

ASBURY AUTOMOTIVE GROUP INC  
Form 10-Q  
October 24, 2018  
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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 September 30, 2018

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: 001-31262

ASBURY AUTOMOTIVE GROUP, INC.  
(Exact name of Registrant as specified in its charter)

Delaware 01-0609375  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

2905 Premiere Parkway NW, Suite 300 30097  
Duluth, Georgia  
(Address of principal executive offices) (Zip Code)  
(770) 418-8200  
(Registrant's telephone number, including area code)

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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer  Accelerated Filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

Non-Accelerated Filer  (Do not check if a smaller reporting company) Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: The number of shares of common stock outstanding as of October 23, 2018 was 19,601,597.

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ASBURY AUTOMOTIVE GROUP, INC.

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## PART I. FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements

## ASBURY AUTOMOTIVE GROUP, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except par value and share data)

(Unaudited)

|   | September 30,<br>2018 | December 31,<br>2017 |
|---|-----------------------|----------------------|
| <b>ASSETS</b>   |                       |                      |
| <b>CURRENT ASSETS:</b>  |                       |                      |
| Cash and cash equivalents   | \$ 6.8                | \$ 4.7               |
| Contracts-in-transit  | 138.0                 | 193.3                |
| Accounts receivable, net  | 114.1                 | 128.5                |
| Inventories   | 962.8                 | 826.0                |
| Assets held for sale  | 28.3                  | 30.3                 |
| Other current assets  | 125.5                 | 119.3                |
| Total current assets  | 1,375.5               | 1,302.1              |
| PROPERTY AND EQUIPMENT, net   | 877.6                 | 834.2                |
| GOODWILL  | 181.2                 | 160.8                |
| INTANGIBLE FRANCHISE RIGHTS   | 69.5                  | 49.6                 |
| OTHER LONG-TERM ASSETS  | 12.5                  | 10.0                 |
| Total assets  | \$ 2,516.3            | \$ 2,356.7           |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                       |                      |
| <b>CURRENT LIABILITIES:</b>   |                       |                      |
| Floor plan notes payable—trade, net   | \$ 102.2              | \$ 104.2             |
| Floor plan notes payable—non-trade, net   | 728.9                 | 627.9                |
| Current maturities of long-term debt  | 13.1                  | 12.9                 |
| Accounts payable and accrued liabilities  | 291.3                 | 313.2                |
| Total current liabilities   | 1,135.5               | 1,058.2              |
| LONG-TERM DEBT  | 852.1                 | 862.6                |
| DEFERRED INCOME TAXES   | 17.4                  | 12.5                 |
| OTHER LONG-TERM LIABILITIES   | 30.3                  | 29.2                 |
| COMMITMENTS AND CONTINGENCIES (Note 11)   |                       |                      |
| <b>SHAREHOLDERS' EQUITY:</b>  |                       |                      |
| Preferred stock, \$.01 par value; 10,000,000 shares authorized; none issued or outstanding  | —                     | —                    |
| Common stock, \$.01 par value; 90,000,000 shares authorized; 41,159,319 and 40,969,987 shares issued, including shares held in treasury, respectively | 0.4                   | 0.4                  |
| Additional paid-in capital  | 571.7                 | 563.5                |
| Retained earnings   | 887.1                 | 750.3                |
| Treasury stock, at cost; 21,052,038 and 20,156,962 shares, respectively   | (980.9                | ) (919.1 )           |
| Accumulated other comprehensive income (loss)   | 2.7                   | (0.9 )               |
| Total shareholders' equity  | 481.0                 | 394.2                |
| Total liabilities and shareholders' equity  | \$ 2,516.3            | \$ 2,356.7           |

See accompanying Notes to Condensed Consolidated Financial Statements

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ASBURY AUTOMOTIVE GROUP, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (In millions, except per share data)  
 (Unaudited)

|   | For the Three<br>Months Ended<br>September 30,<br>2018 |         | For the Nine<br>Months Ended<br>September 30,<br>2017 |           |
|---|--|---------|---|-----------|
| REVENUE:                                    |  |         |   |           |
| New vehicle                                 | \$980.5  | \$881.6 | \$2,766.3   | \$2,597.0 |
| Used vehicle                                | 497.5  | 455.6   | 1,499.0   | 1,396.6   |
| Parts and service                           | 206.1  | 197.2   | 609.9   | 589.5     |
| Finance and insurance, net                  | 73.3   | 67.7    | 215.0   | 202.5     |
| TOTAL REVENUE                               | 1,757.4  | 1,602.1 | 5,090.2   | 4,785.6   |
| COST OF SALES:                              |  |         |   |           |
| New vehicle                                 | 938.4  | 840.6   | 2,645.0   | 2,474.6   |
| Used vehicle                                | 464.7  | 426.8   | 1,398.6   | 1,301.2   |
| Parts and service                           | 76.3   | 74.4    | 225.4   | 222.3     |
| TOTAL COST OF SALES                         | 1,479.4  | 1,341.8 | 4,269.0   | 3,998.1   |
| GROSS PROFIT                                | 278.0  | 260.3   | 821.2   | 787.5     |
| OPERATING EXPENSES:                         |  |         |   |           |
| Selling, general, and administrative        | 188.8  | 182.5   | 563.6   | 549.2     |
| Depreciation and amortization               | 8.5  | 8.1     | 25.2  | 24.0      |
| Other operating (income) expenses, net      | (0.1 )   | —       | (1.2 )  | 0.7       |
| INCOME FROM OPERATIONS                      | 80.8   | 69.7    | 233.6   | 213.6     |
| OTHER EXPENSES:                             |  |         |   |           |
| Floor plan interest expense                 | 8.4  | 5.8     | 23.0  | 17.1      |
| Other interest expense, net                 | 13.2   | 13.4    | 39.4  | 40.2      |
| Swap interest expense                       | 0.1  | 0.4     | 0.5   | 1.6       |
| Total other expenses, net                   | 21.7   | 19.6    | 62.9  | 58.9      |
| INCOME BEFORE INCOME TAXES                  | 59.1   | 50.1    | 170.7   | 154.7     |
| Income tax expense                          | 14.8   | 19.4    | 43.1  | 58.1      |
| NET INCOME                                  | \$44.3   | \$30.7  | \$127.6   | \$96.6    |
| EARNINGS PER COMMON SHARE:                  |  |         |   |           |
| Basic—                                      |  |         |   |           |
| Net income                                  | \$2.22   | \$1.49  | \$6.29  | \$4.64    |
| Diluted—                                    |  |         |   |           |
| Net income                                  | \$2.18   | \$1.48  | \$6.22  | \$4.60    |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING: |  |         |   |           |
| Basic                                       | 20.0   | 20.6    | 20.3  | 20.8      |
| Restricted stock                            | 0.1  | 0.1     | 0.1   | 0.1       |
| Performance share units                     | 0.2  | 0.1     | 0.1   | 0.1       |
| Diluted                                     | 20.3   | 20.8    | 20.5  | 21.0      |

See accompanying Notes to Condensed Consolidated Financial Statements

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## ASBURY AUTOMOTIVE GROUP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

|  | For the Three |        | For the Nine  |        |
|--|---------------|--------|---------------|--------|
|  | Months Ended  |        | Months Ended  |        |
|  | September 30, |        | September 30, |        |
|  | 2018          | 2017   | 2018          | 2017   |
| Net income   | \$44.3        | \$30.7 | \$127.6       | \$96.6 |
| Other comprehensive income:                        |               |        |               |        |
| Change in fair value of cash flow swaps            | 0.9           | 0.3    | 4.9           | 0.5    |
| Income tax expense associated with cash flow swaps | (0.2 )        | (0.1 ) | (1.3 )        | (0.2 ) |
| Comprehensive income                               | \$45.0        | \$30.9 | \$131.2       | \$96.9 |

See accompanying Notes to Condensed Consolidated Financial Statements

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ASBURY AUTOMOTIVE GROUP, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In millions)  
 (Unaudited)

|   | For the Nine<br>Months Ended<br>September 30, |            |
|---|---|------------|
|   | 2018  | 2017       |
| <b>CASH FLOW FROM OPERATING ACTIVITIES:</b>   |   |            |
| Net income  | \$127.6                                       | \$ 96.6    |
| Adjustments to reconcile net income to net cash provided by operating activities—                                 |   |            |
| Depreciation and amortization   | 25.2  | 24.0       |
| Stock-based compensation  | 8.2   | 10.0       |
| Deferred income taxes   | 0.6   | 0.1        |
| Loaner vehicle amortization   | 16.7  | 16.8       |
| Other adjustments, net  | 1.9   | 2.3        |
| Changes in operating assets and liabilities, net of acquisitions and divestitures—                                |   |            |
| Contracts-in-transit  | 55.3  | 50.8       |
| Accounts receivable   | 14.8  | 30.0       |
| Inventories   | 26.4  | 189.5      |
| Other current assets  | (144.5 )                                      | (145.6 )   |
| Floor plan notes payable—trade, net   | (2.0 )  | 1.4        |
| Accounts payable and accrued liabilities  | (25.6 )                                       | (34.3 )    |
| Other long-term assets and liabilities, net   | 1.8   | 1.6        |
| Net cash provided by operating activities   | 106.4   | 243.2      |
| <b>CASH FLOW FROM INVESTING ACTIVITIES:</b>   |   |            |
| Capital expenditures—excluding real estate  | (21.5 )                                       | (21.4 )    |
| Capital expenditures—real estate  | (17.6 )                                       | (0.3 )     |
| Purchases of previously leased real estate  | (4.4 )  | —          |
| Acquisitions  | (91.3 )                                       | (80.1 )    |
| Proceeds from the sale of assets  | 2.0   | 3.8        |
| Net cash used in investing activities   | (132.8 )                                      | (98.0 )    |
| <b>CASH FLOW FROM FINANCING ACTIVITIES:</b>   |   |            |
| Floor plan borrowings—non-trade   | 3,309.7                                       | 2,818.1    |
| Floor plan borrowings—acquisitions  | 22.7  | 25.1       |
| Floor plan repayments—non-trade   | (3,231.4 )                                    | (2,938.1 ) |
| Repayments of borrowings  | (10.7 )                                       | (11.5 )    |
| Repurchases of common stock, including shares associated with net share settlement of employee share-based awards | (61.8 )                                       | (39.4 )    |
| Net cash provided by (used in) financing activities   | 28.5  | (145.8 )   |
| Net increase (decrease) in cash and cash equivalents  | 2.1   | (0.6 )     |
| CASH AND CASH EQUIVALENTS, beginning of period  | 4.7   | 3.4        |
| CASH AND CASH EQUIVALENTS, end of period  | \$6.8   | \$ 2.8     |

See Note 10 "Supplemental Cash Flow Information" for further details  
See accompanying Notes to Condensed Consolidated Financial Statements

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ASBURY AUTOMOTIVE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

We are one of the largest automotive retailers in the United States, operating 97 new vehicle franchises (83 dealership locations) in 17 metropolitan markets within nine states as of September 30, 2018. Our stores offer an extensive range of automotive products and services, including new and used vehicles; parts and service, which includes repair and maintenance services, replacement parts and collision repair services; and finance and insurance products. As of September 30, 2018, we offered 29 brands of new vehicles and our new vehicle revenue brand mix consisted of 48% imports, 32% luxury, and 20% domestic brands. We also operated 25 collision repair centers that serve customers in our local markets.

Our retail network is made up of dealerships operating primarily under the following locally-branded dealership groups:

• Coggin dealerships operating primarily in Jacksonville, Fort Pierce and Orlando, Florida;

• Courtesy dealerships operating in Tampa, Florida;

• Crown dealerships operating in North Carolina, South Carolina and Virginia;

• Gray-Daniels dealerships operating in the Jackson, Mississippi area;

• Hare dealerships operating in the Indianapolis, Indiana area;

• McDavid dealerships operating in metropolitan Austin, Dallas and Houston, Texas;

• Nalley dealerships operating in metropolitan Atlanta, Georgia; and

• Plaza dealerships operating in metropolitan St. Louis, Missouri.

Our operating results are generally subject to changes in the economic environment as well as seasonal variations. Historically, we have generated more revenue and operating income in the second, third, and fourth quarters than in the first quarter of the calendar year. Generally, the seasonal variations in our operations are caused by factors related to weather conditions, changes in manufacturer incentive programs, model changeovers and consumer buying patterns, among other things.

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), and reflect the consolidated accounts of Asbury Automotive Group, Inc. and its wholly owned subsidiaries. All intercompany transactions have been eliminated in consolidation.

In the opinion of management, all adjustments, consisting only of normal, recurring adjustments, considered necessary for a fair presentation of the Condensed Consolidated Financial Statements as of September 30, 2018, and for the three and nine months ended September 30, 2018 and 2017, have been included. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for any other interim period, or any full year period. Our Condensed Consolidated Financial Statements should be read together with our audited consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2017.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the periods presented. Actual results could differ materially from these estimates. Estimates and assumptions are reviewed quarterly and the effects of any revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Significant estimates made in the accompanying Condensed Consolidated Financial Statements include, but are not limited to, those relating to inventory valuation reserves, variable consideration and constraint considerations related to retro-commission arrangements, reserves for chargebacks against revenue

recognized from the sale of finance and insurance products, reserves for insurance programs, certain assumptions related to intangible and long-lived assets, and reserves for certain legal or similar proceedings relating to our business operations.

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### Contracts-In-Transit

Contracts-in-transit represent receivables from third-party finance companies for the portion of new and used vehicle purchase price financed by customers through sources arranged by us.

### Revenue Recognition

The Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and all subsequent amendments issued thereafter (collectively "ASC 606"), on January 1, 2018. Refer to Note 2 for additional information related to the Company's adoption of ASC 606.

### Income Taxes

We use the liability method to account for income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all the deferred tax assets will not be realized.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, a reduction in the U.S. federal corporate income tax rate from 35% to 21%.

The staff of the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 ("SAB 118") on December 22, 2017, which provides guidance on accounting for the income tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from December 22, 2017, the Tax Act enactment date, for companies to complete the accounting under ASC 740, Income Taxes ("ASC 740"). In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but the company is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements.

During the third quarter of 2018, the Internal Revenue Service ("IRS") released Notice 2018-68 (the "Notice"), which clarified a number of changes made to Section 162(m) of the Internal Revenue Code (the "Code") by the Tax Act. While the Notice is not comprehensive and promises additional guidance is forthcoming, we determined a reasonable estimate could be made and recorded \$0.6 million of additional income tax expense as a provisional adjustment to the deferred tax assets for certain components of share-based compensation during the three months ending September 30, 2018. We will complete our accounting for the Tax Act in 2018 after we have considered additional guidance issued by the U.S. Treasury Department, state tax authorities and other standard-setting bodies, and we have gathered and analyzed additional data relative to our calculations. This may result in adjustments to our provisional amounts, which would impact our provision for income taxes and the effective tax rate in the period the adjustments are made.

We remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. However, we are still analyzing certain aspects of the Tax Act and refining our calculations, which could potentially affect the measurement of these balances and impact future taxable income.

### Earnings per Common Share

Basic earnings per common share is computed by dividing net income by the weighted-average common shares outstanding during the period. Diluted earnings per common share is computed by dividing net income by the weighted-average common shares and common share equivalents outstanding during the period. For all periods presented, there were no adjustments to the numerator necessary to compute diluted earnings per share.

### Assets Held for Sale and Liabilities Associated with Assets Held for Sale

Certain amounts have been classified as Assets Held for Sale in the accompanying Condensed Consolidated Balance Sheets. Assets and liabilities classified as held for sale include assets and liabilities associated with pending dealership

disposals, real estate not currently used in our operations that we are actively marketing to sell, and any related mortgage notes payable, if applicable. Classification as held for sale begins on the date that we have met all of the criteria for classification as held for sale.



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At the time of classifying assets as held for sale, we compare the carrying value of these assets to estimates of fair value to assess for impairment. We compare the carrying value to estimates of fair value utilizing the assistance of third-party broker opinions of value and third-party desktop appraisals to assist in our fair value estimates related to real estate properties.

### Statements of Cash Flows

Borrowings and repayments of floor plan notes payable to a lender unaffiliated with the manufacturer from which we purchase a particular new vehicle ("Non-Trade") and all floor plan notes payable relating to pre-owned vehicles (together referred to as "Floor Plan Notes Payable—Non-Trade") are classified as financing activities on the accompanying Condensed Consolidated Statements of Cash Flows, with borrowings reflected separately from repayments. The net change in floor plan notes payable to a lender affiliated with the manufacturer from which we purchase a particular new vehicle (collectively referred to as "Floor Plan Notes Payable—Trade") is classified as an operating activity on the accompanying Condensed Consolidated Statements of Cash Flows. Borrowings of floor plan notes payable associated with inventory acquired in connection with all acquisitions and repayments made in connection with all divestitures are classified as financing activities in the accompanying Condensed Consolidated Statement of Cash Flows. Cash flows related to floor plan notes payable included in operating activities differ from cash flows related to floor plan notes payable included in financing activities only to the extent that the former are payable to a lender affiliated with the manufacturer from which we purchased the related inventory, while the latter are payable to a lender not affiliated with the manufacturer from which we purchased the related inventory.

