MANAGEMENT'S DISCUSSION AND ANALYSIS 2018

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UNI-SELECT®

ANNUAL HIGHLIGHTS

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

	SALES	EBITDA[1]	ADJUSTED EBITDA[1]	NET EARNINGS	ADJUSTED EARNINGS[1]
2018	**$1,752.0**	**$104.9** 6.0%	**$119.5** 6.8%	**$36.5** $0.86/SHARE	**$51.5** $1.22/SHARE
2017	$1,448.3	$110.8 7.6%	$117.5 8.1%	$44.6 $1.06/SHARE	$55.1 $1.30/SHARE

- Consolidated sales reached $1,752.0, representing an increase of $303.7 or 21.0% compared to last year, fueled mainly by the contribution of The Parts Alliance UK segment for a full year. Consolidated organic growth[1] reached 1.5% with all three segments reporting organic growth[1]: 1.4% at the FinishMaster US segment, 0.5% in the Canadian Automotive Group segment and 5.3% for The Parts Alliance UK segment.
- EBITDA[1] and EBITDA margin[1] were respectively $104.9 and 6.0% compared to $110.8 and 7.6% last year. Once adjusted for special items, EBITDA[1] and EBITDA margin[1] were respectively $119.5 and 6.8% compared to $117.5 and 8.1% last year.
- Net earnings were $36.5 or $0.86 per share, compared to $44.6 or $1.06 per share last year. Once adjusted, earnings[1] were $51.5 or $1.22 per share in 2018 and $55.1 or $1.30 last year.
- In August 2018, the Corporation entered into an amended and restated credit agreement converting the term-loan into the unsecured long-term revolving credit facility and extending the maturity of all the credit facilities to June 30, 2023, providing greater financial flexibility, at a minimal cost. As at December 31, 2018, total net debt[1] stood at $418.7; same level as last year, since inflows from operations allowed growth investments in customers, business acquisitions and supply chain optimization.
- On September 18, 2018, Uni-Select announced Management changes and a review of strategic alternatives, resulting in the recognition of severance and retention bonuses amounting to $6.2 for the year.
- On November 14, 2018, the Corporation announced a restructuring plan ("25/20 Plan"), which mainly consists of headcount reduction and the consolidation of locations, while optimizing the supply chain. The Corporation recognized restructuring and other charges totaling $7.6 for the year, principally for severance and termination benefits, onerous contracts and consulting fees. Different initiatives in the various operations are underway, including the integration of company-owned stores and the remodeling of the supply chain with two new optimized distribution centres.
- As at December 31, 2018, the Corporation counted 468 company-owned stores in its network, a growth of 21 compared to last year, supported by business acquisitions and the opening of greenfields, net of integrated company-owned stores.
- In January 2019, the Board of Directors and Management initiated the development of a broad performance improvement and rightsizing plan for the FinishMaster US segment with the objective of realigning its operations to address changing market conditions. This plan focuses on four streams: consolidation of company-owned stores, optimization, margin recovery and spending reductions. The 25/20 Plan and the FinishMaster US Segment performance improvement and rightsizing plan combined together will now be referred to as the "Performance Improvement Plan" of the Corporation.

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[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 the year ended December 31, 2018 compared with the quarter and the year ended December 31, 2017, as well as its financial position as at December 31, 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 2018 Annual Report. The information contained in this MD&A takes into account all major events that occurred up to February 20, 2019, the date at which the 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 consolidated financial statements contained in the present MD&A were prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements have 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. 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.

COMPLIANCE WITH IFRS

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 considers that users of its MD&A may analyze its results based on these measurements. *(Refer to section "Non-IFRS financial measures" for further details.)*

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 70 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 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 over 180 company-owned stores.

OPERATIONAL REVIEW OF THE LAST THREE YEARS

SELECTED CONSOLIDATED INFORMATION

(in thousands of US dollars, except per share amounts, percentages and otherwise specified)	**2018**	2017	2016
OPERATING RESULTS			
Sales	**1,751,965**	1,448,272	1,197,319
EBITDA[(1)]	**104,940**	110,752	106,848
EBITDA margin[(1)]	***6.0%***	*7.6%*	*8.9%*
Special items	**14,589**	6,780	(746)
Adjusted EBITDA[(1)]	**119,529**	117,532	107,628
Adjusted EBITDA margin[(1)]	***6.8%***	*8.1%*	*9.0%*
Net earnings	**36,497**	44,616	58,265
Adjusted earnings[(1)]	**51,473**	55,097	58,638
Free cash flows[(1)]	**79,902**	95,660	107,093
COMMON SHARE DATA			
Net earnings	**0.86**	1.06	1.37
Adjusted earnings[(1)]	**1.22**	1.30	1.38
Dividend (C$)	**0.3700**	0.3625	0.3350
Book value per share	**12.36**	12.25	11.19
Number of shares outstanding	**42,387,300**	42,273,812	42,214,178
Weighted average number of outstanding shares	**42,253,987**	42,261,423	42,434,956
FINANCIAL POSITION			
Working capital	**256,365**	254,581	191,458
Total assets	**1,540,570**	1,496,389	980,616
Total net debt[(1)]	**418,703**	417,909	111,973
Total equity	**523,882**	517,977	472,362
Return on average total equity[(1)]	***7.0%***	*9.0%*	*12.8%*
Adjusted return on average total equity[(1)]	***9.1%***	*10.8%*	*12.9%*

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

Detailed analysis of the changes in operating results and the consolidated statements of financial position between 2018 and 2017 are provided in the following sections. Detailed analysis of the changes in the operating results and the consolidated statements of financial position between 2017 and 2016 are included in the MD&A in the 2017 Annual Report, available on the SEDAR website at **sedar.com**.

OVERVIEW

The last three years were transformational for the Corporation. To respond to the constant evolution of the business, market and competition, the Corporation implemented new business strategies and initiatives, building a long-term platform for profitable growth while reinforcing its market share and leadership positions. As well, the Corporation is thoroughly reviewing its cost to serve models to optimize its profitability.

The major initiatives and achievements of the Corporation include the following:

- Driving balanced-growth through a combination of organic and acquisitive initiatives in all segments. The Corporation, with its mergers and acquisitions program, completed 26 acquisitions over the 2016 to 2018 period which added 279 company-owned stores to its network. The Corporation energized its organic growth through initiatives such as opening 22 greenfields for the same period, out of which 15 were opened in the UK since August 2017.
- Improving operational efficiency by successfully integrating business acquisitions, launching the 25/20 Plan, previously the 20/20 initiative, across its three pillars to align the cost structure with the evolution of the business model as well as developing and optimizing software tools. Over the last three years, the Corporation closed and integrated 40 company-owned stores in accordance with these initiatives.
- Transforming and evolving the Canadian Automotive Group segment to compete in the future by adding a corporate store network, complementing the network of independent jobber customers, developing and executing new enhanced store banner and merchandising programs (BUMPER TO BUMPER and AUTO PARTS PLUS) while launching the FINISHMASTER brand in Canada.
- Evaluating additional new markets to establish a third growth pillar, with a cultural fit, a strong market position and significant potential for growth, resulting in the acquisition on August 7, 2017 of The Parts Alliance, a UK leader in the distribution of automotive aftermarket parts.
- Managing a sound financial position and capital structure with strategic investments, the amendment and restatement of the credit agreement, the enhancement of the vendor financing program and a constant return to shareholders through dividends.

All these activities provided healthy free cash flows to the Corporation, allowing further growth and value creation in all business segments. The Corporation started 2016 with 209 company-owned stores across its Canadian Automotive Group and FinishMaster US segments and has ended the 2018 year with a network of 468 company-owned stores across its three operational segments.

2018 FINANCIAL YEAR

Change management and restructuring

Evolving market conditions prompted the Corporation to review its business models, resulting in management changes, review of strategic alternatives and restructuring. Notwithstanding, the distribution network broadened, supported by the opening of greenfields as well as business acquisitions.

Key initiatives by segment:

FinishMaster US:
The FinishMaster US segment renewed with organic sales growth during the year, as a result of efforts deployed by the sales team and the on-boarding of new customers.

Consolidation movement in the market is causing a shift towards the national account customers, for which discounts are more significant, as they are growing by acquiring multi-shop owner ("MSO") customers. This evolving customer mix as well as pricing pressure in the various refinish activities, affected the margin. These headwinds were partially counteracted by ongoing productivity improvement initiatives started in the second half of 2017.

Canadian Automotive Group:
The Canadian Automotive Group segment worked on the ongoing optimization and development of its company-owned stores, investing in their integration, which resulted in six company-owned stores integrated and one sold during the year, while strengthening its market position in the Atlantic region by acquiring AutoChoice Parts & Paints Limited.

To improve the supply chain and profitability, this segment initiated its portion of the 25/20 Plan with a first phase of reducing the workforce and remodeling of the distribution network in the Prairies. This includes the integration of the current distribution centres in Saskatoon and Calgary, while a superior one is expected to open in the first quarter of 2019 in Calgary. This will permit a broader selection of inventory.

The Parts Alliance UK:

The Parts Alliance UK segment generated organic growth through strategic sales initiatives and the opening of 13 greenfields during the year, for a total 15 since its acquisition, expanding the footprint in the UK.

The operating performance of this segment in 2018 was reinforced by a full year of operations, leveraging its fixed cost base, as well by cost reduction in 2017 related to the 25/20 Plan and maximizing the operations of its company-owned stores. As part of this process, information technology solutions were either standardized, deployed or integrated over 20 company-owned stores.

Furthermore, The Parts Alliance UK segment is improving its supply chain logistic, which includes the closure of a location, a slight reduction in workforce and the inauguration of a national distribution centre, situated in the heart of the UK, providing an enhanced offer across the network while improving efficiency.

Corporate Office and Others:

The primary goal of the Corporate Office and Others segment was to give tools to the businesses to unlock more efficiency and create additional value for shareholders. This resulted in:

- The announcement in September by the Board of Directors of the management changes and initiation of a review of strategic alternatives;
- The launch of the 25/20 Plan in November, extending the 20/20 initiative started in 2017;
- The amendment and restatement of the credit agreement, converting the term-loan into the unsecured long-term revolving credit facility and extending the maturity of all the credit facilities to June 30, 2023, providing greater financial flexibility, at a minimal cost; and
- The integration of The Parts Alliance UK segment for the 52-109 certification compliance.

2017 FINANCIAL YEAR

Internationalization and evolving network

The Corporation evolved, taking giant steps and an international turn by adding The Parts Alliance, a UK leader in the distribution of automotive aftermarket parts, to its growing network. Meanwhile, the Canadian Automotive Group and the FinishMaster US segments complemented their respective networks through selected business acquisitions and greenfield openings.

During the year, the Corporation grew through business acquisitions, adding a third pillar and a European presence to its network with the acquisition of The Parts Alliance UK. As well, the FinishMaster US segment completed its largest acquisition with D'Angelo's, while the Canadian Automotive group segment realized certain acquisitions. In addition, greenfields were opened in the FinishMaster US and The Parts Alliance UK segments. As a result of these growth initiatives, the number of company-owned stores grew from 259 early 2017 to 447 by the end of the year.

Furthermore, the Corporation launched the 20/20 initiative to improve efficiency in all operational segments. The FinishMaster US segment strived on reducing its costs to adapt the cost structure to the evolving business model. The Canadian Automotive Group segment focused on integrating the company-owned stores, including rebranding, processes and the implementation of the new point-of-sale ("POS") system. The Parts Alliance UK segment worked towards maximizing software tools and improving the productivity of its operations. Through these various initiatives, 14 locations across the Corporation were successfully integrated.

For its part, the Corporate and Others segment amended and restated the credit agreement providing a total upsize of $225,000 and enabling, among other things, The Parts Alliance acquisition, as well as further growth.

2016 FINANCIAL YEAR

Growing our network

The Corporation was successful in its growth and performance activities through accretive business acquisitions, while navigating through slower economic conditions in Canada and a product line changeover in the United States.

Both the FinishMaster US and the Canadian Automotive Group segments were actively driving growth through organic initiatives and business acquisitions. The Canadian Automotive Group segment accelerated the company-owned store initiative, building its foundation, which included the deployment of a POS system, the launch of the new BUMPER TO BUMPER program and the FINISHMASTER brand in Canada. The FinishMaster US segment opened a new distribution centre on the East Coast to improve services to customers while working through a product line changeover during the second half of the year. Together, they concluded 14 business acquisitions, adding to the network more than 60 locations before synergies. Integration progressed as planned and yielded the expected benefits.

On the corporate side, strategies were initiated to manage cash, enhance performance, limit financial and foreign exchange risks and ultimately create value with the renewal and addition of vendor financing agreements with suppliers, negotiations with information technology suppliers for the deployment of a server solution, hedging of the stock-based compensations as well as some large accounts payable and a 2-for-1 stock split of common shares.

UPDATE ON THE PERFORMANCE IMPROVEMENT PLAN AND SUBSEQUENT EVENT

During the second half of 2017, the Corporation launched the 20/20 initiative to improve efficiency in all operational segments.

Considering the evolving market conditions faced in 2018, the Corporation decided to further align the cost structure with this new reality. As a result, the Corporation launched the 25/20 Plan in November, which complemented the 20/20 initiative. This plan, affecting all segments, consists of headcount reduction and the integration of locations, as well as optimizing the supply chain logistics.

Through this plan, the Corporation expects to generate annualized cost savings of $25,000 by the end of 2020, of which, $18,700 has been realized as at December 31, 2018.

During the year 2018, the Corporation reduced its workforce, integrated 14 company-owned stores and sold one. In addition, to optimize its logistical processes, the Corporation is currently integrating three smaller distribution centres into two larger ones, permitting increased competitiveness and efficiency. These new distribution centres are expected to be operational during the first quarter of 2019.

The total cost of implementing the 25/20 Plan is expected to be approximately $11,000. As at December 31, 2018, the Corporation recognized restructuring and other charges totaling $7,578. *(Refer to the "Analysis of consolidated results" section for further details.)*

The following table summarizes the annualized impacts as at December 31, 2018:

	Expected	Realized
	By the end of 2020	**As at 2018**
Annualized cost savings	25,000	**18,700**
Restructuring and other charges:		
Restructuring charges	6,500	**5,055**
Other charges as incurred	4,500	**2,523**
	11,000	**7,578**
Capital expenditures	7,000	**5,509**

As at December 31, 2018, a provision for restructuring charges of $4,173 is presented as current liabilities in the Corporation's consolidated statement of financial position.

In January 2019, the Board of Directors and Management initiated the development of a broad performance improvement and rightsizing plan for the FinishMaster US segment with the objective of realigning its operations to address changing market conditions, including ongoing consolidation by national accounts and pricing pressures. This plan, which is expected to generate additional annualized savings of $10,000 by the end of 2019, focuses on four streams: consolidation of company-owned stores, optimization, margin recovery and spending reductions. Additional restructuring and other charges in the range of $5,000 to $7,000 will be recorded during the 2019 year, mainly for severance and onerous lease contracts.

The 25/20 Plan and the FinishMaster US Segment performance improvement and rightsizing plan combined together will now be referred to as the "Performance Improvement Plan" of the Corporation, with targeted annualized savings of $35,000.

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, 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]	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. These adjustments include, among other things, restructuring and other charges, severance and retention bonuses related to Management changes 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.
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]	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. 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.
Total net debt[3]	This measure consists of long-term debt, including the portion due within a year *(as shown in note 17 to the consolidated financial statements)*, 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 *(as shown in note 17 to the consolidated financial statements)*, 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

The operations of The Parts Alliance UK segment are included in the consolidated results since their acquisition on August 7, 2017.

SALES

	Fourth quarters		Twelve-month periods	
	2018	2017	**2018**	2017
FinishMaster US	**203,440**	198,956	**829,982**	814,639
Canadian Automotive Group	**122,460**	123,023	**503,829**	484,934
The Parts Alliance UK	**93,555**	92,999	**418,154**	148,699
Sales	**419,455**	414,978	**1,751,965**	1,448,272
		%		*%*
Sales variance	**4,477**	***1.1***	**303,693**	***21.0***
Conversion effect of the Canadian dollar and the British pound	**7,201**	***1.7***	**3,219**	***0.2***
Number of billing days	**235**	***0.0***	**1,866**	***0.1***
Acquisitions	**(2,208)**	***(0.5)***	**(287,039)**	***(19.8)***
Consolidated organic growth	**9,705**	***2.3***	**21,739**	***1.5***

FOURTH QUARTERS

Sales reached $419,455 for the quarter, representing a growth of 1.1%, compared to the same quarter in 2017, mainly from organic growth of 2.3% and sales generated from business acquisitions. This growth was partially offset by the conversion effect of the Canadian dollar and the British pound into the US dollar, both currencies losing strength during the quarter.

The consolidated organic growth is principally coming from the FinishMaster US and The Parts Alliance UK segments, respectively reporting organic growth of 3.9% and 2.8%. The Canadian Automotive Group segment had a softer quarter and reported a negative organic growth of 0.5%.

TWELVE-MONTH PERIODS

The growth of 21.0%, compared to the same period in 2017, was driven by the sales generated from business acquisitions, adding sales of $287,039 or 19.8%, mainly from The Parts Alliance UK segment.

On a twelve-month basis, all three segments reported organic growth, the result of initiatives undertaken by the sales teams and the opening of greenfields. The FinishMaster Us segment reported 1.4%, the Canadian Automotive Group segment reported 0.5% while The Parts Alliance UK segment reported 5.3%.

GROSS MARGIN

	Fourth quarters		Twelve-month periods	
	2018	2017	**2018**	2017
Gross margin	**134,603**	139,987	**575,169**	465,074
In % of sales	***32.1%***	*33.7%*	***32.8%***	*32.1%*

FOURTH QUARTERS

The gross margin, as a percentage of sales, decreased by 160 basis points, compared to the same quarter in 2017, mainly due to pricing pressure and an evolving customer mix in the FinishMaster US segment.

These impacts were, in part, compensated by improved buying conditions in the Canadian Automotive Group segment after reaching a higher level of annual performance rebates.

TWELVE-MONTH PERIODS

The gross margin, as a percentage of sales, increased by 70 basis points, compared to the same period in 2017, benefiting from The Parts Alliance acquisition, which has a business model with a higher gross margin than the other segments.

Once The Parts Alliance UK segment is excluded, the remaining negative gross margin variance, in percentage of sales, is principally attributable to pricing pressure and an evolving customer mix for the FinishMaster US segment.

EMPLOYEE BENEFITS

	Fourth quarters		Twelve-month periods	
	2018	2017	**2018**	2017
Employee benefits	**75,412**	75,469	**308,546**	236,684
In % of sales	***18.0%***	*18.2%*	***17.6%***	*16.3%*

FOURTH QUARTERS

Employee benefits, as a percentage of sales, improved by 20 basis points, compared to the same quarter in 2017, essentially from a superior absorption of fixed payroll in relation to added volume from overall organic growth. The reduction of the performance-based compensation across the Corporation was offset by a charge resulting from the equity swap instruments associated with the stock-based compensation.

TWELVE-MONTH PERIODS

Employee benefits, as a percentage of sales, increased by 130 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.

Excluding this element, employee benefits, in percentage of sales, remained stable. The FinishMaster US segment savings realized from the 25/20 Plan, combined with the net reduction of performance-based compensation, were offset by the integration of the company-owned stores and investments in resources required in the Canadian Automotive Group segment.

OTHER OPERATING EXPENSES

	Fourth quarters		Twelve-month periods	
	2018	2017	**2018**	2017
Other operating expenses	**37,763**	36,534	**147,094**	110,858
In % of sales	***9.0%***	*8.8%*	***8.4%***	*7.7%*

FOURTH QUARTERS

Other operating expenses, as a percentage of sales, increased by 20 basis points, compared to the same quarter in 2017, due to higher professional and consulting fees as well as information technology expenses in the normal course of business. In addition, the weaker Canadian dollar had an impact on foreign exchange losses, compared to a gain for the same quarter last year.

These elements were partially compensated by a superior absorption of fixed costs in relation to added volume from overall organic growth.

TWELVE-MONTH PERIODS

Other operating expenses, as a percentage of sales, increased by 70 basis points, compared to the same period in 2017, of which the acquisition of The Parts Alliance UK segment represents 30 basis point.

