

PENSKE AUTOMOTIVE GROUP, INC.

Form 10-Q

July 29, 2016

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2016

or

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

For the transition period from      to

Commission file number 1-12297

Penske Automotive Group, Inc.

(Exact name of registrant as specified in its charter)

Edgar Filing: PENSKE AUTOMOTIVE GROUP, INC. - Form 10-Q

Delaware (State or other jurisdiction of incorporation or organization)	22-3086739 (I.R.S. Employer Identification No.)
2555 Telegraph Road, Bloomfield Hills, Michigan (Address of principal executive offices)	48302-0954 (Zip Code)

Registrant's telephone number, including area code:

(248) 648-2500

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer    Accelerated filer    Non-accelerated filer    Smaller reporting company

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

As of July 22, 2016, there were 85,175,279 shares of voting common stock outstanding.



Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Condensed Balance Sheets as of June 30, 2016 and December 31, 2015</u>	3
<u>Consolidated Condensed Statements of Income for the three and six months ended June 30, 2016 and 2015</u>	4
<u>Consolidated Condensed Statements of Comprehensive Income for the three and six months ended June 30, 2016 and 2015</u>	5
<u>Consolidated Condensed Statements of Cash Flows for the six months ended June 30, 2016 and 2015</u>	6
<u>Consolidated Condensed Statement of Equity for the six months ended June 30, 2016</u>	7
<u>Notes to Consolidated Condensed Financial Statements</u>	8
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	29
<u>Item 3. Quantitative &amp; Qualitative Disclosures About Market Risk</u>	57
<u>Item 4. Controls and Procedures</u>	58
<u>PART II — OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	59
<u>Item 1A. Risk Factors</u>	59
<u>Item 2. Unregistered Sales of Equity Securities</u>	60
<u>Item 6. Exhibits</u>	61

Table of Contents

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

## PENSKE AUTOMOTIVE GROUP, INC.

## CONSOLIDATED CONDENSED BALANCE SHEETS

	June 30, 2016 (Unaudited)	December 31, 2015 (In millions, except share and per share amounts)
<b>ASSETS</b>		
Cash and cash equivalents	\$ 97.5	\$ 62.4
Accounts receivable, net of allowance for doubtful accounts of \$4.6 and \$4.2	827.8	782.3
Inventories	3,351.8	3,463.5
Other current assets	101.7	85.6
Assets held for sale	6.8	12.7
Total current assets	4,385.6	4,406.5
Property and equipment, net	1,576.7	1,520.1
Goodwill	1,313.4	1,323.2
Other indefinite-lived intangible assets	408.8	408.0
Equity method investments	371.1	336.4
Other long-term assets	19.6	19.2
Total assets	\$ 8,075.2	\$ 8,013.4
<b>LIABILITIES AND EQUITY</b>		
Floor plan notes payable	\$ 2,061.8	\$ 2,247.2
Floor plan notes payable — non-trade	969.4	1,132.4
Accounts payable	554.8	493.8
Accrued expenses	403.3	378.1
Current portion of long-term debt	47.7	28.0
Liabilities held for sale	4.6	6.2
Total current liabilities	4,041.6	4,285.7
Long-term debt	1,613.1	1,247.0
Deferred tax liabilities	449.4	433.4
Other long-term liabilities	238.2	212.4
Total liabilities	6,342.3	6,178.5
Commitments and contingent liabilities (Note 9)		
Equity		
Penske Automotive Group stockholders' equity:		
Preferred Stock, \$0.0001 par value; 100,000 shares authorized; none issued and outstanding	—	—
	—	—

Edgar Filing: PENSKE AUTOMOTIVE GROUP, INC. - Form 10-Q

Common Stock, \$0.0001 par value, 240,000,000 shares authorized; 85,175,279 shares issued and outstanding at June 30, 2016; 89,524,724 shares issued and outstanding at December 31, 2015		
Non-voting Common Stock, \$0.0001 par value; 7,125,000 shares authorized; none issued and outstanding	—	—
Class C Common Stock, \$0.0001 par value; 20,000,000 shares authorized; none issued and outstanding	—	—
Additional paid-in-capital	490.3	656.0
Retained earnings	1,383.1	1,256.7
Accumulated other comprehensive income (loss)	(177.6)	(122.5)
Total Penske Automotive Group stockholders' equity	1,695.8	1,790.2
Non-controlling interest	37.1	44.7
Total equity	1,732.9	1,834.9
Total liabilities and equity	\$ 8,075.2	\$ 8,013.4
See Notes to Consolidated Condensed Financial Statements		

Table of Contents

## PENSKE AUTOMOTIVE GROUP, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
	June 30,	2015	June 30,	2015
	2016		2016	
	(Unaudited)			
	(In millions, except per share amounts)			
Revenue:				
Retail automotive dealership	\$ 4,836.8	\$ 4,554.9	\$ 9,349.7	\$ 8,741.7
Retail commercial truck dealership	309.5	241.9	516.2	434.6
Commercial vehicle distribution and other	107.8	123.8	212.8	227.2
Total revenues	\$ 5,254.1	\$ 4,920.6	\$ 10,078.7	\$ 9,403.5
Cost of sales:				
Retail automotive dealership	4,134.8	3,892.3	7,982.7	7,449.8
Retail commercial truck dealership	271.2	203.6	444.7	363.5
Commercial vehicle distribution and other	76.8	93.4	156.2	169.0
Total cost of sales	4,482.8	4,189.3	8,583.6	7,982.3
Gross profit	771.3	731.3	1,495.1	1,421.2
Selling, general and administrative expenses	582.7	553.1	1,141.6	1,088.9
Depreciation	24.5	19.3	45.3	37.9
Operating income	164.1	158.9	308.2	294.4
Floor plan interest expense	(13.1)	(11.0)	(25.9)	(21.3)
Other interest expense	(19.5)	(16.4)	(36.7)	(32.7)
Equity in earnings of affiliates	12.0	12.0	17.5	18.7
Income from continuing operations before income taxes	143.5	143.5	263.1	259.1
Income taxes	(47.3)	(47.7)	(86.7)	(86.5)
Income from continuing operations	96.2	95.8	176.4	172.6
Loss from discontinued operations, net of tax	(1.2)	(0.1)	(1.2)	(1.0)
Net income	95.0	95.7	175.2	171.6
Less: Income attributable to non-controlling interests	1.5	1.7	2.4	2.4
Net income attributable to Penske Automotive Group common stockholders	\$ 93.5	\$ 94.0	\$ 172.8	\$ 169.2
Basic earnings per share attributable to Penske Automotive Group common stockholders:				
Continuing operations	\$ 1.11	\$ 1.04	\$ 2.01	\$ 1.89
Discontinued operations	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Net income attributable to Penske Automotive Group common stockholders	\$ 1.10	\$ 1.04	\$ 1.99	\$ 1.88
Shares used in determining basic earnings per share	85.3	90.2	86.7	90.2
Diluted earnings per share attributable to Penske Automotive Group common stockholders:				
Continuing operations	\$ 1.11	\$ 1.04	\$ 2.00	\$ 1.88
Discontinued operations	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.01)
	\$ 1.10	\$ 1.04	\$ 1.99	\$ 1.87

Edgar Filing: PENSKE AUTOMOTIVE GROUP, INC. - Form 10-Q

Net income attributable to Penske Automotive Group common stockholders				
Shares used in determining diluted earnings per share	85.3	90.2	86.8	90.3
Amounts attributable to Penske Automotive Group common stockholders:				
Income from continuing operations	\$ 96.2	\$ 95.8	\$ 176.4	\$ 172.6
Less: Income attributable to non-controlling interests	1.5	1.7	2.4	2.4
Income from continuing operations, net of tax	94.7	94.1	174.0	170.2
Loss from discontinued operations, net of tax	(1.2)	(0.1)	(1.2)	(1.0)
Net income attributable to Penske Automotive Group common stockholders	\$ 93.5	\$ 94.0	\$ 172.8	\$ 169.2
Cash dividends per share	\$ 0.27	\$ 0.23	\$ 0.53	\$ 0.45

See Notes to Consolidated Condensed Financial Statements



Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	2015	2015	2015	2015
	(Unaudited)			
	(In millions)			
Net income	\$ 95.0	\$ 95.7	\$ 175.2	\$ 171.6
Other comprehensive income:				
Foreign currency translation adjustment	(56.1)	37.8	(55.8)	(15.0)
Other adjustments to comprehensive income, net	0.6	0.5	1.5	(1.8)
Other comprehensive income (loss), net of tax	(55.5)	38.3	(54.3)	(16.8)
Comprehensive income	39.5	134.0	120.9	154.8
Less: Comprehensive income attributable to non-controlling interests	0.8	1.5	3.2	1.6
Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 38.7	\$ 132.5	\$ 117.7	\$ 153.2

See Notes to Consolidated Condensed Financial Statements

Table of Contents

## PENSKE AUTOMOTIVE GROUP, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2016	2015
	(Unaudited)	
	(In millions)	
Operating Activities:		
Net income	\$ 175.2	\$ 171.6
Adjustments to reconcile net income to net cash from continuing operating activities:		
Depreciation	45.3	37.9
Earnings of equity method investments	(15.7)	(16.1)
Loss from discontinued operations, net of tax	1.2	1.0
Deferred income taxes	19.0	(18.4)
Changes in operating assets and liabilities:		
Accounts receivable	(41.2)	(36.5)
Inventories	156.5	(186.1)
Floor plan notes payable	(185.4)	192.3
Accounts payable and accrued expenses	80.6	99.0
Other	29.0	25.9
Net cash provided by continuing operating activities	264.5	270.6
Investing Activities:		
Purchase of equipment and improvements	(136.7)	(83.5)
Acquisitions net, including repayment of sellers' floor plan notes payable of \$44.7 and \$41.2, respectively	(65.4)	(86.4)
Other	(25.0)	—
Net cash used in continuing investing activities	(227.1)	(169.9)
Financing Activities:		
Proceeds from borrowings under U.S. credit agreement revolving credit line	629.5	780.4
Repayments under U.S. credit agreement revolving credit line	(789.5)	(702.4)
Repayments under U.S. credit agreement term loan	—	(88.0)
Repayment of U.S. commercial truck capital loan	—	(60.5)
Issuance of 5.50% senior subordinated notes	500.0	—
Net borrowings (repayments) of other long-term debt	60.9	(123.7)
Net (repayments) borrowings of floor plan notes payable — non-trade	(163.0)	120.3
Payment of debt issuance costs	(6.6)	(1.7)
Repurchases of common stock	(173.6)	(22.0)
Dividends	(46.4)	(40.7)
Other	(9.8)	0.2
Net cash provided by (used in) continuing financing activities	1.5	(138.1)
Discontinued operations:		
Net cash provided by (used in) discontinued operating activities	1.3	(1.3)
Net cash provided by discontinued investing activities	1.7	129.5
Net cash used in discontinued financing activities	(0.1)	(87.3)

Edgar Filing: PENSKE AUTOMOTIVE GROUP, INC. - Form 10-Q

Net cash provided by discontinued operations	2.9	40.9
Effect of exchange rate changes on cash and cash equivalents	(6.7)	(0.4)
Net change in cash and cash equivalents	35.1	3.1
Cash and cash equivalents, beginning of period	62.4	36.3
Cash and cash equivalents, end of period	\$ 97.5	\$ 39.4
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	\$ 60.5	\$ 52.1
Income taxes	26.9	64.7
Seller financed/assumed debt	—	2.6

See Notes to Consolidated Condensed Financial Statements

Table of Contents

## PENSKE AUTOMOTIVE GROUP, INC.

## CONSOLIDATED CONDENSED STATEMENT OF EQUITY

	Common Stock Issued Shares (Unaudited) (Dollars in millions)	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Penske Automotive Stockholders' Equity	Non- controlling Interest	Total Equity	
Balance, January 1, 2016	89,524,724	\$ —	\$ 656.0	\$ 1,256.7	\$ (122.5)	\$ 1,790.2	\$ 44.7	\$ 1,834.9
Equity compensation	307,597	—	7.6	—	—	7.6	—	7.6
Repurchases of common stock	(4,657,042)	—	(173.6)	—	—	(173.6)	—	(173.6)
Dividends	—	—	—	(46.4)	—	(46.4)	—	(46.4)
Purchase of subsidiary shares from non-controlling interest	—	—	(0.3)	—	—	(0.3)	(10.4)	(10.7)
Distributions to non-controlling interests	—	—	—	—	—	—	(0.4)	(0.4)
Foreign currency translation	—	—	—	—	(56.6)	(56.6)	0.8	(55.8)
Other	—	—	0.6	—	1.5	2.1	—	2.1
Net income	—	—	—	172.8	—	172.8	2.4	175.2
Balance, June 30, 2016	85,175,279	\$ —	\$ 490.3	\$ 1,383.1	\$ (177.6)	\$ 1,695.8	\$ 37.1	\$ 1,732.9

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

(In millions, except per share amounts)

1. Interim Financial Statements

Business Overview

Unless the context otherwise requires, the use of the terms “PAG,” “we,” “us,” and “our” in these Notes to the Consolidated Condensed Financial Statements refers to Penske Automotive Group, Inc. and its consolidated subsidiaries.

We are an international transportation services company that operates automotive and commercial truck dealerships principally in the United States, Canada and Western Europe, and distributes commercial vehicles, diesel engines, gas engines, power systems and related parts and services principally in Australia and New Zealand.

**Retail Automotive Dealership.** We believe we are the second largest automotive retailer headquartered in the U.S. as measured by the \$17.9 billion in total retail automotive dealership revenue we generated in 2015. As of June 30, 2016, we operated 352 automotive retail franchises, of which 180 franchises are located in the U.S. and 172 franchises are located outside of the U.S. The franchises outside the U.S. are located primarily in the U.K. In the six months ended June 30, 2016, we retailed and wholesaled more than 273,000 vehicles. We are diversified geographically, with 58% of our total retail automotive dealership revenues in the six months ended June 30, 2016 generated in the U.S. and Puerto Rico and 42% generated outside the U.S. We offer over 40 vehicle brands, with 72% of our retail automotive dealership revenue in the six months ended June 30, 2016 generated from premium brands, such as Audi, BMW, Mercedes-Benz and Porsche. Each of our dealerships offer a wide selection of new and used vehicles for sale. In addition to selling new and used vehicles, we generate higher-margin revenue at each of our dealerships through maintenance and repair services and the sale and placement of third-party finance and insurance products, third-party extended service and maintenance contracts and replacement and aftermarket automotive products. We operate these dealerships under franchise agreements with a number of automotive manufacturers and distributors that are subject to certain rights and restrictions typical of the industry.

During the six months ended June 30, 2016, we acquired one retail automotive franchise in the U.K., were awarded four retail automotive franchises, and disposed of eight retail automotive franchises. During the six months ended

June 30, 2016, we acquired an additional 8% interest in the Jacobs Group, one of our German automotive dealership joint ventures and now own 68% of that joint venture. We began consolidating this joint venture during the third quarter of 2015. We also acquired a 49% interest in the Nicole Group, a luxury dealership group in Tokyo and nearby suburbs in January 2016. The Nicole Group operates four BMW and three MINI dealerships, a Rolls-Royce dealership and a Ferrari dealership, and is the exclusive importer and distributor of Alpina. This investment is accounted for under the equity method. Subsequent to June 30, 2016, we acquired a dealer group in the U.K. with twelve franchises, including seven Volkswagen, one BMW, one MINI, and one Audi.

**Retail Commercial Truck Dealership.** In November 2014, we acquired a controlling interest in a heavy and medium duty truck dealership group located primarily in Texas and Oklahoma, which we renamed Premier Truck Group (“PTG”). Prior to the 2014 transaction, we held a 32% interest in PTG and accounted for this investment under the equity method. During 2015, we acquired an additional 5% of PTG, bringing our ownership interest to 96%. In April 2016, we acquired the remaining ownership interests of PTG, bringing our total ownership interest to 100%.

As of June 30, 2016, PTG operated nineteen locations, including fourteen full-service dealerships offering primarily Freightliner and Western Star branded trucks. Two of these locations, Chattanooga and Knoxville, were acquired in February 2015. Five of these locations were acquired in April 2016 and represent Freightliner and Western Star in the greater Toronto, Canada market area and service Highway 401, a major truck thoroughfare between Buffalo, New York and Detroit, Michigan. PTG also offers a full range of used trucks available for sale as well as service and parts departments, many of which are open 24 hours a day, seven days a week.

Table of Contents

Commercial Vehicle Distribution. We are the exclusive importer and distributor of Western Star heavy-duty trucks (a Daimler brand), MAN heavy and medium duty trucks and buses (a VW Group brand), and Dennis Eagle refuse collection vehicles, together with associated parts, across Australia, New Zealand and portions of the Pacific. This business, known as Penske Commercial Vehicles Australia, distributes commercial vehicles and parts to a network of more than 70 dealership locations, including three company-owned retail commercial vehicle dealerships.

We are also a leading distributor of diesel and gas engines and power systems, principally representing MTU, Detroit Diesel, Mercedes-Benz Industrial, Allison Transmission and MTU Onsite Energy. This business, known as Penske Power Systems, offers products across the on- and off-highway markets in Australia, New Zealand and portions of the Pacific and supports full parts and aftersales service through a network of branches, field locations and dealers across the region. The on-highway portion of this business complements our existing Penske Commercial Vehicles Australia distribution business.

Penske Truck Leasing. As of June 30, 2016, we held a 9.0% ownership interest in Penske Truck Leasing Co., L.P. (“PTL”), a leading provider of transportation and supply chain services. On July 27, 2016, we acquired an additional 14.4% ownership interest in PTL from subsidiaries of GE Capital Global Holdings, LLC (collectively, “GE Capital”) for approximately \$498.7 million in cash, subject to adjustment based on the earnings of PTL through July 27, 2016. PTL operates and maintains more than 238,000 vehicles and serves customers in North America, South America, Europe, Australia and Asia and is one of the largest purchasers of commercial trucks in North America. Product lines include full-service truck leasing, contract maintenance, commercial and consumer truck rentals, used truck sales, transportation and warehousing management and supply chain management solutions. As of July 27, 2016, PTL is owned 41.1% by Penske Corporation, 23.4% by us, 20.0% by affiliates of Mitsui & Co., Ltd. (“Mitsui”), and 15.5% by GE Capital. We account for our investment in PTL under the equity method, and we therefore record our share of PTL’s earnings on our statements of income under the caption “Equity in earnings of affiliates,” which also includes the results of our other equity method investments.

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of PAG have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and disclosures normally included in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the SEC rules and regulations. The information presented as of June 30, 2016 and December 31, 2015 and for the three and six month periods ended June 30, 2016 and 2015 is unaudited, but includes all adjustments which our management believes to be necessary for the fair presentation of results for the periods presented. The consolidated condensed financial statements for prior periods have been revised for entities that have been treated as discontinued operations, and results for interim periods are not necessarily indicative of results to be expected for the year. These consolidated condensed financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2015, which are included as part of our Annual Report on Form 10-K.

## Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” This ASU supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. ASU No. 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers using a five-step model that requires entities to exercise judgment when considering the terms of contracts with customers. This ASU can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption. In August 2015, the FASB issued ASU 2015-14 “Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date” providing for a one-year deferral of the effective date of ASU 2014-09 from January 1, 2017 to January 1, 2018; however, early adoption is still permissible as of January 1, 2017 for public entities. In March 2016, the FASB issued ASU No. 2016-08, “Revenue from Contracts with Customers (Topic 606) – Principal versus Agent Considerations.” The amendments under this ASU clarify the implementation guidance on principal versus agent considerations included within ASU



Table of Contents

2014-09. In April 2016, the FASB issued ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing.” This ASU includes updates which are intended to reduce the cost and complexity of applying guidance on identifying promised goods and services under Topic 606. In May 2016, the FASB issued ASU No. 2016-12, “Revenue from Contracts with Customers (Topic 606) – Narrow-Scope Improvements and Practical Expedients.” This ASU clarifies several aspects of Topic 606 such as the assessment of collectability, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. We are currently assessing the impact the adoption of these accounting standard updates will have on our consolidated financial position, results of operations, and cash flows.

In April 2015, the FASB issued ASU No. 2015-03, “Interest – Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs.” ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued ASU No. 2015-15, “Interest – Imputation of Interest (Subtopic 835-30) – Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements,” which clarifies the treatment of debt issuance costs associated with line-of-credit arrangements that were not specifically addressed in ASU 2015-03. ASU 2015-15 states that entities may elect to continue to treat debt issuance costs associated with lines of credit as an asset, consistent with current treatment. We adopted these accounting standard updates in the first quarter of 2016. We applied this new guidance retrospectively, which resulted in the reclassification of debt issuance costs from other current and other long-term assets to current and long-term debt for the periods presented. Amounts reclassified from “Other current assets” to “Current portion of long-term debt” were \$1.2 million as of December 31, 2015. Amounts reclassified from “Other long-term assets” to “Long-term debt” were \$8.1 million as of December 31, 2015.

In July 2015, the FASB issued ASU No. 2015-11, “Simplifying the Measurement of Inventory (Topic 330).” Under ASU 2015-11, inventory that is measured using the first-in, first-out (FIFO) or average cost methods should be measured at the lower of cost or net realizable value. This ASU does not impact inventory measurement under the last-in, first-out (LIFO) or retail inventory methods. This ASU is effective for us beginning after January 1, 2017. We do not expect the adoption of this accounting standard update to have a material impact on our consolidated financial position, results of operations, and cash flows.