Loaner vehicles account for a significant portion of Other Current Assets. We acquire loaner vehicles either with available cash or through borrowing from either our manufacturer affiliated lenders or through our senior secured credit agreement with Bank of America, as administrative agent, and the other agents and lenders party thereto (the "2016 Senior Credit Facility"). Loaner vehicles are initially used by our service department for a short period of time (typically six to twelve months) before we seek to sell them. Therefore, we classify the acquisition of loaner vehicles in Other Current Assets and the borrowings and repayments of loaner vehicle notes payable in Accounts Payable and Accrued Liabilities in the accompanying Condensed Consolidated Statements of Cash Flows. Loaner vehicles are depreciated over the service period to their estimated value. At the end of the loaner service period, loaner vehicles are transferred from Other Current Assets to used vehicle inventory. These transfers are reflected as non-cash transfers between Other Current Assets and Inventories in the accompanying Condensed Consolidated Statements of Cash Flows.

### Recent Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments in this update address several specific cash flow issues with the objective of reducing the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in this update were effective for interim and annual periods beginning after December 15, 2017 and include retrospective application. The Company adopted this update during the first quarter of 2018. The adoption of this update did not have a material impact to our consolidated financial statements for the nine months ended September 30, 2018 and 2017.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments in this update clarify the definition of a business in order to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this update were to be applied prospectively and were effective for interim and annual periods beginning after December 15, 2017. The Company adopted this update during the first quarter of 2018. The adoption of this update did not have a material impact to our consolidated financial statements for the nine months ended September 30, 2018.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This new standard, and its related amendments, will supersede the existing lease accounting guidance and become effective for us on January 1, 2019. The new standard establishes a right-of-use model ("ROU") that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or

operating, with the classification affecting the pattern and classification of expense recognition reflected in the income statement. A modified retrospective transition approach is required, applying the new standard to all leases existing either as of the effective date or as of the beginning of the earliest comparative period presented in the financial statements at the date of adoption. We expect to elect the effective date method as our date of initial application. As a result, financial information and disclosures will not be updated under the new standard for periods ending prior to January 1, 2019.

While we are still evaluating the impact of this new standard, we expect this standard will have a material impact to our consolidated financial statements due to the recognition of ROU assets and liabilities for real estate and equipment leases on our consolidated balance sheet. We have established an implementation team to assess the impact of the new standard as well as the

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changes in processes and related controls to implement this standard. We are currently finalizing our assessment of our lease arrangements as well as the practical expedients and accounting policy elections provided by the new standard. We expect to elect the package of practical expedients to use in transition, which permits us not to reassess under the new standard our prior conclusions about lease identification and lease classification. In addition, we expect to elect the short-term lease exemption for all leases that qualify as well as the practical expedient to not separate lease and non-lease components for all leases other than real estate leases.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This update is intended to simplify hedge accounting by better aligning how an entity's risk management activities and hedging relationships are presented in its financial statements and simplifies the application of hedge accounting guidance in certain situations. This update expands and refines hedge accounting for both non-financial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. This update will become effective for us on January 1, 2019; however, early adoption is permitted. For cash flow hedges existing at the adoption date, this update requires adoption on a modified retrospective basis with a cumulative-effect adjustment to retained earnings as of the effective date. The amendments to presentation guidance and disclosure requirements are required to be adopted prospectively. We are currently evaluating this update and the significance of any impact this update may have to our consolidated financial statements.

**2. REVENUE RECOGNITION**

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method for all contracts not completed as of the date of adoption. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to retained earnings as of January 1, 2018. Therefore, prior period comparative information has not been adjusted and continues to be reported under accounting standards ("previous guidance" or "ASC 605") in effect for those periods.

**Disaggregation of Revenue**

The following table summarizes revenue from contracts with customers for the three and nine months ended September 30, 2018:

|   | For the<br>Three<br>Months<br>Ended<br>September<br>30, 2018 | For the<br>Nine<br>Months<br>Ended<br>September<br>30, 2018 |
|---|--|---|
|   | (In millions)  |   |
| Revenue:                                |  |   |
| New vehicle                             | \$980.5  | \$ 2,766.3  |
| Used vehicle retail                     | 448.7  | 1,355.4   |
| Used vehicle wholesale                  | 48.8   | 143.6   |
| New and used vehicle                    | 1,478.0  | 4,265.3   |
| Sale of vehicle parts and accessories   | 34.3   | 102.4   |
| Vehicle repair and maintenance services | 171.8  | 507.5   |
| Parts and services                      | 206.1  | 609.9   |
| Finance and insurance, net              | 73.3   | 215.0   |
| Total revenue                           | \$1,757.4  | \$ 5,090.2  |

The Company satisfies performance obligations either over time or at a point in time as discussed in further detail below. Revenue is recognized at the time the related performance obligation is satisfied by transferring a promised good or service to a customer. Sales and other taxes we collect concurrent with revenue-producing activities are excluded from revenue.

New vehicle and used vehicle retail

Revenue from the sale of new and used vehicles (which excludes sales and other taxes) is recognized when the terms of the customer contract are satisfied which generally occurs with the signing of the sales contract and transfer of control of the vehicle to the customer. Incidental items that are immaterial in the context of the contract are accrued at the time of sale.

Used vehicle wholesale

Proceeds from the sale of these vehicles are recognized in used vehicle revenue upon transfer of control to end-users at auction.

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## Sale of vehicle parts and accessories

The Company recognizes revenue upon transfer of control to the customer which occurs at a point in time. When the Company performs shipping and handling activities after the transfer of control to the customer (e.g., when control transfers prior to delivery), they are considered as fulfillment activities, and accordingly, the costs are accrued for when the related revenue is recognized.

## Vehicle repair and maintenance services

The Company provides vehicle repair and maintenance services to its customers pursuant to the terms and conditions included within the customer contract ("repair order"). Satisfaction of this performance obligation creates an asset with no alternative use for which an enforceable right to payment for performance to date exists within our contractual agreements. As such, the Company recognizes revenue over time as the Company satisfies its performance obligation. Additionally, the Company has determined that parts and labor are not individually distinct in the context of a repair order and therefore are treated as a single performance obligation.

## Finance and Insurance, net

We receive commissions from third-party lending and insurance institutions for arranging customer financing and from the sale of vehicle service contracts, guaranteed auto protection (known as "GAP") insurance, and other insurance, to end-users. Finance and insurance commission revenue is recognized at the point of sale since our performance obligation is to arrange financing or facilitating the sale of a third party's products or services to our customers.

The Company's commission arrangements with third-party lenders and insurance administrators consists of fixed ("upfront") and variable consideration. Variable consideration includes commission chargebacks ("chargebacks") in the event a contract is prepaid, defaulted upon, or terminated by the end-user. The Company reserves for future chargebacks based on historical chargeback experience and the termination provisions of the applicable contract and these reserves are established in the same period that the related revenue is recognized.

We also participate in future profits pursuant to retrospective commission arrangements, which meet the definition of variable consideration, for certain insurance products associated with a third-party portfolio. The Company estimates the amount of variable consideration to be included in the transaction price based on historical payment trends and further constrains the variable consideration such that it is probable that a significant reversal of previously recognized revenue will not occur. In making these assessments the Company considers the likelihood and magnitude of a potential reversal of revenue and updates its assessment when uncertainties associated with the constraint are removed.

## Financial Statement Impact of Adopting ASC 606

The Company adopted ASC 606 using the modified retrospective method. The cumulative effect of applying the new guidance to all contracts with customers that were not completed as of January 1, 2018 was recorded as an adjustment to retained earnings as of the adoption date. As a result of applying the modified retrospective method to adopt the new revenue guidance, the following adjustments were made to accounts on the Company's Condensed Consolidated Balance Sheet as of January 1, 2018:

|                       | As<br>Reported          | Adjustments   | Balance<br>at      |
|-----------------------|-------------------------|---|--------------------|
|                       | December<br>31,<br>2017 | Vehicle<br>Repair<br>and<br>Maintenance<br>Services | January<br>1, 2018 |
|                       |                         | Finance<br>and<br>Insurance,<br>net                 |                    |
| (In millions)         |                         |   |                    |
| Assets:               |                         |   |                    |
| Inventories           | \$826.0                 | \$(4.1)   | \$ 821.9           |
| Other current assets  | 119.3                   | 6.4   | 135.7              |
| Liabilities:          |                         |   |                    |
| Deferred income taxes | \$12.5                  | \$0.6   | \$ 2.5             |
|                       |                         |   | \$ 15.6            |

Equity:

|                   |         |        |        |         |
|-------------------|---------|--------|--------|---------|
| Retained earnings | \$750.3 | \$ 1.7 | \$ 7.5 | \$759.5 |
|-------------------|---------|--------|--------|---------|

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## Vehicle repair and maintenance services

Under the previous guidance, revenue was recognized at the time all repairs were completed. Under ASC 606, revenue is recognized as the Company satisfies its performance obligation. The amounts reflected within the table above relate to the Company's measure of progress for open contracts as of January 1, 2018. In addition, contract assets are reported within Other Current Assets on the Company's Condensed Consolidated Balance Sheet.

## Finance and Insurance, net

Under the previous guidance, retrospective commissions were not fixed or determinable, and as a result, the associated revenue was recognized on a cash basis. Under ASC 606, the Company recognizes an estimate of the variable consideration to be received, subject to constraint, as it satisfies its performance obligation. As the Company's performance obligation is satisfied at the time of arranging the insurance product sale, the Company recorded a contract asset and corresponding increase to retained earnings based on an estimate, subject to constraint, of amounts expected to be received associated with previously satisfied performance obligations.

## Impact of New Revenue Guidance on Financial Statement Line Items

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on our Condensed Consolidated Balance Sheets and Statements of Income was as follows:

As of September 30, 2018

Amounts

| As Reported | Under ASC 605 | Effect of Change Increase/(Decrease) |
|-------------|---------------|--------------------------------------|
|-------------|---------------|--------------------------------------|

(In millions)

## Balance Sheet:

## Assets:

|                      |          |          |          |   |
|----------------------|----------|----------|----------|---|
| Accounts receivable  | \$ 114.1 | \$ 123.6 | \$ (9.5) | ) |
| Inventories          | 962.8    | 965.5    | (2.7)    | ) |
| Other current assets | 125.5    | 112.2    | 13.3     |   |

## Liabilities:

|  |          |          |          |   |
|--|----------|----------|----------|---|
| Accounts payable and accrued liabilities | \$ 291.3 | \$ 291.7 | \$ (0.4) | ) |
| Deferred income taxes                    | 17.4     | 14.3     | 3.1      |   |

## Equity:

|                   |          |          |          |   |
|-------------------|----------|----------|----------|---|
| Retained earnings | \$ 887.1 | \$ 888.7 | \$ (1.6) | ) |
|-------------------|----------|----------|----------|---|

For the Three Months Ended  
September 30, 2018

Amounts

| As Reported | Under ASC 605 | Effect of Change Increase/(Decrease) |
|-------------|---------------|--------------------------------------|
|-------------|---------------|--------------------------------------|

(In millions, except per share data)

## Statement of Income:

## Revenue:

|                            |          |          |        |
|----------------------------|----------|----------|--------|
| Parts and service          | \$ 206.1 | \$ 205.8 | \$ 0.3 |
| Finance and insurance, net | 73.3     | 73.2     | 0.1    |

## Cost of Sales:

|                            |         |         |        |
|----------------------------|---------|---------|--------|
| Parts and service          | 76.3    | 76.1    | 0.2    |
| Income before income taxes | 59.1    | 58.9    | 0.2    |
| Income tax expense         | 14.8    | 14.8    | —      |
| Net income                 | \$ 44.3 | \$ 44.1 | \$ 0.2 |

## Earnings Per Common Share:

|       |         |         |         |
|-------|---------|---------|---------|
| Basic | \$ 2.22 | \$ 2.21 | \$ 0.01 |
|-------|---------|---------|---------|

Diluted                      \$2.18   \$2.17   \$   0.01

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For the Nine Months Ended  
September 30, 2018

| As Reported | Amounts Under ASC 605 | Effect of Change Increase/(Decrease) |
|-------------|-----------------------|--------------------------------------|
|-------------|-----------------------|--------------------------------------|

(In millions, except per share data)

## Statement of Income:

## Revenue:

|                   |          |          |          |   |
|-------------------|----------|----------|----------|---|
| Parts and service | \$ 609.9 | \$ 612.0 | \$ (2.1) | ) |
|-------------------|----------|----------|----------|---|

|                            |       |       |       |   |
|----------------------------|-------|-------|-------|---|
| Finance and insurance, net | 215.0 | 216.0 | (1.0) | ) |
|----------------------------|-------|-------|-------|---|

## Cost of Sales:

|                   |       |       |       |   |
|-------------------|-------|-------|-------|---|
| Parts and service | 225.4 | 226.8 | (1.4) | ) |
|-------------------|-------|-------|-------|---|

|                            |       |       |       |   |
|----------------------------|-------|-------|-------|---|
| Income before income taxes | 170.7 | 172.4 | (1.7) | ) |
|----------------------------|-------|-------|-------|---|

|                    |      |      |       |   |
|--------------------|------|------|-------|---|
| Income tax expense | 43.1 | 43.5 | (0.4) | ) |
|--------------------|------|------|-------|---|

|            |          |          |          |   |
|------------|----------|----------|----------|---|
| Net income | \$ 127.6 | \$ 128.9 | \$ (1.3) | ) |
|------------|----------|----------|----------|---|

## Earnings Per Common Share:

|       |         |         |           |   |
|-------|---------|---------|-----------|---|
| Basic | \$ 6.29 | \$ 6.35 | \$ (0.06) | ) |
|-------|---------|---------|-----------|---|

|         |         |         |           |   |
|---------|---------|---------|-----------|---|
| Diluted | \$ 6.22 | \$ 6.29 | \$ (0.07) | ) |
|---------|---------|---------|-----------|---|

The following summarizes the changes to the Company's Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2018 as a result of the adoption of ASC 606 on January 1, 2018 compared to if the Company had continued to recognize revenues under ASC 605:

ASC 606 accelerated the recognition of revenue and costs related to open vehicle repair orders in which recognition was previously deferred until the completion of the repair order. During the three months ended September 30, 2018, gross profit increased \$0.1 million due to differences in open repair orders as of September 30, 2018 compared to open repair orders as of June 30, 2018. During the nine months ended September 30, 2018, gross profit decreased \$0.7 million due to differences in open repair orders as of September 30, 2018 compared to open repair orders as of December 31, 2017.

ASC 606 accelerated the timing of recognition of certain retro-commission arrangements (i.e. variable consideration) reported within finance and insurance, net. Under ASC 605, retro-commission income was recorded at the time it was received from our third-party provider. During the three months ended September 30, 2018, net revenue increased \$0.1 million due to the difference between the amounts received compared to the Company's estimate of variable consideration, subject to a constraint, for products arranged during the same comparative period. During the nine months ended September 30, 2018, net revenue decreased \$1.0 million due to the difference between the amounts received compared to the Company's estimate of variable consideration, subject to a constraint, for products arranged during the same comparative period.

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## Contract Assets

Changes in contract assets during the period are reflected in the table below. Contract assets related to vehicle repair and maintenance services are transferred to receivables when a repair order is completed and invoiced to the customer.

|  | Vehicle<br>Repair<br>and<br>Maintenance<br>Services | Finance<br>and<br>Insurance,<br>net | Total   |
|--|---|-------------------------------------|---------|
|  | (In millions)                                       |                                     |         |
| Contract Assets (Current), January 1, 2018   | \$6.4   | \$ 10.0                             | \$ 16.4 |
| Transferred to receivables from contract assets recognized at the beginning of the period          | (6.4 )  | (3.2 )                              | (9.6 )  |
| Increases related to revenue recognized, inclusive of adjustments to constraint, during the period | 5.1   | 2.6                                 | 7.7     |
| Contract Assets (Current), March 31, 2018  | 5.1   | 9.4                                 | 14.5    |
| Transferred to receivables from contract assets recognized at the beginning of the period          | (5.1 )  | (3.2 )                              | (8.3 )  |
| Increases related to revenue recognized, inclusive of adjustments to constraint, during the period | 4.0   | 2.7                                 | 6.7     |
| Contract Assets (Current), June 30, 2018   | 4.0   | 8.9                                 | 12.9    |
| Transferred to receivables from contract assets recognized at the beginning of the period          | (4.0 )  | (3.0 )                              | (7.0 )  |
| Increases related to revenue recognized, inclusive of adjustments to constraint, during the period | 4.3   | 3.1                                 | 7.4     |
| Contract Assets (Current), September 30, 2018  | \$4.3   | \$ 9.0                              | \$ 13.3 |

## 3. ACQUISITIONS

Results of acquired dealerships are included in our accompanying Condensed Consolidated Statements of Income commencing on the date of acquisition. Our acquisitions are accounted for such that the assets acquired and liabilities assumed are recognized at their acquisition date fair values, with any excess of the consideration transferred over the estimated fair values of the identifiable net assets acquired recorded as goodwill. Goodwill is an asset representing operational synergies and future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. The fair value of our manufacturer franchise rights are determined at the acquisition date, by discounting the projected cash flows specific to each franchise. Included in this analysis are market participant assumptions, at a dealership level, regarding the cash flows directly attributable to the franchise rights, revenue growth rates, future gross margins and future selling, general, and administrative expenses. Using an estimated weighted average cost of capital, estimated residual values at the end of the forecast period and estimated future capital expenditure requirements, the Company calculates the fair value of the franchise rights. During the nine months ended September 30, 2018, we acquired the assets of one franchise (one dealership location) in the Indianapolis, Indiana market and two franchises (two dealership locations) in the Atlanta, Georgia market for a combined aggregate purchase price of \$93.2 million. Consideration paid (or payable) to fund these acquisitions included \$68.6 million of cash, \$22.7 million of floor plan borrowings for the purchase of the related new vehicle inventory, and purchase price holdbacks of \$1.9 million for potential indemnity claims made by us with respect to the acquired franchises.

