

09 - 10 - 2024

# LKQ Corp

2024 Investor Day

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## CORPORATE SPEAKERS:

**Justin Jude**

*LKQ Corp; President and Chief Executive Officer*

**John Meyne**

*LKQ Corp; Senior Vice President and President of Wholesale, North America*

**Andy Hamilton**

*LKQ Corp; Senior Vice President and Managing Director, LKQ Europe*

**Rick Galloway**

*LKQ Corp; Senior Vice President and Chief Financial Officer*

**Joseph Boutross**

*LKQ Corp; Vice President, Investor Relations*

**Unidentified Speaker**

*LKQ Corp; Company Representative*

## PARTICIPANTS:

**Bret Jordan**

*Jefferies; Analyst*

**Scott Stember**

*Roth MKM; Analyst*

**Craig Kennison**

*Baird; Analyst*

**Unidentified Participant**

*Unknown Company; Analyst*

**Brian Butler**

*Stifel; Analyst*

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## PRESENTATION:

Justin Jude^ (technical difficulty) to work as a great employer.

But we want to be known as good stewards city environment, and we also want to be good known as strong to support our local communities. I will tell you from the top down, this is something that we've always done. The mission statement kind of followed afterwards.

We've always tried to support our local communities and the team takes pride in doing that. LKQ's routes are in salvage, right?

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We started in 1998, really got on the map in 2003 when we went public.

But if you look through the history of the next 20 years after we went public, obviously we grew quite a bit, but we did diversify in different product lines, diversified in different geographies.

Then today the good news is every one of our segments is the number one in what they do. North America number one in collision distribution of parts, none in salvage, our Europe operation number one in hard parts, the markets that they operate, collision and paint they're number one.

Our specialty, number one in SMA accessories and product lines as well as number one in RV and marine on the wholesale distribution side.

Our self-serve, which is our -- the pick-apart business where consumers coming and get their own part, we're number one in that space.

Our philosophy has always been to be number one or number two with the leader in everything we do to make sure that we get the benefits of that scale, and we can give it back to our shareholders.

Today I want to make sure we accomplish a few things to make sure I accomplish a few different things.

First, I want you guys to get to know me, get to know my team, you'll get to hear about a few of them on stage today also during lunch. You'll get to interact with a few of the folks that support North America and some corporate folks.

I want you to learn about our experience, our capabilities and more importantly, to understand our strategic, our financial and our operational objectives.

I will lay out our strategy.

I'll talk to you and show you how we're expecting the overall market to grow our outlook on operational targets for revenue growth, how we will invest in organic as well as inorganic revenue growth.

Our capital allocation strategy and how we're going to return cash to our shareholders.

You're also going to get to hear from our two largest segments today.

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So John Meyne is going to talk about North America, how he's going to grow share, how he's going to deepen that moat. You're going to hear from Andy Hamilton, our CEO of our European operations. He's going to talk about some of the efficiency drivers and how he's going to widen the moat around our European operations.

Then Rick is going to wrap up, kind of help me explain how we take that strategy, back it into action plans to make sure that we deliver on the financial objectives that we have.

So that's once again the key theme for today.

So last year, when our Board began to do a search for the CEO role, and I put my name in the hat, they had said, "Well why are you just in?"

Why should you be the next CEO?

And I pretty quickly pointed out to the success that we had in North America, but that was kind of the past.

So they said, why else do you think you should be the next CEO?

And so this is a slide I shared with the board that I want to share with you guys.

And it's how I approach leadership.

It's how I've approached leadership, whether I was the CIO, I led supply chain or my last seven years sent as the President of North American wholesale.

The first area is strategy, setting the strategy.

Looking at the portfolio of what we had to offer. When I was in IT, I had to look at systems.

What systems did we have that we're fueling growth, what systems that we had that needed fixed systems that we have that just needed to be decommissioned or didn't make sense for us to operate and continue forward.

As a CEO, obviously a little bit bigger portfolio than just IT systems, but what businesses do we have?

That makes sense that need fixed that are fuel -- that can fuel our growth in the future versus ones that don't necessarily fit long term, ultimately, figuring out the strategy for the business and communicating it down.

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Now setting the strategy is one piece, we then have to invest in human capital, build the team out. A team that challenges the status quo, a team that holds themselves accountable to make sure that they can ultimately number three, deliver on the results.

Our culture will spit out employees that do not deliver plain and simple.

I value delivering on what's expected even though I've been in automotive for 27 years, I've been with LKQ for 20, I still value relationships with our employees, our customers, suppliers our investors, our Board of Directors to make sure that I get that feedback. And as a CEO, my job is to balance that feedback and bring it back in the strategy if we have to alter things. very large company, but what I want to make sure LKQ does not become is one that is very rigor and does not move and cannot adapt.

If you look at what we did in North America during the pandemic, we rightsized the business relatively quickly, got cost out of the business.

In addition, when there was an opportunity in front of us, like supply chain issues that occurred in '22 and '23, we capitalized on that as well.

I want to make sure that our teams can react fast and adapt to risks and adapt and seize opportunities that come in front of us.

One area that we will not adapt on, one area that we will not change is our foundation is built on integrity and trust with people.

I talked at our leadership conferences in the past.

I talked with other employees.

I don't care if the employee is the best performer in sales or the best performer in operations.

If the team does not have an integrity and trust, they don't have a spot at LKQ.

That's one of another commitments that I have to you guys.

But this is my approach to leadership.

Once again I've had this for 1.5 decades.

Obviously different roles.

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Strategy becomes a little bit different, but it's critical for us to make sure we have the right strategy, we have the right team that we can execute on.

Once again I value those relationships with you guys where I can get that feedback and make sure that we're ultimately looking after the right strategy.

I talked earlier about our mission statement how we want to be good stewards of the environment. And for us, sustainability is more than just a program we kicked off a few years ago.

If you look at our roots in salvage, we are a sustainable company.

Stat videos that Joe played, we processed over 750,000 vehicles last year. 900,000 metric tons of scrap was saved.

14 million liters of fuel was really used in our own delivery trucks or mostly in our own delivery trucks.

We also recycled over 2 million tires, not to mention the millions and millions of parts that we sold to shops harvested off of those vehicles.

So from a sustainability standpoint, LKQ is green.

But sustainability also means that we need to make sure we deliver consistent results, sustainable value to our shares to all of you.

First is on the financial side.

We want to deliver better operating margins, better cash flow, but ultimately, make sure that we live up to the ESG responsibilities that a company like LKQ should.

Number two is our people.

I talked about how it's critical to have our talent, but we invest in our people all the time.

We invest in diversity.

We invest inclusion to make sure that the different ideas that come with diversity. The different ideas that come with inclusion.

We're a global company, 50,000 employees across many different countries, many different cultures.

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We have a diverse population of employees.

We strive to include them to once again make sure we have new fresh ideas and new ways of thinking.

LKQ has historically given back to our employees with improving our benefits, retaining top talent as well as promoting a lot from within.

Of the presenters here today on stage, all four of us have been promoted into our current positions, all from within.

And the third area is on the governance side. And for us, it's not just governance at the Board where we have strong governance scores, but it's also in the ethical policies and procedures that everything that LKQ does. Governance is very key for us.

Now getting into my priorities.

As an investor, you can expect two main areas for me, focusing on operational excellence and focusing on maximizing total shareholder return.

Now how will I drive operational excellence?

The easiest word is simplification. My teams hear me talk about this quite a bit, but simplification, starting with the portfolio, reducing the complexity of our businesses, both internally and externally, also looking at simplification operationally.

Some of the businesses that we have today are integrated, some are not.

Some are always looking at best practices, standardizing things, some are not. That's an opportunity for us to get cost to structure better, improve our operating margins.

But then the third one is expanding our lean operating culture.

Some of our businesses do really well at this. The problem with some of our other businesses that don't have it, they may get rightsized they make to get the cost out of their business.

But if lean is not a culture that they have operated in day in and day out, costs could creep back in.

We want to expand the lean piece to make sure costs will never creep back into our organization.

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And the fourth area is growth.

We want to grow share of wallet with our customers. The most profitable revenue we can get is one more part on the truck, going to our existing customer base.

So we have a lot of initiatives on how to grow organically.

Once we deliver on the operational excellence, and we enhance our margins.

We drive better free cash flow, it gives us the flexibility to invest back into the business, whether that's fueling organic growth mega yards that you're going to hear John Meyne talk about, large salvage yards, investing in new DCs, new service levels for our customers or if there's truly highly synergistic small tuck-in acquisitions that we can bring on that bring good returns.

We'll continue to do those, but we will be primarily weighted towards returning cash to our shareholders. That's clear.

So let me expand my message on simplification.

On the portfolio side, divestitures are being looked at.

Our whole portfolio is being looked at.

I will tell you, divestitures up into 2017 were pretty new. They're not new to LKQ now.

We've done 16 since 2017. Most of those have been in Europe.

Additionally, we did one large one called PGW in North America.

So for those that don't remember PGW or know it, Pittsburgh Glass Works.

It was a business that both manufactured automotive glass and it also distributed aftermarket glass to installers.

Our intent was always to just get the distribution piece, but we had to buy the whole thing.

We spun off the manufacturing piece.

We were left with the distribution piece at about six months later, I inherited the responsibilities of PGW. And at the time, not very profitable.

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In fact, it was negative EBITDA.

Now from a simplification standpoint, I could have integrated the business, gotten cost out, drove up margins and made it a better return.

However it didn't fit.

It's a different customer base. different product lines, different supplier base, it just ultimately didn't fit with our overall business.

So what do we do?

We fixed it, we divested it and actually made a profit on the sale.

So divestitures are not new.

Looking at the portfolio is something that we've done in the past.

I will tell you, I'm aggressive at it.

I'm looking at anything from locations to product lines to businesses that we have that do not fit in a long-term strategy built at LKQ. When it comes to the portfolio, all challenge the status quo. A few of you may have picked up, I had said it in one of the comments that there are no sacred cows.

We're looking at everything. Nothing is off limits.

So then simplification runs over to the operational side. Being here for 20 years, I will tell you the businesses that I've seen that have been the most robust the most profitable. The ones that can react at a much faster rate are those businesses that are integrated. Those businesses that constantly look at streamlining their operations using best practices, those businesses that had that lean culture on a day in and day out of every department of every aspect of their business.

One of the ways we did that, and Rick helped me on the North American side, was focusing on data-driven metrics to make sure that we had the visibility to manage and measure what we wanted the teams to work on.

We're working on grabbing more of that data globally to make sure that we can manage that and our teams can manage it more effectively.

I leverage the OKR template.

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If you guys aren't familiar with that, it's objectives and key results, pretty simple framework where a company can take a strategy at the highest level and cascaded down to the organization.

So every employee has an OKR, objectives and key results that they can be measured towards ultimately driving accountability and alignment within the teams out in the field to make sure that they're marching towards and pulling on the rope in the same direction that our goals are and our long-term strategy is.

So those two principles of measuring with data a little bit more accurately leveraging the OKR is something that we will be expanding globally.

As I mentioned, the most robust businesses we have are ones that are integrated, we still have opportunities to integrate in our operations such as in Europe. You're going to hear Andy talk about some of the initiatives on the screen of inventory optimization, footprint rationalization in his speech, but truly driving an integrated business, best practices, lean operating model so we can get the best returns out of that business today.

Now Rick is going to cover this in more detail, but here's a quick preview.

I talked a little bit on capital allocation, but obviously we want to drive enhancing our margins improve our free cash flow are driving our operating cash flow and then invest back in for growth. The best growth we can have is organic, if there are truly tuck-in acquisitions, I'm going to talk about my M&A strategy and philosophy in a minute, but if there are truly highly synergistic tuck-in acquisitions, we will look at them, but we will be, given our financial strength, prioritizing returning cash to shareholders in the form of dividends, share repurchase and debt repayment.

But once again Rick is going to go into more detail on that.

So now talking about the M&A philosophy.

I will tell you today maybe a little bit different than in the past, we have no pressure to fuel our growth via acquisitions, zero. No pressure from the Board, no pressure from management to ensure that we're buying companies just to continue to grow.

I'm going to talk about the market growth that we have coming up here.

We have a strong opportunity on just normal market growth and initiatives we have that we don't necessarily need to do acquisitions.

Now it doesn't mean we won't do them.

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We have reduced overall dollars.

If you look at our total capital allocation, we've reduced the total dollars, which will automatically do a couple of things.

One, make sure that the acquisitions we do look at acquiring or buying have a higher hurdle rates, better returns.

In addition, because of that total dollars has been reduced, there's no large acquisitions, planned simple, no large acquisitions in the pipeline.

But it goes beyond that, these businesses that we're going to look at need to fit strategically. Does it bring some value to us as we bring the ability to say yes more often, improve our service levels, gain more share.

It has to fit strategically, first and foremost, after well second, I guess after the financial piece.

Third area would be the culture.

Is it a culture that can fit and integrate into our business with low risk. The last thing we want to do is buy a business and find out that the culture resists and all of a sudden, the value of that business, whether it's revenue loss or whatever ever is gone.

So we want to make sure that it fits in our business.

From a financial standpoint, I talked about reduction of total capital dollars but a few other metrics that we've changed is making sure that it's accretive in the first 1.5 years.

