

2018 SECOND QUARTER
INTERIM REPORT
**FOCUSED
ON EXECUTION**



UNI-SELECT.

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018

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QUARTERLY HIGHLIGHTS

(In millions of US dollars, except percentages, per share amounts and otherwise specified)

2018				
SALES	EBITDA ⁽¹⁾	ADJUSTED EBITDA ⁽¹⁾	NET EARNINGS	ADJUSTED EARNINGS ⁽¹⁾
\$461.6	\$35.4 7.7%	\$35.6 7.7%	\$17.9 \$0.42/SHARE	\$18.4 \$0.44/SHARE
2017				
SALES	EBITDA ⁽¹⁾	ADJUSTED EBITDA ⁽¹⁾	NET EARNINGS	ADJUSTED EARNINGS ⁽¹⁾
\$340.3	\$29.5 8.7%	\$32.5 9.5%	\$13.7 \$0.33/SHARE	\$16.6 \$0.39/SHARE

- Consolidated sales reached \$461.6, representing an increase of \$121.3 or 35.6% compared to the same quarter last year, fuelled by the contribution of The Parts Alliance UK segment, amounting to \$111.0 or 32.6% of the growth. The FinishMaster US segment reported a positive organic growth ⁽¹⁾ of 0.7% attributable to sales initiatives resulting in growing business volume. The Canadian Automotive Group segment reported a negative organic growth ⁽¹⁾ of 3.0% for the quarter, facing softness in the market in 2018, while, for the same quarter last year, reported a record organic growth.
- EBITDA ⁽¹⁾ and EBITDA margin ⁽¹⁾ were respectively \$35.4 and 7.7% compared to \$29.5 and 8.7% last year. Once adjusted for net charges related to The Parts Alliance acquisition, adjusted EBITDA ⁽¹⁾ increased to \$35.6 from \$32.5 last year, mainly benefiting from the contribution of The Parts Alliance UK segment, which reported an EBITDA margin ⁽¹⁾ of 7.8%.
- Net earnings were \$17.9 compared to \$13.7 last year. Once adjusted, earnings ⁽¹⁾ increased by 10.6% to \$18.4 in 2018 from \$16.6 last year. Earnings per share (EPS) and adjusted EPS ⁽¹⁾ were respectively \$0.42 and \$0.44 compared to \$0.33 and \$0.39 respectively last year, representing an increase of 12.8% on an adjusted EPS ⁽¹⁾ basis.
- As at June 30, 2018, total net debt ⁽¹⁾ stood at \$450.1. Availability on credit facilities, subject to financial covenants, combined with healthy free cash flows ⁽¹⁾, are allowing Uni-Select further growth initiatives. During the quarter, the authorized limit of the vendor financing program was revised upwards to introduce The Parts Alliance segment as well as a new supplier.
- The 20/20 initiative is ongoing, reducing costs to serve model, while 3 company-owned stores were integrated during the quarter, for a total of 9 since the beginning of the year. Other operational initiatives are also underway to improve the efficiency and management of inventory in all segments, such as delivery route optimization and technology across the network in the FinishMaster US segment.
- As part of strategic growth initiatives, The Parts Alliance UK segment is growing its geographical coverage by opening 3 greenfields during the quarter, for a total of 7 since the beginning of the year. The FinishMaster US segment also opened one greenfield during the quarter, supporting demand and providing access to new market.

⁽¹⁾ This information represents a non-IFRS financial measure. (Refer to the "Non-IFRS financial measures" section for further details.)

SELECTED CONSOLIDATED INFORMATION

(in thousands of US dollars, except per share amounts, percentages and otherwise specified)	Second quarters			Six-month periods		
	2018	2017	%	2018	2017	%
OPERATING RESULTS						
Sales	461,571	340,287	35.6	883,665	637,487	38.6
EBITDA ⁽¹⁾	35,443	29,544	20.0	62,445	52,717	18.5
EBITDA margin ⁽¹⁾	7.7%	8.7%		7.1%	8.3%	
Net transaction charges related to The Parts Alliance acquisition	114	2,916		732	2,916	
Adjusted EBITDA ⁽¹⁾	35,557	32,460	9.5	63,177	55,633	13.6
Adjusted EBITDA margin ⁽¹⁾	7.7%	9.5%		7.1%	8.7%	
Net earnings	17,875	13,738	30.1	28,266	24,736	14.3
Adjusted earnings ⁽¹⁾	18,399	16,635	10.6	30,515	27,633	10.4
Free cash flows ⁽¹⁾	27,749	16,107	72.2	34,470	37,201	(7.3)
COMMON SHARE DATA						
Net earnings	0.42	0.33	27.3	0.67	0.59	13.6
Adjusted earnings ⁽¹⁾	0.44	0.39	12.8	0.72	0.65	10.8
Dividend (C\$)	0.0925	0.0925		0.1850	0.1775	
Book value per share	12.61	11.68		12.61	11.68	
Number of shares outstanding	42,193,742	42,273,812		42,193,742	42,273,812	
Weighted average number of outstanding shares	42,230,000	42,250,842		42,251,785	42,248,828	
				Jun. 30, 2018	Dec. 31, 2017	
FINANCIAL POSITION						
Working capital				305,967	254,581	
Total assets				1,512,536	1,496,389	
Total net debt ⁽¹⁾				450,124	417,909	
Total equity				532,168	517,977	
Return on average total equity ⁽¹⁾				9.4%	9.0%	
Adjusted return on average total equity ⁽¹⁾				10.5%	10.8%	

⁽¹⁾ This information represents a non-IFRS financial measure. (Refer to the "Non-IFRS financial measures" section for further details.)

PRELIMINARY COMMENTS TO MANAGEMENT'S DISCUSSION AND ANALYSIS

BASIS OF PRESENTATION OF MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's discussion and analysis ("MD&A") discusses the Corporation's operating results and cash flows for the quarter and six-month period ended June 30, 2018 compared with the quarter and six-month period ended June 30, 2017, as well as its financial position as at June 30, 2018 compared with its financial position as at December 31, 2017. This report should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the 2017 Annual Report. The information contained in this MD&A takes into account all major events that occurred up to August 10, 2018, the date at which the interim condensed consolidated financial statements and MD&A were approved and authorized for issuance by the Corporation's Board of Directors. It presents the existing Corporation's status and business as per Management's best knowledge as at that date.

Additional information on Uni-Select, including the audited consolidated financial statements and the Corporation's Annual Information Form, is available on the SEDAR website at sedar.com.

In this MD&A, "Uni-Select" or the "Corporation" refers, as the case may be, to Uni-Select Inc. and its subsidiaries.

Unless otherwise indicated, the financial data presented in this MD&A, including tabular information, is expressed in thousands of US dollars, except per share amounts, percentages, number of shares and otherwise specified. Comparisons are presented in relation to the comparable periods of the prior year.

The interim condensed consolidated financial statements contained in the present MD&A were prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements have not been audited by the Corporation's external auditors.

FORWARD-LOOKING STATEMENTS

The MD&A is intended to assist investors in understanding the nature and importance of the results and trends, as well as the risks and uncertainties associated with Uni-Select's operations and financial position. Certain sections of this MD&A contain forward-looking statements within the meaning of securities legislation concerning the Corporation's objectives, projections, estimates, expectations or forecasts.

Forward-looking statements involve known and unknown risks and uncertainties, which may cause actual results in future periods to differ materially from forecasted results. Risks that could cause the results to differ materially from expectations are discussed in the "Risk Management" section included in the 2017 Annual Report. Those risks include, among others, competitive environment, consumer purchasing habits, vehicle fleet trends, general economic conditions and the Corporation's financing capabilities.

There is no assurance as to the realization of the results, performance or achievements expressed or implied by forward-looking statements. Unless required to do so pursuant to applicable securities legislation, Management assumes no obligation as to the updating or revision of forward-looking statements as a result of new information, future events or other changes.

PROFILE AND DESCRIPTION

Uni-Select is a leader in the distribution of automotive refinish and industrial paint and related products in North America, as well as a leader in the automotive aftermarket parts business in Canada and in the UK. Uni Select is headquartered in Boucherville, Québec, Canada, and its shares are traded on the Toronto Stock Exchange (TSX) under the symbol UNS.

In Canada, Uni-Select supports over 16,000 automotive repair and collision repair shops through a growing national network of more than 1,100 independent customers and over 60 company-owned stores, many of which operate under the Uni-Select BUMPER TO BUMPER®, AUTO PARTS PLUS® AND FINISHMASTER® store banner programs. It also supports over 3,900 shops and stores through its automotive repair/installer shop banners, as well as through its automotive refinish banners.

In the United States, Uni-Select, through its wholly-owned subsidiary FinishMaster, Inc., operates a national network of over 200 automotive refinish company-owned stores under the FINISHMASTER banner which services a network of over 30,000 customers annually, of which it is the primary supplier to over 6,800 collision repair centre customers.

In the UK and Ireland, Uni-Select, through its Parts Alliance group of subsidiaries, is a leading distributor of automotive parts supporting over 23,000 customer accounts with a network of close to 200 locations including over 170 company-owned stores.

NON-IFRS FINANCIAL MEASURES

The information included in this report contains certain financial measures that are inconsistent with IFRS. Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other entities. The Corporation is of the opinion that users of its MD&A may analyze its results based on these measurements.

The following table presents performance measures used by the Corporation which are not defined by IFRS.

Organic growth ⁽¹⁾	This measure consists of quantifying the increase in consolidated sales between two given periods, excluding the impact of acquisitions, sales and disposals of stores, exchange-rate fluctuations and when necessary, the variance in the number of billing days. This measure enables Uni-Select to evaluate the intrinsic trend in the sales generated by its operational base in comparison with the rest of the market. Determining the rate of organic growth, based on findings that Management regards as reasonable, may differ from the actual rate of organic growth.
EBITDA ⁽¹⁾	This measure represents net earnings excluding finance costs, depreciation and amortization and income taxes. This measure is a financial indicator of a corporation's ability to service and incur debt. It should not be considered by an investor as an alternative to sales or net earnings, as an indicator of operating performance or cash flows, or as a measure of liquidity, but as additional information.

Adjusted EBITDA, adjusted earnings and adjusted earnings per share ⁽¹⁾	<p>Management uses adjusted EBITDA, adjusted earnings and adjusted earnings per share to assess EBITDA, net earnings and net earnings per share from operating activities, excluding certain adjustments, net of income taxes (for adjusted earnings and adjusted earnings per share), which may affect the comparability of the Corporation's financial results. Management considers that these measures facilitate the analysis and provide a better understanding of the Corporation's operational performance. The intent of these measures is to provide additional information.</p> <p>These adjustments include, among other things, restructuring and other charges as well as net transaction charges, amortization of the premium on foreign currency options and amortization of intangible assets related to The Parts Alliance acquisition. Management considers The Parts Alliance acquisition as transformational. The exclusion of these items does not indicate that they are non-recurring.</p>
EBITDA margin ⁽¹⁾ and adjusted EBITDA margin ⁽¹⁾	The EBITDA margin is a percentage corresponding to the ratio of EBITDA to sales. The adjusted EBITDA margin is a percentage corresponding to the ratio of adjusted EBITDA to sales.
Free cash flows ⁽²⁾	<p>This measure corresponds to the cash flows from operating activities according to the consolidated statements of cash flows adjusted for the following items: changes in working capital items, acquisitions of property and equipment and difference between amounts paid for post-employment benefits and current period expenses. Uni-Select considers the free cash flows to be a good indicator of financial strength and of operating performance because it shows the amount of funds available to manage growth in working capital, pay dividends, repay debt, reinvest in the Corporation and capitalize on various market opportunities that arise.</p> <p>The free cash flows exclude certain variances in working capital items (such as trade and other receivables, inventory and trade and other payables) and other funds generated and used according to the consolidated statements of cash flows. Therefore, it should not be considered as an alternative to the consolidated statements of cash flows, or as a measure of liquidity, but as additional information.</p>
Total net debt ⁽³⁾	This measure consists of long-term debt, including the portion due within a year (<i>as shown in note 11 to the interim condensed consolidated financial statements</i>), net of cash.
Total net debt to total net debt and total equity ratio ⁽³⁾	This ratio corresponds to total net debt divided by the sum of total net debt and total equity.
Long-term debt to total equity ratio ⁽³⁾	This ratio corresponds to long-term debt, including the portion due within a year (<i>as shown in note 11 to the interim condensed consolidated financial statements</i>), divided by the total equity.
Funded debt to adjusted EBITDA ⁽³⁾	This ratio corresponds to total net debt to adjusted EBITDA ⁽¹⁾ .
Return on average total equity ⁽³⁾	This ratio corresponds to net earnings, divided by average total equity.
Adjusted return on average total equity ⁽³⁾	This ratio corresponds to adjusted earnings ⁽¹⁾ to which the amortization of intangible assets related to The Parts Alliance acquisition is added back divided by average total equity.

