

PENSKE AUTOMOTIVE GROUP, INC.

Form 10-Q

April 27, 2016

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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 March 31, 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)

|  |   |
|--|---|
| Delaware<br>(State or other jurisdiction of<br>incorporation or organization)                  | 22-3086739<br>(I.R.S. Employer<br>Identification No.) |
| 2555 Telegraph Road,<br>Bloomfield Hills, Michigan<br>(Address of principal executive offices) | 48302-0954<br>(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 April 21, 2016, there were 85,314,513 shares of voting common stock outstanding.



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## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

## PENSKE AUTOMOTIVE GROUP, INC.

## CONSOLIDATED CONDENSED BALANCE SHEETS

|  | March<br>31,<br>2016<br>(Unaudited)                     | December<br>31,<br>2015<br>(Unaudited) |
|--|---|--|
|  | (In millions, except<br>share<br>and per share amounts) |  |
| <b>ASSETS</b>  |   |  |
| Cash and cash equivalents  | \$ 45.6   | \$ 62.4                                |
| Accounts receivable, net of allowance for doubtful accounts of \$4.0 and \$4.2 | 835.6   | 782.3                                  |
| Inventories  | 3,513.4   | 3,463.5                                |
| Other current assets   | 101.5   | 85.6                                   |
| Assets held for sale   | 9.8   | 13.1                                   |
| Total current assets   | 4,505.9   | 4,406.9                                |
| Property and equipment, net  | 1,545.8   | 1,520.1                                |
| Goodwill   | 1,325.6   | 1,322.8                                |
| Other indefinite-lived intangible assets                                       | 409.2   | 408.0                                  |
| Equity method investments  | 366.6   | 336.4                                  |
| Other long-term assets   | 19.8  | 19.2                                   |
| Total assets   | \$ 8,172.9  | \$ 8,013.4                             |
| <b>LIABILITIES AND EQUITY</b>  |   |  |
| Floor plan notes payable   | \$ 2,262.5  | \$ 2,247.2                             |
| Floor plan notes payable — non-trade   | 1,187.3   | 1,132.4                                |
| Accounts payable   | 541.5   | 493.8                                  |
| Accrued expenses   | 388.0   | 378.1                                  |
| Current portion of long-term debt  | 54.5  | 28.0                                   |
| Liabilities held for sale  | 5.1   | 6.2                                    |
| Total current liabilities  | 4,438.9   | 4,285.7                                |
| Long-term debt   | 1,330.1   | 1,247.0                                |
| Deferred tax liabilities   | 437.8   | 433.4                                  |
| Other long-term liabilities  | 242.1   | 212.4                                  |
| Total liabilities  | 6,448.9   | 6,178.5                                |
| Commitments and contingent liabilities (Note 11)                               |   |  |
| Equity   |   |  |

|  |            |            |
|--|------------|------------|
| Penske Automotive Group stockholders' equity:  |            |            |
| Preferred Stock, \$0.0001 par value; 100,000 shares authorized; none issued and outstanding  | —          | —          |
| Common Stock, \$0.0001 par value, 240,000,000 shares authorized; 85,314,863 shares issued and outstanding at March 31, 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   | 491.6      | 656.0      |
| Retained earnings  | 1,312.7    | 1,256.7    |
| Accumulated other comprehensive income (loss)  | (122.7)    | (122.5)    |
| Total Penske Automotive Group stockholders' equity   | 1,681.6    | 1,790.2    |
| Non-controlling interest   | 42.4       | 44.7       |
| Total equity   | 1,724.0    | 1,834.9    |
| Total liabilities and equity   | \$ 8,172.9 | \$ 8,013.4 |

See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF INCOME

|   | Three Months Ended<br>March 31,         |            |
|---|---|------------|
|   | 2016                                    | 2015       |
|   | (Unaudited)                             |            |
|   | (In millions, except per share amounts) |            |
| Revenue:  |   |            |
| Retail automotive dealership  | \$ 4,512.9                              | \$ 4,186.8 |
| Retail commercial truck dealership  | 206.7                                   | 192.7      |
| Commercial vehicle distribution and other   | 105.0                                   | 103.4      |
| Total revenues  | \$ 4,824.6                              | \$ 4,482.9 |
| Cost of sales:  |   |            |
| Retail automotive dealership  | 3,847.9                                 | 3,557.5    |
| Retail commercial truck dealership  | 173.5                                   | 159.9      |
| Commercial vehicle distribution and other   | 79.4                                    | 75.6       |
| Total cost of sales   | 4,100.8                                 | 3,793.0    |
| Gross profit  | 723.8                                   | 689.9      |
| Selling, general and administrative expenses  | 558.9                                   | 535.8      |
| Depreciation  | 20.8                                    | 18.6       |
| Operating income  | 144.1                                   | 135.5      |
| Floor plan interest expense   | (12.8)                                  | (10.3)     |
| Other interest expense  | (17.2)                                  | (16.3)     |
| Equity in earnings of affiliates  | 5.5                                     | 6.7        |
| Income from continuing operations before income taxes                                   | 119.6                                   | 115.6      |
| Income taxes  | (39.4)                                  | (38.8)     |
| Income from continuing operations   | 80.2                                    | 76.8       |
| Loss from discontinued operations, net of tax   | —                                       | (0.9)      |
| Net income  | 80.2                                    | 75.9       |
| Less: Income attributable to non-controlling interests                                  | 0.9                                     | 0.7        |
| Net income attributable to Penske Automotive Group common stockholders                  | \$ 79.3                                 | \$ 75.2    |
| Basic earnings per share attributable to Penske Automotive Group common stockholders:   |   |            |
| Continuing operations   | \$ 0.90                                 | \$ 0.84    |
| Discontinued operations   | \$ —                                    | \$ (0.01)  |
| Net income attributable to Penske Automotive Group common stockholders                  | \$ 0.90                                 | \$ 0.83    |
| Shares used in determining basic earnings per share                                     | 88.3                                    | 90.3       |
| Diluted earnings per share attributable to Penske Automotive Group common stockholders: |   |            |
| Continuing operations   | \$ 0.90                                 | \$ 0.84    |
| Discontinued operations   | \$ —                                    | \$ (0.01)  |
| Net income attributable to Penske Automotive Group common stockholders                  | \$ 0.90                                 | \$ 0.83    |
| Shares used in determining diluted earnings per share                                   | 88.3                                    | 90.3       |

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|  |         |         |
|--|---------|---------|
| Amounts attributable to Penske Automotive Group common stockholders:   |         |         |
| Income from continuing operations                                      | \$ 80.2 | \$ 76.8 |
| Less: Income attributable to non-controlling interests                 | 0.9     | 0.7     |
| Income from continuing operations, net of tax                          | 79.3    | 76.1    |
| Loss from discontinued operations, net of tax                          | —       | (0.9)   |
| Net income attributable to Penske Automotive Group common stockholders | \$ 79.3 | \$ 75.2 |
| Cash dividends per share   | \$ 0.26 | \$ 0.22 |

See Notes to Consolidated Condensed Financial Statements



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PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

|  | Three Months<br>Ended<br>March 31,<br>2016      2015<br>(Unaudited)<br>(In millions) |         |
|--|--|---------|
| Net income   | \$ 80.2  | \$ 75.9 |
| Other comprehensive income:  |  |         |
| Foreign currency translation adjustment  | 0.3  | (52.8)  |
| Other adjustments to comprehensive income, net                                   | 0.9  | (2.3)   |
| Other comprehensive income (loss), net of tax                                    | 1.2  | (55.1)  |
| Comprehensive income   | 81.4   | 20.8    |
| Less: Comprehensive income attributable to non-controlling interests             | 2.4  | 0.1     |
| Comprehensive income attributable to Penske Automotive Group common stockholders | \$ 79.0  | \$ 20.7 |

See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

|  | Three Months Ended<br>March 31, |         |
|--|---------------------------------|---------|
|  | 2016                            | 2015    |
|  | (Unaudited)                     |         |
|  | (In millions)                   |         |
| Operating Activities:  |                                 |         |
| Net income   | \$ 80.2                         | \$ 75.9 |
| Adjustments to reconcile net income to net cash from continuing operating activities:                        |                                 |         |
| Depreciation   | 20.8                            | 18.6    |
| Earnings of equity method investments  | (5.5)                           | (6.7)   |
| Loss from discontinued operations, net of tax  | —                               | 0.9     |
| Deferred income taxes  | 3.9                             | (22.6)  |
| Changes in operating assets and liabilities:   |                                 |         |
| Accounts receivable  | (53.2)                          | (44.2)  |
| Inventories  | (49.7)                          | (17.2)  |
| Floor plan notes payable   | 15.3                            | 103.2   |
| Accounts payable and accrued expenses  | 56.3                            | 64.5    |
| Other  | 14.5                            | 20.9    |
| Net cash provided by continuing operating activities   | 82.6                            | 193.3   |
| Investing Activities:  |                                 |         |
| Purchase of equipment and improvements   | (46.8)                          | (33.7)  |
| Acquisitions net, including repayment of sellers' floor plan notes payable of \$0.0 and \$41.2, respectively | (0.4)                           | (86.4)  |
| Other  | (25.7)                          | —       |
| Net cash used in continuing investing activities   | (72.9)                          | (120.1) |
| Financing Activities:  |                                 |         |
| Proceeds from borrowings under U.S. credit agreement revolving credit line                                   | 372.5                           | 398.9   |
| Repayments under U.S. credit agreement revolving credit line   | (295.5)                         | (398.9) |
| Repayment of U.S. commercial truck capital loan  | —                               | (60.5)  |
| Net borrowings (repayments) of other long-term debt  | 34.5                            | (78.8)  |
| Net borrowings of floor plan notes payable — non-trade   | 54.9                            | 100.9   |
| Payment of debt issuance costs   | —                               | (1.2)   |
| Repurchases of common stock  | (167.9)                         | (14.0)  |
| Dividends  | (23.3)                          | (19.9)  |
| Other  | (4.6)                           | —       |
| Net cash used in continuing financing activities   | (29.4)                          | (73.5)  |
| Discontinued operations:   |                                 |         |
| Net cash provided by discontinued operating activities   | 0.5                             | 14.8    |
| Net cash provided by discontinued investing activities   | 1.7                             | 105.1   |
| Net cash used in discontinued financing activities   | —                               | (86.0)  |
| Net cash provided by discontinued operations   | 2.2                             | 33.9    |
| Effect of exchange rate changes on cash and cash equivalents   | 0.7                             | (3.1)   |

