

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from to

Commission File Number: 000-50404

LKQ CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

36-4215970

(I.R.S. Employer Identification No.)

500 West Madison Street, Suite 2800

Chicago, Illinois

(Address of principal executive offices)

60661

(Zip Code)

Registrant's telephone number, including area code: (312) 621-1950

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$.01 per share	LKQ	The Nasdaq Global Select Market

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☒	Accelerated Filer ☐	Emerging Growth Company ☐
Non-accelerated Filer ☐	Smaller Reporting Company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

At October 20, 2023, the registrant had outstanding an aggregate of 267,598,319 shares of Common Stock.

TABLE OF CONTENTS

<u>Item</u>		<u>Page</u>
PART I	FINANCIAL INFORMATION	
Item 1.	<u>Financial Statements:</u>	
	<u>Unaudited Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2023 and 2022</u>	<u>3</u>
	<u>Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2023 and 2022</u>	<u>4</u>
	<u>Unaudited Condensed Consolidated Balance Sheets as of September 30, 2023 and December 31, 2022</u>	<u>5</u>
	<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2023 and 2022</u>	<u>6</u>
	<u>Unaudited Condensed Consolidated Statements of Stockholders' Equity for the Three and Nine Months Ended September 30, 2023 and 2022</u>	<u>7</u>
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>9</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>32</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>56</u>
Item 4.	<u>Controls and Procedures</u>	<u>58</u>
PART II	OTHER INFORMATION	
Item 1.	<u>Legal Proceedings</u>	<u>59</u>
Item 1A.	<u>Risk Factors</u>	<u>59</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>59</u>
Item 5.	<u>Other Information</u>	<u>59</u>
Item 6.	<u>Exhibits</u>	<u>60</u>
SIGNATURES		<u>61</u>

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

LKQ CORPORATION AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Income
(In millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue	\$ 3,568	\$ 3,104	\$ 10,365	\$ 9,793
Cost of goods sold	2,178	1,828	6,189	5,793
Gross margin	1,390	1,276	4,176	4,000
Selling, general and administrative expenses	979	861	2,848	2,683
Restructuring and transaction related expenses	27	3	53	10
Gain on disposal of businesses ⁽¹⁾	—	(4)	—	(159)
Depreciation and amortization	76	58	195	178
Operating income	308	358	1,080	1,288
Other expense (income):				
Interest expense	62	19	150	51
Gains on foreign exchange contracts - acquisition related ⁽²⁾	(3)	—	(49)	—
Interest income and other income, net	(14)	(8)	(34)	(9)
Total other expense, net	45	11	67	42
Income from continuing operations before provision for income taxes	263	347	1,013	1,246
Provision for income taxes	60	88	263	304
Equity in earnings of unconsolidated subsidiaries	4	2	9	8
Income from continuing operations	207	261	759	950
Net income from discontinued operations	1	1	1	5
Net income	208	262	760	955
Less: net income attributable to continuing noncontrolling interest	—	—	1	—
Net income attributable to LKQ stockholders	<u>\$ 208</u>	<u>\$ 262</u>	<u>\$ 759</u>	<u>\$ 955</u>
Basic earnings per share: ⁽³⁾				
Income from continuing operations	\$ 0.77	\$ 0.95	\$ 2.84	\$ 3.39
Net income from discontinued operations	0.01	—	—	0.02
Net income	0.78	0.96	2.84	3.41
Less: net income attributable to continuing noncontrolling interest	—	—	—	—
Net income attributable to LKQ stockholders	<u>\$ 0.78</u>	<u>\$ 0.96</u>	<u>\$ 2.84</u>	<u>\$ 3.41</u>
Diluted earnings per share: ⁽³⁾				
Income from continuing operations	\$ 0.77	\$ 0.95	\$ 2.83	\$ 3.38
Net income from discontinued operations	0.01	—	—	0.02
Net income	0.78	0.95	2.83	3.40
Less: net income attributable to continuing noncontrolling interest	—	—	—	—
Net income attributable to LKQ stockholders	<u>\$ 0.78</u>	<u>\$ 0.95</u>	<u>\$ 2.83</u>	<u>\$ 3.40</u>

⁽¹⁾ Primarily related to the sale of PGW Auto Glass ("PGW"). Refer to Note 3, "Discontinued Operations and Divestitures" for further information.

⁽²⁾ Related to the Uni-Select Inc. ("Uni-Select") acquisition. Refer to Note 2, "Business Combinations" and Note 17, "Derivative Instruments and Hedging Activities" for further information.

⁽³⁾ The sum of the individual earnings per share amounts may not equal the total due to rounding.

The accompanying notes are an integral part of the Unaudited Condensed Consolidated Financial Statements.

LKQ CORPORATION AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Comprehensive Income
(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income	\$ 208	\$ 262	\$ 760	\$ 955
Less: net income attributable to continuing noncontrolling interest	—	—	1	—
Net income attributable to LKQ stockholders	208	262	759	955
Other comprehensive income (loss):				
Foreign currency translation, net of tax	(147)	(187)	(56)	(391)
Net change in unrealized gains/losses on cash flow hedges, net of tax	2	—	(5)	—
Net change in unrealized gains/losses on pension plans, net of tax	—	1	—	1
Other comprehensive income from unconsolidated subsidiaries	8	2	12	4
Other comprehensive loss	(137)	(184)	(49)	(386)
Comprehensive income	71	78	711	569
Less: comprehensive income attributable to continuing noncontrolling interest	—	—	1	—
Comprehensive income attributable to LKQ stockholders	\$ 71	\$ 78	\$ 710	\$ 569

The accompanying notes are an integral part of the Unaudited Condensed Consolidated Financial Statements.

LKQ CORPORATION AND SUBSIDIARIES
Unaudited Condensed Consolidated Balance Sheets
(In millions, except per share data)

	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 401	\$ 278
Receivables, net of allowance for credit losses	1,301	998
Inventories	2,998	2,752
Prepaid expenses and other current assets	275	230
Assets of discontinued operations	311	—
Total current assets	5,286	4,258
Property, plant and equipment, net	1,427	1,236
Operating lease assets, net	1,308	1,227
Goodwill	5,548	4,319
Other intangibles, net	1,176	653
Equity method investments	158	141
Other noncurrent assets	265	204
Total assets	<u>\$ 15,168</u>	<u>\$ 12,038</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,723	\$ 1,339
Accrued expenses:		
Accrued payroll-related liabilities	244	218
Refund liability	124	109
Other accrued expenses	363	294
Current portion of operating lease liabilities	210	188
Current portion of long-term obligations	574	34
Other current liabilities	148	89
Liabilities of discontinued operations	173	—
Total current liabilities	3,559	2,271
Long-term operating lease liabilities, excluding current portion	1,144	1,091
Long-term obligations, excluding current portion	3,763	2,622
Deferred income taxes	416	280
Other noncurrent liabilities	289	283
Commitments and contingencies		
Redeemable noncontrolling interest	24	24
Stockholders' equity:		
Common stock, \$0.01 par value, 1,000.0 shares authorized, 323.1 shares issued and 267.9 shares outstanding at September 30, 2023; 322.4 shares issued and 267.3 shares outstanding at December 31, 2022	3	3
Additional paid-in capital	1,527	1,506
Retained earnings	7,194	6,656
Accumulated other comprehensive loss	(372)	(323)
Treasury stock, at cost; 55.2 shares at September 30, 2023 and 55.1 shares at December 31, 2022	(2,394)	(2,389)
Total Company stockholders' equity	5,958	5,453
Noncontrolling interest	15	14
Total stockholders' equity	5,973	5,467
Total liabilities and stockholders' equity	<u>\$ 15,168</u>	<u>\$ 12,038</u>

The accompanying notes are an integral part of the Unaudited Condensed Consolidated Financial Statements.

LKQ CORPORATION AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Cash Flows
(In millions)

	Nine Months Ended September 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 760	\$ 955
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	219	197
Gain on disposal of businesses	—	(159)
Stock-based compensation expense	29	31
Gains on foreign exchange contracts - acquisition related	(49)	—
Other	22	(22)
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:		
Receivables	(154)	(118)
Inventories	128	(349)
Prepaid income taxes/income taxes payable	25	63
Accounts payable	122	378
Other operating assets and liabilities	42	34
Net cash provided by operating activities	<u>1,144</u>	<u>1,010</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(233)	(148)
Proceeds from disposals of property, plant and equipment	8	5
Acquisitions, net of cash acquired	(2,199)	(4)
Proceeds from disposals of businesses	—	399
Proceeds from settlement of foreign exchange contracts - acquisition related	49	—
Other investing activities, net	(14)	(8)
Net cash (used in) provided by investing activities	<u>(2,389)</u>	<u>244</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Debt issuance costs	(32)	—
Proceeds from issuance of U.S. Notes (2028/33), net of unamortized bond discount	1,394	—
Borrowings under revolving credit facilities	1,978	1,323
Repayments under revolving credit facilities	(2,715)	(1,451)
Borrowings under term loans	1,031	—
(Repayments) borrowings of other debt, net	(12)	9
Settlement of derivative instruments	(13)	—
Dividends paid to LKQ stockholders	(222)	(210)
Purchase of treasury stock	(8)	(872)
Other financing activities, net	(10)	(16)
Net cash provided by (used in) financing activities	<u>1,391</u>	<u>(1,217)</u>
Effect of exchange rate changes on cash and cash equivalents	—	(42)
Net increase (decrease) in cash and cash equivalents	146	(5)
Cash and cash equivalents of continuing operations, beginning of period	278	274
Add: Cash and cash equivalents of discontinued operations, beginning of period	—	—
Cash and cash equivalents of continuing and discontinued operations, beginning of period	278	274
Cash and cash equivalents of continuing and discontinued operations, end of period	424	269
Less: Cash and cash equivalents of discontinued operations, end of period	23	—
Cash and cash equivalents, end of period	<u>\$ 401</u>	<u>\$ 269</u>
Supplemental disclosure of cash paid for:		
Income taxes, net of refunds	\$ 227	\$ 250
Interest	100	38

The accompanying notes are an integral part of the Unaudited Condensed Consolidated Financial Statements.

LKQ CORPORATION AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Stockholders' Equity
(In millions, except per share data)

	LKQ Stockholders								
	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance as of July 1, 2023	322.9	\$ 3	(55.2)	\$ (2,394)	\$ 1,520	\$ 7,059	\$ (235)	\$ 15	\$ 5,968
Net income	—	—	—	—	—	208	—	—	208
Other comprehensive loss	—	—	—	—	—	—	(137)	—	(137)
Vesting of restricted stock units, net of shares withheld for employee tax	0.2	—	—	—	(2)	—	—	—	(2)
Stock-based compensation expense	—	—	—	—	9	—	—	—	9
Dividends declared to LKQ stockholders (\$0.275 per share)	—	—	—	—	—	(73)	—	—	(73)
Balance as of September 30, 2023	323.1	\$ 3	(55.2)	\$ (2,394)	\$ 1,527	\$ 7,194	\$ (372)	\$ 15	\$ 5,973

	LKQ Stockholders								
	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance as of July 1, 2022	322.0	\$ 3	(45.4)	\$ (1,894)	\$ 1,492	\$ 6,344	\$ (355)	\$ 15	\$ 5,605
Net income	—	—	—	—	—	262	—	—	262
Other comprehensive loss	—	—	—	—	—	—	(184)	—	(184)
Purchase of treasury stock	—	—	(6.8)	(343)	—	—	—	—	(343)
Vesting of restricted stock units, net of shares withheld for employee tax	0.3	—	—	—	(1)	—	—	—	(1)
Stock-based compensation expense	—	—	—	—	8	—	—	—	8
Dividends declared to LKQ stockholders (\$0.25 per share)	—	—	—	—	—	(70)	—	—	(70)
Balance as of September 30, 2022	322.3	\$ 3	(52.2)	\$ (2,237)	\$ 1,499	\$ 6,536	\$ (539)	\$ 15	\$ 5,277

The accompanying notes are an integral part of the Unaudited Condensed Consolidated Financial Statements.

LKQ CORPORATION AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Stockholders' Equity
(In millions, except per share data)

	LKQ Stockholders								
	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance as of January 1, 2023	322.4	\$ 3	(55.1)	\$ (2,389)	\$ 1,506	\$ 6,656	\$ (323)	\$ 14	\$ 5,467
Net income	—	—	—	—	—	759	—	1	760
Other comprehensive loss	—	—	—	—	—	—	(49)	—	(49)
Purchase of treasury stock	—	—	(0.1)	(5)	—	—	—	—	(5)
Vesting of restricted stock units, net of shares withheld for employee tax	0.7	—	—	—	(8)	—	—	—	(8)
Stock-based compensation expense	—	—	—	—	29	—	—	—	29
Dividends declared to LKQ stockholders (\$0.825 per share)	—	—	—	—	—	(221)	—	—	(221)
Balance as of September 30, 2023	<u>322.1</u>	<u>\$ 3</u>	<u>(55.2)</u>	<u>\$ (2,394)</u>	<u>\$ 1,527</u>	<u>\$ 7,194</u>	<u>\$ (372)</u>	<u>\$ 15</u>	<u>\$ 5,973</u>

	LKQ Stockholders								
	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance as of January 1, 2022	321.6	\$ 3	(34.6)	\$ (1,346)	\$ 1,474	\$ 5,794	\$ (153)	\$ 15	\$ 5,787
Net income	—	—	—	—	—	955	—	—	955
Other comprehensive loss	—	—	—	—	—	—	(386)	—	(386)
Purchase of treasury stock	—	—	(17.6)	(891)	—	—	—	—	(891)
Vesting of restricted stock units, net of shares withheld for employee tax	0.7	—	—	—	(6)	—	—	—	(6)
Stock-based compensation expense	—	—	—	—	31	—	—	—	31
Dividends declared to LKQ stockholders (\$0.75 per share)	—	—	—	—	—	(213)	—	—	(213)
Balance as of September 30, 2022	<u>322.3</u>	<u>\$ 3</u>	<u>(52.2)</u>	<u>\$ (2,237)</u>	<u>\$ 1,499</u>	<u>\$ 6,536</u>	<u>\$ (539)</u>	<u>\$ 15</u>	<u>\$ 5,277</u>

The accompanying notes are an integral part of the Unaudited Condensed Consolidated Financial Statements.

LKQ CORPORATION AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

Note 1. Interim Financial Statements

LKQ Corporation, a Delaware corporation, is a holding company and all operations are conducted by subsidiaries. When the terms "LKQ," "the Company," "we," "us," or "our" are used in this document, those terms refer to LKQ Corporation and its consolidated subsidiaries.

We have prepared the accompanying Unaudited Condensed Consolidated Financial Statements pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") applicable to interim financial statements. Accordingly, certain information related to our significant accounting policies and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted. These Unaudited Condensed Consolidated Financial Statements reflect, in the opinion of management, all material adjustments (which include only normally recurring adjustments) necessary to fairly state, in all material respects, our financial position, results of operations and cash flows for the periods presented.

Results for interim periods are not necessarily indicative of the results that can be expected for any subsequent interim period or for a full year. These interim financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC on February 23, 2023 ("2022 Form 10-K").

Interest income on the Unaudited Condensed Consolidated Statements of Income was updated to conform with the 2022 Form 10-K presentation.

Recently Adopted Accounting Pronouncements

During the first quarter of 2023, we adopted Accounting Standards Update No. 2022-04, "Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations" ("ASU 2022-04"), which requires the buyer in a supplier finance program to disclose certain information about its program, including key terms, balance sheet presentation of amounts, outstanding amounts at the end of each period, and rollforwards of balances. We adopted the provisions of ASU 2022-04 on a retrospective basis (see Note 15, "Supply Chain Financing"), except for the disclosure of rollforward information, which is effective prospectively for fiscal years beginning after December 15, 2023. The adoption of ASU 2022-04 did not have a material impact on our unaudited condensed consolidated financial statements.

Note 2. Business Combinations

On August 1, 2023, we acquired all of Uni-Select's issued and outstanding shares for Canadian dollar ("CAD") 48.00 per share in cash, representing a total enterprise value of approximately CAD 2.8 billion (\$2.1 billion) (the "Uni-Select Acquisition"), by way of a plan of arrangement (the "Arrangement") entered into on February 26, 2023, under the provisions of the Business Corporations Act (Québec). Uni-Select is a leading distributor of automotive refinish and industrial coatings and related products in North America through its FinishMaster segment, in the automotive aftermarket parts business in Canada through its Canadian Automotive Group segment and in the United Kingdom ("U.K.") through its GSF Car Parts segment.

During the second quarter of 2023, we received the required approvals from Uni-Select's shareholders, the Superior Court of Québec and regulators in the United States and Canada with respect to the Arrangement. On July 26, 2023, the U.K.'s Competition and Markets Authority cleared the acquisition, except with respect to the wholesale automotive parts business, GSF Car Parts in the U.K., which was divested in October 2023. See Note 3, "Discontinued Operations and Divestitures" for information related to the divestment of GSF Car Parts.

In order to reduce the risk related to changes in CAD foreign exchange rates for the CAD purchase price between signing the Arrangement and closing of the Uni-Select Acquisition, we entered into foreign exchange contracts. These foreign exchange contracts did not qualify for hedge accounting, and therefore the changes in fair value are reported in Gains on foreign exchange contracts - acquisition related in the Unaudited Condensed Consolidated Statements of Income. We reported Gains on foreign exchange contracts - acquisition related of \$3 million and \$49 million for the three and nine months ended September 30, 2023. These foreign exchange contracts were settled in July 2023 ahead of closing of the Uni-Select Acquisition, resulting in total payments received of \$49 million. See Note 17, "Derivative Instruments and Hedging Activities" for information related to these foreign exchange contracts.

In connection with the Uni-Select Acquisition, we entered into a senior unsecured bridge loan facility to obtain committed financing for a portion of the purchase price. The bridge loan facility was terminated in the second quarter of 2023 after arranging the permanent financing as discussed below. We incurred \$9 million in upfront fees related to the bridge loan facility and fully amortized these upfront fees (reported in Interest expense in the Unaudited Condensed Consolidated Statements of Income) during the nine months ended September 30, 2023.

For the permanent financing, on March 27, 2023, we entered into a new term loan credit agreement ("CAD Note") which established an unsecured term loan facility of up to CAD 700 million maturing in July 2026. Proceeds from the CAD Note could only be used (i) to finance a portion of the aggregate cash consideration for the Uni-Select Acquisition, (ii) to refinance certain outstanding debt of Uni-Select and (iii) to pay fees, costs and expenses related to the Uni-Select Acquisition. The CAD Note included a non-usage fee that was incurred through the date the proceeds were drawn on the facility. In connection with the closing of the Uni-Select Acquisition, we borrowed approximately \$531 million (CAD 700 million) under the CAD Note on July 31, 2023. There were no changes in borrowings against the CAD Note between the draw date and September 30, 2023.

The CAD Note contains customary covenants for an unsecured term loan for a company that has debt ratings that are investment grade, such as requirements to comply with a total leverage ratio and interest coverage ratio, each calculated in accordance with the terms of the CAD Note, and limits on the Company's and its subsidiaries' ability to incur liens and indebtedness.

The interest rate applicable to the CAD Note may be (i) a forward-looking term rate based on the Canadian Dollar Offer Rate for an interest period chosen by the Company of one or three months or (ii) the Canadian Prime Rate (as defined in the CAD Note), plus in each case a spread based on the Company's debt rating and total leverage ratio. See Note 16, "Long-Term Obligations" for additional information related to the CAD Note.

Additionally, on May 24, 2023, we completed an offering of \$1,400 million aggregate principal amount of senior unsecured notes, consisting of \$800 million senior notes due 2028 (the "U.S. Notes (2028)") and \$600 million senior notes due 2033 (the "U.S. Notes (2033)") and together with the U.S. Notes (2028), the "U.S. Notes (2028/33)"). The net proceeds from the offering of the U.S. Notes (2028/33) were used, together with borrowings under our CAD Note, (i) to finance a portion of the consideration payable for the Uni-Select Acquisition, including repaying existing Uni-Select indebtedness, (ii) to pay associated fees and expenses, including fees and expenses incurred in connection with the offering, and (iii) for general corporate purposes.

The U.S. Notes (2028) and U.S. Notes (2033) bear interest at rates of 5.75% and 6.25%, respectively, per year from the date of original issuance or from the most recent payment date on which interest has been paid or provided for. See Note 16, "Long-Term Obligations" for additional information related to the offering of the Notes.