In September 2015, the FASB issued ASU No. 2015-16, “Business Combinations (Topic 805) – Simplifying the Accounting for Measurement-Period Adjustments.” Under ASU 2015-16, acquirers will be required to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, eliminating the requirement to retrospectively account for such adjustments. We adopted this accounting standard update effective January 1, 2016. The adoption of ASU No. 2015-16 has not had a material impact on our consolidated financial position, results of operations, or cash flows.

In November 2015, the FASB issued ASU No. 2015-17, “Income Taxes (Topic 740) — Balance Sheet Classification of Deferred Taxes.” Under ASU 2015-17, entities will be required to classify all deferred tax liabilities and assets as noncurrent in a classified statement of financial position. This ASU is effective for us beginning after January 1, 2017. Other than the revised presentation of our consolidated balance sheets, we do not expect the adoption of this

accounting standard update to have a material impact on our consolidated financial position, results of operations, and cash flows.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” Under this new guidance, a company will now recognize most leases on its balance sheet as lease liabilities with corresponding right-of-use assets. This ASU is effective for us beginning after January 1, 2019. The adoption of this ASU will result in a significant increase to our consolidated balance sheets for lease liabilities and right-of-use assets. We are currently evaluating the other effects the adoption of this ASU will have on our consolidated financial statements. We believe our current off-balance sheet leasing commitments are reflected in our credit rating.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation – Stock Compensation (Topic 718) – Improvement to Employee Share-Based Payment Accounting.” This ASU simplified several aspects of accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for us beginning after January 1, 2017.

## Table of Contents

We are currently assessing the impact the adoption of this update will have on our consolidated financial position, results of operations, and cash flows.

### Assets Held for Sale and Discontinued Operations

We classify an entity as held for sale in the period in which all of the following criteria are met:

- management, having the authority to approve the action, commits to a plan to sell the entity;
- the entity is available for immediate sale in its present condition;
- an active program to locate a buyer and other actions required to complete the plan to sell have been initiated;
- the sale is probable and transfer is expected to be completed within one year;
- the entity is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and
  - actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

In April 2014, the FASB issued ASU No. 2014-08 that changed the definition of a discontinued operation to include only those disposals of components of an entity or components of an entity that are classified as held for sale that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. We adopted this accounting standard update effective January 1, 2015.

Prior to the adoption of ASU No. 2014-08, we accounted for dispositions as discontinued operations when it was evident that the operations and cash flows of an entity being disposed of would be eliminated from ongoing operations and we would not have any significant continuing involvement in its operations. The results of operations for those entities that were classified as discontinued operations prior to adoption of ASU No. 2014-08 are included in "Loss from discontinued operations" in the accompanying Consolidated Condensed Statements of Income for all periods presented and will continue to be reported within discontinued operations in the future. Beginning with disposals or entities classified as held for sale subsequent to January 1, 2015, only those that represent a strategic shift that has, or will have, a major impact on our operations and financial results will be included in discontinued operations.

We had no entities newly classified as held for sale during the six months ended June 30, 2016 that met the criteria to be classified as discontinued operations. As such, the combined financial information presented below represents only retail automotive dealerships and our car rental business that were classified as discontinued operations prior to adoption of ASU No. 2014-08:

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
Revenues	\$ 5.6	\$ 19.5	\$ 14.0	\$ 48.0
Pre-tax loss	(2.0)	(0.9)	(2.0)	(4.7)
Pre-tax gain on disposal	—	0.6	—	2.9

	June	December
	30,	31,
	2016	2015
Inventories	\$ 3.4	\$ 6.2
Other assets	3.4	6.5
Total assets	\$ 6.8	\$ 12.7
Floor plan notes payable (including non-trade)	\$ 2.9	\$ 4.3
Other liabilities	1.7	1.9
Total liabilities	\$ 4.6	\$ 6.2

## Table of Contents

### Divestitures

During the six months ended June 30, 2016, we disposed of eight retail automotive franchises and one retail commercial truck parts location. The results of operations for two of the retail automotive franchises are included in discontinued operations for the six months ended June 30, 2016 and 2015. The remaining six retail automotive franchises and retail commercial truck parts location did not meet the criteria to be classified as held for sale and treated as discontinued operations. Therefore, the results of operations for these businesses are included within continuing operations for the three and six months ended June 30, 2016 and 2015.

In February 2015, we divested our car rental business that included Hertz car rental franchises in the Memphis, Tennessee market and certain markets throughout Indiana. We received proceeds of \$17.8 million from the sale excluding sales of car rental vehicles. The results of operations of our car rental business are included in discontinued operations for the six months ended June 30, 2015.

### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The accounts requiring the use of significant estimates include accounts receivable, inventories, income taxes, intangible assets and certain reserves.

### Fair Value of Financial Instruments

Accounting standards define fair value as the price that would be received from selling an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Accounting standards establish a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value and also establishes the following three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

1

- Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted market prices in markets that are not active; or model-derived valuations or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Our financial instruments consist of cash and cash equivalents, debt, floor plan notes payable, forward exchange contracts and interest rate swaps used to hedge future cash flows. Other than our fixed rate debt, the carrying amount of all significant financial instruments approximates fair value due either to length of maturity, the existence of variable interest rates that approximate prevailing market rates, or as a result of mark to market accounting.

Our fixed rate debt consists of amounts outstanding under our senior subordinated notes and mortgage facilities. We estimate the fair value of our senior unsecured notes using quoted prices for the identical liability (Level 2), and we estimate the fair value of our mortgage facilities using a present value technique based on current market interest rates for similar types of financial instruments (Level 2). A summary of the carrying values and fair values of our 5.75%

Table of Contents

senior subordinated notes, 5.375% senior subordinated notes, 5.50% senior subordinated notes, and our fixed rate mortgage facilities are as follows:

	June 30, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
5.75% senior subordinated notes due 2022	\$ 544.7	\$ 544.7	\$ 544.3	\$ 558.6
5.375% senior subordinated notes due 2024	296.6	293.3	296.4	295.7
5.50% senior subordinated notes due 2026	493.5	468.8	—	—
Mortgage facilities	204.4	213.9	165.8	165.8

## 2. Inventories

Inventories consisted of the following:

	June 30, 2016	December 31, 2015
Retail automotive dealership new vehicles	\$ 2,057.1	\$ 2,218.6
Retail automotive dealership used vehicles	741.8	719.0
Retail automotive parts, accessories and other	118.6	113.6
Retail commercial truck dealership vehicles and parts	230.6	208.8
Commercial vehicle distribution vehicles and parts	203.7	203.5
Total inventories	\$ 3,351.8	\$ 3,463.5

We receive credits from certain vehicle manufacturers that reduce cost of sales when the vehicles are sold. Such credits amounted to \$11.0 million and \$14.4 million during the three months ended June 30, 2016 and 2015, respectively, and \$22.4 million and \$23.5 million during the six months ended June 30, 2016 and 2015, respectively.

## 3. Business Combinations

We acquired one retail automotive franchise and five retail commercial truck dealerships during the six months ended June 30, 2016. During the six months ended June 30, 2015, we acquired one retail automotive franchise and two retail commercial truck dealerships. Our financial statements include the results of operations of the acquired entities from the date of acquisition. The fair value of the assets acquired and liabilities assumed have been recorded in our consolidated condensed financial statements, and may be subject to adjustment pending completion of final valuation. A summary of the aggregate consideration paid and the aggregate amounts of the assets acquired and liabilities assumed for the six months ended June 30, 2016 and 2015 follows:

	June 30,	
	2016	2015
Accounts receivable	\$ 3.9	\$ —
Inventory	45.2	46.8
Other current assets	0.1	0.2
Property and equipment	0.6	4.4
Indefinite-lived intangibles	24.8	38.8
Current liabilities	(9.2)	(1.2)
Total consideration	65.4	89.0
Seller financed/assumed debt	—	(2.6)
Total cash used in acquisitions	\$ 65.4	\$ 86.4



Table of Contents

The following unaudited consolidated pro forma results of operations of PAG for the three and six months ended June 30, 2016 and 2015 give effect to acquisitions consummated during 2016 and 2015 as if they had occurred effective at the beginning of the periods:

	Three Months Ended		Six Months Ended June	
	June 30, 2016	2015	2016	2015
Revenues	\$ 5,254.1	\$ 5,171.3	\$ 10,123.5	\$ 9,931.5
Income from continuing operations	94.7	95.3	174.1	173.0
Net income	93.5	95.2	172.9	172.0
Income from continuing operations per diluted common share	\$ 1.11	\$ 1.06	\$ 2.01	\$ 1.92
Net income per diluted common share	\$ 1.10	\$ 1.05	\$ 1.99	\$ 1.91

## 4. Intangible Assets

Following is a summary of the changes in the carrying amount of goodwill and other indefinite-lived intangible assets during the six months ended June 30, 2016:

	Goodwill	Other Indefinite- Lived Intangible Assets
Balance, January 1, 2016	\$ 1,323.2	\$ 408.0
Additions	18.3	6.5
Disposals	(0.2)	—
Foreign currency translation	(27.9)	(5.7)
Balance, June 30, 2016	\$ 1,313.4	\$ 408.8

The additions during the six months ended June 30, 2016 were within our Retail Automotive and Retail Commercial Truck reportable segments. The disposals during the six months ended June 30, 2016 were within our Retail Automotive reportable segment. As of June 30, 2016, the goodwill balance within our Retail Automotive, Retail Commercial Truck, and Other reportable segments was \$1,069.2 million, \$161.2 million and \$83.0 million, respectively.

## 5. Vehicle Financing

We finance substantially all of the commercial vehicles we purchase for distribution, new vehicles for retail sale, and a portion of our used vehicle inventories for retail sale, under floor plan and other revolving arrangements with various lenders, including the captive finance companies associated with automotive manufacturers. In the U.S., the floor plan arrangements are due on demand; however, we have not historically been required to repay floor plan advances prior to the sale of the vehicles that have been financed. We typically make monthly interest payments on the amount financed. Outside of the U.S., substantially all of the floor plan arrangements are payable on demand or have an original maturity of 90 days or less, and we are generally required to repay floor plan advances at the earlier of the sale of the vehicles that have been financed or the stated maturity.

The agreements typically grant a security interest in substantially all of the assets of our dealership and distribution subsidiaries and, in the U.S., Australia and New Zealand, are guaranteed or partially guaranteed by us. Interest rates under the arrangements are variable and increase or decrease based on changes in the prime rate, defined London Interbank Offered Rate (“LIBOR”), the Finance House Base Rate, the Euro Interbank Offered Rate, the Canadian Prime Rate, or the Australian or New Zealand Bank Bill Swap Rate (“BBSW”). To date, we have not experienced any material limitation with respect to the amount or availability of financing from any institution providing us vehicle financing. We also receive non-refundable credits from certain of our vehicle manufacturers, which are treated as a reduction of cost of sales as vehicles are sold.

The weighted average interest rate on floor plan borrowings was 1.6% for the six months ended June 30, 2016 and 1.5% for the six months ended June 30, 2015. We classify floor plan notes payable to a party other than the manufacturer of a particular new vehicle, and all floor plan notes payable relating to pre-owned vehicles, as “Floor plan notes

Table of Contents

payable—non-trade” on our consolidated balance sheets and classify related cash flows as a financing activity on our consolidated statements of cash flows.

## 6. Earnings Per Share

Basic earnings per share is computed using net income attributable to Penske Automotive Group common stockholders and the number of weighted average shares of voting common stock outstanding, including outstanding unvested equity awards which contain rights to non-forfeitable dividends. Diluted earnings per share is computed using net income attributable to Penske Automotive Group common stockholders and the number of weighted average shares of voting common stock outstanding, adjusted for any dilutive effects. A reconciliation of the number of shares used in the calculation of basic and diluted earnings per share for the three and six months ended June 30, 2016 and 2015 follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Weighted average number of common shares outstanding	85,268,625	90,198,899	86,743,783	90,225,948
Effect of non-participatory equity compensation	36,000	36,000	36,000	36,000
Weighted average number of common shares outstanding, including effect of dilutive securities	85,304,625	90,234,899	86,779,783	90,261,948

## 7. Long-Term Debt

Long-term debt consisted of the following:

	June 30, 2016	December 31, 2015
U.S. credit agreement — revolving credit line	\$ —	\$ 160.0
U.K. credit agreement — revolving credit line	65.2	70.7
U.K. credit agreement — overdraft line of credit	—	—
5.50% senior subordinated notes due 2026	493.5	—

Edgar Filing: PENSKE AUTOMOTIVE GROUP, INC. - Form 10-Q

5.375% senior subordinated notes due 2024	296.6	296.4
5.75% senior subordinated notes due 2022	544.7	544.3
Australia working capital loan agreement	28.1	5.5
Mortgage facilities	204.4	165.8
Other	28.3	32.3
Total long-term debt	1,660.8	1,275.0
Less: current portion	(47.7)	(28.0)
Net long-term debt	\$ 1,613.1	\$ 1,247.0

U.S. Credit Agreement

Our U.S. credit agreement (the “U.S. credit agreement”) with Mercedes-Benz Financial Services USA LLC and Toyota Motor Credit Corporation provides for up to \$700.0 million in revolving loans for working capital, acquisitions, capital expenditures, investments and other general corporate purposes, which includes \$250.0 million in revolving loans solely for future U.S. acquisitions. In connection with the purchase of PTL interests noted previously, we have amended the U.S. credit agreement to allow for the purchase of interests, to provide for a maximum of \$150.0 million of future borrowings under the U.S. credit agreement for foreign acquisitions and to extend the facility for an additional year through September 30, 2019, pursuant the U.S. credit agreement’s “evergreen” termination provisions. The revolving loans bear interest at LIBOR plus 2.00%, subject to an incremental 1.50% for uncollateralized borrowings in excess of a defined borrowing base.

## Table of Contents

The U.S. credit agreement is fully and unconditionally guaranteed on a joint and several basis by substantially all of our U.S. subsidiaries and contains a number of significant covenants that, among other things, restrict our ability to dispose of assets, incur additional indebtedness, repay other indebtedness, pay dividends, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial and other tests and ratios, each as defined in the U.S. credit agreement including: a ratio of current assets to current liabilities, a fixed charge coverage ratio, a ratio of debt to stockholders' equity and a ratio of debt to earnings before interest, taxes, depreciation and amortization ("EBITDA"). A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of the amounts owed.

The U.S. credit agreement also contains typical events of default, including change of control, non-payment of obligations and cross-defaults to our other material indebtedness. Substantially all of our U.S. assets are subject to security interests granted to the lenders under the U.S. credit agreement. As of June 30, 2016, we had no revolver borrowings outstanding under the U.S. credit agreement.

### U.K. Credit Agreement

Our subsidiaries in the U.K. (the "U.K. subsidiaries") are party to a £150.0 million revolving credit agreement with the Royal Bank of Scotland plc (RBS) and BMW Financial Services (GB) Limited, and an additional demand overdraft line of credit with RBS (collectively, the "U.K. credit agreement") to be used for working capital, acquisitions, capital expenditures, investments and general corporate purposes. The loans mature on the termination date of the facility, which is December 19, 2019. The revolving loans bear interest between defined LIBOR plus 1.35% and defined LIBOR plus 3.0% and the demand overdraft line of credit bears interest at the Bank of England Base Rate plus 1.75%. As of June 30, 2016, outstanding loans under the U.K. credit agreement amounted to £49.0 million (\$65.2 million).

The U.K. credit agreement is fully and unconditionally guaranteed on a joint and several basis by our U.K. subsidiaries, and contains a number of significant covenants that, among other things, restrict the ability of our U.K. subsidiaries to pay dividends, dispose of assets, incur additional indebtedness, repay other indebtedness, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. In addition, our U.K. subsidiaries are required to comply with defined ratios and tests, including: a ratio of earnings before interest, taxes, amortization, and rental payments ("EBITAR") to interest plus rental payments, a measurement of maximum capital expenditures, and a debt to EBITDA ratio. A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of any amounts owed.

The U.K. credit agreement also contains typical events of default, including change of control and non-payment of obligations and cross-defaults to other material indebtedness of our U.K. subsidiaries. Substantially all of our U.K. subsidiaries' assets are subject to security interests granted to the lenders under the U.K. credit agreement.

5.50% Senior Subordinated Notes due 2026

In May 2016, we issued \$500.0 million in aggregate principal amount of 5.50% Senior Subordinated Notes due 2026 (the “5.50% Notes”). Interest on the 5.50% Notes is payable semi-annually on May 15 and November 15 of each year. The 5.50% Notes mature on May 15, 2026, unless earlier redeemed or purchased by us. The 5.50% Notes are our unsecured senior subordinated obligations and are guaranteed on an unsecured senior subordinated basis by our existing 100% owned U.S. subsidiaries. The 5.50% Notes also contain customary negative covenants and events of default.

Prior to May 15, 2021, we may redeem the 5.50% Notes at a redemption price equal to 100% of the principal amount of the 5.50% Notes, plus an applicable make whole premium, and any accrued and unpaid interest. On or after May 15, 2021, we may redeem the 5.50% Notes for cash at the redemption prices noted in the indenture, plus any accrued and unpaid interest. We may also redeem up to 40% of the 5.50% Notes using the proceeds of specified equity offerings at any time prior to May 15, 2019 at a price specified in the indenture. If we experience certain “change of control” events specified in the indenture, holders of the 5.50% Notes will have the option to require us to purchase for cash all or a portion of their notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest. In

Table of Contents

addition, if we make certain asset sales and do not reinvest the proceeds thereof or use such proceeds to repay certain debt, we will be required to use the proceeds of such asset sales to make an offer to purchase the notes at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest.

5.375% Senior Subordinated Notes due 2024

In November 2014, we issued \$300.0 million in aggregate principal amount of 5.375% Senior Subordinated Notes due 2024 (the “5.375% Notes”). Interest on the 5.375% Notes is payable semi-annually on June 1 and December 1 of each year. The 5.375% Notes mature on December 1, 2024, unless earlier redeemed or purchased by us. The 5.375% Notes are our unsecured senior subordinated obligations and are guaranteed on an unsecured senior subordinated basis by our existing 100% owned U.S. subsidiaries. The 5.375% Notes also contain customary negative covenants and events of default.

Prior to December 1, 2019, we may redeem the 5.375% Notes at a redemption price equal to 100% of the principal amount of the 5.375% Notes, plus an applicable make whole premium, and any accrued and unpaid interest. On or after December 1, 2019, we may redeem the 5.375% Notes for cash at the redemption prices noted in the indenture, plus any accrued and unpaid interest. We may also redeem up to 40% of the 5.375% Notes using the proceeds of specified equity offerings at any time prior to December 1, 2017 at a price specified in the indenture. If we experience certain “change of control” events specified in the indenture, holders of the 5.375% Notes will have the option to require us to purchase for cash all or a portion of their notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest. In addition, if we make certain asset sales and do not reinvest the proceeds thereof or use such proceeds to repay certain debt, we will be required to use the proceeds of such asset sales to make an offer to purchase the notes at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest.

5.75% Senior Subordinated Notes due 2022

In August 2012, we issued \$550.0 million in aggregate principal amount of 5.75% Senior Subordinated Notes due 2022 (the “5.75% Notes”). Interest on the 5.75% Notes is payable semi-annually on April 1 and October 1 of each year. The 5.75% Notes mature on October 1, 2022, unless earlier redeemed or purchased by us. The 5.75% Notes are our unsecured senior subordinated obligations and are guaranteed on an unsecured senior subordinated basis by our existing 100% owned U.S. subsidiaries. The 5.75% Notes also contain customary negative covenants and events of default.

Prior to October 1, 2017, we may redeem the 5.75% Notes at a redemption price equal to 100% of the principal amount of the 5.75% Notes, plus an applicable make whole premium, and any accrued and unpaid interest. On or after October 1, 2017, we may redeem the 5.75% Notes for cash at the redemption prices noted in the indenture, plus any accrued and unpaid interest. If we experience certain “change of control” events specified in the indenture, holders of the

5.75% Notes will have the option to require us to purchase for cash all or a portion of their notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest. In addition, if we make certain asset sales and do not reinvest the proceeds thereof or use such proceeds to repay certain debt, we will be required to use the proceeds of such asset sales to make an offer to purchase the notes at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest.

#### Australia Working Capital Loan Agreement

In March 2016, our commercial vehicle distribution business expanded its working capital loan agreement with Mercedes-Benz Financial Services Australia Pty Ltd principally to increase the borrowing capacity from AU \$28.0 million to AU \$44.3 million and to provide working capital availability for use by both Penske Commercial Vehicles Australia and Penske Power Systems. This agreement provides the lender with a secured interest in all assets of our commercial vehicle distribution business. The loan bears interest at the Australian BBSW 30-day Bill Rate plus 2.35%. As of June 30, 2016, we had AU \$37.7 million (\$28.1 million) outstanding under the working capital loan agreement. In July 2016, we expanded the capacity of this agreement by AU \$6.2 million and now have AU \$50.5 million of borrowing capacity under the working capital loan agreement.



## Table of Contents

### Mortgage Facilities

We are party to several mortgages that bear interest at defined rates and require monthly principal and interest payments. These mortgage facilities also contain typical events of default, including non-payment of obligations, cross-defaults to our other material indebtedness, certain change of control events, and the loss or sale of certain franchises operated at the properties. Substantially all of the buildings and improvements on the properties financed pursuant to the mortgage facilities are subject to security interests granted to the lender. As of June 30, 2016, we owed \$204.4 million of principal under our mortgage facilities.