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|  |         |         |
|--|---------|---------|
| Net change in cash and cash equivalents            | (16.8)  | 30.5    |
| Cash and cash equivalents, beginning of period     | 62.4    | 36.3    |
| Cash and cash equivalents, end of period           | \$ 45.6 | \$ 66.8 |
| Supplemental disclosures of cash flow information: |         |         |
| Cash paid for:                                     |         |         |
| Interest   | \$ 18.4 | \$ 13.6 |
| Income taxes                                       | 13.1    | 13.3    |
| Seller financed/assumed debt                       | —       | 2.6     |

See Notes to Consolidated Condensed Financial Statements

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## PENSKE AUTOMOTIVE GROUP, INC.

## CONSOLIDATED CONDENSED STATEMENT OF EQUITY

|   | Common Stock<br>Issued<br>Shares<br>(Unaudited)<br>(Dollars in millions) | Amount | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total<br>Penske<br>Automotive<br>Stockholders'<br>Equity | Noncontrolling<br>Interests | Total<br>Equity |
|---|--|--------|----------------------------------|----------------------|--|--|-----------------------------|-----------------|
| Balance,<br>January 1, 2016   | 89,524,724   | \$ —   | \$ 656.0                         | \$ 1,256.7           | \$ (122.5)   | \$ 1,790.2   | \$ 44.7                     | \$ 1,834.9      |
| Equity<br>compensation  | 302,464  | —      | 3.8                              | —                    | —  | 3.8  | —                           | 3.8             |
| Repurchases of<br>common stock  | (4,512,325)  | —      | (167.9)                          | —                    | —  | (167.9)  | —                           | (167.9)         |
| Dividends   | —  | —      | —                                | (23.3)               | —  | (23.3)   | —                           | (23.3)          |
| Purchase of<br>subsidiary<br>shares from<br>non-controlling<br>interest | —  | —      | (0.3)                            | —                    | —  | (0.3)  | (4.5)                       | (4.8)           |
| Distributions to<br>non-controlling<br>interests                        | —  | —      | —                                | —                    | —  | —  | (0.1)                       | (0.1)           |
| Foreign<br>currency<br>translation                                      | —  | —      | —                                | —                    | (1.1)  | (1.1)  | 1.4                         | 0.3             |
| Other   | —  | —      | —                                | —                    | 0.9  | 0.9  | —                           | 0.9             |
| Net income  | —  | —      | —                                | 79.3                 | —  | 79.3   | 0.9                         | 80.2            |
| Balance, March<br>31, 2016  | 85,314,863   | \$ —   | \$ 491.6                         | \$ 1,312.7           | \$ (122.7)   | \$ 1,681.6   | \$ 42.4                     | \$ 1,724.0      |

See Notes to Consolidated Condensed Financial Statements

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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 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 March 31, 2016, we operated 349 automotive retail franchises, of which 179 franchises are located in the U.S. and 170 franchises are located outside of the U.S. The franchises outside the U.S. are located primarily in the U.K. In the three months ended March 31, 2016, we retailed and wholesaled more than 134,000 vehicles. We are diversified geographically, with 57% of our total retail automotive dealership revenues in the three months ended March 31, 2016 generated in the U.S. and Puerto Rico and 43% generated outside the U.S. We offer over 40 vehicle brands, with 72% of our retail automotive dealership revenue in the three months ended March 31, 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 three months ended March 31, 2016, we acquired one retail automotive franchise in the U.K., and disposed of seven retail automotive franchises. We also 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.

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”). During 2015, we acquired an additional 5% of PTG bringing our total ownership interest to 96%. Prior to the 2014 transaction, we held a 32% interest in PTG and accounted for this investment under the equity method.

As of March 31, 2016, PTG operated fourteen locations, including ten full-service dealerships offering primarily Freightliner and Western Star branded trucks. Two of these locations, Chattanooga and Knoxville, were acquired in February 2015. 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. In April 2016, PTG acquired Harper Truck Centres, a Freightliner, Western Star and Thomas Built Bus commercial truck dealership group located in Ontario, Canada. Harper Truck Centres has five dealership locations in the greater Toronto market area.

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

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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 distribution business.

Penske Truck Leasing. We hold a 9.0% ownership interest in Penske Truck Leasing Co., L.P. (“PTL”), a leading provider of transportation and supply chain services.

## 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 March 31, 2016 and December 31, 2015 and for the three month periods ended March 31, 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 FASB issued 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 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. 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



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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 March 31, 2016 and December 31, 2015, respectively. Amounts reclassified from “Other long-term assets” to “Long-term debt” were \$7.8 million and \$8.1 million as of March 31, 2016 and December 31, 2015, respectively.

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. 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.

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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 three months ended March 31, 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<br>Ended March<br>31, |         |
|--------------------------|------------------------------------|---------|
|                          | 2016                               | 2015    |
| Revenues                 | \$ 8.4                             | \$ 28.5 |
| Pre-tax loss             | —                                  | (3.8)   |
| Pre-tax gain on disposal | —                                  | 2.3     |

  

|  | March<br>31,<br>2016 | December<br>31,<br>2015 |
|--|----------------------|-------------------------|
| Inventories                                    | \$ 3.7               | \$ 6.2                  |
| Other assets                                   | 6.1                  | 6.9                     |
| Total assets                                   | \$ 9.8               | \$ 13.1                 |
| Floor plan notes payable (including non-trade) | \$ 3.5               | \$ 4.3                  |
| Other liabilities                              | 1.6                  | 1.9                     |
| Total liabilities                              | \$ 5.1               | \$ 6.2                  |

## Divestitures

During the three months ended March 31, 2016, we disposed of seven 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 three months ended March 31, 2016 and 2015. The remaining five 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 months ended March 31, 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 three months ended March 31, 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

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

|   | March 31, 2016 |            | December 31, 2015 |            |
|---|----------------|------------|-------------------|------------|
|   | Carrying Value | Fair Value | Carrying Value    | Fair Value |
| 5.75% senior subordinated notes due 2022  | \$ 544.5       | \$ 560.5   | \$ 544.3          | \$ 558.6   |
| 5.375% senior subordinated notes due 2024 | 296.5          | 293.5      | 296.4             | 295.7      |

|                     |       |       |       |       |
|---------------------|-------|-------|-------|-------|
| Mortgage facilities | 187.0 | 192.6 | 165.8 | 165.8 |
|---------------------|-------|-------|-------|-------|

## 2. Inventories

Inventories consisted of the following:

|   | March<br>31,<br>2016 | December<br>31,<br>2015 |
|---|----------------------|-------------------------|
| Retail automotive dealership new vehicles             | \$ 2,212.3           | \$ 2,218.6              |
| Retail automotive dealership used vehicles            | 761.1                | 719.0                   |
| Retail automotive parts, accessories and other        | 111.6                | 113.6                   |
| Retail commercial truck dealership vehicles and parts | 213.3                | 208.8                   |
| Commercial vehicle distribution vehicles and parts    | 215.1                | 203.5                   |
| Total inventories                                     | \$ 3,513.4           | \$ 3,463.5              |

We receive credits from certain vehicle manufacturers that reduce cost of sales when the vehicles are sold. Such credits amounted to \$11.4 million and \$9.1 million during the three months ended March 31, 2016 and 2015, respectively.