⁽¹⁾ Refer to the "Analysis of consolidated results" section for a quantitative reconciliation from the non-IFRS financial measures to the most directly comparable measure calculated in accordance with IFRS.

⁽²⁾ Refer to the "Cash flows" section for a quantitative reconciliation from the non-IFRS measures to the most directly comparable measure calculated in accordance with IFRS.

⁽³⁾ Refer to the "Capital structure" section for further details.

ANALYSIS OF CONSOLIDATED RESULTS

SALES

	Second quarters		Six-month periods	
	2018	2017	2018	2017
<i>FinishMaster US</i>	210,954	209,486	412,333	409,188
<i>Canadian Automotive Group</i>	139,572	130,801	250,241	228,299
<i>The Parts Alliance UK</i>	111,045	-	221,091	-
Sales	461,571	340,287	883,665	637,487
		%		%
Sales variance	121,284	35.6	246,178	38.6
Conversion effect of the Canadian dollar	(5,493)	(1.6)	(10,346)	(1.6)
Number of billing days	(2,826)	(0.8)	(473)	(0.1)
Acquisitions	(115,409)	(33.9)	(237,044)	(37.2)
Consolidated organic growth	(2,444)	(0.7)	(1,685)	(0.3)

SECOND QUARTERS

Sales reached \$461,571 for the quarter, representing a growth of 35.6%, compared to the same quarter in 2017, driven by the sales generated from recent business acquisitions, bringing additional sales of \$115,409 or 33.9% of which The Parts Alliance UK segment represents \$111,045 or 32.6%.

Sales momentum at FinishMaster US segment resulted in a positive organic growth of 0.7% for the quarter as initiatives undertaken by the sales team are overcoming recent headwinds. The Canadian Automotive Group segment reported a negative organic growth for the quarter, navigating in a softer market in 2018, while, for the same quarter last year, reported a record organic growth, raising the bar for 2018.

SIX-MONTH PERIODS

The growth of 38.6%, compared to the same period in 2017, was driven by the sales generated from recent business acquisitions, bringing additional sales of \$237,044 or 37.2% of which The Parts Alliance UK segment represents \$221,091 or 34.7%.

For the six-month period, the Canadian Automotive Group segment, reported an organic growth of 1.1%, in part compensating the FinishMaster US segment, facing some headwinds until recently as it rebuilds sales momentum, and reporting a negative organic growth of 1.0%.

GROSS MARGIN

	Second quarters		Six-month periods	
	2018	2017	2018	2017
Gross margin	151,562	102,693	294,331	196,610
<i>In % of sales</i>	32.8%	30.2%	33.3%	30.8%

SECOND QUARTERS

The gross margin, in percentage of sales, increased by 260 basis points, compared to the same quarter in 2017, benefiting from The Parts Alliance acquisition, which has a higher gross margin than the other segments.

Once The Parts Alliance UK segment is excluded, the remaining gross margin variance, in percentage of sales, is explained by a customer mix impact in the FinishMaster US segment, in part compensated by an improved gross margin in the Canadian Automotive Group segment.

SIX-MONTH PERIODS

The gross margin, in percentage of sales, increased by 250 basis points, compared to the same period in 2017, benefiting from The Parts Alliance acquisition, which has a higher gross margin than the other segments.

Once The Parts Alliance UK segment is excluded, the remaining gross margin variance, in percentage of sales, is explained by a customer mix impact and lower special buys for the six-month period in the FinishMaster US segment. These elements were, in part, compensated by higher volume rebates in the Canadian Automotive Group segment.

EMPLOYEE BENEFITS

	Second quarters		Six-month periods	
	2018	2017	2018	2017
Employee benefits	77,297	47,648	157,183	96,213
<i>In % of sales</i>	16.7%	14.0%	17.8%	15.1%

SECOND QUARTERS

Employee benefits, in percentage of sales, increased by 270 basis points, compared to the same quarter in 2017. This variance is mainly attributable to a different business model in The Parts Alliance UK segment requiring a higher level of employee benefits.

Excluding The Parts Alliance UK segment, employee benefits, in percentage of sales, remained stable; savings resulting from the 20/20 initiative implemented in the second half of 2017, mainly benefiting the FinishMaster US segment, compensated for additional investment in resources in the Canadian Automotive Group segment, aimed to accelerate the integration of its recently acquired company-owned stores.

SIX-MONTH PERIODS

Employee benefits, in percentage of sales, increased by 270 basis points, compared to the same period in 2017. This variance is mainly attributable to a different business model in The Parts Alliance UK segment requiring a higher level of employee benefits.

Besides the factors mentioned in the quarter, the remaining variance, in percentage of sales, was also impacted by severance, in relation to the 20/20 initiative, incurred during the first quarter of 2018 by the Canadian Automotive Group segment.

OTHER OPERATING EXPENSES

	Second quarters		Six-month periods	
	2018	2017	2018	2017
Other operating expenses	38,708	22,585	73,971	44,764
<i>In % of sales</i>	8.4%	6.6%	8.4%	7.0%

SECOND QUARTERS

Other operating expenses, in percentage of sales, increased by 180 basis points, compared to the same quarter in 2017 and were mainly affected by a different business model in The Parts Alliance UK segment requiring a higher level of fixed costs.

Once The Parts Alliance UK segment is excluded, the remaining variance, in percentage of sales, is mainly related to losses on foreign exchange currencies during the current quarter and timing of expenses related to information technology maintenance.

All teams are dedicated to the execution of the 20/20 initiative, focusing on reducing costs to serve model and driving operating improvement.

SIX-MONTH PERIODS

Other operating expenses, in percentage of sales, increased by 140 basis points, compared to the same period in 2017 and were mainly affected by a different business model in The Parts Alliance UK segment requiring a higher level of fixed costs.

Once The Parts Alliance UK segment is excluded, the remaining variance, in percentage of sales, is mainly related to losses on foreign exchange currencies during the current quarter, combined with a favorable one-time saving in 2017 in relation to the internalization of the servers by the Canadian Automotive Group segment.

NET TRANSACTION CHARGES RELATED TO THE PARTS ALLIANCE ACQUISITION

	Second quarters		Six-month periods	
	2018	2017	2018	2017
Net transaction charges related to The Parts Alliance acquisition	114	2,916	732	2,916

The Corporation completed the acquisition of The Parts Alliance in August 2017.

For the six-month period ended June 30, 2018, these charges included acquisition costs and other charges related to the acquisition amounting to \$278 and \$454 respectively. In 2017, the charges mainly include acquisition costs for an amount of \$3,150 and a favorable change in the fair value of foreign currency options for an amount of \$234.

EBITDA

	Second quarters			Six-month periods		
	2018	2017	%	2018	2017	%
Net earnings	17,875	13,738		28,266	24,736	
Income tax expense	3,167	6,324		4,881	12,111	
Depreciation and amortization	9,472	6,613		19,406	11,415	
Finance costs, net	4,929	2,869		9,892	4,455	
EBITDA	35,443	29,544	20.0	62,445	52,717	18.5
<i>EBITDA margin</i>	7.7%	8.7%		7.1%	8.3%	
Net transaction charges related to The Parts Alliance acquisition	114	2,916		732	2,916	
Adjusted EBITDA	35,557	32,460	9.5	63,177	55,633	13.6
<i>Adjusted EBITDA margin</i>	7.7%	9.5%		7.1%	8.7%	

SECOND QUARTERS

The adjusted EBITDA margin decreased by 180 basis points, compared to the same quarter in 2017. This variance is mainly explained by an evolving customer mix impact in the FinishMaster US segment, undertaken integration efforts to optimize the growing network of company-owned stores in the Canadian Automotive Group segment, as well as losses on foreign exchange currencies during the current quarter.

These elements were partially compensated by savings resulting from the 20/20 initiative, and an improved gross margin in the Canadian Automotive Group segment.

SIX-MONTH PERIODS

The adjusted EBITDA margin decreased by 160 basis points, compared to the same period in 2017. The variance of the six-month period globally refers to the factors mentioned in the quarter, except for lower special buys in the FinishMaster US segment, which were partially compensated by an improved cost absorption at The Parts Alliance UK segment benefiting from its peak season.

FINANCE COSTS, NET

	Second quarters		Six-month periods	
	2018	2017	2018	2017
Finance costs, net	4,929	2,869	9,892	4,455

SECOND QUARTERS

The increase in finance costs, compared to the same quarter in 2017, is mainly attributable to a higher average debt, mostly from The Parts Alliance acquisition, resulting in higher borrowing costs. This variance was partially compensated by the amortization of the premium on foreign currency options related to The Parts Alliance acquisition recorded during the same quarter in 2017.

SIX-MONTH PERIODS

The increase in finance costs, compared to the same period in 2017, is mainly attributable to the same factors mentioned in the quarter.

(Refer to note 5 in the interim condensed consolidated financial statements for further details.)

DEPRECIATION AND AMORTIZATION

	Second quarters		Six-month periods	
	2018	2017	2018	2017
Depreciation and amortization	9,472	6,613	19,406	11,415

SECOND QUARTERS

The increase in depreciation and amortization, compared to the same quarter in 2017, is mainly attributable to The Parts Alliance acquisition, notably from the amortization of the customer relationship intangible assets. Depreciation on recent capital investments also contributed to the increase.

SIX-MONTH PERIODS

The increase in depreciation and amortization, compared to the same period of 2017, is mainly attributable to the same factors mentioned in the quarter.

(Refer to note 5 in the interim condensed consolidated financial statements for further details.)

INCOME TAX EXPENSE

	Second quarters		Six-month periods	
	2018	2017	2018	2017
Income tax expense	3,167	6,324	4,881	12,111
<i>Income tax rate</i>	15.1%	31.5%	14.7%	32.9%

SECOND QUARTERS

The income tax rate variance, compared to the same quarter in 2017, is mainly attributable to the lower enacted US corporate tax rate announced in December 2017 combined with different geographic pre-tax earnings with distinct tax rates.

SIX-MONTH PERIODS

The income tax rate variance, compared to the corresponding period in 2017, is mainly attributable to the same factors aforementioned in the quarter.

(Refer to note 5 in the interim condensed consolidated financial statements for further details.)

NET EARNINGS AND EARNINGS PER SHARE

	Second quarters			Six-month periods		
	2018	2017	%	2018	2017	%
Net earnings	17,875	13,738	30.1	28,266	24,736	14.3
Net transaction charges related to The Parts Alliance acquisition, net of taxes, including a gain resulting from the 2017 tax true-up	(371)	2,107		184	2,107	
Amortization of the premium on foreign currency options, net of taxes	-	790		-	790	
Amortization of intangible assets related to the acquisition of The Parts Alliance, net of taxes	895	-		2,065	-	
Adjusted earnings	18,399	16,635	10.6	30,515	27,633	10.4
Earnings per share	0.42	0.33	27.3	0.67	0.59	13.6
Net transaction charges related to The Parts Alliance acquisition, net of taxes, including a gain resulting from the 2017 tax true-up	(0.01)	0.05		-	0.05	
Amortization of the premium on foreign currency options, net of taxes	-	0.02		-	0.02	
Amortization of intangible assets related to the acquisition of The Parts Alliance, net of taxes	0.02	-		0.05	-	
Adjusted earnings per share	0.44	0.39	12.8	0.72	0.65	10.8

SECOND QUARTERS

Adjusted earnings, compared to the same quarter in 2017, increased by 10.6%, mainly resulting from The Parts Alliance UK segment contribution and the reduction of the income tax rate for the US operations. These elements were partially offset by additional finance costs as well as depreciation and amortization, all related to recent business acquisitions and investments of capital.