### 8. Derivatives and Hedging

Penske Commercial Vehicles Australia and Penske Power Systems sell vehicles, engines, parts and other products purchased from manufacturers in the U.S., Germany, and the U.K. In order to protect against exchange rate movements, Penske Commercial Vehicles Australia and Penske Power Systems enter into foreign exchange forward contracts against anticipated cash flows. The contracts are timed to mature when major shipments are scheduled to arrive in Australia and when receipt of payment from customers is expected. We classify our foreign exchange forward contracts as cash flow hedges and state them at fair value. We used Level 2 inputs to estimate the fair value of the foreign exchange forward contracts. The fair value of the contracts designated as hedging instruments was estimated to be a liability of \$0.5 million and \$1.1 million as of June 30, 2016 and December 31, 2015, respectively.

### 9. Commitments and Contingent Liabilities

We are involved in litigation which may relate to claims brought by governmental authorities, issues with customers, and employment related matters, including class action claims and purported class action claims. As of June 30, 2016, we were not party to any legal proceedings, including class action lawsuits that, individually or in the aggregate, are reasonably expected to have a material adverse effect on our results of operations, financial condition or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on our results of operations, financial condition or cash flows.

We have historically structured our operations so as to minimize ownership of real property. As a result, we lease or sublease substantially all of our facilities. These leases are generally for a period between 5 and 20 years, and are typically structured to include renewal options at our election. Pursuant to the leases for some of our larger facilities, we are required to comply with specified financial ratios, including a “rent coverage” ratio and a debt to EBITDA ratio, each as defined. For these leases, non-compliance with the ratios may require us to post collateral in the form of a letter of credit. A breach of the other lease covenants gives rise to certain remedies by the landlord, the most severe of which include the termination of the applicable lease and acceleration of the total rent payments due under the lease.

We have sold a number of dealerships to third parties and, as a condition to certain of those sales, remain liable for the lease payments relating to the properties on which those businesses operate in the event of non-payment by the buyer. We are also party to lease agreements on properties that we no longer use in our retail operations that we have sublet to third parties. We rely on subtenants to pay the rent and maintain the property at these locations. In the event the subtenant does not perform as expected, we may not be able to recover amounts owed to us and we could be required to fulfill these obligations.

After our acquisition of additional interests in PTL subsequent to June 30, 2016, as previously discussed, we hold a 23.4% ownership interest in PTL. Historically, affiliates of GE Capital (“GEC”) provided PTL with a majority of its financing, though PTL has refinanced all of its GEC indebtedness. As part of that refinancing, we and the other PTL partners created a new company (“Holdings”), which, together with GEC, co-issued \$700.0 million of 3.8% senior unsecured notes due 2019 (the “Holdings Bonds”). GEC agreed to be a co-obligor of the Holdings Bonds in order to achieve lower interest rates on the Holdings Bonds. As part of Mitsui’s purchase of its 20.0% ownership interest in PTL in March 2015, the ownership interest of GEC in Holdings was redeemed, Holdings was relieved of its obligations under the indenture for the Holdings Bonds, and Holdings became obligated to pay to GEC 50.1% of all interest and principal due under, and 100% of the expenses related to, the Holdings Bonds to the extent Holdings has cash in excess of a certain level of permitted working capital, subject to certain limitations. Additional capital contributions from the

Table of Contents

members may be required to the extent Holdings is unable to pay those amounts. We have agreed to indemnify GEC for 9.0% of any principal or interest that GEC is required to pay on these bonds and pay GEC an annual fee of approximately \$0.95 million for acting as obligor. The maximum amount of our contingent obligations to GEC under this agreement is 9.0% of the required principal repayment due in 2019 (which is expected to be \$63.1 million) and 9.0% of interest payments under the Holdings Bonds, plus fees and default interest, if any.

Our floor plan credit agreement with Mercedes Benz Financial Services Australia (“MBA”) provides us revolving loans for the acquisition of commercial vehicles for distribution to our retail network. This facility includes a limited parent guarantee and a commitment to repurchase dealer vehicles in the event the dealer’s floor plan agreement with MBA is terminated.

We have \$32.8 million of letters of credit outstanding as of June 30, 2016, and have posted \$12.7 million of surety bonds in the ordinary course of business.

10. Equity

During the six months ended June 30, 2016, we repurchased or acquired 4,657,042 shares of our common stock. In the first quarter of 2016, we repurchased 4,512,325 shares of our outstanding common stock for \$167.9 million, or an average of \$37.21 per share, under our securities repurchase program approved by our Board of Directors. As of June 30, 2016, our remaining authorization under the program was \$32.1 million. During the second quarter of 2016, we acquired 144,717 shares of our common stock for \$5.7 million, or an average of \$39.47 per share, from employees in connection with a net share settlement feature of employee equity awards.

11. Accumulated Other Comprehensive Income/(Loss)

Changes in accumulated other comprehensive income/(loss) by component and the reclassifications out of accumulated other comprehensive income/(loss) during the three and six months ended June 30, 2016 and 2015, respectively, attributable to Penske Automotive Group common stockholders follows:

Three Months Ended June 30, 2016

	Foreign Currency Translation	Other	Total
--	------------------------------------	-------	-------

Edgar Filing: PENSKE AUTOMOTIVE GROUP, INC. - Form 10-Q

Balance at March 31, 2016	\$ (114.6)	\$ (8.1)	\$ (122.7)
Other comprehensive income (loss) before reclassifications	(55.5)	0.6	(54.9)
Amounts reclassified from accumulated other comprehensive income — net of tax	—	—	—
Net current period other comprehensive income (loss)	(55.5)	0.6	(54.9)
Balance at June 30, 2016	\$ (170.1)	\$ (7.5)	\$ (177.6)

Three Months Ended June 30, 2015

	Foreign Currency Translation	Other	Total
Balance at March 31, 2015	\$ (103.9)	\$ (3.9)	\$ (107.8)
Other comprehensive income (loss) before reclassifications	38.0	0.5	38.5
Amounts reclassified from accumulated other comprehensive income — net of tax	—	—	—
Net current period other comprehensive income (loss)	38.0	0.5	38.5
Balance at June 30, 2015	\$ (65.9)	\$ (3.4)	\$ (69.3)

Table of Contents

## Six Months Ended June 30, 2016

	Foreign Currency Translation	Other	Total
Balance at December 31, 2015	\$ (113.5)	\$ (9.0)	\$ (122.5)
Other comprehensive income (loss) before reclassifications	(56.6)	1.5	(55.1)
Amounts reclassified from accumulated other comprehensive income — net of tax	—	—	—
Net current period other comprehensive income (loss)	(56.6)	1.5	(55.1)
Balance at June 30, 2016	\$ (170.1)	\$ (7.5)	\$ (177.6)

## Six Months Ended June 30, 2015

	Foreign Currency Translation	Other	Total
Balance at December 31, 2014	\$ (51.7)	\$ (1.6)	\$ (53.3)
Other comprehensive income (loss) before reclassifications	(14.2)	(1.8)	(16.0)
Amounts reclassified from accumulated other comprehensive income — net of tax	—	—	—
Net current period other comprehensive income (loss)	(14.2)	(1.8)	(16.0)
Balance at June 30, 2015	\$ (65.9)	\$ (3.4)	\$ (69.3)

## 12. Segment Information

Our operations are organized by management into operating segments by line of business and geography. We have determined that we have three reportable segments as defined in generally accepted accounting principles for segment reporting: (i) Retail Automotive, consisting of retail automotive dealership operations, (ii) Retail Commercial Truck, consisting of our retail commercial truck dealership operations in the U.S. and Canada, and (iii) Other, consisting of our commercial vehicle and power systems distribution operations and our other investments in non-automotive operations. The Retail Automotive reportable segment includes all automotive dealerships and all departments relevant to the operation of the dealerships and our retail automotive joint ventures. The individual dealership operations included in the Retail Automotive reportable segment have been grouped into four geographic operating segments: Eastern, Central, and Western United States and International. The geographic operating segments have been aggregated into one reportable segment as their operations (A) have similar economic characteristics (all are automotive dealerships having similar margins), (B) offer similar products and services (all sell new and used vehicles, service, parts and third-party finance and insurance products), (C) have similar target markets and customers (generally individuals) and (D) have similar distribution and marketing practices (all distribute products and services through dealership facilities that market to customers in similar fashions). Revenue and segment income for the three

and six months ended June 30, 2016 and 2015 follows:

Three Months Ended June 30

	Retail Automotive	Retail Commercial Truck	Other	Intersegment Elimination	Total
Revenues					
2016	\$ 4,836.8	\$ 309.5	\$ 108.5	\$ (0.7)	\$ 5,254.1
2015	4,554.9	241.9	124.1	(0.3)	4,920.6
Segment income					
2016	\$ 123.1	\$ 7.6	\$ 12.8	\$ —	\$ 143.5
2015	120.3	10.4	12.8	—	143.5

Table of Contents

Six Months Ended June 30

	Retail Automotive	Retail Commercial Truck	Other	Intersegment Elimination	Total
Revenues					
2016	\$ 9,349.7	\$ 516.2	\$ 214.5	\$ (1.7)	\$ 10,078.7
2015	8,741.7	434.6	227.8	(0.6)	9,403.5
Segment income					
2016	\$ 233.5	\$ 13.4	\$ 16.2	\$ —	\$ 263.1
2015	223.1	17.8	18.2	—	259.1

## 13. Condensed Consolidating Financial Information

The following tables include condensed consolidating financial information as of June 30, 2016 and December 31, 2015 and for the three and six month periods ended June 30, 2016 and 2015 for Penske Automotive Group, Inc. (as the issuer of the 5.75% Notes, the 5.375% Notes, and the 5.50% Notes), guarantor subsidiaries and non-guarantor subsidiaries (primarily representing non-U.S. entities). Guarantor subsidiaries are directly or indirectly 100% owned by PAG, and the guarantees are full and unconditional, and joint and several. The guarantees may be released under certain circumstances upon resale, or transfer by us of the stock of the related guarantor or all or substantially all of the assets of the guarantor to a non-affiliate.

## CONDENSED CONSOLIDATING BALANCE SHEET

June 30, 2016

	Total Company (In millions)	Eliminations	Penske Automotive Group	Guarantor Subsidiaries	Non Guarantor Subsidiaries
Cash and cash equivalents	\$ 97.5	\$ —	\$ —	\$ 11.2	\$ 86.3
Accounts receivable, net	827.8	(439.7)	439.7	414.8	413.0
Inventories	3,351.8	—	—	1,911.5	1,440.3
Other current assets	101.7	—	3.2	33.5	65.0

Edgar Filing: PENSKE AUTOMOTIVE GROUP, INC. - Form 10-Q

Assets held for sale	6.8	—	—	6.8	—
Total current assets	4,385.6	(439.7)	442.9	2,377.8	2,004.6
Property and equipment, net	1,576.7	—	3.6	950.9	622.2
Intangible assets	1,722.2	—	—	1,099.9	622.3
Equity method investments	371.1	—	309.6	—	61.5
Other long-term assets	19.6	(2,316.0)	2,322.1	7.6	5.9
Total assets	\$ 8,075.2	\$ (2,755.7)	\$ 3,078.2	\$ 4,436.2	\$ 3,316.5
Floor plan notes payable	\$ 2,061.8	\$ —	\$ —	\$ 1,213.7	\$ 848.1
Floor plan notes payable—non-trade	969.4	—	5.0	549.1	415.3
Accounts payable	554.8	—	2.6	176.2	376.0
Accrued expenses	403.3	(439.7)	0.9	171.1	671.0
Current portion of long-term debt	47.7	—	—	11.2	36.5
Liabilities held for sale	4.6	—	—	4.4	0.2
Total current liabilities	4,041.6	(439.7)	8.5	2,125.7	2,347.1
Long-term debt	1,613.1	(160.7)	1,336.8	196.1	240.9
Deferred tax liabilities	449.4	—	—	433.7	15.7
Other long-term liabilities	238.2	—	—	64.5	173.7
Total liabilities	6,342.3	(600.4)	1,345.3	2,820.0	2,777.4
Total equity	1,732.9	(2,155.3)	1,732.9	1,616.2	539.1
Total liabilities and equity	\$ 8,075.2	\$ (2,755.7)	\$ 3,078.2	\$ 4,436.2	\$ 3,316.5



Table of Contents

## CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2015

	Total Company (In millions)	Eliminations	Penske Automotive Group	Guarantor Subsidiaries	Non Guarantor Subsidiaries
Cash and cash equivalents	\$ 62.4	\$ —	\$ —	\$ —	\$ 62.4
Accounts receivable, net	782.3	(430.4)	430.4	400.8	381.5
Inventories	3,463.5	—	—	1,650.5	1,813.0
Other current assets	85.6	—	3.9	28.3	53.4
Assets held for sale	12.7	—	—	8.5	4.2
Total current assets	4,406.5	(430.4)	434.3	2,088.1	2,314.5
Property and equipment, net	1,520.1	—	4.0	822.0	694.1
Intangible assets	1,731.2	—	—	878.9	852.3
Equity method investments	336.4	—	298.2	—	38.2
Other long-term assets	19.2	(2,253.4)	2,259.9	7.2	5.5
Total assets	\$ 8,013.4	\$ (2,683.8)	\$ 2,996.4	\$ 3,796.2	\$ 3,904.6
Floor plan notes payable	\$ 2,247.2	\$ —	\$ —	\$ 1,295.0	\$ 952.2
Floor plan notes payable—non-trade	1,132.4	—	154.7	339.8	637.9
Accounts payable	493.8	—	4.8	143.3	345.7
Accrued expenses	378.1	(430.4)	0.1	112.3	696.1
Current portion of long-term debt	28.0	—	—	5.7	22.3
Liabilities held for sale	6.2	—	—	4.4	1.8
Total current liabilities	4,285.7	(430.4)	159.6	1,900.5	2,656.0
Long-term debt	1,247.0	(256.4)	1,001.9	109.2	392.3
Deferred tax liabilities	433.4	—	—	413.4	20.0
Other long-term liabilities	212.4	—	—	68.9	143.5
Total liabilities	6,178.5	(686.8)	1,161.5	2,492.0	3,211.8
Total equity	1,834.9	(1,997.0)	1,834.9	1,304.2	692.8
Total liabilities and equity	\$ 8,013.4	\$ (2,683.8)	\$ 2,996.4	\$ 3,796.2	\$ 3,904.6

Table of Contents

## CONDENSED CONSOLIDATING STATEMENT OF INCOME

Three Months Ended June 30, 2016

	Total Company (In millions)	Eliminations	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	\$ 5,254.1	\$ —	\$ —	\$ 2,868.6	\$ 2,385.5
Cost of sales	4,482.8	—	—	2,429.3	2,053.5
Gross profit	771.3	—	—	439.3	332.0
Selling, general and administrative expenses	582.7	—	5.2	326.3	251.2
Depreciation	24.5	—	0.4	11.7	12.4
Operating income	164.1	—	(5.6)	101.3	68.4
Floor plan interest expense	(13.1)	—	(0.5)	(7.7)	(4.9)
Other interest expense	(19.5)	—	(12.3)	(1.9)	(5.3)
Equity in earnings of affiliates	12.0	—	10.5	—	1.5
Equity in earnings of subsidiaries	—	(149.9)	149.9	—	—
Income from continuing operations before income taxes	143.5	(149.9)	142.0	91.7	59.7
Income taxes	(47.3)	49.9	(47.3)	(36.7)	(13.2)
Income from continuing operations	96.2	(100.0)	94.7	55.0	46.5
(Loss) income from discontinued operations, net of tax	(1.2)	1.2	(1.2)	(1.2)	—
Net income	95.0	(98.8)	93.5	53.8	46.5
Other comprehensive income (loss), net of tax	(55.5)	55.7	(55.5)	—	(55.7)
Comprehensive income	39.5	(43.1)	38.0	53.8	(9.2)
Less: Comprehensive income attributable to non-controlling interests	0.8	0.7	(0.7)	0.1	0.7
Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 38.7	\$ (43.8)	\$ 38.7	\$ 53.7	\$ (9.9)

Table of Contents

## CONDENSED CONSOLIDATING STATEMENT OF INCOME

Three Months Ended June 30, 2015

	Total Company (In millions)	Eliminations	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	\$ 4,920.6	\$ —	\$ —	\$ 2,609.0	\$ 2,311.6
Cost of sales	4,189.3	—	—	2,203.6	1,985.7
Gross profit	731.3	—	—	405.4	325.9
Selling, general and administrative expenses	553.1	—	5.6	300.1	247.4
Depreciation	19.3	—	0.4	10.4	8.5
Operating income	158.9	—	(6.0)	94.9	70.0
Floor plan interest expense	(11.0)	—	(0.7)	(5.6)	(4.7)
Other interest expense	(16.4)	—	(10.2)	(1.4)	(4.8)
Equity in earnings of affiliates	12.0	—	10.5	—	1.5
Equity in earnings of subsidiaries	—	(148.4)	148.4	—	—
Income from continuing operations before income taxes	143.5	(148.4)	142.0	87.9	62.0
Income taxes	(47.7)	49.7	(47.7)	(34.1)	(15.6)
Income from continuing operations	95.8	(98.7)	94.3	53.8	46.4
(Loss) income from discontinued operations, net of tax	(0.1)	0.4	(0.4)	(0.1)	—
Net income	95.7	(98.3)	93.9	53.7	46.4
Other comprehensive income (loss), net of tax	38.3	(37.5)	38.3	—	37.5
Comprehensive income	134.0	(135.8)	132.2	53.7	83.9
Less: Comprehensive income attributable to non-controlling interests	1.5	0.2	(0.2)	—	1.5
Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 132.5	\$ (136.0)	\$ 132.4	\$ 53.7	\$ 82.4

Table of Contents

## CONDENSED CONSOLIDATING STATEMENT OF INCOME

Six Months Ended June 30, 2016

	Total Company (In millions)	Eliminations	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	\$ 10,078.7	\$ —	\$ —	\$ 5,257.8	\$ 4,820.9
Cost of sales	8,583.6	—	—	4,435.5	4,148.1
Gross profit	1,495.1	—	—	822.3	672.8
Selling, general and administrative expenses	1,141.6	—	11.3	622.1	508.2
Depreciation	45.3	—	0.8	22.5	22.0
Operating income	308.2	—	(12.1)	177.7	142.6
Floor plan interest expense	(25.9)	—	(1.3)	(14.4)	(10.2)
Other interest expense	(36.7)	—	(25.6)	(0.6)	(10.5)
Equity in earnings of affiliates	17.5	—	14.7	—	2.8
Equity in earnings of subsidiaries	—	(285.0)	285.0	—	—
Income from continuing operations before income taxes	263.1	(285.0)	260.7	162.7	124.7
Income taxes	(86.7)	94.7	(86.7)	(65.9)	(28.8)
Income from continuing operations	176.4	(190.3)	174.0	96.8	95.9
(Loss) income from discontinued operations, net of tax	(1.2)	1.3	(1.3)	(1.1)	(0.1)
Net income	175.2	(189.0)	172.7	95.7	95.8
Other comprehensive income (loss), net of tax	(54.3)	56.0	(54.3)	—	(56.0)
Comprehensive income	120.9	(133.0)	118.4	95.7	39.8
Less: Comprehensive income attributable to non-controlling interests	3.2	(0.8)	0.8	0.1	3.1
Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 117.7	\$ (132.2)	\$ 117.6	\$ 95.6	\$ 36.7

Table of Contents

## CONDENSED CONSOLIDATING STATEMENT OF INCOME

Six Months Ended June 30, 2015

	Total Company (In millions)	Eliminations	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	\$ 9,403.5	\$ —	\$ —	\$ 4,957.3	\$ 4,446.2
Cost of sales	7,982.3	—	—	4,175.2	3,807.1
Gross profit	1,421.2	—	—	782.1	639.1
Selling, general and administrative expenses	1,088.9	—	12.3	593.3	483.3
Depreciation	37.9	—	0.8	20.6	16.5
Operating income	294.4	—	(13.1)	168.2	139.3
Floor plan interest expense	(21.3)	—	(1.4)	(10.8)	(9.1)
Other interest expense	(32.7)	—	(20.0)	(2.7)	(10.0)
Equity in earnings of affiliates	18.7	—	16.3	—	2.4
Equity in earnings of subsidiaries	—	(275.4)	275.4	—	—
Income from continuing operations before income taxes	259.1	(275.4)	257.2	154.7	122.6
Income taxes	(86.5)	92.5	(86.5)	(62.4)	(30.1)
Income from continuing operations	172.6	(182.9)	170.7	92.3	92.5
(Loss) income from discontinued operations, net of tax	(1.0)	1.6	(1.6)	(1.2)	0.2
Net income	171.6	(181.3)	169.1	91.1	92.7
Other comprehensive income (loss), net of tax	(16.8)	14.8	(16.8)	—	(14.8)
Comprehensive income	154.8	(166.5)	152.3	91.1	77.9
Less: Comprehensive income attributable to non-controlling interests	1.6	0.8	(0.8)	—	1.6
Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 153.2	\$ (167.3)	\$ 153.1	\$ 91.1	\$ 76.3

Table of Contents

## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Six Months Ended June 30, 2016

	Total Company (In millions)	Penske Automotive Group	Guarantor Subsidiaries	Non Guarantor Subsidiaries
Net cash provided by (used in) continuing operating activities	\$ 264.5	\$ (90.1)	\$ 109.5	\$ 245.1
Investing activities:				
Purchase of equipment and improvements	(136.7)	(0.4)	(149.9)	13.6
Acquisitions, net	(65.4)	—	(65.1)	(0.3)
Other	(25.0)	—	0.4	(25.4)
Net cash used in continuing investing activities	(227.1)	(0.4)	(214.6)	(12.1)
Financing activities:				
Net (repayments) borrowings of long-term debt	(99.1)	(160.0)	36.9	24.0
Net (repayments) borrowings of floor plan notes payable—non-trade	(163.0)	(149.7)	209.3	(222.6)
Issuance of 5.50% senior subordinated notes	500.0	500.0	—	—
Payment of debt issuance costs	(6.6)	(6.6)	—	—
Repurchases of common stock	(173.6)	(173.6)	—	—
Dividends	(46.4)	(46.4)	—	—
Other	(9.8)	—	(5.2)	(4.6)
Distributions from (to) parent	—	126.8	(125.0)	(1.8)
Net cash provided by (used in) continuing financing activities	1.5	90.5	116.0	(205.0)
Net cash provided by discontinued operations	2.9	—	0.3	2.6
Effect of exchange rate changes on cash and cash equivalents	(6.7)	—	—	(6.7)
Net change in cash and cash equivalents	35.1	—	11.2	23.9
Cash and cash equivalents, beginning of period	62.4	—	—	62.4
Cash and cash equivalents, end of period	\$ 97.5	\$ —	\$ 11.2	\$ 86.3

Table of Contents

## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Six Months Ended June 30, 2015

	Total Company (In millions)	Penske Automotive Group	Guarantor Subsidiaries	Non Guarantor Subsidiaries
Net cash provided by continuing operating activities	\$ 270.6	\$ 9.4	\$ 73.8	\$ 187.4
Investing activities:				
Purchase of equipment and improvements	(83.5)	(0.7)	(40.0)	(42.8)
Acquisitions, net	(86.4)	—	(21.7)	(64.7)
Net cash used in continuing investing activities	(169.9)	(0.7)	(61.7)	(107.5)
Financing activities:				
Net repayments of long-term debt	(194.2)	(10.0)	(5.1)	(179.1)
Net borrowings (repayments) of floor plan notes payable—non-trade	120.3	64.0	(54.7)	111.0
Payment of debt issuance costs	(1.7)	—	—	(1.7)
Repurchases of common stock	(22.0)	(22.0)	—	—
Dividends	(40.7)	(40.7)	—	—
Other	0.2	—	—	0.2
Distributions from (to) parent	—	—	7.4	(7.4)
Net cash used in continuing financing activities	(138.1)	(8.7)	(52.4)	(77.0)
Net cash provided by discontinued operations	40.9	—	40.3	0.6
Effect of exchange rate changes on cash and cash equivalents	(0.4)	—	—	(0.4)
Net change in cash and cash equivalents	3.1	—	—	3.1
Cash and cash equivalents, beginning of period	36.3	—	—	36.3
Cash and cash equivalents, end of period	\$ 39.4	\$ —	\$ —	\$ 39.4

Table of Contents

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those discussed in "Forward-Looking Statements." We have acquired and initiated a number of businesses during the periods presented and addressed in this Management's Discussion and Analysis of Financial Condition and Results of Operations. Our financial statements include the results of operations of those businesses from the date acquired or when they commenced operations. This Management's Discussion and Analysis of Financial Condition and Results of Operations has been updated to reflect the revision of our financial statements for entities which have been treated as discontinued operations.