To hedge the movement of market interest rates for the senior notes prior to the issuance date, we entered into forward-starting interest rate swaps to lock interest rates for the five and ten year senior notes. These forward-starting interest rate swaps were settled in the second quarter following the issuance of the U.S. Notes (2028/33). See Note 17, "Derivative Instruments and Hedging Activities" for information related to these interest rate instruments.

We funded the remainder of the purchase price with borrowings under our revolving credit facility and cash on hand of approximately \$150 million and \$50 million, respectively.

We recorded \$1,230 million of goodwill related to our acquisition of Uni-Select, of which we expect \$116 million to be deductible for income tax purposes. In the period between the acquisition date and September 30, 2023, Uni-Select, which is reported in our Wholesale - North America segment, generated revenue of \$239 million and an operating loss of \$13 million, including \$20 million of restructuring expenses and \$12 million of amortization of acquired intangibles.

In addition to our acquisition of Uni-Select, we completed acquisitions of one business within our Wholesale - North America segment, four businesses within our Europe segment and one business in our Specialty segment, during the nine months ended September 30, 2023. Total acquisition date fair value of the consideration for these acquisitions was \$135 million, composed of \$118 million of cash paid (net of cash acquired), \$5 million of notes payable, \$6 million of other purchase price obligations (non-interest bearing) and \$6 million of pre-existing equity method investment balances. During the nine months ended September 30, 2023, we recorded \$61 million of goodwill related to these acquisitions, of which we expect \$11 million to be deductible for income tax purposes. In the period between the acquisition dates and September 30, 2023, these acquisitions generated revenue of \$90 million, including \$42 million within our Europe segment and \$35 million within our Specialty segment, and operating income of \$9 million, primarily within our Europe segment.

Our acquisitions are accounted for under the purchase method of accounting and are included in our consolidated financial statements from the dates of acquisition. The purchase prices were allocated to the net assets acquired based upon estimated fair values at the dates of acquisition. The purchase price allocations for the acquisitions made during the nine months ended September 30, 2023 are preliminary as we are in the process of determining the following: 1) valuation amounts for certain receivables, inventories and fixed assets acquired; 2) valuation amounts for certain intangible assets acquired; 3) the acquisition date fair value of certain liabilities assumed; and 4) the tax basis of the entities acquired. We have recorded preliminary estimates for certain of the items noted above and will record adjustments, if any, to the preliminary amounts upon finalization of the valuations. During the first nine months of 2023, the measurement period adjustments recorded for acquisitions completed in prior periods were not material.

The purchase price allocations for the acquisitions completed during the nine months ended September 30, 2023 are as follows (in millions):

	Nine Months Ended September 30, 2023		
	Uni-Select ⁽¹⁾	Other Acquisitions	Total
Receivables	\$ 123	\$ 31	\$ 154
Inventories	332	59	391
Prepaid expenses and other current assets	30	5	35
Assets of discontinued operations ⁽¹⁾	299	—	299
Property, plant and equipment	104	10	114
Operating lease assets	80	8	88
Goodwill	1,230	61	1,291
Other intangibles ⁽²⁾	567	25	592
Other noncurrent assets	22	—	22
Current liabilities assumed ⁽³⁾	(330)	(44)	(374)
Liabilities of discontinued operations ⁽¹⁾	(183)	—	(183)
Long-term operating lease liabilities, excluding current portion	(54)	(8)	(62)
Debt assumed	(1)	(12)	(13)
Other noncurrent liabilities assumed ⁽⁴⁾	(135)	—	(135)
Other purchase price obligations	(3)	(17)	(20)
Cash used in acquisitions, net of cash acquired	<u>\$ 2,081</u>	<u>\$ 118</u>	<u>\$ 2,199</u>

⁽¹⁾ In connection with our acquisition of Uni-Select, we acquired one business (GSF Car Parts) which was required to be sold. Therefore, such business was classified as held for sale and was included within the "Assets of discontinued operations" and "Liabilities of discontinued operations" line items in the above preliminary allocation of purchase price. See Note 3, "Discontinued Operations and Divestitures" for information related to the GSF Car Parts business.

⁽²⁾ The amount recorded for our acquisition of Uni-Select primarily includes \$17 million of trade names (3 to 5 year useful lives) and \$543 million of customer and supplier relationships (10 to 17 year useful lives).

⁽³⁾ The amount recorded for our acquisition of Uni-Select includes \$64 million of Accounts Payable outstanding under the supply chain financing arrangement. See Note 15, "Supply Chain Financing" for information related to our supply chain financing programs.

⁽⁴⁾ The amount recorded for our acquisition of Uni-Select includes \$126 million of net deferred income tax liability, the significant components of which are as follows: deferred tax liabilities related to customer relationships of \$140 million net with deferred tax assets related to Canadian net operating loss carryforwards of \$23 million.

The fair value of our intangible assets is based on a number of inputs, including projections of future cash flows, assumed royalty rates and customer attrition rates, all of which are Level 3 inputs. The fair value of our property, plant and equipment is determined using inputs such as market comparables and current replacement or reproduction costs of the asset, adjusted for physical, functional and economic factors; these adjustments to arrive at fair value use unobservable inputs in which little or no market data exists, and therefore, these inputs are considered to be Level 3 inputs. See Note 18, "Fair Value Measurements" for further information regarding the tiers in the fair value hierarchy.

The acquisition of Uni-Select complements our existing North American paint distribution operations and provides a scaled position in the Canadian mechanical parts space, with opportunity for future consolidation and growth. The primary objectives of our other acquisitions made during the nine months ended September 30, 2023 were to create economic value for our stockholders by enhancing our position as a leading source for alternative collision and mechanical repair products and to expand into other product lines and businesses that may benefit from our operating strengths.

When we identify potential acquisitions, we attempt to target companies with a leading market presence, experienced management team and workforce, high synergies and/or that add critical capabilities with opportunity for future consolidation and growth. For certain of our acquisitions, we have identified cost savings and synergies as a result of integrating the company with our existing business that provide additional value to the combined entity. In many cases, acquiring companies with these characteristics will result in purchase prices that include a significant amount of goodwill.

Unaudited Pro Forma Financial Information

The following unaudited pro forma financial information presents the effect of the businesses acquired during the nine months ended September 30, 2023 as though the businesses had been acquired as of January 1, 2022. The unaudited pro forma financial information is based upon accounting estimates and judgments that we believe are reasonable. The unaudited pro forma financial information includes the effect of purchase accounting adjustments, such as the adjustment of inventory acquired to fair value, adjustments to depreciation on acquired property, plant and equipment, adjustments to rent expense for above or below market leases, adjustments to amortization on acquired intangible assets, adjustments to interest expense, and the related tax effects. These pro forma results are not necessarily indicative of what would have occurred if the acquisitions had been in effect for the periods presented or of future results. The unaudited pro forma financial information is as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue	\$ 3,685	\$ 3,521	\$ 11,295	\$ 11,002
Income from continuing operations	202	248	692	908

The pro forma impact of our acquisitions also reflects the elimination of acquisition related expenses (net of tax) of \$3 million and \$17 million and gains on foreign exchange contracts - acquisition related of \$3 million and \$49 million for the three and nine months ended September 30, 2023, respectively. In addition, the unaudited pro forma financial information excludes the results of GSF Car Parts which was classified as discontinued operations upon the acquisition of Uni-Select. Refer to Note 11, "Restructuring and Transaction Related Expenses" for further information regarding our acquisition related expenses, Note 17, "Derivative Instruments and Hedging Activities" for further information on our foreign exchange contracts and Note 3, "Discontinued Operations and Divestitures" for further information related to the divestment of GSF Car Parts.

Note 3. Discontinued Operations and Divestitures

GSF Car Parts

We acquired GSF Car Parts as part of the Uni-Select transaction and we were required to divest GSF Car Parts in order to comply with the U.K.'s Competition and Markets Authority regulatory ruling. Since the GSF Car Parts business was held separate and never integrated into our business, we classified the business as discontinued operations upon acquisition. As of September 30, 2023, the assets held for sale and liabilities held for sale are recorded within Assets of discontinued operations and Liabilities of discontinued operations, respectively, on the Unaudited Condensed Consolidated Balance Sheets.

On October 25, 2023, we completed the divestment of GSF Car Parts. In order to manage our exposure to variability in the cash flows related the sale of GSF Car Parts, we entered into a foreign exchange forward contract to fix the amount of USD we would receive upon completion of the sale. We do not expect to recognize a significant gain or loss upon disposal.

Glass Manufacturing Business

For the nine months ended September 30, 2022, we recorded to discontinued operations a \$5 million benefit primarily related to the reassessment of a previously recorded valuation allowance on a deferred tax asset related to our glass manufacturing business sold in 2017.

Other Divestitures (Not Classified in Discontinued Operations)

In April 2022, we completed the sale of PGW, our aftermarket glass business within our Wholesale - North America segment, to a third party for \$361 million resulting in recognition of a \$155 million pretax gain (\$127 million after tax). Additionally, in September 2022, we completed the sale of a business within our Self Service segment, to a third party, resulting in proceeds of \$25 million and the recognition of a \$4 million pretax gain (\$3 million after tax).

Note 4. Inventories

We classify our inventory into the following categories: (i) aftermarket and refurbished products, (ii) salvage and remanufactured products, and (iii) manufactured products.

Inventories consist of the following (in millions):

	September 30, 2023	December 31, 2022
Aftermarket and refurbished products	\$ 2,460	\$ 2,279
Salvage and remanufactured products	484	427
Manufactured products	54	46
Total inventories	<u>\$ 2,998</u>	<u>\$ 2,752</u>

Aftermarket and refurbished products and salvage and remanufactured products are primarily composed of finished goods. As of September 30, 2023, manufactured products inventory was composed of \$29 million of raw materials, \$7 million of work in process, and \$18 million of finished goods. As of December 31, 2022, manufactured products inventory was composed of \$26 million of raw materials, \$5 million of work in process, and \$15 million of finished goods. Our 2023 acquisitions contributed approximately \$380 million to our aftermarket and refurbished products inventory (including \$332 million from Uni-Select).

Note 5. Allowance for Credit Losses

Our allowance for credit losses was \$57 million and \$54 million as of September 30, 2023 and December 31, 2022, respectively. The provision for credit losses was \$1 million for both the three months ended September 30, 2023 and 2022, and \$7 million and \$9 million for the nine months ended September 30, 2023 and 2022, respectively.

Note 6. Noncontrolling Interest

We present redeemable noncontrolling interest on our balance sheet related to redeemable shares issued to a minority shareholder in conjunction with a previous acquisition. The redeemable shares contain (i) a put option for all noncontrolling interest shares at a fixed price of \$24 million (€21 million) for the minority shareholder exercisable in the fourth quarter of 2023, (ii) a call option for all noncontrolling interest shares at a fixed price of \$26 million (€23 million) for us exercisable beginning in the first quarter of 2026 through the end of the fourth quarter of 2027, and (iii) a guaranteed dividend to be paid quarterly to the minority shareholder through the fourth quarter of 2023. The redeemable shares do not provide the minority shareholder with rights to participate in the profits and losses of the subsidiary prior to the exercise date of the put option. As the put option is outside our control, we recorded a \$24 million Redeemable noncontrolling interest at the put option's redemption value outside of permanent equity on our Unaudited Condensed Consolidated Balance Sheets.

Note 7. Intangible Assets

Goodwill and indefinite-lived intangible assets are tested for impairment at least annually. We performed our annual impairment test during the fourth quarter of 2022, and determined no impairment existed as all of our reporting units had a fair value estimate which exceeded the carrying value by at least 40%. The fair value estimates of our reporting units were established using weightings of the results of a discounted cash flow methodology and a comparative market multiples approach. Goodwill and indefinite-lived intangible assets impairment testing may also be performed on an interim basis when events or circumstances arise that may lead to impairment. We did not identify any indicators of impairment in the first nine months of 2023 that necessitated an interim test of goodwill impairment or indefinite-lived intangible assets impairment.

Note 8. Equity Method Investments

The carrying value of our Equity method investments were as follows (in millions):

	Segment	Ownership as of September 30, 2023	September 30, 2023	December 31, 2022
MEKO AB ⁽¹⁾⁽²⁾	Europe	26.6%	\$ 148	\$ 129
Other ⁽³⁾			10	12
Total			<u>\$ 158</u>	<u>\$ 141</u>

⁽¹⁾ As of September 30, 2023, the Level 1 fair value of our equity investment in MEKO AB ("Mekonomen") was \$133 million based on the quoted market price for Mekonomen's common stock using the same foreign exchange rate as the carrying value. We evaluated our investment in Mekonomen for other-than-temporary impairment and concluded the decline in fair value was not other-than-temporary; however, a prolonged, material impairment may cause us to account for the decline as an other-than-temporary impairment in a future period, resulting in a charge in our Unaudited Condensed Consolidated Statements of Income.

⁽²⁾ As of September 30, 2023, our share of the book value of Mekonomen's net assets exceeded the book value of our investment by \$9 million; this difference is primarily related to Mekonomen's Accumulated Other Comprehensive Income balance as of our acquisition date in 2016. We record our equity in the net earnings of Mekonomen on a one quarter lag.

⁽³⁾ In July 2023, we acquired the remaining equity interest in an investment in our Europe segment resulting in a decrease to the carrying value of \$3 million.

Note 9. Warranty Reserve

Some of our salvage mechanical products are sold with a standard six month warranty against defects. Additionally, some of our remanufactured engines are sold with a standard three or four year warranty against defects. We also provide a limited lifetime warranty for certain of our aftermarket products.

The changes in the warranty reserve are as follows (in millions):

	Warranty Reserve
Balance as of December 31, 2022	\$ 32
Warranty expense	65
Warranty claims	(61)
Balance as of September 30, 2023	<u>\$ 36</u>

Note 10. Revenue Recognition

Disaggregated Revenue

We report revenue in two categories: (i) parts and services and (ii) other.

Parts revenue is generated from the sale of vehicle products including replacement parts, components and systems used in the repair and maintenance of vehicles and specialty products and accessories to improve the performance, functionality and appearance of vehicles. Services revenue includes (i) additional services that are generally billed concurrently with the related product sales, such as the sale of service-type warranties, (ii) fees for admission to our self service yards, and (iii) diagnostic and repair services.

For Wholesale - North America and Self Service, vehicle replacement products include sheet metal collision parts such as doors, hoods, and fenders; bumper covers; head and tail lamps; mirrors; grilles; wheels; and large mechanical items such as engines and transmissions. For Wholesale - North America and Europe, vehicle replacement products include a wide variety of small mechanical products such as brake pads, discs and sensors; clutches; electrical products such as spark plugs and batteries; steering and suspension products; filters; and oil and automotive fluids. Additionally, in both our Wholesale - North America and Europe segments, we sell paint and paint related consumables for refinishing vehicles. For our Specialty operations, we serve seven product segments: truck and off-road; speed and performance; recreational vehicles; towing; wheels, tires and performance handling; marine; and miscellaneous accessories.

Other revenue includes sales of scrap and precious metals (platinum, palladium, and rhodium), bulk sales to mechanical manufacturers (including cores) and sales of aluminum ingots and sows from furnace operations. We derive scrap metal and other precious metals from several sources in both our Wholesale - North America and Self Service segments, including vehicles that have been used in our recycling operations and vehicles from original equipment manufacturers ("OEMs") and other entities that contract with us for secure disposal of "crush only" vehicles. Revenue from the sale of hulks in our Wholesale - North America and Self Service segments is recognized based on a price per ton of delivered material when the customer (processor) collects the scrap.

The following table sets forth our revenue disaggregated by category and reportable segment (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Wholesale - North America	\$ 1,312	\$ 1,026	\$ 3,581	\$ 3,182
Europe	1,581	1,376	4,762	4,327
Specialty	456	452	1,294	1,424
Self Service	58	55	181	172
Parts and services	3,407	2,909	9,818	9,105
Wholesale - North America	75	82	234	271
Europe	3	4	15	18
Self Service	83	109	298	399
Other	161	195	547	688
Total revenue	\$ 3,568	\$ 3,104	\$ 10,365	\$ 9,793

Variable Consideration

Amounts related to variable consideration on our Unaudited Condensed Consolidated Balance Sheets are as follows (in millions):

	Classification	September 30, 2023	December 31, 2022
Return asset	Prepaid expenses and other current assets	\$ 65	\$ 58
Refund liability	Refund liability	124	109
Variable consideration reserve	Receivables, net of allowance for credit losses	162	136

Revenue by Geographic Area

Our net sales are attributed to geographic area based on the location of the selling operation. The following table sets forth our revenue by geographic area (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue				
United States	\$ 1,759	\$ 1,612	\$ 5,130	\$ 5,109
Germany	418	369	1,270	1,145
United Kingdom	438	375	1,275	1,193
Other countries	953	748	2,690	2,346
Total revenue	\$ 3,568	\$ 3,104	\$ 10,365	\$ 9,793

Note 11. Restructuring and Transaction Related Expenses

From time to time, we initiate restructuring plans to integrate acquired businesses, to align our workforce with strategic business activities, or to improve efficiencies in our operations. Below is a summary of our current restructuring plans:

2022 Global Restructuring Plan

In the fourth quarter of 2022, we began a restructuring initiative covering all of our reportable segments designed to reduce costs, streamline operations, consolidate facilities and implement other strategic changes to the overall organization. We have incurred and expect to incur costs primarily for employee severance, inventory or other asset write-downs, and exiting facilities. This plan is scheduled to be substantially complete by the end of 2024 with an estimated total incurred cost of between \$25 million and \$35 million.

1 LKQ Europe Plan

In 2019, we announced a multi-year plan called "1 LKQ Europe" which is intended to create structural centralization and standardization of key functions to facilitate the operation of the Europe segment as a single business. Under the 1 LKQ Europe plan, we are reorganizing our non-customer-facing teams and support systems through various projects including the implementation of a common ERP platform, rationalization of our product portfolio, and creation of a Europe headquarters office and central back office. We completed the organizational design and implementation projects in June 2021, with the remaining projects scheduled to be completed by the end of 2027 with a total incurred cost of between \$30 million and \$40 million.

2019/2020 Global Restructuring Plan

In 2019, we commenced a cost reduction initiative, covering all of our reportable segments, designed to eliminate underperforming assets and cost inefficiencies. This plan was expanded in 2020 as we identified additional opportunities to eliminate inefficiencies, including actions in response to impacts to the business from COVID-19. We have incurred and expect to incur costs for inventory write-downs; employee severance and other expenditures related to employee terminations; lease exit costs, such as lease termination fees, accelerated amortization of operating lease assets and impairment of operating lease assets; other costs related to facility exits, such as moving expenses to relocate inventory and equipment; and accelerated depreciation of fixed assets to be disposed of earlier than the end of the previously estimated useful lives. This plan is expected to be completed in 2023 with a total incurred cost of between \$106 million to \$110 million.

Acquisition Integration Plans

As we complete the acquisition of a business, we may incur costs related to integrating the acquired business into our current business structure and systems. These costs are typically incurred within a year from the acquisition date and vary in magnitude depending on the size and complexity of the related integration activities. We expect to incur additional expenses of between \$15 million and \$25 million to complete the integration plan related to the Uni-Select Acquisition in our Wholesale - North America segment.

The following table sets forth the expenses incurred related to our restructuring plans (in millions):

Plan	Expense Type	Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
2022 Global Plan	Employee related costs	\$ 1	\$ —	\$ 3	\$ —
	Facility exit costs	2	—	5	—
	Inventory related costs ⁽¹⁾	2	—	2	—
	Other costs	1	—	3	—
	Total	\$ 6	\$ —	\$ 13	\$ —
2019/2020 Global Plan	Facility exit costs	\$ —	\$ 1	\$ —	\$ 2
	Total	\$ —	\$ 1	\$ —	\$ 2
1 LKQ Europe Plan	Employee related costs	\$ —	\$ 1	\$ 1	\$ 1
	Total	\$ —	\$ 1	\$ 1	\$ 1
Acquisition Integration Plans	Employee related costs	\$ 20	\$ —	\$ 20	\$ 2
	Facility exit costs	—	—	2	—
	Total	\$ 20	\$ —	\$ 22	\$ 2
Total restructuring expenses		\$ 26	\$ 2	\$ 36	\$ 5

⁽¹⁾ Recorded to Cost of goods sold in the Consolidated Statements of Income

The following table sets forth the cumulative plan costs by segment related to our restructuring plans (in millions):

	Cumulative Program Costs				
	Wholesale - North America	Europe	Specialty	Self Service	Total
2022 Global Plan	\$ 1	\$ 16	\$ 3	\$ 3	\$ 23
2019/2020 Global Plan	43	59	2	2	106
1 LKQ Europe Plan	—	8	—	—	8

The following table sets forth the liabilities recorded related to our restructuring plans (in millions):

	2022 Global Plan		2019/20 Global Plan		1 LKQ Europe Plan	
	September 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Employee related costs ⁽¹⁾	\$ —	\$ 3	\$ —	\$ 1	\$ 1	\$ 1
Facility exit costs ⁽²⁾	3	1	2	6	—	—
Other costs	—	—	2	2	—	—
Total	\$ 3	\$ 4	\$ 4	\$ 9	\$ 1	\$ 1

⁽¹⁾ Reported in Accrued payroll-related liabilities on our Unaudited Condensed Consolidated Balance Sheets.