The last area is making sure that we look at and analyze the returns over a 3-year period. Historically, we've done 10 years.

We're looking at it over three years to make sure that acquisitions are helping us improve our ROIC. The last piece is when a business brings an acquisition to us to look at, it has to have a plan for integration.

We've acquired a lot of businesses in the past that have not been integrated.

We will not continue to make that mistake.

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We will make sure that if there are acquisitions that we want to bring in, there will be a plan to integrate a plan that we -- that Rick and I feel we can execute against and ultimately hold our teams accountable to achieve.

So key points on M&A, higher hurdle rates, reduction in capital allocation, which means no large acquisitions.

So I talked about we don't necessarily need to acquire businesses to fuel growth because we see all of our markets have an opportunity to grow over the next 10 years.

So the data you're going to see up here is over the next decade. Every year, the teams to do a deep dive in understanding what's happening in markets, industry dynamics, market trends, to make sure that we understand risks, we understand opportunities, and we can ultimately hold our teams accountable to grow above the market.

We want to know what's happening in the markets, short term and long term.

Obviously the further you get out harder to predict that.

But we do deep dives, constantly and make sure we understand what's happening in our core markets.

Now despite some disruptions caused by EV or some collision avoidance, once again all of our segments, I'm going to talk through them, all of them have revenue growth opportunity just to market themselves, not to mention initiatives that grow above the above the market.

But I'm going to start with our North American side on the collision. And John Meyne is going to go in more detail when he talks about North America, but just a little bit insight into high level for what we see over the next decade.

We have some headwinds.

If you look at TOV or total loss rates, which is, quite honestly, it's an economic situation.

It's what's the value of the vehicle, what's the value of repair.

And if those things get out of kilter, one way or the other total loss rates go up, our total loss rates go down.

But over the last several years, we've seen some trends in our model, we predict that's going to modestly grow.

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The other headwind we have is ADAS technology or collision avoidance systems. This isn't new for LKQ.

We saw a decline in actual repairable claims starting in 2019.

Our model has that factored in when we look at penetration of vehicles in operation with this type of technology and what does it do to repairable claims.

But then if you look at the other piece of the tailwinds that we have, APU growth.

APU growth has grown since I've been in the industry.

We expect that to continue to grow.

The car part growth, number of parts for estimate, just cars themselves are more complex, more parts on the front of them, which translates to more parts on the estimate.

In addition, these parts are more complex, which brings inflation, not just normal inflationary benefits of raising prices.

But if you look back at a 15-year-old vehicle a truck, it had a steel bumper on it, then it had a high strength steel, more expensive. Then it had aluminum, more expensive than it had extruded aluminum, even more expensive.

So halogen headlines going to LED headlights.

The parts on their vehicles today are more complex or more expensive.

Overall, we take that, combine it together, we're showing that the collision market per year grows 1% to 2% for the next decade.

The other businesses that we have in North America is our hard parts business in Canada.

We acquired that with Uni-Select under the brand name of Bumper to Bumper.

Today that market has an opportunity to grow at the 2.5% to -- I'm sorry, I realize it was on the wrong page. My apologies.

So in the market -- in the North American hard parts, it has a business opportunity to grow 2.5% to 3.5% per year.

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It has value of car part growth the aging of the car park and inflationary pressures that I talked about.

In addition, in North America, another big segment we have is major mechanical.

So think of large items, engines, transmissions, transfer cases, axles.

We remanufacture those as well as we sell them used. Those businesses are playing in a market that is very similar to hard parts. Car park is aging inflationary benefits if you look at something like transmissions Five years ago, we were selling four 6 billion transmissions.

Now we're selling eight or 10 speed transmissions. Those things come at a higher price.

We're showing that market is going to grow 2% to 3% per year for the next decade.

Jumping across the pond to Europe. The EV impact is happening over there a little bit sooner than North America.

But if we still look at the aftermarket sweet spot for which we play the EV penetration is still relatively small.

It will grow.

But we also have some other benefits of complexity of car products that we're selling, such as synthetic oils more expensive.

Not as many mechanical water pumps, but more electrical water pumps, more expensive.

In addition, we expect that car park to slightly grow and continue to age, all leading to a mature market growth in Europe of 0.5% to 1.5% growth per year for the next decade.

Then you take our other two businesses, our specialty and our self-serve.

We expect those businesses to have modest growth for the next 10 years.

Then we add on to that share gain.

I'm going to talk about some of the share gains in a minute.

But we have share gains on that allowing LKQ to have a growth opportunity of 3% to 5% or so or mid-single digits per year for the next 10 years.

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Every year, our teams at a location level go after share gains, meaning are customers that are buying collision parts, but they're not buying paint, are they buying starters and automators but they're not buying our batteries. The teams locally always go after more share of wallet more parts on that truck to deliver to our existing customer base.

From a corporate standpoint, we're looking at some larger initiatives over the next decade, things that we can leverage our core strengths and grow organically different areas.

First one is a salvage and reman expansion in Europe.

We're number one recycler of automotive vehicle parts today.

We heavily weight that towards North America.

But we do have a decent operation in our Sweden market where we do buy salvage vehicles, cell engines, sell collision parts in the market, leveraging our scale of Europe and our distribution footprint that is products that we can expand, leveraging the North American technology and the North American expertise to expand that product line, both reman and used into our European operations.

And at the same time, getting the benefit of the green initiative that's going on across Europe right now.

Also in Europe, we want to expand collision parts.

We're obviously number one in North America on collision parts. There are some parts in Europe where we're number one in that business as well. being able to leverage once again our footprint, expand collision parts, expand paint into that area is an opportunity for us.

In addition, we're seeing that while the European market is behind the industry of North America, we're seeing some tailwinds that are beneficiary, meaning we're seeing some insurance companies start to look at more alternative parts.

How do they drive the repair cost down?

So they're looking at more salvage parts more recycled because of the green initiatives and the cost savings as well as collision.

So we see expansion of collision in Europe as an opportunity.

Bottom left corner, the third area is growing hard parts in our operation in North America.

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Once again we own a location called Bumper to Bumper, a leader in the Canadian market of hard parts.

We'll consolidate that market. expand new locations, expand product lines, source out more parts able to say yes, more frequently, truly leveraging our scale of Europe to help us buy better, buy more efficiently and buy a better broad range of parts.

Once again to be able to say yes more often.

That is an area that we started to do.

We started to do some roll ups there, small in nature and some location expansion.

Then the last area I would say is EV.

Some of our competition that's going to put their head in the sand, EV will be a risk, plain and simple.

We started to look at EV, the market dynamics, what we think is going to happen to understand that opportunity.

We started investing that if you think of hybrid vehicles.

So the history of a vehicle went from ICE or gas engines, internal combustible engine to a hybrid where it had a battery an engine to full EV.

Today we remanufacture hybrid batteries in North America, both nickel metal hydride as well as lithium ion.

We've began to invest and work our teams across the globe, Europe and North America on being able to remanufacture EV batteries.

One thing we know for sure today -- one thing we know for sure today is there is a huge demand, and there will be a huge demand for an alternative battery and alternative to OEM that high-cost battery, whether that's a used battery or whether that's a remanufactured battery.

If that doesn't exist, EV cars will continue to decline from their value, and they won't penetrate much.

So we know that there's going to be demand.

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If you fast-forward futuristic when there's actually a large population of 7- to 8-year old vehicle -- electric vehicles on the road that need batteries.

We will be continuing to play in that space of remanufactured EV batteries globally.

In addition, getting raw materials to feed into new batteries is hard. A lot of pressure from mining these days.

So we're going to play -- continue to play in the recycling of those batteries. Those end-of-life vehicles with those end-of-life batteries to make sure that those components find their way back into raw materials producing into a new battery.

So once again some people see EV is going to be impactful.

We see it more as an opportunity than we do as a risk.

We'll also work with our European teams and North America teams together to understand those other product lines that are going to go along with ED. EVs go through tires quicker. They go through suspension quicker. They go through breaks at a different rate.

So all those different opportunities, we want to make sure we have a comprehensive list of products available to EV vehicle owners and workshops.

So before I kind of set the stage for our next two presenters, let me just recap my strategy. driving operational excellence, simplification, you're going to hear me talk about that. My team here is me talk about it, simplify portfolio, simplify the operations.

One of the other initiatives was getting to me, maybe I spend a little bit too much time on me, but hopefully, you guys get to know who I am and how I lead. Then going back to driving operational excellence, simplifying the business, enhancing margins ultimately leading to free cash flow, where we'll invest in the business, but primarily, and Rick will talk about this, primarily weighted towards giving cash back to our shareholders.

That is the priorities.

So now setting the stage for our next two presenters, North America and Europe, roughly \$6 billion each. Combined, they're 80% of LKQ's global revenue.

If you think back to those other opportunities that I mentioned on remainder salvage in Europe or collision parts, you're going to see that while sometimes a product overlap is regional, like more collision or more salvage in the U.S., the size is still material giving us a competitive advantage,

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how we feel that those are our core strengths that we can win when we expand into different markets for those product lines.

These global positions create cost of goods benefits, not just on a product itself but on to freight and also the cost structure to support that from a supply chain standpoint.

Stated differently, we see the value of these two businesses combined worth more than the individual.

We feel North America and Europe are better together for a couple of different reasons.

One, I talked about the volume of products, procurement savings on cost of goods, but it also gives us geographic and product line diversification, which is always great.

In addition, we have strengths regionally that we can start to leverage on best practices that we started to do in the last 70 days more effectively than I would say we've done in the past, looking at things like procurement, supplier sourcing, product sourcing, remanufacturing, not just EV, but we remanufacture engines and transmissions in North America.

We also do some remanufacturing of engines in Europe, bringing those teams together to make sure we have the right technology and the right teams looking at quality and looking at product development in a remanufacturing world.

Leveraging tools to help us on e-com, logistics, warehouse management, automation, all these things bring in value to us. The other piece that opens up is on the financial side.

If you guys remember, earlier this year, we issued some bonds, \$750 million Eurobonds that brought us attractive terms.

In addition, possible because of our size, we're able to have \$400 million today of vendor financing.

That number has an opportunity to grow.

Both businesses are for us core, they operate in resilient markets, noncyclical, nondiscretionary in nature, and there's a lot of overlap and opportunity to learn from each other and grow that from a revenue standpoint.

I talked about the EV opportunity.

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Once again we're seeing that EV occur in Europe at a faster rate than North America, but we're learning from that on a global standpoint to make sure, once again EV is an opportunity for LKQ and not a risk.

Lastly, our size allows us to leverage our global competency center, what we call GCC.

I'm going to talk about that in a minute.

Our GCC is think about when companies offshore workload, but this is not a third party. This is our business. This is our employees.

Our operation primarily in India today started -- I took over that in 2014 when we have only -- we had only 80 employees in our India operation working on a small subset of a business in North America.

We've expanded that today to 1,500 employees working across all segments.

Once again these are our employees, not third party. They obviously bring the benefit of labor savings.

It's substantial, but it goes beyond just labor rate arbitrage.

It goes beyond just administrative functions in what some people put as a back office.

We do things and leverage those global things I talked about to make sure that we're looking at automation globally.

We're looking at footprint logistics globally.

We're looking at branch replenishment, making sure that we have the right logistics and the right product lines and our branch profiles, we're looking at that globally.

The team there does more than just admin functions. They manage within marketing procurement -- if you guys remember last Investor Day I talked about this as North America.

We have over 100 people that buy every salvage vehicle we do today in North America out of our GCC operation.

Today they also now help the team on self-serve bid on the 0.5 million vehicles that they buy through self-serve. This is truly a strong strength of LKQ or a big strength of LKQ that quite honestly, any of our competitors that would try to replicate this, especially in-house would have a very hard time doing that from a cost standpoint.

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And so I'm going to end with that.

But before I turn it over to John Meyne because we're so proud of our GCC operation in India and also a smaller GCC operation that supports it in Poland.

I want to show a quick video of that team over there. And hopefully, you guys will show the excitement that we feel about our team over there as well. Do you guys can please roll that video?

(Presentation)

+++presentation

Operator^ Please welcome to the stage Senior Vice President, President, Wholesale North America, John Meyne.

John Meyne^ Good morning, everyone. Thanks for coming out. Thanks for everybody joining online.

I'm John Meyne, Senior Vice President, North America Wholesale. Just a little about myself.

I started in the industry in 1987.

I'm dating myself here, but I started with Keystone Automotive Industries in Chicago. Worked there for close to 20 years, various positions with the company.

In 2006, I started my own business.

It was an aftermarket collision parts company in Atlanta, Georgia.

Three years later, sold that company at LKQ and happily been employed ever since.

From 2011 to 2021, I served as Region Vice President of Southeast. And during those 10 years, we enjoyed the company best margins. lowest SG&A really had a great team in the Southeast, still do.

2022, I assumed the position of Vice President of the East division.

I ran that for two years.

Then in January of this year, I backfilled Justin in my current role today.

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So I'd like to touch my team a little bit. Like Justin said earlier, we do a good job of building our bench, promote within.

75% of my direct reports are promoted from within 21 years of tenure on average, 171 years of experience. These folks are best in class.

