



LKQ Annual Report 2022

Form 10-K (NASDAQ:LKQ)

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2021

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)
500 West Madison Street, Suite 2800,
Chicago, Illinois
(Address of principal executive offices)

36-4215970
(I.R.S. Employer
Identification Number)

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	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

As of June 30, 2021, the aggregate market value of common stock outstanding held by stockholders who were not affiliates (as defined by regulations of the Securities and Exchange Commission) of the registrant was approximately \$14.5 billion (based on the closing sale price on the NASDAQ Global Select Market on such date). The number of outstanding shares of the registrant's common stock as of February 18, 2022 was 285,014,137.

Documents Incorporated by Reference

Those sections or portions of the registrant's proxy statement for the Annual Meeting of Stockholders to be held on May 10, 2022, described in Part III hereof, are incorporated by reference in this report.

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PART I

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

Statements and information in this Annual Report on Form 10-K 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, including the effects of the coronavirus disease 2019 pandemic (“COVID-19”), 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 those identified in the risk factor summary below and in the full “Risk Factors” section in Part 1A of this Annual Report on Form 10-K.

Risk Factor Summary

Below is a summary of our risk factors. See “Risk Factors” in Part 1A of this Annual Report on Form 10-K for a detailed discussion of the risk factors summarized below. Our risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The occurrence of any of the risks or of unknown risks and uncertainties may adversely affect our business, operating results and financial condition.

Risks Relating to Our Business

- effects on our business from the ongoing disruption to economic activity caused by the COVID-19 pandemic, including a decrease in the demand for our products and services and interruptions to our supply chain;
 - employment-related issues arising from the COVID-19 pandemic, including 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 geopolitical tensions in Ukraine and Taiwan, 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, as well as the various efforts by OEMs to restrict or prohibit the sale of aftermarket or recycled parts;
 - changes to our business relationships with insurance companies or changes by insurance companies to their business practices relating to the use of our products as well as changes in the level of acceptance and promotion of alternative automotive parts by insurance companies and vehicle repairers;
 - restrictions or prohibitions on selling or importing aftermarket products through enforcement by OEMs or governmental agencies of intellectual property rights or import laws;
 - 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, or changes in the demand for our products and the supply of our inventory due to severity of weather and seasonality of weather patterns;
 - fluctuations in the prices of fuel, metals and other commodities;
-

- changes in our relationships with our suppliers, disruption to our supply of inventory, or the misconduct, performance failures or negligence of our third party vendors or service providers could increase our expenses, impede our ability to serve our customers, or expose us to liability; as well as price increases, interruptions or disruptions to the supply of vehicle parts from aftermarket suppliers and vehicles from salvage auctions;
- if our goodwill or other intangible assets become impaired, or there are declines in the values of our assets, including as a result of the effects of the COVID-19 pandemic on our business, we may incur significant charges to our pre-tax income;
- 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 and costs associated with recalls of the products we sell;
- our ability to identify acquisition candidates at reasonable prices and our ability to successfully divest businesses and 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;
- inflationary pressure on our supply chain as the economy recovers from the initial impact of the COVID-19 pandemic.

Risks Relating to Our Financial Structure

- 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 or the terms of the indentures governing our senior notes;
- our senior notes are subject to risks that could affect the value of the notes, require holders of the notes to return payments received from us or the guarantors, or affect our ability to repurchase the notes upon a change of control or pursuant to an asset sale offer;
- our ability to obtain financing on acceptable terms to finance our growth;
- our ability to issue dividend payments and fluctuations in the related payments;

Legal and Regulatory Risks

- changes in laws or regulations affecting our business;
- our operations are subject to environmental regulations and we may incur costs relating to environmental matters;
- our bylaws provide that the courts in the State of Delaware are the exclusive forums for substantially all disputes between us and our stockholders;
- 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;
- 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;
- governmental agencies may refuse to grant or renew our operating licenses and permits for our salvage, self service and refurbishing businesses;

General Risks

- loss of key management personnel may affect our ability to successfully manage our business and achieve our objectives;
 - the risks associated with operating in foreign jurisdictions, including foreign laws and economic and political instabilities and currency fluctuations in the U.S. dollar, pound sterling and euro versus other currencies;
 - 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; and 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;
- business interruptions affecting our distribution centers, computer systems and the availability of inventory;
- problems with our fleet of trucks and other vehicles could affect our business;
- potential losses of our right to operate at key locations if we are not able to negotiate lease renewals or due to environmental issues; and
- disruptions to the management and operations of our business and the uncertainties caused by activist investors.

