, we know that that business is primarily a professional service business and also in the mechanical market. But to what extent is there an opportunity to serve retail customers in some future period? And why hasn't collision been a bigger part of that business given what LKQ does here in North America?

Joseph Boutross

Great. I think that it's probably a joint response to that. Arnd, we'll start with you and the back half of the question given you talked about collision during your formal remarks.

Arnd Franz

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It's a great question, of course, because there seems to be, of course, a lot of differences between the U.S. or North American business, not only in LKQ, but marketwise and what we're doing here in Europe. Here in Europe, B2B, doing business with the workshops is the overwhelming majority of the market. The DIY business is relatively small. Depending on the market between 4% and 12% of the market. There has been some quite interesting growth on several players that are e-commerce players. Some of them have hit a certain ceiling in their growth, and that is because of the limitations of the DIY market. They are transforming now their business to go more into the informal or smaller workshops that don't act on a professional basis like most of our customers. That is an additional growth opportunity for LKQ as it is an additional growth opportunity for the ecommerce players. But the DIY market is certainly quite limited, especially if you stick to individual markets.

There is growth opportunity. We're studying our way to market at the moment, if we can reach more market penetration going into the even smaller workshop businesses.

Retail has not been a success model in Europe. Both from the supermarket standpoint, the specialty stores, most of them have either reduced scope or close down. We've also seen it in many of are—at least the Western Europe, in our retail stores, in our branches that we have gradually reduced because most of the business, due to the complexity of the vehicles, is now in the professional area.

Collision, a very interesting question. We have a collision dismantling business in Scandinavia. Atracco has been with LKQ for quite a number of years. We have worked like we have worked on the operational performance on our distribution system—the distribution business for the last 2.5 years, we have also worked on the operational performance of Atracco. They dismantle around 22,000 vehicles. We have 3 million part numbers on stock. We believe that's a growth opportunity for LKQ, now that we have reached a certain performance level, growing it outside of Scandinavia, and also connecting that business with our mechanical, electrical parts distribution system, creating another choice for our customers and creating another choice for our consumers, and also making a major contribution to a more sustainable business, including the circular economy, which is a big topic also from a regulatory perspective in Europe.

Number one is we will continue to grow our B2B business, including ways to expand into smaller workshops, and number two is great sales offer great growth opportunities in the collision segment reaching with more alternative solutions into body shops and other repair shops.

Yanik Cantieni

Craig, just to put it in perspective, in the United States and Canada, North America, alternative part usage measured in dollars—this is a statistic that CCC publishes—around 38% to 39%. So, of the total dollars spent to buy parts to repair a collision damaged vehicle, about 39% of that is aftermarket, recycled or refurbished parts. That number in Europe is about 7%.

It's just the insurance companies in Europe just have not put their shoulder into the utilization of alternative parts like the North American insurance companies have. The one thing that may change this– and Arnd hit on this—is this whole concept of sustainability in the circular economy and the ability to use salvage parts as part of that green initiative, we think there is some real opportunity there.

Joseph Boutross

Great. And Arnd, thanks for that comprehensive answer because you knocked two other questions out that came in electronically.

I will now go back to Bret and give him an opportunity to ask his a follow-on question.

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Bret Jordan
Yes, a question around Europe. I think historically, when you've entered markets, you've acquired one of the major players in that country, but you said you were going to open two DCs in France where Autodis and Alliance are already in the market. Is this going to be margin dilutive or an investment phase to enter that market, or is this sort of comparable to what you're seeing in the rest of Europe?

Joseph Boutross

Yes, I think that's probably—Arnd, do you want to talk about the strategy in terms of entering France and take the operational side of it? And maybe Yanik could jump in on the margin so that we hear it from the two of you. Thanks.

Arnd Franz

Thanks, Bret, for the question. Of course, there's a number of markets—and you saw it on the map earlier—that we don't have the same presence like in some of the core markets in Central Europe or like in the U.K. The Benelux business that LKQ acquired in 2013 has started to really penetrate the French market from the northeast side, already many years ago as a three-step business. The market is looking for an alternative. The market is looking for another big player coming in there, and so we get a lot of positive feedback and reception from the customer base that we have there, also in other territories. We're gradually expanding our presence there.

It is not dilutive to EBITDA margins. It's a very attractive market in the way that we do it. We may see like it was discussed as part of the LKQ overall strategy. We may see some tuck-in acquisitions to help us with this penetration of the French market to grow faster, but looking at the people that run this, looking at the organization that is working on those projects that is above average EBITDA margin, I believe we are in very safe hands with that growth strategy. Certainly, it will not make us the number one in a few years, but certainly, it will help the overall top line, and it will also help the overall bottom line of LKQ in Europe.

Joseph Boutross

Great. Thank you. I think…

Yanik Cantieni

I wouldn't add anything. I think you're—yes, it's good. Thank you.

Joseph Boutross

Yes. I think he answered it. I'm going to turn to another question that came in, and it's great because it doesn't leave my friend Mike Dufresne at the other end out.

Mike, how should we think about the growth of the Self Service business on a go-forward basis? Do you think there are opportunities for further expansion?