I'm also proud to say 25% of my direct reports are female. And again these folks are the best and best in their core markets. These guys are proven leaders, proven successful, just a fantastic team.

Three pillars that I focus on is safety.

I just talked about my team, have a great team.

We have tens of thousands of employees underneath these folks.

I'm very passionate about making sure I expect everyone to go home and as good or better conditions, how they came to work that day.

It's very important to us.

Second was leadership, leaders build leaders from 2022 on.

We've promoted a lot of people within, I think close to 100% of our promotions are from within.

We're proud on how we build our bench.

We do a great job working with HR to do our succession planning.

Our bench is a little thin right now.

We've promoted a lot of people in the last two years.

So I'm focused to work very hard to rebuild that bench.

Last is operational excellence.

It's one of my pet peeves.

I love to gain efficiencies.

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I like to pull costs out of our business model.

But talking about operational excellence to folks that work for me, they know how to drive the business, especially during a down market.

I mean they're the best in the class.

In the last five years, the team, we grew margins by over 500 basis points over the last five years.

So looking at our core markets, not only do I have the best leaders in each core market, but I have the best business in each core market.

We're the leader in aftermarket collision parts.

We're the leader in the salvage market, leader in reman. Thanks to the acquisition of Uni-Select with the FinishMaster stores.

We're the market leaders and paint body and equipment.

We refer to that as PBE.

With the acquisition of Uni-Select hard parts in Canada, while we're not number one, but we're working hard to get there.

We definitely have the number one brand in that market. and all these markets are very resilient.

Talking on the integration of Uni-Select.

So we're going to realize \$65 million annualized synergies by year 3.

But I want to touch on what this team did.

We took \$1 billion a year business and fully integrated at nine months.

I'm talking parts, people, warehouses, everything we had HR, had all the people onboarded.

We'd go for a weekend, say there'd be 30 locations.

Friday night, we go into their locations.

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By Sunday it'd be broom swept, product out by Monday morning, IT had all the customers programmed in our system.

Supply chain moved all the inventory in our warehouses, HR at all the people on board.

I mean just an amazing effort in the background.

Monday morning, we were delivering parts to hundreds of new customers seamlessly.

So I just can't say enough what the team that, that was a tremendous amount of flex in our integration muscle for sure, it's just fantastic.

We also eliminated any duplicate public costs.

We're leveraging Andy and his team in Europe for improving our margins, especially on the private label sales. And as far as the sales team goes, they're fully aligned.

I'm talking from tech, sales reps, ASMs, our go-to-market strategy.

We are 100% one team.

So Justin talked on how resilient the markets are.

Over the next 10 years, we're going to grow 1% to 2%.

But currently, in North America, we're feeling a little temporary unusual headwinds.

These are short-term headwinds.

So we all know 2024 is probably the mildest winter on record, absolutely mild winter excuse me, -- so we're also experiencing some macroeconomics.

What I mean by macroeconomics is insurance premiums are up 20% over the last two years. A lot of folks are going to higher deductibles A lot of people are deferring getting their car fixed because disposable income is a little tight.

So we see that as a temporary headwind for us. The other headwind is total loss vehicles.

Justin talked about ADAS and TLV rate.

We always know that's going to be there.

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But they're sure we're seeing a little abnormal high, especially because used car prices have just dropped so dramatically.

We believe that's probably going to finish out the rest of the year, some of that could spill into 2025.

So how do markets historically run?

So you can see our long-term headwinds I mentioned before.

TL rate, we think is going to normalize, come in around 1% a year.

ADAS, we think will continue at about 1% a year.

But the tailwinds will outgrow the headwinds. APU usage will go back to pre-Covid level grow at least 1% a year, parts per claim because of the vehicle technology and the complexity of the vehicles that will continue to grow. VIO growth.

We think that's going to grow at a normal rate.

It always has ever since I've been in this business. And last parts inflation. Parts inflations aren't going to go anywhere. Parts are just going to get more expensive.

So what we think is a good way to measure our business, how is our organic growth versus year-over-year repairable claims. And as you could see, over the last -- since 2015 on, we've outperformed repairable claims by 420 basis points.

Now in 2022 and 2023, we took advantage of the market dislocations. There is a strained supply chain, limited inventory, high inflation. There's UAW strike, all that allowed us to significantly outperform the market.

However the main reason we outperformed the market is the size of the moat that we built.

I'm going to let you -- I'm excited to tell you a little more about advantages we have in our growth plans.

So why we win?

If you take a look at our distribution network.

It's absolutely unmatched.

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It took us 20 years plus 30 years to build a cold.

But if you look at salvage a good salvage competitor, I mean a good salvage competitor is going to fill about 25% fill rate.

Our fill rates come in at 75%.

You can see by our distribution network, how we do it.

If you look at the purple in the Southeast, I could get apart from North Fork, Virginia down to Mobile, Alabama, I get to Florida within a day or two days.

So we gained another 62% revenue off that extensive network.

We'll get our 24% same-store sales.

We call that it's a local store, buying, selling to a local customer.

But we'll get another 62% by having our distribution network.

Then we'll get another 14% because we could move product from another region, whether we ship it or whether it's a cross docks touch, we can actually move that product down. That's a huge advantage for us.

And as far as our value proposition, there is nobody in the collision industry that has all three reman, salvage and aftermarket.

I mean that's just a big moat for us that we built. Nobody can match that.

It really helps us competing against the OEMs, OEMs are our biggest competitor, they have a major percentage of the market. There's other aftermarket distributors like Empire KSI [ph] or some other folks out there.

But our main focus is OEM. That's our main competitor. And as you see, we normally come in 10% to 30% less than list prices.

That bodes very well with our insurance partners. They're looking for cost containment and it really helps our relationship with them.

Then we also have a good relationship with the MSOs. MSOs, as we all know are growing in the market space. They're going to continue to grab market share, and we'll win with the winners. They want to buy from somebody who has a national footprint.

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We're the only folks that can provide that.

So our core business is how are we going to grow and first look at the collision one.

We're going to continue to launch new brands.

We just recently launched our LKQ refinish brand, that is a private label PB brand.

We're going to deploy digital tools increase how we can cross-sell and upsell through our sales assistant tool.

We're going to continue to get wallet share by increasing our already excellent service with faster service times.

We're going to expand our national footprint to continue to have the right part at the right place at the right time.

How are we going to grow our salvage business?

So this is a location in Crystal River, Florida, north of Tampa.

So this is what we traditionally do.

We have probably 50 acres there where we could set cars.

We just bought 70 acres adjacent.

As you can see, we're getting ready to clear it out.

We're going to build it out.

We'll be able to set cars in another 70 acres.

So what does that do for us?

That improves our part availability improves our fill rate and our margins.

So by having those extra acres, a small yard might be 20, 30 acres.

You can sit on your cars 225 days, 200 days.

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We feel you need to set in your cars a year to get that value out of the car.

So when we have more acreage, we could sit in our cars longer, and then we're going to sell deeper into the cars, and that's going to raise our gross margin per car.

So that's a big advantage.

That's how we increase the moat.

Vehicle procurement, we're using machine learning and algorithms.

So we could actually look at each vehicle in the auctions with their friends from GCC, and we can see what's the request, what does the market want, what car do we want to buy, how much do we want to buy for that car?

What is each part worth on the car.

I mean we literally look at every item of that car.

The same thing on part inventory, and we're using to DISM.

So this is all, again machine learning.

It tells our dismantlers. Do I dismantle this part?

Do I leave it on a car?

Do I put it in the yard?

Do I put that part in a warehouse?

How fast am I going to sell it?

Do I stack it or not?

So all this information.

What it does is it just takes that decision out of the human error human element and turns it all in the data, database decisions, everything we do.

So really helpful.

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Also we gain efficiencies. When you have mega yard, we might have 20 base versus three days or five days.

So imagine having to have five little small 20-, 30-acre yards -- you got to have dismantling manager each one.

It's hard to get standard operating procedures in. You get the mega yards.

With the scale, we get much more efficient.

Remanufacturing. How are we going to grow remanufacturing?

So we're going to increase our capacity.

So with the TriStar acquisition, and we're currently increasing capacity in Dallas, noon in Georgia and Mexico.

So we'll be able to support our growth just by increased capacity there.

We're also going to introduce new products like remanufactured recompinions, remanufactured turbos, many new products we could put out.

And as Justin talked about, we're going to keep an eye on the EV space, working closely with Andy, who's coming up next. Europe seems to be a little ahead of the U.S.

As far as the EV goes.

But we'll be working closely with them and look for opportunities there.

Now we did do -- we have reconditioned two batteries in the U.S.

We did a Chevy -- we did a Nissan LEAF [ph] and a Chevy Volt, both for successful pilots.

So again we're keeping our eye on that.

Also new areas with the Bumper-to-Bumper business in Canada, we got a large customer base, a new customer base that we'll be able to sell our reman products too.

How are we going to grow our paint?

So if you look at this chart, it's a little messy, but all the circles in green, we only sell parts too.

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Only circles in yellow, we sell parts in paint.

So we deliver virtually almost every body shop in the United States weekly.

We have relationships.

We have credit lines already set up.

We know these folks, we deliver every week, a little under 25% of our current parts customers by paint from us.

So that's who we're going to attack. That's a huge opportunity. The leg work's already been done as far as the relationship, credit limits, all that good stuff.

So that's an excellent opportunity for us.

Grow our Canadian hard parts.

So Bumper-to-Bumper, I mean we got a good team up there.

We have the number one brand in Canada.

We really, really have a good brand.

We're going to enhance our relationship with the member stores we have up there.

We're going to continue to look -- go from 3-step to 2-step conversions.

We've already done quite a few since the acquisition.

As Justin said, we're going to look for high synergy, some small M&A, some bolt-ons.

We're going to do some greenfields up there.

We'll expand our portfolio.

We're working with Andy and the European team to get to margin and expand our private label portfolio that's already in process right now.

We're also leveraged the European team to enhance our B2C ecommerce business. That's a big opportunity for us that we hope to kick off Q1.

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We're also going to look at more cross-selling opportunities across the whole LKQ portfolio.

Now keep in mind, Canada is the only geography that we actually have all of our core businesses in the same place.

So we're looking for big opportunities here, how we're going to cross-sell in that market.

So what to see in the next three years?

Like I said, our core businesses are going to grow 1% to 2%.

We have a robust pipeline of initiatives to help us get some market share to grow another 50 basis points to 100 basis points. And lastly, possibly some small M&As that could add up to another 50 basis points.

So all in all, North America, we're going to grow 1.5% to 3.5%.

So in closing, I want to summarize what we're going to focus on.

Our strategic objectives are: simplify the businesses, work on our operation excellence and in turn, that will enhance our margins will enhance our -- give us some profitable growth.

We're going to continue to work on our talent development. Like I said, the bench is a little thin.

We're going to work hard there and strengthen that bench back up, but that's what we do well.

So we'll do that shortly.

So from 2025 to 2027, we'll have annual organic revenue growth of 1.5% to 3%. Average annual organic EBITDA margin improvement, 10 to 20 basis points.

We're going to drive free cash flow through continuing optimization of trade working capital.

I think I'm probably think them a little early. You have a little longer break than expected, but that's it for my presentation. Thanks, everybody, for coming out.

(Break)

Operator^ Please welcome to the stage, Senior Vice President and Managing Director, LKQ Europe, Andy Hamilton.

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Andy Hamilton^ Good morning, everyone. Welcome back. Hopefully, everyone managed to get a quick break.

Welcome to everyone on the podcast. I think I won the competition for the longest job title anyway. My name is Andy Hamilton. I am the President and Managing Director of our European segment.

I have been in the automotive aftermarket for 32 years.

In that 32 years, I have been involved in both the retail side and the trade environment.

In the last 13 years, I've had the pleasure of being part of LKQ.

So I was in the originating first acquisition outside of North America and I was the COO for that business. Just to tell you a little bit about me.

So in that time period, 2011, I was involved with the management team in that first acquisition.

So our Euro Car Parts acquisition for LKQ.

I was responsible for the operations and the commercial side of that business and the organic growth of that business between 2011 and 2016. Put that in context, we grew the U.K. business under the LKQ ownership from \$270 million to \$1 billion during that time period, and that was predominantly organic growth and organic expansion.

With then a small executive team led by our European CEO, I then spent three years in Europe, again with a small team, and we were working specifically focused on a couple of major acquisitions. That was Reag [ph] and our AutoCare lit businesses in Eastern Europe.

Then in 2018, I was also involved in the Stahlgruber [ph] acquisition, which was in Germany and Austria.

I've had the privilege and the benefit of being over that three years in every single one of the markets we operate.

I understand what those markets look like.

I understand the nuances.

I understand what the market leaders are doing I know what great looks like and I also have seen what not so great looks like in some of those markets.

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During that time period, our U.K. business, we also made a number of acquisitions.

And one of those acquisitions was a distressed large distributor in the U.K. called Andrew Page, and that had created some challenges within our U.K.

Operations.

We had separate leadership teams, separate systems, separate portfolio, and it was creating a lot of conflict and a lot of complexity in that U.K. business.

So at the start of 2019, I was asked to go back to the U.K.