Once The Parts Alliance UK segment is excluded, the remaining variance, in percentage of sales, is mainly explained by losses related to foreign exchange currencies, higher professional and consulting fees as well as information technology expenses in the normal course of business. Investments were required for the ongoing integration of company-owned stores by the Canadian Automotive Group segment, while a one-time favorable saving was recognized in 2017 in relation to the internalization of the servers.

These elements were partially compensated by a superior absorption of fixed costs in relation to added volume from overall organic growth.

SPECIAL ITEMS

Special items comprise items which do not reflect the Corporation's core performance or where their separate presentation will assist users of the consolidated financial statements in understanding the Corporation's results for the year. Special items are detailed as follows:

	Fourth quarters		Twelve-month periods	
	2018	2017	**2018**	2017
Restructuring and other charges	**7,578**	-	**7,578**	(523)
Severance and retention bonuses related to Management changes	**961**	-	**6,157**	-
Net transaction charges related to The Parts Alliance acquisition	**106**	2,130	**854**	7,303
	8,645	2,130	**14,589**	6,780

Restructuring and other charges

On November 14, 2018, the Corporation announced the 25/20 Plan, which mainly consists of headcount reduction and the consolidation of locations, while optimizing the supply chain.

The Corporation recognized restructuring charges totalling $5,055, including $3,122 for severance and termination benefits, and $1,933 for onerous contracts.

The Corporation also incurred other charges of $2,523, primarily comprising of consulting fees related to the review of strategic alternatives.

During 2017, the Corporation reviewed its remaining provisions in relation to the rightsizing of the corporate office, resulting in a reduction of restructuring and other charges in the consolidated statements of earnings of $523.

Severance and retention bonuses related to Management changes

On September 18, 2018, the Corporation announced Management changes with the immediate departure and replacement of its President and Chief Executive Officer, and the President and Chief Operating Officer of FinishMaster, Inc. As a result, the Corporation recognized charges totaling $961 and $6,157 for the quarter and twelve-month period ended December 31, 2018, mainly composed of severance charges.

Net transaction charges related to The Parts Alliance acquisition

In connection with The Parts Alliance acquisition completed in August 2017, the Corporation recognized transaction charges totaling $106 and $854 for the quarter and twelve-month period ended December 31, 2018 ($2,130 and $7,303 respectively in 2017). These charges include:

	Fourth quarters		Twelve-month periods	
	2018	2017	**2018**	2017
Acquisition costs	**-**	489	**294**	7,310
Other charges related to the acquisition	**106**	1,641	**560**	1,699
Favorable change in the fair value of foreign currency options	**-**	-	**-**	(1,706)
	106	2,130	**854**	7,303

EBITDA

	Fourth quarters			Twelve-month periods		
	2018	2017	%	**2018**	2017	%
Net earnings (loss)	**(2,363)**	8,721		**36,497**	44,616	
Income tax expense (recovery)	**(489)**	2,170		**8,180**	22,002	
Depreciation and amortization	**10,265**	9,977		**39,702**	29,647	
Finance costs, net	**5,370**	4,986		**20,561**	14,487	
EBITDA	**12,783**	25,854	*(50.6)*	**104,940**	110,752	*(5.2)*
EBITDA margin	***3.0%***	*6.2%*		***6.0%***	*7.6%*	
Special items	**8,645**	2,130		**14,589**	6,780	
Adjusted EBITDA	**21,428**	27,984	*(23.4)*	**119,529**	117,532	*1.7*
Adjusted EBITDA margin	***5.1%***	*6.7%*		***6.8%***	*8.1%*	

FOURTH QUARTERS

The adjusted EBITDA margin decreased by 160 basis points, compared to the same quarter in 2017. This variance is mainly explained by pricing pressure and evolving customer mix in the FinishMaster US segment.

These elements were partially compensated by the Canadian Automotive Group segment benefiting from higher annual performance rebates as well as a superior absorption of fixed costs from an increased volume of sales.

TWELVE-MONTH PERIODS

The adjusted EBITDA margin decreased by 130 basis points, compared to the same period in 2017. The variance of the twelve-month period is principally explained by pricing pressure and an evolving customer mix in the FinishMaster US segment, losses related to foreign exchange currencies, higher professional and consulting fees as well as information technology expenses. In addition, investments were required for the integration of the company-owned stores by the Canadian Automotive Group segment.

These elements were, in part, compensated by savings in The FinishMaster US segment resulting from the 25/20 Plan and an improved cost absorption at The Parts Alliance UK segment, which benefited from a full twelve months of operations.

FINANCE COSTS, NET

	Fourth quarters		Twelve-month periods	
	2018	2017	**2018**	2017
Finance costs, net	**5,370**	4,986	**20,561**	14,487

FOURTH QUARTERS

The increase in finance costs, compared to the same quarter in 2017, is mainly attributable to a higher average debt, which resulted in higher borrowing costs.

TWELVE-MONTH PERIODS

The increase in finance costs, compared to the same period in 2017, is mainly attributable to a higher average debt, mostly related to The Parts Alliance acquisition, which resulted 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 in 2017.

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

DEPRECIATION AND AMORTIZATION

	Fourth quarters		Twelve-month periods	
	2018	2017	**2018**	2017
Depreciation and amortization	**10,265**	9,977	**39,702**	29,647

FOURTH QUARTERS

The increase in depreciation and amortization, compared to the same quarter in 2017, is mainly attributable to recent capital investments.

TWELVE-MONTH PERIODS

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

(Refer to note 6 in the consolidated financial statements for further details.)

INCOME TAX EXPENSE

	Fourth quarters		Twelve-month periods	
	2018	2017	**2018**	2017
Income tax expense (recovery)	**(489)**	2,170	**8,180**	22,002
Income tax rate	***17.1%***	*19.9%*	***18.3%***	*33.0%*

FOURTH QUARTERS

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

TWELVE-MONTH PERIODS

The variance of the income tax rate, compared to the corresponding period in 2017, is mainly attributable to the lower enacted US corporate tax rate announced in December 2017, non-deductible acquisition costs in 2017 in relation to The Parts Alliance acquisition, as well as different geographic pre-tax earnings with distinct tax rates.

(Refer to note 7 in the consolidated financial statements for further details.)

NET EARNINGS AND EARNINGS PER SHARE

	Fourth quarters			Twelve-month periods		
	2018	2017	*%*	**2018**	2017	*%*
Net earnings (loss)	**(2,363)**	8,721	*(127.1)*	**36,497**	44,616	*(18.2)*
Special items, net of taxes	**6,741**	1,773		**10,811**	6,613	
Amortization of the premium on foreign currency options, net of taxes	**-**	-		**-**	2,003	
Amortization of intangible assets related to the acquisition of The Parts Alliance, net of taxes	**1,052**	1,119		**4,165**	1,865	
Adjusted earnings	**5,430**	11,613	*(53.2)*	**51,473**	55,097	*(6.6)*
Earnings (loss) per share	**(0.06)**	0.21	*(128.6)*	**0.86**	1.06	*(18.9)*
Special items, net of taxes	**0.16**	0.04		**0.26**	0.15	
Amortization of the premium on foreign currency options, net of taxes	**-**	-		**-**	0.05	
Amortization of intangible assets related to the acquisition of The Parts Alliance, net of taxes	**0.03**	0.02		**0.10**	0.04	
Adjusted earnings per share	**0.13**	0.27	*(51.9)*	**1.22**	1.30	*(6.2)*

FOURTH QUARTERS

Adjusted earnings, compared to the same quarter in 2017, decreased by $6,183 or 53.2%, mainly resulting from a lower adjusted EBITDA, as well as additional finance costs and depreciation and amortization related to investments of capital.

TWELVE-MONTH PERIODS

Adjusted earnings, compared to the corresponding period in 2017, decreased by $3,624 or 6.6%, as a result of additional finance costs as well as depreciation and amortization, mostly related to business acquisitions and investments of capital.

These elements were partially compensated by the contribution of The Parts Alliance UK segment for a full year and the reduction of the income tax rate for the US operations.

The conversion effect of the Canadian dollar and the British pound into the US dollar had no impact on earnings per share for both the quarter and the twelve-month period when compared to the corresponding periods of 2017.

CONSOLIDATED QUARTERLY OPERATING RESULTS

The 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 the US dollar.

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

	2018				2017			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Sales								
United States	**203,440**	214,209	210,954	201,379	198,956	206,495	209,486	199,702
Canada	**122,460**	131,128	139,572	110,669	123,023	133,612	130,801	97,498
United Kingdom[1]	**93,555**	103,508	111,045	110,046	92,999	55,700	-	-
	419,455	448,845	461,571	422,094	414,978	395,807	340,287	297,200
EBITDA	**12,783**	29,712	35,443	27,002	25,854	32,181	29,544	23,173
EBITDA margin	***3.0%***	*6.6%*	*7.7%*	*6.4%*	*6.2%*	*8.1%*	*8.7%*	*7.8%*
Special items	**8,645**	5,212	114	618	2,130	1,734	2,916	-
Adjusted EBITDA	**21,428**	34,924	35,557	27,620	27,984	33,915	32,460	23,173
Adjusted EBITDA margin	***5.1%***	*7.8%*	*7.7%*	*6.5%*	*6.7%*	*8.6%*	*9.5%*	*7.8%*
Net earnings	**(2,363)**	10,594	17,875	10,391	8,721	11,159	13,738	10,998
Adjusted earnings	**5,430**	15,528	18,399	12,116	11,613	15,851	16,635	10,998
Basic earnings (loss) per share	**(0.06)**	0.25	0.42	0.25	0.21	0.26	0.33	0.26
Adjusted basic earnings per share	**0.13**	0.37	0.44	0.29	0.27	0.37	0.39	0.26
Diluted earnings per share	**(0.06)**	0.25	0.42	0.25	0.21	0.26	0.32	0.26
Dividends declared per share (C$)	***0.0925***	*0.0925*	*0.0925*	*0.0925*	*0.0925*	*0.0925*	*0.0925*	*0.085*
Average exchange rate for earnings (C$)	*0.76:$1*	*0.77:$1*	*0.77:$1*	*0.79:$1*	*0.79:$1*	*0.80:$1*	*0.74:$1*	*0.76:$1*
Average exchange rate for earnings (£)	*1.29:$1*	*1.30:$1*	*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

	Fourth quarters		Twelve-month periods	
	2018	2017	**2018**	2017
Sales	**203,440**	198,956	**829,982**	814,639
		%		*%*
Sales variance	**4,484**	***2.3***	**15,343**	***1.9***
Acquisitions	**-**	**-**	**(7,324)**	***(0.9)***
Number of billing days	**3,210**	***1.6***	**3,221**	***0.4***
Organic growth	**7,694**	***3.9***	**11,240**	***1.4***

FOURTH QUARTERS

The FinishMaster US segment is reporting a growth of 2.3%, compared to the same quarter last year, which is the result of the organic growth of 3.9% in part offset by the 1.6% impact of a different number of billing days.

This segment is reporting organic growth for a third consecutive quarter, attributable to the sales team efforts on driving growth by developing business volume and the onboarding of new customer accounts.

TWELVE-MONTH PERIODS

Sales from this segment increased by 1.9%, compared to the same period in 2017, supported by organic growth as well as business acquisitions, in part offset by the impact of the number of billing days.

The organic growth of 1.4% for the twelve-month period is the result of sales team initiatives, customer investments, as well as two greenfields opened during the year.

EBITDA

	Fourth quarters			Twelve-month periods		
	2018	2017	*%*	**2018**	2017	*%*
EBITDA	**11,687**	19,603	*(40.4)*	**74,349**	91,345	*(18.6)*
EBITDA margin	***5.7%***	*9.9%*		***9.0%***	*11.2%*	
Special items	**1,693**	-		**1,693**	-	
Adjusted EBITDA	**13,380**	19,603	*(31.7)*	**76,042**	91,345	*(16.8)*
Adjusted EBITDA margin	***6.6%***	*9.9%*		***9.2%***	*11.2%*	

FOURTH QUARTERS

The adjusted EBITDA margin decreased by 330 basis points when compared to the same quarter last year. This variance is mainly attributable to pressure on the gross margin from the combination of an evolving customer mix and pricing pressure. The customer mix impact resulted from a shift towards the national account customers, for which discounts are more significant.

These elements were partially compensated by an improved absorption of fixed costs in relation to organic growth, lower medical benefits as well as a reduction of the performance-based compensation.

An in-depth review started in January 2019 with the objective of developing a plan to address and align the business model to changing market conditions. The resulting plan will leverage the 25/20 Plan already in place. In addition, one company-owned store was integrated during the quarter.

TWELVE-MONTH PERIODS

The adjusted EBITDA margin decreased by 200 basis points, when compared to the same period last year, globally affected by the same factors mentioned in the quarter.

Furthermore, the twelve-month period was positively affected by savings arising from activities initiated under the 25/20 Plan. These activities include the integration of five company-owned stores during the year and the alignment of employee benefits to its evolving cost-to-serve model.

OPERATING RESULTS – CANADIAN AUTOMOTIVE GROUP

Sales

	Fourth quarters		Twelve-month periods	
	2018	2017	**2018**	2017
Sales	**122,460**	123,023	**503,829**	484,934
		%		*%*
Sales variance	**(563)**	***(0.5)***	**18,895**	***3.9***
Conversion effect of the Canadian dollar	**4,557**	***3.7***	**(290)**	***(0.1)***
Number of billing days	**(2,548)**	***(2.1)***	**(2,328)**	***(0.5)***
Acquisitions	**(2,019)**	***(1.6)***	**(13,653)**	***(2.8)***
Organic growth	**(573)**	***(0.5)***	**2,624**	***0.5***

FOURTH QUARTERS

Sales for the Canadian Automotive Group segment decreased by 0.5%, compared to the same quarter in 2017; the impact of a different number of billing days and business acquisitions compensating for the effect of the Canadian dollar on its conversion to the US dollar.

The negative organic growth reported by this segment for the quarter is attributable to different timings, in particular related to the Holiday season since many installers and jobbers were closed two more days than the same period last year. In addition, as previously stated when reporting the results of the third quarter, certain paint body and equipment sales were made in advance during the preceding quarter due to price increase.

TWELVE-MONTH PERIODS

Sales for this segment increased by 3.9%, compared to the same period in 2017, driven by business acquisitions, organic growth and a different number of billing days.

Organic growth was 0.5% for the twelve-month period, resulting from initiatives on driving growth and overcoming softer market conditions.

EBITDA

	Fourth quarters			Twelve-month periods		
	2018	2017	*%*	**2018**	2017	*%*
EBITDA	**5,948**	6,286	*(5.4)*	**28,616**	31,214	*(8.3)*
EBITDA margin	***4.9%***	*5.1%*		***5.7%***	*6.4%*	
Special items	**3,346**	-		**3,346**	-	
Adjusted EBITDA	**9,294**	6,286	*47.9*	**31,962**	31,214	*2.4*
EBITDA margin	***7.6%***	*5.1%*		***6.3%***	*6.4%*	

FOURTH QUARTERS

The adjusted EBITDA margin increased by 250 basis points, compared to the same quarter in 2017, strengthened by improved buying conditions after reaching a higher level of annual performance rebates. Furthermore, a greater performance of the paint body and equipment ("PBE") program, as well as a reduction of performance-based compensation contributed to the enhancement of the adjusted EBITDA margin for the quarter.

These elements were, in part, offset by losses on foreign exchange currencies originating from the weaker Canadian dollar and higher information technology expenses to support operations.

In relation to the restructuring announced during the quarter and referred to as the 25/20 Plan, the Canadian Automotive Group segment immediately initiated its plan, with a first phase of reducing the workforce and remodeling of the distribution network in the Prairies. This includes the integration of the current distribution centres in Saskatoon and Calgary, while a superior one is expected to open during the first quarter of 2019 in Calgary. This will permit a broader selection of inventory. These initiatives are complementary to the integration and optimization of the company-owned stores.

TWELVE-MONTH PERIODS

The adjusted EBITDA margin decrease of 10 basis points, compared to the same period in 2017, is mainly related to efforts undertaken in 2018 to optimize the company-owned stores combined with the integration of six company-owned stores and one sold during the year. Furthermore, the twelve-month period of 2018 was impacted by losses on foreign exchange currencies due to a weaker Canadian dollar, while the corresponding period of 2017 benefited from a one-time saving in relation to the internalization of the servers.

These elements were, in part, compensated by higher volume rebates, a greater performance of the PBE program, as well as a reduction of performance-based compensation.

OPERATING RESULTS – THE PARTS ALLIANCE UK

The operations of The Parts Alliance UK segment are reported since their acquisition on August 7, 2017.

Sales

	Fourth quarters		Twelve-month periods	
	2018	2017	**2018**	2017
Sales	**93,555**	92,999	**418,154**	148,699
		%		*%*
Sales variance	**556**	***0.6***	**269,455**	***181.2***
Conversion effect of the British Pound	**2,644**	***2.8***	**3,509**	***2.4***
Number of billing days	**(427)**	***(0.4)***	**973**	***0.6***
Acquisitions	**(189)**	***(0.2)***	**(266,062)**	***(178.9)***
Organic growth	**2,584**	***2.8***	**7,875**	***5.3***

FOURTH QUARTERS

Sales for this segment increased by 0.6%, compared to the same quarter in 2017; the impact of the British pound on its conversion to the US dollar mostly offsetting the 2.8% of organic growth and the effect of a different number of billing day.

Organic growth for the segment was driven by the recent opening of greenfields. During the fourth quarter, three greenfields were opened as per plan, for a total of 13 in 2018 and 15 since its acquisition, expanding the footprint in the UK.

Sales for this segment were softer than expected for December and were affected by milder weather compared to 2017.

TWELVE-MONTH PERIODS

Sales for this segment increased by 181.2%, compared to the same period in 2017, as the figures from last year included sales since the acquisition on August 7, 2017.

The organic growth of 5.3% benefited from the opening of greenfields as well as growth initiatives.

EBITDA

	Fourth quarters			Twelve-month periods		
	2018	2017	*%*	**2018**	2017	*%*
EBITDA	**2,356**	3,708	*(36.5)*	**27,095**	6,007	*351.1*
EBITDA margin	***2.5%***	*4.0%*		***6.5%***	*4.0%*	
Special items	**1,230**	-		**1,230**	-	
Adjusted EBITDA	**3,586**	3,708	*(3.3)*	**28,325**	6,007	*371.5*
Adjusted EBITDA margin	***3.8%***	*4.0%*		***6.8%***	*4.0%*	

FOURTH QUARTERS

The adjusted EBITDA margin decreased by 20 basis points, compared to the same quarter in 2017. This variance is largely attributable to recent investments in greenfields impacting the EBITDA margin of the quarter by 75 basis points. Greenfields are expected to affect the EBITDA margin until reaching the optimized operational level, which may vary between 12 and 24 months.

This element was, in part, compensated by added volume of sales related to organic growth and increasing the absorption of fixed costs.

As part of the 25/20 Plan, The Parts Alliance UK segment is reviewing its supply chain, which includes the closure of a location, a slight reduction in workforce and the inauguration of a national distribution centre, situated in the heart of the UK and allowing the ability to grow while improving efficiency.

TWELVE-MONTH PERIODS

The adjusted EBITDA margin increased by 280 basis points, compared to the same period in 2017, reinforced by a full year of operations, and leveraging its fixed cost base. Furthermore, undertakings, as part of the 25/20 Plan, supported the operating performance, by integrating the operations of the acquired company-owned stores, standardizing their processes and maximizing their contribution. During the year, three company-owned stores were integrated.

Theses benefits were partially offset by the opening of greenfields, impacting the annual EBITDA margin by approximately 40 basis points.

OPERATING RESULTS – CORPORATE OFFICE AND OTHERS

	Fourth quarters			Twelve-month periods		
	2018	2017	%	**2018**	2017	%
EBITDA	**(7,208)**	(3,743)	*(92.6)*	**(25,120)**	(17,814)	*(41.0)*
Special items	**2,376**	2,130		**8,320**	6,780	
Adjusted EBITDA	**(4,832)**	(1,613)	*(199.6)*	**(16,800)**	(11,034)	*(52.3)*

FOURTH QUARTERS

The variance, compared to the same quarter in 2017, is in part attributable to a charge resulting from the equity swap instruments associated with stock-based compensation, while a gain was realized last year for the corresponding quarter. In addition, higher professional and consulting fees were incurred during the quarter for current operations.