SIX-MONTH PERIODS

Adjusted earnings, compared to the corresponding period in 2017, increased by 10.4%, referring essentially to the factors mentioned in the quarter.

CONSOLIDATED QUARTERLY OPERATING RESULTS

Corporation's sales follow seasonal patterns: sales are typically stronger during the second and the third quarters for the FinishMaster US and the Canadian Automotive Group segments, and during the first and the second quarters for The Parts Alliance UK segment. Sales are also impacted by business acquisitions as well as by the conversion effect of the Canadian dollar and the British pound into US dollar. The Corporation records earnings in each quarter.

The following table summarizes the main financial information drawn from the consolidated interim financial reports for each of the last eight quarters.

	2018		2017				2016	
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter
Sales								
United States	210,954	201,379	198,956	206,495	209,486	199,702	180,758	202,215
Canada	139,572	110,669	123,023	133,612	130,801	97,498	110,228	116,330
United Kingdom ⁽¹⁾	111,045	110,046	92,999	55,700	-	-	-	-
	461,571	422,094	414,978	395,807	340,287	297,200	290,986	318,545
EBITDA	35,443	27,002	25,854	32,181	29,544	23,173	24,570	30,836
EBITDA margin	7.7%	6.4%	6.2%	8.1%	8.7%	7.8%	8.4%	9.7%
Restructuring and other charges	-	-	-	(523)	-	-	(746)	-
Net transaction charges related to The Parts Alliance acquisition	114	618	2,130	2,257	2,916	-	-	-
Adjusted EBITDA	35,557	27,620	27,984	33,915	32,460	23,173	25,350	30,836
Adjusted EBITDA margin	7.7%	6.5%	6.7%	8.6%	9.5%	7.8%	8.7%	9.7%
Net earnings	17,875	10,391	8,721	11,159	13,738	10,998	12,695	17,281
Adjusted earnings	18,399	12,116	11,613	15,851	16,635	10,998	13,068	17,281
Basic earnings per share	0.42	0.25	0.21	0.26	0.33	0.26	0.30	0.41
Adjusted basic earnings per share	0.44	0.29	0.27	0.38	0.39	0.26	0.31	0.41
Diluted earnings per share	0.42	0.25	0.21	0.26	0.32	0.26	0.30	0.41
Dividends declared per share (C\$)	0.0925	0.0925	0.0925	0.0925	0.0925	0.085	0.085	0.085
Average exchange rate for earnings (C\$)	0.77:\$1	0.79:\$1	0.79:\$1	0.80:\$1	0.74:\$1	0.76:\$1	0.75:\$1	0.77:\$1
Average exchange rate for earnings (£)	1.36:\$1	1.39:\$1	1.33:\$1	1.31:\$1	-	-	-	-

⁽¹⁾ Sales since the completion of the acquisition on August 7, 2017.

ANALYSIS OF RESULTS BY SEGMENT

SEGMENTED INFORMATION

The Corporation is providing information on four reportable segments:

- FinishMaster US:** distribution of automotive refinish and industrial paint and related products representing FinishMaster, Inc. in the US market.
- Canadian Automotive Group:** distribution of automotive aftermarket parts, including refinish and industrial paint and related products, through Canadian networks.
- The Parts Alliance UK:** distribution of automotive original equipment manufacturer (OEM) and aftermarket parts, serving local and national customers across the UK.
- Corporate Office and Others:** head office expenses and other expenses mainly related to the financing structure.

The profitability measure employed by the Corporation for assessing performance is EBITDA.

OPERATING RESULTS – FINISHMASTER US

Sales

	Second quarters		Six-month periods	
	2018	2017	2018	2017
Sales	210,954	209,486	412,333	409,188
		%		%
Sales variance	1,468	0.7	3,145	0.8
Acquisitions	-	-	(7,324)	(1.8)
Organic growth	1,468	0.7	(4,179)	(1.0)

SECOND QUARTERS

Sales from this segment increased by 0.7%, compared to the same quarter in 2017, entirely arising from organic growth.

The FinishMaster US segment is rebuilding sales momentum, reporting a positive 0.7% of organic growth for the quarter attributable to the sales team efforts on driving growth by developing business volume and onboarding new accounts.

FinishMaster US also opened one greenfield during the quarter, supporting demand and providing access to a new market.

SIX-MONTH PERIODS

Sales from this segment increased by 0.8%, compared to the same period in 2017, supported by recent business acquisitions, representing a growth of 1.8%.

The momentum of sales, emerging during the second quarter, partially compensated headwinds faced until recently, reducing the negative organic growth to 1.0% for the six-month period. The sales efforts and onboarding of new accounts are expected to progressively offset the impact of the first quarter and generate positive organic growth by the end of the year.

EBITDA

	Second quarters			Six-month periods		
	2018	2017	%	2018	2017	%
EBITDA	21,476	24,003	(10.5)	41,335	47,325	(12.7)
EBITDA margin	10.2%	11.5%		10.0%	11.6%	

SECOND QUARTERS

The EBITDA margin decreased by 130 basis points when compared to the same quarter last year. This variance is mainly the result of an evolving customer mix from a greater percentage of national and regional accounts, for which discounts are more significant. This segment is also aggressively reinforcing its leadership position against competition, attracting new customers and growing business volume.

These elements were partially compensated by savings arising from the 20/20 initiative, which include the integration of one store during the quarter and the alignment of employee benefits to its evolving cost to serve model. Other operational initiatives are also underway to improve the efficiency, such as delivery route optimization and technology across the network.

SIX-MONTH PERIODS

The EBITDA margin decreased by 160 basis points, when compared to the same period last year, impacted by an evolving customer mix as well as lower special buys for the six-month period.

These negative elements were partially compensated by savings arising from the 20/20 initiative, with the integration of 4 stores and the alignment of employee benefits to its evolving cost to serve model.

OPERATING RESULTS – CANADIAN AUTOMOTIVE GROUP

Sales

	Second quarters		Six-month periods	
	2018	2017	2018	2017
Sales	139,572	130,801	250,241	228,299
		%		%
Sales variance	8,771	6.7	21,942	9.6
Conversion effect of the Canadian dollar	(5,493)	(4.2)	(10,346)	(4.5)
Number of billing days	(2,826)	(2.2)	(473)	(0.2)
Acquisitions	(4,364)	(3.3)	(8,629)	(3.8)
Organic growth	(3,912)	(3.0)	2,494	1.1

SECOND QUARTERS

Sales for this segment increased by 6.7%, compared to the same quarter in 2017, in relation to the impact of the Canadian dollar on its conversion to US dollar, the recent business acquisitions and the impact of billing days.

The Automotive Group segment reported a negative organic growth for the quarter, experiencing softer market in 2018, while, for the same quarter last year, reported a record organic growth, raising the bar for 2018.

SIX-MONTH PERIODS

Sales for this segment increased by 9.6%, compared to the same period in 2017, mainly related to the impact of the Canadian dollar on its conversion to US dollar and the recent business acquisitions.

Organic growth was 1.1% for the period principally stemming from sales to current and new independent customers.

Canadian banners are expanding, attracting existing and new customers, which are embracing programs and logos.

EBITDA

	Second quarters			Six-month periods		
	2018	2017	%	2018	2017	%
EBITDA	10,105	11,312	(10.7)	13,267	14,248	(6.9)
<i>EBITDA margin</i>	7.2%	8.6%		5.3%	6.2%	

SECOND QUARTERS

The EBITDA margin decrease of 140 basis points, compared to the same quarter in 2017, is mainly related to the integration efforts undertaken in 2018 to optimize the company-owned stores, including the 20/20 initiative, store rebranding, store processes and the implementation of the new point of sales (POS) system. Through these processes, two stores were integrated during the quarter.

These respective activities are progressing as per plan, and once completed, are expected to yield additional synergies and efficiency, while facilitating further business acquisitions.

These elements were, in part, compensated by higher volume rebates as well as the added contribution from the acquired stores, improving the gross margin in the current quarter when compared to the corresponding quarter last year.

SIX-MONTH PERIODS

The EBITDA margin decrease of 90 basis points, compared to the same period in 2017, is mainly related to undertaken integration efforts in 2018 to optimize the company-owned stores, and where three stores were integrated since the beginning of the year. In addition, the EBITDA margin was impacted by the internalization of the servers, which was a favorable one-time saving in 2017.

These elements were, in part, compensated by higher volume rebates as well as the added contribution from the acquired stores, improving the gross margin for the current period when compared to the corresponding period last year.

OPERATING RESULTS – THE PARTS ALLIANCE UK

	Second quarters		Six-month periods	
	2018	2017	2018	2017
Sales	111,045	-	221,091	-
EBITDA	8,643	-	18,238	-
EBITDA margin	7.8%	N/A	8.2%	N/A

The growth model of this segment is a combination of organic growth, opening of greenfields stores and business acquisitions. For the six-month period, 7 greenfields were opened as planned (3 during the second quarter), expanding the footprint in the UK, and fostering a better service, notably for national accounts.

The business model of The Parts Alliance UK segment is generating a higher gross margin than the other segments of the Corporation, but is also requiring a higher level of employee benefits and operating expenses. This segment, on a stand-alone basis, is reporting underlying organic sales and operating performance. The peak season of this segment, which typically covers the first and second quarters, is enabling the leverage of its cost base. Further supported by cost actions taken during the last quarter of 2017, this segment reported an EBITDA margin of 7.8% for the current quarter, including the investment of greenfield which represents approximately 20 basis point impact. For the six-month period, the EBITDA margin was 8.2%, in contrast to 4.0% recorded during the five-month period of 2017.

In addition, The Parts Alliance UK segment, with undertakings as part of the ongoing 20/20 initiative, is in the process of integrating the operations of its acquired stores and of maximizing their contribution. As a result, two stores were integrated since the beginning of the year (two in the first quarter).

OPERATING RESULTS – CORPORATE OFFICE AND OTHERS

	Second quarters		Six-month periods		%
	2018	2017	2018	2017	
EBITDA	(4,781)	(5,771)	(10,395)	(8,856)	
Net transaction charges related to The Parts Alliance acquisition	114	2,916	732	2,916	
Adjusted EBITDA	(4,667)	(2,855)	(9,663)	(5,940)	62.7

SECOND QUARTERS

The variance, compared to the same quarter in 2017, is mainly explained by losses during the current quarter on foreign exchange currencies on loans.

SIX-MONTH PERIODS

The variance, compared to the same quarter in 2017, is mainly explained by a charge resulting from the equity swap instruments related to the stock-based compensation and recognized during the first quarter this year, as well as losses on foreign exchange currencies as mentioned in the current quarter.

CASH FLOWS

OPERATING ACTIVITIES

	Second quarters		Six-month periods	
	2018	2017	2018	2017
Cash flows from operating activities	38,865	20,978	8,581	23,103

SECOND QUARTERS

Cash inflows from operating activities improved by 85.3% compared to the same quarter in 2017. This performance is mainly resulting from the timing of the vendor financing activities, positively impacting trade and other payables compared to the same quarter last year. Increasing operating income, benefiting from the contribution of The Parts Alliance UK segment, also enhanced the cash inflows, while last year for the same quarter, disbursements amounting to \$9,781 were required in relation to its acquisition, including a premium on foreign currency options.

These elements were partially offset by an increase in trade receivables resulting from growing sales activities.