As CEO.

We put together a new leadership team and with the sole purpose of bringing those power five businesses in together as a single operating business.

We did that.

We also did that pretty much right way through Covid as well.

So some interesting hurdles that we came across.

But we ended up building a single management team, a single organization, a single brand.

We brought those businesses together those processes together, those systems together onto a single platform.

And we took that business from what was a mid-single-digit EBITDA at the start within three years to a significant double-digit EBITDA and continues to be the leading margin across our European portfolio.

So some of those themes are now carrying through.

I understand what we need to do from bringing these businesses together. And now I've had the privilege of working with the European team and the wider European team from the start of this year.

So similar to John, going through, we have the best leadership team in the European automotive aftermarket space. Nearly two-thirds of our European executive have come through the businesses. They understand the markets they operate. A lot of them have been market leaders within those markets and functional experts within those markets.

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We have over eight years of tenure on average across the executive team.

So we know not only from a pre versus post pandemic environment in each of those markets.

But we also know some of the technology shifts that have been happening within the aftermarket space.

So we understand what's going on.

We understand where we are, the model we have currently, but more importantly, where we need to go in the future.

We've been working quite intensely over the last couple of years around our diversity and inclusion.

Now from ultimate mobility from the end driver in every one of our markets, it's pretty consistent between female and male drivers.

But ultimately, the automotive is and has been quite a male-dominated environment.

So we've been working quite hard consistently across the regions to really improve that diversity and inclusion and that gender progression and giving us a much better balanced input with our leadership and our strategies.

I'm delighted that we are now from our exec level minus one across Europe, we have 30% of our leaders are now female, and we continue to try and move that forward.

Who are we LKQ in Europe?

So we are the sum of over 80 acquisitions.

So there has been complexity. There has been a number of acquisitions that we've been pulling together.

But we are number one, as Justin alluded to this morning, we're number one in Europe.

We are number one in seven of the markets we operate.

So we are clear market leaders in those markets.

We have the relationships with the customers.

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We understand the market dynamics, and we are delivering those top podium positions.

We are also podium players in another three markets.

So 10 out of the 18 markets we operate, we are on the top podium steps. That does mean though that we know that there are further opportunities, both in organic and inorganic in not only the markets we're operating as a podium player, but the markets where we're inside that top 10, but we need to get to that podium position.

So we've got plenty of growth opportunities coming through in the markets that we operate.

Collectively, we're just over \$6 billion revenue, \$6.3 billion in 2023, and that is built on a bedrock of 26,500 colleagues.

Now our colleagues are our prized assets.

We are predominantly a B2 billion business, and it's all about relationships.

It's relationships with both suppliers and relationships with our customers.

So those 26,000 colleagues of what makes us special and what makes us so successful across the European footprint.

We have 900 locations. An eagle eye would have spotted that, that was over 1,000 last year or prior year, but that \$900 million is net of the divestments that we've decided to take this year in making sure that we are working with the markets and the portfolio that we believe can take us forward.

So that's where we are geographically. Who we are and why we win.

So we're market leaders on an unparalleled level when it comes to footprint. The key to key time in collision repair is very different from the key to key time in service maintenance and repair work.

So in a collision repair, it's normally days and weeks before getting the car from the initial impact through to fully repaired.

In the service repair environment, you've got a service from repair at car the same day and it needs to go back to the owner.

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So the size and scale for us and our footprint in the markets we operate, it's about the ability to service our customers multiple times per day in those markets. that's what sets us apart.

So we're not an operator that's in one market, trying to stretch ourselves to another market we are operating within those markets, and we're providing multiple deliveries per day to the customers, which is what the critical point is.

Our range and availability continues to improve.

We've been working with the leading partnerships on Tier one suppliers, and we've been looking on how we've consolidated those relationships and strengthened those relationships over the last few years. That's also supplemented by our private label proposition, which we're now also working with John and the Canadian team to make sure that we can share best practice and those purchasing synergies.

And that world-class logistics system.

So we are one of the main or the only main player pan-European that has logistics footprint right away across Europe.

We have the ability to move product, we have the ability across all those markets to get that product as efficiently to the end consumer or to the workshop in the best possible time.

Over the last couple of years, we've been working tirelessly on our concepts and innovation.

The automotive aftermarket or the automotive markets are evolving. The technology is evolving. The independent workshop, which is our primary customer, has to evolve with it.

We've been putting a lot of effort into our tailored services our training, our workshop concepts to ensure that those customers are fit and capable to do that work in the future. Put that in context, things like our one LKQ Academy we will train 24,000 technicians on EV and hybrid over the next four years.

That's our commitment.

We've made that commitment publicly as well. This is all about getting the independent aftermarket ready to be able to manage the shift in those technology changes.

So we've talked about who we are as a business and how we win.

Some of the market dynamics, the fantastic thing is we are in a stable and we're in a reliable market, which is actually continuing to grow.

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As Justin said this morning as well we know that vehicle part.

So these numbers, this isn't the whole of Europe. These are the markets that we operate.

So we're just making sure that we are addressing the markets that we operate within.

But we know that markets or those volumes and those vehicle parts are continuing to grow.

And whilst there are technology shifts, those technology shifts are probably not as substantial as what was perceived two or three years ago.

The hybrid technology has an internal petrol or has an internal diesel engine.

So it has as much requirements from a service maintenance perspective as a more traditional ICE vehicle.

So we have a stable market. The market is growing.

The vehicles and operations are growing.

We do have some temporary headwinds.

So Covid, the pandemic as well as the semiconductor issues, we did see new registrations drop in 2020 and 2021 coming into 2022.

Those drops in new vehicle sales coming into the European markets, then obviously have to filter through the age profile.

So we've seen that, and it's temporary because the new vehicle sales, whilst they haven't completely recovered to 2019 levels, they're now significantly higher in '23 and '24 as they were in 2020, '21, et cetera.

So we've got some temporary noise.

That is putting some softer elements into our 5- to 13-year bracket.

But we have -- we also know that we've obviously got this EV piece.

The flip side of that is we've got an aging vehicle part.

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Because there's less new vehicles entering the European vehicle part, it is aging, and it's aging quicker than it has done in the last 10 years.

So the 14-year onwards plays very well into more of the mid- and entry-level product capabilities and the independent workshops having to provide a lower cost of service and repair to those vehicles.

So there are opportunities and there are tailwinds whilst we recognize that we've got these temporary measures coming through on the new vehicles or the lack of new vehicles that were entering the market.

Geographical footprint.

As I've mentioned, we're market leaders in 7.

We're podium in another three we've got opportunities for both organic and inorganic expansion in the markets where we are not on that podium steps. And from a technology perspective, as Justin again mentioned this morning, we've got all the experience and understanding in the U.S. around salvage and around recycling.

We know that salvage will play a part in EV remanufacturing and service as we go forward in the vehicle park.

We know it looks like probably two-thirds of batteries and battery electric vehicles when it gets beyond 10 years old are going to have problems.

So there's going to be opportunities and business channel opportunities in around EV and around remanufacturing, and we're in the best possible position to be able to take hold of that opportunity.

Key opportunities that we're working on.

I'm going to mention category management in a few slides. That's something we're doing around transformation.

I've talked about the workshop concepts. Concepts are our way of protecting and supporting and helping the independent operator to grow.

So the workshop belongs to a concept umbrella. That provides them with technical support, training support, digital support, tooling, support, et cetera.

That's about us working as a partnership with that independent workshop to be able to service

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and repair their vehicles.

We see a much higher wallet share penetration when a workshop belongs to a workshop concept that's been managed within our portfolio.

We know that the remanufacturing will play its part as we move forward, especially in that technology shift that we're seeing.

What have we been doing?

So one LKQ was announced and mentioned back in 2020, just pretty much as well as the pandemic hit at the same time. And as I said earlier, we are an amalgamation of 80 acquisitions in Europe.

So the one LKQ design, the one LKQ principles was about how do we bring those 80 acquisitions together as a single organization as a European enterprise as a European team and as a European business.

So we've been working tightly over the last four years, putting a lot of those foundational building blocks in place.

We have aligned with our key suppliers.

We have seen improvements in our payment terms and our rebate terms and our vendor financing. Those things have been starting to come through, and we're seeing the benefits of them.

As we've aligned more and more around our procurement and our suppliers that we work with, we've also seen the benefits around stock level rationalization and we believe there's more to come.

We have designed and we've implemented a European organization.

So we now have a European umbrella.

We -- that European umbrella is in 10 functions, our typical functions from an organizational perspective.

We've now aligned the regions with those organizational functions right across the actual portfolio and the business.

We've started working all the processes.

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And we've now over the last 18 months, we've now defined all of our European best-in-class end-to-end processes that will feed into our ERP systems and our back-end processes as we move forward. There's 2,500 of them. All the teams have been involved. Each region understands where they are now how they need to close those gaps on those processes and prepare themselves for this transformation that we are underway.

We have progressed with our system harmonization. Back in 2019, 2020, we had over 40 ERP systems.

We now have a European ERP platform.

It is stable.

It is robust.

It's proven.

We've been working on it for the last two years.

It's in two of our core markets, and we are now confident probably the most mature in the most stable platform that we have.

We now have a rapid acceleration program to bring a lot of the other regions and markets onto that platform as we move forward.

We've harmonized and we've aligned all of our policies and processes down by function.

We bring a lot of the back-end working.

We've harmonized our HR systems, our IT systems, a lot of our landscape is moving in the right direction.

Then we've rolled out customer propositions.

So I've talked about the workshop concepts.

We are specifically focused on capabilities around hybrid and EV and making sure that LKQ Academy, that training platform, which is in all of our 18 markets has that capability to provide that requirement into the market.

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We have 2,200 training courses on our LKQ Academy and that's in 14 different languages.

We have hands-on technical expertise in each market that is then doing not only the online but supporting that with offline and making sure that our customers really feel the value and help them moving forward.

Our key account management is progressing. More and more, as we've been working together as a European group over the last couple of years.

We're now looking at pan-European key account opportunities, aligning understanding and knowledge making sure the capabilities that are proven in one market can translate to another, and we're starting to see those benefits coming through.

And the digitalization roadmap has been a bit of a silent work party behind the scenes. Most of those acquisitions, they all had their own digital capabilities, and most of them were homegrown.

We've had to effectively create a roadmap that's going to replace them with enterprise-level scalable European capabilities.

We've built that. A lot of those capabilities are now ready, and we've been rolling out and will continue to roll out over the next 12, 18 months with a number of the markets with new digital capabilities which are at a scalable level that we can now really bring the rest of the regions and the rest of the markets on to.

And we've done all of that whilst having to obviously manage some of the challenges that we've seen in the market and the industry over the last few years.

We've seen high inflation rates.

We've seen pricing volatility.

(Technical Difficulty) that we can then build and support that with.

Our product leadership, this is part of the transformation plan.

We have a large SKU consolidation.

I'm going to mention that on the next couple of slides.

I won't dwell on it here.

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But that will provide us an opportunity to really expand our private label capability across the market.

In hand, that's going to allow us to even further rationalize our supplier footprint.

Now in the last three or four years, we've seen improvements in our working capital and in our cash flow.

We've obviously done the vendor financing.

We've seen improved purchasing positions.

We -- out of 3,000 suppliers that we work with to 90% of the revenue comes from a third of those suppliers.

So there are further opportunities around improving our working capital, improving our efficiencies, simplifying our business model, and that's what the product leadership process and initiatives will be delivering. And all of that has then wrapped up with the operational improvements.

So we've got some customer growth opportunities.

We believe that will give us above-market position.

There's a lot of work going on with the product leadership.

Then within the operational improvements, we have blueprinted per market where our optimum locations are.

So taking into account all of the current business opportunities, all of the vehicle park all the known operators, the workshops, et cetera, we blueprinted every market.

So we have a target plan for each market, regardless of whether we're number one, number three, number five as to where we can position and where we can invest from an organic perspective and potentially later on with inorganic tuck-ins as well.

The asset rationalization, as we move to more of a single platform and a single back end, there are opportunities to also rationalize some of our assets.

Our processes and systems, as I've said, we will continue to harmonize and bring those together.

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Following the ERP rollout or the whole transformation program.

We will also be introducing our central procurement organization that will really allow us to manage and logistics without borders across Mainland Europe because it will be one set of stocks, which essentially controlled and centrally managed.

And we are continuing to leverage the opportunities with our global competency center.

So we do have capabilities there now.

We believe as part of this transition program and moving to the new target operating model that anywhere between 30% and 50% of our processes within the next three years should be able to be managed through that global competency center and again giving us further operational leverage and further opportunities.

So a couple of slides on category management.

I thought it was important to pull this out.

It's a significant program. Up until now we've been working primarily on purchasing synergies and purchasing benefits.

However the amalgamation of those AC acquisitions means we have a very diversified product portfolio.

We have over 900,000 active SKUs across Europe.

If you remove some of our channel or our adjacent channels around truck and around motorcycle, what it means is we have around 0.75 million active SKUs that we're managing on a daily basis across that portfolio.

We believe we can rationalize that portfolio that SKUs by around a third over the next three years.

We have reviewed now 25 major product groups, which represent around 425,000 of those 740 SKUs.