TWELVE-MONTH PERIODS

The variance, compared to the same period in 2017, is mostly explained by the same factors mentioned for the quarter.

CASH FLOWS

OPERATING ACTIVITIES

	Fourth quarters		Twelve-month periods	
	2018	2017	**2018**	2017
Cash flows from operating activities	**13,398**	45,471	**94,579**	124,005

FOURTH QUARTERS

The variance in cash inflows from operating activities, compared to the same quarter in 2017, is the result of investments in inventory made during the last quarter of 2018 to benefit from annual performance rebates, to prevent against potential logistical issues related to Brexit, as well as to fill new distribution centres as part of the 25/20 Plan.

This variance was partially compensated by a reduction in trade receivables due to improved collection during the last quarter of 2018.

TWELVE-MONTH PERIODS

The variance in cash inflows from operating activities, compared to the same period in 2017, is explained by growing sales, increasing trade receivables and inventory levels. Additionally, investments in inventory were required at the end of the year to benefit from annual performance rebates, to prevent against potential logistical issues related to Brexit, as well as to fill new distribution centres as part of the 25/20 Plan. In addition, higher interest payments in 2018 related to the financing of business acquisitions and larger Canadian tax installments paid at the beginning of the year, contributed to the variance.

These elements were partially compensated by a higher level of trade payables through the vendor financing program and a superior operating income, notably benefiting from the contribution of The Parts Alliance UK segment for a full year.

INVESTING ACTIVITIES

	Fourth quarters		Twelve-month periods	
	2018	2017	**2018**	2017
Cash flows used in investing activities	**(38,178)**	(19,370)	**(86,193)**	(401,958)

FOURTH QUARTERS

The increase in cash outflows used in investing activities, compared to the same quarter in 2017, mostly resulted from business acquisitions during the fourth quarter of 2018, adding 21 company-owned stores to the consolidated network.

TWELVE-MONTH PERIODS

The variance in cash outflows used in investing activities, compared to the same period in 2017, is mainly related to business acquisitions closed in 2017, notably the addition of a new segment with The Parts Alliance UK.

This variance was, in part, compensated by additional customer investments granted by the FinishMaster US segment in 2018 for business volume development.

FINANCING ACTIVITIES

	Fourth quarters		Twelve-month periods	
	2018	2017	**2018**	2017
Cash flows from (used in) financing activities	**21,979**	(54,782)	**(30,594)**	285,677

FOURTH QUARTERS

The variance in cash flows from financing activities, compared to the same quarter in 2017, is mainly explained by a higher level of business acquisitions, combined with investments in inventory during the fourth quarter, which required additional funding from the credit facility in 2018.

TWELVE-MONTH PERIODS

The variance in cash flows from financing activities, compared to the same period in 2017, is mainly explained by a superior reimbursement of the long-term debt in 2018 resulting from a lower level of business acquisitions financed by the credit facility, partially offset by investments in inventory and the grant of additional customer investments during the current year.

FREE CASH FLOWS

	Fourth quarters		Twelve-month periods	
	2018	2017	**2018**	2017
Cash flows from operating activities	**13,398**	45,471	**94,579**	124,005
Changes in working capital	**8,953**	(23,234)	**5,163**	(14,583)
	22,351	22,237	**99,742**	109,422
Acquisitions of property and equipment	**(8,675)**	(5,224)	**(19,391)**	(13,658)
Difference between amounts paid for post-employment benefits and current period expenses	**41**	(147)	**(449)**	(104)
Free cash flows	**13,717**	16,866	**79,902**	95,660

FOURTH QUARTERS

The variance in free cash flows, compared to the same quarter in 2017, is explained by important property and equipment investments during the last quarter of 2018, in relation to new distribution centres in the Canadian Automotive Group and The Parts Alliance UK segments, in line with the supply chain optimization as part of the 25/20 Plan.

TWELVE-MONTH PERIODS

The variance in free cash flows, compared to the same period in 2017, is mainly explained by higher interest payments related to the financing of business acquisitions, larger Canadian tax installments as well as capital investments for property and equipment as part of the 25/20 Plan and for openings of greenfields.

These elements were, in part, compensated by the increasing operating income, notably benefiting from a full-year contribution by The Parts Alliance UK segment.

FINANCING

SOURCES OF FINANCING

The Corporation is diversifying its sources of financing in order to manage and mitigate liquidity risk.

CREDIT FACILITIES

On August 30, 2018, the Corporation entered into an amended and restated credit agreement (the "agreement"). The agreement provides for a $100,000 upsize in the unsecured long-term revolving credit facility (the "revolving credit facility") through the conversion, and immediate cancellation, of the unsecured term facility outstanding balance. The total maximum principal amount available under the agreement remains at $625,000, which is entirely composed of the revolving credit facility that can be repaid at any time without penalty. In addition, the agreement extends the maturity of the revolving credit facility and the unsecured letter of credit facility to June 30, 2023.

As at December 31, 2018, the unused portion, subject to financial covenants, amounted to $207,000 ($193,000 as at December 31, 2017). *(Refer to note 17 in the 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 December 31, 2018, Uni-Select benefited from additional deferred payments of accounts payable in the amount of $213,478 and used $291,582 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 of 2018. 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 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 December 31, 2018 are as follows:

Currencies (sold/bought)	**Maturity**	**Average rate** [(1)]	**Notional amount** [(2)]
CAD/USD	Up to March 2019	0.79	6,881
GBP/USD	Up to May 2019	1.27	3,613
GBP/EURO	Up to January 2019	1.11	458

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

(2) Exchange rates as at December 31, 2018 were used to translate amounts in foreign currencies.

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

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 of $67,500 for interest rate swaps denominated in US dollars ($80,000 in 2017), and £70,000 for interest rate swaps denominated in British pounds (same in 2017). 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 December 31, 2018, the equity swap agreements covered the equivalent of 364,277 common shares of the Corporation (same in 2017).

FUND REQUIREMENTS

The Corporation is able to meet both its operational and contractual fund requirements and support its various strategic initiatives for future growth, by using the various financing tools mentioned above, as well as its capacity to generate cash flows.

OPERATIONAL NEEDS

Operational requirements that the Corporation will face in 2019 are summarized as follows:

- The purchase of various capital assets for:
  - Partial renewal of the vehicle fleet through both financed leases and purchases;
  - Hardware equipment and software applications;
  - Location modernization;
  - Greenfield openings; and
  - Supply chain optimization in relation to the Performance Improvement Plan.
- Incentives granted to customers.
- The dividend payments.

CONTRACTUAL OBLIGATIONS

Operating leases

The Corporation has entered into long-term operating lease agreements expiring at various dates until 2033 for the rental of buildings, vehicles and information technology equipment and services. Some of these lease agreements contain renewal options for additional periods of one to five years which the Corporation may exercise by giving prior notice.

Finance leases

The Corporation mainly uses finance leases to renew its vehicle fleet. The terms vary from 16 to 84 months depending on the lease. As at December 31, 2018, the carrying values of the leased assets, which are presented under "automotive equipment" along with "property and equipment", were $11,680 ($19,141 as at December 31, 2017).

The following table shows the various contractual obligations due by period.

	2019	2020	2021	2022	2023	Thereafter
Long-term debt[1] [2]	4	4	3	-	418,220	-
Operating leases	34,317	30,399	24,748	17,177	13,547	40,005
Finance leases[3]	4,132	3,351	2,505	1,447	474	78
Total	38,453	33,754	27,256	18,624	432,241	40,083

(1) Includes credit facility.

(2) Does not include obligations related to interest on debt.

(3) Include obligations related to interest on finance leases.

Post-employment benefit obligations

The Corporation sponsors both defined benefit and defined contribution pension plans.

The defined benefit pension plans include a basic registered pension plan, a registered pension plan for senior management and a non-registered supplemental pension plan for certain members of senior management. The benefits under the Corporation's defined benefit pension plans are based on the years of service and the final average salary. The two registered pension plans are funded by the Corporation and the members of the plan. Employee contributions are determined according to the members' salaries and cover a portion of the benefit costs. The employer contributions are based on the actuarial evaluation which determines the level of funding necessary to cover the Corporation's obligations.

For the year ending December 31, 2019, the Corporation expects to make contributions of approximately $1,676 for its defined benefit pension plans. *(Refer to note 16 in the consolidated financial statements for further details.)*

Off balance sheet arrangements – guarantees

Under inventory repurchase agreements, the Corporation has made commitments to financial institutions to repurchase inventory from some of its customers. In Management's opinion and based on historical experience, the likelihood of significant payments being required under these agreements and losses being absorbed is low as the value of the assets held in guarantee is greater than the Corporation's financial obligations. *(Refer to note 22 in the consolidated financial statements for further details.)*

Under the terms of its credit facility, the Corporation has issued letters of credit amounting to $7,337 as at December 31, 2018 ($8,137 as at December 31, 2017). *(Refer to note 17 in the consolidated financial statements for further details.)*

CAPITAL STRUCTURE

The Corporation's capital management strategy optimizes the capital structure to enable the Corporation to benefit from strategic opportunities that may arise while minimizing related costs and maximizing returns to shareholders. The Corporation adapts capital management to the changing business conditions and the risks related to the underlying assets.

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.

		December 31,
	2018	2017
Components of debt ratios:		
Long-term debt	**426,739**	448,581
Total net debt	**418,703**	417,909
Total equity	**523,882**	517,977
Debt ratios[1]:		
Total net debt to total net debt and total equity ratio	***44.4%***	*44.7%*
Long-term debt to total equity ratio	***81.5%***	*86.6%*
Funded debt to adjusted EBITDA ratio	***3.50***	*3.56*
Return on average total equity	***7.0%***	*9.0%*
Adjusted return on average total equity	***9.1%***	*10.8%*
Dividend payout ratio	***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.

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

The slight decrease of the total net debt to total net debt and total equity ratio is related to the increase of the total equity resulting from the net earnings of the period.

The reduction of the long-term debt to total equity ratios is explained by the partial reimbursement of the debt from cash flows generated by operations, combined with an increase of the total equity resulting from the net earnings of the period.

The improvement of the funded debt to adjusted EBITDA ratio is attributable to a higher adjusted EBITDA.

The variance of the adjusted return on average total equity is explained by lower adjusted earnings for the year impacted by additional amortization of intangible assets and finance costs related to business acquisitions, which were, in part, compensated by an increase of the average total equity.

BANK COVENANTS

For purposes of compliance, the Corporation regularly monitors the requirements of its bank covenants to ensure they are met. As at December 31, 2018 and 2017, the Corporation met all the requirements.

DIVIDENDS

For the year 2018, the Corporation declared dividends amounting to $0.370 per share compared to C$0.3625 in 2017, representing an increase of 2.1%.

On February 20, 2019, the Corporation declared the first quarterly dividend of 2019 of C$0.0925, payable on April 16, 2019 to shareholders of record as of March 31, 2019.

Dividends are approved by the Board of Directors, which bases its decision on operating results, cash flows and other relevant factors. There is no guarantee that dividends will be declared in the future.

These dividends are eligible dividends for income tax purposes.

INFORMATION ON CAPITAL STOCK

(in thousands of shares)	**Fourth quarters**		**Twelve-month periods**	
	2018	2017	**2018**	2017
Number of shares issued and outstanding	**42,387**	42,274	**42,387**	42,274
Weighted average number of outstanding shares	**42,301**	42,274	**42,254**	42,261

As of January 31, 2019, 42,387,300 common shares were outstanding.

Issuance of shares

During the year ended December 31, 2018, the Corporation issued 206,184 common shares (59,634 in 2017) at the exercise of stock options for a cash consideration of $2,331 ($661 in 2017). The weighted average price of the exercise of stock options was C$14.94 for the year (C$14.80 for 2017).

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 during the year ended December 31, 2018 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

The Corporation's stock-based compensation plans include an equity-settled common share stock option plan, and cash-settled plans consisting of a deferred share unit plan and a performance share unit plan.

Common share stock option plan for management employees and officers

For the year ended December 31, 2018, 181,679 options were granted to management employees and officers of the Corporation (573,215 for 2017), with an average exercise price of C$28.61 (C$29.02 in 2017). During the year, 206,184 options were exercised (59,634 for 2017) and 340,360 options were forfeited or expired (none for 2017).

As at December 31, 2018, options granted for the issuance of 541,494 common shares (906,359 as at December 31, 2017) were outstanding under the Corporation's stock option plan, and 1,396,500 common shares (1,237,819 as at December 31, 2017) were reserved for additional options under the stock option plan.

For the year ended December 31, 2018, compensation expense of $1,339 ($924 for 2017) was recorded in the "Net earnings", with the corresponding amounts recorded in "Contributed surplus".

Deferred share unit ("DSU") plan

For the year ended December 31, 2018, the Corporation granted 83,423 DSUs (36,572 DSUs for 2017) and redeemed 86,292 DSUs (25,491 DSUs for 2017). Compensation expense of $206 ($673 in 2017) was recorded during the year, and 150,468 DSUs were outstanding as at December 31, 2018 (153,337 DSUs as at December 31, 2017). As at December 31, 2018, the compensation liability was $2,114 ($3,482 as at December 31, 2017) and the fair value of the equity swap agreement was a liability of $1,332 (liability of $352 as at December 31, 2017).

Performance share unit ("PSU") plan

For the year ended December 31, 2018, the Corporation granted 135,709 PSUs (127,950 PSUs for 2017) and redeemed 248,601 PSUs (70,991 PSUs for 2017). Compensation reversal of $661 (expense of $1,809 in 2017) was recorded during the year, and 160,103 PSUs were outstanding as at December 31, 2018 (272,995 PSUs as at December 31, 2017). As at December 31, 2018, the compensation liability was $317 ($4,945 as at December 31, 2017) and the fair value of the equity swap agreement was a liability of $1,726 (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 the US dollar.

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

	Dec. 31, 2018	Dec. 31, 2017	Impact of business acquisitions	Impact on conversion C$/US$ and £/US$	Net variances
Short-term					
Cash	**8,036**	30,672	-	(428)	22,208
Trade and other receivables	**247,732**	236,811	1,768	(11,835)	20,988
Inventory	**524,335**	458,354	8,780	(18,684)	75,885
Trade and other payables	**532,676**	446,370	2,456	(20,493)	104,343
Long-term					
Investments and advances to merchant members	**46,039**	30,628	180	(439)	15,670
Intangible assets	**210,331**	231,365	2,371	(6,925)	(16,480)
Goodwill	**372,007**	372,119	11,156	(11,268)	-
Balance of purchase price, net (including short-term portion)	**5,274**	18,413	(12,617)	(522)	-
Long-term debt (including short-term portion)	**426,739**	448,581	32,979	(8,869)	(45,952)

Explanations for net variances:

Cash: Cash availability was used to reduce the long-term debt.

Trade and other receivables: The increase is essentially related to growing sales activities.

Inventory: The increase is attributable to growing activities, notably from the opening of greenfields, as well as to additional investments required at the end of the year to benefit from annual performance rebates, to prevent against potential logistical issues related to Brexit, as well as to fill new distribution centres as part of the 25/20 Plan.

Trade and other payables: The increase is mainly explained by additional volume of trade payables going through the vendor financing program.

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 amortization.

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

Long-term debt: Operating activities combined with the available cash position, net of the investments of the period, allowed the partial reimbursement of the debt.

RELATED PARTIES

For the years ended December 31, 2018 and 2017, common shares of the Corporation were widely held, and the Corporation did not have an ultimate controlling party.

Transaction with key management personnel

Key management includes directors (executive and non-executive) and members of the Executive Committee. For the years ended December 31, 2018 and 2017, the compensation to key management personnel was as follows:

	Years ended December 31,	
	2018	2017
Salaries and short-term employee benefits	**5,254**	4,786
Severances and retention bonuses	**3,626**	-
Stock-based benefits	**1,693**	2,308
Post-employment benefits (including contributions to defined benefit pension	**235**	274
	10,808	7,368

There were no other related-party transactions with key management personnel for the years ended December 31, 2018 and 2017.

RISK MANAGEMENT

In the normal course of business, the Corporation is exposed to a variety of risks and uncertainties that may have a material and adverse 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 risks.

The following information is a summary of key risk factors, which may not be exhaustive.

RISKS ASSOCIATED WITH THE ECONOMY

Economic climate

The economic climate has a moderate impact on sales of automotive aftermarket parts, automotive refinish and industrial paint and related products and on the Corporation's operations. Although the automotive aftermarket industry is, to some extent, dependent on the economic climate, it is not nearly as affected as new car sales are by a difficult economic situation, since deciding to make car repairs is less discretionary and less expensive than the decision to buy a new vehicle.

Changes in legislation or government regulations or policies

Certain political developments occurring this past year have resulted in increased uncertainty for multi-national companies. These developments may result in trade policy actions that could impact the landscape of international trade. The Corporation's business is global and changes to existing international trade agreements, blocking of foreign trade or imposition of tariffs on foreign goods could result in decreased sales and/or increase in pricing, either of which could have an adverse impact on the business, operational results, financial condition and cash flows in future periods for the Corporation.

Inflation

Management believes that inflation has limited impact on the Corporation's financial results as the vast majority of price increases imposed by manufacturers are passed on to consumers for after market parts. Nevertheless, for automotive refinish and industrial paint and related products, the Corporation may not be able to implement additional price increases in the future and that could have a negative impact on financial results. To reduce the risk, the Corporation employs numbers of practices, including re-evaluate cost-to-serve and negotiate agreements with vendors.

Distance travelled

There is a direct link between unemployment rates, fuel prices and distance travelled as there is a direct link between distance travelled and the rate of vehicle wear and tear and repairs. Fuel prices also affect the Corporation's delivery costs.

RISKS ASSOCIATED WITH THE BUSINESS CONTEXT

Growth in the vehicle fleet

The growing number of car models over the last few years, coupled with their longer lifespan, results in a proliferation of aftermarket parts, imposing financial constraints on distributors and wholesalers that must carry a greater selection of parts to ensure adequate availability. This factor is partly offset by manufacturers putting increasingly sophisticated technological components into their vehicles, resulting in each part having more than one use and costing more to repair, which is favourable to the automotive aftermarket.

The rise in the number of foreign vehicle brands in North America is also responsible for the growing number of car models and the proliferation of aftermarket parts. This situation, together with technological complexity, electric cars and greater number of electronic components being used in cars, are factors that tend to favour dealers when consumers are deciding on a service supplier to perform their vehicle maintenance. On the other hand, any potential downsizing of automobile dealers' network could result in a move toward the aftermarket network for vehicle maintenance and repairs.

Products supply and inventory management

Uni-Select primarily distributes parts and products from well-known and well-established North American manufacturers. These manufacturers generally take responsibility for products that are defective, poorly designed or non-compliant with their intended use.

Uni-Select directly imports, to a lesser extent, various parts and products from foreign sources; with regards to these parts, the cash recovery of an eventual recourse against a supplier or manufacturer is uncertain. The Corporation carries liability insurance. In addition, transport logistics between the country of origin and the markets supplied increase the risk of stock outages.

The nature of the Corporation's businesses demands the maintenance of adequate inventories and the ability to meet specific delivery requirements. Supply management is an important element for proper inventory management and under most of our automotive parts supply agreements, the Corporation has return privileges, which helps mitigate the risks associated with inventory obsolescence.

To ensure a continuous supply of its products, the Corporation examines the financial results of its main suppliers and regularly reviews the diversification of its sources of supply.

Distribution by the manufacturer directly to consumers

The distribution of paint depends on the supply of products to the Corporation by certain large and limited number of manufacturers. One or some of these manufacturers could, in the future, decide to distribute their products directly to the end-customers or through other distributors without using the Corporation's services as a distributor. Such decision could cause an adverse effect on the profitability of the Corporation's business depending on the importance of the manufacturer in the Corporation's supply chain and the availability of alternative supply sources. To reduce such risks, Uni-Select retains harmonious business relationships with large paint manufacturers, provides efficient distribution and offers loyalty programs to their body shop customers, thereby creating value throughout the supply chain.

Technology

Ongoing technological developments in recent years require distributors and wholesalers to provide continual training programs to their employees and customers, along with access to new diagnostic tools. Uni-Select manages the potential impact of these trends through the scope and quality of the training and support programs it provides to independent wholesalers, their employees and their customers. It provides its customers with access to efficient and modern technologies in the areas of data management, warehouse management and telecommunications.