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## 3. Business Combinations

We acquired one retail automotive franchise during the three months ended March 31, 2016. During the three months ended March 31, 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 three months ended March 31, 2016 and 2015 follows:

|                                 | March 31, |         |
|---------------------------------|-----------|---------|
|                                 | 2016      | 2015    |
| Inventory                       | \$ 0.1    | \$ 46.8 |
| Other current assets            | —         | 0.2     |
| Property and equipment          | 0.1       | 4.4     |
| Indefinite-lived intangibles    | 4.6       | 38.8    |
| Current liabilities             | (4.4)     | (1.2)   |
| Total consideration             | 0.4       | 89.0    |
| Seller financed/assumed debt    | —         | (2.6)   |
| Total cash used in acquisitions | \$ 0.4    | \$ 86.4 |

The following unaudited consolidated pro forma results of operations of PAG for the three months ended March 31, 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<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2016                            | 2015       |
| Revenues   | \$ 4,828.4                      | \$ 4,721.4 |
| Income from continuing operations                          | 79.4                            | 77.1       |
| Net income   | 79.3                            | 76.2       |
| Income from continuing operations per diluted common share | \$ 0.90                         | \$ 0.85    |
| Net income per diluted common share                        | \$ 0.90                         | \$ 0.84    |

## 4. Intangible Assets

Following is a summary of the changes in the carrying amount of goodwill and other indefinite-lived intangible assets during the three months ended March 31, 2016:

|                              | Goodwill   | Other<br>Indefinite-<br>Lived<br>Intangible<br>Assets |
|------------------------------|------------|---|
| Balance, January 1, 2016     | \$ 1,322.8 | \$ 408.0  |
| Additions                    | 4.6        | —   |
| Foreign currency translation | (1.8)      | 1.2   |
| Balance, March 31, 2016      | \$ 1,325.6 | \$ 409.2  |

The additions during the three months ended March 31, 2016 were within our Retail Automotive reportable segment. As of March 31, 2016, the goodwill balance within our Retail Automotive, Retail Commercial Truck, and Other reportable segments was \$1,094.2 million, \$147.5 million and \$83.9 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



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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 Bank Rate, the Euro Interbank Offered 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 1.5% for the three months ended March 31, 2016 and 1.4% for the three months ended March 31, 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 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 months ended March 31, 2016 and 2015 follows:

|  | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2016                            | 2015       |
| Weighted average number of common shares outstanding | 88,256,107                      | 90,252,488 |
| Effect of non-participatory equity compensation      | 36,000                          | 36,000     |
|  | 88,292,107                      | 90,288,488 |

Weighted average number of common shares outstanding, including effect of dilutive securities

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## 7. Long-Term Debt

Long-term debt consisted of the following:

|  | March<br>31,<br>2016 | December<br>31,<br>2015 |
|--|----------------------|-------------------------|
| U.S. credit agreement — revolving credit line    | \$ 237.0             | \$ 160.0                |
| U.K. credit agreement — revolving credit line    | 53.1                 | 70.7                    |
| U.K. credit agreement — overdraft line of credit | 1.4                  | —                       |
| 5.375% senior subordinated notes due 2024        | 296.5                | 296.4                   |
| 5.75% senior subordinated notes due 2022         | 544.5                | 544.3                   |
| Australia working capital loan agreement         | 29.5                 | 5.5                     |
| Mortgage facilities                              | 187.0                | 165.8                   |
| Other  | 35.6                 | 32.3                    |
| Total long-term debt                             | 1,384.6              | 1,275.0                 |
| Less: current portion                            | (54.5)               | (28.0)                  |
| Net long-term debt                               | \$ 1,330.1           | \$ 1,247.0              |

## U.S. Credit Agreement

On May 1, 2015, we amended and restated our U.S. credit agreement (the “U.S. credit agreement”) with Mercedes-Benz Financial Services USA LLC and Toyota Motor Credit Corporation, principally to increase the revolving borrowing capacity from \$450.0 million to \$700.0 million, to extend the term through September of 2018, and to eliminate the term loan. The amounts previously owing under the term loan have been repaid using the expanded revolving capacity.

As amended, the U.S. credit agreement 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. The loans mature on the termination date of the facility, which is September 30, 2018. 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.

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 March 31, 2016, we had \$237.0 million of 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 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. In April 2015, we amended the U.K. credit agreement principally to increase the revolving borrowing capacity from £100.0 million to £150.0 million. The loans mature on the termination

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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 March 31, 2016, outstanding loans under the U.K. credit agreement amounted to £38.0 million (\$54.5 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.

### 5.375% Senior Subordinated Notes

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 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.

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

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 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.

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.

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### 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 (\$21.4 million) to AU \$44.3 million (\$33.9 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 March 31, 2016, we had AU \$38.5 million (\$29.5 million) outstanding under the working capital loan agreement.

### 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 March 31, 2016, we owed \$187.0 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 \$0.2 million and \$1.1 million as of March 31, 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 March 31, 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.



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We hold a 9.0% ownership interest in PTL. Historically, General Electric Capital Corporation (“GECC”) provided PTL with a majority of its financing though PTL has refinanced all of its GECC indebtedness. As part of that refinancing, we and the other PTL partners created a new company (“Holdings”), which, together with GECC, co-issued \$700.0 million of 3.8% senior unsecured notes due 2019 (the “Holdings Bonds”). GECC agreed to be a co-obligor of the Holdings Bonds in order to achieve lower interest rates on the Holdings Bonds. Additional capital contributions from the members may be required to fund interest and principal payments on the Holdings Bonds to the extent Holdings is unable to pay those amounts. We have agreed to indemnify GECC for 9.0% of any principal or interest that GECC is required to pay on these bonds and pay GECC an annual fee of approximately \$0.95 million for acting as obligor. The maximum amount of our contingent obligations to GECC 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.

In March 2015, Mitsui & Co. purchased a 20% ownership interest in PTL from GECC. PTL is currently owned 41.1% by Penske Corporation, 9.0% by us, 29.9% by GECC and 20.0% by Mitsui & Co.

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 \$30.5 million of letters of credit outstanding as of March 31, 2016, and have posted \$13.2 million of surety bonds in the ordinary course of business.

## 10. Equity

During the three months ended March 31, 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 March 31, 2016, our remaining authorization under the program was \$32.1 million.

## 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 months ended March 31, 2016 and 2015, respectively, attributable to Penske Automotive Group common stockholders follows:

Three Months Ended March 31, 2016

|  | Foreign<br>Currency<br>Translation | Other    | Total      |
|--|------------------------------------|----------|------------|
| Balance at December 31, 2015   | \$ (113.5)                         | \$ (9.0) | \$ (122.5) |
| Other comprehensive income (loss) before reclassifications                       | (1.1)                              | 0.9      | (0.2)      |
| Amounts reclassified from accumulated other comprehensive income — net<br>of tax | —                                  | —        | —          |
| Net current period other comprehensive income (loss)                             | (1.1)                              | 0.9      | (0.2)      |
| Balance at March 31, 2016  | \$ (114.6)                         | \$ (8.1) | \$ (122.7) |

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Three Months Ended March 31, 2015

|   | Foreign<br>Currency<br>Translation | Other    | Total      |
|---|------------------------------------|----------|------------|
| Balance at December 31, 2014  | \$ (51.7)                          | \$ (1.6) | \$ (53.3)  |
| Other comprehensive income (loss) before reclassifications                    | (52.2)                             | (2.3)    | (54.5)     |
| Amounts reclassified from accumulated other comprehensive income — net of tax | —                                  | —        | —          |
| Net current period other comprehensive income (loss)                          | (52.2)                             | (2.3)    | (54.5)     |
| Balance at March 31, 2015   | \$ (103.9)                         | \$ (3.9) | \$ (107.8) |

## 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 U.S. retail commercial truck dealership operations, 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 months ended March 31, 2016 and 2015 follows:

Three Months Ended March 31

|                | Retail<br>Automotive | Retail<br>Commercial<br>Truck | Other    | Intersegment<br>Elimination | Total      |
|----------------|----------------------|-------------------------------|----------|-----------------------------|------------|
| Revenues       |                      |                               |          |                             |            |
| 2016           | \$ 4,512.9           | \$ 206.7                      | \$ 106.0 | \$ (1.0)                    | \$ 4,824.6 |
| 2015           | 4,186.8              | 192.7                         | 103.7    | (0.3)                       | 4,482.9    |
| Segment income |                      |                               |          |                             |            |
| 2016           | \$ 110.4             | \$ 5.8                        | \$ 3.4   | \$ —                        | \$ 119.6   |
| 2015           | 102.8                | 7.4                           | 5.4      | —                           | 115.6      |

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## 13. Condensed Consolidating Financial Information

The following tables include condensed consolidating financial information as of March 31, 2016 and December 31, 2015 and for the three month periods ended March 31, 2016 and 2015 for Penske Automotive Group, Inc. (as the issuer of the 5.75% and 5.375% 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