SIX-MONTH PERIODS

The variance in cash inflows from operating activities, compared to the same period in 2017, is mainly explained by growing sales activities, increasing trade receivables, and by higher Canadian tax installments paid at the beginning of the year.

These elements were partially compensated by increasing operating income, notably benefiting from the contribution of The Parts Alliance UK segment, while last year disbursements were required in relation to its acquisition.

INVESTING ACTIVITIES

	Second quarters		Six-month periods	
	2018	2017	2018	2017
Cash flows used in investing activities	(22,435)	(7,552)	(37,397)	(93,840)

SECOND QUARTERS

The variance in cash outflows from investing activities, compared to the same quarter in 2017, mostly resulted from additional customer investments granted by the FinishMaster US segment on developing business volume as well as the release, as per schedule, of balance of purchase price, both activities arising during the current quarter of 2018.

SIX-MONTH PERIODS

The variance in cash outflows from investing activities, compared to the same period in 2017, is mainly related to business acquisitions closed during the first quarter of 2017, notably D'Angelos, the biggest acquisition to date of the FinishMaster US segment, in part compensated by additional customer investments granted by the same segment on developing business volume during the current quarter of 2018.

FINANCING ACTIVITIES

	Second quarters		Six-month periods	
	2018	2017	2018	2017
Cash flows from (used in) financing activities	(11,827)	(5,658)	21,193	68,113

SECOND QUARTERS

The variance in cash outflows from financing activities, compared to the same quarter in 2017, is mainly explained by the performance of the operating activities during the current quarter of 2018, allowing a superior reimbursement of the long-term debt and customer investments

SIX-MONTH PERIODS

The variance in cash inflows from financing activities, compared to the same period in 2017, is mainly explained by a lower level of business acquisition activities financed by debt in 2018, which was partially offset by additional working capital and customer investments in 2018.

FREE CASH FLOWS

	Second quarters		Six-month periods	
	2018	2017	2018	2017
Cash flows from operating activities	38,865	20,978	8,581	23,103
Changes in working capital	(8,302)	(2,223)	32,833	18,069
	30,563	18,755	41,414	41,172
Acquisitions of property and equipment	(2,698)	(2,562)	(6,627)	(3,779)
Difference between amounts paid for post-employment benefits and current period expenses	(116)	(86)	(317)	(192)
Free cash flows	27,749	16,107	34,470	37,201

SECOND QUARTERS

The improvement in free cash flows of 72.3%, compared to the same quarter in 2017, is mainly explained by the increasing operating income, notably benefiting from the contribution of The Parts Alliance UK segment, while last year the corresponding quarter was impacted by disbursements in relation to its acquisition, including a premium on foreign currency options.

Larger payments of interest in the current quarter of 2018, compared to the same quarter last year, partially offset this increase of free cash flows, and relate to the financing of recent business acquisitions.

SIX-MONTH PERIODS

The variance in free cash flows, compared to the same period in 2017, is mainly explained by larger Canadian tax installments and capital investments for property and equipment at The Parts Alliance UK segment, including greenfield openings, as well as higher payments of interest related to the financing of recent business acquisitions.

These elements were, in part, compensated by the increasing operating income, notably benefiting from the contribution of The Parts Alliance UK segment, while last year was impacted by disbursements in relation to its acquisition.

FINANCING

CREDIT FACILITIES

The Corporation has access, for its needs, to a \$525,000 unsecured long-term revolving credit facility, as well as a \$20,000 letter of credit facility, both with a maturity date of June 30, 2021 and a \$100,000 unsecured term facility maturing in tranches with the latest maturity date on June 30, 2020.

As at June 30, 2018, the unused portion, subject to financial covenants, amounted to \$159,000 (\$193,000 as at December 31, 2017). (*Refer to note 11 in the interim condensed consolidated financial statements for further details.*)

VENDOR FINANCING PROGRAM

The Corporation benefits from a vendor financing program. Under this program, financial institutions make discounted accelerated payments to suppliers, and the Corporation makes full payment to the financial institutions according to the new extended payment term agreements with suppliers.

As at June 30, 2018, Uni-Select benefited from additional deferred payments of accounts payable in the amount of \$161,280 and used \$219,772 of the program (\$166,344 and \$229,468 respectively as at December 31, 2017). The authorized limit with the financial institutions is \$300,000, following an increase of \$32,500 during the second quarter. These amounts are presented in "Trade and other payables" in the condensed consolidated statements of financial position. This program is available upon the Corporation's request and may be modified by either party.

FINANCIAL INSTRUMENTS

Derivative financial instruments – hedge of foreign exchange risk

The Corporation entered into forward contracts to mitigate the foreign exchange risks mainly related to purchases in currencies other than the respective functional currencies of the Corporation. The consolidated forward contracts outstanding as at June 30, 2018 are as follows:

Currencies (sold/bought)	Maturity	Average rate ⁽¹⁾	Notional amount ⁽²⁾
CAD/USD	Up to January 2019	0.75	10,647
GBP/USD	Up to September 2018	1.37	1,452
GBP/EURO	Up to October 2018	0.88	1,392
			<u>13,491</u>

⁽¹⁾ Rates are expressed as the number of units of the currency bought for one unit of currency sold.

⁽²⁾ Exchange rates as at June 30, 2018 were used to translate amounts in foreign currencies.

Derivative financial instruments used in cash flow hedges - hedge of interest rate risk

In 2017, the Corporation entered into various swap agreements to hedge the variable interest cash flows on a portion of the Corporation's revolving credit facility and term loan for total nominal amounts at inception of \$80,000 for interest rate swaps denominated in US dollars, and £70,000 for interest rate swaps denominated in British pounds. Until their respective maturities, these agreements are fixing the interest cash flows between 1.745% and 1.760% for interest rate swaps denominated in US dollars, and to 0.955% for interest rate swaps denominated in British pounds.

Derivative financial instruments – hedge of share-based payments cost

In 2016, the Corporation entered into equity swap agreements in order to manage the market price risk of its common shares. As at June 30, 2018, the equity swap agreements covered the equivalent of 364,277 common shares of the Corporation.

CAPITAL STRUCTURE

LONG-TERM FINANCIAL POLICIES AND GUIDELINES

Guided by its low-asset-base-high-utilization philosophy, the Corporation's strategy is to monitor the following ratios to ensure flexibility in the capital structure:

- Total net debt to total net debt and total equity;
- Long-term debt to total equity ratio;
- Funded debt to adjusted EBITDA ratio;
- Adjusted return on average total equity; and
- Dividend payout ratio based on the adjusted earnings of the previous year converted in Canadian dollars.

	Jun. 30,	Dec. 31,
	2018	2017
Components of debt ratios:		
Long-term debt	473,154	448,581
Total net debt	450,124	417,909
Total equity	532,168	517,977
Debt ratios ⁽¹⁾:		
<i>Total net debt to total net debt and total equity ratio</i>	45.8%	44.7%
<i>Long-term debt to total equity ratio</i>	88.9%	86.6%
<i>Funded debt to adjusted EBITDA ratio</i>	3.60	3.56
<i>Return on average total equity</i>	9.4%	9.0%
<i>Adjusted return on average total equity</i>	10.5%	10.8%
<i>Dividend payout ratio</i>	21.9%	19.3%

⁽¹⁾ These ratios are not required for banking commitments but represent the ones that the Corporation considers pertinent to monitor and to ensure flexibility in the capital structure. However, until a twelve-month period of operations is consolidated with The Parts Alliance UK segment, the Corporation is also monitoring the funded debt to adjusted EBITDA ratio using annualized results related to this transaction, which results in a ratio of 3.53 (3.04 as at December 31, 2017).

Management continuously monitors its working capital items to improve the cash conversion cycle, in particular, on optimizing inventory levels in all business segments.

The variances of the total net debt to total net debt and total equity and the long-term debt to total equity ratios are mainly explained by the debt increase, since funds were required for seasonal investments in working capital as well as for additional customer investments granted on new business volume wins. This debt increase was partially compensated by an increase of the total equity resulting from the net earnings of the period.

The variance of the funded debt to adjusted EBITDA ratio is attributable to the growing adjusted EBITDA, largely compensating for the debt increase.

The adjusted return on average total equity variance is mainly explained by the increase of the average total equity resulting from the net earnings of the last twelve months, impacted most recently by the additional amortization of intangible assets and finance costs related to business acquisitions.

BANK COVENANTS

For purposes of compliance, the Corporation regularly monitors the requirements of its bank covenants to ensure they are met. As at June 30, 2018, the Corporation met all the requirements.

DIVIDENDS

On May 3, 2018, the Corporation declared the second quarterly dividend of 2018 of C\$0.0925, paid on July 17, 2018 to shareholders of record as at June 30, 2018.

On August 10, 2018, the Corporation declared the third quarterly dividend of 2018 of C\$0.0925, payable on October 16, 2018 to shareholders of record as at September 30, 2018.

These dividends are eligible dividends for income tax purposes.

INFORMATION ON CAPITAL STOCK

As of June 30, 2018, 42,193,742 common shares were outstanding (42,273,812 as at December 31, 2017).

Issuance of shares

During the six-month period ended June 30, 2018, the Corporation issued 12,626 common shares (59,634 in 2017) at the exercise of stock options for a cash consideration of \$138 (\$661 in 2017). The weighted average price of the exercise of stock options was C\$15.32 for the period (C\$14.80 for 2017).

New normal course issuer bid

On April 18, 2018, the Corporation announced that it received approval from the TSX to renew its intention to purchase by way of a new normal course issuer bid ("NCIB"), for cancellation purposes, up to 1,500,000 common shares, representing approximately 3.5% of its 42,273,812 issued and outstanding common shares as of April 16, 2018 over a twelve-month period beginning on April 23, 2018 and ending on April 22, 2019. In connection with the NCIB, the Corporation established an Automatic Purchase Plan ("APP"), enabling itself to provide standard instructions regarding the redemption of common shares during self-imposed blackout periods. Such redemptions will be determined by the broker in its sole discretion based on the Corporation's parameters.

In relation to this APP, 92,696 common shares were repurchased for a cash consideration of \$1,422 including a share repurchase and cancellation premium of \$1,232 applied as a reduction of retained earnings (none in 2017).

STOCK-BASED COMPENSATION

Common share stock option plan for management employees and officers

For the six-month period ended June 30, 2018, 181,679 options were granted to management employees and officers of the Corporation (80,054 for 2017), with an average exercise price of C\$28.61 (C\$29.64 in 2017). During the period, 12,626 options were exercised (59,634 for 2017) and 37,640 options were forfeited or expired (none for 2017). As at June 30, 2018, options granted for the issuance of 1,037,772 common shares (413,198 as at June 30, 2017) were outstanding under the Corporation's stock option plan. For the quarter and six-month period ended June 30, 2018, compensation expense of \$328 and \$805 (\$96 and \$278 respectively in 2017) was recorded in the "Net earnings", with the corresponding amounts recorded in "Contributed surplus".

Deferred share unit ("DSU") plan

For the six-month period ended June 30, 2018, the Corporation granted 35,690 DSUs (22,410 DSUs for 2017) and redeemed 12,810 DSUs (none for 2017). Compensation expense (reversal) of \$297 and \$(333) was recorded during the quarter and six-month period (\$436 and \$548 respectively in 2017), and 176,217 DSUs were outstanding as at June 30, 2018 (164,665 DSUs as at June 30, 2017). As at June 30, 2018, the compensation liability was \$2,798 (\$3,482 as at December 31, 2017) and the fair value of the equity swap agreement was a liability of \$1,208 (liability of \$352 as at December 31, 2017).