During the nine months ended September 30, 2017, we acquired the assets of two franchises (two dealership locations) and one collision center in the Indianapolis, Indiana market for an aggregate purchase price of \$80.1 million. We funded these acquisitions with \$55.0 million of cash and \$25.1 million of floor plan borrowings for the purchase of the related new vehicle inventory.

Below is the preliminary allocation of purchase price for the acquisitions completed during the nine months ended September 30, 2018. We have not finalized our internal valuation of manufacturer franchise rights. The \$40.3 million of goodwill and manufacturer rights associated with our acquisitions will be deductible for federal and state income tax purposes



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ratably over a 15 year period.

|                               | As of<br>September<br>30, 2018<br>(In<br>millions) |
|-------------------------------|--|
| Inventory                     | \$ 27.3  |
| Real estate                   | 23.5   |
| Property and equipment        | 0.6  |
| Goodwill                      | 20.4   |
| Manufacturer franchise rights | 19.9   |
| Loaner vehicles               | 1.7  |
| Liabilities assumed           | (0.2 )   |
| Total purchase price          | \$ 93.2  |

## 4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

|                                      | As of<br>September 30,<br>2018 | As of<br>December 31,<br>2017 |
|--------------------------------------|--------------------------------|-------------------------------|
|                                      | (In millions)                  |                               |
| Vehicle receivables                  | \$42.1                         | \$ 48.3                       |
| Manufacturer receivables             | 43.6                           | 47.0                          |
| Other receivables                    | 29.6                           | 34.8                          |
| Total accounts receivable            | 115.3                          | 130.1                         |
| Less—Allowance for doubtful accounts | (1.2 )                         | (1.6 )                        |
| Accounts receivable, net             | \$114.1                        | \$ 128.5                      |

## 5. INVENTORIES

Inventories consisted of the following:

|                       | As of<br>September<br>30,<br>2018 | As of<br>December<br>31, 2017 |
|-----------------------|-----------------------------------|-------------------------------|
|                       | (In millions)                     |                               |
| New vehicles          | \$772.6                           | \$ 646.5                      |
| Used vehicles         | 149.9                             | 135.9                         |
| Parts and accessories | 40.3                              | 43.6                          |
| Total inventories     | \$962.8                           | \$ 826.0                      |

The lower of cost and net realizable value reserves reduced total inventories by \$6.2 million and \$5.7 million as of September 30, 2018 and December 31, 2017, respectively. As of September 30, 2018 and December 31, 2017, certain automobile manufacturer incentives reduced new vehicle inventory cost by \$8.7 million and \$7.4 million, respectively, and reduced new vehicle cost of sales for the nine months ended September 30, 2018 and 2017 by \$30.6 million and \$29.4 million, respectively.

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## 6. ASSETS AND LIABILITIES HELD FOR SALE

Assets held for sale, comprising real estate not currently used in our operations, totaled \$28.3 million and \$30.3 million as of September 30, 2018 and December 31, 2017, respectively. There were no liabilities associated with these real estate assets held for sale as of September 30, 2018 or December 31, 2017.

During the nine months ended September 30, 2018, we sold one vacant property with a net book value of \$2.0 million.

## 7. FLOOR PLAN NOTES PAYABLE

Floor plan notes payable consisted of the following:

|   | As of         |          |
|---|---------------|----------|
|   | September     | December |
|   | 30,           | 31, 2017 |
|   | 2018          |          |
|   | (In millions) |          |
| Floor plan notes payable—trade          | \$ 113.6      | \$ 114.8 |
| Floor plan notes payable offset account | (11.4 )       | (10.6 )  |
| Floor plan notes payable—trade, net     | \$ 102.2      | \$ 104.2 |
| <br>                                    |               |          |
| Floor plan notes payable—non-trade      | \$ 760.4      | \$ 666.6 |
| Floor plan notes payable offset account | (31.5 )       | (38.7 )  |
| Floor plan notes payable—non-trade, net | \$ 728.9      | \$ 627.9 |

We have established a floor plan notes payable offset account with Ford Motor Credit Company that allows us to transfer cash to the account as an offset of our outstanding Floor Plan Notes Payable—Trade. Additionally, we have a similar floor plan offset account with Bank of America that allows us to offset our outstanding Floor Plan Notes Payable—Non-Trade. These accounts allow us to transfer cash to reduce the amount of outstanding floor plan notes payable that would otherwise accrue interest, while retaining the ability to transfer amounts from the floor plan offset accounts into our operating cash accounts within one to two days. As of September 30, 2018 and December 31, 2017, we had \$42.9 million and \$49.3 million, respectively, in these floor plan offset accounts.

## 8. LONG-TERM DEBT

Long-term debt consisted of the following:

|   | As of         |              |
|---|---------------|--------------|
|   | September 30, | December 31, |
|   | 2018          | 2017         |
|   | (In millions) |              |
| 6.0% Senior Subordinated Notes due 2024                             | \$ 600.0      | \$ 600.0     |
| Mortgage notes payable bearing interest at fixed rates              | 134.6         | 139.1        |
| Real estate credit agreement  | 46.2          | 48.5         |
| Restated master loan agreement                                      | 84.6          | 88.5         |
| Capital lease obligations   | 3.2           | 3.2          |
| Total debt outstanding  | 868.6         | 879.3        |
| Add—unamortized premium on 6.0% Senior Subordinated Notes due 2024  | 46.2          | 6.8          |
| Less—debt issuance costs  | (9.6 )        | (10.6 )      |
| Long-term debt, including current portion                           | 865.2         | 875.5        |
| Less—current portion, net of current portion of debt issuance costs | (13.1 )       | (12.9 )      |
| Long-term debt  | \$ 852.1      | \$ 862.6     |

We are a holding company with no independent assets or operations. For all relevant periods presented, our 6.0% Senior Subordinated Notes due 2024 (our "6.0% Notes") have been fully and unconditionally guaranteed, on a joint and several basis, by substantially all of our subsidiaries. Any subsidiaries that have not guaranteed such notes are "minor" (as defined in Rule 3-10(h) of Regulation S-X). As of September 30, 2018, there were no significant

restrictions on the ability of our subsidiaries to distribute cash to us or our guarantor subsidiaries.

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## 9. FINANCIAL INSTRUMENTS AND FAIR VALUE

In determining fair value, we use various valuation approaches, including market and income approaches. Accounting standards establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs are inputs that reflect our assumptions about the assumptions market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1-Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access.

Level 2-Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Assets and liabilities utilizing Level 2 inputs include interest rate swap instruments, exchange-traded debt securities that are not actively traded or do not have a high trading volume, mortgage notes payable, and certain real estate properties on a non-recurring basis.

Level 3-Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Asset and liability measurements utilizing Level 3 inputs include those used in estimating the fair value of certain non-financial assets and non-financial liabilities in purchase acquisitions and those used in the assessment of impairment for manufacturer franchise rights.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment required to determine fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based exit price measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, our assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. We use inputs that are current as of the measurement date, including during periods of significant market fluctuations.

Financial instruments consist primarily of cash and cash equivalents, contracts-in-transit, accounts receivable, cash surrender value of corporate-owned life insurance policies, accounts payable, floor plan notes payable, subordinated long-term debt, mortgage notes payable, and interest rate swap instruments. The carrying values of our financial instruments, with the exception of subordinated long-term debt and mortgage notes payable, approximate fair value due to (i) their short-term nature, (ii) recently completed market transactions, or (iii) existence of variable interest rates, which approximate market rates. The fair value of our subordinated long-term debt is based on reported market prices in an inactive market that reflects Level 2 inputs. We estimate the fair value of our mortgage notes payable using a present value technique based on current market interest rates for similar types of financial instruments that reflect Level 2 inputs.

A summary of the carrying values and fair values of our 6.0% Notes and our mortgage notes payable is as follows:

|   | As of         |              |
|---|---------------|--------------|
|   | September 30, | December 31, |
|   | 2018          | 2017         |
|   | (In millions) |              |
| Carrying Value:                         |               |              |
| 6.0% Senior Subordinated Notes due 2024 | \$606.2       | \$ 606.8     |
| Mortgage notes payable                  | 265.4         | 276.1        |
| Total carrying value                    | \$871.6       | \$ 882.9     |

Fair Value:

|   |         |          |
|---|---------|----------|
| 6.0% Senior Subordinated Notes due 2024 | \$603.0 | \$ 625.5 |
| Mortgage notes payable                  | 256.5   | 275.3    |
| Total fair value                        | \$859.5 | \$ 900.8 |

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## Interest Rate Swap Agreements

In June 2015, we entered into an interest rate swap agreement with a notional principal amount of \$100.0 million. This swap was designed to provide a hedge against changes in variable rate cash flows regarding fluctuations in the one month London Interbank Offered Rate ("LIBOR"), through maturity in February 2025. The notional value of this swap was \$86.4 million as of September 30, 2018 and is reducing over its remaining term to \$53.1 million at maturity. In November 2013, we entered into an interest rate swap agreement with a notional principal amount of \$75.0 million. This swap was designed to provide a hedge against changes in variable rate cash flows regarding fluctuations in the one month LIBOR rate, through maturity in September 2023. The notional value of this swap was \$57.4 million as of September 30, 2018 and is reducing over its remaining term to \$38.7 million at maturity.

The fair value of cash flow swaps is calculated as the present value of expected future cash flows, determined on the basis of forward interest rates and present value factors. Fair value estimates reflect a credit adjustment to the discount rate applied to all expected cash flows under the swaps. Other than this input, all other inputs used in the valuation of these swaps are designated to be Level 2 fair values. The fair value of our swaps was a \$3.2 million asset as of September 30, 2018 and a \$1.7 million liability as of December 31, 2017.

The following table provides information regarding the fair value of our interest rate swap agreements and the impact on the Condensed Consolidated Balance Sheets:

|  | As of         |          |
|--|---------------|----------|
|  | September     | December |
|  | 30,           | 31, 2017 |
|  | 2018          |          |
|  | (In millions) |          |
| Other current assets                     | \$(0.3)       | \$ —     |
| Accounts payable and accrued liabilities | —             | 1.0      |
| Other long-term (assets) liabilities     | (2.9 )        | 0.7      |
| Total fair value                         | \$(3.2)       | \$ 1.7   |

Both of our interest rate swaps qualify for cash flow hedge accounting treatment. During the three and nine months ended September 30, 2018 and 2017, neither of our cash flow swaps contained any ineffectiveness, nor was any ineffectiveness recognized in earnings. Information about the effect of our interest rate swap agreements on the accompanying Condensed Consolidated Statements of Income and Condensed Consolidated Statements of Comprehensive Income, is as follows (in millions):

|   | Results<br>Recognized in<br>Accumulated<br>Other<br>Comprehensive<br>Income/(Loss)<br>(Effective<br>Portion) | Location of Results<br>Reclassified from Accumulated Other<br>Comprehensive<br>Income/(Loss)<br>to Earnings | Results<br>Reclassified<br>from<br>Accumulated<br>Other<br>Comprehensive<br>Income/(Loss)<br>to Earnings<br>Amount<br>Reclassified<br>from<br>Accumulated<br>Other<br>Comprehensive<br>Income/(Loss)<br>to Earnings |
|---|--|---|---|
| For the Three Months<br>Ended September 30, |  |   |   |
| 2018  | \$ 0.8   | Swap interest expense   | \$ (0.1 )   |
| 2017  | \$ (0.1 )  | Swap interest expense   | \$ (0.4 )   |
| For the Nine Months Ended<br>September 30,  |  |   |   |

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|      |           |                       |           |
|------|-----------|-----------------------|-----------|
| 2018 | \$ 4.4    | Swap interest expense | \$ (0.5 ) |
| 2017 | \$ (1.1 ) | Swap interest expense | \$ (1.6 ) |

On the basis of yield curve conditions as of September 30, 2018 and including assumptions about future changes in fair value, we expect the amount to be reclassified out of Accumulated Other Comprehensive Income into earnings within the next 12 months will be income of \$0.3 million.

10. SUPPLEMENTAL CASH FLOW INFORMATION

During the nine months ended September 30, 2018 and 2017, we made interest payments, including amounts capitalized, totaling \$52.0 million and \$48.1 million, respectively. Included in these interest payments are \$22.5 million and \$16.9 million, of floor plan interest payments during the nine months ended September 30, 2018 and 2017, respectively.

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During the nine months ended September 30, 2018 and 2017, we made income tax payments, net of refunds received totaling \$39.6 million and \$94.2 million, respectively.

During the nine months ended September 30, 2018 and 2017, we transferred \$139.9 million and \$111.8 million, respectively, of loaner vehicles from Other Current Assets to Inventories on our Condensed Consolidated Balance Sheets.

### 11. COMMITMENTS AND CONTINGENCIES

Our dealerships are party to dealer and framework agreements with applicable vehicle manufacturers. In accordance with these agreements, each dealership has certain rights and is subject to restrictions typical in the industry. The ability of these manufacturers to influence the operations of the dealerships or the loss of any of these agreements could have a materially negative impact on our operating results.

In some instances, manufacturers may have the right, and may direct us, to implement costly capital improvements to dealerships as a condition to entering into, renewing, or extending franchise agreements with them. Manufacturers also typically require that their franchises meet specific standards of appearance. These factors, either alone or in combination, could cause us to use our financial resources on capital projects that we might not have planned for or otherwise determined to undertake.

From time to time, we and our dealerships are or may become involved in various claims relating to, and arising out of, our business and our operations. These claims may involve, but not be limited to, financial and other audits by vehicle manufacturers or lenders and certain federal, state, and local government authorities, which have historically related primarily to (i) incentive and warranty payments received from vehicle manufacturers, or allegations of violations of manufacturer agreements or policies, (ii) compliance with lender rules and covenants, and (iii) payments made to government authorities relating to federal, state, and local taxes, as well as compliance with other government regulations. Claims may also arise through litigation, government proceedings, and other dispute resolution processes. Such claims, including class actions, could relate to, but may not be limited to, the practice of charging administrative fees and other fees and commissions, employment-related matters, truth-in-lending and other dealer assisted financing obligations, contractual disputes, actions brought by governmental authorities, and other matters. We evaluate pending and threatened claims and establish loss contingency reserves based upon outcomes we currently believe to be probable and reasonably estimable.

We believe we have adequately accrued for the potential impact of loss contingencies that are probable and reasonably estimable. Based on our review of the various types of claims currently known to us, there is no indication of material reasonably possible losses in excess of amounts accrued in the aggregate. We currently do not anticipate that any known claim will materially adversely affect our financial condition, liquidity, or results of operations. However, the outcome of any matter cannot be predicted with certainty, and an unfavorable resolution of one or more matters presently known or arising in the future could have a material adverse effect on our financial condition, liquidity, or results of operations.

A significant portion of our business involves the sale of vehicles, parts, or vehicles composed of parts that are manufactured outside the United States. As a result, our operations are subject to customary risks of importing merchandise, including fluctuations in the relative values of currencies, import duties, exchange controls, trade restrictions, work stoppages, and general political and socio-economic conditions in foreign countries. The United States or the countries from which our products are imported may, from time to time, impose new quotas, duties, tariffs, or other restrictions, or adjust presently prevailing quotas, duties, or tariffs, which may affect our operations, and our ability to purchase imported vehicles and/or parts at reasonable prices.

Substantially all of our facilities are subject to federal, state and local provisions regarding the discharge of materials into the environment. Compliance with these provisions has not had, nor do we expect such compliance to have, any material effect upon our capital expenditures, net earnings, financial condition, liquidity or competitive position. We believe that our current practices and procedures for the control and disposition of such materials comply with applicable federal, state, and local requirements. No assurances can be provided, however, that future laws or regulations, or changes in existing laws or regulations, would not require us to expend significant resources in order to comply therewith.

We had \$13.0 million of letters of credit outstanding as of September 30, 2018, which are required by certain of our insurance providers. In addition, as of September 30, 2018, we maintained a \$5.0 million surety bond line in the ordinary course of our business. Our letters of credit and surety bond line are considered to be off balance sheet arrangements.

Our other material commitments include (i) floor plan notes payable, (ii) operating leases, (iii) long-term debt and (iv) interest on long-term debt, as described elsewhere herein.