So just under 60%.

Now those 60% of SKUs is over 85% of our revenue.

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So we've already reviewed and this is by market, by brand, by category, by team going through every single brand, every single SKU and making sure that we are looking at how we can take this forward.

We believe that from a brand perspective, we can actually improve the commonality of the brand, so making sure it's the same brand and the same in each of the markets with that product in place.

It's currently around 20%.

We believe we can get it to over 60% over the next three years.

So again when you think about the working capital around the purchasing synergies and purchasing strengths, there's a lot of opportunity to streamline and to improve that scale and opportunity.

So this is well underway.

We believe by 2027, as I said, we should be looking at SKU consolidation of around 30%.

Now there's two sides to this story.

So there's one around optimization, simplification, taking products out that we don't need to take that we don't need.

But there's also, there's a bit around how we then optimize the availability on the shelf.

So as an example, we've got the branch and the branch B.

In branch, you've got five brands on the shelf.

So the reality of the purchasing decisions have been made by the time it gets down to the branch, this is on a braking product.

We've now got five brands on the shelf.

Now the problem with five brands on the shelf is you have limited space.

So you end up with the fastest-moving SKUs available in each of the brands, but that doesn't necessarily mean that you've got the full application available in that branch to service the customer.

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So by actually consolidating the number of brands we've got, having chosen Tier one brands that we're working with, having selected brands in the midrange and obviously our private label as well we believe that we can not only simplify our portfolio but actually increase the applications of what's available on the shelf, the ability to say yes, far more frequently and hopefully as close to every single time.

So we have seen this work.

We've seen this work in the test environments.

We've seen this work in regions that are already further ahead of this.

We believe that this will comfortably provide us the ability better engagement with our customers and offset any risk as we transition through the SKU consolidation as we move forward over the next couple of years.

As I said, I've talked about a lot of transformation work.

So we are really focused on doubling down on getting the transformation work completed between now and 2027. A lot of lifting is going on to make sure that we're into that single back end consolidated processes, getting the word GCC work, et cetera. There's still based on -- and I said this earlier, we still obviously have our prime price asset, which is our people.

So we have 26,000 colleagues.

It is critical that we continue to work with, develop and coach and help them to grow.

We are in an environment, as I said earlier, we're predominantly B2B.

So those colleagues need to work with our customers, and that relationship is critical.

Those colleagues need to take our customers on that technology journey as well.

So we put a lot of effort and focusing on our customer, on our colleague growth and make sure they're equipped and they have the skills and expertise to support our customers.

We are obviously looking to talent, expansion and development.

We have digitalized that whole roadmap.

So every colleague has personal objectives and has personal growth objectives that we can now see.

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We are now using consistent framework across our European footprint, which will also then align from a global perspective.

So we can see how people are developing.

We can see how they're performing, and we can start to really make sure that the succession planning and the pipelining and the benches is what John has also mentioned, are continuing to fill up.

We've talked about our diversity and inclusion. Across Europe, our exec level minus one is now 30% female, and we've seen that coming through in the regions as well.

We're making sure that we've got a diverse group of colleagues in those regions so that we make sure that we're really thinking about how we're addressing both our customers, but ultimately, the end customers.

Our reward and recognition programs are now aligned. They're aligned at the European level, but more importantly, they're also aligning as at a global level, so we make it as easy as possible to move people around. Whether it's by region to region, whether into a region to European real or even into global roles and moving colleagues between North America, Canada and Europe.

So all of these things are going on to make sure that we are creating the opportunities to allow people to move.

We've aligned on our values and cultures as well.

So we are working with one set of principles, one set of guiding rules around how we work together and making sure that that's consistent across the segments that we operate.

So finally, hopefully, you've seen from the presentation, but also from the commentary, we are really doubling down on the simplification and the operational excellence in the European segment.

We believe that once we've achieved and we've got past that tipping point of having the majority of our business onto that single set of ways of working, the simple set of processes and systems that we can then really accelerate some of our further inorganic opportunities, both by channel and by geographics.

But we are really making sure that our operational focus and simplification is where our priorities are.

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We know that that's going to give us enhanced margins.

We also know that will enable us to really then plan out and map out where our growth opportunities are.

We continue to focus on talent development, and that is critical.

We do see that some of that channel development when we start looking at reman, we start looking at salvage, we start looking at EV, we start looking at data and digital that we'll bring some new expertise and some new capabilities into the organization as well.

But we'll also make sure that our colleagues have got the opportunities to also come through in those areas.

All of that combined, we do believe that we will have above-market growth in revenue on 2.5% to 3%. And even through this transition of doubling down on the transformation, we do believe that we can deliver 20 to 40 basis points per year on EBITDA margin expansion as we go through this period.

Then once we're out of this period, we've got obviously a lot more exciting opportunities that we can develop. All of that, based on also free cash flow with the continued work on the trade working capital. And hopefully, as you've seen from the category management and the supply rationalization, there's further opportunities to drive through on that working capital improvement as well.

So with that, and with 19 seconds to spare, that was good timing. Hopefully, that was informative and useful both for people on the webcast, but obviously for everyone in the room.

I'm more than happy to discuss any points around the break as well.

With that, thank you very much and I'll see you later.

Operator^ Please welcome to the stage Senior Vice President and Chief Financial Officer, LKQ Corporation, Rick Galloway.

Rick Galloway^ Good morning, for everyone here in the room. And good morning for everyone or good afternoon for everyone who's joining us on our webcast.

I think this is working, but I'm hitting the wrong button.

Now it works when you hit the right button.

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So one of the things that I was told before I walked up here, was that I'm standing between a nice panel discussion where you get to ask all of your questions and lunch.

So I think the hint was let's make sure you're expeditious on your communication.

So I'll do that. The other thing I realized is I was looking at the online site. The camera angle probably needs to zoom out a little bit with Andy being up here and being a little bit tighter.

So let me tell you a little bit about myself.

One of the things that I want to do with all of you here in the room and everyone online is give you a little bit of a picture of LKQ and the personality of LKQ, if you will. Think about looking under the hood a little bit of who LKQ really is. Myself, I can't believe it next week, it's going to actually be two years in his role as CFO for LKQ.

I started with LKQ back in back in 2019.

In July of 2019, I joined LKQ as Justin's CFO for our Wholesale North America organization.

Worked there for the last three years, and then I got into this role.

Prior to joining LKQ, I spent about a decade with a company called Alcoa.

I was with Alcoa during the -- what was the split between Alcoa and Arconic.

I ended up going with the Arconic organization, the aerospace side of the business there with Arconic.

Then the early part of my career actually was started off with the company called Grant Thornton as an auditor.

So as we talked about, one of the things that I want to show you is a little bit of the financial snapshot, right?

So most people that are listening in or most people who are in the room, it's rare that I get to talk to a bunch of finance people.

So I get to be the premium speaker at the end of today.

The operations folks, they normally put me in the other side of things.

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But when I think about our snapshot, what I typically talk about for the snapshot is I talk about it being our scoreboard.

So the scoreboard, and I'm going to get back into that here in a few minutes.

But where are we at on a trailing 12 month?

Trailing 12 months, we've delivered just about \$14.5 billion of revenue.

We've had a little over \$1.7 billion of EBITDA and just over \$750 million of free cash flow.

We're around \$4.3 billion of debt and an overall liquidity of \$1.4 billion.

We are an investment-grade company.

I'm very proud of that, something that we want to maintain, something that we're adamant about maintaining. And part of the discussion that we just had between John and Andy is why did we had on any come up?

Well over the last 12 months, John and Andy were 85% of the revenue and about 90% of our EBITDA. Rounding out our EBITDA, there's around 8% that is our specialty organization and about 2% that is our self-service organization.

So what makes LKQ different than other organizations?

One of the things that makes LKQ different about other organizations is our people. That is single handedly the biggest opportunity, the biggest thing that we have that Nick talked about before when Nick was here that Justin talked about, John talked about, and Andy talked about is our people.

So I want to show you a little bit of the way that we kind of think about our people and the way we partner together from the finance function, to the operations function and all the support functions amongst LKQ.

So I do things just a little bit differently and most of you who know me have seen that I do things just a little bit differently.

So this doesn't really fit into finance presentation, but we're going to talk about it anyway.

Okay?

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So what is this?

LKQ is a very competitive organization. Individuals within LKQ are exceptionally competitive.

I'm exceptionally competitive. Justin is exceptionally competitive.

We like to win.

When I got here in 2019, I talked a lot about winning, and I still talk a lot about winning.

So that conversation of winning is something that is a mantra that we go across the overall organization and talk about winning.

When I go and visit one of our facilities, the question that I asked the operating leader was walking around is, are you winning?

The question are you winning is an interesting one, if you haven't defined winning for them.

So one of the things that I like to do with the operations team and also our finance folks is ask them, are you winning?

Normally, that response comes in and says, well especially when I started in 2019, well what do you think is winning.

I'm not going to -- I want to know what you think is winning.

Has our message been properly communicated throughout the organization?

Do you understand what winning is?

And are you delivering on that winning environment and the winning expectations.

That's what makes LKQ so different. The drive of competitive nature, the drive of winning makes things different.

So I wanted to illustrate this a little bit of the connectivity that we have within LKQ. An example of the way we sort of were what we've turned into and then talk about where we're going, okay?

Back in 2016, what you're looking at right now on the screen, there was the Monaco Grand Prix.

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There is an individual that ran with Formula One driver named Daniel Ricciardo. Daniel Ricciardo, when they started off the race in 2016, the race started off under caution because they just had a bunch of rain.

Everyone had wet tires on.

Okay?

So envision this.

Everyone has wet tires on.

If you're a Formula One fan, you get it.

If you're -- most of you are Americans, this is another race.

It's not NASCAR, it's a different kind of racing, right?

So this is what Europeans would call real racing, right, Andy?

He agrees.

So when you think about Formula One racing, the tires mean a whole lot.

So they all started off with wet tires.

During the race, some of them moved to intermediate tires.

Then the track dried out and they need to move to slick tires.

What happens prior to this is that Daniel Ricciardo came in and got his intermediate tires, okay?

When he got his intermediate tires, what happened is -- he got an elite. He got a nice lead.

When he got into a nice lead, number two behind him was a person named Lewis Hamilton.

Lewis Hamilton was coming up on his side, but Lewis decided to go right from wet tires to slick tires, skipped intermediate tires.

So his crew chief -- Daniel Ricciardo's crew chief, decided we're going to shift over, and we're actually going to put on slick tires immediately.

So let's watch for a second how that transacted with the overall video here.

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So go ahead and play the video.

(Presentation)

Rick Galloway^ So when I think about this, what just happened, linking an organization with the mission, the strategy, the objectives and then the overall action plan is critical.

Because if you're not linked throughout the whole organization, you're going to fail. You're going to have issues like this.

There are sometimes where we have issues like this.

What Justin laid out and what we've talked about for a long time is the overall mission statement.

The mission statement hasn't changed. The mission statement has been a clear mission statement.

What Justin just laid out for us with John and Andy is a different type of strategy.

The different type of strategy for us is really looking at shareholders all of you, stakeholders, how do we create operational excellence and then how do we return the proper amount of capital to our stakeholders. That's the strategy. The strategy is pretty clear.

What we then did is we take it down to our objectives, our objectives, specific, measurable, actionable, relevant and time based.

If you read any books, you've often seen that that's a smart objective, right?

That's what that ends up being is the smart objective.

We take that approach and the measurability of what we do is what it makes LKQ different than everyone else that you're going to walk around.

The strategy is great and the strategy is interesting, but how do we actually make it happen?

We make it happen through setting up real objectives, which Justin talked about his objectives and his key results, the OKR process.

So back in 2019, when we started working on this, we worked on this playbook for North America wholesale organization to drive accountability, drive measurability.

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We focused on things like key performance indicators. Key performance indicators are something that drives the organization sets the tone and shows what winning really is to the operators, taking something that is complex and making it simple for the organization.

If you're the one moving parts, if you're the one delivering parts, how do you know that you're winning, you don't know you're winning by the fact that the stock price is up or down for the day. The way you know you're winning is by looking at time-based initiatives, time-based metrics to drive performance.

And why I talk about the scoreboard is because what we want to do is put points on the board. How do we, every single day put points on the board, and that's what's different about LKQ than many other organizations that you're going to see. The team knows how to put points on the board, and they're confident with the points being put on the board, how do we deliver.

So in North America, the playbook, going after KPIs, going after time-based initiatives, setting it up to where not only do we know we're winning when the scoreboard comes up, but now we know we're winning during the day.

During the day literally doing a gimbal walk throughout the day to figure out if I've dismantled enough vehicles, if I've shipped enough parts, if I'm delivering enough parts for the day and does that mean I win the day or does it not win the day.

What Andy talked about is now that, that foundation has been built using one LKQ Europe, we're at an optimal time right now to take that playbook and move that playbook over to our European operations. Essentially, what John talked about, taking a \$1 billion FinishMaster business that you can't even see now because we integrated it in nine months, is an integration muscle that we are building and setting a foundation for our European operations. That's what makes LKQ so different than everybody else.