Improved safety features such as collision avoidance systems, driverless vehicles and other safety improvements as well as insurance company influence may reduce the demand for some of the Corporation's paint and related products and may have an impact on the operations and financial results.

Environmental risks

The industry of paint and of certain parts products distribution involves a certain level of environmental risk. Damages or destruction to warehouses specialised in the storage of such products, notably by fire, resulting in the spillage of paint or hazardous material, can have environmental consequences such as soil contamination or air pollution. These specialised warehouses are well-equipped to reduce such risks. This includes up-to-date sprinkler systems and retention basins in the event of accidental spills.

Risks related to legal, regulatory compliances and litigations

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) 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.

RISKS ASSOCIATED WITH THE OPERATIONAL CONTEXT

Risks related to Uni-Select's business model and strategy

In the automotive aftermarket, Uni-Select's business model is servicing independent wholesalers and independent installers through a network of company-owned warehouses and stores. This requires the Corporation to take special measures to promote its wholesalers' loyalty and long-term survival. This is why Uni-Select's fundamental approach is to drive the growth, competitiveness and profitability of its independent wholesalers by a total business solution that incorporates good purchasing conditions, proactive management of product selection, highly efficient distribution services, innovative marketing programs and various support services, such as training and financing.

Furthermore, considering that owners of aftermarket parts stores are aging, Uni-Select has also implemented succession programs to enable independent wholesalers who wish to retire to sell their business to a family member or an employee. Alternatively, Uni-Select may decide to purchase the business of its independent wholesalers to protect and grow its distribution network, as part of its corporate strategy.

Strategic Alternatives Review

In September 2018, the Board of Directors of the Corporation made management changes and announced the formation of a Special Committee of independent members of the Board to oversee a review of strategic alternatives. The Special Committee, the Board and management continue to actively review, analyze and evaluate a comprehensive range of alternatives with the goal of maximizing value for our shareholders. There are no guarantees that the review of strategic alternatives will result in a transaction, or if a transaction is undertaken, as to its terms or timing.

Integration of acquired business

The Corporation's growth-by-acquisition strategy carries its share of risks. The Corporation's success of its acquisitions depends on its ability to integrate and crystallize synergies in terms of efficiently consolidating the operations of the acquired businesses into its existing operations. Uni-Select has developed an expertise in this regard having successfully acquired and integrated several businesses over the years. To limit its risk, the Corporation has adopted a targeted and selective acquisition strategy, conducts strict due diligence and develops detailed integration plans. Finally, Uni-Select relies on a multidisciplinary team that is able to accurately assess and manage the risks specific to the markets where it does business.

Competition

The aftermarket industry in which the Corporation does business is highly competitive. Availabilities of parts, prices, quality and customer service are critical factors. Uni-Select competes primarily in the DIFM (Do It For Me) segment of the industry with, among others, national retail chains, independent distributors and wholesalers as well as online suppliers. Competition varies from market to market, and some competitors may have superior advantages over Uni-Select, which may result, among others, in a reduction in selling prices and an increase in marketing and promotional expenses, which would drive down the Corporation's profitability. To reduce this risk, the Corporation regularly reviews its product and service offering to meet the needs of its customer base as effectively as possible. In addition, the proliferation of parts in itself is a barrier to entry into the market for new competitors.

Business and financial systems

The Corporation relies extensively on its computer systems and the systems of its business partners to manage inventory, process transactions and report results. These systems are subject to damage or interruption from power outages, telecommunications failures, computer viruses, security breaches and catastrophic events. If its computer systems or those of its business partners fail to function properly, the Corporation may experience loss of critical data and interruptions or delays in its ability to manage inventories or process transactions, potentially impacting revenue and operational results. To mitigate that risk, the Corporation is supported by expert firms to prevent its applications from intrusion and loss of data. It includes robust firewalls, backup procedures, dual telecommunication lines, hardware redundancy and external hosting of equipment in specialised sites.

Human resources

During this period of active change, Uni-Select must attract, train and retain a large number of competent employees, while controlling payroll. Labour costs are subject to numerous external factors, such as wage rates, fringe benefits and the availability of local skilled resources at the opportune moment and internal factors such as the renegotiation of collective agreements for unionized employees. The inability to attract, train and retain employees could affect the Corporation's growth capacity as well as its financial performance. The Corporation has the following to attract, train and retain the best talent:

- Guides to accelerate employee on-boarding and measure proficient acquisition integration;
- Focus on areas related to training, such as sales development, business-related subject matter reinforcement, effective teams and interpersonal communications;
- Yearly talent reviews for performance, development and succession; and
- Harmonized competitive and equitable pension and benefits programs.

RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting its obligations on time and at a reasonable cost. This risk is dealt with in the "Financing" section.

Credit risk

Credit risk stems primarily from the potential inability of customers to discharge their obligations. The maximum credit risk to which the Corporation is exposed represents the carrying amount of cash, cash held in escrow, trade and other receivables and advances to merchant members. No account represents more than 5% of total accounts receivable. In order to manage its risk, specific credit limits are determined for certain accounts and reviewed regularly by the Corporation.

The Corporation may also be exposed to credit risk from its foreign exchange forward contracts, its interest rate swaps and its equity swap agreements, which is managed by dealing with reputable financial institutions.

The Corporation holds in guarantee some personal property and some assets of certain customers. Those customers are also required to contribute to a fund to guarantee a portion of their amounts due to the Corporation. The financial condition of customers is examined regularly, and monthly analyses are reviewed to ensure that past-due amounts are collectible and, if necessary, that measures are taken to limit credit risk.

Allowances for doubtful accounts and past-due accounts receivable are reviewed at least quarterly, and a bad-debt expense is recognized only for accounts receivable for which collection is uncertain.

Foreign exchange risk

The Corporation is exposed to foreign exchange risk on its financial instruments mainly related to purchases in currencies other than the respective functional currencies of the Corporation. To limit the impact of fluctuations in the Canadian dollar or the British pound over the US dollar and Euro on forecasted cash flows, the Corporation uses forward contracts from time to time.

The Corporation has certain investments in foreign operations (United States and United Kingdom) whose net assets are exposed to foreign currency translation. The Corporation hedges the foreign exchange risk exposure related to those investments with US dollar or British pound denominated debt instruments.

Interest rates

The Corporation is exposed to interest rate fluctuations, primarily due to its variable-rate debts. The Corporation manages its interest rate exposure by maintaining an adequate balance of fixed versus variable rate debt and by concluding swap agreements to exchange variable rates for fixed rates. The Corporation does not use financial instruments for trading or speculative purposes.

(For further details about risks associated with financial instruments, refer to note 20 in the consolidated financial statements.)

CHANGE IN 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.

Revenues from contracts with customers

In May 2014, the International Accounting Standards Board ("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 statements of earnings, comprehensive income, changes in equity and cash flows for the year ended December 31, 2017.

The new disclosure requirements of IFRS 15 partially impacted the information described under notes 2 and 3 in the consolidated financial statements. Refer to these notes, under their respective "Sales recognition" sections, for further details.

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 new disclosure requirements of IFRS 9 partially impacted the information described under note 3 in the consolidated financial statements. Refer to this note, under "Financial instruments - Classification and measurement of non derivative financial assets" and "Financial instruments - Impairment of non derivative financial instruments" sections for further details.

The following summarizes other impacts resulting from the adoption of the accounting changes:

Classification and measurement of non derivative financial instruments: The Corporation reclassified its loans and receivables financial assets to financial assets measured at amortized cost. 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.

Impairment of non derivative financial instruments: IFRS 9 replaces the incurred loss model in IAS 39 with the ECL approach. The adoption of the ECL requirements of IFRS 9 had no significant impact on the Corporation's accounting for impairment losses for financial assets.

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 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

EFFECTIVE DATE – JANUARY 1, 2019 WITH EARLIER ADOPTION PERMITTED IN CERTAIN CIRCUMSTANCES

Leases

In January 2016, the IASB issued IFRS 16 “Leases”, replacing the current standard on leases (IAS 17). IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the consolidated statement of financial position with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease, sets requirements on how to account for the asset and liability (including complexities such as non-lease elements, variable lease payments and options periods), changes the accounting for sale and leaseback arrangements and introduces new disclosure requirements.

The impact of this new standard, including the presentation and disclosure requirements, has been assessed. IFRS 16 will affect primarily the accounting for the Corporation’s real estate operating leases. The Corporation intends to apply the modified retrospective transition approach and will not restate comparative amounts for the year prior to its adoption. Under this approach, the cumulative effect of initially applying IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at the date of initial application. The Corporation has elected to apply the following transitional practical expedients:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Account for leases for which the remaining lease term ends within 12 months of the effective date as a short-term lease;
- Recognize short-term leases and low value leases on a straight-line basis as “Other operating expenses” in the consolidated statement of earnings.

The Corporation expects to recognize new assets (right-of-use assets) and liabilities (lease liabilities) approximating $86,000 and $97,000 respectively, as well as deferred tax assets of about $2,000.

As a result of adopting the new standard, the Corporation expects that net earnings will decrease for 2019. As well, earnings before finance costs, depreciation and amortization and income taxes is expected to increase, since the operating lease payments were included in “Other operating expenses”, while the amortization of the right-of-use assets and interest on the lease liabilities are excluded from this measure. Cash flows from operating activities will increase since the repayment of the principal portion of the lease liabilities will be presented as part of the cash flows from financing activities.

Refer to note 22 in the consolidated financial statements for more details on the Corporation’s future minimum lease payments under operating leases as at December 31, 2018.

USE OF ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in accordance with IFRS requires Management to apply judgment and to make estimates and assumptions that affect the amounts recognized in the consolidated financial statements and notes to the consolidated financial statements. Judgment is commonly used in determining whether a balance or transaction should be recognized in the consolidated financial statements and estimates and assumptions are more commonly used in determining the measurement of recognized transactions and balances. However, judgment and estimates are often interrelated.

Information about the Corporation’s accounting policies is provided in note 3 to the consolidated financial statements, and the most significant uses of judgment, estimates and assumptions relate to the following:

ESTIMATES

Business combinations: Upon the recognition of a business combination, the Corporation records the assets acquired and liabilities assumed at their estimated fair values. The value of goodwill recognized is directly affected by the estimated values of the assets and liabilities. Any change in the estimates used would result in an increase or decrease in the value of goodwill at the date of acquisition, or in net earnings in subsequent years. *(Refer to note 10 in the consolidated financial statements for further details.)*

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.

Inventory valuation: The Corporation uses estimates in determining the net realizable value of its inventory, taking into consideration the quantity, age and condition of the inventory at the time the estimates are made. These estimates also include assumptions about future selling prices and costs, product demand and return fees. The Corporation also uses estimates in determining the value of trade discounts, rebates and other similar items receivable from vendors. These estimates are based on the Corporation's historical experience and Management's assumptions about future events, and are reviewed on a regular basis throughout the year.

Allowance for surplus or obsolete inventory: The Corporation records an allowance for estimated obsolescence calculated on the basis of assumptions about the future demand for its products and conditions prevailing in the markets where its products are sold. This allowance, which reduces inventory to its net realizable value, is then entered as a reduction of inventory in the consolidated statements of financial position. Management must make estimates when establishing such allowances. In the event that actual market conditions are less favorable than the Corporation's assumptions, additional allowances could prove necessary.

Property and equipment and intangible assets: Assumptions are required in determining the useful lives and residual values of property and equipment and intangible assets with finite useful lives. *(Refer to note 3 in the consolidated financial statements for further details.)*

Impairments of non-financial assets: The Corporation uses estimates and assumptions based on historical experience and Management's best estimates to estimate future cash flows in the determination of the recoverable amounts of assets and the fair value of cash generating units ("CGUs"). Impairment tests require Management to make significant assumptions about future events and operating results. Significant estimates are also required in the determination of appropriate discount rates to apply the future cash flows in order to adjust current market rates for assets and entity-specific risk factors. Revisions of these assumptions and estimates, or variances between the estimated amounts and actual results may have a significant impact on the assets recorded in the consolidated statements of financial position, and on the Corporation's net earnings in future periods. For the years ended December 31, 2018 and 2017, no impairment losses or reversals of previous losses have been recorded on the Corporation's non-current assets. *(Refer to note 14 in the consolidated financial statements for further details.)*

Deferred taxes: The Corporation estimates its deferred income tax assets and liabilities based on differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the consolidated financial statements for the years in which temporary differences are expected to reverse. Changes in the timing of the reversals or the income tax rates applicable in future years could result in significant differences between these estimates and the actual amounts realized, which would affect net earnings in a subsequent period.

Post-employment benefit obligations: Significant assumptions and estimates are required in the measurement of the Corporation's obligations under defined benefit pension plans. Management estimates the defined benefit obligations annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimates of the defined benefit obligations are based on inflation rates, discount rates, and mortality rates that Management considers to be reasonable. It also takes into account the Corporation's specific anticipation of future salary increases and retirement ages of employees. Discount rates are determined at each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related defined benefit obligations. Variation in these assumptions may significantly impact the Corporation's defined benefit obligations. *(Refer to note 16 in the consolidated financial statements for further details.)*

Hedge effectiveness: The Corporation uses estimates and assumptions, based on external market trends and Management's best estimates of entity-specific risks, in assessing the hedge effectiveness prospectively throughout the hedging relationship, if any. Hedge accounting is terminated when a hedging relationship is no longer highly effective, or when a forecast transaction is no longer probable. Differences in actual results may have an impact on the Corporation's net earnings in subsequent periods. The Corporation does not use derivative financial instruments for speculative purposes.

Provisions: The Corporation makes estimates of projected costs and timelines and the probability of occurrence of the obligations in determining the amount for provisions. Provisions are reviewed at the end of each reporting period and are adjusted to reflect the best estimates. *(Refer to note 3 in the consolidated financial statements for further details.)*

JUDGMENTS

Leases: The Corporation uses judgment in determining the classification of its leased assets at inception of the lease. *(Refer to note 3 in the consolidated financial statements for further details.)*

Evidence of asset impairment: The Corporation uses significant judgment in determining the existence of an event which indicates a negative effect on the estimated future cash flows associated with an asset. If applicable, the Corporation performs impairment tests on its CGUs to assess whether the carrying amounts of assets are recoverable. As described in the previous section, various estimates made by Management are used in the impairment tests.

Hedge accounting: At the inception of a hedging relationship, if any, the Corporation uses judgment in determining the probability that a forecasted transaction will occur.

EXCHANGE RATE DATA

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

	Years ended December 31,		
	2018	2017	2016
Average for the period (to translate the statement of earnings)			
Canadian dollar	**0.77**	0.77	0.75
British pound	**1.34**	1.33	-
Period end (to translate the statement of financial position)			
Canadian dollar	**0.73**	0.80	0.74
British pound	**1.27**	1.35	-

As the Corporation uses the US dollar as its reporting currency in its 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 Interim 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 December 31, 2018, the Interim President and Chief Executive Officer and the Chief Financial Officer concluded that the Corporation's disclosure controls and procedures are properly designed and effective.

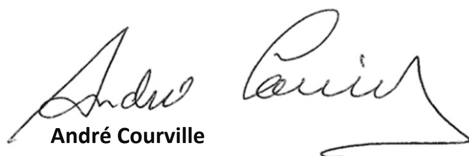
INTERNAL CONTROLS OVER FINANCIAL REPORTING

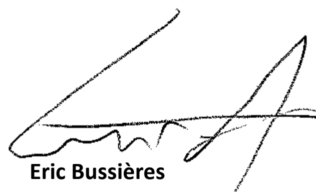
Uni-Select has continued its evaluation of the effectiveness of internal controls over financial reporting as at December 31, 2018, in accordance with the NI 52-109 guidelines. This evaluation enabled the Interim President and Chief Executive Officer and the Chief Financial Officer to conclude that internal controls over financial reporting were designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with IFRS.

During the year ended December 31, 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.

OUTLOOK

A discussion of management's expectations as to our outlook for the 2019 year is included in our press release announcing the 2018 fourth 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.





André Courville
Interim President and Chief Executive Officer

Eric Bussières
Chief Financial Officer

Approved by the Board of Directors on February 20, 2019.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

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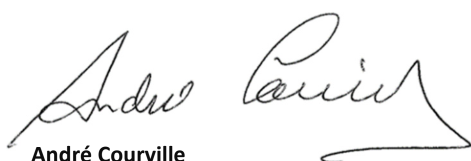
MANAGEMENT'S REPORT

The consolidated financial statements and other financial information included in this Annual Report are the responsibility of the Corporation's Management. The consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards ("IFRS") and have been approved by the Board of Directors on February 20, 2019.

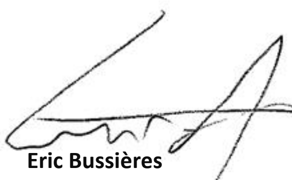
Uni-Select Inc. maintains internal control systems which, according to Management, reasonably ensure the accuracy of the financial information and maintain proper standards of conduct in the Corporation's activities.

The Board of Directors fulfills its responsibility regarding the consolidated financial statements included in this Annual Report, primarily through its Audit Committee. This Committee, which meets periodically with the Corporation's directors, management and external auditors, has reviewed the consolidated financial statements of Uni-Select Inc. and has recommended that they be approved by the Board of Directors.

The consolidated financial statements have been audited by the Corporation's external auditors, Ernst & Young LLP.



André Courville
Interim President and Chief Executive Officer



Eric Bussières
Chief Financial Officer

Boucherville (Canada)
February 20, 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Uni-Select Inc.

Opinion

We have audited the consolidated financial statements of Uni-Select Inc. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information included in the Group's 2018 Annual Report

Management is responsible for the other information. The other information comprises

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Lily Adam.