Performance share unit ("PSU") plan

For the six-month period ended June 30, 2018, the Corporation granted 135,709 PSUs (110,454 PSUs for 2017) and redeemed 97,704 PSUs (61,330 PSUs for 2017). Compensation expense (reversal) of \$455 and \$(119) was recorded during the quarter and six-month period (\$208 and \$2,036 respectively in 2017), and 311,000 PSUs were outstanding as at June 30, 2018 (265,160 PSUs as at June 30, 2017). As at June 30, 2018, the compensation liability was \$2,091 (\$4,945 as at December 31, 2017) and the fair value of the equity swap agreement was a liability of \$1,549 (liability of \$356 as at December 31, 2017).

FINANCIAL POSITION

During the period, the financial position, when compared to December 31, 2017, has been impacted by business acquisitions and the conversion effect of the Canadian dollar and the British pound into US dollar.

The following table shows an analysis of selected items from the condensed consolidated statements of financial position:

	Jun. 30, 2018	Dec. 31, 2017	Impact of business acquisitions	Impact on conversion C\$/US\$ and £/US\$	Net variances
Short-term					
Trade and other receivables	269,034	236,811	(21)	(6,017)	38,261
Income taxes receivable, net	26,097	12,448	-	(989)	14,638
Inventory	458,588	458,354	(110)	(8,095)	8,439
Trade and other payables	449,780	446,370	55	(9,483)	12,838
Balance of purchase price, net	4,192	15,469	(11,937)	660	-
Long-term					
Investments and advances to merchant members	41,988	30,628	101	(229)	11,488
Intangible assets	215,134	231,365	(4,725)	(3,035)	(8,471)
Goodwill	370,882	372,119	3,515	(4,752)	-
Long-term debt (including short-term portion)	473,154	448,581	5,798	(5,220)	23,995

Explanations for net variances:

Trade and other receivables: The increase is mainly related to seasonality affecting all segments, since sales activity is typically higher during the second quarter than at year-end.

Income taxes receivable, net: The increase is mainly explained by the Canadian tax installments paid during the first quarter.

Inventory: The increase is mainly attributable to seasonality as well as special purchases made by the FinishMaster US segment.

Trade and other payables: The increase is mainly explained by the same factors as for the inventory.

Investments and advances to merchant members: The increase is mainly attributable to additional customer investments granted by the FinishMaster US segment in relation to new business volume wins, net of the amortization.

Intangible assets: The amortization during the period, net of new investments, explains the variance.

Long-term debt: The variance is mostly attributable to additional customer investments granted to new customers.

RISK MANAGEMENT

In the normal course of business, the Corporation is exposed to a variety of risks that may have a material impact on its business activities, operating results, cash flows and financial position. The Corporation continuously maintains and updates its system of analysis and controls on operational, strategic and financial risks to manage and implement activities with the objective of mitigating the main risks mentioned in the 2017 Annual Report.

Since the beginning of the year 2018, the Corporation had no significant change in its risks except for the following legal risk associated with the business context:

The global operations of the Corporation require to be compliant with applicable laws and regulations in many jurisdictions on various matters, such as: anticorruption, taxation, securities, antitrust, data privacy or data protection (including the General Data Protection Regulation, or GDPR implemented by the European Commission on May 25, 2018) and labour relations. Complying with these diverse requirements applicable to the operations of the Corporation located in Canada, the US and the UK, is an important task that consumes significant resources (including external professional advisers). Some of these laws and regulations may impose several requirements and may expose the Corporation to penalties and fines for non-compliance as well as harm its reputation.

MODIFICATIONS TO SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING CHANGES ADOPTED IN 2018

The Corporation applied, for the first time, IFRS 15 “Revenues from contracts with customers” and IFRS 9 “Financial Instruments” that require restatement of previous consolidated financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

Revenues from contracts with customers

In May 2014, the IASB and the Financial Accounting Standards Board (“FASB”) jointly issued IFRS 15, a converged standard on the recognition of revenue from contracts with customers. It supersedes the IASB’s current revenue recognition guidance including IAS 18 “Revenue”, IAS 11 “Construction Contracts”, and related interpretations. IFRS 15 provides a single principle-based five-step model to use when accounting for revenue arising from contracts with customers.

The Corporation has applied IFRS 15 as of January 1, 2018 using the full retrospective method of adoption. The effect of adopting this standard is detailed as follows:

Effects on the consolidated financial statements and notes for the year ended December 31, 2017

Under the new standard, the transfer of products with a right of return is presented gross as a refund liability and an asset for recovery. In the Corporation’s audited consolidated financial position as at December 31, 2017, the allowance for returns was presented on a net basis and, therefore, a reclassification of \$9,644 from “Trade and other payables” to “Trade and other receivables” is required.

The implementation of IFRS 15 had no material impact on the Corporation’s consolidated statement of earnings, comprehensive income, changes in equity and cash flows for the year ended on December 31, 2017.

The new disclosure requirements of IFRS 15 partially impacted the information described under notes 2 and 3 of the audited annual consolidated financial statements for the year ended December 31, 2017. The following sections were modified as follows:

Basis of presentation - Use of accounting estimates and judgments

Sales recognition: Estimates are used in determining the amounts to be recorded for the right of return, assurance warranties and trade and volume discounts. These estimates are calculated segment-by-segment based on the agreed-on specifications with the customers, the Corporation’s historical experience and Management’s assumptions about future events, and are reviewed on a regular basis throughout the year.

Significant accounting policies - Sales recognition

The Corporation recognizes sales upon shipment of products, when the control has been transferred to the buyer, there is no continuing Management involvement with the products, the recovery of the consideration is probable and the amount of revenue can be measured reliably. Sales are measured at the fair value of the consideration to which the Corporation is entitled to receive in exchange for transferring the promised products, net of the provisions for the right of return and assurance warranties as well as other trade and volume discounts.

The Corporation offers its customers a right of return on the sale of products as well as certain warranties to cover the compliance of the products transferred with agreed-on specifications. At the time of sales recognition, the Corporation records provisions for the right of return and assurance warranties which are based on the Corporation’s historical experience and Management’s assumptions.

Financial instruments

In July 2014, the IASB issued a complete and final version of IFRS 9 “Financial Instruments”, replacing the current standard on financial instruments (IAS 39). IFRS 9 introduces a single, principle-based approach for the classification of financial assets, driven by the nature of cash flows and the business model in which an asset is held. IFRS 9 also provides guidance on an entity’s own credit risk relating to financial liabilities and has modified the hedge accounting model to align the economics of risk management with its accounting treatment. The standard results in a single expected-loss impairment model rather than an incurred losses model.

The Corporation has applied IFRS 9 retrospectively, with the initial application date as of January 1, 2018. This transition had no significant impact on the consolidated financial statements. The key changes to the Corporation's accounting policies described under note 3 of the audited annual consolidated financial statements for the year ended December 31, 2017 are summarized below.

Significant accounting policies – Financial instruments

(i) Classification and measurement of non derivative financial instruments

Financial assets are recognized when the Corporation becomes a party to the contractual provisions of the financial instrument. Except for certain trade receivables, financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition. The subsequent measurement of financial assets depends on their classification, that is based on two criteria: (i) the Corporation's business model for managing the financial assets; and (ii) whether the instruments' contractual cash flows represent solely payments and interest on the principal amount outstanding (the "SPPI criterion").

As a result of the adoption of IFRS 9, the Corporation reclassified its cash, cash held in escrow, trade and other receivables and advances to merchant members from loans and receivables to financial assets measured at amortized cost.

The amortized cost category is for non-derivative financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. After initial recognition, financial assets under that category are measured at amortized cost using the effective interest method, less any impairment.

The assessment of the Corporation's business model was made as of the date of initial application, January 1, 2018, and then applied retrospectively to those financial assets that were not derecognized before that date. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The adoption of IFRS 9 did not result in any measurement adjustments to the financial assets and, therefore, does not require restatement of comparative periods. As well, it had no significant effect on the Corporation's accounting policies for financial liabilities and derecognition of financial instruments.

(ii) Impairment of non derivative financial instruments

IFRS 9 replaces the incurred loss model in IAS 39 with a forward-looking expected credit loss ("ECL") approach.

Under the new impairment model, all financial assets, except for those measured at fair value through net earnings, are subject to review for impairment at least at each reporting date. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Corporation expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables, the Corporation has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. For other debt financial assets (i.e.: advances to merchant members), the ECL is based on the 12-month ECL. The 12-month ECL is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The adoption of the ECL requirements of IFRS 9 had no significant impact on the Corporation's accounting for impairment losses for financial assets.

(iii) Derivative financial instruments and hedge accounting

The Corporation has elected to adopt the new general hedge accounting model in IFRS 9. This requires the Corporation to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The adoption of the hedge accounting requirements of IFRS 9 did not result in any changes in the eligibility for hedge accounting and the accounting for the derivative financial instruments designated as effective hedging instruments at the transition date.

FUTURE ACCOUNTING CHANGES

Information on new standards, amendments and interpretations that are expected to be relevant to the Corporation's interim condensed consolidated financial statements is provided in the Corporation's audited consolidated financial statements for the year ended December 31, 2017. Certain other new standards and interpretations have been issued but had no material impact on the Corporation's interim condensed consolidated financial statements.

EXCHANGE RATE DATA

The following table sets forth information about exchange rates based upon rates expressed as US dollars per comparative currency unit:

	Second quarters		Six-month periods	
	Jun. 30, 2018	Jun. 30, 2017	Jun. 30, 2018	Jun. 30, 2017
Average for the period (to translate the statement of earnings)				
Canadian dollar	0.77	0.74	0.78	0.75
British Pound	1.36	-	1.38	-
			Jun. 30, 2018	Dec. 31, 2017
Period end (to translate the statement of financial position)				
Canadian dollar			0.76	0.80
British Pound			1.32	1.35

As the Corporation uses the US dollar as its reporting currency in its interim condensed consolidated financial statements and in this document, unless otherwise indicated, results from its Canadian operations and its UK operations are translated into US dollars using the average rate for the period. Variances and explanations related to fluctuations in the foreign exchange rate, and the volatility of the Canadian dollar and the British pound are therefore related to the translation in US dollars of the Corporation's results for its Canadian and UK operations and do not have an economic impact on its performance since most of the Corporation's consolidated sales and expenses are received or denominated in the functional currency of the markets in which it does business. Accordingly, the sensitivity of the Corporation's results to fluctuations in foreign exchange rates is economically limited.

EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The President and Chief Executive Officer and the Chief Financial Officer of the Corporation, are responsible for the implementation and maintenance of disclosure controls and procedures, and of the internal control over financial reporting, as provided for in National Instrument 52-109 regarding the Certification of Disclosure in Issuers' Annual and Interim Filings. They are assisted in this task by the Disclosure Committee, which is comprised of members of the Corporation's senior management.

DISCLOSURE CONTROLS AND PROCEDURES

Uni-Select has pursued its evaluation of disclosure controls and procedures in accordance with the NI 52-109 guidelines. As at June 30, 2018, the President and Chief Executive Officer and the Chief Financial Officer concluded that the Corporation's disclosure controls and procedures are properly designed and effective.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Uni-Select has continued its evaluation of the effectiveness of internal controls over financial reporting as at June 30, 2018, in accordance with the NI 52-109 guidelines. This evaluation enabled the President and Chief Executive Officer and the Chief Financial Officer to conclude that internal controls over financial reporting were designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the interim condensed consolidated financial statements in accordance with IFRS.

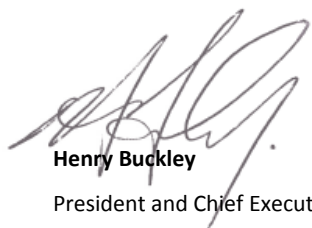
During the six-month period ended June 30, 2018, no change in the Corporation's internal controls over financial reporting occurred that materially affected, or is reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

Management has limited the scope of design of its disclosure controls and procedures and its internal controls over financial reporting to exclude the controls, policies and procedures of The Parts Alliance UK segment. This is due to the size and timing of the transaction, which occurred on August 7, 2017. The limitation is primarily based on the time required to assess The Parts Alliance UK segment's controls over financial reporting and to confirm they are consistent with those of the Corporation, as permitted by the Canadian Securities Administrator's National Instrument 52-109 for 365 days following an acquisition.