⁽²⁾ Reported in Current portion of operating lease liabilities and Long-term operating lease liabilities, excluding current portion on our Unaudited Condensed Consolidated Balance Sheets.

Transaction Related Expenses

The following table sets forth the transaction related expenses incurred (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Professional fees ⁽¹⁾	\$ 3	\$ 1	\$ 19	\$ 5
Transaction related expenses	\$ 3	\$ 1	\$ 19	\$ 5

⁽¹⁾ Includes external costs such as legal, accounting and advisory fees related to completed and potential transactions (including Uni-Select transaction costs in 2023).

Note 12. Stock-Based Compensation

RSUs

The following table summarizes activity related to our restricted stock units ("RSUs") under the LKQ Corporation 1998 Equity Incentive Plan (the "Equity Incentive Plan") for the nine months ended September 30, 2023 (in millions, except years and per share amounts):

	Number Outstanding	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value ⁽¹⁾
Unvested as of January 1, 2023	1.3	\$ 41.02		
Granted ⁽²⁾	0.6	\$ 56.74		
Vested	(0.6)	\$ 42.42		
Forfeited / Canceled	(0.1)	\$ 44.08		
Unvested as of September 30, 2023	1.2	\$ 48.53		
Expected to vest after September 30, 2023	1.0	\$ 49.26	2.8	\$ 50

⁽¹⁾ The aggregate intrinsic value of expected to vest RSUs represents the total pretax intrinsic value (the fair value of LKQ's stock on the last day of the period multiplied by the number of units) that would have been received by the holders had all the expected to vest RSUs vested. This amount changes based on the market price of LKQ's common stock.

⁽²⁾ The weighted average grant date fair value of RSUs granted during the nine months ended September 30, 2022 was \$49.04.

The fair value of RSUs that vested during the nine months ended September 30, 2023 was \$36 million; the fair value of RSUs vested is based on the market price of LKQ stock on the date vested.

PSUs

The following table summarizes activity related to our performance-based RSUs ("PSUs") under the Equity Incentive Plan for the nine months ended September 30, 2023 (in millions, except years and per share amounts):

	Number Outstanding	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value ⁽¹⁾
Unvested as of January 1, 2023	0.5	\$ 37.87		
Granted ⁽²⁾	0.1	\$ 56.83		
Vested	(0.2)	\$ 32.28		
Unvested as of September 30, 2023	0.4	\$ 47.56		
Expected to vest after September 30, 2023	0.3	\$ 46.89	1.2	\$ 15

- (1) The aggregate intrinsic value of expected to vest PSUs represents the total pretax intrinsic value (the fair value of LKQ's stock on the last day of each period multiplied by the number of units) that would have been received by the holders had all the expected to vest PSUs vested. This amount changes based on the market price of LKQ's common stock and the achievement of the performance metrics relative to the established targets.
- (2) Represents the number of PSUs at target payout. The weighted average grant date fair value of PSUs granted during the nine months ended September 30, 2022 was \$48.95.

The fair value of PSUs that vested during the nine months ended September 30, 2023 was \$12 million; the fair value of PSUs vested is based on the market price of LKQ stock on the date vested.

Stock-Based Compensation Expense

Pre-tax stock-based compensation expense for RSUs and PSUs totaled \$9 million and \$29 million for the three and nine months ended September 30, 2023, respectively, and \$8 million and \$31 million for the three and nine months ended September 30, 2022, respectively. As of September 30, 2023, unrecognized compensation expense related to unvested RSUs and PSUs was \$54 million. Stock-based compensation expense related to these awards will be different to the extent that forfeitures are realized and performance under the PSUs differs from current achievement estimates.

Note 13. Earnings Per Share

The following chart sets forth the computation of earnings per share (in millions, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Income from continuing operations	\$ 207	\$ 261	\$ 759	\$ 950
Denominator for basic earnings per share—Weighted-average shares outstanding	267.8	273.8	267.6	280.2
Effect of dilutive securities:				
RSUs	0.4	0.4	0.5	0.6
PSUs	0.2	0.4	0.2	0.4
Denominator for diluted earnings per share—Adjusted weighted-average shares outstanding	268.4	274.6	268.3	281.2
Basic earnings per share from continuing operations	\$ 0.77	\$ 0.95	\$ 2.84	\$ 3.39
Diluted earnings per share from continuing operations ⁽¹⁾	\$ 0.77	\$ 0.95	\$ 2.83	\$ 3.38

- (1) Diluted earnings per share from continuing operations was computed using the treasury stock method for dilutive securities.

The number of antidilutive securities was insignificant for all periods presented.

Note 14. Accumulated Other Comprehensive Loss

The components of Accumulated Other Comprehensive Loss are as follows (in millions):

Three Months Ended September 30, 2023					
	Foreign Currency Translation	Unrealized Gain (Loss) on Cash Flow Hedges	Unrealized Gain on Pension Plans	Other Comprehensive Income (Loss) from Unconsolidated Subsidiaries	Accumulated Other Comprehensive Income (Loss)
Balance as of July 1, 2023	\$ (242)	\$ (7)	\$ 11	\$ 3	\$ (235)
Pretax (loss) income	(147)	4	—	—	(143)
Income tax effect	—	(1)	—	—	(1)
Reclassification of unrealized gain	—	(1)	—	—	(1)
Other comprehensive income from unconsolidated subsidiaries	—	—	—	8	8
Balance as of September 30, 2023	<u>\$ (389)</u>	<u>\$ (5)</u>	<u>\$ 11</u>	<u>\$ 11</u>	<u>\$ (372)</u>

Three Months Ended September 30, 2022					
	Foreign Currency Translation	Unrealized Gain (Loss) on Pension Plans	Other Comprehensive Income (Loss) from Unconsolidated Subsidiaries	Accumulated Other Comprehensive Income (Loss)	
Balance as of July 1, 2022	\$ (325)	\$ (24)	\$ (6)	\$ (355)	
Pretax loss	(187)	—	—	(187)	
Reclassification of unrealized loss	—	1	—	1	
Other comprehensive income from unconsolidated subsidiaries	—	—	2	2	
Balance as of September 30, 2022	<u>\$ (512)</u>	<u>\$ (23)</u>	<u>\$ (4)</u>	<u>\$ (539)</u>	

Nine Months Ended September 30, 2023					
	Foreign Currency Translation	Unrealized Gain (Loss) on Cash Flow Hedges	Unrealized Gain on Pension Plans	Other Comprehensive Income (Loss) from Unconsolidated Subsidiaries	Accumulated Other Comprehensive Income (Loss)
Balance as of January 1, 2023	\$ (333)	\$ —	\$ 11	\$ (1)	\$ (323)
Pretax loss	(56)	(4)	—	—	(60)
Income tax effect	—	1	—	—	1
Reclassification of unrealized gain	—	(2)	—	—	(2)
Other comprehensive income from unconsolidated subsidiaries	—	—	—	12	12
Balance as of September 30, 2023	<u>\$ (389)</u>	<u>\$ (5)</u>	<u>\$ 11</u>	<u>\$ 11</u>	<u>\$ (372)</u>

Nine Months Ended September 30, 2022

	Foreign Currency Translation	Unrealized Gain (Loss) on Pension Plans	Other Comprehensive Income (Loss) from Unconsolidated Subsidiaries	Accumulated Other Comprehensive Income (Loss)
Balance as of January 1, 2022	\$ (121)	\$ (24)	\$ (8)	\$ (153)
Pretax loss	(395)	—	—	(395)
Reclassification of unrealized loss	—	1	—	1
Disposal of business	4	—	—	4
Other comprehensive income from unconsolidated subsidiaries	—	—	4	4
Balance as of September 30, 2022	<u>\$ (512)</u>	<u>\$ (23)</u>	<u>\$ (4)</u>	<u>\$ (539)</u>

Our policy is to reclassify the income tax effect from Accumulated other comprehensive income (loss) to the Provision for income taxes when the related gains and losses are released to the Unaudited Condensed Consolidated Statements of Income.

Note 15. Supply Chain Financing

We utilize voluntary supply chain finance programs to support our efforts in negotiating payment term extensions with suppliers as part of our effort to improve our operating cash flows. These programs provide participating suppliers the opportunity to sell their LKQ receivables to financial institutions at the sole discretion of both the suppliers and the financial institutions. We are not a party to the agreement between the suppliers and financial institutions. The financial institutions participate in the supply chain financing initiative on an uncommitted basis and can cease purchasing receivables from our suppliers at any time. Our obligation to our suppliers, including amount due and payment date, are not impacted by the supplier's decision to sell amounts under these agreements. Our payment terms to the financial institutions, including the timing and amount of payments, are unchanged from the original supplier invoice. All outstanding payments owed under the supply chain finance programs with the participating financial institutions are recorded within Accounts payable in our Unaudited Condensed Consolidated Balance Sheets. As of September 30, 2023 and December 31, 2022, we had \$348 million, including amounts under the Uni-Select program, and \$248 million of Accounts payable outstanding under the arrangements, respectively.

Note 16. Long-Term Obligations

Long-term obligations consist of the following (in millions):

	Maturity Date	September 30, 2023		December 31, 2022	
		Interest Rate	Amount	Interest Rate	Amount
Senior Unsecured Credit Agreement:					
Term loans payable	January 2026	6.79 %	\$ 500	— %	\$ —
Revolving credit facilities	January 2028	6.07 % ⁽¹⁾	1,046	— %	—
Senior Secured Credit Agreement:					
Revolving credit facilities	January 2024	— %	—	4.24 % ⁽¹⁾	1,786
Senior Unsecured Term Loan Agreement:					
Term loans payable	July 2026	6.75 %	516	— %	—
Unsecured Senior Notes:					
U.S. Notes (2028)	June 2028	5.75 %	800	— %	—
U.S. Notes (2033)	June 2033	6.25 %	600	— %	—
Euro Notes (2024)	April 2024	3.88 %	529	3.88 %	535
Euro Notes (2028)	April 2028	4.13 %	264	4.13 %	268
Notes payable	Various through October 2030	3.85 % ⁽¹⁾	16	3.25 % ⁽¹⁾	16
Finance lease obligations		4.76 % ⁽¹⁾	73	3.69 % ⁽¹⁾	48
Other debt		3.64 % ⁽¹⁾	25	2.28 % ⁽¹⁾	9
Total debt			4,369		2,662
Less: long-term debt issuance costs and unamortized bond discount			(32)		(6)
Total debt, net of debt issuance costs and unamortized bond discount			4,337		2,656
Less: current maturities, net of debt issuance costs			(574)		(34)
Long term debt, net of debt issuance costs and unamortized bond discount			\$ 3,763		\$ 2,622

⁽¹⁾ Interest rate derived via a weighted average

Senior Unsecured Credit Agreement

On January 5, 2023, we and certain other subsidiaries of ours entered into a new credit agreement (the “Senior Unsecured Credit Agreement”) which establishes: (i) an unsecured revolving credit facility of up to a U.S. Dollar equivalent of \$2.0 billion, which includes a \$150 million sublimit for the issuance of letters of credit and a \$150 million sublimit for swing line loans and (ii) an unsecured term loan facility of up to \$500 million. Borrowings under the agreement bear interest at the Secured Overnight Financing Rate (i.e. “SOFR”) plus the applicable spread or other risk-free interest rates that are applicable for the specified currency plus a spread. The maturity date of the term loan is January 5, 2026 and may be extended by one additional year. The term loan has no required amortization payments prior to its maturity date. The maturity date for the revolving credit facility is January 5, 2028, and may be extended by up to two additional years in one year increments.

The Senior Unsecured Credit Agreement contains customary covenants for an unsecured credit facility for a company that has debt ratings that are investment grade, such as, requirements to comply with a total leverage ratio and interest coverage ratio, each calculated in accordance with the terms of the Senior Unsecured Credit Agreement, and limits on the Company’s and its subsidiaries’ ability to incur liens and indebtedness.

Proceeds from the Senior Unsecured Credit Agreement were used to repay the outstanding principal amount under our prior Senior Secured Credit Agreement (the “Prior Credit Agreement”), to pay fees and expenses related to the Senior Unsecured Credit Agreement, and for other general corporate purposes.

Senior Secured Credit Agreement

In connection with entering into the Senior Unsecured Credit Agreement noted above, Wells Fargo Bank, National Association and the various lending parties terminated the Prior Credit Agreement and each amendment thereto resulting in an immaterial loss on extinguishment of debt.

Senior Unsecured Term Loan Credit Agreement

For the permanent financing related to the Uni-Select Acquisition, on March 27, 2023, we entered into the CAD Note which established an unsecured term loan facility of up to CAD 700 million maturing in July 2026. The CAD Note was funded on July 31, 2023, which was one business day prior to the consummation of the Uni-Select Acquisition.

Unsecured Senior Notes

On May 24, 2023, as part of the financing for the Uni-Select Acquisition, we completed an offering of \$1,400 million aggregate principal amount of senior unsecured notes, consisting of \$800 million senior notes due 2028 and \$600 million senior notes due 2033 in a private placement conducted pursuant to Rule 144A and Regulation S under the United States Securities Act of 1933.

The U.S. Notes (2028/33) are governed by the Indenture, dated as of May 24, 2023 (the "Indenture"), among the Company, certain of the Company's subsidiaries (the "Guarantors") and U.S. Bank Trust Company, National Association, as trustee. The U.S. Notes (2028/33) will be initially fully and unconditionally guaranteed on a senior unsecured basis by each of our wholly owned domestic subsidiaries that are guarantors under our Senior Unsecured Credit Agreement, dated as of January 5, 2023, or the CAD Note and each of our domestic subsidiaries that in the future agrees to guarantee obligations under the Senior Unsecured Credit Agreement, the CAD Note, any other Credit Facility Debt or any Capital Markets Debt (as such terms are defined in the Indenture).

Each subsidiary guarantee will rank equally in right of payment with all existing and future liabilities of the applicable subsidiary guarantor that are not subordinated. Each subsidiary guarantee will effectively rank junior to any secured indebtedness of its respective subsidiary guarantor to the extent of the lesser of the amount of such secured indebtedness and the value of the assets securing such indebtedness. Under the terms of any subsidiary guarantee, holders of the U.S. Notes (2028/33) will not be required to exercise their remedies against us before they proceed directly against the subsidiary guarantors.

Prior to May 15, 2028 in the case of the U.S. Notes (2028) or March 15, 2033 in the case of the U.S. Notes (2033) (each such date a "Par Call Date"), we may redeem the U.S. Notes (2028) or U.S. Notes (2033), as applicable, at our option, in whole or in part, at any time and from time to time, at a redemption price equal to the greater of (i) the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the redemption date (assuming, in each case, that such U.S. Notes (2028/33) matured on their applicable Par Call Date) on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 40 basis points in the case of the U.S. Notes (2028) or 45 basis points in the case of the U.S. Notes (2033), less interest accrued to the date of redemption; and (ii) 100% of the principal amount of the U.S. Notes (2028/33) to be redeemed; plus in either case, accrued and unpaid interest thereon to, but excluding the redemption date. On or after the applicable Par Call Date we may redeem the U.S. Notes (2028/33) of the applicable series, in whole or in part, at any time and from time to time, at a redemption price equal to 100% of the principal amount of the U.S. Notes (2028/33) being redeemed plus accrued and unpaid interest thereon to, but excluding, the redemption date.

In connection with the sale of the U.S. Notes (2028/33), we entered into a Registration Rights Agreement, dated as of May 24, 2023 (the "Registration Rights Agreement"), with the Guarantors and BofA Securities, Inc. and Wells Fargo Securities, LLC, as representatives of the initial purchasers of the U.S. Notes (2028/33) identified therein. Pursuant to the terms of the Registration Rights Agreement, on September 1, 2023, the Company and the Guarantors filed a Registration Statement on Form S-4 ("Form S-4") with respect to a registered offer to exchange (the "Exchange Offer") each series of U.S. Notes (2028/33) and related guarantees for new notes of such series (the "Exchange Notes") and new related guarantees, which will have terms substantially identical in all material respects to the applicable series of U.S. Notes (2028/33) (except that the Exchange Notes will not contain terms with respect to transfer restrictions and Additional Interest (as defined below)). The SEC declared the Form S-4 effective on September 14, 2023. The Company currently expects the Exchange Offer to close in the fourth quarter of 2023. Pursuant to the terms of the Registration Rights Agreement, a "Registration Default" will be deemed to occur if, among other things, we have not exchanged Exchange Notes for all U.S. Notes (2028/33) validly tendered in accordance with the terms of an exchange offer within 365 days after the issue date of the U.S. Notes (2028/33); additional interest ("Additional Interest") will accrue on the principal amount of the applicable U.S. Notes (2028/33) which have not been registered and/or exchanged at a rate of 0.25% per annum during the 90-day period beginning on the day immediately following the occurrence of any

Registration Default, which rate will, after such 90-day period, increase to a maximum of 0.50% per annum thereafter commencing on the day immediately following such Registration Default. Assuming the Exchange Offer closes in the fourth quarter of 2023, as the Company currently anticipates, the Company will not be obligated to pay Additional Interest.

Interest on the U.S. Notes (2028/33) is payable semi-annually in arrears on June 15 and December 15 of each year, beginning on December 15, 2023. Interest on our 3.88% senior notes due April 2024 (the "Euro Notes (2024)") and our 4.13% senior notes due April 2028 (the "Euro Notes (2028)") are payable in arrears on April 1 and October 1 of each year.

Note 17. Derivative Instruments and Hedging Activities

We are exposed to market risks, including the effect of changes in interest rates, foreign currency exchange rates and commodity prices. Under current policies, we may use derivatives to manage our exposure to variable interest rates on our debt and changing foreign exchange rates for certain foreign currency denominated transactions. We do not hold or issue derivatives for trading purposes.

Derivative Instruments Designated as Cash Flow Hedges

In February 2023, we entered into interest rate swap agreements to mitigate the risk of changing interest rates on our variable interest rate payments related to borrowings under our Senior Unsecured Credit Agreement. Under the terms of the interest rate swap agreements, we pay the fixed interest rate and receive a variable interest rate based on term SOFR that matches a contractually specified rate under the Senior Unsecured Credit Agreement. The agreements include a total \$400 million notional amount maturing in February 2025 with a weighted average fixed interest rate of 4.63% and a total \$300 million notional amount maturing in February 2026 with a weighted average fixed interest rate of 4.23%. Changes in the fair value of the interest rate swaps are recorded in Accumulated other comprehensive loss and reclassified to Interest expense when the hedged interest payments affect earnings. The activity related to the interest rate swaps is classified in operating activities in our Unaudited Condensed Consolidated Statements of Cash Flows as the activity relates to normal recurring settlements to match interest payments.

In March 2023, we entered into forward starting interest rate swaps to hedge the risk of changes in interest rates related to forecasted debt issuance to finance a portion of the Uni-Select Acquisition. These swaps were settled in May 2023 upon issuance of the U.S. Notes (2028/33), resulting in total payments of \$13 million. See Note 16, "Long-Term Obligations" for additional information related to the offering of the U.S. Notes (2028/33). Changes in the fair value of the interest rate swaps were recorded in Accumulated other comprehensive loss and the fair value at the termination date will be reclassified to Interest expense over the term of the debt. Payments made to settle the forward starting interest rate swaps were classified in financing activities in our Unaudited Condensed Consolidated Statements of Cash Flows as these payments were related to the forecasted debt issuance.

All of our interest rate swap contracts have been executed with counterparties that we believe are creditworthy, and we closely monitor the credit ratings of these counterparties.