Ernst & Young LLP [1]

Montréal (Canada)
February 20, 2019

[1] CPA auditor, CA public accountancy permit no. A120803

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands of US dollars, except per share amounts)	Note	Years ended December 31,	
		2018	2017
Sales		**1,751,965**	1,448,272
Purchases, net of changes in inventories		**1,176,796**	983,198
Gross margin		**575,169**	465,074
Employee benefits		**308,546**	236,684
Other operating expenses		**147,094**	110,858
Special items	4	**14,589**	6,780
Earnings before finance costs, depreciation and amortization and income taxes		**104,940**	110,752
Finance costs, net	5	**20,561**	14,487
Depreciation and amortization	6	**39,702**	29,647
Earnings before income taxes		**44,677**	66,618
Income tax expense	7	**8,180**	22,002
Net earnings		**36,497**	44,616
Earnings per share	8		
Basic		**0.86**	1.06
Diluted		**0.86**	1.05
Weighted average number of common shares outstanding (in thousands)	8		
Basic		**42,254**	42,261
Diluted		**42,419**	42,430

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of US dollars)	Note	Years ended December 31, 2018	2017
Net earnings		**36,497**	44,616
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 $208 ($24 in 2017))		**603**	(70)
Net change in the fair value of derivative financial instruments designated as cash flow hedges transferred to earnings (net of income tax of $15 ($42 in 2017))		**44**	123
Unrealized exchange gains (losses) on the translation of financial statements to the presentation currency		**(7,376)**	12,685
Unrealized exchange gains (losses) on the translation of debt designated as a hedge of net investments in foreign operations (no income tax for 2018 (net of income tax of $36 in 2017))		**(15,831)**	242
		(22,560)	12,980
Items that will not subsequently be reclassified to net earnings:			
Remeasurements of long-term employee benefit obligations (net of income tax of $620 ($613 in 2017))	16	**1,801**	(1,749)
Total other comprehensive income (loss)		**(20,759)**	11,231
Comprehensive income		**15,738**	55,847

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Attributable to shareholders				
(In thousands of US dollars)	**Note**	Share capital (note 19)	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) (note 21)	**Total equity**
Balance, December 31, 2016		96,924	4,260	401,420	(30,242)	472,362
Net earnings		-	-	44,616	-	44,616
Other comprehensive income (loss)		-	-	(1,749)	12,980	11,231
Comprehensive income		-	-	42,867	12,980	55,847
Contributions by and distributions to shareholders:						
Issuance of common shares		661	-	-	-	661
Dividends		-	-	(11,817)	-	(11,817)
Stock-based compensation	15	-	924	-	-	924
		661	924	(11,817)	-	(10,232)
Balance, December 31, 2017		97,585	5,184	432,470	(17,262)	517,977
Net earnings		**-**	**-**	**36,497**	**-**	**36,497**
Other comprehensive income (loss)		**-**	**-**	**1,801**	**(22,560)**	**(20,759)**
Comprehensive income (loss)		**-**	**-**	**38,298**	**(22,560)**	**15,738**
Contributions by and distributions to shareholders:						
Repurchase and cancellation of common shares		**(190)**	**-**	**(1,232)**	**-**	**(1,422)**
Issuance of common shares		**2,331**	**-**	**-**	**-**	**2,331**
Transfer upon exercise of stock options		**518**	**(518)**	**-**	**-**	**-**
Dividends		**-**	**-**	**(12,081)**	**-**	**(12,081)**
Stock-based compensation	15	**-**	**1,339**	**-**	**-**	**1,339**
		2,659	**821**	**(13,313)**	**-**	**(9,833)**
Balance, December 31, 2018		**100,244**	**6,005**	**457,455**	**(39,822)**	**523,882**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of US dollars)	Note	Years ended December 31, 2018	2017
OPERATING ACTIVITIES			
Net earnings		**36,497**	44,616
Non-cash items:			
Special items	4	**14,589**	(523)
Finance costs, net	5	**20,561**	14,487
Depreciation and amortization	6	**39,702**	29,647
Income tax expense	7	**8,180**	22,002
Amortization and reserves related to incentives granted to customers		**17,193**	16,581
Other non-cash items		**(2,884)**	269
Changes in working capital items	9	**(5,163)**	14,583
Interest paid		**(18,681)**	(10,371)
Income taxes paid		**(15,415)**	(7,286)
Cash flows from operating activities		**94,579**	124,005
INVESTING ACTIVITIES			
Business acquisitions	10	**(23,670)**	(348,490)
Net balance of purchase price		**(7,082)**	(7,935)
Cash held in escrow		**(1,670)**	(5,108)
Premium on foreign currency options paid		**-**	(6,631)
Proceeds from disposal of foreign exchange options		**-**	6,174
Advances to merchant members and incentives granted to customers		**(38,858)**	(28,257)
Reimbursement of advances to merchant members		**6,282**	5,737
Acquisitions of property and equipment		**(19,391)**	(13,658)
Proceeds from disposal of property and equipment		**1,589**	824
Acquisitions and development of intangible assets		**(3,269)**	(4,614)
Other provisions paid		**(124)**	-
Cash flows used in investing activities		**(86,193)**	(401,958)
FINANCING ACTIVITIES			
Increase in long-term debt	9	**271,541**	450,860
Repayment of long-term debt	9	**(291,126)**	(154,090)
Net increase (decrease) in merchant members' deposits in the guarantee fund		**328**	(117)
Repurchase and cancellation of shares	19	**(1,422)**	-
Issuance of common shares	19	**2,331**	661
Dividends paid		**(12,246)**	(11,637)
Cash flows from (used in) financing activities		**(30,594)**	285,677
Effects of fluctuations in exchange rates on cash		**(428)**	623
Net increase (decrease) in cash		**(22,636)**	8,347
Cash, beginning of year		**30,672**	22,325
Cash, end of year		**8,036**	30,672

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

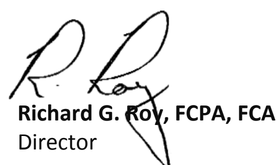
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands of US dollars)	Note	December 31,	
		2018	2017
ASSETS			
Current assets:			
Cash		**8,036**	30,672
Cash held in escrow		**3,591**	8,147
Trade and other receivables	11	**247,732**	236,811
Income taxes receivable		**16,789**	29,279
Inventory		**524,335**	458,354
Prepaid expenses		**10,502**	10,196
Derivative financial instruments	20	**442**	-
Total current assets		**811,427**	773,459
Investments and advances to merchant members	12	**46,039**	30,628
Property and equipment	13	**83,956**	78,644
Intangible assets	14	**210,331**	231,365
Goodwill	14	**372,007**	372,119
Derivative financial instruments	20	**940**	-
Deferred tax assets	7	**15,870**	10,174
TOTAL ASSETS		**1,540,570**	1,496,389
LIABILITIES			
Current liabilities:			
Trade and other payables		**532,676**	446,370
Balance of purchase price, net		**4,062**	15,469
Provision for restructuring charges	4	**4,173**	-
Income taxes payable		**3,987**	16,831
Dividends payable		**2,876**	3,110
Current portion of long-term debt and merchant members’ deposits in the guarantee fund	17, 18	**4,230**	37,098
Derivative financial instruments	20	**3,058**	-
Total current liabilities		**555,062**	518,878
Long-term employee benefit obligations	15, 16	**12,799**	20,985
Long-term debt	17	**422,603**	411,585
Merchant members’ deposits in the guarantee fund	18	**5,424**	5,543
Balance of purchase price		**1,212**	2,944
Other provisions		**1,424**	1,331
Derivative financial instruments	20	**-**	1,041
Deferred tax liabilities	7	**18,164**	16,105
TOTAL LIABILITIES		**1,016,688**	978,412
TOTAL EQUITY		**523,882**	517,977
TOTAL LIABILITIES AND EQUITY		**1,540,570**	1,496,389

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

On behalf of the Board of Directors

Michelle Ann Cormier, CPA, CA, ASC
Director



Richard G. Roy, FCPA, FCA
Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Corporation has consistently applied the same accounting policies for all the periods presented.

The Board of Directors approved and authorized for issuance these consolidated financial statements on February 20, 2019.

Basis of measurement

These 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 obligations 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 consolidated financial statements are presented in US dollars, which is the Corporation’s presentation currency.

Use of accounting estimates and judgments

The preparation of financial statements in accordance with IFRS requires Management to apply judgment and to make estimates and assumptions that affect the amounts recognized in the consolidated financial statements and notes to the consolidated financial statements. Judgment is commonly used in determining whether a balance or transaction should be recognized in the consolidated financial statements and estimates and assumptions are more commonly used in determining the measurement of recognized transactions and balances. However, judgment and estimates are often interrelated.

Information about the Corporation’s accounting policies is provided in note 3 to the consolidated financial statements, and the most significant uses of judgment, estimates and assumptions relate to the following:

(i) Estimates

Business combinations: Upon the recognition of a business combination, the Corporation records the assets acquired and liabilities assumed at their estimated fair values. The value of goodwill recognized is directly affected by the estimated values of the assets and liabilities. Any change in the estimates used would result in an increase or decrease in the value of goodwill at the date of acquisition, or in net earnings in subsequent years. See note 10 for details on the business combinations completed in the last two years.

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.

Inventory valuation: The Corporation uses estimates in determining the net realizable value of its inventory, taking into consideration the quantity, age, and condition of the inventory at the time the estimates are made. These estimates also include assumptions about future selling prices and costs, product demand, and return fees. The Corporation also uses estimates in determining the value of trade discounts, rebates, and other similar items receivable from vendors. These estimates are based on the Corporation’s historical experience and Management’s assumptions about future events, and are reviewed on a regular basis throughout the year.

2 - BASIS OF PRESENTATION (CONTINUED)

Allowance for surplus or obsolete inventory: The Corporation records an allowance for estimated obsolescence calculated on the basis of assumptions about the future demand for its products and conditions prevailing in the markets where its products are sold. This allowance, which reduces inventory to its net realizable value, is then entered as a reduction of inventory in the consolidated statements of financial position. Management must make estimates when establishing such allowances. In the event that actual market conditions are less favorable than the Corporation's assumptions, additional allowances could prove necessary.

Property and equipment and intangible assets: Assumptions are required in determining the useful lives and residual values of property and equipment, and intangible assets with finite useful lives. Refer to note 3 for further details.

Impairment of non-financial assets: The Corporation uses estimates and assumptions based on historical experience and Management's best estimates to estimate future cash flows in the determination of the recoverable amounts of assets and the fair value of cash generating units ("CGUs"). Impairment tests require Management to make significant assumptions about future events and operating results. Significant estimates are also required in the determination of appropriate discount rates to apply the future cash flows in order to adjust current market rates for assets and entity-specific risk factors. Revisions of these assumptions and estimates, or variances between the estimated amounts and actual results may have a significant impact on the assets recorded in the consolidated statements of financial position, and on the Corporation's net earnings in future periods. For the years ended December 31, 2018 and 2017, no impairment losses or reversals of previous losses have been recorded on the Corporation's non-current assets. Refer to note 14 for further details.

Deferred taxes: The Corporation estimates its deferred income tax assets and liabilities based on differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the consolidated financial statements for the years in which temporary differences are expected to reverse. Changes in the timing of the reversals or the income tax rates applicable in future years could result in significant differences between these estimates and the actual amounts realized, which would affect net earnings in a subsequent period.

Post-employment benefit obligations: Significant assumptions and estimates are required in the measurement of the Corporation's obligations under defined benefit pension plans. Management estimates the defined benefit obligations annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimates of the defined benefit obligations are based on inflation rates, discount rates, and mortality rates that Management considers to be reasonable. It also takes into account the Corporation's specific anticipation of future salary increases and retirement ages of employees. Discount rates are determined at each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related defined benefit obligations. Variation in these assumptions may significantly impact the Corporation's defined benefit obligations. Refer to note 16 for details on the assumptions and estimates used for the years ended December 31, 2018 and 2017.

Hedge effectiveness: The Corporation uses estimates and assumptions, based on external market trends and Management's best estimates of entity-specific risks, in assessing the hedge effectiveness prospectively throughout the hedging relationship, if any. Hedge accounting is terminated when a hedging relationship is no longer highly effective, or when a forecast transaction is no longer probable. Differences in actual results may have an impact on the Corporation's net earnings in subsequent periods. The Corporation does not use derivative financial instruments for speculative purposes.

Provisions: The Corporation makes estimates of projected costs and timelines, and the probability of occurrence of the obligations in determining the amount for provisions. Provisions are reviewed at the end of each reporting period and are adjusted to reflect the best estimates. Refer to note 3 for further details.

(ii) Judgments

Leases: The Corporation uses judgment in determining the classification of its leased assets at the inception of the lease. Refer to note 3 for further details.

Evidence of asset impairment: The Corporation uses significant judgment in determining the existence of an event which indicates a negative effect on the estimated future cash flows associated with an asset. If applicable, the Corporation performs impairment tests on its CGUs to assess whether the carrying amounts of assets are recoverable. As described in the previous section, various estimates made by Management are used in the impairment tests.

Hedge accounting: At the inception of a hedging relationship, if any, the Corporation uses judgment in determining the probability that a forecasted transaction will occur.

3 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used to prepare these consolidated financial statements are as follows:

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are fully consolidated from the date that control begins until the date that control ceases. Transactions with subsidiaries are eliminated upon consolidation. The Corporation's principal wholly-owned subsidiaries as at December 31, 2018 are as follows:

- 370071 Alberta Ltd.
- FinishMaster, Inc.
- FinishMaster Canada Inc.
- FinishMaster Services, Inc.
- German Swedish & French Car Parts Limited
- PA Topco Limited
- Parts Alliance Group Limited
- Uni-Select Canada Stores Inc.
- Uni-Sélect Eastern Inc.
- Uni-Select Luxembourg 2018 SARL
- Uni-Select Pacific Inc.
- Uni-Select Prairies Inc.
- Uni-Select Purchases, G.P.
- Uni-Sélect Québec Inc.
- Uni-Select USA Holdings, Inc.

Business combinations

The Corporation applies the acquisition method in accounting for business acquisitions. The consideration transferred by the Corporation to obtain control of a subsidiary is calculated as the sum of the fair values, at the acquisition date, of the assets transferred, liabilities incurred and equity interests issued by the Corporation, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Corporation recognizes identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have previously been recognized in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are measured at their acquisition-date estimated fair values.

Goodwill is measured at the acquisition date as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally the fair value) of the identifiable assets acquired and liabilities assumed. When the net result is negative, a bargain purchase gain is recognized immediately in net earnings.

Foreign currency translation

(i) Foreign currency transactions

Foreign currency transactions are initially recorded in the functional currency of the related entity (note 2) using the exchange rate prevailing at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated using closing exchange rates. Any exchange rate differences are recognized in net earnings except for those relating to qualifying cash flow hedges, which are deferred under other comprehensive income ("OCI") in equity.

(ii) Foreign operations

Assets and liabilities of foreign operations whose functional currency is other than the presentation currency (note 2) are translated into US dollars using closing exchange rates. Revenues and expenses are translated using average exchange rates for the period. Foreign currency translation differences are recognized and presented under OCI in equity. The exchange rates used in the preparation of the consolidated financial statements were as follows:

	Years ended December 31,	
	2018	2017
Average exchange rate for the year		
Canadian dollar	**0.77**	0.77
British pound	**1.34**	1.33
Exchange rate as at year-end		
Canadian dollar	**0.73**	0.80
British pound	**1.27**	1.35

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.

Inventory

Inventory consists of finished products and is valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method net of certain trade discounts, rebates, and other similar items receivable from vendors. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling costs.

Incentives granted to customers

The Corporation provides cash, inventory and equipment incentives to certain customers as consideration for multi-year purchase commitments ("contracts"). These incentives are recorded at cost and are amortized, contract by contract, as a reduction of sales, on a straight-line basis over the lesser of the contract term or 60 months, corresponding to the average duration of the contracts. In the event that a customer breaches the commitment, the remaining unamortized book value of the incentive, net of liquidated damages to be received, is immediately recorded as other expenses in net earnings.

Property and equipment

Property and equipment is measured at its cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to acquiring the asset and preparing the asset for its intended use. The cost less residual value of the property and equipment is depreciated over the estimated useful lives in accordance with the following methods and periods:

	Methods	Periods / Rate
Paving	Diminishing balance	8%
Buildings	Straight-line and diminishing balance	30 to 50 years / 5%
Furniture and equipment	Straight-line and diminishing balance	4 to 10 years / 20%
Computer equipment and system software	Straight-line and diminishing balance	3 to 5 years / 30%
Automotive equipment	Straight-line and diminishing balance	4 to 5 years / 30%
Leasehold improvements	Straight-line	Lease term
Vehicles under finance leases	Diminishing balance	30%

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Intangible assets

For internally-generated intangible assets, the Corporation records the costs directly attributable to the acquisition and development of an enterprise resource planning software ("ERP") and the corresponding borrowing costs. In order to accurately reflect the pattern of consumption of the expected benefits, the Corporation amortizes its software and related costs on a straight-line basis over a 10-year period. The amortization period begins when the asset is available for its intended use and ceases when the asset is classified as held for sale or is derecognized.

Trademarks, which were all acquired as a result of business acquisitions, are determined as having indefinite useful lives based on the prospects for long-term profitability and the overall positioning of the trademarks on the market in terms of notoriety and sales volume. They are measured at cost less accumulated impairment losses and are not amortized.

Other intangible assets, including those acquired as a result of business acquisitions, are measured at cost less accumulated amortization and accumulated impairment losses, and are amortized over their estimated useful lives according to the following methods and periods:

	Methods	Periods / Rate
Customer relationships and others	Straight-line	2 to 20 years
Software	Straight-line and diminishing balance	5 to 10 years / 30%

Amortization methods, useful lives and residual values are reviewed at each reporting date.

Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognized. Goodwill is measured at cost less accumulated impairment losses and is not amortized.

Borrowing costs

Borrowing costs directly attributable to the development of the ERP software (i.e. qualifying asset), if any, are capitalized as part of the cost of that intangible asset until it is substantially ready for its intended use. Otherwise, borrowing costs are recognized in net earnings using the effective interest method.

Impairment of assets

Property and equipment and intangible assets with finite lives are reviewed at each reporting date to determine whether events or changes in circumstances indicate that the carrying amount of the asset or related CGU may not be recoverable. If any such indication exists, then the assets' or CGU's recoverable amount is estimated. Intangible assets with indefinite lives, specifically the goodwill and trademarks, are tested for impairment annually or more frequently if events or circumstances indicate that they are impaired.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the groups of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which goodwill is monitored for internal reporting purposes.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its estimated recoverable amount. The data used for impairment testing procedures are directly linked to the Corporation's latest approved budget and strategic plan. Discount factors are determined individually for each CGU and reflect their respective risk profiles as assessed by Management.

Impairment losses are recognized in net earnings. Impairment losses recognized with respect to a CGU are allocated first to reduce the carrying amount of any goodwill, and then to reduce the carrying amounts of the other assets of a CGU on a pro-rata basis.

An impairment loss with respect to goodwill, if any, cannot be reversed. For other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss with respect to other assets is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss with respect to other assets is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Leases

Leases in terms of which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition, assets acquired under finance leases are recorded in "Property and equipment" at the lower of the fair value of the asset and the present value of the minimum lease payments. A corresponding liability is recorded as a finance lease obligation within "Long-term debt". In subsequent periods, the asset is depreciated over the estimated useful life and interest on the obligation is recorded in "Finance costs, net" in the consolidated statements of earnings.

Other leases are classified as operating leases and the leased assets are not recognized in the Corporation's consolidated statements of financial position. Payments made under operating leases are recognized in net earnings on a straight-line basis over the term of the lease.

Income taxes

Income tax expense comprises current and deferred tax. Current taxes and deferred taxes are recognized in net earnings except to the extent that they relate to a business combination, or items recognized directly in equity or in OCI.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable with respect to previous years.

Deferred tax assets and liabilities for financial reporting purposes are determined according to differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the reporting date for the years in which the temporary differences are expected to reverse. Deferred tax assets are recognized to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilized against future taxable income. Deferred tax liabilities are generally recognized in full, although IAS 12, "Income taxes" specifies limited exemptions. However, deferred taxes are not recognized on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred taxes on temporary differences associated with investments in subsidiaries are not recognized if the reversal of these temporary differences can be controlled by the Corporation and it is improbable that reversal will occur in the foreseeable future. Deferred taxes on temporary differences associated with investments in subsidiaries are reassessed at each reporting date and are recognized to the extent that it has become probable that reversal will occur in the foreseeable future.

Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period. The Corporation's main provisions are related to asset retirement obligations and restructuring charges, including site decommissioning costs, employee termination benefits and onerous lease obligations.

Asset retirement obligation provisions are recognized for statutory, contractual or legal obligations, normally when incurred, associated with the retirement of property and equipment (mainly leasehold improvements) when those obligations result from the acquisition, development and/or normal operation of the assets. The obligations are measured initially at fair value and the resulting costs are capitalized as a part of the carrying value of the related asset. The capitalized asset retirement cost is depreciated on the same basis as the related asset.

Restructuring charges are recognized when the Corporation has put in place a detailed restructuring plan which has been communicated in sufficient detail to create an obligation. Restructuring charges include only costs directly related to the restructuring plan, and are measured at the best estimate of the amount required to settle the Corporation's obligations. Subsequent changes in the estimate of the obligation are recognized in the Corporation's consolidated statements of earnings.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or incentive plans if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be reliably estimated.

Stock-based compensation

Equity-settled common share stock option plan

The compensation expense is measured as the fair value at the grant date using the binomial option pricing model, and is recognized over the vesting period, with a corresponding increase to contributed surplus within equity. Forfeitures and cancellations are estimated at the grant date, and subsequently reviewed at each reporting date. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that are expected to meet the related service conditions at the vesting date. When the stock options are exercised, share capital is credited by the sum of the consideration paid and the related portion previously recorded in contributed surplus.

Cash-settled stock-based compensation plans

The Corporation has two cash-settled stock-based compensation plans composed of a Deferred Share Unit Plan ("DSU Plan") and a Performance Share Unit Plan ("PSU Plan"). Under these plans, the fair value of the liability is measured as the number of units expected to vest multiplied by the fair value of one unit, which is based on the market price of the Corporation's common shares. The compensation expense and corresponding liability are recognized over the vesting period, if any, and are revalued at each reporting date until the settlement, with any changes in the fair value of the liability recognized in net earnings.

The Corporation has entered into equity swap agreements in order to manage common shares market price risk relating to the DSUs and PSUs.

Post-employment benefit obligations

Defined-contribution plans

Contributions to the plans are recognized as an expense in the period that employee services are rendered.