So when that happens, why don't we take a peek at what that looks like when you're all aligned. Go ahead and roll this video. (Presentation)

Rick Galloway^ That's the way a pit stop is supposed to be. That's amazing. Just over one second to change four tires.

What happened with Daniel Riccardo is he took 13 seconds to change a tire. This was just over one second.

He lost the race by seven seconds.

If we just would have gotten half of that back, he would have won the race.

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It's critical to be aligned from top to bottom, and that's what makes us so different than everyone else. When you think about where we're going, what we're doing, where we're headed, is targeted financial results, driving incremental profitability focused on the balance sheet to drive incremental free cash flow.

One of the tools we have, and I'm going to talk a little bit about it in more detail, is our vendor financing program.

So when we look at what John and Andy spoke about, starting off with a TTM number of 12%, okay?

Looking at the overall opportunities.

We talked about profitable revenue growth. John specifically talked about growing in the core.

He talked about the salvage and the remanufacturing part of our business, where we're number one.

But growing in that core and then using what we have where we're better together on teaming up with Andy on the hard parts side to grow our Canadian hard parts business. How do we take that expertise over in Europe, where we've grown that European expertise, tap into that, learn faster and become the number one player in Canada. That's where we're headed.

Andy talked about the customer loyalty through our workshop concepts, driving this customer loyalty, making sure that we had customers that want to do business with us.

Then on top of that, he talked about collision space.

So how do we grow an APU that's in the mid to high single digits over in Europe to a much higher number where we all talk about being in the upper 30s for North America.

We can play a game in that.

We can play into that market space, and that's something that we have vision to be able to go do because we have the best people to go do it.

When you look at the gross margins, gross margin, we put roughly a push over the next three years. There's some puts and takes back and forth.

We're going to get private label.

We're going to get SKU rationalization. Those will help us on the positive side.

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But quite honestly, there's going to be some inflation that we're going to expect, and we're going to expect a little bit of limited price increases. Price increases have been a little bit difficult to go pass through in certain areas.

So call it a push.

But where we end up seeing nice margin expansion is we end up seeing it through the vision that Justin -- the strategy that Justin just put out.

What Justin put out was a strategy of simplification.

Simplify the portfolio, simplify the way we look at the business, simplify the way we operate the business, take lean operating tools that we developed and have proven over in our North American operations, take those over to our European operations and expand the margins from the platform that we've already got. That should give us around 10 to 20 basis points every year for the next three years is what we think that will do.

What most people forget about is they forget that a lean process is not just the P&L side. Most people talk about lean operations as a process that helps us on the P&L side. That isn't just what lean operations does for us. A lean mentality is essentially doing more with less. How do we do more with less?

Get rid of the inefficiencies and get rid of the waste.

So let's talk a minute about the balance sheet. Let's talk about the value stream that happens on inventory. When we look at the time from ordering to the time delivering to our customer, Andy talked about availability, and we got to make sure we have everything on the shelf, but we got to make sure we don't overdo it as well. How do we shorten that cycle?

How do we make sure that the inventory levels aren't growing while our revenues are growing.

How do we maintain it or how do we even decrease it?

Well we talked about footprint rationalization. That's an opportunity for us.

We talked about SKU consolidation, another opportunity for us and then overall network optimization. Both businesses have opportunities to grow these items and simplify the overall business to focus on a reduction of overall inventories, thereby driving more free cash flow.

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We talked a bit about the receivables side. You didn't maybe catch it that we talked about the receivables side, but we talked about the integration with our customers and our customer loyalty.

Because of the size and scale of what LKQ does, we can partner with our customers like no one else can partner with our customers. Like no one else can partner.

The way that, that happens is through integration and being able to take our systems mirrored up with their systems and making sure that we create a contract essentially through our customers. The way I talk about it within the organization, as I talk about, let's first look at our delivery performance. How are you delivering?

How are we delivering?

If we're delivering at 99% on time, then my expectation from our customer base is just that they pay me at 99% on time.

That's a focus for us. That's something that we can do and something that our systems allow us to do much faster than anyone else.

So where are we going to extract some dollars on the balance sheet?

It's going to be in the payable side.

We're going to extract dollars out of our payables side by extending terms.

You start thinking about the supplier rationalization. Here's the contract that essentially creates with our supplier rationalization.

We're going to give you more volume.

In return, you help us with not only the P&L side, but help us with overall terms.

That's what ends up happening is we partner together with our suppliers, they realize that they have a nice size growth, nice size opportunity, and now we can actually pull some more dollars out of this.

I'm going to talk in a minute about vendor financing, which is another big opportunity for us.

So what have we done over the last couple of years since I've been in this role.

Since I've been in this role, we've done a couple of different things.

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We refinanced \$2.5 billion of a credit agreement.

We issued our first investment-grade bonds at \$1.4 billion on investment-grade bond.

We had a Canadian term loan of \$700 million, and we had some euro bonds that Justin talked about earlier, of EUR 750 million, all under an investment-grade rating.

We've now pushed out our weighted average maturity to four years.

We've got some flexibility.

We are determined to maintain and improve our overall credit rating.

We think that's the right place for LKQ to be with a mature organization that we have and we are set up in a great opportunity for us to have available prepayment if we want to prepay some things.

When you start looking at what our overall credit is, we have a borrowing rate around about 6.1% on and our fixed versus variable mix is around 75% fixed to 25% variable, and we're pretty comfortable with where that's at.

So vendor financing. Vendor financing is one aspect of payment extending.

It's one aspect.

It's the one we get question the most on for most of you, but it's one aspect of our overall extension of terms.

What we've seen since Q1 of 2023 and is a 9.3% organic growth.

What does that mean?

Europe has grown 9.3%, okay?

We've gone from \$240 million to \$375 million, extracting value and bringing more cash to our investors to be able to reinvest back into the business in whichever way we need to, okay?

What we also did is when we acquired Uni-Select we had \$63 million in our Canadian business, and we've extended that to \$70 million since August of last year. That extension, it's important to understand that's about 60% utilized. There's plenty of opportunity for us to go after more.

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With what our credit rating is, we have an opportunity to go after and stay very competitive in that environment and extract more dollars.

So what do I expect in the future?

More of this.

Similar type trajectory. That's what you should expect, okay?

So what did we do with that cash over the last couple of years?

From '21 to '24, we produced around \$4.4 billion of operating cash.

What do we do with that?

We deployed over 60% of that with share repurchases and dividends. That's what we did with it.

We also have a reinvestment, what Justin talks about making sure that we're staying strong -- it's just under 25% of our investment has gone towards CapEx.

Projects that we want to currently develop projects that we keep developing.

So there's about 25% -- a little less than 25% of it went to that.

So what does that mean for the future?

Is the future going to be different is essentially why you're here. There's going to be a couple of things that are different.

One is laser focused on cash generation, laser-focused on cash generation. Cash is king.

Cash is what's going to help us to deliver the future and that's something that we're looking at expanding and trying to grow that cash. major focus there. Major focus on capital expenditures on high ROIC or higher return on invested capital projects, that's going to be a major focus for us.

We're going to commit to a 50% of our free cash flow is going to be spent between dividends and share repurchases, okay?

Minimum 50%.

You can see what we've done so far this year.

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We're seeing that already. Pretty excited about that.

Then on acquisitions, Justin talked about tuck-ins. Heard in the hallway a little bit about, well I know but you guys said tuck-in before and now you have a large tuck-in. And maybe it wasn't going to talk here's what I'm going to tell you.

I'm going to show you a picture right here. Let's put some dollars to it, okay?

Let's put some dollars to it.

What we're looking at is we're looking at \$3.4 billion to \$4.6 billion in operating cash over the next three years. how are we going to use that cash?

60% of that we are going to put back to our stakeholders, capital return back to our stakeholders. 40% of that is going to be used for investment for growth.

Where are we going to grow?

The vast majority of that is going to be in capital expenditures.

So all of your math with us that are sitting in the room can understand what we're earmarking for acquisitions, tuck-in acquisitions is 10% of that number, essentially \$400 million over three years, roughly. That's the number that we're targeting. That doesn't mean that's one acquisition, that's many acquisitions of smaller sizes that we're looking at something like a \$10 million, \$15 million, \$20 million acquisition on things that are very highly accretive, where we've taken the expectation on returns down to a 3-year period and up on the overall hurdle rate.

What we're also going to do is we're going to maintain our dividend and grow it on a per share basis.

We'll grow our dividend on a per share basis, but we're going to return about 35% on between our share repurchases and our debt payments. That's the plan right now.

So why do I get excited about LKQ?

I can tell you, the number one I get excited about LKQ is our people.

Our people make the difference. That is really what is the secret sauce behind LKQ.

We have great assets, but our great assets are run by amazing people.

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That's the difference.

We are in amazing, really, really solid nondiscretionary markets that we just talked about for our North America wholesale and our European operations.

Oh, by the way you happen to be looking at the number one in every one of our segments that we do.

We're number one in North America.

We're number one in Europe.

We're number one in specialty, and we're number one in self-service.

It's hard to come by a company that can say not only do we have the best people, we're also well positioned. That's what we can do.

In addition, what can we do?

We are stable through the economic uncertainties. Right now we're in this volatility that we talked about. John talked a little bit about this volatility up and down. The value proposition that LKQ offers is a value proposition when things get tough, we are a good answer.

We are the best answer for consumers. That's the difference is that we can try to -- we can push this way push that way when there's unstable and there's not repairs being done, which is what we've been talking about. Those repairs come at some point in time, well how do you get them done through the lowest cost initiative. Who is that?

LKQ.

That's how we figured this out.

What are we going to do?

We're going to grow organically. That's going to be a laser focus for us.

We're going to focus on our operational excellence. That's going to drive EBITDA at a faster rate than revenue.

Then we're going to drive free cash flow on a compounding basis faster than we do EBITDA.

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We're going to take that free cash flow.

We're going to reinvest it back in the business on things that help us to encourage and grow our earnings per share at a faster rate than our free cash flow. That's the plan.

I will also tell you that we are very committed to making sure that we stay -- our credit rating stays as an investment-grade rating.

And we are consistently able to grow the overall earnings over these next few years.

So how do I summarize this?

The way I summarize this is, I say Justin laid out a strategy of simplification.

We're going to simplify the business from the portfolio to the operations. How do we do that through operational excellence, through a lean initiative that goes across every aspect of what we do, removing the waste from the organization.

What will that help us do?

That will help us to drive overall profitable growth and that's going to overall enhance margins.

We're going to enhance margins, which is going to drive free cash flow.

So what does that mean for us?

Well that means for us that we believe in the next three years, we're going to outgrow the market at LKQ's level by 1% to 2% above market.

I'm not going to tell you what the market is going to do with the market volatility right now I can tell you we have plans to outgrow the market 1% to 2%. That's what we'll commit to. The other thing we'll commit to is with that, we look at 10 to 20 basis points for LKQ of margin expansion that we should see over the next three years.

And what does that do on free cash flow?

Around \$2.4 billion to \$3.2 billion of free cash flow, delivering over the next several years. There's a lot of work, a lot of time being spent, a lot of focus to be able to deliver these in a volatile market.

But this team is the best team to be able to deliver that.

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So with that, that ends my prepared remarks.

What we're going to do is we're actually going to invite up a panel discussion of Justin John, Andy and Joe Boutross, Joe will host us for the Q&A. All of you can ask questions here, and you can also ask questions online.

But what we're going to do is we're going to pause the Internet feed for a few minutes while we get the stage set up.

So thank you for your time, and we'll welcome your questions here in just a minute.

Operator^ Please welcome our panel; Justin Jude, John Meyne, Andy Hamilton, Rick Galloway moderated by Joseph Boutross.

Joseph Boutross^ Am I on here?

I suspect it's the first Investor Day that many here have been to where they have heavy metal playing.

So hopefully, you're enjoying that experience.

I know a few people have asked where is the slide deck on the site.

It is there.

If you slide down on the landing page, you'll see it.

It says presentation, you'll click on it.

So Lexi is going to be walking around with microphones to hand to anybody that wants to ask an on-site question, but some people beat you to the punch.

So first one. And Rick, on the last earnings call you made reference to the revised guidance being adjusted down due to the expectation of soft volume in the back half of the year.

Now that we're more than halfway through the quarter, how is the quarter tracking to that revision?

And what's the demand environment relative to the first half of the year?

Rick Galloway^ Well thanks for starting off with the softball.

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I appreciate the easy question.

Joseph Boutross^ I'm just a messenger.

Rick Galloway^ Yes. I know.

So as we looked at what we had done, the biggest driver of the business is the market.

The market, on the collision space as well as our European operations, what we saw is -- and we guided to just to make sure everybody is kind of aligned was \$3.50, up to \$3.70 at the midpoint of around \$3.60.

As we went through July, obviously July is done August, we're still working on August.

What we saw was the market was down even a little bit further than what we expected.

Still within our range.

So I don't think that there's an issue within the range.

What I would say is that we started off a little bit slower than where I had anticipated and where I want it to be at this point in the game.

So I would say still within the range, but probably just shy of where we are at.

As far as the midpoint goes.

So that's where -- and on free cash flow, free cash flow has been coming in well.

I don't anticipate much of a difference for where we're at on free cash flow with the work the team is doing on the balance sheet side.