Other matters set forth in this Annual Report may also cause our actual results to differ materially from our forward-looking statements.

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through our website (www.lkqcorp.com) as soon as reasonably practicable after we electronically file the material with, or furnish it to, the Securities and Exchange Commission.

ITEM 1. BUSINESS

OVERVIEW

LKQ Corporation ("LKQ", the "Company" or "we"), a member of the Standard & Poor's 500 Stock Index ("S&P 500 Index"), is a global distributor 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.

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 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. We are also a leading provider of alternative vehicle replacement and maintenance products in Germany, the United Kingdom, the Benelux region (Belgium, Netherlands, and Luxembourg), Italy, Czech Republic, Austria, Slovakia, Poland, and various other European countries. In addition to our wholesale operations, we operate self service retail facilities across the U.S. that sell recycled automotive products from end-of-life vehicles. We are also a leading distributor of specialty vehicle aftermarket equipment and accessories reaching most major markets in the U.S. and Canada.

We are organized into four operating segments: Wholesale - North America, Europe, Specialty, and Self Service. We aggregate our Wholesale - North America and Self Service operating segments into one reportable segment, North America, resulting in three reportable segments: North America, Europe and Specialty. See Note 15, "Segment and Geographic Information" to the Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K for financial information by reportable segment and by geographic region.

HISTORY

We were initially formed in 1998 through the combination of a number of wholesale recycled products businesses and subsequently expanded through internal development and acquisitions of aftermarket, recycled, refurbished, and remanufactured product suppliers and manufacturers; self service retail businesses; and specialty vehicle aftermarket equipment and accessories suppliers. We have completed approximately 290 business acquisitions. Our most significant acquisitions include:

- 2007 acquisition of Keystone Automotive Industries, Inc., which, at the time of acquisition, was the leading domestic distributor of aftermarket products, including collision replacement products, paint products, refurbished steel bumpers, bumper covers and alloy wheels.
- 2011 acquisition of Euro Car Parts Holdings Limited ("ECP"), a vehicle mechanical aftermarket parts distribution company operating in the United Kingdom. This acquisition served as our entry into the European automotive aftermarket business, from which we have expanded our European footprint through organic growth and subsequent acquisitions.
- 2013 acquisition of Sator Beheer B.V. ("Sator," now known as Fource), a vehicle mechanical aftermarket parts distribution company based in the Netherlands, with operations in the Netherlands, Belgium and Northern France. This acquisition allowed us to further expand our geographic presence into continental Europe.
- 2014 acquisition of Keystone Automotive Holdings, Inc. ("Keystone Specialty"), which expanded our product offering and increased our addressable market to include specialty vehicle aftermarket equipment and accessories.
- 2016 acquisition of Rhiag-Inter Auto Parts Italia S.r.l. ("Rhiag"), a distributor of aftermarket spare parts for passenger cars and commercial vehicles in Italy, Czech Republic, Slovakia, Switzerland, Hungary, Romania, Ukraine, Bulgaria, Poland and Spain. This acquisition expanded our geographic presence in continental Europe.
- 2016 acquisition of Pittsburgh Glass Works LLC ("PGW"), a distributor of aftermarket automotive replacement glass. The acquisition expanded our addressable market in North America.
- 2018 acquisition of Stahlgruber GmbH ("Stahlgruber"), a wholesale distributor of aftermarket spare parts for passenger cars, tools, capital equipment and accessories with operations in Germany, Austria, Italy, Slovenia, and Croatia, with further sales to Switzerland. This acquisition expanded our geographic presence in continental Europe and serves as an additional strategic hub for our European operations.