Defined benefit plans

The Corporation has adopted the following policies for defined benefit plans:

- The Corporation's net obligation with respect to defined benefit pension plans is calculated by estimating the value of future benefits that employees have earned in return for their service in the current and prior periods less the fair value of any plan assets;
- The cost of pension benefits earned by employees is actuarially determined using the projected unit credit method. The calculations reflect Management's best estimates of salary increases, retirement ages and mortality rates of members and discount rate;
- When the benefits of a plan are improved, the benefit relating to past service by employees is recognized immediately in net earnings;
- Remeasurements comprising of actuarial gains and losses, the effect of the limit of the asset, the effect of minimum funding requirements and the return on plan assets in excess of interest income are recognized immediately in OCI and retained earnings.

The current and past service costs related to the defined benefit pension plans are recorded within "Employee benefits". The net interest income or expense on the net asset or obligation is recorded within "Finance costs, net".

Financial instruments

Non derivative financial instruments

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the financial instrument.

Classification and measurement of non derivative financial assets

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").

The Corporation has classified cash, cash held in escrow, trade receivables and advances to merchant members as 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 of IFRS 9 "Financial instruments", 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.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Classification and measurement of non derivative financial liabilities

Financial liabilities are initially measured at fair value plus transaction costs and their subsequent measurement depends on their classification. The classification depends on the objectives set forth when the financial instruments were purchased or issued, their characteristics and their designation by the Corporation. The Corporation has classified trade and other payables, balance of purchase price, dividends payable, long-term debt (except finance leases and financing costs), and merchant members' deposits in the guarantee fund as liabilities measured at amortized cost. Subsequent valuations are recorded at amortized cost using the effective interest method.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

Impairment of non derivative financial instruments

Under the forward-looking expected credit loss ("ECL") approach, 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 twelve-month ECL. The twelve-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.

Derivative financial instruments and hedge accounting

The Corporation uses derivative financial instruments to manage interest rate risk, foreign exchange risk and common share market price risk. The Corporation does not use financial instruments for trading or speculative purposes. Some of the derivative financial instruments are designated as hedging instruments.

On initial designation of the hedge, the Corporation formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. At the inception of the hedge relationship and on an ongoing basis, the Corporation assesses if the hedging instruments are expected to be "highly effective" in offsetting the changes in the cash flows of the respective hedged items during the period for which the hedge is designated. As well, the Corporation ensures that hedge accounting relationships are aligned with its risk management objectives and strategy.

Cash flow hedges

Derivatives (interest rate swap agreements), if any, are used to manage the floating interest rate of the Corporation's total debt portfolio and related overall borrowing cost. Derivatives are recognized initially at fair value and attributable transaction costs are recognized in net earnings as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

When a derivative is designated as a hedging instrument for a hedge of changes in cash flows attributable to a particular risk associated with a highly probable forecast transaction that could affect income, the effective portion of changes in the fair value of the derivative is recognized in OCI and presented in the accumulated changes in the fair value of derivative financial instruments designated as cash flow hedges in equity. The amount recognized in OCI is removed and included in net earnings in the same period as the hedged cash flows affect net earnings, under the same line item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in net earnings. The Corporation considers that its derivative financial instruments are effective as hedges, both at inception and over the term inception and over the term of the instrument, as for the entire term to maturity, the notional principal amount and the interest rate basis in the instruments all match the terms of the debt instrument being hedged.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in OCI and presented in accumulated changes in the fair value of derivative financial instrument designated as cash flow hedges remains in equity until the forecasted interest expense affects net earnings. If the forecasted interest expense is no longer expected to occur, then the balance in OCI is recognized immediately in net earnings. In other cases, the amount recognized in OCI is transferred to net earnings in the same period that the hedged item affects net earnings.

Hedge of net investments in foreign operations

The Corporation applies hedge accounting to foreign currency translation differences arising between the functional currency of the foreign operation and the parent entity's functional currency. Foreign currency differences arising on the translation of the debt designated as a hedge of net investments in foreign operations are recognized in OCI to the extent that the hedge is effective, and are presented within equity. To the extent that the hedge is ineffective, such differences are recognized in net earnings. When the hedged portion of a net investment is reduced, the relevant amount in the cumulative translation account is transferred to net earnings as part of the profit or loss on partial or on complete disposal. The Corporation elects to exclude from a partial disposal of a foreign operation the repayments of loans forming part of the net investment in a foreign operation.

Foreign exchange gains or losses arising on a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future, and which in substance is considered to form part of the net investment in the foreign operation, are recognized in OCI in the cumulative amount of foreign currency translation differences.

Hedge of foreign exchange risk

Forward contracts and foreign currency options, if any, are used in order to manage foreign exchange risk. These derivatives are not designated for hedge accounting and are measured at fair value at the end of each period. Fair value variances are recognized in the consolidated statements of earnings, and are presented under "Other operating expenses", unless otherwise specified, with a corresponding asset or liability for derivative financial instruments in the consolidated statements of financial position.

Pursuant to the forward contract agreement, the Corporation generates offsetting cash flows related to the underlying position with respect to the amount and timing of forecasted foreign currency transactions. The net effect of the forward contracts partly offset fluctuations in currency rates impacting the foreign exchange gains/losses mainly resulting from purchases in currencies other than the respective functional currencies of the Corporation.

Pursuant to the option agreement, the Corporation may generate favorable offsetting cash flows related to the underlying position with respect to the amount and timing of forecasted foreign currency transactions. The net effect of the currency options will offset, at their exercise date, the increase in currency rates, if any, impacting the foreign exchange losses mainly resulting from the Corporation's acquisitions that are disbursed in a currency other than the respective functional currencies of the Corporation.

Hedge of share-based payments cost

Equity swap agreements are used in order to manage common shares market price risk. These derivatives are not designated for hedge accounting and are measured at fair value at the end of each period. Fair value variances are recognized in the consolidated statements of earnings, and are presented under "Employee benefits" with a corresponding asset or liability for derivative financial instruments in the consolidated statements of financial position.

Pursuant to the agreement, the Corporation receives the economic benefit of dividends and share price appreciation while providing payments to the financial institution's cost of funds and any share price depreciation. The net effect of the equity swaps partly offset movements in the Corporation's share price impacting the cost of the DSU and the PSU plans.

Accumulated other comprehensive income

Cumulative translation account

The cumulative translation account comprises all foreign currency differences arising from the translation of the financial statements of Canadian and United Kingdom operations to the Corporation's presentation currency.

Unrealized exchange gains and losses on the translation of debt designated as a hedge of net investments in foreign operations

The hedge reserve comprises all foreign currency differences arising from the translation of debt designated as a hedge of the Corporation's net investments in foreign operations, if any.

Accumulated changes in the fair value of derivative financial instruments designated as cash flow hedges

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments, if any, related to hedged transactions that have not yet been settled.

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 required restatement of previous consolidated financial statements.

Revenues from contracts with customers

In May 2014, the International Accounting Standards Board ("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 statements 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. Refer to these notes, under their respective "Sales recognition" sections, for further details.

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 new disclosure requirements of IFRS 9 partially impacted the information described under note 3. Refer to this note, under "Financial instruments - Classification and measurement of non derivative financial assets" and "Financial instruments - Impairment of non derivative financial instruments" sections for further details.

The following summarizes other impacts resulting from the adoption of the accounting changes:

Classification and measurement of non derivative financial instruments: The Corporation reclassified its loans and receivables financial assets to financial assets measured at amortized cost. 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.

Impairment of non derivative financial instruments: IFRS 9 replaces the incurred loss model in IAS 39 with the ECL approach. The adoption of the ECL requirements of IFRS 9 had no significant impact on the Corporation's accounting for impairment losses for financial assets.

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 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

Effective date – January 1, 2019 with earlier adoption permitted in certain circumstances

Leases

In January 2016, the IASB issued IFRS 16 "Leases", replacing the current standard on leases (IAS 17). IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the consolidated statement of financial position with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease, sets requirements on how to account for the asset and liability (including complexities such as non-lease elements, variable lease payments and options periods), changes the accounting for sale and leaseback arrangements and introduces new disclosure requirements.

The impact of this new standard, including the presentation and disclosure requirements, has been assessed. IFRS 16 will affect primarily the accounting for the Corporation's real estate operating leases. The Corporation intends to apply the modified retrospective transition approach and will not restate comparative amounts for the year prior to its adoption. Under this approach, the cumulative effect of initially applying IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at the date of initial application. The Corporation has elected to apply the following transitional practical expedients:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Account for leases for which the remaining lease term ends within 12 months of the effective date as a short-term lease; and
- Recognize short-term leases and low value leases on a straight-line basis as "Other operating expenses" in the consolidated statements of earnings.

The Corporation expects to recognize new assets (right-of-use assets) and liabilities (lease liabilities) approximating $86,000 and $97,000 respectively, as well as deferred tax assets of about $2,000.

As a result of adopting the new standard, the Corporation expects that net earnings will decrease for 2019. As well, earnings before finance costs, depreciation and amortization and income taxes is expected to increase, since the operating lease payments were included in "Other operating expenses", while the amortization of the right-of-use assets and interest on the lease liabilities are excluded from this measure. Cash flows from operating activities will increase since the repayment of the principal portion of the lease liabilities will be presented as part of the cash flows from financing activities.

Refer to note 22 for further details on the Corporation's future minimum lease payments under operating leases as at December 31, 2018.

4 - SPECIAL ITEMS

Special items comprise items which do not reflect the Corporation's core performance or where their separate presentation will assist users of the consolidated financial statements in understanding the Corporation's results for the year. Special items are detailed as follows:

	Years ended December 31,	
	2018	2017
Restructuring and other charges	**7,578**	(523)
Severance and retention bonuses related to Management changes	**6,157**	-
Net transaction charges related to The Parts Alliance acquisition	**854**	7,303
	14,589	6,780

Restructuring and other charges

On November 14, 2018, the Corporation announced a restructuring plan ("25/20 Plan"), which mainly consists of headcount reduction and the consolidation of locations, while optimizing the supply chain.

The Corporation recognized restructuring charges totalling $5,055, including $3,122 for severance and termination benefits and $1,933 for onerous contracts. The Corporation also incurred other charges of $2,523, primarily comprising of consulting fees related to the review of strategic alternatives.

The variances in the provision for restructuring charges are detailed as follows:

	Years ended December 31,	
	2018	2017
Balance, beginning of year	**-**	775
Restructuring charges recognized during the year	**5,055**	-
Provision used during the year	**(848)**	(308)
Change in estimate [1]	**-**	(523)
Effects of fluctuations in exchange rates	**(34)**	56
	4,173	-

[1] In 2017, the Corporation reviewed its remaining provisions in relation to the sale of net assets, resulting in a reduction of the restructuring and other charges in the consolidated statements of earnings of $523.

Severance and retention bonuses related to Management changes

On September 18, 2018, the Corporation announced Management changes with the immediate departure and replacement of its President and Chief Executive Officer, and the President and Chief Operating Officer of FinishMaster, Inc. As a result, the Corporation recognized charges totaling $6,157 mainly composed of severance charges.

Net transaction charges related to The Parts Alliance acquisition

In connection with The Parts Alliance acquisition completed in August 2017, the Corporation recognized transaction charges totaling $854 for the year ended December 31, 2018 ($7,303 in 2017). These charges include:

	Years ended December 31,	
	2018	2017
Acquisition costs	**294**	7,310
Other charges related to the acquisition	**560**	1,699
Favorable change in the fair value of foreign currency options	**-**	(1,706)
	854	7,303

5 - FINANCE COSTS, NET

	Years ended December 31,	
	2018	2017
Interest on long-term debt	**18,995**	10,940
Amortization of financing costs	**908**	672
Net interest expense on the long-term employee benefit obligations (note 16)	**500**	429
Reclassification of realized losses on derivative financial instruments designated as cash flow hedges to net earnings	**59**	165
Premium on foreign currency options	**-**	2,325
Interest on merchant members' deposits in the guarantee fund and others	**315**	165
	20,777	14,696
Interest income from merchant members and others	**(216)**	(209)
	20,561	14,487

6 - DEPRECIATION AND AMORTIZATION

	Years ended December 31,	
	2018	2017
Depreciation of property and equipment (note 13)	**19,953**	12,411
Amortization of intangible assets (note 14)	**19,749**	17,236
	39,702	29,647

7 - INCOME TAXES

Income tax expense

	Years ended December 31,	
	2018	2017
Current tax expense	**13,366**	10,673
Deferred tax expense		
Origination and reversal of temporary differences	**(5,186)**	12,140
Change in enacted tax rate [1]	**-**	(811)
	8,180	22,002

[1] On December 22, 2017, the President of the United States signed into law the *Tax Cuts and Jobs Act* ("US Tax Reform"). The US Tax Reform reduces the US federal corporate income tax rate from 35.0% to 21.0%, effective as of January 1, 2018. Furthermore, the new law allows for immediate capital expensing of new investments in certain qualified depreciable assets made after September 27, 2017, which will be phased down starting in 2023. The US Tax Reform has introduced other significant changes to the US corporate income tax laws that could have some impact on the Corporation going forward. The US Tax Reform has decreased the Corporation's net deferred income tax liability by $811.

Reconciliation of the income tax expense

The following table presents a reconciliation of income taxes at the combined Canadian statutory income tax rates applicable in the jurisdictions in which the Corporation operates to the amount of reported income taxes in the consolidated statements of earnings:

	Years ended December 31,	
	2018	2017
Income taxes at the Corporation's statutory tax rate – 26.70% [1] (26.80% in 2017)	**11,929**	17,854
Effect of tax rates in foreign jurisdictions	**(1,835)**	5,593
Tax benefit from a financing structure	**(4,544)**	(4,323)
Change in enacted tax rate	**-**	(811)
Non-deductible expenses and others	**2,630**	3,689
	8,180	22,002

[1] For the year ended December 31, 2018, the applicable statutory tax rate is 26.70% (26.80% in 2017). The Corporation's applicable tax rate is the Canadian combined rates applicable in the jurisdiction in which the Corporation operates. The decrease is due to the reduction of the Québec income tax rate in 2018, from 11.8% to 11.7% (11.9% to 11.8% in 2017).

Recognized deferred tax assets and liabilities

						December 31, 2018
	Opening balance	Recognized in net earnings	Recognized in OCI	Recognized as part of business combinations (note 10)	Effects of fluctuations in exchange rates	**Closing balance**
Non-capital loss (gain) carryforwards	8,426	4,118	-	-	(260)	**12,284**
Provisions and accrued charges, deductible in future years	11,061	2,391	-	-	(472)	**12,980**
Property and equipment	(3,789)	1,072	-	-	(42)	**(2,759)**
Long-term employee benefit obligations	3,531	248	(620)	-	(18)	**3,141**
Provision for performance incentives	1,951	(784)	-	-	55	**1,222**
Intangible assets and goodwill	(27,715)	(652)	-	(1,145)	1,179	**(28,333)**
Others	604	(1,207)	(223)	-	(3)	**(829)**
	(5,931)	5,186	(843)	(1,145)	439	**(2,294)**

						December 31, 2017
	Opening balance	Recognized in net earnings	Recognized in OCI	Recognized as part of business combinations	Effects of fluctuations in exchange rates	Closing balance
Non-capital loss (gain) carryforwards	19,309	(12,118)	-	599	636	8,426
Provisions and accrued charges, deductible in future years	10,503	345	-	-	213	11,061
Property and equipment	(1,820)	(2,538)	-	702	(133)	(3,789)
Long-term employee benefit obligations	2,330	369	613	-	219	3,531
Provision for performance incentives	1,834	(8)	-	-	125	1,951
Intangible assets and goodwill	(10,051)	(1,900)	-	(15,128)	(636)	(27,715)
Capital loss (gain) on foreign exchange	(3,454)	3,707	-	-	(253)	-
Others	(293)	814	(54)	-	137	604
	18,358	(11,329)	559	(13,827)	308	(5,931)

Consolidated statements of financial position presentation

	December 31,	
	2018	2017
Deferred tax assets	**15,870**	10,174
Deferred tax liabilities	**18,164**	16,105
	(2,294)	(5,931)

As at December 31, 2018, the Corporation had capital losses and deductible temporary differences of $78,074 ($39,873 in 2017) that can be carried forward indefinitely, for which no deferred tax assets have been recognized. These losses and temporary differences may be applied only against future capital gains and the Corporation does not expect to generate capital gains in the near future.

8 - EARNINGS PER SHARE

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

	Years ended December 31, 2018	2017
Net earnings considered for basic and diluted earnings per share	**36,497**	44,616
Weighted average number of common shares outstanding for basic earnings per share	**42,253,987**	42,261,423
Impact of the stock options [(1)]	**164,851**	168,193
Weighted average number of common shares outstanding for diluted earnings per share	**42,418,838**	42,429,616
Earnings per share basic	**0.86**	1.06
Earnings per share diluted	**0.86**	1.05

(1) For the year ended December 31, 2018, options to acquire 541,494 common shares (126,960 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.

9 - INFORMATION INCLUDED IN CONSOLIDATED CASH FLOWS

The changes in working capital items are detailed as follows:

	Years ended December 31, 2018	2017
Trade and other receivables	**(21,286)**	7,455
Inventory	**(75,885)**	(12,949)
Prepaid expenses	**(825)**	1,518
Trade and other payables	**93,681**	18,867
Provision for restructuring and other charges (note 4)	**(848)**	(308)
	(5,163)	14,583

As at December 31, 2018, acquisition of property and equipment of $2,173 ($582 as at December 31, 2017) remained unpaid and did not have an impact on cash.

The following table presents reconciliation between the opening and closing balances in the consolidated statement of financial position for "Long-term debt", including the "Current portion of long-term debt" (refer to note 17 for further details):

	Years ended December 31, 2018	2017
Balance, beginning of year	**448,581**	134,298
Increase in long-term debt	**271,541**	450,860
Repayment of long-term debt	**(291,126)**	(154,090)
Increase in finance leases	**5,472**	5,993
Finance lease obligations acquired through business combinations (note 10)	**232**	8,386
Amortization of financing costs (note 5)	**908**	672
Effects of fluctuations in exchange rates	**(8,869)**	2,462
Balance, end of year	**426,739**	448,581

10 - BUSINESS COMBINATIONS

2018 acquisitions

During the year ended December 31, 2018, the Corporation acquired the net assets of 1 company operating in the United Kingdom and the shares of 1 company operating in Canada. Those companies were acquired in the normal course of business. Total cost of these acquisitions of $25,295 was preliminarily allocated to the acquired assets and liabilities based on their fair value.

The primary factor that gave rise to the recognition of goodwill was the earnings capacity of the acquired businesses in excess of the net tangible and intangible assets acquired. Mainly, such excess arose from the levels of tangible assets relative to the earnings capacity of the businesses, expected synergies, the benefits of acquiring established businesses with certain capabilities in the industry and the geographic presence of the acquired businesses.

In connection with those acquisitions, the Corporation incurred $401 of acquisition costs, which were expensed as “Other operating expenses” through the consolidated statements of earnings. Since their respective acquisition date, the acquisitions have contributed a total of $2,364 to sales.

The following table summarizes the aggregate fair value amounts recognized for each class of the acquirees’ net assets at the dates of acquisition. For the companies acquired during 2018, the Corporation is currently assessing the estimated fair values of certain assets acquired, mainly intangible assets, to finalize the purchase price allocation over the identifiable net assets acquired and goodwill. As permitted by IFRS, the Corporation expects to finalize each purchase price allocation within a year from the dates of acquisition.

	December 31, 2018
Trade and other receivables	**2,632**
Inventory	**9,089**
Prepaid expenses	**52**
Property and equipment	**471**
Intangible assets	**6,640**
Goodwill (1)	**10,578**
Trade and other payables	**(2,662)**
Finance lease obligations	**(10)**
Other provisions (2)	**(39)**
Deferred tax liabilities	**(1,456)**
Total cost	**25,295**
Balance of purchase price (3)	**(1,625)**
Net disbursement	**23,670**

(1) For tax purposes, goodwill is expected to be partially deductible.

(2) Composed of asset retirement obligation provisions recognized for statutory, contractual or legal obligations associated with the retirement of property and equipment (mainly leasehold improvements).

(3) As at December 31, 2018, this balance of purchase price is held in escrow.

2017 acquisitions

The Parts Alliance acquisition

In August 2017, the Corporation completed the acquisition of all the shares of PA Topco Limited doing business as The Parts Alliance. Presented net of the cash of the acquired business for £6,187 (equivalent to $8,065), total cost of this acquisition was amounting to £202,195 (equivalent to $263,603) based on the exchange rate in effect at the acquisition date. During 2017, The Parts Alliance has contributed a total of $145,069 and $985 to sales and net earnings respectively, since its acquisition date.

As at December 31, 2018, the Corporation finalized the purchase price allocation of The Parts Alliance. 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, $3,520 from goodwill to property and equipment, $1,825 from goodwill to software, $996 from goodwill to deferred tax liabilities, $645 from deferred tax assets to goodwill, and $261 from goodwill to trademarks. As a result, a net reversal totaling $134 was recorded in “Depreciation and amortization” during the year ended December 31, 2018.

Other acquisitions

In 2017, the Corporation acquired the net assets of 4 companies operating in the United States and 4 companies operating in Canada as well as the shares of 1 company operating in the United Kingdom, following the acquisition of The Parts Alliance. Total final cost of these acquisitions was $98,427 as of December 31, 2018 (preliminary cost of $98,550 in 2017). In connection with those acquisitions, the Corporation incurred $901 of acquisition costs in 2017, which were expensed as “Other operating expenses” through the consolidated statements of earnings. During 2017, the acquisitions have contributed a total of $88,469 and $3,925 to sales and net earnings respectively, since their respective acquisition date.

As at December 31, 2018, the Corporation finalized the purchase price allocation of all other companies acquired in 2017. It resulted in reclassifications of $3,848 from goodwill to customer relationships, $227 from goodwill to trademarks, $199 from goodwill to property and equipment, $40 from deferred tax liabilities to goodwill, and $339 from other net assets to goodwill. As a result, a net reversal totaling $36 was recorded in “Depreciation and amortization” during the year ended December 31, 2018.

Assets acquired and liabilities assumed

The following table summarizes the preliminary purchase price allocation recognized as of December 31, 2017 for all the companies acquired in 2017, including The Parts Alliance, as well as the final purchase price allocation resulting from the reclassifications performed during 2018:

	December 31,	
	2018	2017
	Final allocation	Preliminary allocation
Trade and other receivables	**74,020**	74,856
Inventory	**105,318**	105,485
Prepaid expenses	**6,717**	6,717
Deferred tax assets	**1,150**	1,795
Investments and advances to merchant members	**3,826**	3,734
Property and equipment	**31,566**	27,847
Intangible assets	**106,509**	110,778
Goodwill [(1)]	**148,651**	148,073
Trade and other payables	**(90,272)**	(91,052)
Income tax payable	**(1,083)**	(974)
Finance lease obligations	**(8,608)**	(8,386)
Other provisions [(2)]	**(1,233)**	(1,233)
Deferred tax liabilities	**(14,531)**	(15,487)
Total cost [(3)]	**362,030**	362,153

(1) For tax purposes, goodwill is expected to be partially deductible.

(2) Composed of asset retirement obligation provisions recognized for statutory, contractual or legal obligations associated with the retirement of property and equipment (mainly leasehold improvements).

(3) As at December 31, 2018, $3,288 of total cost was payable under the balance of purchase price, including a portion of $2,021 that was held in escrow ($13,663 and $8,147 respectively as at December 31, 2017).

11 - TRADE AND OTHER RECEIVABLES

	December 31,	
	2018	2017
Trade receivables	**227,221**	217,045
Current portion of investments and advances to merchant members (note 12)	**20,511**	19,766
	247,732	236,811

12 - INVESTMENTS AND ADVANCES TO MERCHANT MEMBERS

	December 31,	
	2018	2017
Incentives granted to customers	**63,597**	46,704
Shares of companies	**442**	477
Advances to merchant members [(1)]	**2,511**	3,213
	66,550	50,394
Current portion of investments and advances to merchant members	**20,511**	19,766
Non-current portion of investments and advances to merchant members	**46,039**	30,628

(1) Interest rates varying between 3.95% and 6.95% (3.20% and 6.20% in 2017), receivable in monthly installments, maturing on various dates until 2022.

13 - PROPERTY AND EQUIPMENT

	Land and paving	Buildings	Furniture and equipment	Computer equipment and system software	Automotive equipment	Leasehold improvements	**Total**
Cost	3,105	15,694	26,222	24,084	25,725	14,116	108,946
Accumulated depreciation	(330)	(8,105)	(18,207)	(17,481)	(13,250)	(9,591)	(66,964)
Net book value, January 1, 2017	2,775	7,589	8,015	6,603	12,475	4,525	41,982
Additions	5	1,630	2,476	4,238	7,454	4,381	20,184
Acquisitions through business combinations (note 10)	-	-	4,566	3,437	11,921	7,923	27,847
Disposals	-	-	(171)	(19)	(949)	(102)	(1,241)
Depreciation (note 6)	(52)	(559)	(1,946)	(2,835)	(5,421)	(1,598)	(12,411)
Effects of fluctuations in exchange rates	156	342	536	456	410	383	2,283
Balance, December 31, 2017	2,884	9,002	13,476	11,880	25,890	15,512	78,644
Cost	3,290	18,049	34,529	32,677	42,814	26,421	157,780
Accumulated depreciation	(406)	(9,047)	(21,053)	(20,797)	(16,924)	(10,909)	(79,136)
Net book value, end of year 2017	2,884	9,002	13,476	11,880	25,890	15,512	78,644
Additions	15	644	8,474	4,165	8,986	4,173	26,457
Acquisitions through business combinations (note 10)	-	-	208	3	85	175	471
Transfers (note 10)	3,260	5,891	4	-	-	(5,436)	3,719
Disposals	-	(26)	(156)	(11)	(1,097)	(119)	(1,409)
Depreciation (note 6)	(49)	(863)	(2,965)	(4,360)	(9,383)	(2,333)	(19,953)
Effects of fluctuations in exchange rates	(273)	(619)	(1,033)	(622)	(817)	(609)	(3,973)
Balance, December 31, 2018	5,837	14,029	18,008	11,055	23,664	11,363	83,956
Cost	6,257	23,530	39,715	34,849	47,383	23,984	175,718
Accumulated depreciation	(420)	(9,501)	(21,707)	(23,794)	(23,719)	(12,621)	(91,762)
Net book value, end of year 2018	5,837	14,029	18,008	11,055	23,664	11,363	83,956

The carrying values of vehicles under finance leases, which are presented under “Automotive equipment”, were $11,680 as at December 31, 2018 ($19,141 as at December 31, 2017).

Property and equipment includes assets under construction for an amount of $4,163 as at December 31, 2018 ($1,661 as at December 31, 2017). These assets are not amortized until they are commissioned.

14 - INTANGIBLE ASSETS AND GOODWILL

	Intangible assets				Goodwill
	Trademarks	Customer relationships and others	Software (2)	**Total**	
Cost	7,900	117,754	27,799	153,453	243,807
Accumulated depreciation	-	(37,022)	(15,273)	(52,295)	-
Net book value, January 1, 2017	7,900	80,732	12,526	101,158	243,807
Additions	-	633	3,778	4,411	-
Acquisitions through business combinations (note 10)	28,972	76,853	4,953	110,778	148,073
Transfers	-	27,673	-	27,673	(26,860)
Amortization (note 6)	-	(13,386)	(3,850)	(17,236)	-
Effect of fluctuations in exchange rates	1,039	2,504	1,038	4,581	7,099
Balance, December 31, 2017	37,911	175,009	18,445	231,365	372,119
Cost	37,911	225,549	38,714	302,174	372,119
Accumulated amortization	-	(50,540)	(20,269)	(70,809)	-
Net book value, end of year 2017	37,911	175,009	18,445	231,365	372,119
Additions	-	349	2,920	3,269	-
Acquisitions through business combinations (note 10)	-	6,640	-	6,640	10,578
Transfers (note 10)	488	(6,582)	1,825	(4,269)	578
Amortization (note 6)	-	(14,445)	(5,304)	(19,749)	-
Effect of fluctuations in exchange rates	(1,802)	(3,849)	(1,274)	(6,925)	(11,268)
Balance, December 31, 2018	36,597	157,122	16,612	210,331	372,007
Cost	36,597	221,580	40,326	298,503	372,007
Accumulated amortization (1)	-	(64,458)	(23,714)	(88,172)	-
Net book value, end of year 2018	**36,597**	**157,122**	**16,612**	**210,331**	**372,007**

(1) The average remaining amortization period of the intangible assets with useful lives is 3 years for software and 11 years for customer relationships and others.

(2) As at December 31, 2018, software includes the capitalized portion of costs and the accumulated amortization, amounting to $9,805 and $6,581 respectively ($10,631 and $5,789 respectively as at December 31, 2017), related to the acquisition and internal development of an ERP.

Impairment testing for cash-generating units containing goodwill and intangible assets with indefinite useful lives (trademarks)

For the purpose of impairment testing, goodwill and trademarks are allocated to the Corporation's three CGUs, United States, Canada and United Kingdom, which represent the lowest level within the Corporation at which the goodwill and trademarks are monitored for internal management purposes. The recoverable amounts of the Corporation's CGUs were based on their value in use and were determined with the assistance of independent valuation consultants. The carrying amounts of the units were determined to be lower than their recoverable amounts, and no impairment loss was recognized.

Value in use was determined by discounting the future cash flows expected to be generated from the continuing use of the units. Value in use in 2018 was determined similarly as in 2017. The calculation of the value in use was based on the following key assumptions:

- Cash flows were projected based on experience, actual operating results and the five-year business plan in both 2018 and 2017. Cash flows for a further five-year period were extrapolated using constant growth rates of 2.0% (2.0% in 2017) for all of the US operations, the Canadian operations and the United Kingdom operations, which do not exceed the long-term average growth rates for the industry.
- Pre-tax discount rates of 12.8% (9.7% in 2017) for the US operations, 12.4% (10.7% in 2017) for the Canadian operations and 11.2% (9.2% in 2017) for the United Kingdom operations were applied in determining the recoverable amount of the units. The discount rates were estimated based on experience and the industry's weighted average cost of capital, which was based on a possible range of debt leveraging of 15% at market interest rates net of tax of 4.0% (2.8% in 2017) for the US operations, 3.3% (3.0% in 2017) for the Canadian operations and 3.0% (3.1% in 2017) for the United Kingdom operations.

The key assumptions reflect Management's assessment of future trends in the automotive aftermarket and are based on both external and internal sources. The sensitivity analysis indicated that no reasonable possible changes in the assumptions would cause the carrying amount of each CGU to exceed its recoverable amount.

15 - STOCK-BASED COMPENSATION

The Corporation's stock-based compensation plans include an equity-settled common share stock option plan, and cash-settled plans consisting of a deferred share unit plan and a performance share unit plan.

Common share stock option plan for management employees and officers

The Corporation has a common share stock option plan for management employees and officers (the "stock option plan") where a total of 3,400,000 shares have been reserved for issuance. Under the plan, the options are granted at the average closing price of the Corporation's common shares on the TSX for the five trading days preceding the grant date. Options granted vest in or over a period of three years plus one day following the date of issuance and are exercisable over a period of no greater than seven years.

For the year ended December 31, 2018, 181,679 options were granted to management employees and officers of the Corporation (573,215 for 2017), with an average exercise price of C$28.61 (C$29.02 in 2017). During the year, 206,184 options were exercised (59,634 for 2017) and 340,360 options were forfeited or expired (none for 2017).

As at December 31, 2018, options granted for the issuance of 541,494 common shares (906,359 as at December 31, 2017) were outstanding under the Corporation's stock option plan, and 1,396,500 common shares (1,237,819 as at December 31, 2017) were reserved for additional options under the stock option plan.

A summary of the Corporation's stock option plan for the years ended December 31, 2018 and 2017 is presented as follows:

	2018		2017	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
		C$		C$
Outstanding, beginning of year	**906,359**	**26.51**	392,778	21.06
Granted	**181,679**	**28.61**	573,215	29.02
Exercised	**(206,184)**	**14.94**	(59,634)	14.80
Forfeited	**(340,360)**	**30.77**	-	-
Outstanding, end of year	**541,494**	**28.94**	906,359	26.51
Exercisable, end of year	**33,865**	**30.19**	246,650	21.69

The range of exercise prices, the weighted average exercise prices and the weighted average remaining contractual life of the Corporation's options are as follows:

	December 31, 2018				
	Options outstanding			**Options exercisable**	
Exercisable price	**Number outstanding**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**	**Number exercisable**	**Weighted average exercise price**
C$			**C$**		**C$**
33.94	**11,764**	**4.01**	**33.94**	**8,823**	**33.94**
29.64	**12,653**	**5.01**	**29.64**	**6,327**	**29.64**
28.84	**442,216**	**5.61**	**28.84**	**-**	**28.84**
28.61	**74,861**	**6.47**	**28.61**	**18,715**	**28.61**
	541,494	**5.68**	**28.94**	**33,865**	**30.19**

					December 31, 2017
	Options outstanding			Options exercisable	
Exercisable price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
C$			C$		C$
11.45	14,886	2.00	11.45	14,886	11.45
14.38	22,381	3.01	14.38	22,381	14.38
15.32	168,917	4.01	15.32	113,153	15.32
33.94	126,960	5.01	33.94	63,480	33.94
29.64	130,999	6.01	29.64	32,750	29.64
28.84	442,216	6.61	28.84	-	28.84
	906,359	5.65	26.51	246,650	21.69

For the year ended December 31, 2018, compensation expense of $1,339 ($924 for 2017) was recorded in the “Net earnings”, with the corresponding amounts recorded in “Contributed surplus”.

The fair value of the stock options granted on January 2, 2018 was determined using the binomial option pricing model. The assumptions used in the calculation of their fair value were as follows:

		2018	Jan. 3, 2017	Aug. 7, 2017
Grant date fair value	C$	**6.41**	6.49	6.38
Dividend yield	%	**1.30**	1.13	1.33
Expected volatility	%	**23.58**	23.30	23.33
Forfeiture rate	%	**6.67**	6.67	6.67
Risk-free interest rate	%	**1.96**	1.41	1.71
Expected life	years	**7.00**	7.00	7.00
Exercise price	C$	**28.61**	29.64	28.84
Share price	C$	**28.61**	29.64	28.84

The expected volatility is estimated for each award tranche, taking into account the average historical volatility of the share price over the expected term of the options granted.

Deferred share unit (“DSU”) plan

For the year ended December 31, 2018, the Corporation granted 83,423 DSUs (36,572 DSUs for 2017) and redeemed 86,292 DSUs (25,491 DSUs for 2017). Compensation expense of $206 ($673 in 2017) was recorded during the year, and 150,468 DSUs were outstanding as at December 31, 2018 (153,337 DSUs as at December 31, 2017). As at December 31, 2018, the compensation liability was $2,114 ($3,482 as at December 31, 2017) and the fair value of the equity swap agreement was a liability of $1,332 (liability of $352 as at December 31, 2017).

Performance share unit (“PSU”) plan

For the year ended December 31, 2018, the Corporation granted 135,709 PSUs (127,950 PSUs for 2017) and redeemed 248,601 PSUs (70,991 PSUs for 2017). Compensation reversal of $661 (expense of $1,809 in 2017) was recorded during the year, and 160,103 PSUs were outstanding as at December 31, 2018 (272,995 PSUs as at December 31, 2017). As at December 31, 2018, the compensation liability was $317 ($4,945 as at December 31, 2017) and the fair value of the equity swap agreement was a liability of $1,726 (liability of $356 as at December 31, 2017).

16 - POST-EMPLOYMENT BENEFIT OBLIGATIONS

The Corporation sponsors both defined benefit and defined contribution pension plans.

The defined benefit pension plans include a basic registered pension plan, a registered pension plan for senior management and a non-registered supplemental pension plan for certain members of senior management. The benefits under the Corporation's defined benefit pension plans are based on the years of service and the final average salary. The two registered pension plans are funded by the Corporation and the members of the plan. Employee contributions are determined according to the members' salaries and cover a portion of the benefit costs. The employer contributions are based on the actuarial evaluation which determines the level of funding necessary to cover the Corporation's obligations.

The Corporation also contributes to various other plans that are accounted for as defined contribution plans. The total expense for the Corporation's defined contribution plan was $4,165 for the year ended December 31, 2018 ($3,403 for 2017).

Defined benefit pension plans

An actuarial valuation of the defined benefit pension plans is obtained at least every three years.

The defined benefit pension plans expose the Corporation to actuarial risks such as longevity risk, currency risk, interest rate risk and investment risk. The present value of the defined benefit plan obligation is calculated by reference to the best estimate of the mortality of plan members. Longevity risk exists because an increase in the life expectancy of plan members will increase the plan obligation. A change in the valuation of the plans' foreign assets due to changes in foreign exchange rates exposes the plans to currency risk. A decrease in the bond interest rate used to calculate the present value of the defined benefit obligation will increase the plan obligation. This interest rate risk will be partially offset by an increase in return on the plans' fixed income funds. Investment risk occurs if the return on plan assets is lower than the corporate bond interest rate used to determine the discount rate.

Information regarding the status of the obligation and plan assets of the defined benefit plans is as follows:

	2018	2017
Defined benefit obligations		
Balance, beginning of year	**67,027**	55,733
Current service cost	**2,135**	2,246
Employee contributions	**684**	780
Interest expense	**2,386**	2,381
Benefits paid	**(3,148)**	(2,292)
Remeasurements:		
Actuarial loss (gain) from changes in financial assumptions	**(5,342)**	4,167
Effects of movements in exchange rates	**(5,042)**	4,012
Balance, end of year	**58,700**	67,027

	2018	2017
Plan assets		
Fair value, beginning of year	**54,469**	47,031
Interest income	**1,886**	1,952
Employer contributions	**1,784**	2,211
Employee contributions	**684**	780
Benefits paid	**(3,148)**	(2,292)
Administration fees	**(238)**	(338)
Return on plan assets (excluding amounts included in interest income)	**(2,921)**	1,805
Effects of movements in exchange rates	**(4,184)**	3,320
Fair value, end of year	**48,332**	54,469

	December 31,	
	2018	2017
	%	%
Components of plan assets		
Investments in equity funds	**52.7**	53.5
Investments in fixed income funds	**20.3**	20.6
Investments in other funds	**27.0**	25.9
	100.0	100.0

Due to the long-term nature of plans' defined benefit obligations, the Corporation considers to be appropriate that a reasonable portion of the plans' assets should be invested in equity, fixed income and other funds to generate additional long-term return.

The net obligation is presented in "Long-term employee benefit obligations" in the consolidated statements of financial position.

	December 31,	
	2018	2017
Fair value of plan assets	**48,332**	54,469
Defined benefit obligations	**(58,700)**	(67,027)
	(10,368)	(12,558)

The expense for defined benefit pension plans recognized in "Employee benefits" and in "Finance costs, net" in the consolidated statements of earnings is as follows:

	Years ended December 31,	
	2018	2017
Current service cost	**2,135**	2,246
Net interest expense	**500**	429
Administration fees	**238**	338
	2,873	3,013

Remeasurements of long-term employee benefit obligations recognized in OCI are as follows:

	Years ended December 31,	
	2018	2017
Actuarial loss (gain) from changes in financial assumptions	**(5,342)**	4,167
Return on plan assets (excluding amounts included in interest income)	**2,921**	(1,805)
	(2,421)	2,362

The significant actuarial assumptions at the reporting date are as follows (weighted average assumptions as at December 31):

		December 31,	
		2018	2017
Discount rate	%	**4.10**	3.60
Rate of compensation increase	%	**3.50**	3.50
Average life expectancies			
Male, 45 years of age at reporting date	years	**87.8**	87.7
Female, 45 years of age at reporting date	years	**90.1**	90.0
Male, 65 years of age at reporting date	years	**86.7**	86.6
Female, 65 years of age at reporting date	years	**89.1**	89.1

For the year ended December 31, 2019, the Corporation expects to make contributions of approximately $1,676 for its defined benefit pension plans.

16 - POST-EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate, the rate of compensation increase and the average life expectancy. The calculation of the net defined benefit obligation is sensitive to these assumptions.