As of September 30, 2023, the notional amounts, balance sheet classification and fair values of our derivative instruments designated as cash flow hedges were as follows (in millions) (there were no such hedges as of December 31, 2022):

	Notional Amount	Balance Sheet Caption	Fair Value - Asset / (Liability)
Interest rate swap agreements	\$ 700	Other noncurrent assets	\$ 6

The activity related to our cash flow hedges is included in Note 14, "Accumulated Other Comprehensive Loss." As of September 30, 2023, we estimate that \$3 million of derivative gains (net of tax) included in Accumulated other comprehensive loss will be reclassified into our Unaudited Condensed Consolidated Statements of Income within the next 12 months.

Derivative Instruments Not Designated as Hedges

To manage the foreign currency exposure related to the Uni-Select Acquisition purchase price (denominated in CAD), we entered into foreign exchange contracts in March 2023 to purchase CAD 1.6 billion for approximately \$1.2 billion. These contracts did not qualify for hedge accounting, and therefore, the contracts were adjusted to fair value through the results of operations as of each balance sheet date. We reported Gains on foreign exchange contracts - acquisition related on the Unaudited Condensed Consolidated Statements of Income of \$3 million and \$49 million for the three and nine months ended September 30, 2023, respectively. These contracts were settled in July 2023 resulting in total payments received of \$49 million.

To manage our foreign currency exposure on other non-functional currency denominated intercompany loans, we entered into short-term foreign currency forward contracts in 2023. We elected not to apply hedge accounting for these transactions, and therefore the contracts are adjusted to fair value through our results of operations as of each balance sheet date. The fair values of these short-term derivative instruments were recorded in either Prepaid expenses and other current assets or Other accrued expenses on our Unaudited Condensed Consolidated Balance Sheets and were not material at September 30, 2023.

Additionally, we hold other short-term derivative instruments, including foreign currency forward contracts, to manage our exposure to variability in the cash flows related to inventory purchases denominated in a non-functional currency. We have elected not to apply hedge accounting for these transactions. The notional amount and fair value of these contracts at September 30, 2023 and December 31, 2022, along with the effect on our results of operations during the three and nine months ended September 30, 2023 and 2022, were not material. The fair values of these contracts were recorded in either Prepaid expenses and other current assets or Other accrued expenses on our Unaudited Condensed Consolidated Balance Sheets.

Gross vs. Net Presentation for Derivative Instruments

While certain derivative instruments executed with the same counterparty are subject to master netting arrangements, we present our cash flow hedge and other derivative instruments on a gross basis in our Unaudited Condensed Consolidated Balance Sheets. The impact of netting the fair values of these contracts would result in an immaterial decrease to Prepaid expenses and other current assets and Other accrued expenses on our Unaudited Condensed Consolidated Balance Sheets at September 30, 2023.

Note 18. Fair Value Measurements

Financial Assets and Liabilities Measured at Fair Value

We use the market and income approaches to estimate the fair value of our financial assets and liabilities, and during the three and nine months ended September 30, 2023, there were no significant changes in valuation techniques or inputs related to the financial assets or liabilities that we have historically recorded at fair value. The tiers in the fair value hierarchy include: Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as significant unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The following tables present information about our financial assets and liabilities measured at fair value on a recurring basis and indicate the fair value hierarchy of the valuation inputs we utilized to determine such fair value (in millions):

	September 30, 2023	December 31, 2022
Assets:		
Interest rate swaps (Level 2)	\$ 6	\$ —
Total Assets	<u>\$ 6</u>	<u>\$ —</u>
Liabilities:		
Contingent consideration liabilities (Level 3)	\$ 8	\$ 7
Total Liabilities	<u>\$ 8</u>	<u>\$ 7</u>

The balance sheet classification of the interest rate swap agreements is presented in Note 17, "Derivative Instruments and Hedging Activities." For contingent consideration liabilities, the current portion is included in Other current liabilities and the noncurrent portion is included in Other noncurrent liabilities on the Unaudited Condensed Consolidated Balance Sheets based on the expected timing of the related payments.

We value derivative instruments using a third party valuation model that performs discounted cash flow analysis based on the terms of the contracts and market observable inputs such as current and forward interest rates and current and forward foreign exchange rates.

Our contingent consideration liabilities are related to our business acquisitions. Under the terms of the contingent consideration agreements, payments may be made at specified future dates depending on the performance of the acquired business subsequent to the acquisition. The liabilities for these payments are classified as Level 3 liabilities because the related fair value measurement, which is determined using an income approach, includes significant inputs not observable in the market.

Financial Assets and Liabilities Not Measured at Fair Value

Our debt is reflected on the Unaudited Condensed Consolidated Balance Sheets at cost. Based on market conditions as of September 30, 2023, the fair value of the Senior Unsecured Credit Agreement borrowings reasonably approximated the carrying value of \$1,546 million. As of December 31, 2022, the fair value of the Prior Credit Agreement borrowings reasonably approximated the carrying value of \$1,786 million. As of September 30, 2023, the fair value of the CAD Note reasonably approximated the carrying value of \$516 million. As of September 30, 2023, the fair values of the U.S. Notes (2028) and U.S. Notes (2033) were approximately \$784 million and \$581 million, respectively, compared to carrying values of \$800 million and \$600 million, respectively. As of September 30, 2023 and December 31, 2022, the fair values of the Euro Notes (2024) were approximately \$527 million and \$535 million, respectively, compared to carrying values of \$529 million and \$535 million, respectively. As of September 30, 2023 and December 31, 2022, the fair values of the Euro Notes (2028) were \$257 million and \$254 million, respectively, compared to carrying values of \$264 million and \$268 million, respectively.

The fair value measurements of the borrowings under the credit agreements are classified as Level 2 within the fair value hierarchy since they are determined based upon significant inputs observable in the market, including interest rates on recent financing transactions with similar terms and maturities. We estimated the fair value by calculating the upfront cash payment a market participant would require at September 30, 2023 and December 31, 2022 to assume these obligations. The fair values of the U.S. Notes (2028), U.S. Notes (2033), Euro Notes (2024) and Euro Notes (2028) are determined based upon observable market inputs including quoted market prices in markets that are not active, and therefore are classified as Level 2 within the fair value hierarchy.

We have immaterial equity investments recorded in Other noncurrent assets in which we have elected to use net asset value as a practical expedient to value and thus they are excluded from the fair value hierarchy disclosure. We have deferred compensation liabilities which are recorded in Other noncurrent liabilities on the Unaudited Condensed Consolidated Balance Sheets. These liabilities are determined based on the values of investments in participants' phantom accounts, which is not a fair value measurement, and thus the liabilities are not included in the fair value hierarchy disclosure.

Note 19. Employee Benefit Plans

We have funded and unfunded defined benefit plans covering certain employee groups in various European countries and Canada. Local statutory requirements govern many of our European and Canadian plans. The defined benefit plans are mostly closed to new participants and, in some cases, existing participants no longer accrue benefits.

As of September 30, 2023 and December 31, 2022, the aggregate funded status of the defined benefit plans was a net liability of \$75 million and \$72 million, respectively, and is reported in Other noncurrent assets, Other noncurrent liabilities and Accrued payroll-related liabilities on our Unaudited Condensed Consolidated Balance Sheets.

Net periodic benefit cost for our defined benefit plans were insignificant for each of the three and nine-month periods ended September 30, 2023 and 2022. The service cost component is recorded in Selling, general and administrative ("SG&A") expenses, while the other components are recorded to Interest income and other income, net on the Unaudited Condensed Consolidated Statements of Income.

Note 20. Income Taxes

At the end of each interim period, we estimate our annual effective tax rate and apply that rate to our interim earnings. We also record the tax impact of certain unusual or infrequently occurring items, including changes in judgment about valuation allowances and the effects of changes in tax laws or rates, in the interim period in which they occur.

The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment including, but not limited to, the expected operating income for the year, projections of the proportion of income earned and taxed in state and foreign jurisdictions, permanent and temporary differences between book and taxable income, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, additional information is obtained or as the tax environment changes.

Our effective income tax rate for the nine months ended September 30, 2023 was 25.9%, compared to 24.4% for the nine months ended September 30, 2022. The increase in the effective tax rate for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 is primarily attributable to: (i) 0.9% of unfavorable rate effects, including non-deductible transaction costs and negative impacts on foreign tax credit availability caused by Uni-Select related

transaction activity and (ii) geographic distribution of income favoring higher rate jurisdictions in 2023. Discrete items had similar favorable effects in both years, with a 1% rate benefit in the prior year, primarily related to the sale of PGW in the second quarter of 2022, and in the current year, primarily related to the Uni-Select Acquisition foreign exchange forward contract gain.

On August 16, 2022, the Inflation Reduction Act of 2022 (“IRA”) was signed into law in the United States. The IRA, among other provisions, enacted a 15% corporate minimum tax effective for taxable years beginning after December 31, 2022 and a 1% excise tax on the repurchase of corporate stock after December 31, 2022. We do not currently expect the corporate minimum tax provisions of the IRA to have a material impact on our financial results. The impact of the excise tax provisions will be dependent upon the volume of any future stock repurchases.

Note 21. Segment and Geographic Information

We have four operating segments: Wholesale - North America, Europe, Specialty, and Self Service, each of which is presented as a reportable segment.

The segments are organized based on a combination of geographic areas served and type of product lines offered. The segments are managed separately as the businesses serve different customers and are affected by different economic conditions. Wholesale - North America and Self Service have similar economic characteristics and have common products and services, customers and methods of distribution. We are reporting these operating segments separately to provide greater transparency to investors.

The following tables present our financial performance by reportable segment for the periods indicated (in millions):

	Wholesale - North America	Europe	Specialty	Self Service	Eliminations	Consolidated
Three Months Ended September 30, 2023						
Revenue:						
Third Party	\$ 1,387	\$ 1,584	\$ 456	\$ 141	\$ —	\$ 3,568
Intersegment	—	—	1	—	(1)	—
Total segment revenue	<u>\$ 1,387</u>	<u>\$ 1,584</u>	<u>\$ 457</u>	<u>\$ 141</u>	<u>\$ (1)</u>	<u>\$ 3,568</u>
Segment EBITDA	\$ 236	\$ 147	\$ 40	\$ (1)	\$ —	\$ 422
Total depreciation and amortization ⁽¹⁾	34	37	8	5	—	84
Three Months Ended September 30, 2022						
Revenue:						
Third Party	\$ 1,108	\$ 1,380	\$ 452	\$ 164	\$ —	\$ 3,104
Intersegment	1	—	—	—	(1)	—
Total segment revenue	<u>\$ 1,109</u>	<u>\$ 1,380</u>	<u>\$ 452</u>	<u>\$ 164</u>	<u>\$ (1)</u>	<u>\$ 3,104</u>
Segment EBITDA	\$ 216	\$ 155	\$ 49	\$ 4	\$ —	\$ 424
Total depreciation and amortization ⁽¹⁾	19	34	8	3	—	64

	Wholesale - North America	Europe	Specialty	Self Service	Eliminations	Consolidated
Nine Months Ended September 30, 2023						
Revenue:						
Third Party	\$ 3,815	\$ 4,777	\$ 1,294	\$ 479	\$ —	\$ 10,365
Intersegment	—	—	3	—	(3)	—
Total segment revenue	<u>\$ 3,815</u>	<u>\$ 4,777</u>	<u>\$ 1,297</u>	<u>\$ 479</u>	<u>\$ (3)</u>	<u>\$ 10,365</u>
Segment EBITDA	\$ 736	\$ 486	\$ 113	\$ 28	\$ —	\$ 1,363
Total depreciation and amortization ⁽¹⁾	73	110	24	12	—	219
Nine Months Ended September 30, 2022						
Revenue:						
Third Party	\$ 3,453	\$ 4,345	\$ 1,424	\$ 571	\$ —	\$ 9,793
Intersegment	1	—	2	—	(3)	—
Total segment revenue	<u>\$ 3,454</u>	<u>\$ 4,345</u>	<u>\$ 1,426</u>	<u>\$ 571</u>	<u>\$ (3)</u>	<u>\$ 9,793</u>
Segment EBITDA	\$ 648	\$ 446	\$ 176	\$ 76	\$ —	\$ 1,346
Total depreciation and amortization ⁽¹⁾	56	107	23	11	—	197

⁽¹⁾ Amounts presented include depreciation and amortization expense recorded within Cost of goods sold, SG&A expenses and Restructuring and transaction related expenses.

The key measure of segment profit or loss reviewed by our chief operating decision maker, our Chief Executive Officer, is Segment EBITDA. We use Segment EBITDA to compare profitability among the segments and evaluate business strategies. Segment EBITDA includes revenue and expenses that are controllable by the segment. Corporate general and administrative expenses are allocated to the segments based on usage, with shared expenses apportioned based on the segment's percentage of consolidated revenue. We calculate Segment EBITDA as Net Income attributable to LKQ stockholders excluding discontinued operations; depreciation, amortization; interest; gains and losses on debt extinguishment; income tax expense; restructuring and transaction related expenses (which includes restructuring expenses recorded in Cost of goods sold); change in fair value of contingent consideration liabilities; other gains and losses related to acquisitions, equity method investments, or divestitures; equity in losses and earnings of unconsolidated subsidiaries; equity investment fair value adjustments; impairment charges; and direct impacts of the Ukraine/Russia conflict and related sanctions (including provisions for and subsequent adjustments to reserves for asset recoverability and expenditures to support our employees and their families).

The table below provides a reconciliation of Net Income to Segment EBITDA (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income	\$ 208	\$ 262	\$ 760	\$ 955
Less: net income attributable to continuing noncontrolling interest	—	—	1	—
Net income attributable to LKQ stockholders	208	262	759	955
Less: net income from discontinued operations	1	1	1	5
Net income from continuing operations attributable to LKQ stockholders	207	261	758	950
Adjustments - continuing operations attributable to LKQ stockholders:				
Depreciation and amortization	84	64	219	197
Interest expense, net of interest income	53	17	128	46
Loss on debt extinguishment	—	—	1	—
Provision for income taxes	60	88	263	304
Equity in earnings of unconsolidated subsidiaries ⁽¹⁾	(4)	(2)	(9)	(8)
Gains on foreign exchange contracts - acquisition related ⁽²⁾	(3)	—	(49)	—
Equity investment fair value adjustments	—	—	1	3
Restructuring and transaction related expenses ⁽³⁾	27	3	53	10
Restructuring expenses - cost of goods sold ⁽³⁾	2	—	2	—
Gain on disposal of businesses ⁽⁴⁾	—	(4)	—	(159)
Gains on previously held equity interests	(4)	(2)	(4)	(1)
Direct impacts of Ukraine/Russia conflict ⁽⁵⁾	—	(1)	—	4
Segment EBITDA	\$ 422	\$ 424	\$ 1,363	\$ 1,346

⁽¹⁾ Refer to Note 8, "Equity Method Investments" for further information.

⁽²⁾ Refer to Note 2, "Business Combinations" and Note 17, "Derivative Instruments and Hedging Activities" for further information.

⁽³⁾ Refer to Note 11, "Restructuring and Transaction Related Expenses" for further information.

⁽⁴⁾ Refer to "Other Divestitures (Not Classified in Discontinued Operations)" in Note 3, "Discontinued Operations and Divestitures" for further information.

⁽⁵⁾ Adjustments include provisions for and subsequent adjustments to reserves for asset recoverability (receivables and inventory) and expenditures to support our employees and their families in Ukraine.

The following table presents capital expenditures by reportable segment (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Capital Expenditures				
Wholesale - North America	\$ 39	\$ 19	\$ 75	\$ 64
Europe	47	21	103	63
Specialty	5	4	23	12
Self Service	6	5	32	9
Total capital expenditures	\$ 97	\$ 49	\$ 233	\$ 148

The following table presents assets by reportable segment (in millions):

	September 30, 2023	December 31, 2022
<u>Receivables, net of allowance for credit losses</u>		
Wholesale - North America ⁽¹⁾	\$ 515	\$ 351
Europe	654	547
Specialty	124	92
Self Service	8	8
Total receivables, net of allowance for credit losses	1,301	998
<u>Inventories</u>		
Wholesale - North America ⁽¹⁾	1,186	822
Europe	1,338	1,418
Specialty	431	469
Self Service	43	43
Total inventories	2,998	2,752
<u>Property, plant and equipment, net</u>		
Wholesale - North America ⁽¹⁾	625	505
Europe	587	547
Specialty	105	94
Self Service	110	90
Total property, plant and equipment, net	1,427	1,236
<u>Operating lease assets, net</u>		
Wholesale - North America ⁽¹⁾	611	541
Europe	469	466
Specialty	84	85
Self Service	144	135
Total operating lease assets, net	1,308	1,227
Other unallocated assets	8,134	5,825
Total assets	\$ 15,168	\$ 12,038

⁽¹⁾ The increase in assets for the Wholesale - North America segment is primarily attributable to the Uni-Select Acquisition.

We report net receivables; inventories; net property, plant and equipment; and net operating lease assets by segment as that information is used by the chief operating decision maker in assessing segment performance. These assets provide a measure for the operating capital employed in each segment. Unallocated assets include cash and cash equivalents, prepaid expenses and other current and noncurrent assets, goodwill, other intangibles and equity method investments.

Our largest countries of operation are the U.S., followed by Germany and the U.K. Additional European operations are located in the Netherlands, Italy, Czech Republic, Belgium, Austria, Slovakia, Poland, and other European countries. As a result of the Uni-Select Acquisition, we further expanded our wholesale operations in Canada. Our operations in other countries include remanufacturing operations in Mexico, an aftermarket parts freight consolidation warehouse in Taiwan, and administrative support functions in India.

The following table sets forth our tangible long-lived assets by geographic area (in millions):

	September 30, 2023	December 31, 2022
<u>Long-lived assets</u>		
United States	\$ 1,468	\$ 1,371
Germany	308	290
United Kingdom	276	256
Other countries	683	546
Total long-lived assets	<u>\$ 2,735</u>	<u>\$ 2,463</u>

Note 22. Subsequent Event

On October 24, 2023, our Board of Directors declared a quarterly cash dividend of \$0.30 per share of common stock, payable on November 30, 2023, to stockholders of record at the close of business on November 16, 2023.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Statements and information in this Quarterly Report on Form 10-Q that are not historical are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and are made pursuant to the “safe harbor” provisions of such Act.

Forward-looking statements include, but are not limited to, statements regarding our outlook, guidance, expectations, beliefs, hopes, intentions and strategies. Words such as “may,” “will,” “plan,” “should,” “expect,” “anticipate,” “believe,” “if,” “estimate,” “intend,” “project” and similar words or expressions are used to identify these forward-looking statements. These statements are subject to a number of risks, uncertainties, assumptions and other factors that may cause our actual results, performance or achievements to be materially different. All forward-looking statements are based on information available to us at the time the statements are made. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

You should not place undue reliance on our forward-looking statements. Actual events or results may differ materially from those expressed or implied in the forward-looking statements. The risks, uncertainties, assumptions and other factors that could cause actual results to differ from the results predicted or implied by our forward-looking statements include factors discussed in our filings with the SEC, including those disclosed under the captions “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2022 Form 10-K and our Quarterly Reports on Form 10-Q (including this Quarterly Report).

Overview

We are a global distributor of vehicle products, including replacement parts, components and systems used in the repair and maintenance of vehicles, and specialty vehicle aftermarket products and accessories to improve the performance, functionality and appearance of vehicles.

Buyers of vehicle replacement products have the option to purchase from primarily five sources: new products produced by OEMs; new products produced by companies other than the OEMs, which are referred to as aftermarket products; recycled products obtained from salvage and total loss vehicles; recycled products that have been refurbished; and recycled products that have been remanufactured. We distribute a variety of products to collision and mechanical repair shops, including aftermarket collision and mechanical products; recycled collision and mechanical products; refurbished collision products such as wheels, bumper covers and lights; and remanufactured engines and transmissions. Collectively, we refer to the four sources that are not new OEM products as alternative parts.

We are organized into four operating segments: Wholesale - North America, Europe, Specialty, and Self Service, each of which is presented as a reportable segment.

Our Wholesale - North America segment is a leading provider of alternative vehicle collision replacement products and alternative vehicle mechanical replacement products, with our sales, processing, and distribution facilities reaching most major markets in the United States and Canada. Our Europe segment is a leading provider of alternative vehicle replacement and maintenance products in Germany, the U.K., the Benelux region (Belgium, Netherlands, and Luxembourg), Italy, Czech Republic, Austria, Slovakia, Poland, and various other European countries. Our Specialty segment is a leading distributor of specialty vehicle aftermarket equipment and accessories reaching most major markets in the U.S. and Canada. Our Self Service segment operates self service retail facilities across the U.S. that sell recycled automotive products from end-of-life-vehicles.

Our operating results have fluctuated on a quarterly and annual basis in the past and can be expected to continue to fluctuate in the future as a result of a number of factors, some of which are beyond our control. Please refer to the factors referred to in Forward-Looking Statements above. Due to these factors and others, which may be unknown to us at this time, our operating results in future periods can be expected to fluctuate. Accordingly, our historical results of operations may not be indicative of future performance.

Acquisitions and Investments

Since our inception in 1998, we have pursued a growth strategy through both organic growth and acquisitions. Through 2018, our acquisition strategy was focused on consolidation to build scale in fragmented markets across North America and Europe. We targeted companies that were market leaders, expanded our geographic presence and enhanced our ability to provide a wide array of vehicle products through our distribution network. In the last few years, we have shifted our focus to acquisitions that target high synergies and/or add critical capabilities, including the Uni-Select Acquisition completed in August 2023 that complements our existing North American paint distribution operations and provides a scaled position in the Canadian mechanical parts space, with opportunity for future consolidation and growth. Additionally, we have made investments in various businesses to advance our strategic objectives. See Note 2, "Business Combinations," and Note 8, "Equity Method Investments," to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information related to our acquisitions and investments.

Sources of Revenue

We report our revenue in two categories: (i) parts and services and (ii) other. Our parts revenue is generated from the sale of vehicle products, including replacement parts, components and systems used in the repair and maintenance of vehicles, and specialty products and accessories used to improve the performance, functionality and appearance of vehicles. Our service revenue is generated primarily from the sale of service-type warranties, fees for admission to our self service yards, and diagnostic and repair services. Revenue from other sources includes scrap and other metals (including precious metals - platinum, palladium and rhodium - contained in recycled parts such as catalytic converters) sales, bulk sales to mechanical manufacturers (including cores) and sales of aluminum ingots and sows from our furnace operations. Other revenue will vary from period to period based on fluctuations in commodity prices and the volume of materials sold. See Note 10, "Revenue Recognition" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information related to our sources of revenue.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based upon our Unaudited Condensed Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make use of certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Our 2022 Form 10-K includes a summary of the critical accounting estimates we believe are the most important to aid in understanding our financial results. Updates to our critical accounting estimates since our 2022 Form 10-K are as follows:

Business Combinations

Description

We account for business combinations using the acquisition method of accounting, under which the acquisition purchase price is allocated to the assets acquired, including purchased intangible assets, and liabilities assumed based upon their respective fair values. The excess of the fair value of the purchase price over the fair values of these assets acquired and liabilities assumed is recorded as goodwill.

Judgments and Uncertainties

Accounting for business combinations requires management to make significant estimates and assumptions to determine the fair values of assets acquired and liabilities assumed at the acquisition date. Although we believe the assumptions and estimates we have made in relation to the acquisitions are appropriate, they are based, in part, on historical experience, information obtained from management of the acquired companies and information obtained from independent third party valuation firms and are inherently uncertain. Critical estimates in valuing certain acquired intangible assets include, but are not limited to, future expected cash flows including revenue growth rate assumptions from product sales and customer contracts, estimated royalty rates used in valuing related intangible assets, customer attrition rates and discount rates. The discount rates used to discount expected future cash flows to present value are typically derived from a weighted-average cost of capital analysis and adjusted to reflect inherent risks. Unanticipated events and circumstances may occur that could affect either the accuracy or validity of such assumptions, estimates or actual results.

Sensitivity of Estimate to Change

The amount of goodwill recorded from our 2023 acquisitions was \$1,291 million at September 30, 2023. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement. Changes in the estimates applied or values of acquired assets and liabilities could have a material impact on our financial statements. As a result, during the measurement period, which may be up to one year from the business acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill.

Financial Information by Geographic Area

See Note 10, "Revenue Recognition" and Note 21, "Segment and Geographic Information" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for information related to our revenue and long-lived assets by geographic region.

1 LKQ Europe Plan

We have undertaken the 1 LKQ Europe plan to create structural centralization and standardization of key functions to facilitate the operation of the Europe segment as a single business. Under this multi-year plan, we expect to recognize the following:

- Restructuring expenses — Non-recurring costs resulting directly from the implementation of the 1 LKQ Europe plan from which the business will derive no ongoing benefit. See Note 11, "Restructuring and Transaction Related Expenses" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further details.
- Transformation expenses — Period costs incurred to execute the 1 LKQ Europe plan that are expected to contribute to ongoing benefits to the business (e.g. non-capitalizable implementation costs related to a common ERP platform). These expenses are recorded in SG&A expenses.
- Transformation capital expenditures — Capitalizable costs for long-lived assets, such as software and facilities, that directly relate to the execution of the 1 LKQ Europe plan.

Costs related to the 1 LKQ Europe plan are reflected in SG&A expenses, Restructuring and transaction related expenses and Purchases of property, plant and equipment in our Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

We completed the organizational design and implementation projects in June 2021, with the remaining projects scheduled to be completed by the end of 2027. In the second quarter of 2023, we extended the completion date from 2025 to 2027 based on a detailed project review, after which we concluded that the common ERP system implementation would require additional time to allow for operational process reengineering to support further standardization across the segment. The extended implementation schedule and incremental process reengineering work will help to minimize potential business disruptions but increased the overall cost estimate by \$85 million. We expect to achieve additional cost benefits through expanded application of shared services and productivity improvements along with working capital reductions related to inventory rationalization. We are currently realizing a portion of the benefits of the 1 LKQ Europe plan and expect to achieve further margin expansion during the implementation period. During the three and nine months ended September 30, 2023, we incurred \$7 million and \$20 million, respectively, in costs across all three categories noted above. We expect that costs of the plan, reflecting all three categories noted above, will range between \$125 million to \$155 million for 2023 through the projected plan completion date in 2027. In the future, we may also identify additional initiatives and projects under the 1 LKQ Europe plan that may result in additional expenditures, although we are currently unable to estimate the range of charges for such potential future initiatives and projects. We expect the project to continue to enable trade working capital and productivity initiatives that will help fund the project cost.

Ukraine/Russia Conflict

The Russian invasion of Ukraine and resulting global governmental response impacted our business in 2022 and 2023. Governmental sanctions imposed on Russia have restricted our ability to sell to and collect from customers based in Russia and Belarus, and Russian military activity in Ukrainian territory has temporarily changed the way in which we operate in Ukraine. Many of our branches in Ukraine have remained open, although operating at less than full capacity, during the conflict, while others have closed temporarily. We expect to continue operating in this manner unless conditions change. We currently do not

expect the conflict to have a material impact on our ongoing results of operations or cash flows. Our operations in Ukraine represented less than 1% of both our total annual revenue and total annual operating profit for fiscal year 2022 and comprised approximately \$75 million of total assets as of September 30, 2023. In addition, LKQ revenue from customers in Russia and Belarus represented less than 0.3% of our total revenue in 2021. As future developments in the conflict are difficult to predict and outside of our control, it is possible that estimates underlying our financial statements may change significantly in future periods.

Key Performance Indicators

We believe that organic revenue growth, Segment EBITDA and free cash flow are key performance indicators for our business. Segment EBITDA is our key measure of segment profit or loss reviewed by our chief operating decision maker. Free cash flow is a financial measure that is not prepared in accordance with U.S. generally accepted accounting principles (“non-GAAP”).

- *Organic revenue growth* - We define organic revenue growth as total revenue growth from continuing operations excluding the effects of acquisitions and divestitures (i.e., revenue generated from the date of acquisition to the first anniversary of that acquisition, net of reduced revenue due to the disposal of businesses) and foreign currency movements (i.e., impact of translating revenue at different exchange rates). Organic revenue growth includes incremental sales from both existing and new (i.e., opened within the last twelve months) locations and is derived from expanding business with existing customers, securing new customers and offering additional products and services. We believe that organic revenue growth is a key performance indicator as this statistic measures our ability to serve and grow our customer base successfully.
- *Segment EBITDA* - See Note 21, "Segment and Geographic Information" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a description of the calculation of Segment EBITDA. We believe that Segment EBITDA provides useful information to evaluate our segment profitability by focusing on the indicators of ongoing operational results.
- *Free Cash Flow* - We calculate free cash flow as net cash provided by operating activities, less purchases of property, plant and equipment. Free cash flow provides insight into our liquidity and provides useful information to management and investors concerning cash flow available to meet future debt service obligations and working capital requirements, make strategic acquisitions, repurchase stock, and pay dividends.

These three key performance indicators are used as targets in determining incentive compensation at various levels of the organization, including senior management. By using these performance measures, we attempt to motivate a balanced approach to the business that rewards growth, profitability and cash flow generation in a manner that enhances our long-term prospects.

Results of Operations—Consolidated

The following table sets forth statements of income data as a percentage of total revenue for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	61.0 %	58.9 %	59.7 %	59.1 %
Gross margin	39.0 %	41.1 %	40.3 %	40.9 %
Selling, general and administrative expenses	27.5 %	27.8 %	27.5 %	27.4 %
Restructuring and transaction related expenses	0.8 %	0.1 %	0.5 %	0.1 %
Gain on disposal of businesses	— %	(0.1)%	— %	(1.6)%
Depreciation and amortization	2.1 %	1.9 %	1.9 %	1.8 %
Operating income	8.6 %	11.5 %	10.4 %	13.2 %
Total other expense, net	1.3 %	0.4 %	0.6 %	0.4 %
Income from continuing operations before provision for income taxes	7.4 %	11.2 %	9.8 %	12.7 %
Provision for income taxes	1.7 %	2.8 %	2.5 %	3.1 %
Equity in earnings of unconsolidated subsidiaries	0.1 %	0.1 %	0.1 %	0.1 %
Income from continuing operations	5.8 %	8.4 %	7.3 %	9.7 %
Net income from discontinued operations	— %	— %	— %	0.1 %
Net income	5.9 %	8.4 %	7.3 %	9.8 %
Less: net income attributable to continuing noncontrolling interest	— %	— %	— %	— %
Net income attributable to LKQ stockholders	5.8 %	8.4 %	7.3 %	9.7 %

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

Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2022

Revenue

The following table summarizes the changes in revenue by category (in millions):

	Three Months Ended September 30,		Percentage Change in Revenue			
	2023	2022	Organic	Acquisition and Divestiture	Foreign Exchange	Total Change
Parts & services revenue	\$ 3,407	\$ 2,909	3.0 %	10.5 %	3.6 %	17.1 %
Other revenue	161	195	(14.0)%	(3.5)%	— %	(17.5)%
Total revenue	<u>\$ 3,568</u>	<u>\$ 3,104</u>	2.0 %	9.6 %	3.4 %	15.0 %

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

The increase in parts and services revenue of 17.1% represented increases in segment revenue of 28.0% in Wholesale - North America, 14.8% in Europe, 5.1% in Self Service, and 0.9% in Specialty. This overall increase was driven by organic parts and services revenue growth of 3.0% (4.3% on a per day basis), a 10.5% increase due to the net impact of acquisitions and divestitures and a 3.6% increase due to fluctuations in foreign exchange rates. The decrease in other revenue of 17.5% was primarily driven by a decrease in organic revenue of \$28 million due to unfavorable movements in precious metals and scrap steel prices compared to the prior year period, primarily attributable to a \$19 million decrease in our Self Service segment and a \$7 million decrease in our Wholesale - North America segment. Refer to the discussion of our segment results of operations for factors contributing to the changes in revenue by segment for the three months ended September 30, 2023 compared to the three months ended September 30, 2022.

Cost of Goods Sold

Cost of goods sold as a percentage of revenue increased to 61.0% of revenue in the three months ended September 30, 2023 from 58.9% of revenue in the three months ended September 30, 2022. Cost of goods sold reflects increases of 1.2% from our Wholesale - North America segment (including a 0.9% dilutive effect related to our acquisition of Uni-Select), 0.7% from our Europe segment, and 0.4% from our Specialty segment. Refer to the discussion of our segment results of operations for factors contributing to the changes in cost of goods sold as a percentage of revenue by segment for the three months ended September 30, 2023 compared to the three months ended September 30, 2022.

Selling, General and Administrative Expenses

Our SG&A expenses as a percentage of revenue decreased to 27.5% in the three months ended September 30, 2023 from 27.8% in the three months ended September 30, 2022. The SG&A expense decrease primarily reflects an impact of 0.8% in our Wholesale - North America segment, with 0.7% related to our acquisition of Uni-Select, partially offset by increases of 0.3% in our Europe segment, and 0.2% in our Self Service segment. Refer to the discussion of our segment results of operations for factors contributing to the changes in SG&A expenses as a percentage of revenue by segment for the three months ended September 30, 2023 compared to the three months ended September 30, 2022.

Restructuring and Transaction Related Expenses

The following table summarizes restructuring and transaction related expenses for the periods indicated (in millions):

	Three Months Ended September 30,		Change
	2023	2022	
Restructuring expenses	\$ 24 ⁽¹⁾	\$ 2 ⁽²⁾	\$ 22
Transaction related expenses	3 ⁽³⁾	1 ⁽³⁾	2
Restructuring and transaction related expenses	<u>\$ 27</u>	<u>\$ 3</u>	<u>\$ 24</u>

- (1) Restructuring expenses for the three months ended September 30, 2023 primarily consisted of (i) \$20 million related to our acquisition integration plans and (ii) \$4 million related to our global restructuring plans.
- (2) Restructuring expenses for the three months ended September 30, 2022 primarily consisted of (i) \$1 million related to our 1 LKQ Europe plan and (ii) \$1 million related to our global restructuring plans.
- (3) Transaction related expenses for the three months ended September 30, 2023 and September 30, 2022 primarily related to external costs such as legal, accounting and advisory fees related to completed and potential acquisitions (including Uni-Select transaction costs in 2023).

See Note 11, "Restructuring and Transaction Related Expenses" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on our restructuring and acquisition integration plans.

Gain on Disposal of Businesses

During the three months ended September 30, 2022, we recorded a \$4 million pretax gain from the sale of a business within our Self Service segment. See "Other Divestitures (Not Classified in Discontinued Operations)" in Note 3, "Discontinued Operations and Divestitures" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on our gain on disposal of businesses.

Depreciation and Amortization

The following table summarizes depreciation and amortization for the periods indicated (in millions):

	Three Months Ended September 30,		Change
	2023	2022	
Depreciation	\$ 40	\$ 36	\$ 4 ⁽¹⁾
Amortization	36	22	14 ⁽²⁾
Depreciation and amortization	<u>\$ 76</u>	<u>\$ 58</u>	<u>\$ 18</u>

- (1) The increase in depreciation expense primarily related to (i) an increase in capital expenditures and (ii) a \$1 million increase from our acquisition of Uni-Select.
- (2) The increase in amortization expense primarily related to a \$12 million increase from our acquisition of Uni-Select.

Total Other Expense, Net

The following table summarizes Total other expense, net for the periods indicated (in millions):

	Three Months Ended September 30,		Change
	2023	2022	
Interest expense	\$ 62	\$ 19	\$ 43 ⁽¹⁾
Gains on foreign exchange contracts - acquisition related ⁽²⁾	(3)	—	(3)
Interest income and other income, net	(14)	(8)	(6) ⁽³⁾
Total other expense, net	<u>\$ 45</u>	<u>\$ 11</u>	<u>\$ 34</u>

- (1) Interest expense increased primarily due to (i) a \$27 million increase from higher outstanding debt primarily related to the permanent financing for the Uni-Select Acquisition, (ii) a \$15 million increase from higher interest rates in the third quarter of 2023, and (iii) a \$3 million increase from foreign exchange translation, primarily related to an increase in the euro exchange rate, partially offset by (iv) individually insignificant decreases that had a \$2 million impact in the aggregate.
- (2) Related to the Uni-Select Acquisition. See Note 2, "Business Combinations" and Note 17, "Derivative Instruments and Hedging Activities" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information.
- (3) The increase in Interest income and other income, net is primarily comprised of a \$7 million increase in interest income, primarily related to interest income on the proceeds from the U.S. Notes (2028/33) that were invested in money market funds between the bond issuance date and the Uni-Select Acquisition date.

Provision for Income Taxes

Our effective income tax rate for the three months ended September 30, 2023 was 22.6%, compared to 25.2% for the three months ended September 30, 2022. The decrease in the effective tax rate for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 is primarily attributable to: (i) 4.4% net favorable discrete items, primarily related to the Uni-Select Acquisition foreign exchange forward contract gain, partially offset by (ii) 0.8% of unfavorable rate effects, including non-deductible transaction costs and negative impacts on foreign tax credit availability caused by Uni-Select related transaction activity, and (iii) geographic distribution of income favoring higher rate jurisdictions in 2023.

See Note 20, "Income Taxes" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information.

Equity in Earnings of Unconsolidated Subsidiaries

Equity in earnings of unconsolidated subsidiaries for the three months ended September 30, 2023 increased by \$2 million primarily related to an increase in year over year results reported by Mekonomen, which is our largest equity method investment.

Foreign Currency Impact

We translate our statements of income at the average exchange rates in effect for the period. Relative to the rates used during the three months ended September 30, 2022, the Czech koruna, euro and pound sterling rates used to translate the 2023 statements of income increased by 10.0%, 8.1%, and 7.6%, respectively, while the Canadian dollar rate decreased by 2.7%. Realized and unrealized currency gains and losses (including the effects of hedge instruments) combined with the translation effect of the change in foreign currencies against the U.S. dollar had a net positive effect of \$0.08 on diluted earnings per share for the three months ended September 30, 2023, mostly related to the gain on the foreign exchange forward contract related to the Uni-Select Acquisition, including the tax effects.

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

Revenue

The following table summarizes the changes in revenue by category (in millions):

	Nine Months Ended September 30,		Percentage Change in Revenue			
	2023	2022	Organic	Acquisition and Divestiture	Foreign Exchange	Total Change
Parts & services revenue	\$ 9,818	\$ 9,105	5.3 %	2.2 %	0.3 %	7.8 %
Other revenue	547	688	(16.0)%	(4.3)%	(0.2)%	(20.4)%
Total revenue	<u>\$ 10,365</u>	<u>\$ 9,793</u>	3.8 %	1.8 %	0.3 %	5.8 %

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

The increase in parts and services revenue of 7.8% represented increases in segment revenue of 12.5% in Wholesale - North America, 10.0% in Europe, and 4.9% in Self Service, partially offset by a decrease of 9.1% in Specialty. This overall increase was driven by organic parts and services revenue growth of 5.3%, a 2.2% increase due to the net impact of acquisitions and divestitures, and a 0.3% increase due to fluctuations in foreign exchange rates. The decrease in other revenue of 20.4% was primarily driven by a decrease in organic revenue of \$110 million due to unfavorable movements in precious metals and scrap steel prices compared to the prior year period, primarily attributable to a \$71 million decrease in our Self Service segment and a \$36 million decrease in our Wholesale - North America segment. Refer to the discussion of our segment results of operations for factors contributing to the changes in revenue by segment for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022.

Cost of Goods Sold

Cost of goods sold as a percentage of revenue increased to 59.7% in the nine months ended September 30, 2023 from 59.1% in the nine months ended September 30, 2022. Cost of goods sold reflects increases of 0.4% from our Specialty segment, 0.1% from our Wholesale - North America segment (including a 0.3% dilutive effect related to our acquisition of Uni-Select), and 0.2% from our Europe segment, partially offset by a decrease of 0.3% attributable to mix primarily due to a decline in revenue in our Specialty segment. Refer to the discussion of our segment results of operations for factors contributing to the changes in cost of goods sold as a percentage of revenue by segment for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022.

Selling, General and Administrative Expenses

Our SG&A expenses as a percentage of revenue increased to 27.5% in the nine months ended September 30, 2023 from 27.4% in the nine months ended September 30, 2022. The SG&A expense was roughly flat with mostly offsetting factors including an unfavorable mix effect and a reduction in our Wholesale - North America segment, which benefited from the Uni-Select Acquisition. Refer to the discussion of our segment results of operations for factors contributing to the changes in SG&A expenses as a percentage of revenue by segment for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022.