Overview

We are an international transportation services company that operates automotive and commercial truck dealerships principally in the United States, Canada and Western Europe, and distributes commercial vehicles, diesel engines, gas engines, power systems and related parts and services principally in Australia and New Zealand. We employ more than 23,000 people worldwide.

During the six months ended June 30, 2016, our business generated \$10.1 billion in total revenue, which is comprised of \$9.3 billion from retail automotive dealerships, \$516.2 million from retail commercial truck dealerships and \$212.8 million from commercial vehicle distribution and other operations.

**Retail Automotive Dealership.** We believe we are the second largest automotive retailer headquartered in the U.S. as measured by the \$17.9 billion in total retail automotive dealership revenue we generated in 2015. As of June 30, 2016, we operated 352 automotive retail franchises, of which 180 franchises are located in the U.S. and 172 franchises are located outside of the U.S. The franchises outside the U.S. are located primarily in the U.K. In the six months ended June 30, 2016, we retailed and wholesaled more than 273,000 vehicles. We are diversified geographically, with 58% of our total retail automotive dealership revenues in the six months ended June 30, 2016 generated in the U.S. and Puerto Rico and 42% generated outside the U.S. We offer over 40 vehicle brands, with 72% of our retail automotive dealership revenue in the six months ended June 30, 2016 generated from premium brands, such as Audi, BMW, Mercedes-Benz and Porsche. Each of our dealerships offer a wide selection of new and used vehicles for sale. In addition to selling new and used vehicles, we generate higher-margin revenue at each of our dealerships through maintenance and repair services and the sale and placement of third-party finance and insurance products, third-party extended service and maintenance contracts and replacement and aftermarket automotive products. In March 2016, we acquired an additional 8% interest in one of our German automotive dealership joint ventures and now own 68% of that joint venture. We began consolidating this joint venture during the third quarter of 2015. Subsequent to June 30, 2016, we acquired a dealer group in the U.K. with twelve franchises, including seven Volkswagen, one BMW, one MINI, and one Audi.



Retail automotive dealerships represented 92.8% of our total revenues and 91.4% of our total gross profit in the six months ended June 30, 2016.

**Retail Commercial Truck Dealership.** In November 2014, we acquired a controlling interest in a heavy and medium duty truck dealership group located primarily in Texas and Oklahoma, which we renamed Premier Truck Group (“PTG”). Prior to the 2014 transaction, we held a 32% interest in PTG and accounted for this investment under the equity method. During 2015, we acquired an additional 5% of PTG, bringing our ownership interest to 96%. In April 2016, we acquired the remaining ownership interests of PTG, bringing our total ownership interest to 100%.

As of June 30, 2016, PTG operated nineteen locations, including fourteen full-service dealerships offering primarily Freightliner and Western Star branded trucks. Two of these locations, Chattanooga and Knoxville, were acquired in February 2015. Five of these locations were acquired in April 2016 and represent Freightliner and Western Star in the greater Toronto, Canada market area and service Highway 401, a major truck thoroughfare between Buffalo, New York and Detroit, Michigan. PTG also offers a full range of used trucks available for sale as well as service and parts departments, many of which are open 24 hours a day, seven days a week.

## Table of Contents

This business represented 5.1% of our total revenues and 4.8% of our total gross profit in the six months ended June 30, 2016.

**Commercial Vehicle Distribution.** We are the exclusive importer and distributor of Western Star heavy-duty trucks (a Daimler brand), MAN heavy and medium duty trucks and buses (a VW Group brand), and Dennis Eagle refuse collection vehicles, together with associated parts, across Australia, New Zealand and portions of the Pacific. This business, known as Penske Commercial Vehicles Australia, distributes commercial vehicles and parts to a network of more than 70 dealership locations, including three company-owned retail commercial vehicle dealerships.

We are also a leading distributor of diesel and gas engines and power systems, principally representing MTU, Detroit Diesel, Mercedes-Benz Industrial, Allison Transmission and MTU Onsite Energy. This business, known as Penske Power Systems, offers products across the on- and off-highway markets in Australia, New Zealand and portions of the Pacific and supports full parts and aftersales service through a network of branches, field locations and dealers across the region. The on-highway portion of this business complements our existing Penske Commercial Vehicles Australia distribution business.

These businesses represented 2.0% of our total revenues and 3.7% of our total gross profit in the six months ended June 30, 2016.

**Penske Truck Leasing.** As of June 30, 2016, we held a 9.0% ownership interest in Penske Truck Leasing Co., L.P. (“PTL”), a leading provider of transportation and supply chain services. PTL operates and maintains more than 238,000 vehicles and serves customers in North America, South America, Europe, Australia and Asia and is one of the largest purchasers of commercial trucks in North America. Product lines include full-service truck leasing, contract maintenance, commercial and consumer truck rentals, used truck sales, transportation and warehousing management and supply chain management solutions. On July 27, 2016, we acquired an additional 14.4% ownership interest in PTL from GE Capital for approximately \$498.7 million in cash, subject to adjustment based on the earnings of PTL through July 27, 2016. As of July 27, 2016, PTL is owned 41.1% by Penske Corporation, 23.4% by us, 20.0% by Mitsui, and 15.5% by GE Capital. We account for our investment in PTL under the equity method, and we therefore record our share of PTL’s earnings on our statements of income under the caption “Equity in earnings of affiliates,” which also includes the results of our other equity method investments.

## Outlook

**Retail Automotive Dealership.** The level of new vehicle unit sales in our markets affects our results. For the six months ended June 30, 2016, the U.S. light vehicle retail market grew 1.4%, as compared to the same period last year, to 8.6 million units, with passenger car sales declining 8.2% while sales of trucks and sport utility vehicles increased 9.3%. We believe the current market for new light vehicle sales in the U.S. will remain near current levels for the

foreseeable future, as low levels of unemployment, low interest rates, strong credit availability, the age of vehicles on the road, shortened product development timelines and vehicle innovation, strong consumer leasing, and lower consumer fuel costs, are expected to continue to positively impact vehicle sales, although actual sales may differ materially.

For the six months ended June 30, 2016, U.K. new vehicle registrations increased 3.2%, as compared to the same period last year, to 1.4 million registrations. New vehicle registrations in the U.K. are at record levels. While we believe the overall market in the U.K. is being positively impacted by generally strong economic conditions, including low levels of unemployment, access to credit and attractive financing offers, the recent referendum whereby a majority voted to exit the European Union (“Brexit”) may impact the future economic environment and new vehicle registrations. Since no country has previously left the European Union, the outcome of any future negotiations between the U.K. and the European Union is uncertain and may impact the terms of trade and the level of new vehicle registrations in those markets. See Part II, Item 1A, Risk Factors.

Retail Commercial Truck Dealership. For the six months ended June 30, 2016, North American sales of Class 5-8 medium and heavy-duty trucks, the principal vehicles for our PTG business, were approximately 251,400 units, a decrease of 2.7% from the same period in 2015. The Class 5-7 medium-duty truck market increased 12.8% to 119,300 units from 105,700 units in the same period in 2015. The largest North American market, Class 8 heavy-duty trucks,

## Table of Contents

decreased 13.6% to 132,100 units from 152,900 units in the same period in 2015 and is being impacted by excess fleet capacity and sluggish freight growth. As a result, the sale of new Class 8 heavy-duty truck sales are anticipated to decline in 2016 and 2017. Additionally, softer used truck demand and pricing is being driven by a larger supply of late model used trucks, as defleeting from the excess fleet capacity impacts volume and prices; however, the service and parts business of our PTG commercial truck dealerships is expected to remain strong, as end users retain existing equipment longer than previously anticipated.

**Commercial Vehicle Distribution.** Our Penske Commercial Vehicle distribution business and the on-highway portion of our Penske Power Systems business each operate principally in the Australian and New Zealand heavy and medium duty truck markets. For the six months ended June 30, 2016, the Australian heavy-duty truck market reported sales of 4,150 units, representing a decrease of 2.8% from the same period in 2015. For the six months ended June 30, 2016, the New Zealand market reported sales of 1,300 units, representing a decrease of 12.9% from the same period in 2015. The brands we represent in Australia hold a 6.4% market share in the Australian heavy-duty truck market, and a 5.0% market share in New Zealand. We expect the Australian commercial vehicle market to lag behind historical sales levels partly due to difficult macro-economic conditions and the relative weak price of commodities in these markets. We expect the parts distribution portion of this business will continue to be resilient due to the delayed vehicle replacement cycle resulting from the difficult macro-economic conditions. We also expect continued new order growth from the off-highway engine distribution business.

**Penske Truck Leasing.** We expect PTL to benefit from continued strong demand for its full-service truck leasing, contract maintenance, and logistics services resulting from continued positive economic conditions in the United States and customers' desire to increase efficiency and lower costs by outsourcing non-core responsibilities such as fleet ownership. As a global logistics services provider, we also expect PTL to experience increased demand for its logistics supply chain solutions based primarily on optimizing the use of drivers, trucks, warehouses, and other services within the supply chain. While demand for Class 6 and 7 medium-duty trucks remains strong, the Class 8 heavy-duty truck market declined during the first six months of 2016, as compared to the same period last year. We believe PTL's fleet management process allows PTL to adapt quickly to any changes in demand for its vehicles, and PTL has been reducing its rental heavy-duty tractor fleet by selling older vehicles and converting newer vehicles into short-term leases.

As described in "Forward-Looking Statements" and Part II, Item 1A, Risk Factors, there are a number of factors that could cause actual results to differ materially from our expectations.

## Operating Overview

Automotive and commercial truck dealerships represent the majority of our results of operations. New and used vehicle revenues include sales to retail customers and to leasing companies providing consumer leasing. We generate finance and insurance revenues from sales of third-party extended service contracts, sales of third-party insurance policies, commissions relating to the sale of finance and lease contracts to third parties and the sales of certain other

products. Service and parts revenues include fees paid by customers for repair, maintenance and collision services, and the sale of replacement parts and other aftermarket accessories as well as warranty repairs that are reimbursed directly by various OEMs.

Our gross profit tends to vary with the mix of revenues we derive from the sale of new vehicles, used vehicles, finance and insurance products, and service and parts transactions. Our gross profit varies across product lines, with vehicle sales usually resulting in lower gross profit margins and our other revenues resulting in higher gross profit margins. Factors such as inventory and vehicle availability, customer demand, consumer confidence, unemployment, general economic conditions, seasonality, weather, credit availability, fuel prices, and manufacturers' advertising and incentives also impact the mix of our revenues, and therefore influence our gross profit margin.

Aggregate revenue and gross profit increased \$333.5 million and \$40.0 million, or 6.8% and 5.5%, respectively, during the three months ended June 30, 2016 and increased \$675.2 million and \$73.9 million, or 7.2% and 5.2%, respectively, during the six months ended June 30, 2016, compared to the same periods in 2015. The increases are largely attributable to increases in new and used vehicle, finance and insurance, and service and parts revenue and gross profit from net dealership acquisitions.

Table of Contents

Additionally, as exchange rates fluctuate, our revenue and results of operations as reported in U.S. Dollars fluctuate. For example, if the British Pound were to strengthen against the U.S. Dollar, our U.K. results of operations would translate into more U.S. Dollar reported results. The British Pound weakened against the U.S. Dollar by 6.4% and 6.0% during the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015, which negatively impacted our reported results of operations. The United Kingdom held a referendum on June 23, 2016 in which a majority voted to exit the European Union (“Brexit”). The British Pound has weakened since the Brexit vote, with an average exchange rate of British Pounds to U.S. Dollars of 1.32 after the Brexit vote through July 26, 2016, as compared to the weighted average exchange rate of 1.43 for the six months ended June 30, 2016, a decrease of 7.7%. Since the referendum results were announced in late June, this had little impact on our reported results for the second quarter. See Part II, Item 1A, Risk Factors. Foreign currency average rate reductions versus the prior year decreased revenue and gross profit by \$117.2 million and \$15.9 million, respectively, for the three months ended June 30, 2016, and by \$223.3 million and \$30.8 million, respectively, for the six months ended June 30, 2016. Foreign currency average rate reductions versus the prior year also resulted in us reporting lower earnings per share from continuing operations by approximately \$0.03 and \$0.06 per share for the three and six months ended June 30, 2016, respectively. Excluding the impact of these average foreign currency rate reductions, revenue and gross profit increased 9.2% and 7.6%, respectively, for the three months ended June 30, 2016, and increased 9.6% and 7.4%, respectively, for the six months ended June 30, 2016.

Our selling expenses consist of advertising and compensation for sales personnel, including commissions and related bonuses. General and administrative expenses include compensation for administration, finance, legal and general management personnel, rent, insurance, utilities and other expenses. As the majority of our selling expenses are variable, and we believe a significant portion of our general and administrative expenses are subject to our control, we believe our expenses can be adjusted over time to reflect economic trends.

Floor plan interest expense relates to financing incurred in connection with the acquisition of new and used vehicle inventories that is secured by those vehicles. Other interest expense consists of interest charges on all of our interest-bearing debt, other than interest relating to floor plan financing and includes interest relating to our retail commercial truck dealership and commercial vehicle distribution operations. The cost of our variable rate indebtedness is based on the prime rate, defined London Interbank Offered Rate (“LIBOR”), the Bank of England Base Rate, the Finance House Base Rate, the Euro Interbank Offered Rate, the Canadian Prime Rate, or the Australian or New Zealand Bank Bill Swap Rate (“BBSW”).

Equity in earnings of affiliates represents our share of the earnings from our investments in joint ventures and other non-consolidated investments, including PTL.

During the first quarter of 2015, we divested our car rental business that included Hertz car rental franchises in the Memphis, Tennessee market and certain markets throughout Indiana in light of our perceived inability to grow that business. The results of operations of our car rental business are included in discontinued operations for the six months ended June 30, 2015.

The results of our commercial vehicle distribution business in Australia and New Zealand are principally driven by the number and types of products and vehicles ordered by our customers.

The future success of our business is dependent upon, among other things, general economic and industry conditions, our ability to consummate and integrate acquisitions, the level of vehicle sales in the markets where we operate, our ability to increase sales of higher margin products, especially service and parts services, our ability to realize returns on our significant capital investment in new and upgraded dealership facilities, the success of our distribution of commercial vehicles, engines, and power systems, and the return realized from our investments in various joint ventures and other non-consolidated investments. See “Forward-Looking Statements” and Part II, Item 1A, Risk Factors below.

## Table of Contents

### Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the application of accounting policies that often involve making estimates and employing judgments. Such judgments influence the assets, liabilities, revenues and expenses recognized in our financial statements. Management, on an ongoing basis, reviews these estimates and assumptions. Management may determine that modifications in assumptions and estimates are required, which may result in a material change in our results of operations or financial position.

The following are the accounting policies applied in the preparation of our financial statements that management believes are most dependent upon the use of estimates and assumptions.

### Revenue Recognition

**Dealership Vehicle, Parts and Service Sales.** We record revenue when vehicles are delivered and title has passed to the customer, when vehicle service or repair work is completed, and when parts are delivered to our customers. Sales promotions that we offer to customers are accounted for as a reduction of revenues at the time of sale. Rebates and other incentives offered directly to us by manufacturers are recognized as a reduction of cost of sales. Reimbursements of qualified advertising expenses are treated as a reduction of selling, general and administrative expenses. The amounts received under certain manufacturer rebate and incentive programs are based on the attainment of program objectives, and such earnings are recognized either upon the sale of the vehicle for which the award was received, or upon attainment of the particular program goals if not associated with individual vehicles. Taxes collected from customers and remitted to governmental authorities are recorded on a net basis (excluded from revenue). During the six months ended June 30, 2016 and 2015, we earned \$312.9 million and \$303.2 million, respectively, of rebates, incentives and reimbursements from manufacturers, of which \$305.2 million and \$295.7 million, respectively, were recorded as a reduction of cost of sales. The remaining \$7.7 million and \$7.5 million were recorded as a reduction of selling, general and administrative expenses.

**Dealership Finance and Insurance Sales.** Subsequent to the sale of a vehicle to a customer, we sell installment sale contracts to various financial institutions on a non-recourse basis (with specified exceptions) to mitigate the risk of default. We receive a commission from the lender equal to either the difference between the interest rate charged to the customer and the interest rate set by the financing institution or a flat fee. We also receive commissions for facilitating the sale of various products to customers, including guaranteed vehicle protection insurance, vehicle theft protection and extended service contracts. These commissions are recorded as revenue at the time the customer enters into the contract. In the case of finance contracts, a customer may prepay or fail to pay their contract, thereby terminating the contract. Customers may also terminate extended service contracts and other insurance products, which are fully paid at purchase, and become eligible for refunds of unused premiums. In these circumstances, a portion of the commissions we received may be charged back based on the terms of the contracts. The revenue we record relating to these transactions is net of an estimate of the amount of chargebacks we will be required to pay. Our



estimate is based upon our historical experience with similar contracts, including the impact of refinance and default rates on retail finance contracts and cancellation rates on extended service contracts and other insurance products. Aggregate reserves relating to chargeback activity were \$23.8 million and \$23.8 million as of June 30, 2016 and December 31, 2015, respectively.

Commercial Vehicle Distribution. Revenue from the distribution of vehicles, engines, power systems and parts is recognized at the time of delivery of goods to the retailer or the ultimate customer.

#### Impairment Testing

Other indefinite-lived intangible assets are assessed for impairment annually on October 1 and upon the occurrence of an indicator of impairment through a comparison of its carrying amount and estimated fair value. An indicator of impairment exists if the carrying value exceeds its estimated fair value and an impairment loss may be recognized up to that excess. The fair value is determined using a discounted cash flow approach, which includes assumptions about revenue and profitability growth, profit margins, and the cost of capital. We also evaluate in connection with the annual

## Table of Contents

impairment testing whether events and circumstances continue to support our assessment that the other indefinite-lived intangible assets continue to have an indefinite life.

Goodwill impairment is assessed at the reporting unit level annually on October 1 and upon the occurrence of an indicator of impairment. Our operations are organized by management into operating segments by line of business and geography. We have determined that we have three reportable segments as defined in generally accepted accounting principles for segment reporting: (i) Retail Automotive, consisting of our retail automotive dealership operations, (ii) Retail Commercial Truck, consisting of our retail commercial truck dealership operations in the U.S. and Canada, and (iii) Other, consisting of our commercial vehicle and power systems distribution operations and our other investments in non-automotive operations. We have determined that the dealerships in each of our operating segments within the Retail Automotive reportable segment are components that are aggregated into four geographical reporting units for the purpose of goodwill impairment testing, as they (A) have similar economic characteristics (all are automotive dealerships having similar margins), (B) offer similar products and services (all sell new and used vehicles, service, parts and third-party finance and insurance products), (C) have similar target markets and customers (generally individuals), and (D) have similar distribution and marketing practices (all distribute products and services through dealership facilities that market to customers in similar fashions). The geographic reporting units are Eastern, Central, and Western United States and International. Our Retail Commercial Truck reportable segment has been determined to represent one operating segment and reporting unit. The goodwill included in our Other reportable segment relates primarily to our commercial vehicle distribution operating segment.