March 31, 2016

|                                    | Total<br>Company<br>(In millions) | Eliminations | Penske<br>Automotive<br>Group | Guarantor<br>Subsidiaries | Non Guarantor<br>Subsidiaries |
|------------------------------------|-----------------------------------|--------------|-------------------------------|---------------------------|-------------------------------|
| Cash and cash equivalents          | \$ 45.6                           | \$ —         | \$ —                          | \$ —                      | \$ 45.6                       |
| Accounts receivable, net           | 835.6                             | (434.6)      | 434.6                         | 323.1                     | 512.5                         |
| Inventories                        | 3,513.4                           | —            | —                             | 1,685.3                   | 1,828.1                       |
| Other current assets               | 101.5                             | —            | 4.2                           | 29.7                      | 67.6                          |
| Assets held for sale               | 9.8                               | —            | —                             | 9.7                       | 0.1                           |
| Total current assets               | 4,505.9                           | (434.6)      | 438.8                         | 2,047.8                   | 2,453.9                       |
| Property and equipment, net        | 1,545.8                           | —            | 4.0                           | 837.3                     | 704.5                         |
| Intangible assets                  | 1,734.8                           | —            | —                             | 878.5                     | 856.3                         |
| Equity method investments          | 366.6                             | —            | 303.6                         | —                         | 63.0                          |
| Other long-term assets             | 19.8                              | (2,209.1)    | 2,215.4                       | 7.6                       | 5.9                           |
| Total assets                       | \$ 8,172.9                        | \$ (2,643.7) | \$ 2,961.8                    | \$ 3,771.2                | \$ 4,083.6                    |
| Floor plan notes payable           | \$ 2,262.5                        | \$ —         | \$ —                          | \$ 1,267.7                | \$ 994.8                      |
| Floor plan notes payable—non-trade | 1,187.3                           | —            | 155.0                         | 368.3                     | 664.0                         |
| Accounts payable                   | 541.5                             | —            | 2.4                           | 140.4                     | 398.7                         |
| Accrued expenses                   | 388.0                             | (434.6)      | 1.1                           | 144.7                     | 676.8                         |
| Current portion of long-term debt  | 54.5                              | —            | —                             | 4.1                       | 50.4                          |
| Liabilities held for sale          | 5.1                               | —            | —                             | 4.9                       | 0.2                           |
| Total current liabilities          | 4,438.9                           | (434.6)      | 158.5                         | 1,930.1                   | 2,784.9                       |
| Long-term debt                     | 1,330.1                           | (255.6)      | 1,079.3                       | 132.0                     | 374.4                         |
| Deferred tax liabilities           | 437.8                             | —            | —                             | 421.3                     | 16.5                          |
| Other long-term liabilities        | 242.1                             | —            | —                             | 68.3                      | 173.8                         |
| Total liabilities                  | 6,448.9                           | (690.2)      | 1,237.8                       | 2,551.7                   | 3,349.6                       |
| Total equity                       | 1,724.0                           | (1,953.5)    | 1,724.0                       | 1,219.5                   | 734.0                         |
| Total liabilities and equity       | \$ 8,172.9                        | \$ (2,643.7) | \$ 2,961.8                    | \$ 3,771.2                | \$ 4,083.6                    |



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## CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2015

|                                    | Total<br>Company<br>(In millions) | Eliminations | Penske<br>Automotive<br>Group | Guarantor<br>Subsidiaries | Non Guarantor<br>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               | 13.1                              | —            | —                             | 8.9                       | 4.2                           |
| Total current assets               | 4,406.9                           | (430.4)      | 434.3                         | 2,088.5                   | 2,314.5                       |
| Property and equipment, net        | 1,520.1                           | —            | 4.0                           | 822.0                     | 694.1                         |
| Intangible assets                  | 1,730.8                           | —            | —                             | 878.5                     | 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                    |

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## CONDENSED CONSOLIDATING STATEMENT OF INCOME

Three Months Ended March 31, 2016

|  | Total<br>Company<br>(In millions) | Eliminations | Penske<br>Automotive<br>Group | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries |
|--|-----------------------------------|--------------|-------------------------------|---------------------------|-------------------------------|
| Revenues   | \$ 4,824.6                        | \$ —         | \$ —                          | \$ 2,389.2                | \$ 2,435.4                    |
| Cost of sales  | 4,100.8                           | —            | —                             | 2,006.2                   | 2,094.6                       |
| Gross profit   | 723.8                             | —            | —                             | 383.0                     | 340.8                         |
| Selling, general and administrative<br>expenses  | 558.9                             | —            | 6.1                           | 295.8                     | 257.0                         |
| Depreciation   | 20.8                              | —            | 0.4                           | 10.8                      | 9.6                           |
| Operating income   | 144.1                             | —            | (6.5)                         | 76.4                      | 74.2                          |
| Floor plan interest expense  | (12.8)                            | —            | (0.8)                         | (6.7)                     | (5.3)                         |
| Other interest expense   | (17.2)                            | —            | (13.3)                        | 1.3                       | (5.2)                         |
| Equity in earnings of affiliates   | 5.5                               | —            | 4.2                           | —                         | 1.3                           |
| Equity in earnings of subsidiaries   | —                                 | (135.1)      | 135.1                         | —                         | —                             |
| Income from continuing operations<br>before income taxes                               | 119.6                             | (135.1)      | 118.7                         | 71.0                      | 65.0                          |
| Income taxes   | (39.4)                            | 44.8         | (39.4)                        | (29.2)                    | (15.6)                        |
| Income from continuing operations  | 80.2                              | (90.3)       | 79.3                          | 41.8                      | 49.4                          |
| (Loss) income from discontinued<br>operations, net of tax                              | —                                 | 0.1          | (0.1)                         | 0.1                       | (0.1)                         |
| Net income   | 80.2                              | (90.2)       | 79.2                          | 41.9                      | 49.3                          |
| Other comprehensive income (loss),<br>net of tax                                       | 1.2                               | 0.3          | 1.2                           | —                         | (0.3)                         |
| Comprehensive income   | 81.4                              | (89.9)       | 80.4                          | 41.9                      | 49.0                          |
| Less: Comprehensive income<br>attributable to non-controlling<br>interests             | 2.4                               | (1.5)        | 1.5                           | —                         | 2.4                           |
| Comprehensive income attributable to<br>Penske Automotive Group common<br>stockholders | \$ 79.0                           | \$ (88.4)    | \$ 78.9                       | \$ 41.9                   | \$ 46.6                       |



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## CONDENSED CONSOLIDATING STATEMENT OF INCOME

Three Months Ended March 31, 2015

|  | Total<br>Company<br>(In millions) | Eliminations | Penske<br>Automotive<br>Group | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries |
|--|-----------------------------------|--------------|-------------------------------|---------------------------|-------------------------------|
| Revenues   | \$ 4,482.9                        | \$ —         | \$ —                          | \$ 2,348.3                | \$ 2,134.6                    |
| Cost of sales  | 3,793.0                           | —            | —                             | 1,971.6                   | 1,821.4                       |
| Gross profit   | 689.9                             | —            | —                             | 376.7                     | 313.2                         |
| Selling, general and administrative<br>expenses  | 535.8                             | —            | 6.7                           | 293.2                     | 235.9                         |
| Depreciation   | 18.6                              | —            | 0.4                           | 10.2                      | 8.0                           |
| Operating income   | 135.5                             | —            | (7.1)                         | 73.3                      | 69.3                          |
| Floor plan interest expense  | (10.3)                            | —            | (0.7)                         | (5.2)                     | (4.4)                         |
| Other interest expense   | (16.3)                            | —            | (9.8)                         | (1.3)                     | (5.2)                         |
| Equity in earnings of affiliates   | 6.7                               | —            | 5.8                           | —                         | 0.9                           |
| Equity in earnings of subsidiaries   | —                                 | (127.0)      | 127.0                         | —                         | —                             |
| Income from continuing operations<br>before income taxes                               | 115.6                             | (127.0)      | 115.2                         | 66.8                      | 60.6                          |
| Income taxes   | (38.8)                            | 42.8         | (38.8)                        | (28.3)                    | (14.5)                        |
| Income from continuing operations  | 76.8                              | (84.2)       | 76.4                          | 38.5                      | 46.1                          |
| (Loss) income from discontinued<br>operations, net of tax                              | (0.9)                             | 1.2          | (1.2)                         | (1.1)                     | 0.2                           |
| Net income   | 75.9                              | (83.0)       | 75.2                          | 37.4                      | 46.3                          |
| Other comprehensive income (loss),<br>net of tax                                       | (55.1)                            | 52.3         | (55.1)                        | —                         | (52.3)                        |
| Comprehensive income   | 20.8                              | (30.7)       | 20.1                          | 37.4                      | (6.0)                         |
| Less: Comprehensive income<br>attributable to non-controlling<br>interests             | 0.1                               | 0.6          | (0.6)                         | —                         | 0.1                           |
| Comprehensive income attributable to<br>Penske Automotive Group common<br>stockholders | \$ 20.7                           | \$ (31.3)    | \$ 20.7                       | \$ 37.4                   | \$ (6.1)                      |