The Parts Alliance UK segment's results are included in the Corporation's interim condensed consolidated financial statements and constituted approximately 18.4% of total assets as at June 30, 2018, 25.0% of consolidated sales, and 40.1% of consolidated net earnings for the six-month period ended June 30, 2018.

OUTLOOK

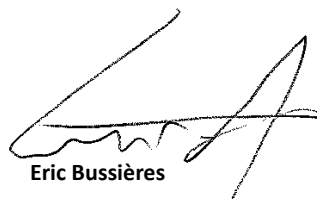
A discussion of management's expectations as to our outlook for the following quarters of 2018 is included in our press release announcing the 2018 second quarter results, under the section Outlook. The press release is available on SEDAR website at sedar.com and under the "Investors - Newsroom" section of our corporate website at uniselect.com.



Henry Buckley

President and Chief Executive Officer

Approved by the Board of Directors on August 10, 2018.



Eric Bussièrès

Chief Financial Officer

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 (unaudited)

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CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands of US dollars, except per share amounts, unaudited)	Note	Quarters ended June 30,		Six-month periods ended June 30,	
		2018	2017	2018	2017
Sales		461,571	340,287	883,665	637,487
Purchases, net of changes in inventories		310,009	237,594	589,334	440,877
Gross margin		151,562	102,693	294,331	196,610
Employee benefits		77,297	47,648	157,183	96,213
Other operating expenses		38,708	22,585	73,971	44,764
Net transaction charges related to The Parts Alliance acquisition	4	114	2,916	732	2,916
Earnings before finance costs, depreciation and amortization and income taxes		35,443	29,544	62,445	52,717
Finance costs, net	5	4,929	2,869	9,892	4,455
Depreciation and amortization	5	9,472	6,613	19,406	11,415
Earnings before income taxes		21,042	20,062	33,147	36,847
Income tax expense	5	3,167	6,324	4,881	12,111
Net earnings		17,875	13,738	28,266	24,736
Earnings per share	6				
Basic		0.42	0.33	0.67	0.59
Diluted		0.42	0.32	0.67	0.58
Weighted average number of common shares outstanding (in thousands)	6				
Basic		42,230	42,251	42,252	42,249
Diluted		42,282	42,422	42,319	42,418

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of US dollars, unaudited)	Quarters ended June 30,		Six-month periods ended June 30,	
	2018	2017	2018	2017
Net earnings	17,875	13,738	28,266	24,736
Other comprehensive income (loss)				
Items that will subsequently be reclassified to net earnings:				
Effective portion of changes in the fair value of cash flow hedges (net of income tax of \$99 and \$254 for the quarter and the six-month period (\$26 for both the quarter and six-month period in 2017))	(287)	(69)	740	(69)
Net change in the fair value of derivative financial instruments designated as cash flow hedges transferred to earnings (net of income tax of \$3 and \$39 for the quarter and the six-month period (\$5 for both the quarter and six-month period in 2017))	8	13	112	13
Unrealized exchange gains (losses) on the translation of financial statements to the presentation currency	(13,073)	1,067	2,471	2,929
Unrealized exchange gains (losses) on the translation of debt designated as a hedge of net investments in foreign operations (no income tax for the quarter and the six-month period (net of income tax of \$226 for both the quarter and six-month period in 2017))	(88)	1,401	(11,543)	1,401
	(13,440)	2,412	(8,220)	4,274
Items that will not subsequently be reclassified to net earnings:				
Remeasurements of long-term employee benefit obligations (net of income tax of \$294 and \$257 for the quarter and the six-month period (\$1,194 and \$1,178 respectively in 2017))	864	(3,111)	746	(3,043)
Total other comprehensive income (loss)	(12,576)	(699)	(7,474)	1,231
Comprehensive income	5,299	13,039	20,792	25,967

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands of US dollars, unaudited)	Note	Attributable to shareholders				Total equity
		Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	
Balance, December 31, 2016		96,924	4,260	401,420	(30,242)	472,362
Net earnings		-	-	24,736	-	24,736
Other comprehensive income (loss)		-	-	(3,043)	4,274	1,231
Comprehensive income		-	-	21,693	4,274	25,967
Contributions by and distributions to shareholders:						
Issuance of common shares	12	661	-	-	-	661
Dividends		-	-	(5,620)	-	(5,620)
Stock-based compensation	9	-	278	-	-	278
		661	278	(5,620)	-	(4,681)
Balance, June 30, 2017		97,585	4,538	417,493	(25,968)	493,648
Balance, December 31, 2017		97,585	5,184	432,470	(17,262)	517,977
Net earnings		-	-	28,266	-	28,266
Other comprehensive income (loss)		-	-	746	(8,220)	(7,474)
Comprehensive income (loss)		-	-	29,012	(8,220)	20,792
Contributions by and distributions to shareholders:						
Repurchase and cancellation of common shares	12	(190)	-	(1,232)	-	(1,422)
Issuance of common shares	12	138	-	-	-	138
Transfer upon exercise of stock option		32	(32)	-	-	-
Dividends		-	-	(6,122)	-	(6,122)
Stock-based compensation	9	-	805	-	-	805
		(20)	773	(7,354)	-	(6,601)
Balance, June 30, 2018		97,565	5,957	454,128	(25,482)	532,168

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of US dollars, unaudited)	Note	Quarters ended June 30,		Six-month periods ended June 30,	
		2018	2017	2018	2017
OPERATING ACTIVITIES					
Net earnings		17,875	13,738	28,266	24,736
Non-cash items:					
Finance costs, net	5	4,929	2,869	9,892	4,455
Depreciation and amortization	5	9,472	6,613	19,406	11,415
Income tax expense	5	3,167	6,324	4,881	12,111
Amortization and reserves related to incentives granted to customers		3,877	4,108	7,985	7,651
Other non-cash items		412	946	(527)	921
Changes in working capital items	7	8,302	2,223	(32,833)	(18,069)
Interest paid		(4,879)	(1,597)	(9,250)	(2,826)
Premium on foreign currency options paid		-	(6,631)	-	(6,631)
Income taxes paid		(4,290)	(7,615)	(19,239)	(10,660)
Cash flows from operating activities		38,865	20,978	8,581	23,103
INVESTING ACTIVITIES					
Business acquisitions	8	-	(1,249)	-	(67,331)
Net balance of purchase price		(3,102)	(725)	(5,798)	(4,130)
Cash held in escrow		-	2,966	-	(5,511)
Advances to merchant members and incentives granted to customers		(18,240)	(7,508)	(27,170)	(15,112)
Reimbursement of advances to merchant members		2,191	2,196	3,035	3,524
Acquisitions of property and equipment		(2,698)	(2,562)	(6,627)	(3,779)
Proceeds from disposal of property and equipment		283	242	583	240
Acquisitions and development of intangible assets		(761)	(912)	(1,312)	(1,741)
Other provisions paid		(108)	-	(108)	-
Cash flows used in investing activities		(22,435)	(7,552)	(37,397)	(93,840)
FINANCING ACTIVITIES					
Increase in long-term debt		29,392	24,995	97,913	141,489
Repayment of long-term debt		(37,009)	(28,311)	(69,624)	(68,492)
Net increase (decrease) in merchant members' deposits in the guarantee fund		182	82	446	(114)
Repurchase and cancellation of shares	12	(1,422)	-	(1,422)	-
Issuance of shares	12	138	281	138	661
Dividends paid		(3,108)	(2,705)	(6,258)	(5,431)
Cash flows from (used in) financing activities		(11,827)	(5,658)	21,193	68,113
Effects of fluctuations in exchange rates on cash		(583)	81	(19)	92
Net increase (decrease) in cash		4,020	7,849	(7,642)	(2,532)
Cash, beginning of period		19,010	11,944	30,672	22,325
Cash, end of period		23,030	19,793	23,030	19,793

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands of US dollars, unaudited)	Note	June 30, 2018	Dec. 31, 2017
ASSETS			
Current assets:			
Cash		23,030	30,672
Cash held in escrow		2,045	8,147
Trade and other receivables		269,034	236,811
Income taxes receivable		32,570	29,279
Inventory		458,588	458,354
Prepaid expenses		12,928	10,196
Total current assets		798,195	773,459
Investments and advances to merchant members		41,988	30,628
Property and equipment		74,366	78,644
Intangible assets		215,134	231,365
Goodwill		370,882	372,119
Derivative financial instruments	13	1,551	-
Deferred tax assets		10,420	10,174
TOTAL ASSETS		1,512,536	1,496,389
LIABILITIES			
Current liabilities:			
Trade and other payables		449,780	446,370
Balance of purchase price, net		4,192	15,469
Income taxes payable		6,473	16,831
Dividends payable		2,970	3,110
Current portion of long-term debt and merchant members' deposits in the guarantee fund		28,813	37,098
Total current liabilities		492,228	518,878
Long-term employee benefit obligations		16,534	20,985
Long-term debt	11	444,427	411,585
Merchant members' deposits in the guarantee fund		5,753	5,543
Balance of purchase price, net		2,046	2,944
Other provisions		1,179	1,331
Derivative financial instruments	13	2,757	1,041
Deferred tax liabilities		15,444	16,105
TOTAL LIABILITIES		980,368	978,412
EQUITY			
Share capital		97,565	97,585
Contributed surplus		5,957	5,184
Retained earnings		454,128	432,470
Accumulated other comprehensive loss		(25,482)	(17,262)
TOTAL EQUITY		532,168	517,977
TOTAL LIABILITIES AND EQUITY		1,512,536	1,496,389

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of US dollars, except per share amounts, percentages and otherwise specified) (unaudited)

1 - GOVERNING STATUTE AND NATURE OF OPERATIONS

Uni-Select Inc. ("Uni-Select") is a corporation domiciled in Canada and duly incorporated and governed by the Business Corporations Act (Québec). Uni-Select is the parent company of a group of entities, which includes Uni-Select and its subsidiaries (collectively, the "Corporation"). The Corporation is a major distributor of automotive products and paint and related products for motor vehicles. The Corporation's registered office is located at 170 Industriel Blvd., Boucherville, Québec, Canada.

These interim condensed consolidated financial statements present the operations and financial position of the Corporation and all of its subsidiaries.

The Corporation's shares are listed on the Toronto Stock Exchange ("TSX") under the symbol UNS.

2 - BASIS OF PRESENTATION

Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements. As permitted under IAS 34 "Interim Financial Reporting", these interim consolidated financial statements constitute a condensed set of financial statements, as the Corporation does not present all the notes to consolidated financial statements included in its annual report. The significant accounting policies followed in these interim condensed consolidated financial statements are the same as those applied in the audited annual consolidated financial statements of the Corporation for the year ended December 31, 2017, except for the changes in accounting policies as described in note 3. These interim condensed consolidated financial statements should be read in conjunction with the Corporation's audited annual consolidated financial statements for the year ended December 31, 2017.

The Board of Directors approved and authorized for issuance these interim condensed consolidated financial statements on August 10, 2018.

Basis of measurement

These interim condensed consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments, which are measured at fair value, provisions, which are measured based on the best estimates of the expenditures required to settle the obligation and the post-employment benefit obligations, which are measured at the present value of the defined benefit obligation and reduced by the fair value of plan assets.

Functional and presentation currency

Items included in the financial statements of each of the Corporation's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Corporation's functional currencies are the US dollar for entities located in the United States, the Canadian dollar for entities located in Canada and the British pound for entities located in the United Kingdom. These interim condensed consolidated financial statements are presented in US dollars, which is the Corporation's presentation currency.

Seasonality of interim operations

Sales of the Corporation follow seasonal patterns. Typically, sales are stronger during the second and the third quarters for FinishMaster US and the Canadian Automotive Group segments, and during the first and the second quarters for The Parts Alliance UK segment. As such, the operating results for any interim period are not necessarily indicative of full year performance. Refer to note 14 for further details on segmented information.

Use of accounting estimates and judgments

The most significant uses of judgment, estimates and assumptions are described in the Corporation's audited consolidated financial statements for the year ended December 31, 2017, except for the modifications resulting from IFRS first time adoption as described in note 3.

3 - MODIFICATIONS TO SIGNIFICANT ACCOUNTING POLICIES

Accounting changes adopted in 2018

The Corporation applied, for the first time, IFRS 15 “Revenues from contracts with customers” and IFRS 9 “Financial Instruments” that require restatement of previous consolidated financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

Revenues from contracts with customers

In May 2014, the IASB and the Financial Accounting Standards Board (“FASB”) jointly issued IFRS 15, a converged standard on the recognition of revenue from contracts with customers. It supersedes the IASB’s current revenue recognition guidance including IAS 18 “Revenue”, IAS 11 “Construction Contracts”, and related interpretations. IFRS 15 provides a single principle-based five-step model to use when accounting for revenue arising from contracts with customers.

The Corporation has applied IFRS 15 as of January 1, 2018 using the full retrospective method of adoption. The effect of adopting this standard is detailed as follows:

Effects on the consolidated financial statements and notes for the year ended December 31, 2017

Under the new standard, the transfer of products with a right of return is presented gross as a refund liability and an asset for recovery. In the Corporation’s audited consolidated financial position as at December 31, 2017, the allowance for returns was presented on a net basis and, therefore, a reclassification of \$9,644 from “Trade and other payables” to “Trade and other receivables” is required.

The implementation of IFRS 15 had no material impact on the Corporation’s consolidated statement of earnings, comprehensive income, changes in equity and cash flows for the year ended on December 31, 2017.

The new disclosure requirements of IFRS 15 partially impacted the information described under notes 2 and 3 of the audited annual consolidated financial statements for the year ended December 31, 2017. The following sections were modified as follows:

Basis of presentation - Use of accounting estimates and judgments

Sales recognition: Estimates are used in determining the amounts to be recorded for the right of return, assurance warranties and trade and volume discounts. These estimates are calculated segment-by-segment based on the agreed-on specifications with the customers, the Corporation’s historical experience and Management’s assumptions about future events, and are reviewed on a regular basis throughout the year.

Significant accounting policies - Sales recognition

The Corporation recognizes sales upon shipment of products, when the control has been transferred to the buyer, there is no continuing Management involvement with the products, the recovery of the consideration is probable and the amount of revenue can be measured reliably. Sales are measured at the fair value of the consideration to which the Corporation is entitled to receive in exchange for transferring the promised products, net of the provisions for the right of return and assurance warranties as well as other trade and volume discounts.

The Corporation offers its customers a right of return on the sale of products as well as certain warranties to cover the compliance of the products transferred with agreed-on specifications. At the time of sales recognition, the Corporation records provisions for the right of return and assurance warranties which are based on the Corporation’s historical experience and Management’s assumptions.

Financial instruments

In July 2014, the IASB issued a complete and final version of IFRS 9 “Financial Instruments”, replacing the current standard on financial instruments (IAS 39). IFRS 9 introduces a single, principle-based approach for the classification of financial assets, driven by the nature of cash flows and the business model in which an asset is held. IFRS 9 also provides guidance on an entity’s own credit risk relating to financial liabilities and has modified the hedge accounting model to align the economics of risk management with its accounting treatment. The standard results in a single expected-loss impairment model rather than an incurred losses model.

The Corporation has applied IFRS 9 retrospectively, with the initial application date as of January 1, 2018. This transition had no significant impact on the consolidated financial statements. The key changes to the Corporation’s accounting policies described under note 3 of the audited annual consolidated financial statements for the year ended December 31, 2017 are summarized below.

3 - MODIFICATIONS TO SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting policies – Financial instruments

(i) *Classification and measurement of non derivative financial instruments*

Financial assets are recognized when the Corporation becomes a party to the contractual provisions of the financial instrument. Except for certain trade receivables, financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition. The subsequent measurement of financial assets depends on their classification, that is based on two criteria: (i) the Corporation's business model for managing the financial assets; and (ii) whether the instruments' contractual cash flows represent solely payments and interest on the principal amount outstanding (the "SPPI criterion").

As a result of the adoption of IFRS 9, the Corporation reclassified its cash, cash held in escrow, trade and other receivables and advances to merchant members from loans and receivables to financial assets measured at amortized cost.

The amortized cost category is for non-derivative financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. After initial recognition, financial assets under that category are measured at amortized cost using the effective interest method, less any impairment.

The assessment of the Corporation's business model was made as of the date of initial application, January 1, 2018, and then applied retrospectively to those financial assets that were not derecognized before that date. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The adoption of IFRS 9 did not result in any measurement adjustments to the financial assets and, therefore, does not require restatement of comparative periods. As well, it had no significant effect on the Corporation's accounting policies for financial liabilities and derecognition of financial instruments.

(ii) *Impairment of non derivative financial instruments*

IFRS 9 replaces the incurred loss model in IAS 39 with a forward-looking expected credit loss ("ECL") approach.

Under the new impairment model, all financial assets, except for those measured at fair value through net earnings, are subject to review for impairment at least at each reporting date. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Corporation expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables, the Corporation has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. For other debt financial assets (i.e.: advances to merchant members), the ECL is based on the 12-month ECL. The 12-month ECL is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The adoption of the ECL requirements of IFRS 9 had no significant impact on the Corporation's accounting for impairment losses for financial assets.

(iii) *Derivative financial instruments and hedge accounting*

The Corporation has elected to adopt the new general hedge accounting model in IFRS 9. This requires the Corporation to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The adoption of the hedge accounting requirements of IFRS 9 did not result in any changes in the eligibility for hedge accounting and the accounting for the derivative financial instruments designated as effective hedging instruments at the transition date.

Future accounting changes

Information on new standards, amendments and interpretations that are expected to be relevant to the Corporation's interim condensed consolidated financial statements is provided in the Corporation's audited consolidated financial statements for the year ended December 31, 2017. Certain other new standards and interpretations have been issued but had no material impact on the Corporation's interim condensed consolidated financial statements.

4 - NET TRANSACTION CHARGES RELATED TO THE PARTS ALLIANCE ACQUISITION

In August 2017, the Corporation completed the acquisition of The Parts Alliance.

For the six-month period ended June 30, 2018, the Corporation recognized transaction charges totaling \$732 (\$2,916 in 2017) in connection with The Parts Alliance acquisition, including acquisition costs of \$278 (\$3,150 in 2017), and other charges related to the acquisition of \$454 (none in 2017). In 2017, transaction charges were also including a favorable change in the fair value of foreign currency options totaling \$234.

5 - INFORMATION INCLUDED IN CONSOLIDATED EARNINGS

Finance costs, net

	Quarters ended June 30,		Six-month periods ended June 30,	
	2018	2017	2018	2017
Interest on long-term debt	4,539	1,570	8,986	2,950
Amortization of financing costs	244	112	488	223
Net interest expense on the long-term employee benefit obligations	127	103	257	208
Reclassification of realized losses on derivative financial instruments designated as cash flow hedges to net earnings	11	18	151	18
Premium on foreign currency options	-	1,093	-	1,093
Interest on merchant members' deposits in the guarantee fund and others	46	7	89	45
	4,967	2,903	9,971	4,537
Interest income from merchant members and others	(38)	(34)	(79)	(82)
	4,929	2,869	9,892	4,455

Depreciation and amortization

	Quarters ended June 30,		Six-month periods ended June 30,	
	2018	2017	2018	2017
Depreciation of property and equipment	4,783	2,137	9,561	4,026
Amortization of intangible assets	4,689	4,476	9,845	7,389
	9,472	6,613	19,406	11,415

Income taxes

For the quarter and six-month period ended June 30, 2018, the income tax expense was \$3,167 and \$4,881 (\$6,324 and \$12,111 respectively in 2017), and the corresponding tax rate was 15.1% and 14.7% (31.5% and 32.9% respectively in 2017). The variation year-over-year is mainly attributable to the US Tax Reform, as well as different geographic "Earnings before income taxes".

6 - EARNINGS PER SHARE

The following table presents a reconciliation of basic and diluted earnings per share:

	Quarters ended June 30,		Six-month periods ended June 30,	
	2018	2017	2018	2017
Net earnings considered for basic and diluted earnings per share	17,875	13,738	28,266	24,736
Weighted average number of common shares outstanding for basic earnings per share	42,230,000	42,250,842	42,251,785	42,248,828
Impact of the stock options ⁽¹⁾	51,912	170,768	67,110	168,867
Weighted average number of common shares outstanding for diluted earnings per share	42,281,912	42,421,610	42,318,895	42,417,695
Earnings per share basic	0.42	0.33	0.67	0.59
Earnings per share diluted	0.42	0.32	0.67	0.58

⁽¹⁾ For both the quarter and six-month period ended June 30, 2018, 844,214 weighted average common shares issuable on the exercise of stock options (126,960 for both the quarter and six-month period in 2017) were excluded from the calculation of diluted earnings per share as the strike price of the options was higher than the average market price of the shares.

7 - INFORMATION INCLUDED IN CONSOLIDATED CASH FLOWS

The changes in working capital items are detailed as follows:

	Quarters ended June 30,		Six-month periods ended June 30,	
	2018	2017	2018	2017
Trade and other receivables	(23,900)	(13,180)	(33,597)	(15,879)
Inventory	158	978	(8,439)	9,575
Prepaid expenses	(73)	(261)	(2,992)	(504)
Trade and other payables	32,117	14,686	12,195	(11,052)
Provision for restructuring and other charges	-	-	-	(209)
	8,302	2,223	(32,833)	(18,069)

8 - BUSINESS COMBINATIONS

As at June 30, 2018, the Corporation finalized the purchase price allocation of all companies acquired during the first semester of 2017, which resulted in reclassifications of \$3,429 from goodwill to intangible assets (mainly customer relationships).

The Corporation is in the process to finalize the purchase price allocation of The Parts Alliance acquired in August 2017. In order to reflect additional information obtained about facts and circumstances that existed as of the acquisition date, the following reclassifications were recorded: \$10,430 from customer relationships to goodwill, \$1,825 from goodwill to software, \$1,400 from goodwill to deferred tax liabilities, and \$261 from goodwill to trademarks.

For the six-month period ended June 30, 2018, a reversal of amortization charges totaling \$190 was recorded in "Depreciation and amortization" following the reclassification to intangible assets.

9 - STOCK-BASED COMPENSATION

Common share stock option plan for management employees and officers

For the six-month period ended June 30, 2018, 181,679 options were granted to management employees and officers of the Corporation (80,054 for 2017), with an average exercise price of C\$28.61 (C\$29.64 in 2017). During the period, 12,626 options were exercised (59,634 for 2017) and 37,640 options were forfeited or expired (none for 2017). As at June 30, 2018, options granted for the issuance of 1,037,772 common shares (413,198 as at June 30, 2017) were outstanding under the Corporation's stock option plan. For the quarter and six-month period ended June 30, 2018, compensation expense of \$328 and \$805 (\$96 and \$278 respectively in 2017) was recorded in the "Net earnings", with the corresponding amounts recorded in "Contributed surplus".

Deferred share unit ("DSU") plan

For the six-month period ended June 30, 2018, the Corporation granted 35,690 DSUs (22,410 DSUs for 2017) and redeemed 12,810 DSUs (none for 2017). Compensation expense (reversal) of \$297 and \$(333) was recorded during the quarter and six-month period (\$(436) and \$548 respectively in 2017), and 176,217 DSUs were outstanding as at June 30, 2018 (164,665 DSUs as at June 30, 2017). As at June 30, 2018, the compensation liability was \$2,798 (\$3,482 as at December 31, 2017) and the fair value of the equity swap agreement was a liability of \$1,208 (liability of \$352 as at December 31, 2017).

Performance share unit ("PSU") plan

For the six-month period ended June 30, 2018, the Corporation granted 135,709 PSUs (110,454 PSUs for 2017) and redeemed 97,704 PSUs (61,330 PSUs for 2017). Compensation expense (reversal) of \$455 and \$(119) was recorded during the quarter and six-month period (\$208 and \$2,036 respectively in 2017), and 311,000 PSUs were outstanding as at June 30, 2018 (265,160 PSUs as at June 30, 2017). As at June 30, 2018, the compensation liability was \$2,091 (\$4,945 as at December 31, 2017) and the fair value of the equity swap agreement was a liability of \$1,549 (liability of \$356 as at December 31, 2017).

10 - POST-EMPLOYMENT BENEFIT OBLIGATIONS

For the quarter and six-month period ended June 30, 2018, the employee benefits expense related to the Corporation's defined-benefit pension plans was \$659 and \$1,332 (\$612 and \$1,235 respectively in 2017), and the net interest expense of \$127 and \$257 (\$103 and \$208 respectively in 2017) was recorded in "Finance costs, net". Employee benefits expense of \$1,085 and \$2,120 related to the Corporation's defined-contribution pension plans was also recognized for the same respective periods (\$649 and \$1,263 respectively in 2017).

11 - LONG-TERM DEBT AND CREDIT FACILITIES

	Maturity	Effective interest rate	Current portion	June 30, 2018	Dec. 31, 2017
Revolving credit facility, variable rates - \$365,778 (\$331,867 as at December 31, 2017) ⁽¹⁾	2021	2.452% to 6.600%		363,306	328,970
Term facility, variable rates - \$100,000 (same in 2017) ⁽¹⁾	2018 to 2020	3.797% to 4.194%	25,000	99,706	99,633
Finance leases, variable rates	-	-	3,723	10,129	19,962
Others	2021	-	4	13	16
			28,727	473,154	448,581
Installments due within a year				28,727	36,996
Long-term debt				444,427	411,585

⁽¹⁾ As at June 30, 2018, a principal amount of \$320,356 of the revolving credit and term facilities was designated as a hedge of net investments in foreign operations (\$322,075 as at December 31, 2017).

Letter of credit facility

As at June 30, 2018, \$7,897 of letters of credit have been issued (\$8,137 as at December 31, 2017).

12 - SHARE CAPITAL

Repurchase and cancellation of shares

On April 18, 2018, the Corporation announced that it received approval from the TSX to renew its intention to purchase by way of a new normal course issuer bid ("NCIB"), for cancellation purposes, up to 1,500,000 common shares, representing approximately 3.5% of its 42,273,812 issued and outstanding common shares as of April 16, 2018 over a twelve-month period beginning on April 23, 2018 and ending on April 22, 2019. In connection with the NCIB, the Corporation established an Automatic Purchase Plan ("APP"), enabling itself to provide standard instructions regarding the redemption of common shares during self-imposed blackout periods. Such redemptions will be determined by the broker in its sole discretion based on the Corporation's parameters.

In relation to this APP, 92,696 common shares were repurchased for a cash consideration of \$1,422 including a share repurchase and cancellation premium of \$1,232 applied as a reduction of retained earnings (none in 2017).

Issuance of shares

During the six-month period ended June 30, 2018, the Corporation issued 12,626 common shares (59,634 in 2017) at the exercise of stock options for a cash consideration of \$138 (\$661 in 2017). The weighted average price of the exercise of stock options was C\$15.32 for the period (C\$14.80 for 2017).

As of June 30, 2018, 42,193,742 common shares were outstanding (42,273,812 as at December 31, 2017).

Dividends

A total of C\$0.0925 per common share was declared by the Corporation for the quarter ended June 30, 2018 (C\$0.0925 for 2017). A total of C\$0.1850 per common share was declared by the Corporation for the six-month period ended June 30, 2018 (C\$0.1775 for 2017).

13 - FINANCIAL INSTRUMENTS

The classification of financial instruments as well as their carrying amounts and fair values are summarized as follows:

	June 30, 2018		December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets (liabilities) carried at amortized cost				
Cash	23,030	23,030	30,672	30,672
Cash held in escrow	2,045	2,045	8,147	8,147
Trade and other receivables	244,604	244,604	217,045	217,045
Advances to merchant members	Level 2 2,606	2,606	Level 2 3,213	3,213
Trade and other payables	(436,591)	(436,591)	(430,165)	(430,165)
Balance of purchase price, net	(6,238)	(6,238)	(18,413)	(18,413)
Dividends payable	(2,970)	(2,970)	(3,110)	(3,110)
Long-term debt (except finance leases and financing costs)	Level 2 (465,791)	(465,791)	Level 2 (431,883)	(431,883)
Merchant members' deposits in the guarantee fund	Level 2 (5,838)	(5,838)	Level 2 (5,645)	(5,645)
Financial assets (liabilities) carried at fair value				
Derivative financial instruments				
Foreign exchange forward contracts	Level 2 335	335	Level 2 (404)	(404)
Interest rate swaps ⁽¹⁾	Level 2 1,216	1,216	Level 2 71	71
Equity swap agreements	Level 2 (2,757)	(2,757)	Level 2 (708)	(708)

⁽¹⁾ Derivatives designated in a hedge relationship.

Financial assets (liabilities) carried at amortized cost

The fair value of the cash, cash held in escrow, trade and other receivables, trade and other payables, balance of purchase price, net and dividends payable approximate their carrying amount given that they will mature shortly.

The fair value of the advances to merchant members was determined based on discounted cash flows using effective interest rates available to the Corporation at the end of the reporting period for similar instruments.

13 - FINANCIAL INSTRUMENTS (CONTINUED)

The fair value of the long-term debt (except finance leases and financing costs) has been determined by calculating the present value of the interest rate spread that exists between the actual credit facilities and the rate that would be negotiated with the economic conditions at the reporting date. The fair value of long-term debt approximates its carrying value as the effective interest rates applicable to the Corporation's credit facilities reflect current market conditions.

The fair value of the merchant members' deposits in the guarantee fund is equivalent to their carrying value since their interest rates are comparable to market rates.

Financial assets (liabilities) carried at fair value

The fair value of the foreign exchange forward contracts was determined using exchange rates quoted in the active market adjusted for the credit risk added by the financial institutions.

The fair value of the interest rate swaps was determined using interest rates quoted in the active market adjusted for the credit risk added by the financial institutions.

The fair value of the equity swap agreements was determined using share prices quoted in the active market adjusted for the credit risk added by the financial institutions.

Fair value hierarchy

Financial instruments measured at fair value in the consolidated statements of financial position are classified according to the following hierarchy:

- Level 1: consists of measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: consists of measurement techniques mainly based on inputs, other than quoted prices (included within Level 1), that are observable either directly or indirectly in the market; and
- Level 3: consists of measurement techniques that are not mainly based on observable market data.

Derivative financial instruments – hedge of foreign exchange risk

The Corporation entered into forward contracts in order to mitigate the foreign exchange risks mainly related to purchases in currencies other than the respective functional currencies of the Corporation. The consolidated forward contracts outstanding as at June 30, 2018 are as follows:

Currencies (sold/bought)	Maturity	Average rate ⁽¹⁾	Notional amount ⁽²⁾
CAD/USD	Up to January 2019	0.75	10,647
GBP/USD	Up to September 2018	1.37	1,452
GBP/EURO	Up to October 2018	0.88	1,392
			<u>13,491</u>

⁽¹⁾ Rates are expressed as the number of units of the currency bought for one unit of currency sold.

⁽²⁾ Exchange rates as at June 30, 2018 were used to translate amounts in foreign currencies.

Derivative financial instruments used in cash flow hedges - hedge of interest rate risk

In 2017, the Corporation entered into various swap agreements to hedge the variable interest cash flows on a portion of the Corporation's revolving credit facility and term loan for total nominal amounts at inception of \$80,000 for interest rate swaps denominated in US dollars, and £70,000 for interest rate swaps denominated in British pounds. Until their respective maturities, these agreements are fixing the interest cash flows between 1.745% and 1.760% for interest rate swaps denominated in US dollars, and to 0.955% for interest rate swaps denominated in British pounds.

Derivative financial instruments – hedge of share-based payments cost

In 2016, the Corporation entered into equity swap agreements in order to manage the market price risk of its common shares. As at June 30, 2018, the equity swap agreements covered the equivalent of 364,277 common shares of the Corporation.

14 - SEGMENTED INFORMATION

The Corporation is providing information on four reportable segments:

- FinishMaster US:** distribution of automotive refinish and industrial paint and related products representing FinishMaster, Inc. in the US market;
- Canadian Automotive Group:** distribution of automotive aftermarket parts, including refinish and industrial paint and related products, through Canadian networks;
- The Parts Alliance UK:** distribution of automotive original equipment manufacturer and aftermarket parts, serving local and national customers across the United Kingdom; and
- Corporate Office and Others:** head office expenses and other expenses mainly related to the financing structure.

The profitability measure employed by the Corporation for assessing segment performance is segment income.

	Quarters ended June 30,									
	FinishMaster US		Canadian Automotive Group		The Parts Alliance UK		Corporate Office and Others		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Sales	210,954	209,486	139,572	130,801	111,045	-	-	-	461,571	340,287
Segment income ⁽¹⁾	21,476	24,003	10,105	11,312	8,643	-	(4,667)	(2,855)	35,557	32,460
Net transaction charges related to The Parts Alliance acquisition	-	-	-	-	-	-	114	2,916	114	2,916
Segment income reported ⁽²⁾	21,476	24,003	10,105	11,312	8,643	-	(4,781)	(5,771)	35,443	29,544
Finance costs, net									4,929	2,869
Depreciation and amortization									9,472	6,613
Earnings before income taxes									21,042	20,062
Income tax expenses									3,167	6,324
Net earnings									17,875	13,738

	Six-month periods ended June 30,									
	FinishMaster US		Canadian Automotive Group		The Parts Alliance UK		Corporate Office and Others		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Sales	412,333	409,188	250,241	228,299	221,091	-	-	-	883,665	637,487
Segment income ⁽¹⁾	41,335	47,325	13,267	14,248	18,238	-	(9,663)	(5,940)	63,177	55,633
Net transaction charges related to The Parts Alliance acquisition	-	-	-	-	-	-	732	2,916	732	2,916
Segment income reported ⁽²⁾	41,335	47,325	13,267	14,248	18,238	-	(10,395)	(8,856)	62,445	52,717
Finance costs, net									9,892	4,455
Depreciation and amortization									19,406	11,415
Earnings before income taxes									33,147	36,847
Income tax expenses									4,881	12,111
Net earnings									28,266	24,736

⁽¹⁾ The chief operating decision maker uses primarily one measure of profit to make decisions and assess performance, being gross margin less employee benefits and other operating expenses.

⁽²⁾ Per consolidated statements of earnings, corresponds to "Earnings before finance costs, depreciation and amortization and income taxes".

14 - SEGMENTED INFORMATION (CONTINUED)

The Corporation operates in the United States, Canada and the United Kingdom. The primary financial information per geographic location is as follows:

	Quarters ended June 30,		Six-month periods ended June 30,	
	2018	2017	2018	2017
Sales				
United States	210,954	209,486	412,333	409,188
Canada	139,572	130,801	250,241	228,299
United Kingdom	111,045	-	221,091	-
	461,571	340,287	883,665	637,487

	June 30, 2018			
	United States	Canada	United Kingdom	Total
Property and equipment	25,108	23,122	26,136	74,366
Intangible assets with definite useful lives	107,349	21,451	48,842	177,642
Intangible assets with indefinite useful lives	7,900	-	29,592	37,492
Goodwill	201,951	47,395	121,536	370,882

	December 31, 2017			
	United States	Canada	United Kingdom	Total
Property and equipment	27,303	25,085	26,256	78,644
Intangible assets with definite useful lives	109,474	22,839	61,141	193,454
Intangible assets with indefinite useful lives	7,900	-	30,011	37,911
Goodwill	204,655	50,289	117,175	372,119



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