For our Retail Automotive reporting units, we prepare a qualitative assessment of the carrying value of goodwill using the criteria in ASC 350-20-35-3 to determine whether it is more likely than not that a reporting unit's fair value is less than its carrying value. If it were determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, additional analysis would be unnecessary. If additional impairment testing was necessary, we would estimate the fair value of our reporting units using an "income" valuation approach. The "income" valuation approach estimates our enterprise value using a net present value model, which discounts projected free cash flows of our business using the weighted average cost of capital as the discount rate. In connection with this process, we also reconcile the estimated aggregate fair values of our reporting units to our market capitalization. We believe this reconciliation process is consistent with a market participant perspective. This consideration would also include a control premium that represents the estimated amount an investor would pay for our equity securities to obtain a controlling interest, and other significant assumptions including revenue and profitability growth, franchise profit margins, residual values and the cost of capital.

For our Retail Commercial Truck and Other reportable segments, we perform our initial impairment test by comparing the estimated fair value of each reporting unit with its carrying value. We estimate the fair value of these reporting units using an "income" valuation approach, as described above.

## Investments

We account for each of our investments under the equity method, pursuant to which we record our proportionate share of the investee's income each period. The net book value of our investments was \$371.1 million and \$336.4 million as of June 30, 2016 and December 31, 2015, respectively, including \$300.5 million and \$290.6 million relating to PTL as of June 30, 2016 and December 31, 2015, respectively. Investments for which there is not a liquid, actively traded market are reviewed periodically by management for indicators of impairment. If an indicator of impairment is identified, management estimates the fair value of the investment using a discounted cash flow approach, which includes assumptions relating to revenue and profitability growth, profit margins, and our cost of capital. Declines in investment values that are deemed to be other than temporary may result in an impairment charge reducing the investments' carrying value to fair value.

#### Self-Insurance

We retain risk relating to certain of our general liability insurance, workers' compensation insurance, vehicle physical damage insurance, property insurance, employment practices liability insurance, directors and officers insurance and employee medical benefits in the U.S. As a result, we are likely to be responsible for a significant portion

## Table of Contents

of the claims and losses incurred under these programs. The amount of risk we retain varies by program, and for certain exposures, we have pre-determined maximum loss limits for certain individual claims and/or insurance periods. Losses, if any, above the pre-determined loss limits are paid by third-party insurance carriers. Certain insurers have limited available property coverage in response to the natural catastrophes experienced in recent years. Our estimate of future losses is prepared by management using our historical loss experience and industry-based development factors. Aggregate reserves relating to retained risk were \$26.7 million and \$26.4 million as of June 30, 2016 and December 31, 2015, respectively.

## Income Taxes

Tax regulations may require items to be included in our tax returns at different times than the items are reflected in our financial statements. Some of these differences are permanent, such as expenses that are not deductible on our tax return, and some are temporary differences, such as the timing of depreciation expense. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that will be used as a tax deduction or credit in our tax returns in future years which we have already recorded in our financial statements. Deferred tax liabilities generally represent deductions taken on our tax returns that have not yet been recognized as expense in our financial statements. We establish valuation allowances for our deferred tax assets if the amount of expected future taxable income is not likely to allow for the use of the deduction or credit.

## Classification in Continuing and Discontinued Operations

We classify the results of our operations in our consolidated financial statements based on generally accepted accounting principles relating to discontinued operations, which requires judgments, including whether a business will be divested, the period required to complete the divestiture, the likelihood of changes to the divestiture plans, and whether the divestiture represents a strategic shift that has, or will have, a major impact on our operations. If we determine that a business should be either reclassified from continuing operations to discontinued operations or from discontinued operations to continuing operations, our consolidated financial statements for prior periods are revised to reflect such reclassification. Refer to the disclosures provided under “Assets Held for Sale and Discontinued Operations” in Part I, Item 1, Note 1 of the Notes to our Consolidated Condensed Financial Statements for a detailed description of the factors we consider for classification in discontinued operations.

## Recent Accounting Pronouncements

Please see the disclosures provided under “Recent Accounting Pronouncements” in Part I, Item 1, Note 1 of the Notes to our Consolidated Condensed Financial Statements which are incorporated by reference herein.

Results of Operations

The following tables present comparative financial data relating to our operating performance in the aggregate and on a “same-store” basis. Dealership results are included in same-store comparisons when we have consolidated the acquired entity during the entirety of both periods being compared. As an example, if a dealership was acquired on January 15, 2014, the results of the acquired entity would be included in annual same-store comparisons beginning with the year ended December 31, 2016 and in quarterly same-store comparisons beginning with the quarter ended June 30, 2015.

Table of Contents

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

## Retail Automotive Dealership New Vehicle Data

(In millions, except unit and per unit amounts)

New Vehicle Data	2016	2015	2016 vs. 2015		
			Change	% Change	
New retail unit sales	62,170	58,801	3,369	5.7	%
Same-store new retail unit sales	57,965	58,795	(830)	(1.4)	%
New retail sales revenue	\$ 2,461.0	\$ 2,347.7	\$ 113.3	4.8	%
Same-store new retail sales revenue	\$ 2,337.0	\$ 2,347.5	\$ (10.5)	(0.4)	%
New retail sales revenue per unit	\$ 39,586	\$ 39,926	\$ (340)	(0.9)	%
Same-store new retail sales revenue per unit	\$ 40,317	\$ 39,926	\$ 391	1.0	%
Gross profit — new	\$ 193.1	\$ 176.8	\$ 16.3	9.2	%
Same-store gross profit — new	\$ 175.9	\$ 176.7	\$ (0.8)	(0.5)	%
Average gross profit per new vehicle retailed	\$ 3,106	\$ 3,006	\$ 100	3.3	%
Same-store average gross profit per new vehicle retailed	\$ 3,035	\$ 3,006	\$ 29	1.0	%
Gross margin % — new	7.8	% 7.5	% 0.3	% 4.0	%
Same-store gross margin % — new	7.5	% 7.5	% —	% —	%

## Units

Retail unit sales of new vehicles increased from 2015 to 2016, with an increase of 20.1% internationally and a decrease of 1.1% in the U.S. The increase is due to a 4,199 unit increase from net dealership acquisitions, offset by an 830 unit, or 1.4%, decrease in same-store new retail unit sales. New units increased internationally primarily due to inclusion of our newly consolidated German automotive dealership joint venture. Same-store units increased 1.7% internationally and decreased 2.9% in the U.S.

## Revenues

New vehicle retail sales revenue increased from 2015 to 2016 due to a \$123.8 million increase from net dealership acquisitions, offset by a \$10.5 million, or 0.4%, decrease in same-store revenues. Excluding \$52.5 million of negative foreign currency fluctuations, same-store new retail revenue increased 1.8%. The same-store revenue decrease is due to the decrease in same-store unit sales, which decreased revenue by \$33.1 million, offset by a \$391 per unit increase in comparative average selling prices (offset by a \$906 per unit decrease attributable to negative foreign currency fluctuations), which increased revenue by \$22.6 million.

## Gross Profit

Retail gross profit from new vehicle sales increased from 2015 to 2016 due to a \$17.1 million increase from net dealership acquisitions, offset by a \$0.8 million, or 0.5%, decrease in same-store gross profit. Excluding \$4.6 million of negative foreign currency fluctuations, same-store gross profit increased 2.2%. The decrease in same-store gross profit is due to a decrease in same-store new retail unit sales, which decreased gross profit by \$2.5 million, offset by a \$29 per unit increase in the average gross profit per new vehicle retailed (offset by a \$79 per unit decrease attributable to negative foreign currency fluctuations), which increased gross profit by \$1.7 million.

Table of Contents

## Retail Automotive Dealership Used Vehicle Data

(In millions, except unit and per unit amounts)

Used Vehicle Data	2016	2015	2016 vs. 2015		
			Change	% Change	
Used retail unit sales	52,936	49,585	3,351	6.8	%
Same-store used retail unit sales	48,301	49,579	(1,278)	(2.6)	%
Used retail sales revenue	\$ 1,478.8	\$ 1,382.9	\$ 95.9	6.9	%
Same-store used retail sales revenue	\$ 1,385.1	\$ 1,382.7	\$ 2.4	0.2	%
Used retail sales revenue per unit	\$ 27,936	\$ 27,890	\$ 46	0.2	%
Same-store used retail sales revenue per unit	\$ 28,676	\$ 27,888	\$ 788	2.8	%
Gross profit — used	\$ 89.8	\$ 88.4	\$ 1.4	1.6	%
Same-store gross profit — used	\$ 84.1	\$ 88.4	\$ (4.3)	(4.9)	%
Average gross profit per used vehicle retailed	\$ 1,697	\$ 1,782	\$ (85)	(4.8)	%
Same-store average gross profit per used vehicle retailed	\$ 1,740	\$ 1,782	\$ (42)	(2.4)	%
Gross margin % — used	6.1	% 6.4	% (0.3)	% (4.7)	%
Same-store gross margin % — used	6.1	% 6.4	% (0.3)	% (4.7)	%

## Units

Retail unit sales of used vehicles increased from 2015 to 2016, with an increase of 25.0% internationally and a decrease of 3.7% in the U.S. The increase is due to a 4,629 unit increase from net dealership acquisitions, offset by a 1,278 unit, or 2.6%, decrease in same-store used retail unit sales. Used units increased internationally primarily due to inclusion of our newly consolidated German automotive dealership joint venture. Same-store units increased 1.0% internationally and decreased 4.7% in the U.S.

## Revenues

Used vehicle retail sales revenue increased from 2015 to 2016 due to a \$93.5 million increase from net dealership acquisitions, coupled with a \$2.4 million, or 0.2%, increase in same-store revenues. Excluding \$42.7 million of negative foreign currency fluctuations, same-store used retail revenue increased 3.3%. The same-store revenue increase is primarily due to a \$788 per unit increase in comparative average selling prices (offset by an \$884 per unit decrease attributable to negative foreign currency fluctuations), which increased revenue by \$38.0 million, offset by a decrease in same-store used retail unit sales, which decreased revenue by \$35.6 million.

## Gross Profit



Retail gross profit from used vehicle sales increased from 2015 to 2016 due to a \$5.7 million increase from net dealership acquisitions, offset by a \$4.3 million, or 4.9%, decrease in same-store gross profit. Excluding \$2.1 million of negative foreign currency fluctuations, same-store gross profit decreased 2.5%. The decrease in same-store gross profit is due to a decrease in same-store used retail unit sales, which decreased gross profit by \$2.3 million, coupled with a \$42 per unit decrease in average gross profit per used vehicle retailed (including a \$44 per unit decrease attributable to negative foreign currency fluctuations), which decreased gross profit by \$2.0 million. We believe the decline in average gross profit per unit and gross margin of used vehicles is due to an increasing availability of lower mileage, late model used vehicles, and the relative affordability of new vehicles when compared to used vehicles.

Table of Contents

## Retail Automotive Dealership Finance and Insurance Data

(In millions, except unit and per unit amounts)

Finance and Insurance Data	2016	2015	2016 vs. 2015		
			Change	% Change	
Total retail unit sales	115,106	108,386	6,720	6.2	%
Total same-store retail unit sales	106,266	108,374	(2,108)	(1.9)	%
Finance and insurance revenue	\$ 125.7	\$ 121.9	\$ 3.8	3.1	%
Same-store finance and insurance revenue	\$ 123.9	\$ 121.9	\$ 2.0	1.6	%
Finance and insurance revenue per unit	\$ 1,092	\$ 1,124	\$ (32)	(2.8)	%
Same-store finance and insurance revenue per unit	\$ 1,166	\$ 1,124	\$ 42	3.7	%

Finance and insurance revenue increased from 2015 to 2016 due to a \$2.0 million, or 1.6%, increase in same-store revenues, coupled with a \$1.8 million increase from net dealership acquisitions. Excluding \$2.9 million of negative foreign currency fluctuations, same-store finance and insurance revenue increased 4.0%. The same-store revenue increase is due to the increase in comparative average selling prices per unit, which increased revenue by \$4.4 million, offset by a decrease in same-store retail unit sales, which decreased revenue by \$2.4 million. Finance and insurance revenue per unit decreased primarily due to inclusion of our newly consolidated German automotive dealership joint venture. This decrease is somewhat offset by an increase in finance and insurance revenue per unit in the U.S., which increased by 1.9%. We believe the increase in same-store finance and insurance revenue per unit is due to our efforts to increase finance and insurance revenue, which include adding resources to drive additional training, product penetration and targeting underperforming locations.

## Retail Automotive Dealership Service and Parts Data

(In millions)

Service and Parts Data	2016	2015	2016 vs. 2015		
			Change	% Change	
Service and parts revenue	\$ 496.2	\$ 456.1	\$ 40.1	8.8	%
Same-store service and parts revenue	\$ 471.1	\$ 455.6	\$ 15.5	3.4	%
Gross profit — service and parts	\$ 288.7	\$ 274.3	\$ 14.4	5.2	%
Same-store service and parts gross profit	\$ 277.1	\$ 274.2	\$ 2.9	1.1	%
Gross margin % — service and parts	58.2 %	60.1 %	(1.9)%	(3.2)	%
Same-store service and parts gross margin %	58.8 %	60.2 %	(1.4)%	(2.3)	%

## Revenues

Service and parts revenue increased from 2015 to 2016, with an increase of 22.0% internationally and 3.6% in the U.S. The international increase is primarily due to inclusion of our newly consolidated German automotive dealership joint venture. The overall increase in service and parts revenue is due to a \$24.6 million increase from net dealership acquisitions, coupled with a \$15.5 million, or 3.4%, increase in same-store revenues during the period. Excluding \$8.4 million of negative foreign currency fluctuations, same-store service and parts revenue increased 5.2%. The increase in same-store revenue is due to a \$16.2 million, or 5.2%, increase in customer pay revenue, a \$0.6 million, or 1.7%, increase in vehicle preparation and body shop revenue, offset by a \$1.3 million, or 1.2%, decrease in warranty revenue. Overall, we believe that our service and parts business is being positively impacted by increasing units in operation due to increasing new vehicle sales in recent years, which is driving the increase in customer pay revenue.

### Gross Profit

Service and parts gross profit increased from 2015 to 2016 due to an \$11.5 million increase from net dealership acquisitions, coupled with a \$2.9 million, or 1.1%, increase in same-store gross profit during the period. Excluding \$5.2 million of negative foreign currency fluctuations, same-store gross profit increased 3.0%. The same-store gross profit increase is due to the increase in same-store revenues, which increased gross profit by \$9.1 million, offset by a 1.9% decrease in gross margin, which decreased gross profit by \$6.2 million. The same-store gross profit increase is due to a \$5.5 million, or 3.7%, increase in customer pay gross profit, a \$0.2 million, or 0.3%, increase in vehicle preparation and body shop gross profit, offset by a \$2.8 million, or 4.8%, decrease in warranty gross profit.

Table of Contents

## Retail Commercial Truck Dealership Data

(In millions, except unit and per unit amounts)

During the three months ended June 30, 2016, Premier Truck Group generated \$309.5 million of revenue and \$38.3 million of gross profit principally through the retail sale of 2,223 new and used medium and heavy-duty trucks and service and parts sales. During the three months ended June 30, 2015, this business generated \$241.9 million of revenue and \$38.3 million of gross profit principally through the retail sale of 1,789 new and used medium and heavy-duty trucks and service and parts sales.

New Commercial Truck Data	2016	2015	2016 vs. 2015		
			Change	% Change	
New retail unit sales	1,949	1,491	458	30.7	%
Same-store new retail unit sales	1,673	1,491	182	12.2	%
New retail sales revenue	\$ 212.0	\$ 146.3	\$ 65.7	44.9	%
Same-store new retail sales revenue	\$ 180.0	\$ 146.3	\$ 33.7	23.0	%
New retail sales revenue per unit	\$ 108,764	\$ 98,154	\$ 10,610	10.8	%
Same-store new retail sales revenue per unit	\$ 107,613	\$ 98,154	\$ 9,459	9.6	%
Gross profit — new	\$ 7.6	\$ 6.9	\$ 0.7	10.1	%
Same-store gross profit — new	\$ 6.5	\$ 6.9	\$ (0.4)	(5.8)	%
Average gross profit per new truck retailed	\$ 3,904	\$ 4,645	\$ (741)	(16.0)	%
Same-store average gross profit per new truck retailed	\$ 3,897	\$ 4,645	\$ (748)	(16.1)	%
Gross margin % — new	3.6	% 4.7	% (1.1)	% (23.4)	%
Same-store gross margin % — new	3.6	% 4.7	% (1.1)	% (23.4)	%

New commercial truck retail sales revenue increased by \$65.7 million from 2015 to 2016. Premier Truck Group generated \$212.0 million of new commercial truck sales revenue and \$7.6 million of gross profit through the sale of 1,949 new commercial trucks during the three months ended June 30, 2016. Same-store new truck units increased by 182 units, or 12.2%, from 2015 to 2016. Same-store new truck revenue increased by \$33.7 million, or 23.0%, and same-store new truck gross profit decreased by \$0.4 million, or 5.8%, from 2015 to 2016.

Used Commercial Truck Data	2016	2015	2016 vs. 2015		
			Change	% Change	
Used retail unit sales	274	298	(24)	(8.1)	%
Same-store used retail unit sales	266	298	(32)	(10.7)	%
Used retail sales revenue	\$ 13.8	\$ 15.6	\$ (1.8)	(11.5)	%
Same-store used retail sales revenue	\$ 13.4	\$ 15.6	\$ (2.2)	(14.1)	%
Used retail sales revenue per unit	\$ 50,247	\$ 52,394	\$ (2,147)	(4.1)	%

Edgar Filing: PENSKE AUTOMOTIVE GROUP, INC. - Form 10-Q

Same-store used retail sales revenue per unit	\$ 50,378	\$ 52,394	\$ (2,016)	(3.8)	%
Gross profit — used	\$ (0.6)	\$ 1.6	\$ (2.2)	(137.5)	%
Same-store gross profit — used	\$ (0.6)	\$ 1.6	\$ (2.2)	(137.5)	%
Average gross profit per used truck retailed	\$ (2,096)	\$ 5,462	\$ (7,558)	(138.4)	%
Same-store average gross profit per used truck retailed	\$ (2,264)	\$ 5,462	\$ (7,726)	(141.5)	%
Gross margin % — used	(4.3)	% 10.3	% (14.6)	% (141.7)	%
Same-store gross margin % — used	(4.5)	% 10.3	% (14.8)	% (143.7)	%

Used commercial truck retail sales revenue decreased by \$1.8 million from 2015 to 2016. Premier Truck Group generated \$13.8 million of used commercial truck sales revenue through the sale of 274 used commercial trucks during the three months ended June 30, 2016. From 2015 to 2016, gross profit decreased by \$2.2 million, largely due to weak used truck prices resulting in a decrease in gross profit per unit. The overall decline in used truck retail unit sales, revenue, and gross profit is largely due to increased used truck inventory resulting from decreased demand.

Table of Contents

Service and Parts Data	2016	2015	2016 vs. 2015		
			Change	% Change	
Service and parts revenue	\$ 79.3	\$ 75.0	\$ 4.3	5.7	%
Same-store service and parts revenue	\$ 71.1	\$ 75.0	\$ (3.9)	(5.2)	%
Gross profit — service and parts	\$ 29.3	\$ 27.7	\$ 1.6	5.8	%
Same-store service and parts gross profit	\$ 26.5	\$ 27.7	\$ (1.2)	(4.3)	%
Gross margin % — service and parts	36.9%	36.9%	—	%	—
Same-store service and parts gross margin %	37.3%	36.9%	0.4	%	1.1

Service and parts revenue increased by \$4.3 million and service and parts gross profit increased by \$1.6 million from 2015 to 2016. Premier Truck Group generated \$79.3 million of service and parts revenue and \$29.3 million of gross profit during the three months ended June 30, 2016. Same-store service and parts revenue decreased by \$3.9 million, or 5.2%, and same-store service and parts gross profit decreased by \$1.2 million, or 4.3%, from 2015 to 2016. Premier Truck Group generates service and parts revenue in connection with warranty and customer pay work performed at each of our truck dealerships and through retail sales of parts and accessories. Customer pay work represents approximately 84% of service and parts revenue, largely due to the significant amount of retail parts sold.

## Commercial Vehicle Distribution Data

Our commercial vehicle distribution business is comprised of our Penske Commercial Vehicles Australia business and our Penske Power Systems business.

During the three months ended June 30, 2016, Penske Commercial Vehicles Australia generated \$50.6 million of revenue and \$8.9 million of gross profit through the distribution and retail sale of 238 vehicles and parts. During the three months ended June 30, 2015, this business generated \$68.1 million of revenue and \$10.4 million of gross profit through the distribution and retail sale of 354 vehicles and parts. The decline in revenue and gross profit from 2015 is attributable principally to lower units distributed, which we believe is due to difficult macro-economic conditions, the declining price of commodities, and the weakening of the Australian Dollar versus the U.S. Dollar, including the pricing impact on the products sold by Penske Commercial Vehicles.

Penske Power Systems generated \$52.3 million of revenue and \$20.9 million of gross profit during the three months ended June 30, 2016, and \$51.8 million of revenue and \$19.3 million of gross profit during the three months ended June 30, 2015. The increase in gross profit is attributable to a change in mix of product related sales, partially offset by a decline in service and parts sales.