Since 2017, we have divested certain businesses due to the ongoing rationalization of our asset base by divesting certain non-core and/or low margin businesses, and mandatory divestiture requirements due to certain acquisitions. Two of these divestitures have been reported as discontinued operations.

STRATEGY

Our mission is to be the leading global value-added distributor of vehicle parts and accessories by offering our customers the most comprehensive, available and cost-effective selection of part solutions while building strong partnerships with our employees and the communities in which we operate.

From 1998 to 2018, the Company focused on consolidating the alternative and specialty vehicle parts markets to develop scale across an extensive network of salvage and aftermarket facilities throughout North America and on building a pan-European aftermarket parts distributor in the large, fragmented European market. This focus created a leading distributor of aftermarket collision, salvage collision, and major mechanical parts in North America, a leading distributor of specialty automotive and RV parts and accessories in North America, and a leading distributor of aftermarket mechanical parts in Europe.

Beginning in 2019, we reduced our focus on growth through acquisitions and increased our focus on organic growth. Moreover, we emphasized operational excellence, driving structural margin improvements across the business to fund investments to further extend our leading positions and capabilities and grow our market share.

In our Europe segment, we are implementing a multi-year business transformation by establishing a Pan-European organization and operating model. The purpose of this multi-year “1 LKQ Europe” program is to create one single operation by integrating the various acquisitions the Company has completed across the European continent since entering the market in 2011. 1 LKQ Europe will operationalize the full potential of our leading European scale position as a single entity in areas such as procurement, product strategy, revenue optimization, digitization, and value-added services for our customers.

We have four primary strategic pillars to build economic value: growing our diversified product and service offerings; expanding our geographic footprint; adapting to evolving technology; and rationalizing our asset base. We believe our extensive distribution network, with a deep and broad inventory of quality collision and mechanical repair products and specialty vehicle aftermarket products, high fulfillment rates, delivery reliability, and superior customer service, provide us with competitive advantages. To execute our strategy, we focus on a number of key areas, including:

- *Leading distribution network.* We have invested significant capital to develop an extensive network of alternative and specialty vehicle parts facilities across the geographies we serve in our operating segments. Our ability to move inventory throughout our distribution networks increases the availability of our products and allows us to fill a higher percentage of our customers’ requests. In order to expand our distribution network, we may seek to enter new markets through geographic expansion, organic development, or tuck-in acquisitions. We believe our North America segment has the largest distribution network of vehicle parts and accessories for the automotive collision repair market in North America. We currently have operations in over 20 different European countries, which we believe represents the broadest and largest footprint in the aftermarket industry in Europe. On a global basis, we operate approximately 1,600 facilities.
- *Broad product and service offerings.* The breadth and depth of our inventory across our operating segments reinforces our ability to provide a “one-stop” solution for our customers’ alternative vehicle replacement, maintenance, diagnostic services, and specialty vehicle product needs.
- *High fulfillment rates.* We manage our inventory to improve stocking levels and delivery speed. Maintaining industry leading service levels and fill rates improves customer satisfaction and cycle time for repairs.
- *Strong business relationships.* We have developed business relationships with key constituents, including customers, automobile insurance companies, multiple-location vehicle repair operations, vendor partners and other industry participants in North America, Europe, and Asia. We monitor the start-up and venture capital landscape to develop business relationships and enhance our portfolio of potential offerings.
- *Technology driven business processes.* We focus on technology development to expand our competitive advantage. We have built data analytics capabilities and data assets and believe that we can more cost effectively leverage our data to make better business decisions than most of our competitors.
- *Adaptation to evolving technology in the automotive industry.* We are committed to monitoring and adapting our business to the technological changes in the automotive industry. We have a forward-looking strategy and innovation team that helps us monitor megatrends and assess the potential opportunities and risks associated with several areas including, but not limited to, electric vehicles, advanced driver assistance systems, vehicle connectivity, autonomous vehicles, e-commerce and ride-sharing trends.
- *Rationalized asset base.* We have a portfolio review process and are continually analyzing and executing initiatives to reduce our operating costs and drive efficiencies, including brand rationalization, rightsizing efforts, and productivity initiatives.
- *Environmental, Social and Governance (“ESG”).* We are focused on driving our ESG strategy and message, to multiple stakeholders, both internally and externally. Our ESG strategy is focused on employee engagement, diversity, equity and inclusion, carbon footprint and recycling, supply chain and community support.
- *Employees and communities.* We focus on employees and communities through continuous improvement in our Environmental, Social and Governance initiatives. Our top priority is the health and safety of our employees, customers and communities in which we operate.