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## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Three Months Ended March 31, 2016

|  | Total<br>Company<br>(In millions) | Penske<br>Automotive<br>Group | Guarantor<br>Subsidiaries | Non Guarantor<br>Subsidiaries |
|--|-----------------------------------|-------------------------------|---------------------------|-------------------------------|
| Net cash provided by (used in) continuing operating activities | \$ 82.6                           | \$ (12.5)                     | \$ 104.2                  | \$ (9.1)                      |
| Investing activities:  |                                   |                               |                           |                               |
| Purchase of equipment and improvements                         | (46.8)                            | (0.4)                         | (26.4)                    | (20.0)                        |
| Acquisitions, net  | (0.4)                             | —                             | —                         | (0.4)                         |
| Other  | (25.7)                            | —                             | (0.3)                     | (25.4)                        |
| Net cash used in continuing investing activities               | (72.9)                            | (0.4)                         | (26.7)                    | (45.8)                        |
| Financing activities:  |                                   |                               |                           |                               |
| Net borrowings of long-term debt                               | 111.5                             | 77.0                          | 21.2                      | 13.3                          |
| Net borrowings of floor plan notes payable—non-trade           | 54.9                              | 0.3                           | 28.5                      | 26.1                          |
| Repurchases of common stock                                    | (167.9)                           | (167.9)                       | —                         | —                             |
| Dividends  | (23.3)                            | (23.3)                        | —                         | —                             |
| Other  | (4.6)                             | —                             | —                         | (4.6)                         |
| Distributions from (to) parent                                 | —                                 | 126.8                         | (126.8)                   | —                             |
| Net cash (used in) provided by continuing financing activities | (29.4)                            | 12.9                          | (77.1)                    | 34.8                          |
| Net cash provided by (used in) discontinued operations         | 2.2                               | —                             | (0.4)                     | 2.6                           |
| Effect of exchange rate changes on cash and cash equivalents   | 0.7                               | —                             | —                         | 0.7                           |
| Net change in cash and cash equivalents                        | (16.8)                            | —                             | —                         | (16.8)                        |
| Cash and cash equivalents, beginning of period                 | 62.4                              | —                             | —                         | 62.4                          |
| Cash and cash equivalents, end of period                       | \$ 45.6                           | \$ —                          | \$ —                      | \$ 45.6                       |

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## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Three Months Ended March 31, 2015

|   | Total<br>Company<br>(In millions) | Penske<br>Automotive<br>Group | Guarantor<br>Subsidiaries | Non Guarantor<br>Subsidiaries |
|---|-----------------------------------|-------------------------------|---------------------------|-------------------------------|
| Net cash provided by (used in) continuing operating activities    | \$ 193.3                          | \$ (10.6)                     | \$ 16.3                   | \$ 187.6                      |
| Investing activities:   |                                   |                               |                           |                               |
| Purchase of equipment and improvements                            | (33.7)                            | (0.5)                         | (19.2)                    | (14.0)                        |
| Acquisitions, net   | (86.4)                            | —                             | (21.7)                    | (64.7)                        |
| Net cash used in continuing investing activities                  | (120.1)                           | (0.5)                         | (40.9)                    | (78.7)                        |
| Financing activities:   |                                   |                               |                           |                               |
| Net repayments of long-term debt                                  | (139.3)                           | —                             | (1.3)                     | (138.0)                       |
| Net borrowings (repayments) of floor plan notes payable—non-trade | 100.9                             | 45.0                          | (9.1)                     | 65.0                          |
| Payment of debt issuance costs                                    | (1.2)                             | —                             | —                         | (1.2)                         |
| Repurchases of common stock                                       | (14.0)                            | (14.0)                        | —                         | —                             |
| Dividends   | (19.9)                            | (19.9)                        | —                         | —                             |
| Other   | —                                 | —                             | —                         | —                             |
| Distributions from (to) parent                                    | —                                 | —                             | 1.2                       | (1.2)                         |
| Net cash (used in) provided by continuing financing activities    | (73.5)                            | 11.1                          | (9.2)                     | (75.4)                        |
| Net cash provided by discontinued operations                      | 33.9                              | —                             | 33.8                      | 0.1                           |
| Effect of exchange rate changes on cash and cash equivalents      | (3.1)                             | —                             | —                         | (3.1)                         |
| Net change in cash and cash equivalents                           | 30.5                              | —                             | —                         | 30.5                          |
| Cash and cash equivalents, beginning of period                    | 36.3                              | —                             | —                         | 36.3                          |
| Cash and cash equivalents, end of period                          | \$ 66.8                           | \$ —                          | \$ —                      | \$ 66.8                       |

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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 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 22,000 people worldwide.

During the three months ended March 31, 2016, our business generated \$4.8 billion in total revenue, which is comprised of \$4.5 billion from retail automotive dealerships, \$206.7 million from retail commercial truck dealerships and \$105.0 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 March 31, 2016, we operated 349 automotive retail franchises, of which 179 franchises are located in the U.S. and 170 franchises are located outside of the U.S. The franchises outside the U.S. are located primarily in the U.K. In the three months ended March 31, 2016, we retailed and wholesaled more than 134,000 vehicles. We are diversified geographically, with 57% of our total retail automotive dealership revenues in the three months ended March 31, 2016 generated in the U.S. and Puerto Rico and 43% generated outside the U.S. We offer over 40 vehicle brands, with 72% of our retail automotive dealership revenue in the three months ended March 31, 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.

Retail automotive dealerships represented 93.5% of our total revenues and 91.9% of our total gross profit in the three months ended March 31, 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”). During 2015, we acquired an additional 5% of PTG bringing our total ownership interest to 96%. Prior to the 2014 transaction, we held a 32% interest in PTG and accounted for this investment under the equity method.

As of March 31, 2016, PTG operated fourteen locations, including ten full-service dealerships offering primarily Freightliner and Western Star branded trucks. Two of these locations, Chattanooga and Knoxville, were acquired in February 2015. 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. In April 2016, PTG acquired Harper Truck Centres, a Freightliner, Western Star and Thomas Built Bus commercial truck dealership group located in Ontario, Canada. Harper Truck Centres has five dealership locations in the greater Toronto market area.

This business represented 4.3% of our total revenues and 4.6% of our total gross profit in the three months ended March 31, 2016.

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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 2.1% of our total revenues and 3.4% of our total gross profit in the three months ended March 31, 2016.

Penske Truck Leasing. We hold 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 220,000 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. In March 2015, Mitsui & Co. purchased a 20% ownership interest in PTL from General Electric Capital Corporation (“GECC”). PTL is currently owned 41.1% by Penske Corporation, 9.0% by us, 29.9% by GECC and 20.0% by Mitsui & Co. 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 investments.

Outlook

The level of new automotive unit sales in our markets affects our results. For the three months ended March 31, 2016, the U.S. light vehicle retail market grew 3.3%, as compared to the same period last year, to 4.1 million units, with passenger car sales declining 5.3% while sales of trucks and sport utility vehicles increased 10.5%. We believe the current market for new light vehicle sales will remain strong for the remainder of 2016, as general strong economic conditions, low levels of unemployment, low interest rates, strong credit availability, the age of vehicles on the road, and lower consumer fuel costs, are expected to positively impact vehicle sales, although actual sales may differ materially.

During the three months ended March 31, 2016, U.K. new vehicle registrations increased 5.1%, as compared to the same period last year, to 771,780 registrations. We believe the overall market in the U.K. is being positively impacted by generally strong economic conditions, strong business and consumer confidence, including low levels of unemployment, access to credit, attractive financing offers, improving new car fuel efficiency, and the latest technologically advanced vehicles, particularly in the area of premium brand sales. We believe that new vehicle registrations will remain strong for the remainder of 2016, although actual results may differ materially.

During the three months ended March 31, 2016, North American sales of Class 5-8 medium and heavy-duty trucks, the principal vehicles for our PTG business, were approximately 124,700 units, an increase of 4.1% from the same period in 2015. The largest North American market, Class 8 heavy-duty trucks, decreased 6.2% to 65,385 units from 69,723 units in the same period in 2015. The Class 5-7 medium-duty truck market increased 18.4% to 59,360 units from 50,117 units in the same period in 2015. According to industry reports, retail sales in the Class 8 market are forecasted to experience a year over year decline from record retail sales last year, as de-fleeting occurs due to a softening of freight metrics. Based on a growing economy and the drop in oil prices, which may help trucking profitability and boost discretionary spending, we expect another strong year in the North American Class 5-8 medium and heavy-duty truck market for the remainder of 2016.

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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 three months ended March 31, 2016, the Australian heavy-duty truck market reported sales of 1,904 units, representing a decrease of 6.7% from the same period in 2015. For the three months ended March 31, 2016, the New Zealand market reported sales of 623 units, representing a decrease of 18.7% from the same period in 2015. The brands we represent in Australia hold a 7.6% market share in the Australian heavy-duty truck market, and a 5.6% 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 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 has declined 6.2% in the first three 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," 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 \$341.7 million and \$33.9 million, or 7.6% and 4.9%, respectively, during the three months ended March 31, 2016 compared to the same period in 2015. The increases are largely attributable to same-store increases in new and used vehicle, finance and insurance, and service and parts revenue and gross profit. 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 5.5% during the three months ended March 31, 2016, compared to the same period in 2015, which negatively impacted our reported results of operations. Foreign currency fluctuations decreased revenue and gross profit by \$106.1 million and \$14.9 million, respectively, for the three months ended March 31, 2016. Foreign currency fluctuations also reduced earnings per share from continuing operations by approximately \$0.03 per share for the three months ended March 31, 2016. Excluding the impact of foreign currency fluctuations, revenue and gross profit increased 10.0% and 7.1%, respectively, for the three months ended March 31, 2016.

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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, 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 three months ended March 31, 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” below.