## Selling, General and Administrative Data

(In millions)

Selling, General and Administrative Data	2016	2015	2016 vs. 2015		
			Change	% Change	
Personnel expense	\$ 335.4	\$ 319.0	\$ 16.4	5.1	%
Advertising expense	\$ 26.4	\$ 26.2	\$ 0.2	0.8	%
Rent & related expense	\$ 73.7	\$ 70.3	\$ 3.4	4.8	%
Other expense	\$ 147.2	\$ 137.6	\$ 9.6	7.0	%
Total SG&A expenses	\$ 582.7	\$ 553.1	\$ 29.6	5.4	%
Same-store SG&A expenses	\$ 551.4	\$ 552.8	\$ (1.4)	(0.3)	%
Personnel expense as % of gross profit	43.5 %	43.6 %	(0.1)%	(0.2)	%
Advertising expense as % of gross profit	3.4 %	3.6 %	(0.2)%	(5.6)	%
Rent & related expense as % of gross profit	9.5 %	9.6 %	(0.1)%	(1.0)	%
Other expense as % of gross profit	19.1 %	18.8 %	0.3 %	1.6	%
Total SG&A expenses as % of gross profit	75.5 %	75.6 %	(0.1)%	(0.1)	%
Same-store SG&A expenses as % of same-store gross profit	75.5 %	75.6 %	(0.1)%	(0.1)	%

Selling, general and administrative expenses (“SG&A”) increased from 2015 to 2016 due to a \$31.0 million increase from net acquisitions, offset by a \$1.4 million, or 0.3%, decrease in same-store SG&A. Excluding the \$12.0 million

Table of Contents

reduction related to foreign currency fluctuations, same-store SG&A increased 1.9%. The increase in same-store SG&A (adjusted for foreign currency fluctuations) is primarily due to an increase in variable personnel expenses as a result of the 2.2% increase (adjusted for foreign currency fluctuations) in same-store retail gross profit versus the prior year. SG&A as a percentage of gross profit was 75.5%, an improvement of 10 basis points compared to 75.6% in the prior year. The change in gross profit as a percentage of the change in gross profit less the change in SG&A was 26.0%. SG&A expenses as a percentage of total revenue was 11.1% and 11.2% in the three months ended June 30, 2016 and 2015, respectively.

## Depreciation

(In millions)

	2016	2015	2016 vs. 2015		
			Change	% Change	
Depreciation	\$ 24.5	\$ 19.3	\$ 5.2	26.9	%

The increase in depreciation from 2015 to 2016 is due to a \$4.1 million increase from net acquisitions, coupled with a \$1.1 million, or 5.7%, increase in same-store depreciation. The overall increase is primarily related to our ongoing facility improvements and expansion programs.

## Floor Plan Interest Expense

(In millions)

	2016	2015	2016 vs. 2015		
			Change	% Change	
Floor plan interest expense	\$ 13.1	\$ 11.0	\$ 2.1	19.1	%

The increase in floor plan interest expense from 2015 to 2016 is primarily due to a \$1.3 million, or 11.8%, increase in same-store floor plan interest expense, coupled with a \$0.8 million increase from net dealership acquisitions. The same-store increase is primarily due to increases in the amounts outstanding under floor plan arrangements, due in part to increased levels of inventory, and higher applicable rates.

## Other Interest Expense



(In millions)

	2016	2015	2016 vs. 2015		
			Change	% Change	
Other interest expense	\$ 19.5	\$ 16.4	\$ 3.1	18.9	%

The increase in other interest expense from 2015 to 2016 is primarily due to an increase due to the issuance of our \$500.0 million 5.50% senior subordinated notes in May 2016, as well as an increase in outstanding revolver borrowings under the U.S. and U.K. credit agreements and our Australia working capital loan agreement during the three months ended June 30, 2016, and an increase in applicable rates, compared to the same period in 2015.

## Equity in Earnings of Affiliates

(In millions)

	2016	2015	2016 vs. 2015		
			Change	% Change	
Equity in earnings of affiliates	\$ 12.0	\$ 12.0	\$ —	—	%

Equity in earnings of affiliates from 2015 to 2016 remained flat, primarily due to a decrease in earnings from our investment in one of our German automotive dealership joint ventures, which we began consolidating during the third quarter of 2015 resulting from our acquisition of a controlling interest. The decrease is offset by earnings from our investment in Japan made during the first quarter of 2016.

Table of Contents

## Income Taxes

(In millions)

	2016	2015	2016 vs. 2015		
			Change	% Change	
Income taxes	\$ 47.3	\$ 47.7	\$ (0.4)	(0.8)	%

Income taxes decreased from 2015 to 2016 primarily due to a decrease in our effective tax rate compared to the prior year.

## Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

## Retail Automotive Dealership New Vehicle Data

(In millions, except unit and per unit amounts)

New Vehicle Data	2016	2015	2016 vs. 2015		
			Change	% Change	
New retail unit sales	120,923	112,119	8,804	7.9	%
Same-store new retail unit sales	113,301	111,888	1,413	1.3	%
New retail sales revenue	\$ 4,729.2	\$ 4,487.8	\$ 241.4	5.4	%
Same-store new retail sales revenue	\$ 4,494.2	\$ 4,469.9	\$ 24.3	0.5	%
New retail sales revenue per unit	\$ 39,110	\$ 40,027	\$ (917)	(2.3)	%
Same-store new retail sales revenue per unit	\$ 39,666	\$ 39,950	\$ (284)	(0.7)	%
Gross profit — new	\$ 368.6	\$ 344.7	\$ 23.9	6.9	%
Same-store gross profit — new	\$ 337.4	\$ 342.7	\$ (5.3)	(1.5)	%
Average gross profit per new vehicle retailed	\$ 3,049	\$ 3,074	\$ (25)	(0.8)	%
Same-store average gross profit per new vehicle retailed	\$ 2,978	\$ 3,063	\$ (85)	(2.8)	%
Gross margin % — new	7.8	% 7.7	% 0.1	% 1.3	%
Same-store gross margin % — new	7.5	% 7.7	% (0.2)	% (2.6)	%

## Units

Retail unit sales of new vehicles increased from 2015 to 2016, with an increase of 24.2% internationally and a decrease of 0.4% in the U.S. The increase is due to a 7,391 unit increase from net dealership acquisitions, coupled with a 1,413 unit, or 1.3%, increase in same-store new retail unit sales. New units increased internationally primarily due to inclusion of our newly consolidated German automotive dealership joint venture. Same-store units increased 7.7% internationally and decreased 2.0% in the U.S.

#### Revenues

New vehicle retail sales revenue increased from 2015 to 2016 due to a \$217.1 million increase from net dealership acquisitions, coupled with a \$24.3 million, or 0.5%, increase in same-store revenues. Excluding \$97.6 million of negative foreign currency fluctuations, same-store new retail revenue increased 2.7%. The same-store revenue increase is due to the increase in same-store new retail unit sales, which increased revenue by \$56.1 million, offset by a \$284 per unit decrease in comparative average selling prices (including an \$862 per unit decrease attributable to negative foreign currency fluctuations), which decreased revenue by \$31.8 million.

#### Gross Profit

Retail gross profit from new vehicle sales increased from 2015 to 2016 due to a \$29.2 million increase from net dealership acquisitions, offset by a \$5.3 million, or 1.5%, decrease in same-store gross profit. Excluding \$8.3 million of negative foreign currency fluctuations, same-store gross profit increased 0.9%. The decrease in same-store gross profit is due to an \$85 per unit decrease in the average gross profit per new vehicle retailed (including a \$73 per unit decrease

Table of Contents

attributable to negative foreign currency fluctuations), which decreased gross profit by \$9.5 million, offset by an increase in same-store new retail unit sales, which increased gross profit by \$4.2 million.

## Retail Automotive Dealership Used Vehicle Data

(In millions, except unit and per unit amounts)

Used Vehicle Data	2016	2015	2016 vs. 2015		
			Change	% Change	
Used retail unit sales	105,677	97,687	7,990	8.2	%
Same-store used retail unit sales	96,927	97,623	(696)	(0.7)	%
Used retail sales revenue	\$ 2,891.2	\$ 2,665.9	\$ 225.3	8.5	%
Same-store used retail sales revenue	\$ 2,706.5	\$ 2,662.9	\$ 43.6	1.6	%
Used retail sales revenue per unit	\$ 27,359	\$ 27,290	\$ 69	0.3	%
Same-store used retail sales revenue per unit	\$ 27,923	\$ 27,278	\$ 645	2.4	%
Gross profit — used	\$ 174.1	\$ 173.3	\$ 0.8	0.5	%
Same-store gross profit — used	\$ 164.1	\$ 173.0	\$ (8.9)	(5.1)	%
Average gross profit per used vehicle retailed	\$ 1,647	\$ 1,773	\$ (126)	(7.1)	%
Same-store average gross profit per used vehicle retailed	\$ 1,693	\$ 1,772	\$ (79)	(4.5)	%
Gross margin % — used	6.0	6.5	(0.5)	(7.7)	%
Same-store gross margin % — used	6.1	6.5	(0.4)	(6.2)	%

## Units

Retail unit sales of used vehicles increased from 2015 to 2016, with an increase of 24.9% internationally and a decrease of 1.5% in the U.S. The increase is due to an 8,686 unit increase from net dealership acquisitions, offset by a 696 unit, or 0.7%, decrease in same-store used retail unit sales. Used units increased internationally primarily due to inclusion of our newly consolidated German automotive dealership joint venture. Same-store units increased 2.1% internationally and decreased 2.3% in the U.S.

## Revenues

Used vehicle retail sales revenue increased from 2015 to 2016 due to a \$181.7 million increase from net dealership acquisitions, coupled with a \$43.6 million, or 1.6%, increase in same-store revenues. Excluding \$78.0 million of negative foreign currency fluctuations, same-store used retail revenue increased 4.6%. The same-store revenue increase is primarily due to a \$645 per unit increase in comparative average selling prices (offset by an \$804 per unit decrease attributable to negative foreign currency fluctuations), which increased revenue by \$62.5 million, offset by a

decrease in same-store used retail unit sales, which decreased revenue by \$18.9 million.

#### Gross Profit

Retail gross profit from used vehicle sales increased from 2015 to 2016 due to a \$9.7 million increase from net dealership acquisitions, offset by an \$8.9 million, or 5.1%, decrease in same-store gross profit. Excluding \$3.9 million of negative foreign currency fluctuations, same-store gross profit decreased 2.9%. The decrease in same-store gross profit is due to a \$79 per unit decrease in average gross profit per used vehicle retailed (including a \$40 per unit decrease attributable to negative foreign currency fluctuations), which decreased gross profit by \$7.7 million, coupled with the decrease in same-store used retail unit sales, which decreased gross profit by \$1.2 million. We believe the decline in average gross profit per unit and gross margin of used vehicles is due to an increasing availability of lower mileage, late model used vehicles, and the relative affordability of new vehicles when compared to used vehicles.

Table of Contents

## Retail Automotive Dealership Finance and Insurance Data

(In millions, except unit and per unit amounts)

Finance and Insurance Data	2016	2015	2016 vs. 2015		
			Change	% Change	
Total retail unit sales	226,600	209,806	16,794	8.0	%
Total same-store retail unit sales	210,228	209,511	717	0.3	%
Finance and insurance revenue	\$ 244.1	\$ 233.0	\$ 11.1	4.8	%
Same-store finance and insurance revenue	\$ 241.0	\$ 232.4	\$ 8.6	3.7	%
Finance and insurance revenue per unit	\$ 1,077	\$ 1,110	\$ (33)	(3.0)	%
Same-store finance and insurance revenue per unit	\$ 1,146	\$ 1,109	\$ 37	3.3	%

Finance and insurance revenue increased from 2015 to 2016 due to an \$8.6 million, or 3.7%, increase in same-store revenues, coupled with a \$2.5 million increase from net dealership acquisitions. Excluding \$5.5 million of negative foreign currency fluctuations, same-store finance and insurance revenue increased 6.1%. The same-store revenue increase is due to the increase in comparative average selling prices per unit, which increased revenue by \$7.8 million, coupled with an increase in same-store retail unit sales, which increased revenue by \$0.8 million. Finance and insurance revenue per unit decreased primarily due to inclusion of our newly consolidated German automotive dealership joint venture. This decrease is somewhat offset by an increase in finance and insurance revenue per unit in the U.S., which increased by 0.9%. We believe the increase in same-store finance and insurance revenue per unit is due to our efforts to increase finance and insurance revenue, which include adding resources to drive additional training, product penetration and targeting underperforming locations.

## Retail Automotive Dealership Service and Parts Data

(In millions)

Service and Parts Data	2016	2015	2016 vs. 2015		
			Change	% Change	
Service and parts revenue	\$ 974.3	\$ 894.5	\$ 79.8	8.9	%
Same-store service and parts revenue	\$ 922.9	\$ 891.7	\$ 31.2	3.5	%
Gross profit — service and parts	\$ 570.1	\$ 535.1	\$ 35.0	6.5	%
Same-store service and parts gross profit	\$ 544.9	\$ 533.7	\$ 11.2	2.1	%
Gross margin % — service and parts	58.5 %	59.8 %	(1.3)%	(2.2)	%
Same-store service and parts gross margin %	59.0 %	59.9 %	(0.9)%	(1.5)	%

## Revenues

Service and parts revenue increased from 2015 to 2016, with an increase of 19.9% internationally and 4.5% in the U.S. The international increase is primarily due to inclusion of our newly consolidated German automotive dealership joint venture. The overall increase in service and parts revenue is due to a \$48.6 million increase from net dealership acquisitions, coupled with a \$31.2 million, or 3.5%, increase in same-store revenues during the period. Excluding \$15.6 million of negative foreign currency fluctuations, same-store service and parts revenue increased 5.2%. The increase in same-store revenue is due to a \$27.0 million, or 4.5%, increase in customer pay revenue, a \$2.5 million, or 3.6%, increase in vehicle preparation and body shop revenue, and a \$1.7 million, or 0.8%, increase in warranty revenue. Overall, we believe that our service and parts business is being positively impacted by increasing units in operation due to increasing new vehicle sales in recent years, which is driving the increase in customer pay revenue.

#### Gross Profit

Service and parts gross profit increased from 2015 to 2016 due to a \$23.8 million increase from net dealership acquisitions, coupled with an \$11.2 million, or 2.1%, increase in same-store gross profit during the period. Excluding \$9.5 million of negative foreign currency fluctuations, same-store gross profit increased 3.9%. The same-store gross profit increase is due to the increase in same-store revenues, which increased gross profit by \$18.4 million, offset by a 1.3% decrease in gross margin, which decreased gross profit by \$7.2 million. The same-store gross profit increase is due

Table of Contents

to a \$10.2 million, or 3.5%, increase in customer pay gross profit, a \$3.7 million, or 2.9%, increase in vehicle preparation and body shop gross profit, offset by a \$2.7 million, or 2.4%, decrease in warranty gross profit.

## Retail Commercial Truck Dealership Data

(In millions, except unit and per unit amounts)

During the six months ended June 30, 2016, Premier Truck Group generated \$516.2 million of revenue and \$71.5 million of gross profit principally through the retail sale of 3,654 new and used medium and heavy-duty trucks and service and parts sales. During the six months ended June 30, 2015, this business generated \$434.6 million of revenue and \$71.1 million of gross profit principally through the retail sale of 3,124 new and used medium and heavy-duty trucks and service and parts sales.

New Commercial Truck Data	2016	2015	2016 vs. 2015		
			Change	% Change	
New retail unit sales	3,109	2,530	579	22.9	%
Same-store new retail unit sales	1,376	1,660	(284)	(17.1)	%
New retail sales revenue	\$ 328.7	\$ 248.5	\$ 80.2	32.3	%
Same-store new retail sales revenue	\$ 157.5	\$ 176.8	\$ (19.3)	(10.9)	%
New retail sales revenue per unit	\$ 105,725	\$ 98,232	\$ 7,493	7.6	%
Same-store new retail sales revenue per unit	\$ 114,448	\$ 106,508	\$ 7,940	7.5	%
Gross profit — new	\$ 12.5	\$ 11.8	\$ 0.7	5.9	%
Same-store gross profit — new	\$ 7.1	\$ 9.7	\$ (2.6)	(26.8)	%
Average gross profit per new truck retailed	\$ 4,015	\$ 4,664	\$ (649)	(13.9)	%
Same-store average gross profit per new truck retailed	\$ 5,164	\$ 5,811	\$ (647)	(11.1)	%
Gross margin % — new	3.8	% 4.7	% (0.9)	% (19.1)	%
Same-store gross margin % — new	4.5	% 5.5	% (1.1)	% (20.4)	%

New commercial truck retail sales revenue increased by \$80.2 million from 2015 to 2016. Premier Truck Group generated \$328.7 million of new commercial truck sales revenue and \$12.5 million of gross profit through the sale of 3,109 new commercial trucks during the six months ended June 30, 2016. Same-store new truck units decreased by 284 units, or 17.1%, from 2015 to 2016, as the Class 8 heavy-duty truck market declined by 13.6% during the six months ended June 30, 2016 as compared to the same period last year. Same-store new truck revenue decreased by \$19.3 million, or 10.9%, and same-store new truck gross profit decreased by \$2.6 million, or 26.8%, from 2015 to 2016.

Used Commercial Truck Data	2016	2015	2016 vs. 2015	
			Change	% Change



Edgar Filing: PENSKE AUTOMOTIVE GROUP, INC. - Form 10-Q

Used retail unit sales	545	594	(49)	(8.2)	%
Same-store used retail unit sales	481	561	(80)	(14.3)	%
Used retail sales revenue	\$ 27.3	\$ 31.5	\$ (4.2)	(13.3)	%
Same-store used retail sales revenue	\$ 24.0	\$ 29.9	\$ (5.9)	(19.7)	%
Used retail sales revenue per unit	\$ 49,988	\$ 53,045	\$ (3,057)	(5.8)	%
Same-store used retail sales revenue per unit	\$ 49,945	\$ 53,346	\$ (3,401)	(6.4)	%
Gross profit — used	\$ (1.0)	\$ 3.3	\$ (4.3)	(130.3)	%
Same-store gross profit — used	\$ (0.9)	\$ 3.2	\$ (4.1)	(128.1)	%
Average gross profit per used truck retailed	\$ (1,785)	\$ 5,671	\$ (7,456)	(131.5)	%
Same-store average gross profit per used truck retailed	\$ (1,789)	\$ 5,727	\$ (7,516)	(131.2)	%
Gross margin % — used	(3.7)	% 10.5	% (14.2)	% (135.2)	%
Same-store gross margin % — used	(3.8)	% 10.7	% (14.5)	% (135.5)	%

Used commercial truck retail sales revenue decreased by \$4.2 million from 2015 to 2016. Premier Truck Group generated \$27.3 million of used commercial truck sales revenue through the sale of 545 used commercial trucks during the six months ended June 30, 2016. From 2015 to 2016, gross profit decreased by \$4.3 million, largely due to weak used truck prices resulting in a decrease in gross profit per unit. The overall decline in used truck retail unit sales, revenue, and gross profit is largely due to increased used truck inventory resulting from decreased demand.

Table of Contents

Service and Parts Data	2016	2015	2016 vs. 2015		
			Change	% Change	
Service and parts revenue	\$ 150.7	\$ 138.1	\$ 12.6	9.1	%
Same-store service and parts revenue	\$ 106.2	\$ 110.9	\$ (4.7)	(4.2)	%
Gross profit — service and parts	\$ 55.7	\$ 51.1	\$ 4.6	9.0	%
Same-store service and parts gross profit	\$ 43.6	\$ 43.3	\$ 0.3	0.7	%
Gross margin % — service and parts	37.0 %	37.0 %	— %	—	%
Same-store service and parts gross margin %	41.1 %	39.0 %	2.1 %	5.4	%

Service and parts revenue increased by \$12.6 million and service and parts gross profit increased by \$4.6 million from 2015 to 2016. Premier Truck Group generated \$150.7 million of service and parts revenue and \$55.7 million of gross profit during the six months ended June 30, 2016. Same-store service and parts revenue decreased by \$4.7 million, or 4.2%, and same-store service and parts gross profit increased by \$0.3 million, or 0.7%, from 2015 to 2016. Premier Truck Group generates service and parts revenue in connection with warranty and customer pay work performed at each of our truck dealerships and through retail sales of parts and accessories. Customer pay work represents approximately 84% of service and parts revenue, largely due to the significant amount of retail parts sold.

## Commercial Vehicle Distribution Data

Our commercial vehicle distribution business is comprised of our Penske Commercial Vehicles Australia business and our Penske Power Systems business.

During the six months ended June 30, 2016, Penske Commercial Vehicles Australia generated \$106.7 million of revenue and \$16.8 million of gross profit through the distribution and retail sale of 532 vehicles and parts. During the six months ended June 30, 2015, this business generated \$124.4 million of revenue and \$20.0 million of gross profit through the distribution and retail sale of 702 vehicles and parts. The decline in revenue and gross profit from 2015 is attributable principally to lower units distributed, which we believe is due to difficult macro-economic conditions, the declining price of commodities, and the weakening of the Australian Dollar versus the U.S. Dollar, including the pricing impact on the products sold by Penske Commercial Vehicles.

Penske Power Systems generated \$96.9 million of revenue and \$37.8 million of gross profit during the six months ended June 30, 2016, and \$95.8 million of revenue and \$36.7 million of gross profit during the six months ended June 30, 2015. The increase in gross profit is attributable to a change in mix of product related sales, partially offset by a decline in service and parts sales.