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

Forward-Looking Information

Certain of the discussions and information included or incorporated by reference in this report may constitute "forward-looking statements" within the meaning of the federal securities laws. Forward-looking statements are statements that are not historical in nature and may include statements relating to our goals, plans and projections regarding industry and general economic trends, our expected financial position, results of operations or market position and our business strategy. Such statements can generally be identified by words such as "may," "target," "could," "would," "will," "should," "believe," "expect," "anticipate," "plan," "intend," "foresee," and other similar words or phrases. Forward-looking statements may also relate to our expectations and assumptions with respect to, among other things:

- our ability to execute our business strategy;
- the seasonally adjusted annual rate ("SAAR") of new vehicle sales in the U.S.;
- our ability to further improve our operating cash flows, and the availability of capital and liquidity;
- our estimated future capital expenditures;
- general economic conditions and its impact on our revenues and expenses;
- our parts and service revenue due to, among other things, improvements in manufacturing quality;
- the variable nature of significant components of our cost structure;
- our ability to limit our exposure to regional economic downturns due to our geographic diversity and brand mix;
- manufacturers' willingness to continue to use incentive programs to drive demand for their product offerings;
- our ability to leverage our common systems, infrastructure and processes in a cost-efficient manner;
- our capital allocation strategy, including as it relates to acquisitions and divestitures, stock repurchases, dividends and capital expenditures;
- the continued availability of financing, including floor plan financing for inventory;
- the ability of consumers to secure vehicle financing at favorable rates;
- the growth of import and luxury brands over the long-term;
- our ability to mitigate any future negative trends in new vehicle sales; and
- our ability to increase our cash flow and net income as a result of the foregoing and other factors.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual future results, performance or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to:

- changes in general economic and business conditions, including changes in employment levels, consumer demand, preferences and confidence levels, the availability and cost of credit in a rising interest rate environment, fuel prices, levels of discretionary personal income and interest rates;
- our ability to execute our balanced automotive retailing and service business strategy;
- adverse conditions affecting the vehicle manufacturers whose brands we sell, and their ability to design, manufacture, deliver, and market their vehicles successfully;
- changes in the mix, and total number, of vehicles we are able to sell;
- our outstanding indebtedness and our continued ability to comply with applicable covenants in our various financing and lease agreements, or to obtain waivers of these covenants as necessary;
- high levels of competition in our industry, which may create pricing and margin pressures on our products and services;

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our relationships with manufacturers of the vehicles we sell and our ability to renew, and enter into new framework and dealer agreements with vehicle manufacturers whose brands we sell, on terms acceptable to us;  
the availability of manufacturer incentive programs and our ability to earn these incentives;  
failure of our management information systems or any security breaches;  
changes in laws and regulations governing the operation of automobile franchises, including consumer protections, accounting standards, taxation requirements, and environmental laws;  
changes in, or the imposition of, new tariffs or trade restrictions on imported vehicles or parts;  
adverse results from litigation or other similar proceedings involving us;  
our ability to generate sufficient cash flows, maintain our liquidity and obtain any necessary additional funds for working capital, capital expenditures, acquisitions, stock repurchases and/or dividends, debt maturity payments, and other corporate purposes;  
any disruptions in the financial markets, which may impact our ability to access capital;  
our relationships with, and the financial stability of, our lenders and lessors;  
significant disruptions in the production and delivery of vehicles and parts for any reason, including natural disasters, product recalls, work stoppages, significant property loss or other occurrences that are outside of our control;  
our ability to execute our initiatives and other strategies; and  
our ability to leverage gains from our dealership portfolio.

Many of these factors are beyond our ability to control or predict, and their ultimate impact could be material. Moreover, the factors set forth under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017 and other cautionary statements made in this report should be read and considered as forward-looking statements subject to such uncertainties. Forward-looking statements speak only as of the date they are made, and we expressly disclaim any obligation to update any forward-looking statement contained herein.

OVERVIEW

We are one of the largest automotive retailers in the United States. As of September 30, 2018 we owned and operated 97 new vehicle franchises (83 dealership locations), representing 29 brands of automobiles and 25 collision centers in 17 metropolitan markets within nine states. Our stores offer an extensive range of automotive products and services, including new and used vehicles; parts and service, which includes repair and maintenance services, replacement parts, and collision repair services; and finance and insurance products. As of September 30, 2018, our new vehicle revenue brand mix consisted of 48% imports, 32% luxury, and 20% domestic brands.

Our retail network is made up of dealerships operating primarily under the following locally-branded dealership groups:

- Coggin dealerships operating primarily in Jacksonville, Fort Pierce and Orlando, Florida;
- Courtesy dealerships operating in Tampa, Florida;
- Crown dealerships operating in North Carolina, South Carolina and Virginia;
- Gray-Daniels dealerships operating in the Jackson, Mississippi area;
- Hare dealerships operating in the Indianapolis, Indiana area;
- McDavid dealerships operating in metropolitan Austin, Dallas and Houston, Texas;
- Nalley dealerships operating in metropolitan Atlanta, Georgia; and
- Plaza dealerships operating in metropolitan St. Louis, Missouri.

Our revenues are derived primarily from: (i) the sale of new vehicles; (ii) the sale of used vehicles to individual retail customers ("used retail") and to other dealers at auction ("wholesale") (the terms "used retail" and "wholesale" collectively referred to as "used"); (iii) repair and maintenance services, including collision repair, the sale of automotive replacement parts, and the reconditioning of used vehicles (collectively referred to as "parts and service"); and (iv) the arrangement of third-party vehicle financing and the sale of a number of vehicle protection products (defined below and collectively referred to as "F&I").



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We evaluate the results of our new and used vehicle sales based on unit volumes and gross profit per vehicle sold, our parts and service operations based on aggregate gross profit, and our F&I business based on F&I gross profit per vehicle sold.

Our continued organic growth is dependent upon the execution of our balanced automotive retailing and service business strategy, the continued strength of our brand mix, and the production and allocation of desirable vehicles from the automobile manufacturers whose brands we sell. Our vehicle sales have historically fluctuated with product availability as well as local and national economic conditions, including consumer confidence, availability of consumer credit, fuel prices, and employment levels. Additionally, our ability to sell certain new and used vehicles can be negatively impacted by a number of factors, some of which are outside of our control and may include manufacturer imposed stop-sales or open safety recalls, primarily due to, but not limited to, vehicle safety concerns or a vehicle's failure to meet environmental related requirements. Further, governmental actions, such as the imposition of tariffs or trade restrictions on imported goods, may adversely affect vehicle sales and depress demand. However, we believe that the impact on our business of any future negative trends in new vehicle sales would be partially mitigated by (i) the expected relative stability of our parts and service operations over the long-term, (ii) the variable nature of significant components of our cost structure, and (iii) our diversified brand and geographic mix.

The seasonally adjusted annual rate ("SAAR") of new vehicle sales in the U.S. during the three months ended September 30, 2018 was 17.0 million compared to 17.2 million during the three months ended September 30, 2017. The automotive retail business continues to benefit from the availability of credit to consumers, strong consumer confidence and historically low unemployment levels. Demand for new vehicles is generally highest during the second, third, and fourth quarters of each year and, accordingly, we expect our revenues to generally be higher during these periods. We typically experience higher sales of luxury vehicles in the fourth quarter, which have higher average selling prices and gross profit per vehicle retailed. Revenues and operating results may be impacted significantly from quarter-to-quarter by changing economic conditions, vehicle manufacturer incentive programs, adverse weather events, or other developments outside our control.

Our gross profit margin varies with our revenue mix. Sales of new vehicles generally result in a lower gross profit margin than used vehicle sales, sales of parts and service, and sales of F&I products. As a result, when used vehicle, parts and service, and F&I revenue increase as a percentage of total revenue, we expect our overall gross profit margin to increase.

Selling, general, and administrative ("SG&A") expenses consist primarily of fixed and incentive-based compensation, advertising, rent, insurance, utilities, and other customary operating expenses. A significant portion of our cost structure is variable (such as sales commissions) or controllable (such as advertising), which we believe allows us to adapt to changes in the retail environment over the long-term. We evaluate commissions paid to salespeople as a percentage of retail vehicle gross profit, advertising expense on a per vehicle retailed ("PVR") basis, and all other SG&A expenses in the aggregate as a percentage of total gross profit.

We had total available liquidity of \$394.1 million as of September 30, 2018, which consisted of cash and cash equivalents of \$6.8 million, \$42.9 million of funds in our floor plan offset accounts, \$190.0 million of availability under our new vehicle floorplan facility that is able to be re-designated to our revolving credit facility, \$47.0 million of availability under our revolving credit facility, and \$107.4 million of availability under our used vehicle revolving floor plan facility. For further discussion of our liquidity, please refer to "Liquidity and Capital Resources" below.



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## RESULTS OF OPERATIONS

Three Months Ended September 30, 2018 Compared to the Three Months Ended September 30, 2017

|  | For the Three  |                | Increase       | %         |          |
|--|----------------|----------------|----------------|-----------|----------|
|  | Months Ended   | September 30,  | (Decrease)     | Change    |          |
|  | 2018           | 2017           |                |           |          |
| (Dollars in millions, except per share data) |                |                |                |           |          |
| <b>REVENUE:</b>                              |                |                |                |           |          |
| New vehicle                                  | \$980.5        | \$881.6        | \$ 98.9        | 11        | %        |
| Used vehicle                                 | 497.5          | 455.6          | 41.9           | 9         | %        |
| Parts and service                            | 206.1          | 197.2          | 8.9            | 5         | %        |
| Finance and insurance, net                   | 73.3           | 67.7           | 5.6            | 8         | %        |
| <b>TOTAL REVENUE</b>                         | <b>1,757.4</b> | <b>1,602.1</b> | <b>155.3</b>   | <b>10</b> | <b>%</b> |
| <b>GROSS PROFIT:</b>                         |                |                |                |           |          |
| New vehicle                                  | 42.1           | 41.0           | 1.1            | 3         | %        |
| Used vehicle                                 | 32.8           | 28.8           | 4.0            | 14        | %        |
| Parts and service                            | 129.8          | 122.8          | 7.0            | 6         | %        |
| Finance and insurance, net                   | 73.3           | 67.7           | 5.6            | 8         | %        |
| <b>TOTAL GROSS PROFIT</b>                    | <b>278.0</b>   | <b>260.3</b>   | <b>17.7</b>    | <b>7</b>  | <b>%</b> |
| <b>OPERATING EXPENSES:</b>                   |                |                |                |           |          |
| Selling, general, and administrative         | 188.8          | 182.5          | 6.3            | 3         | %        |
| Depreciation and amortization                | 8.5            | 8.1            | 0.4            | 5         | %        |
| Other operating (income) expenses, net       | (0.1)          | —              | (0.1)          | —         | %        |
| <b>INCOME FROM OPERATIONS</b>                | <b>80.8</b>    | <b>69.7</b>    | <b>11.1</b>    | <b>16</b> | <b>%</b> |
| <b>OTHER EXPENSES:</b>                       |                |                |                |           |          |
| Floor plan interest expense                  | 8.4            | 5.8            | 2.6            | 45        | %        |
| Other interest expense, net                  | 13.2           | 13.4           | (0.2)          | (1)       | %        |
| Swap interest expense                        | 0.1            | 0.4            | (0.3)          | (75)      | %        |
| Total other expenses, net                    | 21.7           | 19.6           | 2.1            | 11        | %        |
| <b>INCOME BEFORE INCOME TAXES</b>            | <b>59.1</b>    | <b>50.1</b>    | <b>9.0</b>     | <b>18</b> | <b>%</b> |
| Income tax expense                           | 14.8           | 19.4           | (4.6)          | (24)      | %        |
| <b>NET INCOME</b>                            | <b>\$44.3</b>  | <b>\$30.7</b>  | <b>\$ 13.6</b> | <b>44</b> | <b>%</b> |
| Net income per common share—Diluted          | \$2.18         | \$1.48         | \$ 0.70        | 47        | %        |

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For the Three  
Months Ended  
September 30,  
2018 2017

## REVENUE MIX PERCENTAGES:

|                            |        |        |
|----------------------------|--------|--------|
| New vehicle                | 55.8 % | 55.0 % |
| Used vehicle retail        | 25.5 % | 25.0 % |
| Used vehicle wholesale     | 2.8 %  | 3.5 %  |
| Parts and service          | 11.7 % | 12.3 % |
| Finance and insurance, net | 4.2 %  | 4.2 %  |
| Total revenue              | 100.0% | 100.0% |

## GROSS PROFIT MIX PERCENTAGES:

|                            |        |        |
|----------------------------|--------|--------|
| New vehicle                | 15.1 % | 15.8 % |
| Used vehicle retail        | 11.8 % | 11.0 % |
| Used vehicle wholesale     | — %    | — %    |
| Parts and service          | 46.7 % | 47.2 % |
| Finance and insurance, net | 26.4 % | 26.0 % |
| Total gross profit         | 100.0% | 100.0% |

## GROSS PROFIT MARGIN

15.8 % 16.2 %

SG&amp;A EXPENSES AS A PERCENTAGE OF GROSS PROFIT 67.9 % 70.1 %

Total revenue during the third quarter of 2018 increased by \$155.3 million (10%) compared to the third quarter of 2017, due to a \$98.9 million (11%) increase in new vehicle revenue, a \$41.9 million (9%) increase in used vehicle revenue, an \$8.9 million (5%) increase in parts and service revenue, and a \$5.6 million (8%) increase in F&I, net revenue. During the three months ended September 30, 2018, gross profit increased by \$17.7 million (7%) driven by a \$7.0 million (6%) increase in parts and service gross profit, a \$5.6 million (8%) increase in F&I gross profit, a \$4.0 million (14%) increase in used vehicle gross profit, and a \$1.1 million (3%) increase in new vehicle gross profit. Income from operations during the third quarter of 2018 increased by \$11.1 million (16%) compared to the third quarter of 2017, primarily due to the \$17.7 million (7%) increase in gross profit and a \$0.1 million increase in other operating (income) expenses, net partially offset by a \$6.3 million (3%) increase in SG&A expense and a \$0.4 million (5%) increase in depreciation and amortization expenses. Total other expenses, net increased by \$2.1 million (11%), primarily due to a \$2.6 million (45%) increase in floor plan interest expense, partially offset by a \$0.3 million (75%) decrease in swap interest expense and a \$0.2 million (1%) decrease in other interest expense, net during the third quarter of 2018. As a result, income before income taxes increased \$9.0 million (18%). The \$4.6 million (24%) decrease in income tax expense is primarily attributable to the decrease in our effective tax rate from 38.7% for the third quarter of 2017 to 25.0% for the third quarter of 2018. Overall, net income increased by \$13.6 million (44%) during the third quarter of 2018 as compared to the third quarter of 2017.

Our results for the three months ended September 30, 2017 were impacted by Hurricanes Harvey and Irma which had a net adverse impact on our results due to the temporary closure of certain dealerships in our Texas, Florida and Georgia markets. To a lesser extent, the results of our North Carolina, South Carolina, and Virginia based dealerships were negatively impacted by temporary closures caused by Hurricane Florence during the three months ended September 30, 2018. The loss of business caused by these storms should be considered when comparing current results to prior periods.

On January 1, 2018, we adopted ASC 606 using the modified retrospective method for all contracts not completed as of that date and recognized a cumulative effect adjustment to retained earnings. Our prior period comparative information has not been adjusted and continues to be reported under accounting standards in effect for those periods. The net impact of adopting ASC 606 for the three months ended September 30, 2018 was an increase to net income of \$0.2 million. For additional information related to the adoption effects of this new revenue recognition standard, please refer to Note 2 "Revenue Recognition" within the accompanying Condensed Consolidated Financial Statements.

We assess the organic growth of our revenue and gross profit on a same store basis. We believe that our assessment on a same store basis represents an important indicator of comparative financial performance and provides relevant information to assess our performance. As such, for the following discussion, same store amounts consist of information from dealerships for identical months in each comparative period, commencing with the first full month we owned the dealership. Additionally, amounts related to divested dealerships are excluded from each comparative period.