## 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 three months ended

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March 31, 2016 and 2015, we earned \$151.9 million and \$144.8 million, respectively, of rebates, incentives and reimbursements from manufacturers, of which \$148.3 million and \$141.5 million, respectively, were recorded as a reduction of cost of sales. The remaining \$3.6 million and \$3.3 million, respectively, 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 \$24.3 million and \$23.8 million as of March 31, 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 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 U.S. retail commercial truck dealership operations, 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

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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 \$366.6 million and \$336.4 million as of March 31, 2016 and December 31, 2015, respectively, including \$295.6 million and \$290.6 million relating to PTL as of March 31, 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 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 \$27.1 million and \$26.4 million as of March 31, 2016 and December 31, 2015, respectively. Changes in the reserve estimate during 2016 relate primarily to our workers’ compensation program.

## 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

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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.

## Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 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                        | 58,753     | 53,318     | 5,435         | 10.2     | % |
| Same-store new retail unit sales             | 55,457     | 53,239     | 2,218         | 4.2      | % |
| New retail sales revenue                     | \$ 2,268.2 | \$ 2,140.1 | \$ 128.1      | 6.0      | % |
| Same-store new retail sales revenue          | \$ 2,166.5 | \$ 2,133.4 | \$ 33.1       | 1.6      | % |
| New retail sales revenue per unit            | \$ 38,607  | \$ 40,139  | \$ (1,532)    | (3.8)    | % |
| Same-store new retail sales revenue per unit | \$ 39,066  | \$ 40,072  | \$ (1,006)    | (2.5)    | % |



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|  |          |          |          |       |                 |
|--|----------|----------|----------|-------|-----------------|
| Gross profit — new                                       | \$ 175.5 | \$ 167.9 | \$ 7.6   | 4.5   | %               |
| Same-store gross profit — new                            | \$ 162.4 | \$ 167.2 | \$ (4.8) | (2.9) | %               |
| Average gross profit per new vehicle retailed            | \$ 2,988 | \$ 3,150 | \$ (162) | (5.1) | %               |
| Same-store average gross profit per new vehicle retailed | \$ 2,928 | \$ 3,140 | \$ (212) | (6.8) | %               |
| Gross margin % — new                                     | 7.7      | %        | 7.8      | %     | (0.1) % (1.3) % |
| Same-store gross margin % — new                          | 7.5      | %        | 7.8      | %     | (0.3) % (3.8) % |

Units

Retail unit sales of new vehicles increased from 2015 to 2016, with an increase of 28.4% internationally and 0.3% in the U.S. The increase is due to a 3,217 unit increase from net dealership acquisitions, coupled with a 2,218 unit, or 4.2%, increase in same-store new retail unit sales. Same-store units increased 13.7% internationally, primarily due to the strength of our premium brand mix, and decreased 1.0% in the U.S. The international same-store increase was driven primarily by the strong U.K. market where industry new vehicle registrations during the three months ended March 31, 2016 were 771,780, an increase of 5.1% as compared to the same period last year, coupled with the strength of our premium brand mix.

Revenues

New vehicle retail sales revenue increased from 2015 to 2016 due to a \$95.0 million increase from net dealership acquisitions, coupled with a \$33.1 million, or 1.6%, increase in same-store revenues. Excluding \$45.1 million of negative foreign currency fluctuations, same-store new retail revenue increased 3.7%. The same-store revenue increase

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is due to the increase in same-store new retail unit sales, which increased revenue by \$88.9 million, offset by a \$1,006 per unit decrease in comparative average selling prices, which decreased revenue by \$55.8 million. The per unit decrease in comparative average selling prices is primarily due to foreign exchange differences. Excluding this impact, the decrease in the average selling price per unit was \$192 per unit, or 0.5%.

## Gross Profit

Retail gross profit from new vehicle sales increased from 2015 to 2016 due to a \$12.4 million increase from net dealership acquisitions, offset by a \$4.8 million, or 2.9%, decrease in same-store gross profit. Excluding \$3.7 million of negative foreign currency fluctuations, same-store gross profit decreased 0.7%. The decrease in same-store gross profit is due to a \$212 per unit decrease in the average gross profit per new vehicle retailed (including a \$67 per unit decrease attributable to negative foreign currency fluctuations), which decreased gross profit by \$11.8 million, offset by an increase in same-store new retail unit sales, which increased gross profit by \$7.0 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                                    | 52,741     | 48,102     | 4,639         | 9.6      | % |
| Same-store used retail unit sales                         | 48,711     | 48,089     | 622           | 1.3      | % |
| Used retail sales revenue                                 | \$ 1,412.4 | \$ 1,283.0 | \$ 129.4      | 10.1     | % |
| Same-store used retail sales revenue                      | \$ 1,325.0 | \$ 1,282.5 | \$ 42.5       | 3.3      | % |
| Used retail sales revenue per unit                        | \$ 26,780  | \$ 26,672  | \$ 108        | 0.4      | % |
| Same-store used retail sales revenue per unit             | \$ 27,201  | \$ 26,668  | \$ 533        | 2.0      | % |
| Gross profit — used                                       | \$ 84.3    | \$ 84.9    | \$ (0.6)      | (0.7)    | % |
| Same-store gross profit — used                            | \$ 80.2    | \$ 84.8    | \$ (4.6)      | (5.4)    | % |
| Average gross profit per used vehicle retailed            | \$ 1,598   | \$ 1,763   | \$ (165)      | (9.4)    | % |
| Same-store average gross profit per used vehicle retailed | \$ 1,646   | \$ 1,763   | \$ (117)      | (6.6)    | % |
| Gross margin % — used                                     | 6.0        | % 6.6      | % (0.6)       | % (9.1)  | % |
| Same-store gross margin % — used                          | 6.1        | % 6.6      | % (0.5)       | % (7.6)  | % |

## Units

Retail unit sales of used vehicles increased from 2015 to 2016, with an increase of 24.8% internationally and 0.9% in the U.S. The increase is due to a 4,017 unit increase from net dealership acquisitions, coupled with a 622 unit, or

1.3%, increase in same-store used retail unit sales. Same-store units increased 3.2% internationally and 0.2% in the U.S.

#### Revenues

Used vehicle retail sales revenue increased from 2015 to 2016 due to an \$86.9 million increase from net dealership acquisitions, coupled with a \$42.5 million, or 3.3%, increase in same-store revenues. Excluding \$35.2 million of negative foreign currency fluctuations, same-store used retail revenue increased 6.1%. The same-store revenue increase is primarily due to a \$533 per unit increase in comparative average selling prices (offset by a \$723 per unit decrease attributable to negative foreign currency fluctuations), which increased revenue by \$25.9 million, coupled with an increase in same-store used retail unit sales, which increased revenue by \$16.6 million.

#### Gross Profit

Retail gross profit from used vehicle sales was flat from 2015 to 2016 as the \$4.6 million, or 5.4%, decrease in same-store gross profit was offset by a \$4.0 million increase from net dealership acquisitions. Excluding \$1.8 million of negative foreign currency fluctuations, same-store gross profit decreased 3.3%. The decrease in same-store gross profit is due to a \$117 per unit decrease in average gross profit per used vehicle retailed (including a \$37 per unit decrease attributable to negative foreign currency fluctuations), which decreased gross profit by \$5.6 million, somewhat offset by the increase in same-store used retail unit sales, which increased gross profit by \$1.0 million. We believe the decline in

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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.

## 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                           | 111,494  | 101,420  | 10,074        | 9.9      | % |
| Total same-store retail unit sales                | 104,168  | 101,328  | 2,840         | 2.8      | % |
| Finance and insurance revenue                     | \$ 118.4 | \$ 111.1 | \$ 7.3        | 6.6      | % |
| Same-store finance and insurance revenue          | \$ 117.4 | \$ 110.9 | \$ 6.5        | 5.9      | % |
| Finance and insurance revenue per unit            | \$ 1,062 | \$ 1,096 | \$ (34)       | (3.1)    | % |
| Same-store finance and insurance revenue per unit | \$ 1,127 | \$ 1,095 | \$ 32         | 2.9      | % |

Finance and insurance revenue increased from 2015 to 2016 due to a \$6.5 million, or 5.9%, increase in same-store revenues, coupled with a \$0.8 million increase from net dealership acquisitions. Excluding \$2.6 million of negative foreign currency fluctuations, same-store finance and insurance revenue increased 8.2%. The same-store revenue increase is due to the increase in same-store retail unit sales, which increased revenue by \$3.1 million, coupled with an increase in comparative average selling prices per unit, which increased revenue by \$3.4 million. Finance and insurance revenue per unit decreased primarily due to inclusion of our newly consolidated German automotive dealership joint venture. 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                   | \$ 478.1 | \$ 438.4 | \$ 39.7       | 9.1      | % |
| Same-store service and parts revenue        | \$ 453.5 | \$ 437.5 | \$ 16.0       | 3.7      | % |
| Gross profit — service and parts            | \$ 281.4 | \$ 260.8 | \$ 20.6       | 7.9      | % |
| Same-store service and parts gross profit   | \$ 268.8 | \$ 260.4 | \$ 8.4        | 3.2      | % |
| Gross margin % — service and parts          | 58.9 %   | 59.5 %   | (0.6)%        | (1.0)    | % |
| Same-store service and parts gross margin % | 59.3 %   | 59.5 %   | (0.2)%        | (0.3)    | % |

## Revenues

Service and parts revenue increased from 2015 to 2016, with an increase of 17.8% internationally and 5.4% in the U.S. The overall increase in service and parts revenue is due to a \$23.7 million increase from net dealership acquisitions, coupled with a \$16.0 million, or 3.7%, increase in same-store revenues during the period. Excluding \$7.2 million of negative foreign currency fluctuations, same-store service and parts revenue increased 5.3%. The increase in same-store revenue is due to an \$11.0 million, or 3.7%, increase in customer pay revenue, a \$3.1 million, or 3.0%, increase in warranty revenue, and a \$1.9 million, or 5.5%, increase in vehicle preparation and body shop 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 and increased recall activity as a result of manufacturer initiated programs to correct safety related issues.

## Gross Profit

Service and parts gross profit increased from 2015 to 2016 due to a \$12.2 million increase from net dealership acquisitions, coupled with an \$8.4 million, or 3.2%, increase in same-store gross profit during the period. Excluding \$4.4 million of negative foreign currency fluctuations, same-store gross profit increased 4.9%. The same-store gross profit increase is due to the increase in same-store revenues, which increased gross profit by \$9.4 million, offset by a 0.6% decrease in gross margin, which decreased gross profit by \$1.0 million. The same-store gross profit increase is due to a

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\$4.8 million, or 3.3%, increase in customer pay gross profit, a \$3.5 million, or 5.7%, increase in vehicle preparation and body shop gross profit, and a \$0.1 million, or 0.2%, increase in warranty gross profit.

## Retail Commercial Truck Dealership Data

(In millions, except unit and per unit amounts)

During the three months ended March 31, 2016, Premier Truck Group generated \$206.7 million of revenue and \$33.2 million of gross profit principally through the retail sale of 1,431 new and used medium and heavy-duty trucks and service and parts sales. During the three months ended March 31, 2015, this business generated \$192.7 million of revenue and \$32.8 million of gross profit principally through the retail sale of 1,335 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                                  | 1,160      | 1,039      | 121           | 11.6     | % |
| Same-store new retail unit sales                       | 593        | 656        | (63)          | (9.6)    | % |
| New retail sales revenue                               | \$ 116.7   | \$ 102.2   | \$ 14.5       | 14.2     | % |
| Same-store new retail sales revenue                    | \$ 64.1    | \$ 69.2    | \$ (5.1)      | (7.4)    | % |
| New retail sales revenue per unit                      | \$ 100,618 | \$ 98,345  | \$ 2,273      | 2.3      | % |
| Same-store new retail sales revenue per unit           | \$ 108,094 | \$ 105,488 | \$ 2,606      | 2.5      | % |
| Gross profit — new                                     | \$ 4.9     | \$ 4.9     | \$ —          | —        | % |
| Same-store gross profit — new                          | \$ 3.2     | \$ 4.0     | \$ (0.8)      | (20.0)   | % |
| Average gross profit per new truck retailed            | \$ 4,201   | \$ 4,691   | \$ (490)      | (10.4)   | % |
| Same-store average gross profit per new truck retailed | \$ 5,396   | \$ 6,098   | \$ (702)      | (11.5)   | % |
| Gross margin % — new                                   | 4.2        | % 4.8      | % (0.6)       | % (12.5) | % |
| Same-store gross margin % — new                        | 5.0        | % 5.8      | % (0.8)       | % (13.8) | % |

New commercial truck retail sales revenue increased by \$14.5 million from 2015 to 2016. Premier Truck Group generated \$116.7 million of new commercial truck sales revenue and \$4.9 million of gross profit through the sale of 1,160 new commercial trucks during the three months ended March 31, 2016. Same-store new truck units decreased by 63 units, or 9.6%, from 2015 to 2016, as the Class 8 heavy-duty truck market declined by 6.2% during the three months ended March 31, 2016 as compared to the same period last year. Same-store new truck revenue decreased by \$5.1 million, or 7.4%, and same-store new truck gross profit decreased by \$0.8 million, or 20.0%, from 2015 to 2016.

| Used Commercial Truck Data | 2016 | 2015 | 2016 vs. 2015 |          |   |
|----------------------------|------|------|---------------|----------|---|
|                            |      |      | Change        | % Change |   |
| Used retail unit sales     | 271  | 296  | (25)          | (8.4)    | % |

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|   |            |           |            |           |   |
|---|------------|-----------|------------|-----------|---|
| Same-store used retail unit sales                       | 244        | 281       | (37)       | (13.2)    | % |
| Used retail sales revenue                               | \$ 13.5    | \$ 15.9   | \$ (2.4)   | (15.1)    | % |
| Same-store used retail sales revenue                    | \$ 12.1    | \$ 15.2   | \$ (3.1)   | (20.4)    | % |
| Used retail sales revenue per unit                      | \$ 49,727  | \$ 53,700 | \$ (3,973) | (7.4)     | % |
| Same-store used retail sales revenue per unit           | \$ 49,590  | \$ 54,093 | \$ (4,503) | (8.3)     | % |
| Gross profit — used                                     | \$ (0.4)   | \$ 1.7    | \$ (2.1)   | (123.5)   | % |
| Same-store gross profit — used                          | \$ (0.4)   | \$ 1.7    | \$ (2.1)   | (123.5)   | % |
| Average gross profit per used truck retailed            | \$ (1,471) | \$ 5,882  | \$ (7,353) | (125.0)   | % |
| Same-store average gross profit per used truck retailed | \$ (1,639) | \$ 6,050  | \$ (7,689) | (127.1)   | % |
| Gross margin % — used                                   | (3.0)      | % 10.7    | % (13.7)   | % (128.0) | % |
| Same-store gross margin % — used                        | (3.3)      | % 11.2    | % (14.5)   | % (129.5) | % |

Used commercial truck retail sales revenue decreased by \$2.4 million from 2015 to 2016. Premier Truck Group generated \$13.5 million of used commercial truck sales revenue through the sale of 271 used commercial trucks during the three months ended March 31, 2016. From 2015 to 2016, gross profit decreased by \$2.1 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.

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| Service and Parts Data                      | 2016    | 2015    | 2016 vs. 2015 |          |   |
|---|---------|---------|---------------|----------|---|
|   |         |         | Change        | % Change |   |
| Service and parts revenue                   | \$ 71.4 | \$ 63.1 | \$ 8.3        | 13.2     | % |
| Same-store service and parts revenue        | \$ 53.6 | \$ 53.2 | \$ 0.4        | 0.8      | % |
| Gross profit — service and parts            | \$ 26.4 | \$ 23.4 | \$ 3.0        | 12.8     | % |
| Same-store service and parts gross profit   | \$ 21.9 | \$ 20.6 | \$ 1.3        | 6.3      | % |
| Gross margin % — service and parts          | 37.0%   | 37.1%   | (0.1)%        | (0.3)    | % |
| Same-store service and parts gross margin % | 40.9%   | 38.7%   | 2.2 %         | 5.7      | % |

Service and parts revenue increased by \$8.3 million and service and parts gross profit increased by \$3.0 million from 2015 to 2016. Premier Truck Group generated \$71.4 million of service and parts revenue and \$26.4 million of gross profit during the three months ended March 31, 2016. Same-store service and parts revenue increased by \$0.4 million, or 0.8%, and same-store service and parts gross profit increased by \$1.3 million, or 6.3%, 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 March 31, 2016, Penske Commercial Vehicles Australia generated \$55.9 million of revenue and \$7.9 million of gross profit through the distribution and retail sale of 294 vehicles and parts. During the three months ended March 31, 2015, this business generated \$56.3 million of revenue and \$9.6 million of gross profit through the distribution and retail sale of 348 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 \$44.8 million of revenue and \$16.9 million of gross profit during the three months ended March 31, 2016, and \$44.0 million of revenue and \$17.4 million of gross profit during the three months ended March 31, 2015. The decrease in gross profit is attributable to a change in mix of product related sales, including 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  | \$ 326.7 | \$ 308.1 | \$ 18.6       | 6.0      | % |
| Advertising expense                                      | \$ 24.0  | \$ 22.7  | \$ 1.3        | 5.7      | % |
| Rent & related expense                                   | \$ 72.0  | \$ 71.7  | \$ 0.3        | 0.4      | % |
| Other expense  | \$ 136.2 | \$ 133.3 | \$ 2.9        | 2.2      | % |
| Total SG&A expenses                                      | \$ 558.9 | \$ 535.8 | \$ 23.1       | 4.3      | % |
| Same-store SG&A expenses                                 | \$ 531.3 | \$ 532.1 | \$ (0.8)      | (0.2)    | % |
| Personnel expense as % of gross profit                   | 45.1 %   | 44.7 %   | 0.4 %         | 0.9      | % |
| Advertising expense as % of gross profit                 | 3.3 %    | 3.3 %    | — %           | —        | % |
| Rent & related expense as % of gross profit              | 10.0 %   | 10.4 %   | (0.4) %       | (3.8)    | % |
| Other expense as % of gross profit                       | 18.8 %   | 19.3 %   | (0.5) %       | (2.6)    | % |
| Total SG&A expenses as % of gross profit                 | 77.2 %   | 77.7 %   | (0.5) %       | (0.6)    | % |
| Same-store SG&A expenses as % of same-store gross profit | 77.4 %   | 77.7 %   | (0.3) %       | (0.4)    | % |

Selling, general and administrative expenses (“SG&A”) increased from 2015 to 2016 due to a \$23.9 million increase from net acquisitions, offset by a \$0.8 million, or 0.2%, decrease in same-store SG&A. Excluding the \$11.2 million

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reduction related to foreign currency fluctuations, same-store SG&A increased 2.0%. 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 2.9% 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 77.2%, an improvement of 50 basis points compared to 77.7% 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 31.9%. SG&A expenses as a percentage of total revenue was 11.6% and 12.0% in the three months ended March 31, 2016 and 2015, respectively.

## Depreciation

(In millions)

|              | 2016    | 2015    | 2016 vs. 2015 |          |   |
|--------------|---------|---------|---------------|----------|---|
|              |         |         | Change        | % Change |   |
| Depreciation | \$ 20.8 | \$ 18.6 | \$ 2.2        | 11.8     | % |

The increase in depreciation from 2015 to 2016 is due to a \$1.0 million, or 5.4%, increase in same-store depreciation, coupled with a \$1.2 million increase from net acquisitions. The same-store 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 | \$ 12.8 | \$ 10.3 | \$ 2.5        | 24.3     | % |

The increase in floor plan interest expense from 2015 to 2016 is primarily due to a \$2.1 million, or 20.8%, increase in same-store floor plan interest expense, coupled with a \$0.4 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 | \$ 17.2 | \$ 16.3 | \$ 0.9        | 5.5      | % |

The increase in other interest expense from 2015 to 2016 is primarily due 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 three months ended March 31, 2016 compared to the same period in 2015, as well as an increase in applicable rates.

## Equity in Earnings of Affiliates

(In millions)

|                                  | 2016   | 2015   | 2016 vs. 2015 |          |   |
|----------------------------------|--------|--------|---------------|----------|---|
|                                  |        |        | Change        | % Change |   |
| Equity in earnings of affiliates | \$ 5.5 | \$ 6.7 | \$ (1.2)      | (17.9)   | % |

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 consolidated during the third 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.

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## Income Taxes

(In millions)

|              | 2016    | 2015    | 2016 vs. 2015 |          |   |
|--------------|---------|---------|---------------|----------|---|
|              |         |         | Change        | % Change |   |
| Income taxes | \$ 39.4 | \$ 38.8 | \$ 0.6        | 1.5      | % |

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 March 31, 2016, we had working capital of \$67.0 million, including \$45.6 million of cash available to fund our operations and capital commitments. In addition, we had \$445.4 million, £122.0 million (\$175.3 million), and AU \$5.8 million (\$4.4 million) available for borrowing under our U.S. credit agreement, U.K. credit agreement, and Australian working capital loan agreement, respectively.

## 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. 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. We previously had \$109.0 million in repurchase authorization. During the three months ended March 31, 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 March 31, 2016, our remaining authorization under the program was \$32.1 million.

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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 |
|---------------|---------|

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, 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.

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## Long-Term Debt Obligations

As of March 31, 2016, we had the following long-term debt obligations outstanding:

| (In millions)                                    | March<br>31,<br>2016 |
|--|----------------------|
| U.S. credit agreement – revolving credit line    | \$ 237.0             |
| U.K. credit agreement – revolving credit line    | 53.1                 |
| U.K. credit agreement – overdraft line of credit | 1.4                  |
| 5.375% senior subordinated notes due 2024        | 296.5                |
| 5.75% senior subordinated notes due 2022         | 544.5                |
| Australia working capital loan agreement         | 29.5                 |
| Mortgage facilities                              | 187.0                |
| Other  | 35.6                 |
| Total long-term debt                             | \$ 1,384.6           |

As of March 31, 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 three months ended March 31, 2016, outstanding revolving commitments varied between \$160.0 million and \$371.5 million under the U.S. credit agreement, between £10.0 million and £56.0 million (\$14.4 million and \$80.4 million) under the U.K. credit agreement's revolving credit line (excluding the overdraft facility), and between AU \$7.5 million and AU \$40.3 million (\$5.7 million and \$30.9 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

We hold a 9.0% ownership interest in Penske Truck Leasing. We receive 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

As of March 31, 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. Refer to the disclosures provided in Part I, Item 1, Note 9 of the Notes to our Consolidated Condensed Financial Statements for a detailed description of our operating leases.

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

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### 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 detailed description of our off-balance sheet arrangements which include lease obligations, indemnification to GECC 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 decreased by \$16.8 million and increased by \$30.5 million during the three months ended March 31, 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 \$82.6 million and \$193.3 million during the three months ended March 31, 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)  | Three Months    |          |
|--|-----------------|----------|
|  | Ended March 31, |          |
|  | 2016            | 2015     |
| Net cash from continuing operating activities as reported                            | \$ 82.6         | \$ 193.3 |
| Floor plan notes payable — non-trade as reported                                     | 54.9            | 100.9    |
| Net cash from continuing operating activities including all floor plan notes payable | \$ 137.5        | \$ 294.2 |

#### Cash Flows from Continuing Investing Activities

Cash used in continuing investing activities was \$72.9 million and \$120.1 million during the three months ended March 31, 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 \$46.8 million and \$33.7 million during the three months ended March 31, 2016 and 2015, respectively. Capital expenditures relate 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

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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 \$0.4 million and \$86.4 million during the three months ended March 31, 2016 and 2015, respectively, and included cash used to repay sellers floor plan liabilities in such business acquisitions of \$41.2 million during the three months ended March 31, 2015.

### Cash Flows from Continuing Financing Activities

Cash used in continuing financing activities was \$29.4 million and \$73.5 million during the three months ended March 31, 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 borrowings of long-term debt of \$111.5 million and net repayments of long-term debt of \$139.3 million during the three months ended March 31, 2016 and 2015, respectively, and paid \$1.2 million of debt issuance costs during the three months ended March 31, 2015. We had net borrowings of floor plan notes payable non-trade of \$54.9 million and \$100.9 million during the three months ended March 31, 2016 and 2015, respectively. We repurchased common stock for a total of \$167.9 million and \$14.0 million during the three months ended March 31, 2016 and 2015, respectively. We also paid cash dividends to our stockholders of \$23.3 million and \$19.9 million during the three months ended March 31, 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 transactions are reviewed periodically by our Audit Committee and reflect the provider’s cost or an amount mutually agreed upon by both parties.

As discussed above, we hold a 9.0% ownership interest in PTL, a leading provider of transportation and supply chain services. PTL is owned 41.1% by Penske Corporation, 9.0% by us, 29.9% by GECC and 20.0% by Mitsui & Co. Among

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other things, the relevant agreements provide us with specified distribution and governance rights and restrict our ability to transfer our interests.

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

## 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 March 31, 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)     |

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(A) As of March 31, 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 (9%), and National Powersport Auctions (7%), that are accounted for under the equity method, and our controlling interests in Premier Truck Group (96%) and i.M. Branded (90%) that are 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

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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 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;

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- results of self-insurance plans;
- trends affecting our future financial condition or results of operations; and
- our business strategy.

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 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;
- import product restrictions and foreign trade risks that may impair our ability to sell foreign vehicles profitably;

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- 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;
- 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 March 31, 2016, a 100 basis point change in interest rates would result in an approximate \$3.1 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, 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 March 31, 2016, a 100 basis point change in interest rates would result in an approximate \$31.5 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;

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- the use of authorized derivative instruments;
- the prohibition of using derivatives for trading or other speculative purposes; and
- 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 March 31, 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 \$0.2 million change to our revenues for the three months ended March 31, 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.

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## 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 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 three months ended March 31, 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 March 31, 2016, our remaining authorization under the program was \$32.1 million.

| Period                          | Total Number of Shares Purchased | 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) |
|---------------------------------|----------------------------------|------------------------------|--|---|
| January 1 to January 31, 2016   | —                                | \$ —                         | —  | \$ 200.0  |
| February 1 to February 29, 2016 | 2,375,564                        | \$ 35.44                     | 2,375,564  | \$ 115.8  |
| March 1 to March 31, 2016       | 2,136,761                        | \$ 39.18                     | 2,136,761  | \$ 32.1   |
|                                 | 4,512,325                        |                              | 4,512,325  |   |





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Item 6. Exhibits

- 4.1 First Supplemental Indenture dated as of April 27, 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 Second Supplemental Indenture, regarding our 5.375% Senior Subordinated Notes due 2024, dated as of April 27, 2016 among the Company, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee.
- 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.

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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

Date: April 27, 2016

Chief Executive Officer

By: /s/ J.D. Carlson

J.D. Carlson

Date: April 27, 2016

Chief Financial Officer

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EXHIBIT INDEX

| Exhibit<br>No. | Description  |
|----------------|--|
| 4.1            | First Supplemental Indenture dated as of April 27, 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            | Second Supplemental Indenture, regarding our 5.375% Senior Subordinated Notes due 2024, dated as of April 27, 2016 among the Company, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee.                         |
| 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.   |