Joseph Boutross^ Got it.

There's a second part to that question, but people on the webcast as well as people here.

Obviously we're here to talk about the long-term vision of LKQ and don't want to have a guidance discussion for the balance of the day.

So I took that question out of courtesy.

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I can let you choose what you want to ask, but I prefer to steer the conversation towards what we're speaking about today.

Most people don't listen to me, but give a shot.

So Justin, a great presentation, you got a complement out of the box there you go.

If you had to summarize what's the biggest change we should expect under your leadership?

And what gives you the confidence LKQ would deliver more predictable results and no surprises with changes in strategy?

Justin Jude^ It's a long question.

I mean overall, my overarching responsibilities are to get back to the shareholders, first and foremost, I talked a lot about simplification.

So define the business, simplifying our portfolio. That is something that is being aggressively looked at, will continue to be looked at. Driving the operational excellence by standardizing the business, integrating the businesses will lean towards more cash flow, which we can then turn around and invest back into our shareholder standpoint.

So the confidence I have is just looking at the teams, evaluating the teams that we have, making sure that they are aligned.

Rick talked about how do we take that strategy cascaded all the way through the organization and make sure everybody is laser-focused.

I would say one of the differences with me being an operator, I get -- I travel a lot to go meet with our operations, meet with our locations and make sure that they understand what the strategy is, they understand how they can affect the strategy and make sure that we're focusing on the right thing.

So I would say clearly, just simplification and holding people accountable to drive the results and to have no surprises.

Joseph Boutross^ Great.

So I will move to the group here to Bret Jordan with Jefferies.

Bret Jordan^ You talked about no sacred cows as far as looking at the portfolio.

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As you look at the possible divestitures, whether it's specialty or self-service, is there a reason you wouldn't think about geographically splitting the businesses in North America and Europe?

And I guess also within that question, North America, Bumper-to-Bumper is obviously a small player in a very large competitive market, particularly if you get into the U.S., is there a real reason to be trying to play in that game?

Or is that a potential candidate as well?

Justin Jude^ I mean the first piece, I'll talk about on the European. When we look through the portfolio, once again we look at aggressively.

We'd look at no sacred cows.

We understand the long-term benefits.

I kind of outlined on several different slides, some of the benefits that we see in North America and Europe combined, revenue synergies, cost of goods synergies, operational efficiencies and those are real tangible things that don't require us to go acquire businesses to really leverage and get the benefit out of integrating our operations in Europe, as Andy talked about.

We see the value of driving those initiatives, getting the returns for ourselves and our shareholders when we talk about Europe and North America. The other piece of your question was what, sorry?

Bret Jordan^ Would you think about Bumper to Bumper as a potential candidate for sale.

I guess a follow-up on that question, the timing, if you think about specialty, our self-service, I know there's a lot of talk about specialty cyclical business.

At what point -- do you think -- I mean obviously trying to sell it on the cycles, the market timing exercise the number works, when we see some activity here. And again when you think about Bumper-to-Bumper for sale as well just given how competitive that market?

Justin Jude^ Yes. Bumper to Bumper, that came obviously with the Uni-Select acquisition, leveraging the scale that we have in Europe, there's great value in that. Great value and the cost of goods benefit, great value in rolling up a fragmented market that exists right now in Canada, we're the number two player.

We're a leader in that position.

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We see an opportunity to expand the offerings of that product line throughout the rest of Canada, even leveraging our distribution centers and our network.

So we see good value in that. When it comes to specialty or self-server quite honestly, any acquisition.

I wouldn't really comment up here on a hypothetical, but I will tell you that we are aggressively looking at our full portfolio all around.

Joseph Boutross^ I mean with all fairness, obviously we've only owned the Bumper to Bumper business for 13 months.

I know it seems to be the theme dejour [ph] about simplifying the business model from a diversifying through divestitures.

I think a lot of shareholders that are here don't want us running out and having a fire sale.

So anything that we divest, I would assume you want us to be methodical and thoughtful just like anything we buy.

So I'm not going to speak for these guys, but I just need to layer in.

I have a few conversations on my own.

We've only been doing it for 13 months.

Anyways, next question?

Scott Stember^ Scott Stember from Roth MKM. You talked about on the accounts payable or just leveraging off of that two different areas, if I heard correctly, with your suppliers here in the U.S.

The vendor financing program, if you were talking about just the vendor financing program, how far can you guys go?

Some of the guys here in the U.S. have a 1:1 AP to inventory or even higher than that and they get a free float on their inventory.

How far -- how aggressive could you be just region by region, if you need to?

Rick Galloway^ Yes.

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So I'll take that one. Thanks, Scott, for the question.

I was talking about both.

I was talking about overall payable extension, not just through vendor financing.

When we're looking at our overall terms, whether it's in North America, whether it's in any of our segments, specifically, Andy was talking about a little bit of the supplier simplification over in Europe, when we're looking at overall SKU reduction and supplier simplification. There's an area there that someone may not play in the vendor financing, but they would play in extended terms because of the size of the organization.

So I don't want to just put blinders on the vendor financing piece.

If I look at the vendor financing piece, you're exactly right.

We're looking at the same ones that you're looking at. You're looking at the O'Reilly's, the AutoZones, those folks that are at 1:1 or maybe even above that. That's proven that it can be done here in the states.

I don't see a systematic reason why it can't be achieved over in Europe.

It's just a slower pace over in Europe, okay?

So we are, let's say between 50% to 75% of where we think that we can get to on our European operations.

Then we've got some opportunity, as Justin talked about on the Bumper to Bumper side, we've got some opportunity within Bumper to Bumper to also expand those vendor financing opportunities for us.

Craig Kennison^ Craig Kennison from Baird. You mentioned an opportunity on the hybrid battery side and just overall in the EV category.

I'm curious what assets you have and what assets you may need to be a scale player?

And specifically, on recycling materials, do you have any of the assets you need to be a meaningful player there?

Unidentified Speaker^ Yes.

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So when it comes to the remanufacturing piece, we acquired Bumble Bee and Green Bean Battery several years ago that remanufactured hybrid batteries.

Focusing on nickel metal hydride, that technology then migrated to lithium ion.

We are now remanufacturing lithium-ion batteries, selling them back into the distribution channel or installing them into a customer's hybrid vehicle today.

We have the capability to just scale it up with people and CapEx.

When it comes into the EV side of remanufacturing, it's a little bit more technical, obviously different equipment, not very expensive equipment, making sure we have the right knowledge base within our organization.

We've added a few resources to make sure we had an expertise on lithium-ion, full EV. EV is a little bit more complex than just a lithium-ion hybrid -- you've got the battery cells themselves. You have a cooling system in there. You've got a battery management system, making sure that we can remanufacture battery that is put back in a vehicle and works effectively.

When it talks -- when we talk about the recycling piece, there's a lot of players out there that invest a lot of capital into recycling these things shredding the battery, trading the components on it. That isn't something that we're looking at investing into ourselves.

It's something that we may partner with somebody.

We've got a lot of logistics and a lot of the scale on getting that battery from the consumer from the shop, processing it, pulling it out of a vehicle that may be end-of-life vehicle or pulling them out of a vehicle that's been reeked than distributing it or having handling the logistics to get it back to a shredder.

And so we've partnered with some shredders in the past to make sure that we have the best benefit and the best relationship there, but it isn't something that we're going to look at in and investing in large recycling centers or shredders of the batteries.

Unidentified Speaker^ I think maybe just let me add just a little bit.

If you think about the value proposition of the battery itself, we've looked at this multiple different ways.

You had mentioned specifically the recycling side of it. When you think about the recycling side of it, we tend to look at that as our lowest value proposition. There's a whole lot of things that we

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can do to extract value, we believe, at a profitable much more profitably than just the recycling side.

So as you can imagine, being the largest recycler vehicles, we're getting phone calls from all of the candidates that you and I have talked about in the past, right, that are in that space because they want the core, they want the actual battery.

And they would love nothing more than for us to give it to them, sell it to them to turn it into black mass.

If we can take that battery and put that into a remanufactured battery, now all of a sudden the value proposition is much, much higher and extracting that value out of the battery is a much bigger proposition for us.

It's essentially that then are there other areas maybe not even in vehicles, but is there other storage opportunities that make more sense to extract more value.

So we're looking at the entire value chain, Craig, is what I would tell you.

It's not just recycling.

But clearly, with what we do in the business of procuring vehicles, we have 750,000 cars that we've bought last year, right?

So in that business, we're going to get a lot of cores as that volume increases, the last opportunity for us, we believe, is probably on the recycling side or on the actual recycling side of it.

Craig Kennison^ If I could ask a follow-up on Europe. How do you manage -- is going to cut your SKU count by a third?

How do you manage not losing any revenue associated with that?

And if you could follow up and just address the opportunity of collision in the European market, that would be great.

Unidentified Speaker^ Okay.

So if we look at the SKU count piece, we've done all the market research in each of the markets.

The two top reasons that the independent workshop will use a distributor is on availability and

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speed of service. When you get down into number three, number four, then you're looking at quality relationship price. Brand is down in the kind of six and seven.

So it's not a brand decision that the workshop is making that ultimate decision. They put a lot of that emphasis behind the relationship.

So they'd rather buy from us as a relationship brand rather than the product brand.

So we're confident from that perspective.

And what we believe is and what we've proven out in a number of areas already is actually really working on the application breadth by having less brands, but having much wider breadth and you're really, really focused in on the application coverage per geographical market.

It's not a single shoe fits all. This is personalized and relevant to each of the geographical markets it's operating we believe that will more than offset any risk, but actually it's probably further revenue growth.

So we're pretty comfortable that, that combined gives us a real opportunity.

We also believe that this is the kind of the right timing for really leveraging our private label capabilities as well.

So we can take a lot of those entry and mid-level brand consolidations and move them into our own private label.

From the collision side, -- the collision is quite interesting.

So I was involved in the U.K. business right way through from 2011 through 2016 and then 2019 onwards.

We are the alternative and number one player for collision in the U.K.

We have got a full collision product portfolio.

We got all the paint and the wet and dry goods and the tolling, et cetera.

So by market, we know what we need to operate. each of the insurance market behaved slightly differently in each of the European markets.

So the key thing is really when you're doing it the other way around, the key to key time you're trying to set up a whole logistics capability.

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We've got the reverse benefit is that we've already got logistics in place.

So this is about just getting the timing and the proposition and getting the product into the logistics and distribution, and we can get it out.

So we've got a mature collision capability in the U.K.

We've got a partial maturity within a couple of other markets, but we believe we've got the right understanding to how we can leverage that across more consistently. Collision, as we have been going through the last few years, collision hasn't been the priority from a channel development.

We've been working a lot more on the foundations and the infrastructure is in the back end.

We believe from a channel development and especially when we think about the technology shifts that collision and the sale wage will play a critical part as we move forward.

So it's on the roadmap.

We've already got good levels of maturity, and we're number one in some markets.

But we know what we need to do moving forward and expanding that across.

But it is different in each of the markets.

And it's just then understanding how we get that in.

Joseph Boutross^ So if I can -- we'll let you ask a question, then I'll take this one.

Unidentified Participant^ David Shepley at Windanser Holdings [ph]. A network question. Maybe start with you, John, and then to Andy. John, just on the mega yards.

I just hoping to learn more about how far you guys can push that?

How far do you want to build out that geographical footprint standpoint?

Then Andy, maybe you talked about a blueprint map from a location standpoint.

What does that look like in 2028, 2030 type of thing?

Unidentified Speaker^ Okay. Thanks for the question.

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So as far as the mega yards, so we're built out in Texas.

We have one going up outside of St. Louis.

We have a property already identified in the state of Washington, which will feed the Northwest, also helped feed into Canada a little bit.

We're looking at securing properties on the East side.

If you go up in the Northeast and East, we have a lot of smaller yards there, so there's lots of opportunities there.

So we've been actively working that for two years, but the difficulty of securing a property, getting a permit, getting the engineering done has just taken a long time years ago, five years ago, we could secure a property and start building in four months and be in that yard in a year and a half.

So we're still working, but unfortunately, the pace has taken us two to three years now to build that out.

So we've already identified there's probably going to be typically maybe three yards on the East, and we already got the West already on pace.

Justin Jude^ If I can piggyback on that.

I mean we have geographic coverage, right?

So if a customer needs a recycled part for a collision or mechanical -- we cover all the U.S.

We cover all or all of Canada.

Some of the benefits of the mega yards.

I know John has talked about it. where we already have salvage operations, maybe two or three, and we can go to a larger, more efficient one, close those other 3.

But ultimately, what it does is gives us capacity. Right now we're the largest player in that space, but we're still a small player overall in a grand scheme of all the vehicles and all the volume.

I mean there's over 3,500 registered salvage yards across North America.

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So there's a lot of volume that we want to go get.

We just want to make sure we have the capacity.

So we don't have to turn those cars faster and lose margin on it.

That's one of the initiatives is on the mega yards to handle that.

Unidentified Speaker^ Then from a European perspective, so we blueprinted each of the markets.

What we see, depending on the market, so you've got some markets that are more rapid fulfillment.

So the U.K. is a prime example of that.

It's heavily concentrated from an independent workshops and you need a rapid fulfillment model to supply those markets.