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## New Vehicle—

For the Three  
Months Ended Increase %  
September 30, (Decrease) Change  
2018 2017  
(Dollars in millions, except for per  
vehicle data)

## As Reported:

## Revenue:

|                           |         |         |         |    |   |
|---------------------------|---------|---------|---------|----|---|
| Luxury                    | \$297.8 | \$288.3 | \$ 9.5  | 3  | % |
| Import                    | 485.2   | 414.2   | 71.0    | 17 | % |
| Domestic                  | 197.5   | 179.1   | 18.4    | 10 | % |
| Total new vehicle revenue | \$980.5 | \$881.6 | \$ 98.9 | 11 | % |

## Gross profit:

|                                |        |        |        |   |   |
|--------------------------------|--------|--------|--------|---|---|
| Luxury                         | \$18.6 | \$18.5 | \$ 0.1 | 1 | % |
| Import                         | 15.4   | 14.4   | 1.0    | 7 | % |
| Domestic                       | 8.1    | 8.1    | —      | — | % |
| Total new vehicle gross profit | \$42.1 | \$41.0 | \$ 1.1 | 3 | % |

## New vehicle units:

|                         |        |        |       |    |   |
|-------------------------|--------|--------|-------|----|---|
| Luxury                  | 5,685  | 5,499  | 186   | 3  | % |
| Import                  | 17,046 | 14,997 | 2,049 | 14 | % |
| Domestic                | 5,019  | 4,691  | 328   | 7  | % |
| Total new vehicle units | 27,750 | 25,187 | 2,563 | 10 | % |

## Same Store:

## Revenue:

|                           |         |         |         |    |   |
|---------------------------|---------|---------|---------|----|---|
| Luxury                    | \$297.8 | \$288.3 | \$ 9.5  | 3  | % |
| Import                    | 458.4   | 414.2   | 44.2    | 11 | % |
| Domestic                  | 191.3   | 179.1   | 12.2    | 7  | % |
| Total new vehicle revenue | \$947.5 | \$881.6 | \$ 65.9 | 7  | % |

## Gross profit:

|                                |        |        |          |     |   |
|--------------------------------|--------|--------|----------|-----|---|
| Luxury                         | \$18.7 | \$18.5 | \$ 0.2   | 1   | % |
| Import                         | 14.3   | 14.4   | (0.1)    | (1) | % |
| Domestic                       | 7.9    | 8.1    | (0.2)    | (2) | % |
| Total new vehicle gross profit | \$40.9 | \$41.0 | \$ (0.1) | —   | % |

## New vehicle units

|                         |        |        |       |   |   |
|-------------------------|--------|--------|-------|---|---|
| Luxury                  | 5,685  | 5,499  | 186   | 3 | % |
| Import                  | 16,114 | 14,997 | 1,117 | 7 | % |
| Domestic                | 4,829  | 4,691  | 138   | 3 | % |
| Total new vehicle units | 26,628 | 25,187 | 1,441 | 6 | % |

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## New Vehicle Metrics—

|                                   | For the Three Months<br>Ended September 30, |          | Increase   | %      |
|-----------------------------------|---|----------|------------|--------|
|                                   | 2018  | 2017     | (Decrease) | Change |
| <b>As Reported:</b>               |   |          |            |        |
| Revenue per new vehicle sold      | \$35,333                                    | \$35,002 | \$ 331     | 1 %    |
| Gross profit per new vehicle sold | \$1,517                                     | \$1,628  | \$ (111 )  | (7 )%  |
| New vehicle gross margin          | 4.3   | % 4.7    | % (0.4 )   | %      |
| <b>Luxury:</b>                    |   |          |            |        |
| Gross profit per new vehicle sold | \$3,272                                     | \$3,364  | \$ (92 )   | (3 )%  |
| New vehicle gross margin          | 6.2   | % 6.4    | % (0.2 )   | %      |
| <b>Import:</b>                    |   |          |            |        |
| Gross profit per new vehicle sold | \$903                                       | \$960    | \$ (57 )   | (6 )%  |
| New vehicle gross margin          | 3.2   | % 3.5    | % (0.3 )   | %      |
| <b>Domestic:</b>                  |   |          |            |        |
| Gross profit per new vehicle sold | \$1,614                                     | \$1,727  | \$ (113 )  | (7 )%  |
| New vehicle gross margin          | 4.1   | % 4.5    | % (0.4 )   | %      |

**Same Store:**

|                                   |          |          |          |       |
|-----------------------------------|----------|----------|----------|-------|
| Revenue per new vehicle sold      | \$35,583 | \$35,002 | \$ 581   | 2 %   |
| Gross profit per new vehicle sold | \$1,536  | \$1,628  | \$ (92 ) | (6 )% |
| New vehicle gross margin          | 4.3      | % 4.7    | % (0.4 ) | %     |

**Luxury:**

|                                   |         |         |          |       |
|-----------------------------------|---------|---------|----------|-------|
| Gross profit per new vehicle sold | \$3,289 | \$3,364 | \$ (75 ) | (2 )% |
| New vehicle gross margin          | 6.3     | % 6.4   | % (0.1 ) | %     |

**Import:**

|                                   |       |       |          |       |
|-----------------------------------|-------|-------|----------|-------|
| Gross profit per new vehicle sold | \$887 | \$960 | \$ (73 ) | (8 )% |
| New vehicle gross margin          | 3.1   | % 3.5 | % (0.4 ) | %     |

**Domestic:**

|                                   |         |         |          |       |
|-----------------------------------|---------|---------|----------|-------|
| Gross profit per new vehicle sold | \$1,636 | \$1,727 | \$ (91 ) | (5 )% |
| New vehicle gross margin          | 4.1     | % 4.5   | % (0.4 ) | %     |

New vehicle revenue increased by \$98.9 million (11%) due to a \$71.0 million (17%) increase in import brands revenue, a \$18.4 million (10%) increase in domestic brands revenue, and a \$9.5 million (3%) increase in luxury brands revenue. The 11% increase in new vehicle revenue is the result of a 10% increase in new vehicle units sold, coupled with a 1% increase in revenue per new vehicle sold. Same store new vehicle revenue increased by \$65.9 million (7%) due to a \$9.5 million (3%) increase in luxury brands revenue, a \$12.2 million (7%) increase in domestic brands revenue, and a \$44.2 million (11%) increase in import brands revenue.

Despite U.S. new vehicle SAAR decreasing 1%, from 17.2 million for the three months ended September 30, 2017 to 17.0 million for the three months ended September 30, 2018, our same store unit volumes increased 7% at our import brand dealerships and 3% at our luxury and domestic brand dealerships.

Same store new vehicle gross profit margin for the three months ended September 30, 2018 decreased by 40 basis points to 4.3%. We attribute the decrease in our same store gross profit margin to a shift in our revenue and unit volume mix towards our lower margin import brands, the failure to achieve aggressive sales and marketing targets set by certain manufacturers, and smaller dealer incentive opportunities.

We believe that our new vehicle inventory continues to be well-aligned with current consumer demand, with approximately 73 days of supply in our inventory as of September 30, 2018.



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## Used Vehicle—

|  | For the Three Months<br>Ended September 30, |          | Increase   | %      |   |
|--|---|----------|------------|--------|---|
|  | 2018  | 2017     | (Decrease) | Change |   |
| (Dollars in millions, except for per vehicle data) |   |          |            |        |   |
| As Reported:                                       |   |          |            |        |   |
| Revenue:   |   |          |            |        |   |
| Used vehicle retail revenue                        | \$ 448.7                                    | \$ 400.1 | \$ 48.6    | 12     | % |
| Used vehicle wholesale revenue                     | 48.8  | 55.5     | (6.7 )     | (12 )  | % |
| Used vehicle revenue                               | \$ 497.5                                    | \$ 455.6 | \$ 41.9    | 9      | % |
| Gross profit:                                      |   |          |            |        |   |
| Used vehicle retail gross profit                   | \$ 32.7                                     | \$ 28.9  | \$ 3.8     | 13     | % |
| Used vehicle wholesale gross profit                | 0.1   | (0.1 )   | 0.2        | NM     |   |
| Used vehicle gross profit                          | \$ 32.8                                     | \$ 28.8  | \$ 4.0     | 14     | % |
| Used vehicle retail units:                         |   |          |            |        |   |
| Used vehicle retail units                          | 20,824                                      | 18,777   | 2,047      | 11     | % |
| Same Store:  |   |          |            |        |   |
| Revenue:   |   |          |            |        |   |
| Used vehicle retail revenue                        | \$ 436.0                                    | \$ 399.0 | \$ 37.0    | 9      | % |
| Used vehicle wholesale revenue                     | 48.1  | 55.2     | (7.1 )     | (13 )  | % |
| Used vehicle revenue                               | \$ 484.1                                    | \$ 454.2 | \$ 29.9    | 7      | % |
| Gross profit:                                      |   |          |            |        |   |
| Used vehicle retail gross profit                   | \$ 31.7                                     | \$ 28.8  | \$ 2.9     | 10     | % |
| Used vehicle wholesale gross profit                | 0.3   | —        | 0.3        | —      | % |
| Used vehicle gross profit                          | \$ 32.0                                     | \$ 28.8  | \$ 3.2     | 11     | % |
| Used vehicle retail units:                         |   |          |            |        |   |
| Used vehicle retail units                          | 20,098                                      | 18,695   | 1,403      | 8      | % |

## Used Vehicle Metrics—

|  | For the Three Months<br>Ended September 30, |          | Increase   | %      |   |
|--|---|----------|------------|--------|---|
|  | 2018  | 2017     | (Decrease) | Change |   |
| As Reported:                           |   |          |            |        |   |
| Revenue per used vehicle retailed      | \$21,547                                    | \$21,308 | \$ 239     | 1      | % |
| Gross profit per used vehicle retailed | \$1,570                                     | \$1,539  | \$ 31      | 2      | % |
| Used vehicle retail gross margin       | 7.3   | % 7.2    | % 0.1      |        | % |
| Same Store:                            |   |          |            |        |   |
| Revenue per used vehicle retailed      | \$21,694                                    | \$21,343 | \$ 351     | 2      | % |
| Gross profit per used vehicle retailed | \$1,577                                     | \$1,541  | \$ 36      | 2      | % |
| Used vehicle retail gross margin       | 7.3   | % 7.2    | % 0.1      |        | % |

Used vehicle revenue increased by \$41.9 million (9%) primarily due to a \$48.6 million (12%) increase in used vehicle retail revenue, partially offset by a \$6.7 million (12)% decrease in used vehicle wholesale revenue. Same store used vehicle revenue increased by \$29.9 million (7%) due to a \$37.0 million (9%) increase in used vehicle retail revenue partially offset by a \$7.1 million (13)% decrease in used vehicle wholesale revenue. For the three months ended September 30, 2018 same store used vehicle retail units increased by 8% from 18,695 unit to 20,098 units.

For the three months ended September 30, 2018, both total Company and same store used vehicle retail gross profit margins were consistent with the prior comparable period.



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We believe that our used vehicle inventory continues to be well-aligned with current customer demand, with approximately 35 days of supply in our inventory as of September 30, 2018.

Parts and Service—

|  | For the Three<br>Months Ended<br>September 30,<br>2018 |         | September 30,<br>2017 |      | Increase<br>(Decrease) | %<br>Change |
|--|--|---------|-----------------------|------|------------------------|-------------|
|  | (Dollars in millions)                                  |         |                       |      |                        |             |
| As Reported:   |  |         |                       |      |                        |             |
| Parts and service revenue  | \$206.1  | \$197.2 | \$ 8.9                | 5    | %                      |             |
| Parts and service gross profit:  |  |         |                       |      |                        |             |
| Customer pay   | 73.0   | 68.1    | 4.9                   | 7    | %                      |             |
| Warranty   | 19.2   | 20.6    | (1.4 )                | (7 ) | %                      |             |
| Wholesale parts  | 5.6  | 5.3     | 0.3                   | 6    | %                      |             |
| Parts and service gross profit, excluding reconditioning and preparation | \$97.8   | \$94.0  | \$ 3.8                | 4    | %                      |             |
| Parts and service gross margin, excluding reconditioning and preparation | 47.5 %   | 47.7 %  | (0.2 )%               |      |                        |             |
| Reconditioning and preparation   | \$32.0   | \$28.8  | \$ 3.2                | 11   | %                      |             |
| Total parts and service gross profit                                     | \$129.8  | \$122.8 | \$ 7.0                | 6    | %                      |             |
| Total parts and service gross margin                                     | 63.0 %   | 62.3 %  | 0.7 %                 |      |                        |             |
| Same Store:  |  |         |                       |      |                        |             |
| Parts and service revenue  | \$201.4  | \$197.2 | \$ 4.2                | 2    | %                      |             |
| Parts and service gross profit:  |  |         |                       |      |                        |             |
| Customer pay   | 71.4   | 68.1    | 3.3                   | 5    | %                      |             |
| Warranty   | 18.9   | 20.6    | (1.7 )                | (8 ) | %                      |             |
| Wholesale parts  | 5.4  | 5.3     | 0.1                   | 2    | %                      |             |
| Parts and service gross profit, excluding reconditioning and preparation | \$95.7   | \$94.0  | \$ 1.7                | 2    | %                      |             |
| Parts and service gross margin, excluding reconditioning and preparation | 47.5 %   | 47.7 %  | (0.2 )%               |      |                        |             |
| Reconditioning and preparation   | \$31.3   | \$28.8  | \$ 2.5                | 9    | %                      |             |
| Total parts and service gross profit                                     | \$127.0  | \$122.8 | \$ 4.2                | 3    | %                      |             |
| Total parts and service gross margin                                     | 63.1 %   | 62.3 %  | 0.8 %                 |      |                        |             |

The \$8.9 million (5%) increase in parts and service revenue was due to a \$8.0 million (6%) increase in customer pay revenue and a \$4.1 million (15%) increase in wholesale parts revenue, partially offset by a \$3.2 million (8%) decrease in warranty revenue. Same store parts and service revenue increased by \$4.2 million to \$201.4 million during the three months ended September 30, 2018 from \$197.2 million during the three months ended September 30, 2017. The increase in same store parts and service revenue was due to a \$5.0 million (4%) increase in customer pay revenue and a \$3.1 million (12%) increase in wholesale parts revenue, partially offset by a \$3.9 million (10%) decrease in warranty revenue.

Parts and service gross profit, excluding reconditioning and preparation, increased by \$3.8 million (4%) to \$97.8 million and same store parts and service gross profit, excluding reconditioning and preparation, increased by \$1.7 million (2%) to \$95.7 million. The increase in same store gross profit is primarily due to increases in our higher margin customer pay business and additional gross profit in reconditioning and preparation, which benefited from a 8% increase in used vehicle retail unit sales.

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## Finance and Insurance, net—

For the Three  
Months Ended Increase %  
September 30, (Decrease) Change  
2018 2017  
(Dollars in millions, except for per  
vehicle data)

## As Reported:

|   |         |         |          |      |   |
|---|---------|---------|----------|------|---|
| Finance and insurance, net                  | \$73.3  | \$67.7  | \$ 5.6   | 8    | % |
| Finance and insurance, net per vehicle sold | \$1,509 | \$1,540 | \$ (31 ) | (2 ) | % |

## Same Store:

|   |         |         |          |      |   |
|---|---------|---------|----------|------|---|
| Finance and insurance, net                  | \$71.2  | \$67.6  | \$ 3.6   | 5    | % |
| Finance and insurance, net per vehicle sold | \$1,524 | \$1,540 | \$ (16 ) | (1 ) | % |

Finance and insurance ("F&I"), net revenue increased by \$5.6 million (8%) during the third quarter of 2018 as compared to the third quarter of 2017 and same store F&I, net revenue increased by \$3.6 million (5%) over the same period. The 2% decrease in F&I PVR is primarily due to changes in our brand mix and acquisitions. We continued to benefit from a generally favorable consumer lending environment, which allowed more of our customers to take advantage of a broader array of F&I products and our continued focus on improving F&I results at our lower-performing stores through our F&I training programs.

## Selling, General, and Administrative Expense—

|  | For the Three Months Ended |                   |      |                   |            |  | % of Gross          |  |
|--|----------------------------|-------------------|------|-------------------|------------|--|---------------------|--|
|  | September 30,              |                   | 2017 |                   | Increase   |  | Profit              |  |
|  | 2018                       | % of Gross Profit | 2017 | % of Gross Profit | (Decrease) |  | Increase (Decrease) |  |

(Dollars in millions)

## As Reported:

|  |         |        |         |        |        |         |
|--|---------|--------|---------|--------|--------|---------|
| Personnel costs                              | \$90.8  | 32.7 % | \$87.4  | 33.6 % | \$ 3.4 | (0.9 )% |
| Sales compensation                           | 29.4    | 10.6 % | 27.4    | 10.5 % | 2.0    | 0.1 %   |
| Share-based compensation                     | 2.5     | 0.9 %  | 3.6     | 1.4 %  | (1.1 ) | (0.5 )% |
| Outside services                             | 21.1    | 7.6 %  | 19.9    | 7.6 %  | 1.2    | — %     |
| Advertising                                  | 7.5     | 2.7 %  | 6.6     | 2.5 %  | 0.9    | 0.2 %   |
| Rent   | 6.4     | 2.3 %  | 6.5     | 2.5 %  | (0.1 ) | (0.2 )% |
| Utilities                                    | 4.4     | 1.6 %  | 4.1     | 1.6 %  | 0.3    | — %     |
| Insurance                                    | 2.4     | 0.9 %  | 4.5     | 1.7 %  | (2.1 ) | (0.8 )% |
| Other  | 24.3    | 8.6 %  | 22.5    | 8.7 %  | 1.8    | (0.1 )% |
| Selling, general, and administrative expense | \$188.8 | 67.9 % | \$182.5 | 70.1 % | \$ 6.3 | (2.2 )% |
| Gross profit                                 | \$278.0 |        | \$260.3 |        |        |         |

## Same Store:

|                          |        |        |        |        |        |         |
|--------------------------|--------|--------|--------|--------|--------|---------|
| Personnel costs          | \$88.4 | 32.6 % | \$87.2 | 33.5 % | \$ 1.2 | (0.9 )% |
| Sales compensation       | 28.4   | 10.5 % | 27.4   | 10.5 % | 1.0    | — %     |
| Share-based compensation | 2.5    | 0.9 %  | 3.6    | 1.4 %  | (1.1 ) | (0.5 )% |
| Outside services         | 20.5   | 7.6 %  | 19.8   | 7.6 %  | 0.7    | — %     |
| Advertising              | 7.0    | 2.6 %  | 6.6    | 2.5 %  | 0.4    | 0.1 %   |
| Rent                     | 6.4    | 2.4 %  | 6.5    | 2.5 %  | (0.1 ) | (0.1 )% |
| Utilities                | 4.2    | 1.5 %  | 4.1    | 1.6 %  | 0.1    | (0.1 )% |
| Insurance                | 2.2    | 0.8 %  | 4.5    | 1.7 %  | (2.3 ) | (0.9 )% |
| Other                    | 24.1   | 8.9 %  | 22.3   | 8.6 %  | 1.8    | 0.3 %   |

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|  |         |      |   |         |      |   |        |         |
|--|---------|------|---|---------|------|---|--------|---------|
| Selling, general, and administrative expense | \$183.7 | 67.8 | % | \$182.0 | 69.9 | % | \$ 1.7 | (2.1 )% |
| Gross profit                                 | \$271.1 |      |   | \$260.2 |      |   |        |         |

SG&A expense as a percentage of gross profit decreased 220 basis points from 70.1% for the third quarter of 2017 to 67.9% for the third quarter of 2018. Same store SG&A expense as a percentage of gross profit decreased 210 basis points, from 69.9%

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for the third quarter of 2017 to 67.8% over the same period. On a same store basis, the Company benefited from a 90 basis point decrease in insurance expense primarily as a result of favorable workers compensation claims development factors. In addition, the Company benefited from a 50 basis point decrease in share-based compensation expense on both a total Company and same store basis. During the three months ended September 30, 2017 the Company recorded \$1.5 million of expenses associated with our CEO transition. The decreases in insurance expense and share-based compensation expense were offset by slightly higher outside services and other expenses, including those associated with our omni-channel investments.

Floor Plan Interest Expense —

Floor plan interest expense increased by \$2.6 million (45%) to \$8.4 million during the three months ended September 30, 2018 compared to \$5.8 million for the three months ended September 30, 2017, primarily due to higher interest rates coupled with increased borrowings as a result of recent acquisitions.

Income Tax Expense —

The \$4.6 million (24%) decrease in income tax expense was the result of a lower effective tax rate due to the enactment of the Tax Act in December 2017. We expect our effective tax rate to be between 25% and 26% for 2018.

During the third quarter of 2018, the IRS released Notice 2018-68, which clarified a number of changes made to Section 162(m) of the Code by the Tax Act. While the Notice is not comprehensive and promises additional guidance is forthcoming, we determined a reasonable estimate could be made and recorded a \$0.6 million provisional adjustment to the deferred tax assets for certain components of share-based compensation. This amount was recorded as a discrete item of additional income tax expense for the third quarter of 2018. We will complete our accounting for the Tax Act in 2018 after we have considered additional guidance issued by the U.S. Treasury Department, state tax authorities and other standard-setting bodies, and we have gathered and analyzed additional data relative to our calculations. This may result in adjustments to our provisional amounts, which would impact our provision for income taxes and the effective tax rate in the period the adjustments are made.

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## RESULTS OF OPERATIONS

Nine Months Ended September 30, 2018 Compared to the Nine Months Ended September 30, 2017

|  | For the Nine                                 |                | Increase       | %           |
|--|--|----------------|----------------|-------------|
|  | Months Ended                                 | September 30,  | (Decrease)     | Change      |
|  | 2018   | 2017           |                |             |
|  | (Dollars in millions, except per share data) |                |                |             |
| <b>REVENUE:</b>                        |  |                |                |             |
| New vehicle                            | \$2,766.3                                    | \$2,597.0      | \$ 169.3       | 7 %         |
| Used vehicle                           | 1,499.0                                      | 1,396.6        | 102.4          | 7 %         |
| Parts and service                      | 609.9  | 589.5          | 20.4           | 3 %         |
| Finance and insurance, net             | 215.0  | 202.5          | 12.5           | 6 %         |
| <b>TOTAL REVENUE</b>                   | <b>5,090.2</b>                               | <b>4,785.6</b> | <b>304.6</b>   | <b>6 %</b>  |
| <b>GROSS PROFIT:</b>                   |  |                |                |             |
| New vehicle                            | 121.3  | 122.4          | (1.1)          | (1) %       |
| Used vehicle                           | 100.4  | 95.4           | 5.0            | 5 %         |
| Parts and service                      | 384.5  | 367.2          | 17.3           | 5 %         |
| Finance and insurance, net             | 215.0  | 202.5          | 12.5           | 6 %         |
| <b>TOTAL GROSS PROFIT</b>              | <b>821.2</b>                                 | <b>787.5</b>   | <b>33.7</b>    | <b>4 %</b>  |
| <b>OPERATING EXPENSES:</b>             |  |                |                |             |
| Selling, general, and administrative   | 563.6  | 549.2          | 14.4           | 3 %         |
| Depreciation and amortization          | 25.2   | 24.0           | 1.2            | 5 %         |
| Other operating (income) expenses, net | (1.2)  | ) 0.7          | (1.9)          | ) NM        |
| <b>INCOME FROM OPERATIONS</b>          | <b>233.6</b>                                 | <b>213.6</b>   | <b>20.0</b>    | <b>9 %</b>  |
| <b>OTHER EXPENSES:</b>                 |  |                |                |             |
| Floor plan interest expense            | 23.0   | 17.1           | 5.9            | 35 %        |
| Other interest expense, net            | 39.4   | 40.2           | (0.8)          | (2) %       |
| Swap interest expense                  | 0.5  | 1.6            | (1.1)          | (69) %      |
| Total other expenses, net              | 62.9   | 58.9           | 4.0            | 7 %         |
| <b>INCOME BEFORE INCOME TAXES</b>      | <b>170.7</b>                                 | <b>154.7</b>   | <b>16.0</b>    | <b>10 %</b> |
| Income tax expense                     | 43.1   | 58.1           | (15.0)         | (26) %      |
| <b>NET INCOME</b>                      | <b>\$127.6</b>                               | <b>\$96.6</b>  | <b>\$ 31.0</b> | <b>32 %</b> |
| Net income per common share—Diluted    | \$6.22                                       | \$4.60         | \$ 1.6         | 35 %        |

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 NM—Not Meaningful

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For the Nine  
Months Ended  
September 30,  
2018 2017

## REVENUE MIX PERCENTAGES:

|                            |         |         |
|----------------------------|---------|---------|
| New vehicle                | 54.3 %  | 54.3 %  |
| Used vehicle retail        | 26.7 %  | 26.0 %  |
| Used vehicle wholesale     | 2.8 %   | 3.2 %   |
| Parts and service          | 12.0 %  | 12.3 %  |
| Finance and insurance, net | 4.2 %   | 4.2 %   |
| Total revenue              | 100.0 % | 100.0 % |

## GROSS PROFIT MIX PERCENTAGES:

|                            |         |         |
|----------------------------|---------|---------|
| New vehicle                | 14.8 %  | 15.5 %  |
| Used vehicle retail        | 12.0 %  | 12.1 %  |
| Used vehicle wholesale     | 0.2 %   | 0.1 %   |
| Parts and service          | 46.8 %  | 46.6 %  |
| Finance and insurance, net | 26.2 %  | 25.7 %  |
| Total gross profit         | 100.0 % | 100.0 % |

## GROSS PROFIT MARGIN

16.1 % 16.5 %

## SG&amp;A EXPENSES AS A PERCENTAGE OF GROSS PROFIT

68.6 % 69.7 %

Total revenue for the nine months ended September 30, 2018 increased by \$304.6 million (6%) compared to the nine months ended September 30, 2017, due to a \$169.3 million (7%) increase in new vehicle revenue, a \$102.4 million (7%) increase in used vehicle revenue, a \$20.4 million (3%) increase in parts and service revenue, and a \$12.5 million (6%) increase in F&I revenue, net. The \$33.7 million (4%) increase in gross profit during the nine months ended September 30, 2018 was driven by a \$17.3 million (5%) increase in parts and service gross profit, a \$12.5 million (6%) increase in F&I gross profit, and a \$5.0 million (5%) increase in used vehicle gross profit, partially offset by a decrease of \$1.1 million (1%) in new vehicle gross profit.

Income from operations during the nine months ended September 30, 2018 increased by \$20.0 million (9%) compared to the nine months ended September 30, 2017, due to the \$33.7 million increase in gross profit, a \$1.9 million increase in other operating (income) expenses, net, partially offset by a \$14.4 million (3%) increase in SG&A expenses, and a \$1.2 million (5%) increase in depreciation and amortization expense. Total other expenses increased by \$4.0 million (7%), due to a \$5.9 million (35%) increase in floor plan interest expense, partially offset by a \$1.1 million (69%) decrease in swap interest expense, and a \$0.8 million (2%) decrease in other interest expense, net. As a result, income before income taxes increased \$16.0 million (10%) to \$170.7 million for the nine months ended September 30, 2018. The decrease in income tax expense of \$15.0 million (26%) is due to a lower effective tax rate, partially offset by the \$16.0 million (10%) increase in income before income taxes. Overall, net income increased by \$31.0 million (32%) during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017.

On January 1, 2018, we adopted ASC 606 using the modified retrospective method for all contracts not completed as of that date and recognized a cumulative effect adjustment to retained earnings. Our prior period comparative information has not been adjusted and continues to be reported under accounting standards in effect for those periods. The net impact of adopting ASC 606 for the nine months ended September 30, 2018 was a reduction to net income of \$1.3 million. For additional information related to the adoption effects of this new revenue recognition standard, please refer to Note 2 "Revenue Recognition" within the accompanying Condensed Consolidated Financial Statements.



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## New Vehicle—

For the Nine  
Months Ended  
September 30,  
2018 2017  
(Dollars in millions, except for per  
vehicle data)

## As Reported:

## Revenue:

|                           |           |           |          |   |   |
|---------------------------|-----------|-----------|----------|---|---|
| Luxury                    | \$883.8   | \$852.3   | \$ 31.5  | 4 | % |
| Import                    | 1,319.3   | 1,205.7   | 113.6    | 9 | % |
| Domestic                  | 563.2     | 539.0     | 24.2     | 4 | % |
| Total new vehicle revenue | \$2,766.3 | \$2,597.0 | \$ 169.3 | 7 | % |

## Gross profit:

|                                |         |         |          |     |   |
|--------------------------------|---------|---------|----------|-----|---|
| Luxury                         | \$57.5  | \$54.7  | \$ 2.8   | 5   | % |
| Import                         | 39.1    | 42.8    | (3.7)    | (9) | % |
| Domestic                       | 24.7    | 24.9    | (0.2)    | (1) | % |
| Total new vehicle gross profit | \$121.3 | \$122.4 | \$ (1.1) | (1) | % |

## New vehicle units:

|                         |        |        |       |   |   |
|-------------------------|--------|--------|-------|---|---|
| Luxury                  | 16,527 | 16,117 | 410   | 3 | % |
| Import                  | 46,545 | 43,504 | 3,041 | 7 | % |
| Domestic                | 14,406 | 14,163 | 243   | 2 | % |
| Total new vehicle units | 77,478 | 73,784 | 3,694 | 5 | % |

## Same Store:

## Revenue:

|                           |           |           |         |   |   |
|---------------------------|-----------|-----------|---------|---|---|
| Luxury                    | \$883.8   | \$852.3   | \$ 31.5 | 4 | % |
| Import                    | 1,259.3   | 1,204.7   | 54.6    | 5 | % |
| Domestic                  | 546.7     | 537.6     | 9.1     | 2 | % |
| Total new vehicle revenue | \$2,689.8 | \$2,594.6 | \$ 95.2 | 4 | % |

## Gross profit:

|                                |         |         |          |      |   |
|--------------------------------|---------|---------|----------|------|---|
| Luxury                         | \$57.6  | \$54.7  | \$ 2.9   | 5    | % |
| Import                         | 36.7    | 42.8    | (6.1)    | (14) | % |
| Domestic                       | 24.0    | 24.8    | (0.8)    | (3)  | % |
| Total new vehicle gross profit | \$118.3 | \$122.3 | \$ (4.0) | (3)  | % |

## New vehicle units:

|                         |        |        |       |     |   |
|-------------------------|--------|--------|-------|-----|---|
| Luxury                  | 16,527 | 16,117 | 410   | 3   | % |
| Import                  | 44,438 | 43,467 | 971   | 2   | % |
| Domestic                | 13,923 | 14,125 | (202) | (1) | % |
| Total new vehicle units | 74,888 | 73,709 | 1,179 | 2   | % |



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## New Vehicle Metrics—

|                                   | For the Nine Months<br>Ended September 30, |          | Increase<br>(Decrease) | %<br>Change |   |
|-----------------------------------|--|----------|------------------------|-------------|---|
|                                   | 2018                                       | 2017     |                        |             |   |
| As Reported:                      |  |          |                        |             |   |
| Revenue per new vehicle sold      | \$35,704                                   | \$35,197 | \$ 507                 | 1           | % |
| Gross profit per new vehicle sold | \$1,566                                    | \$1,659  | \$ (93 )               | (6)         | % |
| New vehicle gross margin          | 4.4  | % 4.7    | % (0.3)                |             | % |
| Luxury:                           |  |          |                        |             |   |
| Gross profit per new vehicle sold | \$3,479                                    | \$3,394  | \$ 85                  | 3           | % |
| New vehicle gross margin          | 6.5  | % 6.4    | % 0.1                  |             | % |
| Import:                           |  |          |                        |             |   |
| Gross profit per new vehicle sold | \$840                                      | \$984    | \$ (144 )              | (15)        | % |
| New vehicle gross margin          | 3.0  | % 3.5    | % (0.5)                |             | % |
| Domestic:                         |  |          |                        |             |   |
| Gross profit per new vehicle sold | \$1,715                                    | \$1,758  | \$ (43 )               | (2)         | % |
| New vehicle gross margin          | 4.4  | % 4.6    | % (0.2)                |             | % |

## Same Store:

|                                   |          |          |          |     |   |
|-----------------------------------|----------|----------|----------|-----|---|
| Revenue per new vehicle sold      | \$35,918 | \$35,201 | \$ 717   | 2   | % |
| Gross profit per new vehicle sold | \$1,580  | \$1,659  | \$ (79 ) | (5) | % |
| New vehicle gross margin          | 4.4      | % 4.7    | % (0.3)  |     | % |

## Luxury:

|                                   |         |         |       |   |   |
|-----------------------------------|---------|---------|-------|---|---|
| Gross profit per new vehicle sold | \$3,485 | \$3,394 | \$ 91 | 3 | % |
| New vehicle gross margin          | 6.5     | % 6.4   | % 0.1 |   | % |

## Import:

|                                   |       |       |           |      |   |
|-----------------------------------|-------|-------|-----------|------|---|
| Gross profit per new vehicle sold | \$826 | \$985 | \$ (159 ) | (16) | % |
| New vehicle gross margin          | 2.9   | % 3.6 | % (0.7)   |      | % |

## Domestic:

|                                   |         |         |          |     |   |
|-----------------------------------|---------|---------|----------|-----|---|
| Gross profit per new vehicle sold | \$1,724 | \$1,756 | \$ (32 ) | (2) | % |
| New vehicle gross margin          | 4.4     | % 4.6   | % (0.2)  |     | % |

New vehicle revenue increased by \$169.3 million (7%) due to a 5% increase in new vehicle units sold, coupled with a 1% increase in revenue per new vehicle sold. Same store new vehicle revenue increased by \$95.2 million (4%) due to a 2% increase in revenue per new vehicle sold, coupled with a 2% increase in new vehicle units sold.

Same store new vehicle gross profit for the nine months ended September 30, 2018 decreased by \$4.0 million (3%), due to a 5% decrease in gross profit per new vehicle sold. Same store new vehicle gross margin for the nine months ended September 30, 2018 decreased 30 basis points to 4.4%. The decrease in our same store gross profit margin was primarily attributable to margin pressure in our import brands due in part to the failure to achieve aggressive sales and marketing targets set by certain manufacturers and smaller dealer incentive opportunities.