Mike Dufresne

Thanks Joe.

As far as the growth goes for Self Service, as you saw in my presentation, we have quite a bit of space to grow. What we are looking for is the proper demographics in the area as well as enough room for us to

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operate as far as space-wise to run the retail yards the way we operate. So, there is obviously a lot of room for us to grow this business, which could be greenfield or could be by acquisitions.

As long as we have the correct demographics and the correct land mass so that we can operate properly, we have plenty of opportunity to grow, Joe.

Joseph Boutross

Great. Thank you.

All right. Next question comes from Scott Stemper. Right here. Scott, put that arm up high. Thank you.

Scott Stemper

Good morning, and thanks for taking my questions.

Free cash flow the last couple of years definitely benefited in Europe from some of the payables extension programs that you put in place? How much more room is there? And now that you have this triple status of investment grade, are there any other capital allocation opportunities that get unleashed from that?

Joseph Boutross

Great. Great question. I think the natural for that is Varun.

Varun Laroyia

So Joe, what I'll do is let me start off the piece, and then Yanik has got more details associated with it also to kind of give you a comprehensive response.

If you go back to September of 2019 when we launched the 1LKQ Europe program formally, it was almost like a European-specific Investor Day session that we hosted. At that point of time, we set out very specific targets exiting 2021. Whether they be margin associated and growth associated, I think it's fair to say we hit every single mark that we put out there. By the way, in the midst of all of that, there's been a massive pandemic and all the market volatility.

The additional piece that we had called out there was that we would also need to undertake certain restructuring actions. In anticipation of the restructuring to kind of set aside what will pay for that cash restructuring. At that point of time, I had put a number of $200 million of incremental free cash flow coming from the European segment. Earlier today, you saw Yanik presenting a number of $300 million benefit that we've already picked up from the European business. So, clearly exceeded that target also.

Fair to say in today's date, while we have done a tremendous amount of progress, we started from a position where the only side was upside. It was a business that we were building out, making sure we have the right footprint, market-leading national champions, and then making sure that we were investing in the underlying inventory systems. Things along those lines. We've delivered on all of those pieces and really now it's the case from a payables program.

We'll be hitting our marks, and I'd say, internally, we have certain targets with regards to what that AP-to-inventory ratio should be. There are some external benchmarks. They're not exactly what we do in Europe because we don't really have a retail presence, but at least the product set and assortment is similar. It's a similar set of suppliers. We know because we serve those same folks here in the U.S.

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through Justin's business and also through Bill's business, as to what market convention they expect from their suppliers, right?

Really what the investment grade piece does is it really lifts the ceiling where trade payables could not exceed 180 days. Although, I will tell you from a European perspective, we still have some ways to go to get to 180 days at this point of time. We see significant upside on that front.

But I tell you what. Let me kind of share that background and then turn it over to Yanik, and he'll give you a few more details in terms of what their team is doing to continue to push hard on this front.

Yanik, over to you.

Yanik Cantieni

Yes. Thank you, Varun, and thank you, Scott, for the question. Look, as you mentioned, Varun, free cash flow is key, and I think we've made really great progress. We've improved our trade working capital out of the supply chain financing program and the traditional extended payment term over the past two years by $300 million.

Now, the target back then was to increase by about $100 million every single year, so we've really exceeded our target. The momentum is good. If we're looking at our DPO, we've improved our DPO over the same period, namely between 2019 and 2021 by about 60%. Again, looking into where we stand now in 2022, we've made some further progress, and yes, there is more progress to come.

A clear focus on ours is our net base, namely our cash conversion cycle. This is part of our target. Everyone is fully aware of this, the leadership team in Europe. I can say that today, we have our best cash conversion cycle we've had over the recent years here in Europe.

So yes, there is more upside. We're working on the on this upside. As Varun mentioned, the 180 days is a target. Making sure that we're improving our ratio accounts payable on inventory, we've made great progress but there's certainly more upside and we're working on this.

Varun Laroyia

Just in closing, Scott, the last piece I'd say is clearly, if you size up the opportunities across the various levels that deliver operating cash, the AP-to-inventory piece is by far the biggest opportunity, right? But needless to say—and I want to make sure that people understand the European team has actually been pushing on the other levers also—when we talk about the Benelux central distribution center and consolidating four distribution centers into one, along with that comes the ability to manage days inventory on-hand far more efficiently also.

If you think about how the teams are managing safety stock levels, clearly, we would like to have more inventory, but really, in terms of being able to manage the business and continue to maintain market acceptable fill rates, they are working on that front also.

Same thing with the receivables side. The clear focus across the business a few years ago was the level of past dues we had in the business. We had done everything for our customers. We've gotten everything signed off. But the way the system was structured was, had to be restructured to say, we don't want there to be folks that are extending and using LKQ as a bank.

That is the other piece, which I want to highlight across each of our segments down to the plant level, it's our clear focus on making sure if we have delivered everything per our commitments, we expect our

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customers to pay us on time also and that too has kind of delivered a bunch of upside associated with cash that was due to LKQ.