## Selling, General and Administrative Data

(In millions)

Selling, General and Administrative Data	2016	2015	2016 vs. 2015			
			Change	% Change		
Personnel expense	\$ 662.1	\$ 627.1	\$ 35.0	5.6		%
Advertising expense	\$ 50.4	\$ 48.9	\$ 1.5	3.1		%
Rent & related expense	\$ 145.7	\$ 142.0	\$ 3.7	2.6		%
Other expense	\$ 283.4	\$ 270.9	\$ 12.5	4.6		%
Total SG&A expenses	\$ 1,141.6	\$ 1,088.9	\$ 52.7	4.8		%
Same store SG&A expenses	\$ 1,072.4	\$ 1,079.4	\$ (7.0)	(0.6)		%
Personnel expense as % of gross profit	44.3	44.1	0.2	0.5		%
Advertising expense as % of gross profit	3.4	3.4	—	—		%
Rent & related expense as % of gross profit	9.7	10.0	(0.3)	(3.0)		%
Other expense as % of gross profit	19.0	19.1	(0.1)	(0.5)		%
Total SG&A expenses as % of gross profit	76.4	76.6	(0.2)	(0.3)		%
Same store SG&A expenses as % of same store gross profit	76.2	76.7	(0.5)	(0.7)		%

Selling, general and administrative expenses (“SG&A”) increased from 2015 to 2016 due to a \$59.7 million increase from net acquisitions, offset by a \$7.0 million, or 0.6%, decrease in same-store SG&A. Excluding the \$23.1 million

Table of Contents

reduction related to foreign currency fluctuations, same-store SG&A increased 1.5%. The increase in same-store SG&A (adjusted for foreign currency fluctuations) is primarily due to an increase in variable personnel expenses as a result of the 2.6% increase (adjusted for foreign currency fluctuations) in same-store retail gross profit versus the prior year. SG&A as a percentage of gross profit was 76.4%, an improvement of 20 basis points compared to 76.6% in the prior year. The change in gross profit as a percentage of the change in gross profit less the change in SG&A was 28.7%. SG&A expenses as a percentage of total revenue was 11.3% and 11.6% in the six months ended June 30, 2016 and 2015, respectively.

## Depreciation

(In millions)

	2016	2015	2016 vs. 2015		
			Change	% Change	
Depreciation	\$ 45.3	\$ 37.9	\$ 7.4	19.5	%

The increase in depreciation from 2015 to 2016 is due to a \$5.3 million increase from net acquisitions, coupled with a \$2.1 million, or 5.6%, increase in same-store depreciation. The overall increase is primarily related to our ongoing facility improvements and expansion programs.

## Floor Plan Interest Expense

(In millions)

	2016	2015	2016 vs. 2015		
			Change	% Change	
Floor plan interest expense	\$ 25.9	\$ 21.3	\$ 4.6	21.6	%

The increase in floor plan interest expense from 2015 to 2016 is primarily due to a \$3.0 million, or 14.2%, increase in same-store floor plan interest expense, coupled with a \$1.6 million increase from net dealership acquisitions. The same-store increase is primarily due to increases in the amounts outstanding under floor plan arrangements, due in part to increased levels of inventory, and higher applicable rates.

## Other Interest Expense

(In millions)

	2016	2015	2016 vs. 2015		
			Change	% Change	
Other interest expense	\$ 36.7	\$ 32.7	\$ 4.0	12.2	%

The increase in other interest expense from 2015 to 2016 is primarily due to an increase due to the issuance of our \$500.0 million 5.50% senior subordinated notes in May 2016, as well as an increase in outstanding revolver borrowings under the U.S. and U.K. credit agreements and our Australia working capital loan agreement to an increase in outstanding revolver borrowings under the U.S. and U.K. credit agreements and our Australia working capital loan agreement during the six months ended June 30, 2016, and an increase in applicable rates, compared to the same period in 2015.

## Equity in Earnings of Affiliates

(In millions)

	2016	2015	2016 vs. 2015		
			Change	% Change	
Equity in earnings of affiliates	\$ 17.5	\$ 18.7	\$ (1.2)	(6.4)	%

The decrease in equity in earnings of affiliates from 2015 to 2016 is primarily attributable to a decrease in equity in earnings from our investment in PTL from 2015 to 2016, as well as a reduction in equity earnings related to our investment in one of our German automotive dealership joint ventures, which we began consolidating during the third

Table of Contents

quarter of 2015 resulting from our acquisition of a controlling interest. The decrease is somewhat offset by earnings from our investment in Japan made during the first quarter of 2016.

## Income Taxes

(In millions)

	2016	2015	2016 vs. 2015		
			Change	% Change	
Income taxes	\$ 86.7	\$ 86.5	\$ 0.2	0.2	%

Income taxes increased from 2015 to 2016 primarily due to a \$4.0 million increase in our pre-tax income, partially offset by a decrease in our effective tax rate compared to the prior year.

## Liquidity and Capital Resources

Our cash requirements are primarily for working capital, inventory financing, the acquisition of new businesses, the improvement and expansion of existing facilities, the purchase or construction of new facilities, debt service and repayments, dividends and potential repurchases of our outstanding securities under the program discussed below. Historically, these cash requirements have been met through cash flow from operations, borrowings under our credit agreements and floor plan arrangements, the issuance of debt securities, sale-leaseback transactions, mortgages, dividends and distributions from joint venture investments or the issuance of equity securities.

We have historically expanded our operations through organic growth and the acquisition of dealerships and other businesses. We believe that cash flow from operations, dividends and distributions from our joint venture investments and our existing capital resources, including the liquidity provided by our credit agreements and floor plan financing arrangements, will be sufficient to fund our existing operations and current commitments for at least the next twelve months. In the event we pursue significant acquisitions or other expansion opportunities, significant repurchases of our outstanding securities, or refinance or repay existing debt, we may need to raise additional capital either through the public or private issuance of equity or debt securities or through additional borrowings, which sources of funds may not necessarily be available on terms acceptable to us, if at all. In addition, our liquidity could be negatively impacted in the event we fail to comply with the covenants under our various financing and operating agreements or in the event our floor plan financing is withdrawn.

As of June 30, 2016, we had working capital of \$344.0 million, including \$97.5 million of cash available to fund our operations and capital commitments. In addition, we had \$700.0 million, £111.0 million (\$147.8 million), and AU \$6.6 million (\$4.9 million) available for borrowing under our U.S. credit agreement, U.K. credit agreement, and Australian working capital loan agreement, respectively. We funded the July 27, 2016 purchase of 14.4% of PTL for \$498.7 million using existing liquidity, including approximately \$350.0 million of borrowings under our U.S. credit agreement.

#### Securities Repurchases

From time to time, our Board of Directors has authorized securities repurchase programs pursuant to which we may, as market conditions warrant, purchase our outstanding common stock or debt on the open market, in privately negotiated transactions, via a tender offer, or through a pre-arranged trading plan. We have historically funded any such repurchases using cash flow from operations, borrowings under our U.S. credit facility, and borrowings under our U.S. floor plan arrangements. The decision to make repurchases will be based on factors such as the market price of the relevant security versus our view of its intrinsic value, the potential impact of such repurchases on our capital structure, and our consideration of any alternative uses of our capital, such as for acquisitions and strategic investments in our current businesses, in addition to any then-existing limits imposed by our finance agreements and securities trading policy. As of June 30, 2016, we have \$32.1 million in repurchase authorization under the existing securities repurchase program. Refer to the disclosures provided in Part I, Item 1, Note 10 of the Notes to our Consolidated Condensed Financial Statements for a summary of shares repurchased under our securities repurchase program during the six months ended June 30, 2016.

Table of Contents

Dividends

We paid the following cash dividends on our common stock in 2015 and 2016:

Per Share Dividends

2015

First Quarter	\$ 0.22
Second Quarter	0.23
Third Quarter	0.24
Fourth Quarter	0.25

2016

First Quarter	\$ 0.26
Second Quarter	0.27

We also announced a cash dividend of \$0.28 per share payable on September 1, 2016 to shareholders of record on August 10, 2016. Future quarterly or other cash dividends will depend upon a variety of factors considered relevant by our Board of Directors, which may include our earnings, capital requirements, restrictions relating to any then-existing indebtedness, financial condition and other factors.

Vehicle Financing

We finance substantially all of the commercial vehicles we purchase for distribution, new vehicles for retail sale, and a portion of our used vehicle inventories for retail sale, under floor plan and other revolving arrangements with various lenders, including the captive finance companies associated with automotive manufacturers. In the U.S., the floor plan arrangements are due on demand; however, we have not historically been required to repay floor plan advances prior to the sale of the vehicles that have been financed. We typically make monthly interest payments on the amount financed. Outside of the U.S., substantially all of the floor plan arrangements are payable on demand or have an original maturity of 90 days or less, and we are generally required to repay floor plan advances at the earlier of the sale of the vehicles that have been financed or the stated maturity.



The agreements typically grant a security interest in substantially all of the assets of our dealership and distribution subsidiaries and, in the U.S., Australia and New Zealand, are guaranteed or partially guaranteed by us. Interest rates under the arrangements are variable and increase or decrease based on changes in the prime rate, defined LIBOR, Finance House Base Rate, the Euro Interbank Offered Rate, the Canadian Prime Rate, or the Australian or New Zealand Bank Bill Swap Rate. To date, we have not experienced any material limitation with respect to the amount or availability of financing from any institution providing us vehicle financing. We also receive non-refundable credits from certain of our vehicle manufacturers, which are treated as a reduction of cost of sales as vehicles are sold.

Table of Contents

## Long-Term Debt Obligations

As of June 30, 2016, we had the following long-term debt obligations outstanding:

(In millions)	June 30, 2016
U.S. credit agreement – revolving credit line	\$ —
U.K. credit agreement – revolving credit line	65.2
U.K. credit agreement – overdraft line of credit	—
5.50% senior subordinated notes due 2026	493.5
5.375% senior subordinated notes due 2024	296.6
5.75% senior subordinated notes due 2022	544.7
Australia working capital loan agreement	28.1
Mortgage facilities	204.4
Other	28.3
Total long-term debt	\$ 1,660.8

As of June 30, 2016, we were in compliance with all covenants under our credit agreements and we believe we will remain in compliance with such covenants for the next twelve months. Refer to the disclosures provided in Part I, Item 1, Note 7 of the Notes to our Consolidated Condensed Financial Statements for a detailed description of our long-term debt obligations.

## Short-Term Borrowings

We have four principal sources of short-term borrowings: the revolving portion of the U.S. credit agreement, the revolving portion of the U.K. credit agreement, our Australian working capital loan agreement and the floor plan agreements that we utilize to finance our vehicle inventories. We are able to access availability under the floor plan agreements to fund our cash needs, including payments made relating to our higher interest rate revolving credit agreements.

During the six months ended June 30, 2016, outstanding revolving commitments varied between \$0 million and \$383.5 million under the U.S. credit agreement, between £0 million and £109.0 million (\$0 million and \$145.1 million) under the U.K. credit agreement's revolving credit line (excluding the overdraft facility), and between AU \$7.5 million and AU \$42.7 million (\$5.6 million and \$31.8 million) under the Australia working capital loan agreement. The amounts outstanding under our floor plan agreements varied based on the timing of the receipt and expenditure of cash in our operations, driven principally by the levels of our vehicle inventories.

#### PTL Dividends

As of June 30, 2016, we held a 9.0% ownership interest in Penske Truck Leasing. During the six months ended June 30, 2016 and 2015, we received \$4.5 million and \$5.4 million, respectively, of pro rata cash distributions relating to this investment. We currently expect to continue to receive future distributions from PTL quarterly, subject to its financial performance.

#### Operating Leases

Refer to the disclosures provided in Part I, Item 1, Note 9 of the Notes to our Consolidated Condensed Financial Statements for a description of our operating leases. As of June 30, 2016, we were in compliance with all covenants under these leases, and we believe we will remain in compliance with such covenants for the next twelve months.

#### Sale/Leaseback Arrangements

We have in the past and may in the future enter into sale-leaseback transactions to finance certain property acquisitions and capital expenditures, pursuant to which we sell property and/or leasehold improvements to third parties

## Table of Contents

and agree to lease those assets back for a certain period of time. Such sales generate proceeds that vary from period to period.

### Off-Balance Sheet Arrangements

Refer to the disclosures provided in Part I, Item 1, Note 9 of the Notes to our Consolidated Condensed Financial Statements for a description of our off-balance sheet arrangements which include lease obligations, indemnification to GEC related to PTL senior unsecured notes, and a limited parent guarantee related to our floor plan credit agreement with Mercedes Benz Financial Services Australia.

### Cash Flows

Cash and cash equivalents increased by \$35.1 million and \$3.1 million during the six months ended June 30, 2016 and 2015, respectively. The major components of these changes are discussed below.

#### Cash Flows from Continuing Operating Activities

Cash provided by continuing operating activities was \$264.5 million and \$270.6 million during the six months ended June 30, 2016 and 2015, respectively. Cash flows from continuing operating activities includes net income, as adjusted for non-cash items and the effects of changes in working capital.

We finance substantially all of the commercial vehicles we purchase for distribution, new vehicles for retail sale, and a portion of our used vehicle inventories for retail sale, under floor plan and other revolving arrangements with various lenders, including the captive finance companies associated with automotive manufacturers. We retain the right to select which, if any, financing source to utilize in connection with the procurement of vehicle inventories. Many vehicle manufacturers provide vehicle financing for the dealers representing their brands; however, it is not a requirement that we utilize this financing. Historically, our floor plan finance source has been based on aggregate pricing considerations.

In accordance with generally accepted accounting principles relating to the statement of cash flows, we report all cash flows arising in connection with floor plan notes payable with the manufacturer of a particular new vehicle as an operating activity in our statement of cash flows, and all cash flows arising in connection with floor plan notes payable to a party other than the manufacturer of a particular new vehicle, all floor plan notes payable relating to

pre-owned vehicles, and all floor plan notes payable related to our commercial vehicles in Australia and New Zealand, as a financing activity in our statement of cash flows. Currently, the majority of our non-trade vehicle financing is with other manufacturer captive lenders. To date, we have not experienced any material limitation with respect to the amount or availability of financing from any institution providing us vehicle financing.

We believe that changes in aggregate floor plan liabilities are typically linked to changes in vehicle inventory, and therefore, are an integral part of understanding changes in our working capital and operating cash flow. As a result, we prepare the following reconciliation to highlight our operating cash flows with all changes in vehicle floor plan being classified as an operating activity for informational purposes:

(In millions)	Six Months Ended	
	June 30, 2016	2015
Net cash from continuing operating activities as reported	\$ 264.5	\$ 270.6
Floor plan notes payable — non-trade as reported	(163.0)	120.3
Net cash from continuing operating activities including all floor plan notes payable	\$ 101.5	\$ 390.9

#### Cash Flows from Continuing Investing Activities

Cash used in continuing investing activities was \$227.1 million and \$169.9 million during the six months ended June 30, 2016 and 2015, respectively. Cash flows from continuing investing activities consist primarily of cash used for capital expenditures and net expenditures for acquisitions and other investments. Capital expenditures were \$136.7 million and \$83.5 million during the six months ended June 30, 2016 and 2015, respectively. Capital expenditures relate

## Table of Contents

primarily to improvements to our existing dealership facilities, the construction of new facilities, the acquisition of the property or buildings associated with existing leased facilities, and the acquisition of land for future development. We currently expect to finance our retail automotive segment and retail commercial truck segment capital expenditures with operating cash flows or borrowings under our U.S. or U.K. credit facilities. Cash used in acquisitions and other investments, net of cash acquired, was \$65.4 million and \$86.4 million during the six months ended June 30, 2016 and 2015, respectively, and included cash used to repay sellers floor plan liabilities in such business acquisitions of \$44.7 million and \$41.2 million, respectively.

### Cash Flows from Continuing Financing Activities

Cash provided by continuing financing activities was \$1.5 million and cash used in continuing financing activities was \$138.1 million during the six months ended June 30, 2016 and 2015, respectively. Cash flows from continuing financing activities include net borrowings or repayments of long-term debt, issuance and repurchases of long-term debt, repurchases of common stock, net borrowings or repayments of floor plan notes payable non-trade, payment of debt issuance costs, and dividends.

We had net repayments of long-term debt of \$99.1 million and \$194.2 million during the six months ended June 30, 2016 and 2015, respectively. We issued \$500.0 million of senior subordinated notes during the six months ended June 30, 2016 and paid \$6.6 million of debt issuance costs in conjunction with the issuance of these notes. We paid \$1.7 million of debt issuance costs during the six months ended June 30, 2015. We had net repayments of floor plan notes payable non-trade of \$163.0 million and net borrowings of floor plan notes payable non-trade of \$120.3 million during the six months ended June 30, 2016 and 2015, respectively. We repurchased common stock for a total of \$173.6 million and \$22.0 million during the six months ended June 30, 2016 and 2015, respectively. We also paid cash dividends to our stockholders of \$46.4 million and \$40.7 million during the six months ended June 30, 2016 and 2015, respectively.

### Cash Flows from Discontinued Operations

Cash flows relating to discontinued operations are not currently considered, nor are they expected to be, material to our liquidity or our capital resources. Management does not believe that there are any material past, present or upcoming cash transactions relating to discontinued operations.

### Related Party Transactions

### Stockholders Agreement

Several of our directors and officers are affiliated with Penske Corporation or related entities. Roger S. Penske, our Chairman of the Board and Chief Executive Officer, is also Chairman of the Board and Chief Executive Officer of Penske Corporation, and through entities affiliated with Penske Corporation, our largest stockholder owning approximately 37% of our outstanding common stock. Mitsui & Co., Ltd. and Mitsui & Co. (USA), Inc. (collectively, “Mitsui”) own approximately 18% of our outstanding common stock. Mitsui, Penske Corporation and certain other affiliates of Penske Corporation are parties to a stockholders agreement pursuant to which the Penske affiliated companies agreed to vote their shares for up to two directors who are representatives of Mitsui. In turn, Mitsui agreed to vote their shares for up to fourteen directors voted for by the Penske affiliated companies. This agreement terminates in March 2024, upon the mutual consent of the parties, or when either party no longer owns any of our common stock.

#### Other Related Party Interests and Transactions

Roger S. Penske is also a managing member of Transportation Resource Partners, an organization that invests in transportation-related industries. Robert H. Kurnick, Jr., our President and a director, is also the President and a director of Penske Corporation. Greg Penske, one of our directors, is the son of our chairman and is also a board member of Penske Corporation. Kanji Sasaki, one of our directors and officers, is also an employee of Mitsui & Co.

We sometimes pay to and/or receive fees from Penske Corporation, its subsidiaries, and its affiliates, for services rendered in the ordinary course of business or to reimburse payments made to third parties on each other’s behalf. These

Table of Contents

transactions are reviewed periodically by our Audit Committee and reflect the provider's cost or an amount mutually agreed upon by both parties.

On July 27, 2016, we acquired an additional 14.4% ownership interest in PTL from GE Capital for approximately \$498.7 million in cash, subject to adjustment based on the earnings of PTL through July 27, 2016. After the transaction, PTL is owned 41.1% by Penske Corporation, 23.4% by us, 20.0% by Mitsui, and 15.5% by GE Capital. In connection with this transaction, the PTL partners agreed to amend and restate the existing partnership agreement among the partners which, among other things, provides us with specified partner distribution and governance rights and restricts our ability to transfer our interests. Specifically, as a limited partner, we are now entitled to one of seven representatives of PTL's Advisory Committee and approval rights over significant governance items of PTL. We continue to have the right to pro rata quarterly distributions equal to 50% of PTL's consolidated net income and we expect to realize significant cash tax savings.

We may only transfer our interests with the unanimous consent of the other partners, or if we provide the remaining partners with a right of first offer to acquire our interests, except that we may transfer up to 9.02% of our interests to Penske Corporation without complying with the right of first offer to the remaining partners. We and Penske Corporation have previously agreed that (1) in the event of any transfer by Penske Corporation of their partnership interests to a third party, we shall be entitled to "tag-along" by transferring a pro rata amount of our partnership interests on similar terms and conditions, and (2) Penske Corporation is entitled to a right of first refusal in the event of any transfer of our partnership interests, subject to the terms of the partnership agreement. Additionally, PTL has agreed to indemnify the general partner for any actions in connection with managing PTL, except those taken in bad faith or in violation of the partnership agreement.

The partnership agreement allows GE Capital or Penske Corporation, beginning December 31, 2017, to give notice to require PTL to begin to effect an initial public offering of equity securities, subject to certain limitations, as soon as practicable after the first anniversary of the initial notice. The party that is not exercising this right may seek to find a third party to purchase all of the partnership interests from the exercising party or to propose another alternative to such equity offers. In connection with the right to cause PTL to conduct an initial public offering, the PTL partners have agreed to customary demand and piggyback registration rights. As part of the transaction, beginning in 2025, PAG and Mitsui have been granted a similar right to require PTL to begin an initial public offering of equity securities, subject to certain limitations, as soon as reasonably practicable. The term of the partnership agreement was extended to December 31, 2035 or such later date as the limited partners may agree.

We have also entered into other joint ventures with certain related parties as more fully discussed below.



Table of Contents

## Joint Venture Relationships

We are party to a number of joint ventures pursuant to which we own and operate automotive dealerships together with other investors. We may provide these dealerships with working capital and other debt financing at costs that are based on our incremental borrowing rate. As of June 30, 2016, our retail automotive joint venture relationships included:

Location	Dealerships	Ownership Interest	
Fairfield, Connecticut	Audi, Mercedes-Benz, Sprinter, Porsche, smart	81.03	% (A) (C)
Greenwich, Connecticut	Mercedes-Benz	80.00	% (B) (C)
Northern Italy	BMW, MINI, Maserati	70.00	% (C)
Aachen, Germany	Audi, Maserati, SEAT, Skoda, Volkswagen	68.00	% (D)
Frankfurt, Germany	Lexus, Toyota, Volkswagen	50.00	% (E)
Barcelona, Spain	BMW, MINI	50.00	% (E)
Tokyo, Japan	BMW, MINI, Rolls-Royce, Ferrari	49.00	% (E)

(A) As of June 30, 2016, an entity controlled by one of our directors, Lucio A. Noto (the “Investor”), owns an 18.97% interest in this joint venture which entitles the Investor to 20% of the joint venture’s operating profits. In addition, the Investor has an option to purchase up to a 20% interest in the joint venture for specified amounts.