The following table summarizes the effects of the changes in these actuarial assumptions on the defined benefit obligations:

	December 31,	
	2018	2017
	%	%
Discount rate		
Increase of 1%	**(14.1)**	(14.8)
Decrease of 1%	**18.7**	19.6
Rate of compensation		
Increase of 0.5%	**2.2**	2.1
Decrease of 0.5%	**(2.1)**	(2.0)
Average life expectancies		
Increase of 10% in mortality rates	**(2.1)**	(2.1)
Decrease of 10% in mortality rates	**2.3**	2.3

17 - LONG-TERM DEBT AND CREDIT FACILITIES

	Maturity	Effective interest rate	**Current portion**	**December 31,**	
				2018	2017
Revolving credit facility, variable rates (1) (2)	2023	2.467% to 6.700%		**414,741**	328,970
Term facility, variable rates (1) (2)	-	-		**-**	99,633
Finance leases, variable rates	-	-	**4,132**	**11,987**	19,962
Others	2021	-	**4**	**11**	16
			4,136	**426,739**	448,581
Installments due within a year				**4,136**	36,996
Long-term debt				**422,603**	411,585

(1) As at December 31, 2018, a nominal amount of 418,220 was used under the Corporation's revolving credit facility (nominal amounts of $331,867 for the revolving credit facility and $100,000 for the term facility were used as at December 31, 2017). The difference with the carrying amount presented above is composed of deferred financing costs.

(2) As at December 31, 2018, a principal amount of $302,865 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).

Revolving credit facility and term facility

On August 30, 2018, the Corporation entered into an amended and restated credit agreement (the "agreement"). The agreement provides for a $100,000 upsize in the unsecured long-term revolving credit facility (the "revolving credit facility") through the conversion, and immediate cancellation, of the unsecured term facility outstanding balance. The total maximum principal amount available under the agreement remains at $625,000, which is entirely composed of the revolving credit facility that can be repaid at any time without penalty. The revolving credit facility is available in Canadian dollars, US dollars, Euros or British pounds and its applicable variable interest rates are based either on LIBOR, Euro Libor, GBP Libor, banker's acceptances, US base rate or prime rates plus the applicable margins. In addition, the agreement extends the maturity of the revolving credit facility to June 30, 2023.

Letter of credit facility

On August 30, 2018, the Corporation amended the terms of its $20,000 unsecured letter of credit facility and extended its maturity to June 30, 2023. This facility is available for the issuance of the Canadian, US, Euros or British pounds letters of credit. Their applicable variable interest rates are based on US base rate or prime rates plus the applicable margins.

The Corporation's letters of credit have been issued to guarantee the payments of certain employee benefits and certain inventory purchases by subsidiaries. The letters of credit are not recorded as liabilities in the Corporation's long-term debt as the related guarantees have been recorded directly in the Corporation's consolidated statements of financial position, if applicable.

As at December 31, 2018, $7,337 of letters of credit have been issued ($8,137 as at December 31, 2017).

Minimum future payments

Principal repayments due on long-term debt (except finance leases and financing costs) and present value of the Corporation's future lease obligations as of December 31, 2018 are presented as follows:

	2019	2020	2021	2022	2023	Thereafter
Long-term debt (except finance leases and financing costs)	4	4	3	-	418,220	-
Present value of future lease obligations	4,132	3,351	2,505	1,447	474	78

18 - MERCHANT MEMBERS' DEPOSITS IN THE GUARANTEE FUND

Merchant members are required to contribute to a fund to guarantee a portion of their amounts due to the Corporation. The deposit amounts are based on each merchant member's purchase volume, and bear interest at the prime rate less 1%. As at December 31, 2018, the interest rate in effect was 3.95% (3.20% at December 31, 2017). The variation in deposits is as follows:

	December 31,	
	2018	2017
Total merchant members' deposits in the guarantee fund	**5,518**	5,645
Installments due within a year	**94**	102
Non-current portion of the merchant members' deposits in the guarantee fund	**5,424**	5,543

19 - SHARE CAPITAL

Authorized

The Corporation's capital structure includes an unlimited number of common shares, without par value, and an unlimited number of preferred shares, without par value, issuable in series with the following characteristics:

(i) Common shares

Each common share entitles the holder thereof to one vote and to receive dividends in such amounts and payable at such time as the Board of Directors shall determine after the payment of dividends to the preferred shares. In the event of a liquidation, dissolution or winding-up, the holders shall be entitled to participate in the distribution of the assets after payment to the holders of the preferred shares.

(ii) Preferred shares

The preferred shares, none of which are issued and outstanding, are non-voting shares issuable in series. The Board of Directors has the right, from time to time, to fix the number of, and to determine the designation, rights, privileges, restrictions and conditions attached to the preferred shares of each series. The number of preferred shares that may be issued and outstanding is limited to a number equal to no more than 20% of the number of common shares issued and outstanding at the time of issuance of any preferred shares. The holders of any series of preferred shares are entitled to receive dividends and have priority over common shares in the distribution of the assets in the event of a liquidation, dissolution or winding-up.

	December 31,	
	2018	2017
Issued and fully paid		
Balance, beginning of year (42,273,812 common shares (42,214,178 in 2017))	**97,585**	96,924
Issuance of 206,184 common shares on the exercise of stock options (59,634 in 2017)	**2,331**	661
Transfer upon exercise of stock options	**518**	-
Repurchase and cancellation of 92,696 common shares (none in 2017)	**(190)**	-
Balance, end of year (42,387,300 common shares (42,273,812 in 2017))	**100,244**	97,585

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 during the year ended December 31, 2018 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 year ended December 31, 2018, the Corporation issued 206,184 common shares (59,634 in 2017) at the exercise of stock options for a cash consideration of $2,331 ($661 in 2017). The weighted average price of the exercise of stock options was C$14.94 for the year (C$14.80 for 2017).

Dividends

A total of C$0.370 per common share was declared by the Corporation for the year ended December 31, 2018 (C$0.3625 for 2017).

20 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

		December 31, 2018			December 31, 2017	
		Carrying amount	**Fair value**		Carrying amount	Fair value
Financial assets (liabilities) carried at amortized cost						
Cash		**8,036**	**8,036**		30,672	30,672
Cash held in escrow		**3,591**	**3,591**		8,147	8,147
Trade receivables		**227,221**	**227,221**		217,045	217,045
Advances to merchant members	**Level 2**	**2,511**	**2,511**	Level 2	3,213	3,213
Trade and other payables		**(514,705)**	**(514,705)**		(430,165)	(430,165)
Balance of purchase price, net		**(5,274)**	**(5,274)**		(18,413)	(18,413)
Dividends payable		**(2,876)**	**(2,876)**		(3,110)	(3,110)
Long-term debt (except finance leases and financing costs)	**Level 2**	**(418,231)**	**(418,231)**	Level 2	(431,883)	(431,883)
Merchant members' deposits in the guarantee fund	**Level 2**	**(5,518)**	**(5,518)**	Level 2	(5,645)	(5,645)
Financial assets (liabilities) carried at fair value						
Derivative financial instruments						
Foreign exchange forward contracts	**Level 2**	**442**	**442**	Level 2	(404)	(404)
Interest rate swaps [(1)]	**Level 2**	**940**	**940**	Level 2	71	71
Equity swap agreements	**Level 2**	**(3,058)**	**(3,058)**	Level 2	(708)	(708)

(1) Derivatives designated in a hedge relationship.

Financial assets (liabilities) carried at amortized cost

The fair value of the advances to merchant members is equivalent to their carrying value as these instruments are bearing interests that reflect current market conditions for similar instruments.

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 December 31, 2018 are as follows:

Currencies (sold/bought)	Maturity	Average rate [(1)]	Notional amount [(2)]
CAD/USD	Up to March 2019	0.79	6,881
GBP/USD	Up to May 2019	1.27	3,613
GBP/EURO	Up to January 2019	1.11	458

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

(2) Exchange rates as at December 31, 2018 were used to translate amounts in foreign currencies.

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

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 of $67,500 for interest rate swaps denominated in US dollars ($80,000 in 2017), and £70,000 for interest rate swaps denominated in British pounds (same in 2017). 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 December 31, 2018, the equity swap agreements covered the equivalent of 364,277 common shares of the Corporation (same in 2017).

Risk management arising from financial instruments

In the normal course of business, the Corporation is exposed to risks that arise from financial instruments primarily consisting of credit risk, liquidity risk, foreign exchange risk and interest rate risk. The Corporation manages these risk exposures on an ongoing basis.

(i) Credit risk

Credit risk stems primarily from the potential inability of customers to discharge their obligations. The maximum credit risk to which the Corporation is exposed represents the carrying amount of cash, cash held in escrow, trade and other receivables and advances to merchant members. No account represents more than 5% of total accounts receivable. In order to manage its risk, specified credit limits are determined for certain accounts and regularly reviewed by the Corporation.

The Corporation may also be exposed to credit risk from its foreign exchange forward contracts, its interest rate swaps and its equity swap agreements, which is managed by dealing with reputable financial institutions.

The Corporation holds in guarantee some personal property and some assets of certain customers. Those customers are also required to contribute to a fund to guarantee a portion of their amounts due to the Corporation. The financial condition of customers is examined regularly, and monthly analyses are reviewed to ensure that past-due amounts are collectible and, if necessary, that measures are taken to limit credit risk. Over the past few years, no significant amounts have had a negative impact on the Corporation's net earnings with the average bad debt on sales rate at 0.2% for the last three years.

As at December 31, 2018, past-due accounts receivable represent $9,755 or 5.5% ($8,783 or 4.8% as at December 31, 2017) and an allowance for doubtful accounts of $6,597 ($5,776 as at December 31, 2017) is provided. Allowance for doubtful accounts and past-due accounts receivable are reviewed at least quarterly, and a bad debt expense is recognized only for accounts receivable for which collection is uncertain. The variances in the allowance for doubtful accounts are as follows:

	December 31,	
	2018	2017
Balance, beginning of year	**5,776**	3,077
Bad debt expense	**3,381**	1,940
Business acquisitions	**-**	1,945
Write-offs	**(2,393)**	(1,335)
Currency translation adjustment	**(167)**	149
Balance, end of year	**6,597**	5,776

Management considers that all the above financial assets, that are not impaired or past due for each December 31 reporting dates under review, are of good credit quality.

(ii) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting its obligations on time and at a reasonable cost. The Corporation manages its liquidity risk on a consolidated basis through its use of different capital markets in order to ensure flexibility in its capital structure. The Corporation prepares budget and cash forecasts, taking into account its current and future cash requirements, to ensure that it has sufficient funds to meet its obligations.

The Corporation has renewable revolving credit facility and letter of credit facility totaling $625,000 and $20,000 respectively as at December 31, 2018 (renewable revolving credit facility, term facility and letter of credit totalling $525,000, $100,000 and $20,000 respectively as at December 31, 2017). Refer to note 17 for further details. The Corporation benefits from an available amount on its credit facilities of approximately $207,000 as at December 31, 2018 ($193,000 as at December 31, 2017).

Management is of the opinion that as a result of the cash flows generated by operations and the financial resources available, the liquidity risk of the Corporation is appropriately mitigated.

The contractual maturities and estimated future interest payments of the Corporation's financial liabilities are as follows:

	December 31, 2018			
	Carrying amount	**Maturing under one year**	**One to three years**	**Over three years**
Non-derivative financial instruments				
Trade and other payables	**513,542**	**513,542**	**-**	**-**
Interest payable	**1,163**	**1,163**	**-**	**-**
Balance of purchase price, net	**5,274**	**4,062**	**1,212**	**-**
Dividends payable	**2,876**	**2,876**	**-**	**-**
Long-term debt (except finance leases and financing costs)	**418,231**	**4**	**7**	**418,220**
Merchant members' deposits in the guarantee fund	**5,518**	**94**	**-**	**5,424**
	946,604	**521,741**	**1,219**	**423,644**
Derivative financial instruments				
Equity swap agreements	**3,058**	**3,058**	**-**	**-**
	949,662	**524,799**	**1,219**	**423,644**

	December 31, 2017			
	Carrying amount	Maturing under one year	One to three years	Over three years
Non-derivative financial instruments				
Trade and other payables	419,302	419,302	-	-
Interest payable	1,219	1,219	-	-
Balance of purchase price, net	18,413	15,469	2,944	-
Dividends payable	3,110	3,110	-	-
Long-term debt (except finance leases and financing costs)	431,883	25,004	406,879	-
Merchant members' deposits in the guarantee fund	5,645	102	-	5,543
	879,572	464,206	409,823	5,543
Derivative financial instruments				
Foreign exchange forward contracts	404	404	-	-
Equity swap agreements	708	-	708	-
	880,684	464,610	410,531	5,543

(iii) Foreign exchange risk

The Corporation is exposed to foreign exchange risk on its financial instruments mainly related to purchases in currencies other than the respective functional currencies of the Corporation. To limit the impact of fluctuations in the Canadian dollar or the British pound over the US dollar and Euro on forecasted cash flows, the Corporation uses forward contracts from time to time.

The Corporation has certain investments in foreign operations (United States and United Kingdom) whose net assets are exposed to foreign currency translation. The Corporation hedges the foreign exchange risk exposure related to those investments with US dollar or British pound denominated debt instruments (note 17).

For the year ended December 31, 2018, Management considers that a 5% rise or fall in exchange rates, assuming that all other variables remain the same, will not have a significant impact on net earnings. These changes are considered to be reasonably possible based on an observation of current market conditions.

(iv) Interest rate risk

The Corporation is exposed to interest rate fluctuations, primarily due to its variable rate debts. The Corporation manages its interest rate exposure by maintaining an adequate balance of fixed versus variable rate debt and by concluding swap agreements to exchange variable rates for fixed rates. As at December 31, 2018, including the impact of interest rate swap agreements, the fixed rate portion of financial debt represents approximately 37% (40% in 2017). Refer to note 17 for further details.

For the year ended December 31, 2018, a 25-basis-point rise or fall in interest rates, assuming that all other variables remain the same, would have resulted in a $501 increase or decrease in the Corporation's net earnings, and an impact of $623 in OCI. These changes are considered to be reasonably possible based on an observation of current market conditions.

21 - ACCUMULATED OTHER COMPREHENSIVE INCOME

	Cumulative translation account	Unrealized exchange losses (gains) on the translation of debt designated as a hedge of net investments in foreign operations	Accumulated changes in fair value of derivative financial instruments designated as cash flow hedges	Total
Balance, January 1, 2017	7,559	(37,801)	-	(30,242)
Other comprehensive income	12,685	242	53	12,980
Balance, December 31, 2017	20,244	(37,559)	53	(17,262)
Other comprehensive income (loss)	(7,376)	(15,831)	647	(22,560)
Balance, December 31, 2018	**12,868**	**(53,390)**	**700**	**(39,822)**

22 - COMMITMENTS AND GUARANTEES

Commitments

The Corporation has entered into long-term operating lease agreements expiring at various dates until 2033 for the rental of buildings, vehicles, and information technology equipment and services. The rent expense recorded in the consolidated statements of earnings was $27,486 for the year ended December 31, 2018 ($22,582 for 2017). The committed minimum lease payments under these agreements are as follows:

	December 31, 2018
Less than one year	**34,317**
Between one and five years	**85,871**
More than five years	**40,005**
	160,193

Some of these lease agreements contain renewal options for additional periods of one to five years which the Corporation may exercise by giving prior notice.

Guarantees

Under inventory repurchase agreements, the Corporation has made commitments to financial institutions to repurchase inventory from some of its customers at rates of 60% or 75% of the cost of the inventory for a maximum of $42,479 as at December 31, 2018 (at rates of 60% or 75% and for a maximum of $47,724 as at December 31, 2017). In the event of a default by a customer, the inventory would be liquidated in the normal course of the Corporation’s operations. These agreements are for undetermined periods of time. In Management’s opinion and based on historical experience, the likelihood of significant payments being required under these agreements and losses being absorbed is low as the value of the assets held in guarantee is greater than the Corporation’s financial obligations.

23 - RELATED PARTIES

For the years ended December 31, 2018 and 2017, common shares of the Corporation were widely held, and the Corporation did not have an ultimate controlling party.

Transactions with key management personnel

Key management includes directors (executive and non-executive) and members of the Executive Committee. For the years ended December 31, 2018 and 2017, the compensation to key management personnel was as follows:

	Years ended December 31,	
	2018	2017
Salaries and short-term employee benefits	**5,254**	4,786
Severances and retention bonuses	**3,626**	-
Stock-based benefits	**1,693**	2,308
Post-employment benefits (including contributions to defined benefit pension plans)	**235**	274
	10,808	7,368

There were no other related party transactions with key management personnel for the years ended December 31, 2018 and 2017.

24 - CAPITAL MANAGEMENT

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;
- Return on average total equity; and
- Ratio of funded debt on earnings before finance costs, depreciation and amortization and income taxes.

In the management of capital, the Corporation includes total equity, long-term debt and bank indebtedness net of cash.

The Corporation manages and adjusts its capital structure in light of the changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation has several tools, notably flexible credit facilities adding flexibility to business opportunities. The Corporation constantly analyzes working capital levels, notably inventory, to ensure that the optimal level is maintained and regularly adjusts quantities to satisfy demand as well as the level of diversification required by customers. The Corporation has also put in place a vendor financing program under which payments to certain suppliers are deferred.

The Corporation assesses its capital management on a number of bases, including the following indicators:

	December 31,	
	2018	2017
Total net debt to total net debt and total equity ratio	**44.4 %**	44.7 %
Long-term debt to total equity ratio	**81.5 %**	86.6 %
Return on average total equity ratio	**7.0 %**	9.0 %
Ratio of funded debt on earnings before finance costs, depreciation and amortization and income taxes	**3.99**	3.77

The interest rate applicable on the revolving credit facility and the term facility is contingent on the achievement of the financial ratio total funded debt on earnings before finance costs, depreciation and amortization and income taxes, excluding certain adjustments specified in the credit agreement. The Corporation was in compliance with all of its covenants as at December 31, 2018 and 2017. The Corporation's overall strategy with respect to capital risk management remains unchanged from the prior year.

25 - 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.

										Years ended December 31,
	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	**829,982**	814,639	**503,829**	484,934	**418,154**	148,699	**-**	-	**1,751,965**	1,448,272
Segment income [1]	**76,042**	91,345	**31,962**	31,214	**28,325**	6,007	**(16,800)**	(11,034)	**119,529**	117,532
Special items (note 4)	**1,693**	-	**3,346**	-	**1,230**	-	**8,320**	6,780	**14,589**	6,780
Segment income reported [2]	**74,349**	91,345	**28,616**	31,214	**27,095**	6,007	**(25,120)**	(17,814)	**104,940**	110,752
Finance costs, net									**20,561**	14,487
Depreciation and amortization									**39,702**	29,647
Earnings before income taxes									**44,677**	66,618
Income tax expenses									**8,180**	22,002
Net earnings									**36,497**	44,616

(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”.

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

	Years ended December 31,	
	2018	2017
Sales		
United States	**829,982**	814,639
Canada	**503,829**	484,934
United Kingdom	**418,154**	148,699
	1,751,965	1,484,272

	December 31, 2018			
	United States	**Canada**	**United Kingdom**	**Total**
Property and equipment	**25,460**	**26,206**	**32,290**	**83,956**
Intangible assets with definite useful lives	**102,834**	**26,234**	**44,666**	**173,734**
Intangible assets with indefinite useful lives	**7,900**	**-**	**28,697**	**36,597**
Goodwill	**201,951**	**55,743**	**114,313**	**372,007**

	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

26 - SUBSEQUENT EVENT

In January 2019, the Board of Directors and Management initiated the development of a broad performance improvement and rightsizing plan for the FinishMaster US segment with the objective of realigning its operations to address challenging market conditions, including ongoing consolidation by national accounts and pricing pressures from manufacturers. This plan, which is expected to generate additional annualized savings of $10,000 by the end of 2019, focuses on four streams: consolidation of company-owned stores, optimization, margin recovery and spending reductions. Additional restructuring and other charges in the range of $5,000 to $7,000 will be recorded during the 2019 year, mainly for severance and onerous lease contracts.

The 25/20 Plan and the FinishMaster US Segment performance improvement and rightsizing plan combined together will now be referred to as the "Performance Improvement Plan" of the Corporation, with targeted annualized savings of $35,000.