It's each of those pieces. Just to kind of say it's not only about the vendor financing program or extended payment terms. The team is working across multiple facets and multiple levers that they're pushing and pulling to make sure that we see that the business and really the potential associated with organic revenue growth, margin creation, and also generating a prodigious amount of free cash flow.

Joseph Boutross

Great. Thanks, Varun and Yanik. Keeping us on track, we're at 12:18 PM, and I indicated, we'll go to 12:15 PM, and the folks here on-site have the ability to interact and maybe ask additional questions when we break. I figured I would take one last question from the portal, and then we'll conclude our day.

Actually, this question is pretty broad and frankly, it probably can go across all segments, and it's related to supply chain. How have your fill rates and overall necessary inventory levels been impacted? How does this compare to our competitors? And are we taking share because of weaker competitors? Are we witnessing relief in the supply chain or are we still facing the same challenges from 2021?

Maybe we'll go in order, and I'll let Justin talk briefly, Bill, and then Arnd and Yanik, and that will conclude our formal presentation and Q&A.

Justin Jude

Thanks, Joe. On the supply chain side, we talked earlier, our used or recycled OEM piece does not really have the supply chain constraints or the global supply chain constraints that we talked about. Reman has a little bit because even though we feed the cores from our used division, we still have to go get new products to remanufacture those engines or transmissions or what have you. But the main business that was impacted by global supply chain for North America is our Aftermarket. The majority of the products come outside of North America, whether it's produced outside of North America or distributed inside of North America, but still produced outside. Those products, the majority come from Taiwan, so not a lot out of China.

In March and April, it really—or really April and May, when China shut down, it actually benefited our business because it's freed up capacity coming from Taiwan directly to the U.S. But as we know, we're seeing Shanghai starting to open things back up, and there's been months of demand building. So unfortunately, even though we saw a slight improvement for North America on the inbound, you're going to see it lapse backwards, just because as China opens up and tries to catch up, some of the retailers projected high summer month opportunities—some have not—but there's a lot of demand coming out of China. When that demand opens back up, it's going to suck capacity away from Taiwan, so we're going to see maybe a two- or three-month issue of that. But overall, we're thinking we had a slight improvement in the last couple of months, it's going to get slightly worse, but overall, things are going to gradually improve.

But at the end of the day, you look at there's a high demand right now and not a lot of capacity. Not a lot of capacity for workers, not a lot of capacity for feed coming into the ports, as Nick talked about, getting into the railheads. When we used to order our product or order a container from Taiwan, it would take us 30 days to get it from date-of-order to the date it gets to our warehouse; it's 60 days to 90 days now on average. Our competitors or even people in other industries that are importing are seeing that same thing, so there's a lot of equipment sitting in stages across North America which is now going to create more and more shortage of capacity coming out of China.

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I think you're going to see the next three months to six months of problems with supply chain, unless something causes demand to come up, but Nick talked about 11 million open jobs in North America; we're not going to have that many people enter the workforce all of a sudden. It's going to take a gradual time to get that improvement, or we're going to see some level of recession or something that's going to bring down demand and allow things to normalize a little bit.

Joseph Boutross

Great. Bill, you want to take a swag at that and then we'll… ?

Bill Rogers

The short answer for me would be that our inventory position has really improved quite a bit, and we are in a much better position overall from a fill rate and supply perspective, but there are still pockets of problems, and it really moves around a bit in terms of where those end up being problematic.

Just more from a general perspective, I would say the Marine market seems to be still probably in the largest kind of supply issue status of the core markets that we are servicing.

Joseph Boutross

Great. Arnd, you want to touch on the supply chain discussion that Bill and Justin just highlighted?

Arnd Franz

Yes. Sure. I think in Europe we are still in the middle of everything. But that may be good because the players that are suffering most from the current situation are the smaller players that don't have the leverage that LKQ has. So, we are in extremely tight contact with all our suppliers. Many of them are OE suppliers that ship parts to the OE production lines, but also parts to LKQ. When there's volatility on the OE side, they open and close their capacity, so that's one of the problems. The other problem is the upstream supply chain with, of course, other European sub suppliers, but also a lot of overseas sub suppliers and overseas raw material supply.

Then on top comes the Ukraine crisis. The number one and the number two steel exporter into Germany, for example, are Russia and the Ukraine and you've been all following the news what's happening to the steel industry in those two areas. So, it's not easy. It's difficult, but difficult is playing to our favor because we manage it more professionally than the smaller players.

Also, regarding our overseas supplies, we have made a decision to move closer to those suppliers. At the moment, we are opening a supply chain and procurement coordination office in Shanghai, China, and we are very optimistic that this will help greatly to continue to protect our customer service levels that are industry leading at 97%-plus.

Joseph Boutross

Great. Thank you, each of the segment leaders for a very comprehensive answer to that question.

This concludes our formal comments and presentation, and on behalf of LKQ Corporation, we can't thank you enough for your interest, investment and just taking the time today to really hear the strength of our business, the strength of our leadership, and the opportunities that lie ahead.

Again, thank you very much.

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