We will measure our progress toward achieving our strategic goals based on our performance with respect to the following key priorities: profitable growth, cash flow generation, European integration, and talent acquisition. We have implemented various improvement plans to enhance our operational efficiencies and actively monitor these and other important operating metrics.

COVID-19 IMPACT

The COVID-19 pandemic and the resulting governmental actions taken to control the virus have impacted, and are expected to continue to impact, our business in 2020, 2021, and into 2022. The effects include, but are not limited to, a reduction in demand for our products and services relative to 2019, liquidity challenges for certain of our customers and suppliers, and organizational changes, such as personnel reductions and route consolidation undertaken mostly in 2020, driven by cost actions to mitigate the actual and expected revenue decline. The continuing impact of COVID-19 on our business, results of operations, financial condition and cash flows is dependent on future developments, including the severity and duration of the pandemic and the related impact on the global economy, which are uncertain and cannot be predicted at this time. For further discussion regarding the impact of the COVID-19 pandemic on our business and financial results, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Annual Report on Form 10-K.

NORTH AMERICA SEGMENT

Our North America segment is composed of wholesale operations, which consists of aftermarket and salvage operations, and self service retail operations.

Wholesale Operations

Our wholesale operations in North America sell five product types (aftermarket, OEM recycled, OEM remanufactured, OEM refurbished and, to a lesser extent, new OEM parts) to professional collision and mechanical vehicle repair businesses, which represents the source of the majority of the revenue generated by the segment. Additionally, by way of two acquisitions in 2019, we entered the diagnostics and repair services business, which we expect to grow in the coming years as the number of technological components in vehicles increases. In January 2021, the diagnostic and repair services acquisitions were combined into a single brand, known as Elitek Vehicle Services.

Inventory

Our principal aftermarket product types consist of those most frequently damaged in collisions, including bumper covers, automotive body panels, lights and automotive glass products such as windshields. Platinum Plus is our exclusive product line offered under the Keystone brand of aftermarket products. We also developed a product line called "Value Line" for more value conscious, often self-pay, consumers. Certain of our products are certified by an independent organization, the Certified Automotive Parts Association ("CAPA"). CAPA is an association that evaluates the quality of aftermarket collision replacement products compared to OEM collision replacement products. Our salvage products include both mechanical and collision parts, including engines; transmissions; door assemblies; sheet metal products such as trunk lids, fenders and hoods; lights; and bumper assemblies.

The aftermarket products we distribute are purchased from independent manufacturers and distributors located primarily in North America and Asia, principally Taiwan. In 2021, approximately 44% of our aftermarket purchases were made from our top 6 vendors, with our largest vendor providing approximately 11% of our annual inventory purchases for the North America segment. We believe we are one of the largest customers of each of these suppliers. Outside of this group, no other supplier provided more than 5% of our supply of aftermarket products in 2021. We purchased approximately 44% of our aftermarket products in 2021 directly from manufacturers in Taiwan and other Asian countries. Approximately 53% of our aftermarket products were purchased from vendors located in the U.S.; however, we believe the majority of these products were manufactured in Taiwan, Mexico or other foreign countries.

Within our wholesale operations, we focus our procurement on products that are in the most demand, based on a number of factors such as historical sales records of vehicles by model and year, customer requests, and projections of future supply and demand trends. Because lead times may be historically 40 days or more on imported aftermarket products, sales volumes and in-stock inventory are important factors in the procurement process.