(B) An entity controlled by one of our directors, Lucio A. Noto, owns a 20% interest in this joint venture.

(C) Entity is consolidated in our financial results.

(D) Entity is consolidated in our financial statements as a result of our purchase of an additional 10% interest in this joint venture in the third quarter of 2015. In March 2016, we acquired an additional 8% interest in this joint venture.

(E) Entity is accounted for using the equity method of accounting.

Additionally, we are party to non-automotive joint ventures including our investments in Penske Commercial Leasing Australia (45%), Penske Vehicle Services (31%), PTL (23.4% as of July 27, 2016), and National Powersport Auctions (7%), that are accounted for under the equity method, and our controlling interest in i.M. Branded (90%) that is consolidated in our financial statements.

## Cyclicality

Unit sales of motor vehicles, particularly new vehicles, have been cyclical historically, fluctuating with general economic cycles. During economic downturns, the automotive and truck retailing industry tends to experience periods of decline and recession similar to those experienced by the general economy. We believe that the industry is influenced by general economic conditions and particularly by consumer confidence, the level of personal discretionary spending, fuel prices, interest rates, and credit availability.

#### Seasonality

**Dealership.** Our business is modestly seasonal overall. Our U.S. operations generally experience higher volumes of vehicle sales in the second and third quarters of each year due in part to consumer buying trends and the introduction of new vehicle models. Also, vehicle demand, and to a lesser extent demand for service and parts, is generally lower during the winter months than in other seasons, particularly in regions of the U.S. where dealerships may be subject to severe winters. Our U.K. operations generally experience higher volumes of vehicle sales in the first and third quarters of each year, due primarily to vehicle registration practices in the U.K.

**Commercial Vehicle Distribution.** Our commercial vehicle distribution business generally experiences higher sales volumes during the second quarter of the year, which is primarily attributable to commercial vehicle customers

## Table of Contents

completing annual capital expenditures before their fiscal year-end, which is typically June 30 in Australia and New Zealand.

### Effects of Inflation

We believe that inflation rates over the last few years have not had a significant impact on revenues or profitability. We do not expect inflation to have any near-term material effects on the sale of our products and services; however, we cannot be sure there will be no such effect in the future. We finance substantially all of our inventory through various revolving floor plan arrangements with interest rates that vary based on various benchmarks. Such rates have historically increased during periods of increasing inflation.

### Forward-Looking Statements

Certain statements and information set forth herein, as well as other written or oral statements made from time to time by us or by our authorized officers on our behalf, constitute “forward-looking statements” within the meaning of the Federal Private Securities Litigation Reform Act of 1995. Words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “goal,” “plan,” “seek,” “project,” “continue,” “will,” “would,” and variations of such words and similar expressions are used to identify such forward-looking statements. We intend for our forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and we set forth this statement in order to comply with such safe harbor provisions. You should note that our forward-looking statements speak only as of the date of this report or when made and we undertake no duty of obligation to update or revise our forward-looking statements, whether as a result of new information, future events, or otherwise. Forward-looking statements include, without limitation, statements with respect to:

- our future financial and operating performance;
- future acquisitions and dispositions;
- future potential capital expenditures and securities repurchases;
- our ability to realize cost savings and synergies;
- our ability to respond to economic cycles;

- trends in the automotive retail industry and commercial vehicles industries and in the general economy in the various countries in which we operate;
- our ability to access the remaining availability under our credit agreements;
- our liquidity;
- performance of joint ventures, including PTL;
- future foreign exchange rates;
- the outcome of various legal proceedings;
- results of self-insurance plans;
- trends affecting our future financial condition or results of operations; and
- our business strategy.

Table of Contents

Forward-looking statements involve known and unknown risks and uncertainties and are not assurances of future performance. Actual results may differ materially from anticipated results due to a variety of factors, including the factors identified in our 2015 annual report on Form 10-K filed February 25, 2016. Important factors that could cause actual results to differ materially from our expectations include the following:

- our business and the automotive retail and commercial vehicles industries in general are susceptible to adverse economic conditions, including changes in interest rates, foreign exchange rates, customer demand, customer confidence, fuel prices, unemployment rates and credit availability;
- the political and economic outcome of the recent referendum in the U.K. to leave the European Union;
- the number of new and used vehicles sold in our markets;
- vehicle manufacturers exercise significant control over our operations, and we depend on them and continuation of our franchise and distribution agreements in order to operate our business;
- we depend on the success, popularity and availability of the brands we sell, and adverse conditions affecting one or more vehicle manufacturers, including the adverse impact on the vehicle and parts supply chain due to natural disasters or other disruptions that interrupt the supply of vehicles and parts to us, may negatively impact our revenues and profitability;
- we are subject to the risk that a substantial number of our new or used inventory may be unavailable due to recall or other reasons;
- the success of our commercial vehicle distribution and engine and power systems distribution operations depends upon continued availability of the vehicles, engines, power systems, and other parts we distribute, demand for those vehicles, engines, power systems, and parts and general economic conditions in those markets;
- a restructuring of any significant vehicle manufacturers or suppliers;
- our operations may be affected by severe weather or other periodic business interruptions;
- we have substantial risk of loss not covered by insurance;
- we may not be able to satisfy our capital requirements for acquisitions, facility renovation projects, financing the purchase of our inventory, or refinancing of our debt when it becomes due;

- our level of indebtedness may limit our ability to obtain financing generally and may require that a significant portion of our cash flow be used for debt service;
- non-compliance with the financial ratios and other covenants under our credit agreements and operating leases;
- higher interest rates may significantly increase our variable rate interest costs and, because many customers finance their vehicle purchases, decrease vehicle sales;
- our operations outside of the U.S. subject our profitability to fluctuations relating to changes in foreign currency values, which have most recently occurred as a result of the recent U.K. referendum to leave the European Union;
- import product restrictions and foreign trade risks that may impair our ability to sell foreign vehicles profitably;
- with respect to PTL, changes in the financial health of its customers, labor strikes or work stoppages by its employees, a reduction in PTL's asset utilization rates and industry competition which could impact distributions to us;

Table of Contents

- we are dependent on continued availability of our information technology systems;
- if we lose key personnel, especially our Chief Executive Officer, or are unable to attract additional qualified personnel;
- new or enhanced regulations relating to automobile dealerships including those that may be issued by the Consumer Finance Protection Bureau in the U.S. or the Financial Conduct Authority in the U.K. restricting automotive financing;
- changes in tax, financial or regulatory rules or requirements;
- we could be subject to legal and administrative proceedings which, if the outcomes are adverse to us, could have a material adverse effect on our business;
- if state dealer laws in the U.S. are repealed or weakened, our automotive dealerships may be subject to increased competition and may be more susceptible to termination, non-renewal or renegotiation of their franchise agreements; some of our directors and officers may have conflicts of interest with respect to certain related party transactions and other business interests; and
- shares of our common stock eligible for future sale may cause the market price of our common stock to drop significantly, even if our business is doing well.

We urge you to carefully consider these risk factors in evaluating all forward-looking statements regarding our business. Readers of this report are cautioned not to place undue reliance on the forward-looking statements contained in this report. All forward-looking statements attributable to us are qualified in their entirety by this cautionary statement. Except to the extent required by the federal securities laws and the Securities and Exchange Commission's rules and regulations, we have no intention or obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

**Interest Rates.** We are exposed to market risk from changes in the interest rates on a significant portion of our outstanding debt. Outstanding revolving balances under our credit agreements bear interest at variable rates based on a margin over defined LIBOR or the Bank of England Base Rate. Based on the amount outstanding under these facilities as of June 30, 2016, a 100 basis point change in interest rates would result in an approximate \$0.7 million change to our annual other interest expense. Similarly, amounts outstanding under floor plan financing arrangements

bear interest at a variable rate based on a margin over the prime rate, defined LIBOR, the Finance House Base Rate, or the Euro Interbank Offered Rate, the Canadian Prime Rate, or the Australian or New Zealand Bank Bill Swap Rate (BBSW).

Based on an average of the aggregate amounts outstanding under our floor plan financing arrangements subject to variable interest payments during the trailing twelve months ended June 30, 2016, a 100 basis point change in interest rates would result in an approximate \$32.0 million change to our annual floor plan interest expense.

We evaluate our exposure to interest rate fluctuations and follow established policies and procedures to implement strategies designed to manage the amount of variable rate indebtedness outstanding at any point in time in an effort to mitigate the effect of interest rate fluctuations on our earnings and cash flows. These policies include:

- the maintenance of our overall debt portfolio with targeted fixed and variable rate components;
- the use of authorized derivative instruments;
- the prohibition of using derivatives for trading or other speculative purposes; and



Table of Contents

- the prohibition of highly leveraged derivatives or derivatives which we are unable to reliably value, or for which we are unable to obtain a market quotation.

Interest rate fluctuations affect the fair market value of our fixed rate debt, mortgages, and certain seller financed promissory notes, but with respect to such fixed rate debt instruments, do not impact our earnings or cash flows.

Foreign Currency Exchange Rates. As of June 30, 2016, we had consolidated operations in the U.K., Germany, Italy, Australia and New Zealand. In each of these markets, the local currency is the functional currency. In the event we change our intent with respect to the investment in any of our international operations, we would expect to implement strategies designed to manage those risks in an effort to mitigate the effect of foreign currency fluctuations on our earnings and cash flows. A ten percent change in average exchange rates versus the U.S. Dollar would have resulted in an approximate \$415.4 million change to our revenues for the six months ended June 30, 2016. The United Kingdom held a referendum on June 23, 2016 in which a majority voted to exit the European Union (“Brexit”). The British Pound has weakened since the Brexit vote, with an average exchange rate of British Pounds to U.S. Dollars of 1.32 after the Brexit vote through July 26, 2016, as compared to the weighted average exchange rate of 1.43 for the six months ended June 30, 2016, a decrease of 7.7%. If such a decline had occurred at the beginning of the period, it would have resulted in an approximate \$270.6 million decrease to our revenues for the six months ended June 30, 2016.

We purchase certain of our new vehicles, parts and other products from non-U.S. manufacturers. Although we purchase the majority of our inventories in the local functional currency, our business is subject to certain risks, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions and foreign exchange rate volatility which may influence such manufacturers’ ability to provide their products at competitive prices in the local jurisdictions. Our future results could be materially and adversely impacted by changes in these or other factors.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including the principal executive and financial officers, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), as of the end of the period covered by this report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including our principal executive and financial officers, to allow timely discussions regarding required disclosure.

Based upon this evaluation, our principal executive and financial officers concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, we maintain internal controls

designed to provide us with the information required for accounting and financial reporting purposes. There were no changes in our internal control over financial reporting that occurred during the most recent quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

58

---

Table of Contents

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in litigation which may relate to claims brought by governmental authorities, customers, vendors, or employees, including class action claims and purported class action claims. We are not a party to any legal proceedings, including class action lawsuits, that individually or in the aggregate, are reasonably expected to have a material adverse effect on us. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect.

Item 1A. Risk Factors

In addition to the information set forth in this Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015, which could materially affect our business, financial condition, or future results. The following updates the risk factors included in our 2015 Form 10-K:

The United Kingdom's potential departure from the European Union could adversely affect us. The United Kingdom held a referendum on June 23, 2016 in which a majority voted to exit the European Union ("Brexit"). Although the vote is non-binding, negotiations are expected to commence at some point in the future to determine the future terms of the United Kingdom's relationship with the European Union, including, among other things, the terms of trade between the United Kingdom and the European Union. The effects of Brexit will depend on any agreements the United Kingdom makes to retain access to European Union markets either during a transitional period or more permanently. Brexit itself and the length of time the United Kingdom and the European Union engage in discussions, which could be over a protracted period of time, could adversely affect European and worldwide economic and market conditions and could contribute to instability in global financial and foreign exchange markets, including volatility in the value of the Sterling and Euro.

In addition, commentators have suggested the Brexit vote will lead to further referendum as to whether certain of the four countries that comprise the United Kingdom (England, Scotland, Wales and Northern Ireland) will remain a part of the E.U. While the majority of our operations are in England, we also have operations in Scotland, Wales and Northern Ireland. The same factors noted above apply to any potential exit of these countries from the United Kingdom.

As exchange rates fluctuate, our revenue and results of operations as reported in U.S. Dollars fluctuate. The British Pound has weakened since the Brexit vote, with an average exchange rate of British Pounds to U.S. Dollars of 1.32 after the Brexit vote through July 26, 2016, as compared to the weighted average exchange rate of 1.43 for the six months ended June 30, 2016, a decrease of 7.7%. A weakening British Pound as compared to the U.S. Dollar negatively impacts our U.S. Dollar reported results of operations. Our U.K. business generated 34% of our total revenue in the six months ended June 30, 2016. Any of these effects of Brexit, and others we cannot anticipate, could adversely affect our business, consolidated financial position, results of operations, and cash flows.

International and foreign currency risk. We have significant operations outside the U.S. that expose us to changes in foreign exchange rates and to the impact of economic and political conditions in the markets where we operate. As exchange rates fluctuate, our results of operations as reported in U.S. Dollars fluctuate. For example, if the U.S. Dollar were to continue to strengthen against the British Pound, our U.K. results of operations would translate into less U.S. Dollar reported results. This occurred in the second quarter of 2016 in large part due to the Brexit vote noted above. The British Pound has weakened since the Brexit vote, with an average exchange rate of British Pounds to U.S. Dollars of 1.32 after the Brexit vote through July 26, 2016, as compared to the weighted average exchange rate of 1.43 for the six months ended June 30, 2016, a decrease of 7.7%. Sustained levels or an increase in the value of the U.S. Dollar, particularly as compared to the British Pound, could result in a significant and adverse effect on our reported results.

Macro-economic conditions. Our performance is impacted by general economic conditions overall, and in particular by economic conditions in the markets in which we operate. These economic conditions include: levels of new and used vehicle sales; availability of consumer credit; changes in consumer demand; consumer confidence levels; fuel prices;

Table of Contents

personal discretionary spending levels; interest rates; and unemployment rates. When the worldwide economy faltered and the worldwide automotive industry experienced significant operational and financial difficulties in 2008 and 2009, we were adversely affected, and we expect a similar relationship between general economic and industry conditions and our performance in the future. The Brexit vote noted above has generated significant macroeconomic challenges for the global economy. We cannot predict the future effect of the Brexit vote on macroeconomic conditions or the automotive industry in particular, although any sustained drop in vehicles sales would adversely affect our operating results.

Joint ventures. We have significant investments in a variety of joint ventures, including automotive retail operations in Germany and Spain. We previously had a 9.0% interest in PTL, and as of July 27, 2016, increased our ownership to 23.4%. We expect to receive annual operating distributions from PTL and the other ventures, and, in the case of PTL, realize significant cash tax savings. These benefits may not be realized if the joint ventures do not perform as expected, or if changes in tax, financial or regulatory requirements negatively impact the results of the joint venture operations. Our ability to dispose of these investments may be limited.

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

In the fourth quarter of 2015, our Board of Directors increased the authority delegated to management to repurchase our outstanding securities to \$200.0 million. During the first quarter of 2016, we repurchased 4,512,325 shares of our outstanding common stock for \$167.9 million, or an average of \$37.21 per share, under our securities repurchase program approved by our Board of Directors. As of June 30, 2016, our remaining authorization under the program was \$32.1 million.

During the second quarter of 2016, we acquired 144,717 shares of our common stock for \$5.7 million from employees to satisfy tax obligations in connection with vesting of employee restricted stock awards.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Program (in millions)
April 1 to April 30, 2016	—	\$ —	—	\$ 32.1
May 1 to May 31, 2016	—	\$ —	—	\$ 32.1

June 1 to June 30, 2016	144,717	\$ 39.47	—	\$ 32.1
	144,717		—	

---

(1) Consists of shares withheld from employees to satisfy employee withholding taxes in connection with the vesting of restricted stock.

Table of Contents

Item 6. Exhibits

- 4.1 Second Supplemental Indenture dated as of July 13, 2016, regarding our 5.75% Senior Subordinated Notes due 2022, dated as of August 28, 2012 by and among us, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee.
- 4.2 Fourth Supplemental Indenture dated July 13, 2016, regarding our 5.375% Senior Subordinated Notes due 2024 among the Company, the Guarantors and The Bank of New York Mellon Trust Company, N.A., as Trustee.
- 4.3.1 Third Supplemental Indenture dated May 25, 2016, regarding our 5.50% Senior Subordinated Notes due 2026 among the Company, the Guarantors and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to exhibit 4.1 to our Form 8-K filed May 25, 2016).
- 4.3.2 Form of 5.50% Senior Subordinated Notes due 2026 (included within the Third Supplemental Indenture filed as Exhibit 4.3.1).
- 4.4 First Amendment to Fifth Amended and Restated Credit Agreement dated July 27, 2016 among us, Mercedes-Benz Financial Services USA LLC and Toyota Motor Credit Corporation (incorporated by reference to exhibit 4.1 to our Form 8-K filed July 28, 2016).
- 10.1 Agreement of Purchase and Sale dated as of July 27, 2016 by and among us, GE Capital Truck Leasing Holding LLC and Logistics Holding LLC (incorporated by reference to exhibit 10.1 to our Form 8-K filed July 28, 2016).
- 10.2 Cooperation Agreement dated as of July 27, 2016 by and among us, Penske Truck Leasing Co., L.P.,

Penske Truck Leasing Corporation, PTL GP, LLC, GE Capital Truck Leasing Holding LLC, General Electric Credit Corporation of Tennessee, Logistics Holding LLC and MBK USA Commercial Vehicles Inc. (incorporated by reference to exhibit 10.2 to our Form 8-K filed July 28, 2016).

- 10.3 Sixth Amended and Restated Agreement of Limited Partnership of Penske Truck Leasing Co., L.P. dated July 27, 2016 by and among Penske Truck Leasing Corporation, PTL GP, LLC, GE Capital Truck Leasing Holding LLC, General Electric Credit Corporation of Tennessee, MBK USA Commercial Vehicles Inc. and us (incorporated by reference to exhibit 10.3 to our Form 8-K filed July 28, 2016).
- 12 Computation of Ratio of Earnings to Fixed Charges.
- 31.1 Rule 13(a)-14(a)/15(d)-14(a) Certification.
- 31.2 Rule 13(a)-14(a)/15(d)-14(a) Certification.
- 32 Section 1350 Certification.
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase.
- 101.LAB XBRL Taxonomy Extension Label Linkbase.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase.



Table of Contents

SIGNATURES

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

PENSKE AUTOMOTIVE  
GROUP, INC.

By: /s/ Roger S. Penske  
Roger S. Penske  
Chief Executive Officer

Date: July 29, 2016

By: /s/ J.D. Carlson  
J.D. Carlson  
Chief Financial Officer

Date: July 29, 2016

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
4.1	Second Supplemental Indenture dated as of July 13, 2016, regarding our 5.75% Senior Subordinated Notes due 2022, dated as of August 28, 2012 by and among us, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee.
4.2	Fourth Supplemental Indenture dated July 13, 2016, regarding our 5.375% Senior Subordinated Notes due 2024 among the Company, the Guarantors and The Bank of New York Mellon Trust Company, N.A., as Trustee.
4.3.1	Third Supplemental Indenture dated May 25, 2016, regarding our 5.50% Senior Subordinated Notes due 2026 among the Company, the Guarantors and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to exhibit 4.1 to our Form 8-K filed May 25, 2016).
4.3.2	Form of 5.50% Senior Subordinated Notes due 2026 (included within the Third Supplemental Indenture filed as Exhibit 4.3.1).
4.4	First Amendment to Fifth Amended and Restated Credit Agreement dated July 27, 2016 among us, Mercedes-Benz Financial Services USA LLC and Toyota Motor Credit Corporation (incorporated by reference to exhibit 4.1 to our Form 8-K filed July 28, 2016).
10.1	Agreement of Purchase and Sale dated as of July 27, 2016 by and among us, GE Capital Truck Leasing Holding LLC and Logistics Holding LLC (incorporated by reference to exhibit 10.1 to our Form 8-K filed July 28, 2016).
10.2	Cooperation Agreement dated as of July 27, 2016 by and among us, Penske Truck Leasing Co., L.P., Penske Truck Leasing Corporation, PTL GP, LLC, GE Capital Truck Leasing Holding LLC, General Electric Credit Corporation of Tennessee, Logistics Holding LLC and MBK USA Commercial Vehicles Inc. (incorporated by reference to exhibit 10.2 to our Form 8-K filed July 28, 2016).
10.3	Sixth Amended and Restated Agreement of Limited Partnership of Penske Truck Leasing Co., L.P. dated July 27, 2016 by and among Penske Truck Leasing Corporation, PTL GP, LLC, GE Capital Truck Leasing Holding LLC, General Electric Credit Corporation of Tennessee, MBK USA Commercial Vehicles Inc. and us (incorporated by reference to exhibit 10.3 to our Form 8-K filed July 28, 2016).
12	Computation of Ratio of Earnings to Fixed Charges.
31.1	Rule 13(a)-14(a)/15(d)-14(a) Certification.
31.2	Rule 13(a)-14(a)/15(d)-14(a) Certification.
32	Section 1350 Certification.

- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase.
- 101.LAB XBRL Taxonomy Extension Label Linkbase.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase.