

# LKQ Corporation Announces Results for First Quarter 2020

APRIL 30, 2020

- **First quarter 2020 revenue of \$3.0 billion (down 3.2% year-over-year)**
- **Parts and services organic revenue declined 3.5% (4.7% on a per day basis)**
- **Net income<sup>1</sup> attributable to LKQ stockholders of \$146 million (up 49%); adjusted net income of \$176 million (flat compared to the prior year)**
- **Diluted EPS attributable to LKQ stockholders of \$0.48; adjusted diluted EPS of \$0.57**
- **Operating cash flow of \$195 million (up 10%); free cash flow of \$150 million (up 21%)**
- **Reduced borrowings by \$230 million**
- **Implemented targeted cost actions contributing to potential annualized savings run rate of over \$1.0 billion**
- **Approximately \$1.9 billion of liquidity as of March 31, 2020**

CHICAGO, April 30, 2020 (GLOBE NEWSWIRE) -- LKQ Corporation (Nasdaq: LKQ) today announced results for the first quarter ended March 31, 2020. The Company also provided an update on the impact of the coronavirus ("COVID-19") pandemic on its business and its response designed to mitigate the impact.

## COVID-19 Update

"As the COVID-19 pandemic spread rapidly across the globe during the first quarter, our number one priority was, and continues to be, the health and safety of our employees, customers, vendor partners and the communities where we operate. Our businesses got off to an excellent start in January and February, carrying the strong momentum from 2019 on all fronts and reinforcing our key priorities of profitable revenue growth, accretive margins and cash flow generation. Through February, each of our segments was in line with or ahead of our revenue and profit expectations. As the restrictions on movement of people were imposed resulting in the decline of demand for our parts across all business segments, our financial results during the second half of March deteriorated. This reduced level of demand has continued, with April revenue down approximately 40% compared to the prior year, significantly impacting our near-term financial results. We anticipate a gradual improvement in revenue and profitability as governments around the globe begin the process of lifting the restrictions on mobility and opening their economies," stated Dominick Zarcone, President and Chief Executive Officer of LKQ Corporation.

Mr. Zarcone further commented, "To help mitigate the business disruption caused by the COVID-19 pandemic, and to position LKQ for earnings growth when the U.S. and European economies rebound, we have taken decisive action and implemented comprehensive cost reduction plans throughout the enterprise, including substantial staffing adjustments. This focus on our cost structure and the variable nature of

certain expenses has resulted in a potential annualized run-rate savings of more than \$1 billion. As market conditions improve, we look forward to bringing our people back, so we can both fulfill the anticipated increase in demand and continue to provide industry leading levels of customer service.”

<sup>1</sup> References to Net income and Diluted earnings per share, and the corresponding adjusted figures, in this release reflect amounts from continuing operations attributable to LKQ stockholders.

On March 26, 2020, the Company filed a current report on Form 8-K ([link to 8-K](#)) withdrawing its financial guidance previously issued on February 20, 2020 due to the continued uncertainties from the impact of the COVID-19 pandemic. Given the continuation of these uncertainties, including the timing of the removal of mobility restrictions and the rate at which demand for auto repairs will improve, we are not issuing updated financial guidance at this time. The withdrawal of the Company’s guidance also applies to the targets for the 1 LKQ Europe program discussed on the September 10, 2019 investor call. The Company historically has not provided quarterly revenue or earnings projections.

### **First Quarter 2020 Financial Results**

Revenue for the first quarter of 2020 was \$3.0 billion, a decrease of 3.2% as compared to \$3.1 billion in the first quarter of 2019. For the first quarter of 2020, parts and services organic revenue decreased 3.5% (4.7% on a per day basis) while the net impact of acquisition and divestitures revenue was 0.1% and foreign exchange rates was (1.3%), for a total parts and services revenue decline of 4.6%.

Net income for the first quarter of 2020 was \$146 million as compared to \$98 million for the same period in 2019, an increase of 49% year-over-year. Diluted earnings per share for the first quarter was \$0.48 as compared to \$0.31 for the same period of 2019, an increase of 55% year-over-year.

On an adjusted basis, net income was \$176 million, which was flat as compared to the same period of 2019. Adjusted diluted earnings per share for the first quarter was \$0.57 as compared to \$0.56 for the same period of 2019, a 2% increase.

Mr. Zarcone further commented, “Despite the negative impact of the COVID-19 pandemic on our March 2020 monthly results, we were able to achieve year-over-year growth in earnings per share, a testament to the strength of our business coming into 2020. Of particular note, during the first quarter of 2020 our North American segment achieved a Segment EBITDA margin of 16.4%, the highest level in a decade.”

### **Cash Flow and Balance Sheet**

Cash flow from operations totaled \$195 million during the first quarter of 2020, up 10% from a year ago. Free cash flow totaled \$150 million, up 21%, year-over-year.

The Company made \$230 million of net repayments on its borrowings during the quarter. As of March 31, 2020, LKQ's balance sheet reflected net debt of \$3.5 billion. Net leverage as defined in the credit facility decreased to 2.5x EBITDA. As of March 31, 2020, the Company had approximately \$1.9 billion in available liquidity, composed of approximately \$1.53 billion available under its credit facilities and \$333 million of cash and cash equivalents.

During the first quarter of 2020, the Company repurchased 3.3 million shares of common stock for a total consideration of \$88 million. We suspended share repurchases on March 16, 2020. Since initiating the share repurchase program in October 2018, the Company has repurchased 16.5 million shares for a total of approximately \$440 million.

Varun Laroyia, Executive Vice President and Chief Financial Officer, commented, "We are responding to this global macroeconomic challenge by actively aligning our cost structure to the prevailing demand, efficiently managing our cash flows, and thoughtfully balancing our capital allocation priorities. We are confident that our current liquidity and continued positive cash flow from operations in future periods will be sufficient to meet our ongoing operating and capital requirements."

### **Non-GAAP Financial Measures**

This release contains and management's presentation on the conference call will refer to non-GAAP financial measures within the meaning of Regulation G promulgated by the Securities and Exchange Commission. Included with this release are reconciliations of each non-GAAP financial measure with the most directly comparable financial measure calculated in accordance with GAAP.

### **Conference Call Details**

LKQ will host a conference call and webcast on April 30, 2020 at 8:00 a.m. Eastern Time (7:00 a.m. Central Time) with members of senior management to discuss the Company's results. To access the investor conference call, please dial (833) 236-5754. International access to the call may be obtained by dialing (647) 689-4182. The investor conference call will require you to enter conference ID: 4098245#.

### **Webcast and Presentation Details**

The audio webcast and accompanying slide presentation can be accessed at ([www.lkqcorp.com](http://www.lkqcorp.com)) in the Investor Relations section.

A replay of the conference call will be available by telephone at (800) 585-8367 or (416) 621-4642 for international calls. The telephone replay will require you to enter conference ID: 4098245#. An online replay of the audio webcast will be available on the Company's website. Both formats of replay will be available through May 14, 2020. Please allow approximately two hours after the live presentation before attempting to access the replay.

## About LKQ Corporation

LKQ Corporation ([www.lkqcorp.com](http://www.lkqcorp.com)) is a leading provider of alternative and specialty parts to repair and accessorize automobiles and other vehicles. LKQ has operations in North America, Europe and Taiwan. LKQ offers its customers a broad range of replacement systems, components, equipment and parts to repair and accessorize automobiles, trucks, and recreational and performance vehicles.

## Forward Looking Statements

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

Forward-looking statements include, but are not limited to, statements regarding our outlook, guidance, expectations, beliefs, hopes, intentions and strategies. These statements are subject to a number of risks, uncertainties, assumptions and other factors including those identified below.

All forward-looking statements are based on information available to us at the time the statements are made. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

You should not place undue reliance on our forward-looking statements. Actual events or results may differ materially from those expressed or implied in the forward-looking statements. The risks, uncertainties, assumptions and other factors that could cause actual events or results to differ from the events or results predicted or implied by our forward-looking statements include the factors set forth below, and other 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 Annual Report on Form 10-K for the year ended December 31, 2019 and in our subsequent Quarterly Reports on Form 10-Q. These reports are available on our investor relations website at [lkqcorp.com](http://lkqcorp.com) and on the SEC website at [sec.gov](http://sec.gov).

These factors include the following (not necessarily in order of importance):

- effects on our business from the disruption to economic activity caused by the COVID-19 pandemic, including a substantial decrease in the demand for our products and services, interruptions to supply chains, and the inability of customers to pay for products and services;
- employment-related issues arising from the COVID-19 pandemic, including employment law claims resulting from the layoffs and furloughs of employees to reduce costs during the period of decreased demand, increased healthcare costs, workforce shortages, and health and safety issues at the workplace;
- changes in economic, political and social conditions in the U.S. and other countries in which we are located or do business, including the U.K. withdrawal from the

European Union (also known as Brexit), and the impact of these changes on our businesses, the demand for our products and our ability to obtain financing for operations;

- increasing competition in the automotive parts industry (including parts sold on online marketplaces and the potential competitive advantage to original equipment manufacturers (“OEMs”) with "connected car" technology);
- fluctuations in the pricing of new OEM replacement products;
- changes in the level of acceptance and promotion of alternative automotive parts by insurance companies and vehicle repairers;
- changes to our business relationships with insurance companies or changes by insurance companies to their business practices relating to the use of our products;
- our ability to identify acquisition candidates at reasonable prices and our ability to successfully divest underperforming businesses;
- our ability to integrate, realize expected synergies, and successfully operate acquired companies and any companies acquired in the future, and the risks associated with these companies;
- the implementation of a border tax or tariff on imports and the negative impact on our business due to the amount of inventory we import;
- restrictions or prohibitions on selling certain aftermarket products through enforcement by OEMs or government agencies of intellectual property rights;
- restrictions or prohibitions on importing certain aftermarket products by border enforcement agencies based on, among other things, intellectual property infringement claims;
- variations in the number of vehicles manufactured and sold, vehicle accident rates, miles driven, and the age profile of vehicles in accidents;
- the increase of accident avoidance systems being installed in vehicles;
- the potential loss of sales of certain mechanical parts due to the rise of electric vehicle sales;
- fluctuations in the prices of fuel, scrap metal and other commodities;
- changes in laws or regulations affecting our business;
- higher costs and the resulting potential inability to service our customers to the extent that our suppliers decide to discontinue business relationships with us;
- price increases, interruptions or disruptions to the supply of vehicle parts from aftermarket suppliers and vehicles from salvage auctions;
- changes in the demand for our products and the supply of our inventory due to severity of weather and seasonality of weather patterns;
- the risks associated with operating in foreign jurisdictions, including foreign laws and economic and political instabilities;
- declines in the values of our assets, including as a result of the effects of the COVID-19 pandemic on our business;
- additional unionization efforts, new collective bargaining agreements, and work stoppages;
- our ability to develop and implement the operational and financial systems needed to manage our operations;
- interruptions, outages or breaches of our operational systems, security systems, or infrastructure as a result of attacks on, or malfunctions of, our systems;
- costs of complying with laws relating to the security of personal information;
- product liability claims by the end users of our products or claims by other parties who we have promised to indemnify for product liability matters;
- costs associated with recalls of the products we sell;

- potential losses of our right to operate at key locations if we are not able to negotiate lease renewals;
- inaccuracies in the data relating to our industry published by independent sources upon which we rely;
- currency fluctuations in the U.S. dollar, pound sterling and euro versus other currencies;
- our ability to obtain financing on acceptable terms to finance our growth;
- our ability to satisfy our debt obligations and to operate within the limitations imposed by financing arrangements, including the possibility of not satisfying one or more of the financial covenants in our credit facility due to the effects of the COVID-19 pandemic on our business;
- changes to applicable U.S. and foreign tax laws, changes to interpretations of tax laws, and changes in our mix of earnings among the jurisdictions in which we operate; and
- disruptions to the management and operations of our business and the uncertainties caused by activist investors.