Where you've got wider markets with less workshop coverage, then it's more of a milk run philosophy, and you can do two, three, four times a day et cetera.

So we understand and we've got the blueprinting for each of the markets we operate and whether that's a rapid fulfillment or whether that's a timed milk-run approach.

So there are several opportunities per market where we can consolidate locations because we believe in that milk run environment, we can actually do it from less and we can do it from slightly bigger capabilities.

That also ties into the fact of widening that category management and that brand also that SKU portfolio application.

On the flip side, we also know that we're not number one in every market.

So there's actually white spots now identified in each of the markets.

So whilst there's some consolidation, some simplification, there's also white spot areas that we can -- we believe now we've got clear visibility of the number of vehicles and the number of workshops in those locations where we can add a further investment and put a further reach in.

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So it's a combination. Net-net, we'll probably look quite similar, might even slightly creep up but that will include a number of consolidations as well as new site locations as well.

Joseph Boutross^ I'll take this one here, and it's another Europe question.

But Rick, you probably want to jump on this as well. Historically, we had talked about 10% plus EBITDA margins in Europe up to 12% to 13% in some cases. And now we're talking about 20 to 40 basis points a year.

What has changed?

Can we still get to low double-digit margins in Europe?

I'll let you guys swing it out and going to take it from here.

Rick Galloway^ It's budget season, so I'd rather hear what you have to say.

So let me -- I want to make sure we're clear on the communication.

So I'll start off and then if you want to add to it, you're welcome to add to it.

We're all happy to hear that.

But look, we're roughly 10%, right, is where we're at.

And what we talked about for this year is I guided to, let's say high 9s with what's going on with the marketplace.

What Andy talked about was 20 to 40 basis points a year, right, for the next three years is what he's looking at.

What we've talked about also is that we think that's not the ceiling.

We have some businesses over in Europe that are making 13%, even 14% in some areas.

We've obviously done some things with the portfolio with getting rid of Poland, Slovenia, Bosnia and getting rid of some low-margin product -- low-margin businesses that we didn't think could get up to that opportunity with the assets that we held.

So that hasn't changed. The trajectory hasn't changed.

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What I would say is that we've got a specific plan attached to the action plan to go deliver what we've been talking about. That's what Andy knows how to do in a way that we haven't been able to do thus far.

And so for the confidence level of getting there is much, much higher.

And oftentimes, people want to pin us down to, okay. Well is it going to be 11?

Is it 12?

Is it 13?

What I would say is that we've got 20 to 40 basis points that we're very comfortable with every year for the next three years, and there's more beyond that. The time horizon that we asked him to talk to was the 3-year.

But do you want to add anything?

Unidentified Speaker^ Not that it will be a build on a budget conversation, but anyway.

So we're carrying an awful lot of complexity and legacy from all of the acquisitions that we've got.

We've got the foundations in place.

We've got the proven processes.

We've now got mature applications.

We've got less than 10% of the European business on the New Year back end of platform systems. Within the next three years, that will be over 50%.

So we're carrying that burden at the moment, and we've been carrying that burden for the last couple of years, and that's clearly given us headwinds that we'll then release and would come through.

We know by the time we get to 2027, we're beyond the tipping point where we will have the majority of the business onto a single set of processes, a single set of back-end systems.

But we also know from an inorganic perspective at that level that we can actually plug and buy businesses and fully integrate in. Both Rick and Justin and John alluded to, obviously the Uni-Select acquisition.

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We need that muscle.

We need that integration muscle.

At the moment, we don't have it because we've been proving out and making sure that platform is ready.

It's now ready.

We're going to accelerate that program.

But whilst we're accelerating that program, I'm still carrying all the legacy weight that goes with it.

We'll pull through that, and we'll be in a much longer position.

Rick Galloway^ I know Brian had a question back there.

Brian Butler^ This is Brian Butler from Stifel. Just thinking about the North American parts business and its sustainable growth. You're talking 1% to 2% now.

I think in the past, that was closer to 2% to 3% with 10% to 30% basis point annual margin improvement.

So as that business changed?

And maybe is parts and collision weaker than expected in that now 1% to 2% and being offset by more hard parts in some of the remanufactured opportunity?

Rick Galloway^ So I think -- maybe I'll take the first stab and then turn it over to the two of you. let's make sure we're talking about the right time horizon.

So what we asked John to talk about with just a 3-year time horizon, Brian.

What Justin talked about was more of an overview of a 10-year time horizon, which goes back to the numbers that we've been saying. That hasn't changed.

What we're looking at is the high volatility that we've had over the last, call it, 18 months or so that were being prudent in making sure that the next three years, we don't overshoot something and talk to sort of significant growth.

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We think that what we've seen is coming to an end as far as the collision, the decreases in collisions that, that will start coming back.

It doesn't have a lag going into '25. That's something that we're still evaluating.

But the long-term view has not changed. That's still consistent.

That's what Justin talked about in his presentation of those, call it, call it, roughly mid -- low to mid-single digits in that piece.

I don't know if you guys want to talk any more about it, but just making sure we're aligned on the time horizon.

I think it was one of the confusions.

Brian Butler^ Okay.

Then I just had a quick follow-up. When you talked about the projects for growth and the return on invested capital and where that is, maybe give a little bit of color just real quick, where you view your cost of capital for LKQ and maybe where those hurdle rates are either organically for those opportunities as well as for tuck-ins?

Justin Jude^ Yes.

So I'll touch on the operational piece and let Rick comment about the ROIC. Those different boxes that I talked about, salvage, reman in Europe, collision expansion of hard parts into the Canadian market or further in Canada, the EV, all those things were like over the next decade.

It isn't that next quarter, we're going to go out and start on all four of those initiatives. Those are areas where we can leverage our core strength to grow that.

but we're also good stewards of cash and returns.

So we're going to make sure that any of those expansions, whether it's mega yards, whether it's adding remanufacturing capabilities, whether it's investing more to the EV front, as Craig talked about, we'll make sure that we hit the returns.

Rick Galloway^ Yes.

I think just adding on to that, Brian, a little bit.

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What I would tell you is not every deal is the exact same. They're all somewhat different. When we're looking at the CapEx spend, where we looked at the return on invested capital.

When we're looking at things like our share price, share price obviously has taken a hit over the last 12 months.

Or so. There's not a whole lot of things that are better to do than buying your shares at, right?

And so we're constantly evaluating it to where the highest possible returns are looking at the overall weighted cost of capital, which is a volatile number depending on where we're at the share price and the overall returns that we're expecting.

And so what I would say is that what Justin has indicated to the team is that internally, we haven't talked about it externally, we're not going to ping a number externally, okay?

What we have said is that we're constantly evaluating that.

That number, that expectation, that hurdle rate has been risen and the overall return has been shortened down to a 3-year window where before, if you recall we were looking at a 10-year window, right?

We were looking at a 10-year window.

We were looking at an average of 10% over a 10-year window for return on invested capital, that time horizon has been squeezed down to a 3-year period, and that hurdle rate has been increased.

Unidentified Participant^ George Julius is from Edgepoint [ph]. There's two cost-out opportunities that you helped show us in the presentation.

So first, in the North America side, you talked about \$65 million from Uni-Select.

Can you maybe just help us understand where we currently are in actually realizing that \$65 million?

Rick Galloway^ Do you want to handle that one?

Justin Jude^ Yes.

Rick Galloway^ We're a long way away.

So the interesting thing about Uni-Select, particularly about the FinishMaster side.

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So what we originally came out with back in February of 2023 was that we said we were going to deliver \$55 million of cost synergies, okay?

We broke that out in three different buckets.

What John and his team was able to do and Andy alluded to it with the integration of muscle is take essentially \$1 billion FinishMaster business.

that we thought we would integrate over, let's say a 2, maybe a little over a 2-year process, and he did it in nine months.

Not only did it do it in nine months, but we only targeted a certain amount of facilities that we were going to close down. He increased that number.

So what you end up doing is taking the overall savings of \$55 million, he's increased them another \$10 million on top of that to a \$65 million number. And all of those items, so I think we put 55% of the \$55 million the numbers happen to be the same.

But 55% of the \$55 million was roughly FinishMaster.

Almost all of that was FinishMaster. That happened in nine months.

It's done.

So that stuff has been done was finished by the end of Q1, which we talked a little bit about Q1 having a little extra cost.

It was to get that integration done. The next phase of it, call it, roughly \$15 million will happen over the next couple of years. primarily related to procurement.

So the next phase is kind of procurement.

The cost side, as far as the heads, the locations, the trucks, all that, done.

We're done with that piece of it.

Unidentified Participant^ Okay.

So \$15 million of the original \$55 million still on to come and then you've upped...

Rick Galloway^ Still left to go get, of the now \$65 million.

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Unidentified Participant^ Then the second cost out was back to just the SKU consolidation in Europe.

So this 30% SKU commonality that we look or 30% SKU reduction that we're looking at achieving.

Can you maybe just help quantify what the actual I guess COGS or procurement savings would be if we actually get to that number in 2027?

Unidentified Speaker^ So there is -- so there is the physical transition of delisting and introducing the new product.

So just from a transition between those delisted brands and those introductory brands, as long as we maintain the same price positions, we believe there's actually margin benefit in that transitional process outside of any procurement benefits.

So there is -- during that process and that 30% reduction between now and '27, we will see physical margin enhancement and some of that's driven from the private label just as is.

What we then believe is that there is further upside, but obviously from a procurement perspective because we're now consolidating the number of suppliers we're dealing with both the Tier 1, but also we'll be consolidating some of our private label positions as well.

So what we baked into expectations now is that we know that there is margin enhancement coming through as we transition the SKUs.

We believe there's further upside in the procurement, which is yet to be fully materialized through the numbers.

Joseph Boutross^ Okay.

Well we're getting a little -- we had a hard stop at 12.

It doesn't look like there's more questions in the crowd, unless there's one coming.

But I guess I'll end with this. North American wholesale margins peaked in the 19% to 20% range.

Sounds like there were reasons the business was over earning during that timeframe.

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Can you walk through those reasons and also why your guidance for margins over the next three years have fallen short of prior peak margins?

Rick Galloway^ Thanks for ending on an easy one, too.

Joseph Boutross^ Well the last part of that question is pretty easy, the dilutive impact of Uni-Select.

Rick Galloway^ Let me touch on that briefly.

So North America margins we finished last year, and we talked about this in the Q1 earnings.

I think we -- I may get the number slightly off.

So I'm sure somebody will correct me.

I think without Uni-Select, we were somewhere around 19.6% last year, roughly.

Okay.

It's either 19.4%, 19,6%, one of those two numbers for sure, okay?

That is sustainable margins. The only thing we talked about where we were going to have some margin compression was on the salvage side of the business.

And I've been talking about that for well over 18 months. that the salvage side of the business, what happened during the supply chain crisis is that we were able to expand margins pretty significantly on the salvage side of the business. Normally, salvage was under as far as the gross margin of what aftermarket is and had been.

It got to where it was on par, and we felt like it was going to go back. That's happened.

That's something that we have seen happen.

What we also talked about is that with Uni-Select in there for North American margins, the way we get to that is we hit essentially, I think it was 18.2% last year in total EBITDA percentage. That was with Uni-Select included.

We had an additional dilution of 120 basis points. 120 basis points is what got us down to the 17%.

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So there's nothing different other than the salvage margin compression that we had expected in the North America wholesale business.

It's solid.

It's rock solid.

It's going strong. The 17% is a number that we had been talking about.

We've continually talked about that number.

That's an area that we still are focused on and still looking to expand margins. What John talked about is over the next three years taking an approach to expand those margins.

And what I've been saying for a little while here is that the North American margins with Uni-Select included, we've done a lot of the heavy lifting.

So we're at a 17% number, and what you should expect is, call it, somewhere around 10, 20 basis points, somewhere like that as we offset inflation and continue to grow overall margins from that new base of -- so that's kind of how we get there. Nothing significant has changed that way.

What we've talked about on long-term ranges is unchanged.

What John has talked about over the next three years with the high volatility that we've had over the last, call it, 18 months is an approach to make sure that we're doing what Justin says. He hates surprises.

Let's make sure that we're delivering on what we say and we're coming out to all of you and saying this is what we think is possible.

So -- and I know we're at now.

I don't know if you want to have Justin close this off, and I know we're heading to launch for the folks that are local.

Joseph Boutross^ Yes. You can close this off or...

Justin Jude^ Let's go to launch now. In all seriousness, once again I know we talked about this earlier, I do truly appreciate everybody that was able to take the time out of the day travel to Nashville. Hopefully, you guys came in early. You got to go downtown a little bit or you're going to stay tonight, go downtown.

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I know a few folks like to go downtown.

But on behalf of the management team and for the folks that are online, we won't going to share lunch with you guys and break bread.

But once again thank you for your support of LKQ. Thanks for coming out and showing your appreciation.

I know we're truly appreciative of you guys coming out, getting to know more about our business, understanding where we stand on our operational excellence and also some of the initiatives that we have on a go-forward basis.

So with that, we'll go ahead and break now head out the lunch with the folks that are here.

But once again for everybody online, thank you for joining.

We truly appreciate it.