Restructuring and Transaction Related Expenses

The following table summarizes restructuring and transaction related expenses for the periods indicated (in millions):

	Nine Months Ended September 30,		Change
	2023	2022	
Restructuring expenses	\$ 34 ⁽¹⁾	\$ 5 ⁽²⁾	\$ 29
Transaction related expenses	19 ⁽³⁾	5 ⁽³⁾	14
Restructuring and transaction related expenses	<u>\$ 53</u>	<u>\$ 10</u>	<u>\$ 43</u>

⁽¹⁾ Restructuring expenses for the nine months ended September 30, 2023 consisted of (i) \$22 million related to our acquisition integration plans, (ii) \$11 million related to our global restructuring plans, and (iii) \$1 million related to our 1 LKQ Europe plan.

- (2) Restructuring expenses for the nine months ended September 30, 2022 primarily consisted of (i) \$2 million related to our acquisition integration plans, (ii) \$2 million related to our global restructuring plans and (iii) \$1 million related to our 1 LKQ Europe plan.
- (3) Transaction related expenses for the nine months ended September 30, 2023 and September 30, 2022 primarily related to external costs such as legal, accounting and advisory fees related to completed and potential acquisitions (including Uni-Select transaction costs in 2023).

See Note 11, "Restructuring and Transaction Related Expenses" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on our restructuring and acquisition integration plans.

Gain on Disposal of Businesses

During the nine months ended September 30, 2022, we recorded a \$159 million pretax gain from divestitures including \$155 million (\$127 million after tax) from the sale of PGW and \$4 million from the sale of a business within our Self Service segment. See "Other Divestitures (Not Classified in Discontinued Operations)" in Note 3, "Discontinued Operations and Divestitures" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on our gain on disposal of businesses.

Depreciation and Amortization

The following table summarizes depreciation and amortization for the periods indicated (in millions):

	Nine Months Ended September 30,		Change
	2023	2022	
Depreciation	\$ 114	\$ 106	\$ 8 ⁽¹⁾
Amortization	81	72	9 ⁽²⁾
Depreciation and amortization	<u>\$ 195</u>	<u>\$ 178</u>	<u>\$ 17</u>

- (1) Depreciation expense increased primarily related to an increase in capital expenditures, primarily in our Europe and Wholesale - North America segments.
- (2) Amortization expense increased primarily due to (i) a \$12 million increase from our acquisition of Uni-Select, partially offset by (ii) individually insignificant decreases that had a \$3 million impact in the aggregate.

Total Other Expense, Net

The following table summarizes Total other expense, net for the periods indicated (in millions):

	Nine Months Ended September 30,		Change
	2023	2022	
Interest expense	\$ 150	\$ 51	\$ 99 ⁽¹⁾
Gains on foreign exchange contracts - acquisition related ⁽²⁾	(49)	—	(49)
Interest income and other income, net	(34)	(9)	(25) ⁽³⁾
Total other expense, net	<u>\$ 67</u>	<u>\$ 42</u>	<u>\$ 25</u>

- (1) Interest expense increased primarily due to (i) a \$52 million increase from higher interest rates during the nine months ended September 30, 2023 compared to the prior year period, (ii) a \$36 million increase from higher outstanding debt primarily related to the permanent financing for the Uni-Select Acquisition, (iii) a \$9 million increase related to amortization of pre-acquisition bridge loan financing costs related to the Uni-Select Acquisition, and (iv) a \$3 million increase from foreign exchange translation, primarily related to an increase in the euro exchange rate.
- (2) Related to the Uni-Select Acquisition. See Note 2, "Business Combinations" and Note 17, "Derivative Instruments and Hedging Activities" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information.
- (3) The increase in Interest income and other income, net is primarily comprised of (i) a \$18 million increase related to interest income, mostly related to the proceeds from the U.S. Notes (2028/33) that were invested in money market funds between the bond issuance date and the Uni-Select Acquisition date, (ii) a \$5 million increase from funds received to settle an eminent domain matter in 2023, (iii) a \$3 million increase related to a reduction in our fair value adjustments for

equity investments not accounted for under the equity method compared to the prior year period and (iv) a \$2 million increase from the change in foreign currency gains and losses, partially offset by (v) individually insignificant decreases that had a \$3 million impact in the aggregate.

Provision for Income Taxes

Our effective income tax rate for the nine months ended September 30, 2023 was 25.9%, compared to 24.4% for the nine months ended September 30, 2022. The increase in the effective tax rate for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 is primarily attributable to: (i) 0.9% of unfavorable rate effects, including non-deductible transaction costs and negative impacts on foreign tax credit availability caused by Uni-Select related transaction activity and (ii) geographic distribution of income favoring higher rate jurisdictions in 2023. Discrete items had similar favorable effects in both years, with a 1% rate benefit in the prior year, primarily related to the sale of PGW in the second quarter of 2022, and in the current year, primarily related to the Uni-Select Acquisition foreign exchange forward contract gain.

See Note 20, "Income Taxes" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information.

Equity in Earnings of Unconsolidated Subsidiaries

Equity in earnings of unconsolidated subsidiaries for the nine months ended September 30, 2023 increased by \$1 million primarily related to an increase in year over year results in an immaterial investment in our European segment.

Foreign Currency Impact

We translate our statements of income at the average exchange rates in effect for the period. Relative to the rates used during the nine months ended September 30, 2022, the Czech koruna and the euro rate used to translate the 2023 statements of income increased by 5.3% and 1.8%, respectively, while the Canadian dollar and the pound sterling rate decreased by 4.6% and 1.0%, respectively. Realized and unrealized currency gains and losses (including the effects of hedge instruments) combined with the translation effect of the change in foreign currencies against the U.S. dollar had a net positive effect of \$0.18 on diluted earnings per share for the nine months ended September 30, 2023, mostly related to the \$49 million pretax gain on the foreign exchange forward contract related to the Uni-Select Acquisition.

Results of Operations—Segment Reporting

We have four reportable segments: Wholesale - North America, Europe, Specialty and Self Service.

We have presented the growth of our revenue and profitability in our operations on both an as reported and a constant currency basis. The constant currency presentation, which is a non-GAAP measure, excludes the impact of fluctuations in foreign currency exchange rates. We believe providing constant currency information provides valuable supplemental information regarding our growth and profitability, consistent with how we evaluate our performance, as this statistic removes the translation impact of exchange rate fluctuations, which are outside of our control and do not reflect our operational performance. Constant currency revenue and Segment EBITDA results are calculated by translating prior year revenue and Segment EBITDA in local currency using the current year's currency conversion rate. This non-GAAP financial measure has important limitations as an analytical tool and should not be considered in isolation or as a substitute for an analysis of our results as reported under GAAP. Our use of this term may vary from the use of similarly-titled measures by other issuers due to potential inconsistencies in the method of calculation and differences due to items subject to interpretation. In addition, not all companies that report revenue or profitability on a constant currency basis calculate such measures in the same manner as we do, and accordingly, our calculations are not necessarily comparable to similarly-named measures of other companies and may not be appropriate measures for performance relative to other companies.

The following table presents our financial performance, including third party revenue, total revenue and Segment EBITDA, by reportable segment for the periods indicated (in millions):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023	% of Total Segment Revenue	2022	% of Total Segment Revenue	2023	% of Total Segment Revenue	2022	% of Total Segment Revenue
Third Party Revenue								
Wholesale - North America	\$ 1,387		\$ 1,108		\$ 3,815		\$ 3,453	
Europe	1,584		1,380		4,777		4,345	
Specialty	456		452		1,294		1,424	
Self Service	141		164		479		571	
Total third party revenue	<u>\$ 3,568</u>		<u>\$ 3,104</u>		<u>\$ 10,365</u>		<u>\$ 9,793</u>	
Total Revenue								
Wholesale - North America	\$ 1,387		\$ 1,109		\$ 3,815		\$ 3,454	
Europe	1,584		1,380		4,777		4,345	
Specialty	457		452		1,297		1,426	
Self Service	141		164		479		571	
Eliminations	(1)		(1)		(3)		(3)	
Total revenue	<u>\$ 3,568</u>		<u>\$ 3,104</u>		<u>\$ 10,365</u>		<u>\$ 9,793</u>	
Segment EBITDA								
Wholesale - North America	\$ 236	17.0 %	\$ 216	19.4 %	\$ 736	19.3 %	\$ 648	18.7 %
Europe	147	9.3 %	155	11.3 %	486	10.2 %	446	10.3 %
Specialty	40	8.6 %	49	10.8 %	113	8.7 %	176	12.4 %
Self Service	(1)	(0.6)%	4	2.6 %	28	6.0 %	76	13.3 %

Note: In the table above, the percentages of total segment revenue may not recalculate due to rounding.

The key measure of segment profit or loss reviewed by our chief operating decision maker, our Chief Executive Officer, is Segment EBITDA. We use Segment EBITDA to compare profitability among the segments and evaluate business strategies. Segment EBITDA includes revenue and expenses that are controllable by the segment. Corporate general and administrative expenses are allocated to the segments based on usage, with shared expenses apportioned based on the segment's percentage of consolidated revenue. We calculate Segment EBITDA as Net income attributable to LKQ stockholders excluding discontinued operations; depreciation, amortization; interest; gains and losses on debt extinguishment; income tax expense; restructuring and transaction related expenses (which includes restructuring expenses recorded in Cost of goods sold); change in fair value of contingent consideration liabilities; other gains and losses related to acquisitions, equity method investments, or divestitures; equity in losses and earnings of unconsolidated subsidiaries; equity investment fair value adjustments; impairment charges; and direct impacts of the Ukraine/Russia conflict and related sanctions (including provisions for and subsequent adjustments to reserves for asset recoverability and expenditures to support our employees and their families). See Note 21, "Segment and Geographic Information" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a reconciliation of total Segment EBITDA to net income.

Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2022

Wholesale - North America

Third Party Revenue

The following table summarizes the changes in third party revenue by category in our Wholesale - North America segment (in millions):

Wholesale - North America	Three Months Ended September 30,		Percentage Change in Revenue			
	2023	2022	Organic	Acquisition and Divestiture	Foreign Exchange	Total Change
Parts & services revenue	\$ 1,312	\$ 1,026	4.1 % ⁽¹⁾	24.0 % ⁽³⁾	(0.2)%	28.0 %
Other revenue	75	82	(8.2)% ⁽²⁾	0.1 %	(0.1)%	(8.3)%
Total third party revenue	<u>\$ 1,387</u>	<u>\$ 1,108</u>	3.2 %	22.3 %	(0.2)%	25.3 %

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

- (1) Parts and services organic revenue increased 4.1% (5.8% on a per day basis) for the three months ended September 30, 2023 compared to the prior year period, primarily driven by a net volume increase and pricing initiatives which focused on offsetting inflation on input costs. Aftermarket collision parts volumes increased year over year due to reduced pressures on our supply chain and as a result of the continued rollout of State Farm's aftermarket parts program, which began on a trial basis in June 2022 and has subsequently been expanded.
- (2) Other organic revenue decreased 8.2%, or \$7 million, year over year primarily related to (i) a \$12 million decrease in revenue from precious metals (platinum, palladium, and rhodium) due to lower prices, partially offset by higher volumes, partially offset by (ii) a \$5 million increase in revenue from other scrap (e.g., aluminum) and cores due to higher prices and volumes, and (iii) a \$1 million increase in revenue from scrap steel.
- (3) Acquisition and divestiture revenue was a net increase of \$246 million, or 24.0%, primarily due to the acquisition of Uni-Select in the third quarter of 2023. See Note 2, "Business Combinations" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on the acquisition of Uni-Select.

Segment EBITDA

Segment EBITDA increased \$20 million, or 10.0%, in the three months ended September 30, 2023 compared to the prior year period, which includes a \$20 million impact related to the Uni-Select Acquisition in the third quarter of 2023 (Uni-Select will increase Segment EBITDA dollars but will dilute the Segment EBITDA percentage). We estimate that precious metals and scrap steel prices had a net unfavorable effect of \$7 million, or 0.4%, on Segment EBITDA margin relative to the comparable prior year period. The unfavorable impact of precious metals and inflationary pressures related to product cost were offset by lower freight costs, higher prices on parts, improved aftermarket volumes, and productivity initiatives.

The following table summarizes the changes in Segment EBITDA as a percentage of revenue in our Wholesale - North America segment:

Wholesale - North America	Percentage of Total Segment Revenue
Segment EBITDA for the three months ended September 30, 2022	19.4 %
Increase (decrease) due to:	
Uni-Select Acquisition	(1.8)% ⁽¹⁾
Change in gross margin	(0.6)% ⁽²⁾
Change in segment operating expenses	0.2 % ⁽³⁾
Change in other income and expenses, net	(0.2)% ⁽⁴⁾
Segment EBITDA for the three months ended September 30, 2023	<u>17.0 %</u>

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

- (1) The unfavorable impact related to the acquisition of Uni-Select in the third quarter of 2023 was primarily driven by (i) a 3.9% decrease in gross margin due to product mix as the paint, body, and equipment ("PBE") and maintenance parts lines have a lower gross margin structure than other wholesale product lines, partially offset by (ii) a favorable impact of 2.1% related to a decrease in overhead expenses as Uni-Select operates with lower overhead expenses than our other wholesale product lines.

- (2) The decrease in gross margin of 0.6% was primarily driven by (i) a 1.1% decrease primarily due to an increase in car costs, lower metals pricing and other factors, partially offset by (ii) a 0.5% benefit from lower inbound freight costs.
- (3) The decrease in segment operating expenses as a percentage of revenue primarily reflects a favorable impact of 0.2% from decreased freight, vehicle, and fuel costs.
- (4) The unfavorable impact in other income and expenses, net was primarily related to non-recurring insurance proceeds received from a matter in 2022.

Europe

Third Party Revenue

The following table summarizes the changes in third party revenue by category in our Europe segment (in millions):

Europe	Three Months Ended September 30,		Percentage Change in Revenue			
	2023	2022	Organic	Acquisition and Divestiture ⁽²⁾	Foreign Exchange ⁽³⁾	Total Change
Parts & services revenue	\$ 1,581	\$ 1,376	5.1 % ⁽¹⁾	1.9 %	7.8 %	14.8 %
Other revenue	3	4	(22.4)%	— %	4.2 %	(18.3)%
Total third party revenue	<u>\$ 1,584</u>	<u>\$ 1,380</u>	5.1 %	1.9 %	7.8 %	14.7 %

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

- (1) Parts and services organic revenue for the three months ended September 30, 2023 increased by 5.1% (6.2% on a per day basis), driven by volume growth across all geographies and, to a lesser extent, pricing initiatives to offset higher costs due to ongoing inflationary pressures. Revenue growth was negatively impacted by labor strikes in our German operations in the three months ended September 30, 2023. We expect revenue to be further impacted in the fourth quarter 2023 results due to additional strike activity.
- (2) Acquisition and divestiture revenue was a net increase of \$26 million, or 1.9%, primarily related to our acquisition of four wholesale businesses in 2023.
- (3) Exchange rates increased our revenue growth by \$108 million, or 7.8%, primarily due to the weaker U.S. dollar against the euro, pound sterling and Czech koruna for the three months ended September 30, 2023 relative to the prior year period.

Segment EBITDA

Segment EBITDA decreased \$8 million, or 5.4%, in the three months ended September 30, 2023 compared to the prior year period. On a constant currency basis (i.e., excluding translation impact), Segment EBITDA decreased by \$20 million, or 12.8%, compared to the prior year period. Refer to the Foreign Currency Impact discussion within the Results of Operations—Consolidated section above for further detail regarding foreign currency impact on our results for the three months ended September 30, 2023. In the three months ended September 30, 2023, Europe's results were negatively impacted by an \$11 million charge to settle a value-added tax issue in Italy related to prior years and a loss of revenue and associated margin in our German operations caused by labor strikes, which we estimate resulted in lower Segment EBITDA of \$8 million. There has been additional strike activity in October, which will impact the fourth quarter 2023 results.

The following table summarizes the changes in Segment EBITDA as a percentage of revenue in our Europe segment:

Europe	Percentage of Total Segment Revenue
Segment EBITDA for the three months ended September 30, 2022	11.3 %
Increase (decrease) due to:	
Change in gross margin	(1.4)% ⁽¹⁾
Change in segment operating expenses	(0.6)% ⁽²⁾
Segment EBITDA for the three months ended September 30, 2023	<u>9.3 %</u>

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

- (1) The decrease in gross margin was primarily attributable to difficult macro-economic conditions causing consumer price sensitivity in our Central and Eastern European regions.

- (2) The increase in segment operating expenses as a percentage of revenue reflects unfavorable impacts of (i) 0.7% from the settlement of a value-added tax issue in Italy related to prior years and (ii) unfavorable leverage effects of 0.4% caused by strike activity in Germany, partially offset by (iii) a favorable impact of 0.3% in facilities costs due to lower utilities costs than the prior year quarter and (iv) other individually immaterial factors representing a 0.2% favorable impact in the aggregate.

Specialty

Third Party Revenue

The following table summarizes the changes in third party revenue by category in our Specialty segment (in millions):

Specialty	Three Months Ended September 30,		Percentage Change in Revenue			
	2023	2022	Organic ⁽¹⁾	Acquisition and Divestiture ⁽²⁾	Foreign Exchange	Total Change
Parts & services revenue	\$ 456	\$ 452	(6.1)%	7.2 %	(0.2)%	0.9 %
Other revenue	—	—	— %	— %	— %	— %
Total third party revenue	<u>\$ 456</u>	<u>\$ 452</u>	<u>(6.1)%</u>	<u>7.2 %</u>	<u>(0.2)%</u>	<u>0.9 %</u>

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

- (1) Parts and services organic revenue for the three months ended September 30, 2023 decreased by 6.1% primarily due to demand softness in the recreational vehicle ("RV") product line, as RV unit retail sales and wholesale shipments have declined year over year.
- (2) Acquisition and divestiture revenue was a net increase of \$33 million, or 7.2%, primarily related to our acquisition of one Specialty business in 2023.

Segment EBITDA

Segment EBITDA decreased \$9 million, or 19.5%, in the three months ended September 30, 2023 compared to the prior year period primarily due to the organic revenue decline and decrease in the gross margin percentage as explained below.

The following table summarizes the changes in Segment EBITDA as a percentage of revenue in our Specialty segment:

Specialty	Percentage of Total Segment Revenue
Segment EBITDA for the three months ended September 30, 2022	10.8 %
Increase (decrease) due to:	
Change in gross margin	(3.0)% ⁽¹⁾
Change in segment operating expenses	0.8 % ⁽²⁾
Segment EBITDA for the three months ended September 30, 2023	<u>8.6 %</u>

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

- (1) The decrease in gross margin primarily was driven by (i) product channel mix toward lower margin auto and marine products, (ii) increased competitive pricing due to broader availability of inventory among competitors in the market and (iii) a negative 0.2% impact from the acquisition.
- (2) The decrease in segment operating expenses as a percentage of revenue was due to (i) a 0.3% decrease in personnel driven by restructuring activities; (ii) a 0.2% decrease in freight expenses which is mainly driven by the acquisition; and (iii) a 0.3% decrease in vehicle and fuel expenses mainly driven by lower fuel rates.

Self Service

Third Party Revenue

The following table summarizes the changes in third party revenue by category in our Self Service segment (in millions):

Self Service	Three Months Ended September 30,		Percentage Change in Revenue			
	2023	2022	Organic	Acquisition and Divestiture ⁽³⁾	Foreign Exchange	Total Change
Parts & services revenue	\$ 58	\$ 55	5.1 % ⁽¹⁾	— %	— %	5.1 %
Other revenue	83	109	(18.1)% ⁽²⁾	(6.4)%	— %	(24.4)%
Total third party revenue	<u>\$ 141</u>	<u>\$ 164</u>	(10.2)%	(4.2)%	— %	(14.4)%

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

- (1) Parts and services organic revenue increased 5.1% for the three months ended September 30, 2023 compared to the prior year period, primarily driven by pricing initiatives which focused on offsetting inflation on input costs resulting from greater competition for vehicles.
- (2) Other organic revenue decreased 18.1%, or \$19 million, year over year due to (i) a \$20 million decrease in revenue from precious metals (platinum, palladium, and rhodium) due to lower prices, (ii) a \$2 million decrease in revenue from scrap steel related to lower prices and slightly lower volumes, partially offset by (iii) a \$3 million increase in revenue from other scrap (including aluminum) and cores primarily due to higher prices, partially offset by lower volumes.
- (3) Acquisition and divestiture revenue was a decrease of \$7 million, or 4.2% due to the divestiture of a business in the third quarter of 2022.

Segment EBITDA

Segment EBITDA decreased \$5 million in the three months ended September 30, 2023 compared to the prior year period. The decrease is driven by the decline in revenue due to unfavorable movements in commodity prices compared to the prior year period. Decreases in precious metals prices contributed an estimated \$17 million decline in Segment EBITDA relative to the three months ended September 30, 2022. During the three months ended September 30, 2023, scrap steel prices had a \$6 million unfavorable impact on Segment EBITDA, compared to a \$16 million unfavorable impact during the three months ended September 30, 2022. The unfavorable impacts for the three months ended September 30, 2023 resulted from the decrease in scrap steel prices between the date we purchased a vehicle, which influences the price we pay for a vehicle, and the date we scrapped a vehicle, which influences the price we receive for scrapping a vehicle.

The following table summarizes the changes in Segment EBITDA as a percentage of revenue in our Self Service segment:

Self Service	Percentage of Total Segment Revenue
Segment EBITDA for the three months ended September 30, 2022	2.6 %
Increase (decrease) due to:	
Change in gross margin	0.5 % ⁽¹⁾
Change in segment operating expenses	(3.8)% ⁽²⁾
Change in other expense, net	0.1 %
Segment EBITDA for the three months ended September 30, 2023	<u>(0.6)%</u>

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

- (1) The increase in gross margin primarily reflects (i) the negative effect from metals movements in 2022 was more severe than in 2023 resulting in a 1.5% improvement year over year, partially offset by (ii) an unfavorable impact resulting from vehicle procurement costs decreasing at a lesser rate than commodity prices.
- (2) The increase in segment operating expenses as a percentage of revenue reflects (i) a negative leverage effect of 5.9% from decreases in metals revenue partially offset by (ii) other individually immaterial factors representing a 2.1% favorable impact in the aggregate.

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

Wholesale - North America

Third Party Revenue

The following table summarizes the changes in third party revenue by category in our Wholesale - North America segment (in millions):

Wholesale - North America	Nine Months Ended September 30,		Percentage Change in Revenue			
	2023	2022	Organic	Acquisition and Divestiture	Foreign Exchange	Total Change
Parts & services revenue	\$ 3,581	\$ 3,182	9.1 % ⁽¹⁾	3.7 % ⁽³⁾	(0.3)%	12.5 %
Other revenue	234	271	(13.2)% ⁽²⁾	— %	(0.3)%	(13.5)%
Total third party revenue	<u>\$ 3,815</u>	<u>\$ 3,453</u>	7.3 %	3.4 %	(0.3)%	10.5 %

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

- (1) Parts and services organic revenue increased 9.1% (9.6% on a per day basis) for the nine months ended September 30, 2023 compared to the prior year period, primarily driven by pricing initiatives which focused on offsetting inflation on input costs and a net volume increase. Aftermarket collision parts volumes increased year over year due to reduced pressures on our supply chain, with the improved aftermarket inventory availability contributing to a year over year decrease in recycled parts volumes. Aftermarket collision parts volumes also grew as a result of the continued rollout of State Farm's aftermarket parts program, which began on a trial basis in June 2022 and has subsequently been expanded.
- (2) Other organic revenue decreased 13.2%, or \$36 million, year over year primarily related to (i) a \$36 million decrease in revenue from precious metals (platinum, palladium, and rhodium) due to lower prices, partially offset by higher volumes, (ii) a \$3 million decrease in revenue from scrap steel related to lower prices, partially offset by higher volumes, partially offset by (iii) a \$2 million increase in revenue from other scrap (e.g., aluminum) and cores due to higher volumes, partially offset by lower prices.
- (3) Acquisition and divestiture revenue was a net increase of \$119 million, or 3.7%, primarily due to the acquisition of Uni-Select in the third quarter of 2023, partially offset by the divestiture of our PGW aftermarket glass business in the second quarter of 2022. See Note 2, "Business Combinations" and "Other Divestitures (Not Classified in Discontinued Operations)" in Note 3, "Discontinued Operations and Divestitures" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on the acquisition of Uni-Select and the divestiture of PGW, respectively.

Segment EBITDA

Segment EBITDA increased \$88 million, or 13.7%, in the nine months ended September 30, 2023 compared to the prior year period, which includes a \$20 million positive impact related to the acquisition of Uni-Select in the third quarter of 2023 (Uni-Select will increase Segment EBITDA dollars but will dilute the Segment EBITDA percentage) and a \$19 million negative year over year effect related to the PGW business, which we divested in the second quarter of 2022. The increase is attributable to lower freight costs, higher prices on parts, improved aftermarket volumes, and productivity initiatives helping to offset inflationary pressures related to product cost. We estimate that precious metals and scrap steel pricing had a net unfavorable effect of \$22 million, or 0.4%, on Segment EBITDA margin relative to the comparable prior year period.

The following table summarizes the changes in Segment EBITDA as a percentage of revenue in our Wholesale - North America segment:

Wholesale - North America	Percentage of Total Segment Revenue
Segment EBITDA for the nine months ended September 30, 2022	18.7 %
Increase (decrease) due to:	
Uni-Select Acquisition	(0.7)% ⁽¹⁾
Change in gross margin	1.0 % ⁽²⁾
Change in segment operating expenses	0.2 % ⁽³⁾
Change in other income and expenses, net	0.1 %
Segment EBITDA for the nine months ended September 30, 2023	19.3 %

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

- (1) The unfavorable impact related to the acquisition of Uni-Select in the third quarter of 2023 was primarily driven by (i) a 1.5% decrease in gross margin due to product mix as the PBE and maintenance parts lines have a lower gross margin structure than other wholesale product lines, partially offset by (ii) a favorable impact of 0.8% related to a decrease in overhead expenses as Uni-Select operates with lower overhead expenses than our other wholesale product lines.
- (2) The increase in gross margin of 1.0% was driven by (i) a 0.8% benefit from lower inbound freight costs, (ii) a 0.3% mix benefit resulting from the PGW divestiture in the second quarter of 2022, partially offset by (iii) a 0.1% net decrease from other factors.
- (3) The decrease in segment operating expenses as a percentage of revenue reflects the favorable impact of (i) 0.6% from decreased freight, vehicle, and fuel costs, (ii) other individually immaterial factors representing a 0.1% favorable impact in the aggregate, partially offset by (iii) 0.3% from higher professional fees and (iv) 0.2% from higher charitable contributions.

Europe

Third Party Revenue

The following table summarizes the changes in third party revenue by category in our Europe segment (in millions):

Europe	Nine Months Ended September 30,		Percentage Change in Revenue			
	2023	2022	Organic	Acquisition and Divestiture ⁽²⁾	Foreign Exchange ⁽³⁾	Total Change
Parts & services revenue	\$ 4,762	\$ 4,327	7.9 % ⁽¹⁾	1.2 %	1.0 %	10.0 %
Other revenue	15	18	(14.9)%	— %	(2.9)%	(17.8)%
Total third party revenue	<u>\$ 4,777</u>	<u>\$ 4,345</u>	7.8 %	1.2 %	1.0 %	9.9 %

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

- (1) Parts and services organic revenue for the nine months ended September 30, 2023 increased by 7.9% (8.1% on a per day basis), primarily driven by pricing initiatives across all geographies to offset increased costs resulting from inflationary pressures and to a lesser extent, higher volumes.
- (2) Acquisition and divestiture revenue was a net increase of \$50 million, or 1.2%, primarily related to our acquisition of seven wholesale businesses from the beginning of 2022 through the one-year anniversary of the acquisition dates.
- (3) Exchange rates increased our revenue growth by \$44 million, or 1.0%, primarily due to the weaker U.S. dollar against the euro and Czech koruna, partially offset by the pound sterling, for the nine months ended September 30, 2023 relative to the prior year period.

Segment EBITDA

Segment EBITDA increased \$40 million, or 8.9%, in the nine months ended September 30, 2023 compared to the prior year period. On a constant currency basis (i.e., excluding translation impact), Segment EBITDA increased by \$36 million, or 8.0%, compared to the prior year period. The increase in dollar terms is attributable to organic revenue growth of \$338 million and benefits from productivity initiatives. Refer to the Foreign Currency Impact discussion within the Results of Operations—Consolidated section above for further detail regarding foreign currency impact on our results for the nine months ended September 30, 2023.

The following table summarizes the changes in Segment EBITDA as a percentage of revenue in our Europe segment:

Europe	Percentage of Total Segment Revenue
Segment EBITDA for the nine months ended September 30, 2022	10.3 %
Increase (decrease) due to:	
Change in gross margin	(0.4)% ⁽¹⁾
Change in segment operating expenses	0.3 % ⁽²⁾
Segment EBITDA for the nine months ended September 30, 2023	10.2 %

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

- ⁽¹⁾ The decrease in gross margin was primarily attributable to difficult macro-economic conditions causing consumer price sensitivity in our Central and Eastern European regions, with the largest impact occurring in the third quarter.
- ⁽²⁾ The decrease in segment operating expenses as a percentage of revenue reflects favorable impacts of (i) 0.2% from personnel costs due to improved leverage on higher revenues and productivity initiatives and (ii) other individually immaterial factors representing a 0.3% favorable impact in the aggregate, partially offset by (iii) an unfavorable impact of 0.2% due to the settlement of a value-added tax issue in Italy.

Specialty

Third Party Revenue

The following table summarizes the changes in third party revenue by category in our Specialty segment (in millions):

Specialty	Nine Months Ended September 30,		Percentage Change in Revenue			
	2023	2022	Organic ⁽¹⁾	Acquisition and Divestiture ⁽²⁾	Foreign Exchange	Total Change
Parts & services revenue	\$ 1,294	\$ 1,424	(10.9)%	2.2 %	(0.4)%	(9.1)%
Other revenue	—	—	— %	— %	— %	— %
Total third party revenue	\$ 1,294	\$ 1,424	(10.9)%	2.2 %	(0.4)%	(9.1)%

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

- ⁽¹⁾ Parts and services organic revenue for the nine months ended September 30, 2023, decreased by 10.9% primarily due to demand softness in the RV product line, as RV unit retail sales and wholesale shipments have declined year over year.
- ⁽²⁾ Acquisition and divestiture revenue was a net increase of \$32 million, or 2.2%, primarily related to our acquisition of one Specialty business from the beginning of 2022 through the one-year anniversary of the acquisition date.

Segment EBITDA

Segment EBITDA decreased \$63 million, or 35.9%, in the nine months ended September 30, 2023 compared to the prior year period primarily due to the organic revenue decline and the negative effect of inflation on overhead expenses.

The following table summarizes the changes in Segment EBITDA as a percentage of revenue in our Specialty segment:

Specialty	Percentage of Total Segment Revenue
Segment EBITDA for the nine months ended September 30, 2022	12.4 %
Increase (decrease) due to:	
Change in gross margin	(3.3)% ⁽¹⁾
Change in segment operating expenses	(0.4)% ⁽²⁾
Segment EBITDA for the nine months ended September 30, 2023	8.7 %

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

- ⁽¹⁾ The decrease in gross margin primarily was driven by (i) product channel mix toward lower margin auto and marine products and (ii) increased competitive pricing due to broader availability of inventory among competitors in the market.

- (2) The increase in segment operating expenses as a percentage of revenue was due to a negative leverage effect as operating expenses decreased at a lower rate than the decline in organic revenue. The major contributing expense category was facility expenses (0.2%) with all other operating expense categories in the aggregate contributing to the remaining 0.2%.

Self Service

Third Party Revenue

The following table summarizes the changes in third party revenue by category in our Self Service segment (in millions):

Self Service	Nine Months Ended September 30,		Percentage Change in Revenue			
	2023	2022	Organic	Acquisition and Divestiture ⁽³⁾	Foreign Exchange	Total Change
Parts & services revenue	\$ 181	\$ 172	4.9 % ⁽¹⁾	— %	— %	4.9 %
Other revenue	298	399	(17.9)% ⁽²⁾	(7.4)%	— %	(25.3)%
Total third party revenue	<u>\$ 479</u>	<u>\$ 571</u>	<u>(11.0)%</u>	<u>(5.2)%</u>	<u>— %</u>	<u>(16.2)%</u>

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

- (1) Parts and services organic revenue increased 4.9% for the nine months ended September 30, 2023 compared to the prior year period, primarily driven by pricing initiatives which focused on offsetting inflation on input costs resulting from greater competition for vehicles.
- (2) Other organic revenue decreased 17.9%, or \$71 million, year over year due to (i) a \$58 million decrease in revenue from precious metals (platinum, palladium, and rhodium) due to lower prices, partially offset by higher volumes, (ii) a \$19 million decrease in revenue from scrap steel related to lower prices and lower volumes, partially offset by (iii) a \$6 million increase in revenue from other scrap (including aluminum) and cores primarily related to higher volumes, partially offset by lower prices.
- (3) Acquisition and divestiture revenue was a decrease of \$30 million, or 5.2% due to the divestiture of a business in the third quarter of 2022.

Segment EBITDA

Segment EBITDA decreased \$48 million, or 62.5%, in the nine months ended September 30, 2023 compared to the prior year period. The decrease is driven by the decline in revenue due to unfavorable movements in commodity prices compared to the prior year period and gross margin compression as vehicle procurement costs have decreased at a lesser rate than commodity prices. In addition, decreases in precious metals prices contributed an estimated \$47 million decline in Segment EBITDA relative to the nine months ended September 30, 2022. Net sequential changes in scrap steel prices partially offset the impact of the decline in precious metals prices. During the nine months ended September 30, 2023, scrap steel prices had a \$3 million favorable impact on Segment EBITDA, compared to an \$11 million unfavorable impact during the nine months ended September 30, 2022. The favorable impacts for the nine months ended September 30, 2023 resulted from the increase in scrap steel prices between the date we purchased a vehicle, which influences the price we pay for a vehicle, and the date we scrapped a vehicle, which influences the price we receive for scrapping a vehicle.

The following table summarizes the changes in Segment EBITDA as a percentage of revenue in our Self Service segment:

Self Service	Percentage of Total Segment Revenue
Segment EBITDA for the nine months ended September 30, 2022	13.3 %
Increase (decrease) due to:	
Change in gross margin	(2.6)% ⁽¹⁾
Change in segment operating expenses	(4.7)% ⁽²⁾
Segment EBITDA for the nine months ended September 30, 2023	<u>6.0 %</u>

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

- (1) The decrease in gross margin reflects an unfavorable impact resulting from vehicle procurement costs decreasing at a lesser rate than commodity prices.
- (2) The increase in segment operating expenses as a percentage of revenue reflects (i) a negative leverage effect of 5.5% from decreases in metals revenue, partially offset by (ii) other individually immaterial factors representing a 0.8% favorable impact in the aggregate.

Liquidity and Capital Resources

The following table summarizes liquidity data as of the dates indicated (in millions):

	September 30, 2023	Adjusted ⁽⁴⁾ December 31, 2022	December 31, 2022
Cash and cash equivalents	\$ 401	\$ 278	\$ 278
Total debt	4,369 ⁽³⁾	2,662 ⁽⁵⁾	2,662 ⁽³⁾
Current maturities ⁽¹⁾	574	34	34
Capacity under credit facilities ⁽²⁾	2,000	2,000	3,150
Availability under credit facilities ⁽²⁾	845	645	1,295
Total liquidity (cash and cash equivalents plus availability under credit facilities)	1,246	923	1,573

⁽¹⁾ Debt amounts reflect the gross values to be repaid in the next 12 months (excluding immaterial amounts of debt issuance costs as of September 30, 2023 and December 31, 2022).

⁽²⁾ Capacity under credit facilities includes our revolving credit facilities, and availability under credit facilities is reduced by our outstanding letters of credit.

⁽³⁾ Debt amounts reflect the gross values to be repaid (excluding debt issuance costs and unamortized bond discount of \$32 million and \$6 million as of September 30, 2023 and December 31, 2022, respectively).

⁽⁴⁾ Amounts presented represent the termination of the Prior Credit Agreement and inclusion of the Senior Unsecured Credit Agreement as if both were in effect as of December 31, 2022. See Note 16, "Long-Term Obligations" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information.

⁽⁵⁾ Debt amount presented above reflects the gross values to be repaid (excluding debt issuance costs of \$13 million as of December 31, 2022).

We assess our liquidity in terms of our ability to fund our operations and provide for expansion through both internal development and acquisitions. Our primary sources of liquidity are cash flows from operations and our credit facilities. We utilize our cash flows from operations to fund working capital and capital expenditures, with the excess amounts going towards funding acquisitions, paying down outstanding debt, paying dividends or repurchasing our common stock. As we have pursued acquisitions as part of our historical growth strategy, our cash flows from operations have not always been sufficient to cover our investing activities. To fund our acquisitions, we have accessed various forms of debt financing, including revolving credit facilities and senior notes. We currently believe we have sufficient access to capital markets to support our future growth objectives.

As of September 30, 2023, we had debt outstanding and additional available sources of financing as follows:

- Senior unsecured credit facilities, composed of term loans totaling \$500 million (all of which was outstanding at September 30, 2023) and \$2,000 million in available revolving credit (\$1,046 million outstanding at September 30, 2023), bearing interest at variable rates, with availability reduced by \$109 million of amounts outstanding under letters of credit;
- CAD Note totaling \$516 million (CAD 700 million), maturing in July 2026 and bearing interest at variable rates;
- U.S. Notes (2028) totaling \$800 million, maturing in June 2028 and bearing interest at a 5.75% fixed rate;
- U.S. Notes (2033) totaling \$600 million, maturing in June 2033 and bearing interest at a 6.25% fixed rate;
- Euro Notes (2024) totaling \$529 million (€500 million), maturing in April 2024 and bearing interest at a 3.875% fixed rate; and
- Euro Notes (2028) totaling \$264 million (€250 million), maturing in April 2028 and bearing interest at a 4.125% fixed rate.

We had approximately \$845 million available under our credit facilities in place as of September 30, 2023. Combined with \$401 million of cash and cash equivalents at September 30, 2023, we had approximately \$1,246 million in available liquidity, a decrease of \$327 million from our available liquidity as of December 31, 2022, primarily as a result of reducing our overall credit facility capacity by \$650 million after entering into the Senior Unsecured Credit Agreement.

The enterprise value for the Uni-Select Acquisition was approximately CAD 2.8 billion (\$2.1 billion), which was financed with the gross proceeds from the issuance of senior unsecured notes of \$1,400 million, CAD Note of CAD 700 million, and borrowings under our revolving credit facility and cash on hand of approximately \$150 million and \$50 million, respectively.

We believe that our current liquidity, cash expected to be generated by operating activities in future periods and access to capital markets will be sufficient to meet our current operating and capital requirements. However, as noted, we have accessed additional financing sources to fund the Uni-Select transaction. Our capital allocation strategy includes spending to support growth driven capital projects, complete synergistic acquisitions, and return stockholder value through the payment of dividends and repurchasing shares of our common stock.

A summary of the dividend activity for our common stock for the nine months ended September 30, 2023 is as follows:

Dividend Amount	Declaration Date	Record Date	Payment Date
\$0.275	February 21, 2023	March 16, 2023	March 30, 2023
\$0.275	April 25, 2023	May 18, 2023	June 1, 2023
\$0.275	July 25, 2023	August 17, 2023	August 31, 2023

On October 24, 2023, our Board of Directors declared a quarterly cash dividend of \$0.30 per share of common stock, payable on November 30, 2023, to stockholders of record at the close of business on November 16, 2023.

We believe that our future cash flow generation will permit us to continue paying dividends in future periods; however, the timing, amount and frequency of such future dividends will be subject to approval by our Board of Directors, and based on considerations of capital availability, and various other factors, many of which are outside of our control.

With \$1,246 million of total liquidity as of September 30, 2023 and \$574 million of current maturities, we have access to funds to meet our near term commitments. Our current maturities include the 3.875% €500 million Euro Notes (2024) due on April 1, 2024, which we intend to refinance on or before the scheduled maturity. We have a surplus of current assets over current liabilities, which further reduces the risk of short-term cash shortfalls.

Our Senior Unsecured Credit Agreement and our CAD Note both include two financial maintenance covenants: a maximum total leverage ratio and minimum interest coverage ratio. The terms maximum total leverage ratio and minimum interest coverage ratio are specifically calculated per both the Senior Unsecured Credit Agreement and CAD Note, and differ in specified ways from comparable GAAP or common usage terms. We were in compliance with all applicable covenants under both our Senior Unsecured Credit Agreement and CAD Note as of September 30, 2023. The required debt covenants per both the Senior Unsecured Credit Agreement and CAD Note and our actual ratios with respect to those covenants are as follows as of September 30, 2023:

	Covenant Level	Ratio Achieved as of September 30, 2023
Maximum total leverage ratio	4.00 : 1.00	2.3
Minimum interest coverage ratio	3.00 : 1.00	7.4

The total leverage ratio increased from 1.5 as of December 31, 2022 as we added debt from the U.S. Notes (2028/33) and the CAD Note in the second and third quarters of 2023. The spread applied to the interest rate on our credit facility borrowings increased in the third quarter as a result of the total leverage ratio rising above 2.0.