We procure recycled products for our wholesale operations by acquiring total loss vehicles, typically sold at regional salvage auctions, and then dismantling and inventorying the parts. The availability and pricing of the salvage vehicles we procure for our wholesale recycled products operations may be impacted by a variety of factors, including the production level of new vehicles and the percentage of damaged vehicles declared total losses. Our bidding specialists are equipped with a proprietary software application that allows them to compare the vehicles at salvage auctions against our current inventory levels, historical demand, and recent average selling prices to arrive at an estimated maximum bid. Additionally, we have embedded artificial

intelligence technology into our salvage procurement software to assist in the procurement decision making process, reducing the amount of labor and human error in the process.

Scrap and Other Materials

Our salvage operations generate scrap metal and other materials that we sell to metals recyclers. Vehicles that have been dismantled for recycled products and "crush only" end-of-life vehicles acquired from other companies are typically crushed using equipment on site. In other cases, we will hire mobile crushing equipment to crush the vehicles before they are transported to shredders and scrap metal processors. Damaged and unusable wheel cores are melted in our aluminum furnace and sold to consumers of aluminum ingot and sow for the production of various automotive products, including wheels. We also sell the precious metals contained in certain of our recycled parts such as catalytic converters.

Customers

We sell our products to wholesale customers that include collision and mechanical repair shops and new and used car dealerships, as well as to retail customers. The majority of these customers tend to be individually-owned small businesses, although the number of independent and dealer-operated collision repair facilities has declined over the last decade, as regional or national multiple shop operators ("MSO") have increased their geographic presence through consolidation.

Automobile insurance companies affect the demand for our collision products; while insurance companies do not pay for our products directly, they ultimately pay for the repair costs of insured vehicles in excess of any deductible amount. As a result, insurance companies often influence the types of products used in a repair. The use of our alternative products instead of new OEM products provides a direct benefit to insurance companies by lowering the cost of repairs, by often decreasing the time required to return the repaired vehicle to the customer, and by providing a replacement product that is of high quality and comparable performance to the part replaced.

Our sales personnel are encouraged to promote LKQ to customers as a "one-stop shop" by offering comparable options from our other product lines if the desired part is not in stock. To support these efforts, our sales staff has access to both recycled and aftermarket sales systems to encourage cross selling.

To better serve our customers, we take a consolidated approach to the electronic sale of wholesale products in our North America segment. A full suite of e-commerce services is available to approved partners that helps us improve order accuracy, reduce return rate and better fit our customer workflow. Using these services in coordination with our partners, products can be searched, priced and ordered without leaving the customers' own operating systems.

Distribution

We have a distribution network of warehouses and cross dock facilities, which allows us to develop and maintain our service levels with local repair shops while providing industry leading fulfillment rates that are made possible by our nationwide presence. Our delivery fleet utilizes a third party software provider to optimize delivery routes, and to track the progress of delivery vehicles throughout their runs. This third party software connects into each of our wholesale systems to allow a single interface for our management team to have a single delivery to our customer, regardless of the product line or operating system. Our local presence allows us to provide daily deliveries as required by our customers, using drivers who routinely deliver to the same customers. Our sales force and local delivery drivers develop and maintain critical personal relationships with the local repair shops that benefit from access to our wide selection of products, which we are able to offer as a result of our regional inventory network. We operate a delivery fleet of medium-sized trucks and smaller trucks and vans, which deliver multiple product types on the same delivery routes to help minimize distribution costs and improve customer service.

Competition

We consider all suppliers of vehicle collision and mechanical products to be competitors, including aftermarket suppliers, recycling businesses, refurbishing operations, parts remanufacturers, OEMs and internet-based suppliers. We compete with alternative parts distributors on the basis of our nationwide distribution system, our product lines and inventory availability, customer service, our relationships with insurance companies, and to a lesser extent, price; we compete with OEMs primarily on the basis of price and, to a lesser extent, on service and product quality. We do not consider retail chains that focus on the do-it-yourself market to be our direct competitors since many of our wholesale product sales are influenced by insurance companies, who ultimately pay for the repair costs of insured vehicles in excess of any deductible amount, rather than the end user, and there is limited overlap in the products that we sell.