The indentures relating to our U.S. Notes and Euro Notes do not include financial maintenance covenants, and the indentures will not restrict our ability to draw funds under the Senior Unsecured Credit Agreement. The indentures do not prohibit amendments to the financial covenants under the credit facility as needed.

While we believe that we have adequate capacity under our existing credit facilities to finance our current operations, from time to time we may need to raise additional funds through public or private financing, strategic relationships or modification of our existing credit facilities to finance additional investments or to refinance existing debt obligations. There can be no assurance that additional funding, or refinancing of our credit facilities, if needed, will be available on terms attractive to us, or at all. Furthermore, any additional equity financing may be dilutive to stockholders, and debt financing, if available, may involve restrictive covenants or higher interest costs. Our failure to raise capital if and when needed could have a material adverse impact on our business, operating results, and financial condition.

As part of our effort to improve our operating cash flows, we may negotiate payment term extensions with suppliers. These efforts are supported by our supply chain finance programs. See Note 15, "Supply Chain Financing" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for information related to our supply chain financing arrangements.

We hold interest rate swaps to hedge the variable rates on a portion of our credit agreement borrowings. After giving effect to these contracts, the weighted average interest rate on borrowings outstanding under our Senior Unsecured Credit Agreement was 5.9% at September 30, 2023. Including our senior notes and CAD Note, our overall weighted average interest rate on borrowings was 5.6% at September 30, 2023. Under the Senior Unsecured Credit Agreement, our borrowings bear interest at Secured Overnight Financing Rate (i.e. SOFR) plus the applicable spread or other risk-free interest rates that are applicable for the specified currency plus a spread. Under the CAD Note, the interest rate may be (i) a forward-looking term rate based on the Canadian Dollar Offer Rate for an interest period chosen by the Company of one or three months or (ii) the Canadian Prime Rate (as defined in the CAD Note), plus in each case a spread based on the Company's debt rating and total leverage ratio. See Note 16, "Long-Term Obligations" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for information related to our borrowings and related interest. The interest rate swaps are described in Note 17, "Derivative Instruments and Hedging Activities" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

We had outstanding credit agreement borrowings (including both term loans and revolving credit facilities) of \$2,062 million and \$1,786 million at September 30, 2023 and December 31, 2022, respectively. Of these amounts, there were no current maturities at September 30, 2023 or December 31, 2022.

The scheduled maturities of long-term obligations outstanding at September 30, 2023 are as follows (in millions):

	Amount
Three months ending December 31, 2023 ⁽¹⁾	\$ 40
Years ending December 31:	
2024	554
2025	20
2026	1,024
2027	7
Thereafter	2,724
Total debt ⁽²⁾	<u>\$ 4,369</u>

⁽¹⁾ Long-term obligations maturing by December 31, 2023 include \$30 million of short-term debt that may be extended beyond the current year ending December 31, 2023.

⁽²⁾ The total debt amounts presented above reflect the gross values to be repaid (excluding debt issuance costs and unamortized bond discount of \$32 million as of September 30, 2023).

As of September 30, 2023, the Company had cash and cash equivalents of \$401 million, of which \$291 million was held by foreign subsidiaries. In general, it is our practice and intention to permanently reinvest the undistributed earnings of our foreign subsidiaries. We believe that we have sufficient cash flow and liquidity to meet our financial obligations in the U.S. without repatriating our foreign earnings. We may, from time to time, choose to selectively repatriate foreign earnings if doing so supports our financing or liquidity objectives. Distributions of dividends from our foreign subsidiaries, if any, would be generally exempt from further U.S. taxation, either as a result of the 100% participation exemption under the Tax Cuts and Jobs Act enacted in 2017, or due to the previous taxation of foreign earnings under the transition tax and the Global Intangible Low-Taxed Income regime.

The procurement of inventory is the largest operating use of our funds. We normally pay for aftermarket product purchases on standard payment terms or at the time of shipment, depending on the manufacturer and the negotiated payment terms. We normally pay for salvage vehicles acquired at salvage auctions and under direct procurement arrangements at the time that we take possession of the vehicles.

The following table sets forth a summary of our aftermarket and manufactured inventory procurement for the three and nine months ended September 30, 2023 and 2022 (in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Change	2023	2022	Change
Wholesale - North America	\$ 423	\$ 288	\$ 135	\$ 959	\$ 907	\$ 52 ⁽¹⁾
Europe	930	829	101	2,764	2,708	56 ⁽²⁾
Specialty	356	322	34	916	1,031	(115) ⁽³⁾
Total	<u>\$ 1,709</u>	<u>\$ 1,439</u>	<u>\$ 270</u>	<u>\$ 4,639</u>	<u>\$ 4,646</u>	<u>\$ (7)</u>

⁽¹⁾ Inventory purchases across the Wholesale - North America segment increased in the nine months ended September 30, 2023 compared to the prior year period primarily due to a \$170 million increase attributable to inventory purchases at Uni-Select from the date of acquisition through September 30, 2023, partially offset by higher purchasing levels in the prior year due to restocking efforts to rebuild inventory levels.

⁽²⁾ The increase in inventory purchases in our Europe segment included an increase of \$27 million attributable to the increase in the value of the euro, partially offset by a decrease in the value of the pound sterling in the nine months ended September 30, 2023 compared to the prior year period.

⁽³⁾ The decrease in inventory purchases in the Specialty segment compared to the prior year period was primarily due to matching inventory levels with demand.

The following table sets forth a summary of our global wholesale salvage and self service procurement for the three and nine months ended September 30, 2023 and 2022 (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	% Change	2023	2022	% Change
Wholesale - North America salvage vehicles	60	63	(4.8)%	189	188	0.5 %
Europe wholesale salvage vehicles	7	7	— %	22	23	(4.3)%
Self Service salvage vehicles	117	122	(4.1)%	397	396	0.3 %

The following table summarizes the components of the year over year changes in cash provided by operating activities (in millions):

	Operating Cash
Net cash provided by operating activities for the nine months ended September 30, 2022	\$ 1,010
Increase (decrease) due to:	
Working capital accounts: ⁽¹⁾	
Receivables	(36)
Inventories	477
Accounts payable	(256)
Other operating activities	(51) ⁽²⁾
Net cash provided by operating activities for the nine months ended September 30, 2023	<u>\$ 1,144</u>

⁽¹⁾ Cash flows related to our primary working capital accounts can be volatile as the purchases, payments and collections can be timed differently from period to period.

- Receivables was a \$36 million greater outflow in 2022 primarily due to an increase in organic revenue in 2023 compared to 2022, which translated to higher receivables balances and to larger net outflows in our Europe segment of \$36 million.
- Inventories represented \$477 million in incremental cash inflows in the first nine months of 2023 compared to the same period of 2022, including \$301 million in our Europe segment and \$107 million in our Wholesale - North America segment, both due to higher purchasing levels in the prior period due to restocking efforts to rebuild inventory levels and easing of supply chain constraints, and \$69 million in our Specialty segment inventory due to decreasing inventory purchasing levels to align with softening demand.

- Accounts payable produced \$256 million in lower cash inflows in the first nine months of 2023 compared to the same period of 2022 on a consolidated basis. This was primarily attributable to lower cash inflows in our Wholesale - North America segment of \$256 million (partly related to accelerated vendor payments in late 2021 to ensure priority access to inventory) and in our Europe segment of \$21 million primarily attributable to increased inventory purchases in the prior year as noted above which were in accounts payable at the end of December 2022, partially offset by our Specialty segment which contributed a \$21 million lower cash outflow.
- (2) Primarily reflects the aggregate effect of higher interest payments (primarily due to higher interest rates) during the nine months ended September 30, 2023 compared to the same period of 2022.

For the nine months ended September 30, 2023, net cash used in investing activities totaled \$2,389 million compared to net cash provided by investing activities totaled \$244 million for the same period in 2022. We invested \$2,199 million and \$4 million of cash in business acquisitions during the nine months ended September 30, 2023 and 2022, respectively. Proceeds from the disposal of businesses (primarily PGW) were \$399 million during the nine months ended September 30, 2022 (no such proceeds were received in 2023). Property, plant and equipment purchases were \$233 million in the nine months ended September 30, 2023 compared to \$148 million in the prior year period. During the nine months ended September 30, 2023, we settled our foreign exchange forward contracts with the counterparties for \$49 million due primarily to strengthening in the Canadian exchange rate relative to the contract rates.

The following table reconciles Net Cash Provided by Operating Activities to Free Cash Flow (in millions):

	Nine Months Ended September 30,	
	2023	2022
Net cash provided by operating activities	\$ 1,144	\$ 1,010
Less: purchases of property, plant and equipment	233	148
Free cash flow	<u>\$ 911</u>	<u>\$ 862</u>

For the nine months ended September 30, 2023, net cash provided by financing activities totaled \$1,391 million compared to net cash used in financing activities of \$1,217 million for the same period in 2022. The increase is primarily due to proceeds (net of unamortized bond discount) of \$1,394 million from the issuance of the U.S. Notes (2028/33), decreases in repurchases of common stock of \$864 million, and net borrowings of \$282 million for the nine months ended September 30, 2023 (including proceeds from the CAD Note of \$531 million) compared to net repayments on our debt of \$119 million for the same period of 2022. Please refer to "Unregistered Sales of Equity Securities and Use of Proceeds" in Part II, Item 2 of this Quarterly Report on Form 10-Q for additional information on repurchases of common stock.

We intend to continue to evaluate markets for potential growth through the internal development of distribution centers, processing and sales facilities, and warehouses, through further integration of our facilities, and through selected business acquisitions. Our future liquidity and capital requirements will depend upon numerous factors, including the costs and timing of our internal development efforts and the success of those efforts.

Summarized Guarantor Financial Information

On May 24, 2023, we completed an offering of \$1,400 million aggregate principal amount of senior unsecured notes. This offering is guaranteed on a senior, unsecured basis by certain of our subsidiaries (each, a "subsidiary guarantor" and, together with LKQ, the "Obligor Group"), which are listed in Exhibit 22.1 on the Company's Registration Statement on Form S-4 filed with the SEC on September 1, 2023. The guarantees are full and unconditional, joint and several, and subject to certain conditions for release. See Note 16, "Long-Term Obligations" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for information related to this offering.

Holders of the notes have a direct claim only against the Obligor Group. The following summarized financial information is presented for the Obligor Group on a combined basis after elimination of intercompany transactions and balances within the Obligor Group and equity in the earnings from and investments in any non-guarantor subsidiary.

Summarized Statements of Income (in millions)

	Nine Months Ended September 30, 2023	Fiscal Year Ended December 31, 2022
Revenue	\$ 5,067	\$ 6,762
Cost of goods sold	2,940	3,911
Gross margin ⁽¹⁾	2,127	2,851
Income from continuing operations	480	811
Net income	\$ 476	\$ 816

⁽¹⁾ Guarantor subsidiaries recorded \$41 million and \$46 million of net sales to and \$154 million and \$148 million of purchases from non-guarantor subsidiaries for the nine months ended September 30, 2023 and fiscal year ended December 31, 2022, respectively.

Summarized Balance Sheets (in millions)

	September 30, 2023	December 31, 2022
Current assets	\$ 1,865	\$ 1,845
Noncurrent assets	4,384	3,797
Current liabilities	818	825
Noncurrent liabilities	4,025	2,001

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks arising from adverse changes in:

- foreign exchange rates;
- interest rates;
- commodity prices; and
- inflation.

Foreign Exchange Rates

Foreign currency fluctuations may impact the financial results we report for the portions of our business that operate in functional currencies other than the U.S. dollar. Our operations outside of the U.S. represented 50.5% and 48.2% of our revenue during the nine months ended September 30, 2023 and the year ended December 31, 2022, respectively. An increase or decrease in the strength of the U.S. dollar against these currencies by 10% would result in a 5.1% change in our consolidated revenue and a 3.8% change in our operating income for the nine months ended September 30, 2023. See our Results of Operations discussion in Part I, Item 2 of this Quarterly Report on Form 10-Q for additional information regarding the impact of fluctuations in exchange rates on our year over year results.

Additionally, we are exposed to foreign currency fluctuations with respect to the purchase of aftermarket products from foreign countries, primarily in Europe and Asia. To the extent that our inventory purchases are not denominated in the functional currency of the purchasing location, we are exposed to exchange rate fluctuations. In several of our operations, we purchase inventory from manufacturers in Taiwan in U.S. dollars, which exposes us to fluctuations in the relationship between the local functional currency and the U.S. dollar, as well as fluctuations between the U.S. dollar and the Taiwan dollar. We hedge our exposure to foreign currency fluctuations related to a portion of inventory purchases in our Europe operations, but the notional amount and fair value of these foreign currency forward contracts at September 30, 2023 were immaterial. We do not currently attempt to hedge foreign currency exposure related to our foreign currency denominated inventory purchases in our Wholesale - North America operations, and we may not be able to pass on any resulting price increases to our customers.

To the extent that we are exposed to foreign currency fluctuations related to non-functional currency denominated transactions, we may hedge the exposure through the use of foreign currency forward contracts. In March 2023, we entered into foreign currency forward contracts related to the Uni-Select Acquisition. These contracts were settled in July 2023 ahead of closing of the Uni-Select Acquisition. See Note 2, "Business Combinations" and Note 17, "Derivative Instruments and Hedging Activities" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information.

Other than with respect to a portion of our foreign currency denominated inventory purchases and, from time to time, certain financing transactions, we do not hold derivative contracts to hedge foreign currency risk. Our net investment in foreign operations is partially hedged by the foreign currency denominated borrowings we use to fund foreign acquisitions; however, our ability to use foreign currency denominated borrowings to finance our foreign operations may be limited based on local tax laws. We have elected not to hedge the foreign currency risk related to the interest payments on foreign third party borrowings as we generate cash flows in the local currencies that can be used to fund debt payments. As of September 30, 2023, we had outstanding borrowings of €500 million under our Euro Notes (2024) and €250 million under our Euro Notes (2028), CAD 700 million under our CAD Note, and €441 million and Swedish Krona ("SEK") 60 million under our revolving credit facilities. As of December 31, 2022, we had outstanding borrowings of €500 million under our Euro Notes (2024) and €250 million under our Euro Notes (2028), and €748 million and SEK 75 million under our revolving credit facilities.

Interest Rates

Our results of operations are exposed to changes in interest rates primarily with respect to borrowings under our credit facilities, where interest rates are tied to SOFR, prime rate, Canadian Dollar Offered Rate, Euro Interbank Offered Rate, SONIA, or Swiss Average Rate Overnight. Therefore, we implemented a policy to manage our exposure to variable interest rates on a portion of our outstanding variable rate debt instruments through the use of interest rate swap contracts. These contracts converted a portion of our variable rate debt to fixed rate debt, matching the currency, effective dates and maturity dates to specific debt instruments. We designated our interest rate swap contracts as cash flow hedges, and net interest payments or receipts from interest rate swap contracts are included as adjustments to interest expense.

We had none of our variable rate debt under our credit facilities at fixed rates at December 31, 2022. However, in February 2023, we entered into two sets of interest rate swap agreements to hedge the variable rates on a portion of our credit agreement borrowings. See Note 16, "Long-Term Obligations" and Note 17, "Derivative Instruments and Hedging Activities" to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information.

At September 30, 2023, we had approximately \$1,361 million of variable rate debt that was not hedged. Using sensitivity analysis, a 100 basis point movement in interest rates would change interest expense by \$14 million over the next twelve months.

Commodity Prices

We are exposed to market risk related to price fluctuations in scrap metal and other metals (including precious metals, such as platinum, palladium, and rhodium, contained in some recycled parts, such as catalytic converters). Market prices of these metals affect the amount that we pay for our inventory and the revenue that we generate from sales of these metals. As both our revenue and costs are affected by the price fluctuations, we have a natural hedge against the changes. However, there is typically a lag between the effect on our revenue from metal price fluctuations and inventory cost changes, and there is no guarantee that the vehicle costs will decrease or increase at the same rate as the metals prices. Therefore, we can experience positive or negative gross margin effects in periods of rising or falling metals prices, particularly when such prices move rapidly. Additionally, if market prices were to change at a higher or lower rate than our vehicle acquisition costs, we could experience a positive or negative effect on our operating margin. The average of scrap metal prices for the three months ended September 30, 2023 decreased by 14% over the average for the second quarter of 2023. The average prices of rhodium and palladium decreased by 72% and 41%, respectively, while platinum increased by 10% for the three months ended September 30, 2023 compared to the average prices for the three months ended September 30, 2022.

Inflation

We are exposed to market risks related to inflation in product, labor, shipping, freight and general overhead costs. In 2022, and continuing into 2023, inflation increased to rates beyond recent history, and we experienced rising costs. We adjusted our prices and drove productivity initiatives to mitigate the inflationary effects. If these pressures continue or increase in severity, we may not be able to fully offset such higher costs through price increases and productivity initiatives. Inflationary pressures in the future may have an adverse effect on our ability to maintain current levels of gross margin and SG&A expenses as a percentage of net revenue if the selling prices of our products do not increase with these increased costs, we cannot identify cost efficiencies, or the higher prices impact demand.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of September 30, 2023, the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was carried out under the supervision and with the participation of LKQ Corporation's management, including our Chief Executive Officer and our Chief Financial Officer, of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective in providing reasonable assurance that information we are required to disclose in this Quarterly Report on Form 10-Q has been recorded, processed, summarized and reported as of the end of the period covered by this Quarterly Report on Form 10-Q. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file under the Securities Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

As noted in Note 2, "Business Combinations" to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, we completed our acquisition of Uni-Select during the quarter ended September 30, 2023. As of September 30, 2023, we remain in the process of integrating Uni-Select into our systems and control environment. We believe that we have taken the necessary steps to monitor and maintain appropriate internal control over financial reporting during this integration. Other than the change in internal control resulting from the acquisition of Uni-Select on August 1, 2023, there were no changes in our internal control over financial reporting during the quarter ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

In April 2019, Plastique Royal Inc., a subsidiary of Uni-Select, received an Environment Protection Compliance Order (“EPCO”) from the Environment and Climate Change Canada (“ECCC”) under the Canadian Environmental Protection Act, 1999, alleging that certain products sold by Plastique Royal had volatile organic compound (VOC) concentration that exceeded the limit set out in the applicable environmental regulations. The ECCC also alleges that Plastique Royal Inc. failed to comply with the EPCO. Plastique Royal Inc. is currently attempting to resolve the matter with the ECCC.

In addition, we are from time to time subject to various claims and lawsuits incidental to our business. In the opinion of management, currently outstanding claims and suits will not, individually or in the aggregate, have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors

Our operations and financial results are subject to various risks and uncertainties that could adversely affect our business, financial condition and results of operations, and the trading price of our common stock. Please refer to our 2022 Form 10-K for information concerning risks and uncertainties that could negatively impact us.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Our Board of Directors has authorized a stock repurchase program under which we are able to purchase our common stock from time to time. Repurchases under the program may be made in the open market or in privately negotiated transactions, with the amount and timing of repurchases depending on market conditions and corporate needs. The repurchase program does not obligate us to acquire any specific number of shares and may be suspended or discontinued at any time. Our current program authorization extends through October 25, 2025 and has approximately \$1,106 million of program authorized spend remaining as of September 30, 2023. We did not repurchase any shares during the three months ended September 30, 2023.

Item 5. Other Information

Securities Trading Plans of Directors and Executive Officers

During the fiscal quarter ended September 30, 2023, none of the Company’s directors or executive officers adopted, modified or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any “non-Rule 10b5-1 trading arrangement.”

Item 6. Exhibits

Exhibit	Description
<u>31.1</u>	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>31.2</u>	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>32.1</u>	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
<u>32.2</u>	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on October 27, 2023.

LKQ CORPORATION

/s/ Rick Galloway

Rick Galloway
Senior Vice President and Chief Financial Officer
(As duly authorized officer and Principal Financial Officer)

/s/ Michael S. Clark

Michael S. Clark
Vice President - Finance and Controller
(As duly authorized officer and Principal Accounting Officer)