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## Used Vehicle—

|  | For the Nine Months<br>Ended September 30, |            | Increase   | %      |
|--|--|------------|------------|--------|
|  | 2018                                       | 2017       | (Decrease) | Change |
| (Dollars in millions, except for per vehicle data) |  |            |            |        |
| As Reported:                                       |  |            |            |        |
| Revenue:   |  |            |            |        |
| Used vehicle retail revenue                        | \$ 1,355.4                                 | \$ 1,245.7 | \$ 109.7   | 9 %    |
| Used vehicle wholesale revenue                     | 143.6                                      | 150.9      | (7.3 )     | (5 )%  |
| Used vehicle revenue                               | \$ 1,499.0                                 | \$ 1,396.6 | \$ 102.4   | 7 %    |
| Gross profit:                                      |  |            |            |        |
| Used vehicle retail gross profit                   | \$ 98.5                                    | \$ 94.4    | \$ 4.1     | 4 %    |
| Used vehicle wholesale gross profit                | 1.9  | 1.0        | 0.9        | 90 %   |
| Used vehicle gross profit                          | \$ 100.4                                   | \$ 95.4    | \$ 5.0     | 5 %    |
| Used vehicle retail units:                         |  |            |            |        |
| Used vehicle retail units                          | 63,079                                     | 59,107     | 3,972      | 7 %    |

## Same Store:

|                                     |            |            |         |       |
|-------------------------------------|------------|------------|---------|-------|
| Revenue:                            |            |            |         |       |
| Used vehicle retail revenue         | \$ 1,321.4 | \$ 1,235.4 | \$ 86.0 | 7 %   |
| Used vehicle wholesale revenue      | 141.0      | 149.8      | (8.8 )  | (6 )% |
| Used vehicle revenue                | \$ 1,462.4 | \$ 1,385.2 | \$ 77.2 | 6 %   |
| Gross profit:                       |            |            |         |       |
| Used vehicle retail gross profit    | \$ 95.8    | \$ 93.7    | \$ 2.1  | 2 %   |
| Used vehicle wholesale gross profit | 2.1        | 1.3        | 0.8     | 62 %  |
| Used vehicle gross profit           | \$ 97.9    | \$ 95.0    | \$ 2.9  | 3 %   |
| Used vehicle retail units:          |            |            |         |       |
| Used vehicle retail units           | 61,165     | 58,463     | 2,702   | 5 %   |

## Used Vehicle Metrics—

|  | For the Nine Months<br>Ended September 30, |          | Increase   | %      |
|--|--|----------|------------|--------|
|  | 2018                                       | 2017     | (Decrease) | Change |
| As Reported:                           |  |          |            |        |
| Revenue per used vehicle retailed      | \$21,487                                   | \$21,075 | \$ 412     | 2 %    |
| Gross profit per used vehicle retailed | \$1,562                                    | \$1,597  | \$ (35 )   | (2 )%  |
| Used vehicle retail gross margin       | 7.3 %                                      | 7.6 %    | (0.3 )%    |        |

## Same Store:

|  |          |          |          |       |
|--|----------|----------|----------|-------|
| Revenue per used vehicle retailed      | \$21,604 | \$21,131 | \$ 473   | 2 %   |
| Gross profit per used vehicle retailed | \$1,566  | \$1,603  | \$ (37 ) | (2 )% |
| Used vehicle retail gross margin       | 7.2 %    | 7.6 %    | (0.4 )%  |       |

Used vehicle revenue increased by \$102.4 million (7%) due to a \$109.7 million (9%) increase in used vehicle retail revenue, partially offset by a \$7.3 million (5%) decrease in used vehicle wholesale revenue. Same store used vehicle revenue increased by \$77.2 million (6%) due to a \$86.0 million (7%) increase in same store used vehicle retail revenue, partially offset by a \$8.8 million (6%) decrease in same store used vehicle wholesale revenues. For the nine months ended September 30, 2018, same store used vehicle retail unit sales increased 2,702 units (5%).

We primarily attribute the 40 basis point decrease in same store used vehicle retail gross margin to increased competition and price transparency within the used vehicle marketplace.



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## Parts and Service—

|  | For the Nine<br>Months Ended<br>September 30,<br>2018      2017 |         | Increase<br>(Decrease) | %<br>Change |   |
|--|---|---------|------------------------|-------------|---|
| (Dollars in millions)  |   |         |                        |             |   |
| As Reported:   |   |         |                        |             |   |
| Parts and service revenue  | \$609.9   | \$589.5 | \$ 20.4                | 3           | % |
| Parts and service gross profit:  |   |         |                        |             |   |
| Customer pay   | 217.8   | 203.8   | 14.0                   | 7           | % |
| Warranty   | 56.5  | 61.7    | (5.2 )                 | (8 )        | % |
| Wholesale parts  | 16.8  | 15.7    | 1.1                    | 7           | % |
| Parts and service gross profit, excluding reconditioning and preparation | \$291.1   | \$281.2 | \$ 9.9                 | 4           | % |
| Parts and service gross margin, excluding reconditioning and preparation | 47.7 %  | 47.7 %  | —                      |             | % |
| Reconditioning and preparation   | \$93.4  | \$86.0  | \$ 7.4                 | 9           | % |
| Total parts and service gross profit                                     | \$384.5   | \$367.2 | \$ 17.3                | 5           | % |
| Total parts and service gross margin                                     | 63.0 %  | 62.3 %  | 0.7                    |             | % |

## Same Store:

|  |         |         |         |       |   |
|--|---------|---------|---------|-------|---|
| Parts and service revenue  | \$598.2 | \$589.0 | \$ 9.2  | 2     | % |
| Parts and service gross profit:  |         |         |         |       |   |
| Customer pay   | 213.8   | 203.5   | 10.3    | 5     | % |
| Warranty   | 55.6    | 61.7    | (6.1 )  | (10 ) | % |
| Wholesale parts  | 16.5    | 15.7    | 0.8     | 5     | % |
| Parts and service gross profit, excluding reconditioning and preparation | \$285.9 | \$280.9 | \$ 5.0  | 2     | % |
| Parts and service gross margin, excluding reconditioning and preparation | 47.8 %  | 47.7 %  | 0.1     |       | % |
| Reconditioning and preparation   | \$91.0  | \$85.7  | \$ 5.3  | 6     | % |
| Total parts and service gross profit                                     | \$376.9 | \$366.6 | \$ 10.3 | 3     | % |
| Total parts and service gross margin                                     | 63.0 %  | 62.2 %  | 0.8     |       | % |

The \$20.4 million (3%) increase in parts and service revenue was primarily due to a \$20.8 million (5%) increase in customer pay revenue and a \$9.8 million (12%) increase in wholesale parts revenue, partially offset by a \$10.2 million (9%) decrease in warranty revenue. Same store parts and service revenue increased by \$9.2 million (2%) from \$589.0 million for the nine months ended September 30, 2017 to \$598.2 million for the nine months ended September 30, 2018. The increase in same store parts and service revenue was primarily due to a \$13.5 million (3%) increase in customer pay revenue and a \$7.7 million (9%) increase in wholesale parts revenue, partially offset by a \$12 million (10%) decrease in warranty revenue.

Parts and service gross profit, excluding reconditioning and preparation, increased by \$9.9 million (4%) to \$291.1 million and same store gross profit, excluding reconditioning and preparation, increased by \$5.0 million (2%) to \$285.9 million. The increase in same store gross profit is primarily due to the increase in customer pay gross profit, which has continued to benefit from our strategic focus to improve customer retention.



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## Finance and Insurance, net—

For the Nine  
Months Ended Increase %  
September 30, (Decrease) Change  
2018 2017  
(Dollars in millions, except for per  
vehicle data)

## As Reported:

|   |         |         |         |   |   |
|---|---------|---------|---------|---|---|
| Finance and insurance, net                  | \$215.0 | \$202.5 | \$ 12.5 | 6 | % |
| Finance and insurance, net per vehicle sold | \$1,530 | \$1,524 | \$ 6    | — | % |

## Same Store:

|   |         |         |        |   |   |
|---|---------|---------|--------|---|---|
| Finance and insurance, net                  | \$210.1 | \$201.5 | \$ 8.6 | 4 | % |
| Finance and insurance, net per vehicle sold | \$1,544 | \$1,525 | \$ 19  | 1 | % |

F&I, net revenue increased \$12.5 million (6%) during the nine months ended September 30, 2018 when compared to the nine months ended September 30, 2017, with same store F&I, net revenue increasing by \$8.6 million (4%) over the same period. We continued to benefit from favorable consumer lending environment, which allowed more of our customers to take advantage of a broader array of F&I products and our continued focus on improving the F&I results at our lower-performing stores through our F&I training programs.

## Selling, General, and Administrative Expense—

|  | For the Nine Months Ended September 30, |                   |      |                   |                     |                     | % of Gross Profit |  |
|--|---|-------------------|------|-------------------|---------------------|---------------------|-------------------|--|
|  | 2018                                    | % of Gross Profit | 2017 | % of Gross Profit | Increase (Decrease) | Increase (Decrease) |                   |  |
|  | (Dollars in millions)                   |                   |      |                   |                     |                     |                   |  |

## As Reported:

|  |         |      |   |         |      |   |         |      |      |    |
|--|---------|------|---|---------|------|---|---------|------|------|----|
| Personnel costs                              | \$270.1 | 32.9 | % | \$261.1 | 33.2 | % | \$ 9.0  | (0.3 | )%   |    |
| Sales compensation                           | 86.3    | 10.5 | % | 83.5    | 10.6 | % | 2.8     | (0.1 | )%   |    |
| Share-based compensation                     | 8.2     | 1.0  | % | 10.0    | 1.3  | % | (1.8    | )    | (0.3 | )% |
| Outside services                             | 61.4    | 7.5  | % | 60.7    | 7.7  | % | 0.7     | (0.2 | )%   |    |
| Advertising                                  | 23.5    | 2.9  | % | 22.7    | 2.9  | % | 0.8     | —    | %    |    |
| Rent   | 19.0    | 2.3  | % | 20.2    | 2.6  | % | (1.2    | )    | (0.3 | )% |
| Utilities                                    | 12.3    | 1.5  | % | 11.8    | 1.5  | % | 0.5     | —    | %    |    |
| Insurance                                    | 10.6    | 1.3  | % | 11.4    | 1.4  | % | (0.8    | )    | (0.1 | )% |
| Other  | 72.2    | 8.7  | % | 67.8    | 8.5  | % | 4.4     | 0.2  | %    |    |
| Selling, general, and administrative expense | \$563.6 | 68.6 | % | \$549.2 | 69.7 | % | \$ 14.4 | (1.1 | )%   |    |
| Gross profit                                 | \$821.2 |      |   | \$787.5 |      |   |         |      |      |    |

## Same Store:

|  |         |      |   |         |      |   |        |      |      |    |
|--|---------|------|---|---------|------|---|--------|------|------|----|
| Personnel costs                              | \$263.8 | 32.8 | % | \$259.8 | 33.1 | % | \$ 4.0 | (0.3 | )%   |    |
| Sales compensation                           | 84.0    | 10.5 | % | 83.1    | 10.6 | % | 0.9    | (0.1 | )%   |    |
| Share-based compensation                     | 8.2     | 1.0  | % | 10.0    | 1.3  | % | (1.8   | )    | (0.3 | )% |
| Outside services                             | 60.1    | 7.5  | % | 60.1    | 7.7  | % | —      | (0.2 | )%   |    |
| Advertising                                  | 22.5    | 2.8  | % | 22.3    | 2.8  | % | 0.2    | —    | %    |    |
| Rent   | 19.0    | 2.4  | % | 20.2    | 2.6  | % | (1.2   | )    | (0.2 | )% |
| Utilities                                    | 12.0    | 1.5  | % | 11.6    | 1.5  | % | 0.4    | —    | %    |    |
| Insurance                                    | 10.2    | 1.3  | % | 11.3    | 1.4  | % | (1.1   | )    | (0.1 | )% |
| Other  | \$70.9  | 8.8  | % | \$67.7  | 8.5  | % | 3.2    | 0.3  | %    |    |
| Selling, general, and administrative expense | \$550.7 | 68.6 | % | \$546.1 | 69.5 | % | \$ 4.6 | (0.9 | )%   |    |

|              |         |         |
|--------------|---------|---------|
| Gross profit | \$803.2 | \$785.4 |
|--------------|---------|---------|

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SG&A expense as a percentage of gross profit was 68.6% for the nine months ended September 30, 2018 compared to 69.7% for the nine months ended September 30, 2017. Same store SG&A expense as a percentage of gross profit decreased 90 basis points from 69.5% for the nine months ended September 30, 2017 to 68.6% for the nine months ended September 30, 2018. The Company benefited from decreases in rent expense and share-based compensation expense on both a total Company and same store basis, partially offset by increases in other expenses, including those associated with our omni-channel investments.

Other Operating (Income) Expenses, net —

Other operating (income) expenses, net which includes gains and losses from the sale of property and equipment, income derived from lease arrangements, and other non-core operating items was \$1.2 million of income for the nine months ended September 30, 2018 compared to \$0.7 million of expenses in the prior comparative period.

During the nine months ended September 30, 2018, we recognized a \$0.7 million gain resulting from legal settlements and \$0.5 million of other non-core operating income.

During the nine months ended September 30, 2017, we recognized expenses associated with a lease termination of \$2.9 million, partially offset by a \$0.9 million gain recognized for legal settlements and \$0.8 million of other income.

Floor Plan Interest Expense —

Floor plan interest expense increased by \$5.9 million (35%) to \$23.0 million during the nine months ended September 30, 2018 compared to \$17.1 million during the nine months ended September 30, 2017, primarily as a result of an increase in the LIBOR rate from which our floor plan interest rate is calculated, coupled with increased floor plan borrowings.

Income Tax Expense —

The \$15.0 million (26%) decrease in income tax expense was the result of a lower effective tax rate due to the enactment of the Tax Act in December 2017. Our effective tax rate was 25.2% for the nine months ended September 30, 2018 compared to 37.6% for the nine months ended September 30, 2017.

**LIQUIDITY AND CAPITAL RESOURCES**

As of September 30, 2018, we had total available liquidity of \$394.1 million, which consisted of \$6.8 million of cash and cash equivalents, \$42.9 million of available funds in our floor plan offset accounts, \$190.0 million of availability under our new vehicle floor plan facility that is able to be re-designated to our revolving credit facility, \$47.0 million of availability under our revolving credit facility, and \$107.4 million of availability under our used vehicle revolving floor plan facility. The borrowing capacities under our revolving credit facility and our used vehicle revolving floor plan facility are limited by borrowing base calculations and, from time to time, may be further limited by our required compliance with certain financial covenants. As of September 30, 2018, these financial covenants did not further limit our availability under our credit facilities. For more information on our financial covenants, see "Covenants" and "Share Repurchases and Dividend Restrictions" below.

We continually evaluate our liquidity and capital resources based upon (i) our cash and cash equivalents on hand, (ii) the funds that we expect to generate through future operations, (iii) current and expected borrowing availability under our 2016 Senior Credit Facility, our other floor plan facilities, our Real Estate Credit Agreement, our Restated Master Loan Agreement, and our mortgage financings (each, as defined below), (iv) amounts in our new vehicle floor plan notes payable offset accounts, and (v) the potential impact of our capital allocation strategy and any contemplated or pending future transactions, including, but not limited to, financings, acquisitions, dispositions, equity and/or debt repurchases, dividends, or other capital expenditures. We believe we will have sufficient liquidity to meet our debt service and working capital requirements; commitments and contingencies; debt repayment, maturity and repurchase obligations; acquisitions; capital expenditures; and any operating requirements for at least the next twelve months.

We currently are party to the following material credit facilities and agreements, and have the following material indebtedness outstanding. For a more detailed description of the material terms of these agreements and facilities, and this indebtedness, refer to Note 8 "Long-Term Debt" and our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

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2016 Senior Credit Facility — On July 25, 2016, the Company and certain of its subsidiaries entered into an amended and restated senior secured credit agreement with Bank of America, as administrative agent, and the other lenders party thereto.

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The 2016 Senior Credit Facility provides for the following:

Revolving Credit Facility — A \$250.0 million revolving credit facility (the "Revolving Credit Facility") for, among other things, acquisitions, working capital and capital expenditures, including a \$50.0 million sub-limit for letters of credit. As described below, as of September 30, 2018, we re-designated \$190.0 million of availability from the Revolving Credit Facility to the New Vehicle Floor Plan Facility (as defined below), resulting in \$60.0 million of borrowing capacity. In addition, we had \$13.0 million in outstanding letters of credit as of September 30, 2018, resulting in \$47.0 million of borrowing availability as of September 30, 2018.

New Vehicle Floor Plan Facility — A \$900.0 million new vehicle revolving floor plan facility (the "New Vehicle Floor Plan Facility"). In connection with the New Vehicle Floor Plan Facility, we established an account with Bank of America that allows us to transfer cash as an offset to floor plan notes payable. These transfers reduce the amount of outstanding new vehicle floor plan notes payable that would otherwise accrue interest, while retaining the ability to transfer amounts from the offset account into our operating cash accounts within one to two days. As a result of the use of our floor plan offset account, we experience a reduction in Floor Plan Interest Expense on our Condensed Consolidated Statements of Income. As of September 30, 2018, we had \$728.9 million, which is net of \$31.5 million in our floor plan offset account, outstanding under the New Vehicle Floor Plan Facility.

Used Vehicle Floor Plan Facility — A \$150.0 million used vehicle revolving floor plan facility (the "Used Vehicle Floor Plan Facility") to finance the acquisition of used vehicle inventory and for, among other things, working capital and capital expenditures, as well as to refinance used vehicles. Our borrowing capacity under the Used Vehicle Floor Plan Facility was limited to \$107.4 million based on our borrowing base calculation as of September 30, 2018. There were no outstanding borrowings at the beginning of the year. During the nine months ended September 30, 2018, we had borrowings of \$210.0 million and repayments of \$210.0 million, resulting in no outstanding borrowings on our Used Vehicle Floor Plan Facility as of September 30, 2018.

Subject to compliance with certain conditions, the agreement governing the 2016 Senior Credit Facility provides that we have the ability, at our option and subject to the receipt of additional commitments from existing or new lenders, to increase the size of the facilities by up to \$325.0 million in the aggregate without lender consent.

At our option, we have the ability to re-designate a portion of our availability under the Revolving Credit Facility to the New Vehicle Floor Plan Facility or the Used Vehicle Floor Plan Facility. The maximum amount we are allowed to re-designate is determined based on our current borrowing availability under the Revolving Credit Facility, less \$50.0 million. In addition, we are able to re-designate any amounts moved to the New Vehicle Floor Plan Facility or the Used Vehicle Floor Plan Facility back to the Revolving Credit Facility. As of September 30, 2018, \$190.0 million of availability under the Revolving Credit Facility was re-designated to the New Vehicle Floor Plan Facility. We re-designated this amount to take advantage of the lower commitment fee rates on the New Vehicle Floor Plan Facility when compared to the Revolving Credit Facility.

Borrowings under the 2016 Senior Credit Facility bear interest, at our option, based on LIBOR or the Base Rate, in each case plus an Applicable Margin. The Base Rate is the highest of the (i) Bank of America prime rate, (ii) Federal Funds rate plus 0.50%, and (iii) one month LIBOR plus 1.00%. The Applicable Margin, for borrowings under the Revolving Credit Facility, ranges from 1.25% to 2.50% for LIBOR loans and 0.25% to 1.50% for Base Rate loans, in each case based on the Company's total lease adjusted leverage ratio. Borrowings under the New Vehicle Floor Plan Facility bear interest, at the option of the Company, based on LIBOR plus 1.25% or the Base Rate plus 0.25%. Borrowings under the Used Vehicle Floor Plan Facility bear interest, at the option of the Company, based on LIBOR plus 1.50% or the Base Rate plus 0.50%.

In addition to the payment of interest on borrowings outstanding under the 2016 Senior Credit Facility, we are required to pay a quarterly commitment fee on the total commitments thereunder. The fee for commitments under the

Revolving Credit Facility is between 0.20% and 0.45% per year, based on the Company's total lease adjusted leverage ratio, and the fee for commitments under the New Vehicle Facility Floor Plan and the Used Vehicle Facility Floor Plan Facility is 0.15% per year.

Manufacturer affiliated new vehicle floor plan and other financing facilities — we have a floor plan facility with the Ford Motor Credit Company ("Ford Credit") to purchase new Ford and Lincoln vehicle inventory, which matures on December 5, 2019. We also have established a floor plan offset account with Ford Credit, which operates in a similar manner to our floor plan offset account with Bank of America. As of September 30, 2018, we had \$102.2 million, net of \$11.4 million in our floor plan offset account, outstanding under our floor plan facility. Additionally, we

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had \$86.7 million outstanding under facilities with certain manufacturers for the financing of loaner vehicles, which were presented within Accounts Payable and Accrued Liabilities in our Condensed Consolidated Balance Sheets. Neither our floor plan facility with Ford Credit nor our facilities for loaner vehicles have stated borrowing limitations. 6.0% Senior Subordinated Notes due 2024 — as of September 30, 2018 we had \$600.0 million in aggregate principal amount outstanding related to our 6.0% Notes. We are required to pay interest on the 6.0% Notes on June 15 and December 15 of each year until maturity on December 15, 2024.

Mortgage notes — as of September 30, 2018, we had \$134.6 million of mortgage note obligations. These obligations are collateralized by the associated real estate at our dealership locations.

Restated Master Loan Agreement — provides for term loans to certain of our subsidiaries (the "Restated Master Loan Agreement"). Borrowings under the Restated Master Loan Agreement are guaranteed by us and are collateralized by the real property financed under the Restated Master Loan Agreement. As of September 30, 2018, the outstanding balance under the Restated Master Loan Agreement was \$84.6 million. There is no further borrowing availability under this agreement.

Real Estate Credit Agreement — a real estate term loan credit agreement with borrowings collateralized by first priority liens, subject to certain permitted exceptions, on all of the real property financed thereunder (the "Real Estate Credit Agreement"). As of September 30, 2018, we had \$46.2 million of mortgage note obligations outstanding under the Real Estate Credit Agreement. There is no further borrowing availability under this agreement.

Covenants

We are subject to a number of customary covenants in our various debt and lease agreements. We were in compliance with all of our covenants as of September 30, 2018.

Share Repurchases and Dividend Restrictions

Our ability to repurchase shares or pay dividends on our common stock is subject to our compliance with the covenants and restrictions in our various debt and lease agreements. Our 2016 Senior Credit Facility and our indenture governing our 6.0% Notes permit us to make an unlimited amount of restricted payments, such as share repurchases or dividends, so long as our Consolidated Total Leverage Ratio, as defined in those agreements, does not exceed 3.0 to 1.0 on a pro forma basis after giving effect to any proposed payments. As of September 30, 2018, our Consolidated Total Leverage Ratio did not exceed 3.0 to 1.0.

On January 30, 2014, our Board of Directors authorized our current share repurchase program (the "Repurchase Program"). On October 19, 2018, our Board of Directors reset the authorization under our Repurchase Program to \$100.0 million in the aggregate, for the repurchase of our common stock in open market transactions or privately negotiated transactions from time to time.

During the three and nine months ended September 30, 2018, we repurchased 239,768 and 824,058 shares, respectively, of our common stock under the Repurchase Program for a total of \$16.9 million and \$57.1 million, respectively. As of September 30, 2018, we had remaining authorization to repurchase \$42.8 million in shares of our common stock under the Repurchase Program.

During the three and nine months ended September 30, 2018, we also repurchased 2,087 and 71,018 shares, respectively, of our common stock for \$0.1 million and \$4.7 million, respectively, from employees in connection with a net share settlement feature of employee equity-based awards.

Cash Flows

Classification of Cash Flows Associated with Floor Plan Notes Payable

Borrowings and repayments of floor plan notes payable to a lender unaffiliated with the manufacturer from which we purchase a particular new vehicle ("Non-Trade"), and all floor plan notes payable relating to used vehicles (together referred to as "Floor Plan Notes Payable—Non-Trade"), are classified as financing activities on the accompanying Condensed Consolidated Statements of Cash Flows, with borrowings reflected separately from repayments. The net change in floor plan notes payable to a lender affiliated with the manufacturer from which we purchase a particular new vehicle (collectively referred to as "Floor Plan Notes Payable—Trade") is classified as an operating activity on the accompanying Condensed Consolidated Statements of Cash Flows. Borrowings of floor plan notes payable associated with inventory acquired in connection with all acquisitions and repayments made in connection with all divestitures are classified as a financing activity in the accompanying Condensed Consolidated Statements of Cash Flows. Cash

flows related to floor plan notes payable included

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in operating activities differ from cash flows related to floor plan notes payable included in financing activities only to the extent that the former are payable to a lender affiliated with the manufacturer from which we purchased the related inventory, while the latter are payable to a lender not affiliated with the manufacturer from which we purchased the related inventory. The majority of our floor plan notes are payable to parties unaffiliated with the entities from which we purchase our new vehicle inventory, with the exception of floor plan notes payable relating to the financing of new Ford and Lincoln vehicles.

Floor plan borrowings are required by all vehicle manufacturers for the purchase of new vehicles, and all floor plan lenders require amounts borrowed for the purchase of a vehicle to be repaid within a short time period after the related vehicle is sold. As a result, we believe that it is important to understand the relationship between the cash flows of all of our floor plan notes payable and new vehicle inventory in order to understand our working capital and operating cash flow and to be able to compare our operating cash flow to that of our competitors (i.e., if our competitors have a different mix of trade and non-trade floor plan financing as compared to us). In addition, we include all floor plan borrowings and repayments in our internal operating cash flow forecasts. As a result, we use the non-GAAP measure "cash provided by operating activities, as adjusted" (defined below) to compare our results to forecasts. We believe that splitting the cash flows of floor plan notes payable between operating activities and financing activities, while all new vehicle inventory activity is included in operating activities, results in significantly different operating cash flow than if all the cash flows of floor plan notes payable were classified together in operating activities.

Cash provided by operating activities, as adjusted, includes borrowings and repayments of floor plan notes payable to lenders not affiliated with the manufacturer from which we purchase the related new vehicles. Cash provided by operating activities, as adjusted, has material limitations, and therefore, may not be comparable to similarly titled measures of other companies and should not be considered in isolation, or as a substitute for analysis of our operating results in accordance with GAAP. In order to compensate for these potential limitations we also review the related GAAP measures.

We have provided below a reconciliation of cash flow from operating activities, as if all changes in floor plan notes payable, except for (i) borrowings associated with acquisitions and repayments associated with divestitures and (ii) borrowings and repayments associated with the purchase of used vehicle inventory, were classified as an operating activity.

|   | For the Nine<br>Months Ended<br>September 30,<br>2018 2017<br>(In millions) |         |
|---|---|---------|
| Reconciliation of Cash provided by operating activities to Cash provided by operating activities, as adjusted |   |         |
| Cash provided by operating activities, as reported  | \$106.4   | \$243.2 |
| New vehicle floor plan borrowings (repayments)—non-trade, net   | 78.3  | (120.0) |
| Cash provided by operating activities, as adjusted  | \$184.7   | \$123.2 |

## Operating Activities—

Net cash provided by operating activities totaled \$106.4 million and \$243.2 million, for the nine months ended September 30, 2018 and 2017, respectively. Net cash provided by operating activities, as adjusted, totaled \$184.7 million and \$123.2 million for the nine months ended September 30, 2018 and 2017, respectively.

The \$61.5 million increase in our net cash provided by operating activities, as adjusted, for the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017 was primarily the result of the following:

- \$31.8 million increase related to the change in floor plan notes payable, net of inventory;
- \$30.4 million related to an increase in non-cash adjustments to net income;
- \$8.7 million increase related to the change in accounts payable and accrued liabilities; and
- \$1.3 million increase related to the change in other current and non-current assets and liabilities

The increase in our cash provided by operating activities, as adjusted, was partially offset by a \$10.7 million decrease related to the timing of collection of accounts receivable and contracts-in-transit during 2018 compared to 2017.

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Investing Activities—

Net cash used in investing activities totaled \$132.8 million and \$98.0 million, for the nine months ended September 30, 2018 and 2017, respectively. Capital expenditures, excluding the purchase of real estate, were \$21.5 million and \$21.4 million for the nine months ended September 30, 2018 and 2017, respectively. We expect that capital expenditures for 2018 will total approximately \$50.0 million to upgrade or replace our existing facilities, construct new facilities, expand our service capacity, and invest in technology and equipment.

During the nine months ended September 30, 2018, we acquired three franchises (three dealership locations) for an aggregate purchase price of \$93.2 million which included purchase price holdbacks of \$1.9 million for potential indemnity claims made by us with respect to the acquired franchises. During the nine months ended September 30, 2017, we acquired two franchises (two dealership locations) and one collision center for an aggregate purchase price of \$80.1 million.

During the nine months ended September 30, 2018 and 2017, we received cash proceeds of \$2.0 million and \$3.8 million, respectively, from the sale of property previously included in Assets Held for Sale.

During the nine months ended September 30, 2018 and 2017, purchases of real estate, including previously leased real estate, totaled \$17.6 million and \$0.3 million, respectively.

As part of our capital allocation strategy, we continually evaluate opportunities to purchase properties currently under lease and acquire properties in connection with future dealership relocations. No assurances can be provided that we will have or be able to access capital at times or on terms in amounts deemed necessary to execute this strategy.

Financing Activities—

Net cash provided by financing activities totaled \$28.5 million for the nine months ended September 30, 2018. Net cash used in financing activities totaled \$145.8 million for the nine months ended September 30, 2017.

During the nine months ended September 30, 2018 and 2017, we had non-trade floor plan borrowings, excluding floor plan borrowings associated with acquisitions, of \$3.3 billion and \$2.8 billion, respectively, and non-trade floor plan repayments of \$3.2 billion and \$2.9 billion, respectively.

In addition, during the nine months ended September 30, 2018 and 2017, we had non-trade floor plan borrowings of \$22.7 million and \$25.1 million, respectively, related to acquisitions.

Repayments of borrowings totaled \$10.7 million and \$11.5 million, for the nine months ended September 30, 2018 and 2017, respectively.

During the nine months ended September 30, 2018, we repurchased a total of 824,058 shares of our common stock under our Repurchase Program for a total of \$57.1 million and 71,018 shares of our common stock for \$4.7 million from employees in connection with a net share settlement feature of employee equity-based awards.

Off Balance Sheet Arrangements

We had no off balance sheet arrangements during any of the periods presented other than those disclosed in Note 11 "Commitments and Contingencies" of the Notes hereto.



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### Item 3. Quantitative and Qualitative Disclosures About Market Risk

#### Interest Rate Risk

We are exposed to risk from changes in interest rates on a significant portion of our outstanding indebtedness. Based on \$818.1 million of total variable interest rate debt, which includes our floor plan notes payable and certain mortgage liabilities, outstanding as of September 30, 2018, a 100 basis point change in interest rates could result in a change of as much as \$8.2 million to our total annual interest expense in our Consolidated Statements of Income.

We periodically receive floor plan assistance from certain automobile manufacturers, which is accounted for as a reduction in our new vehicle inventory cost. Floor plan assistance reduced our cost of sales for the nine months ended September 30, 2018 and 2017 by \$28.4 million and \$26.6 million, respectively. We cannot provide assurance as to the future amount of floor plan assistance and these amounts may be negatively impacted due to future changes in interest rates.

As part of our strategy to mitigate our exposure to fluctuations in interest rates, we have various interest rate swap agreements. All of our interest rate swaps qualify for cash flow hedge accounting treatment and do not contain any ineffectiveness.

In June 2015, we entered into an interest rate swap agreement with a notional principal amount of \$100.0 million. This swap was designed to provide a hedge against changes in variable rate cash flows regarding fluctuations in the one month LIBOR rate, through maturity in February 2025. The notional value of this swap was \$86.4 million as of September 30, 2018 and is reducing over its remaining term to \$53.1 million at maturity.

In November 2013, we entered into an interest rate swap agreement with a notional principal amount of \$75.0 million. This swap was designed to provide a hedge against changes in variable rate cash flows regarding fluctuations in the one month LIBOR rate, through maturity in September 2023. The notional values of this swap as of September 30, 2018 was \$57.4 million and will reduce over its remaining term to \$38.7 million at maturity.

For additional information about the effect of our derivative instruments on the accompanying Condensed Consolidated Financial Statements, see Note 9 "Financial Instruments and Fair Value".

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"). Based on this evaluation, our principal executive officer and principal financial officer concluded that as of the end of such period such disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is (i) recorded, processed, summarized, and reported within the time period specified in the rules and forms of the U.S. Securities and Exchange Commission, and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding disclosure. Management necessarily applies its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives. Management, including the principal executive officer and the principal financial officer, does not expect that our disclosure controls and procedures can prevent all possible errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that objectives of the control system are met. There are inherent limitations in all control systems, including the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the intentional acts of one or more persons. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and while our disclosure controls and procedures are designed to be effective under circumstances where they should reasonably be expected to operate effectively, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in any control system, misstatements due to possible errors or fraud may occur and

not be detected.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

From time to time, we and our dealerships may become involved in various claims relating to, and arising out of our business and our operations. These claims may involve, but are not limited to, financial and other audits by vehicle manufacturers or lenders, and certain federal, state, and local government authorities, which relate primarily to (i) incentive and warranty payments received from vehicle manufacturers, or allegations of violations of manufacturer agreements or policies, (ii) compliance with lender rules and covenants and (iii) payments made to government authorities relating to federal, state, and local taxes, as well as compliance with other government regulations. Claims may also arise through litigation, government proceedings, and other dispute resolution processes. Such claims, including class actions, can relate to, but are not limited to, the practice of charging administrative fees, employment-related matters, truth-in-lending practices, contractual disputes, actions brought by governmental authorities, and other matters. We evaluate pending and threatened claims and establish loss contingency reserves based upon outcomes we currently believe to be probable and reasonably estimable.

We currently do not anticipate that any known claim will materially adversely affect our financial condition, liquidity or results of operations. However, the outcome of any matter cannot be predicted with certainty, and an unfavorable resolution of one or more matters presently known or arising in the future could have a material adverse effect on our financial condition, liquidity or results of operations.

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

The following table sets forth information regarding common stock repurchases by the Company on a monthly basis during the three month period ended September 30, 2018:

| Period                  | Total Number of Shares Purchased(1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Program (in millions)(1) |
|-------------------------|-------------------------------------|------------------------------|--|--|
| 07/01/2018 - 07/31/2018 | 77,155                              | \$ 68.28                     | 75,489   | \$ 54.6  |
| 08/01/2018 - 08/31/2018 | 15,406                              | \$ 70.35                     | 15,406   | \$ 53.5  |
| 09/01/2018 - 09/30/2018 | 149,294                             | \$ 71.87                     | 148,873  | \$ 42.8  |
| Total                   | 241,855                             |                              | 239,768  |  |

(1) On January 30, 2014, our Board of Directors authorized our Repurchase Program. On October 19, 2018, our Board of Directors reset the authorization under our Repurchase Program to \$100.0 million in the aggregate, for the repurchase of shares of our common stock in open market transactions or privately negotiated transactions. Any repurchases will be subject to applicable limitations in our debt or other financing agreements that may be in existence from time to time. During the three months ended September 30, 2018, we repurchased 239,768 shares of our common stock under the Repurchase Program for a total of \$16.9 million and 2,087 shares of our common stock for \$0.1 million from employees in connection with a net share settlement feature of employee equity-based awards. As of September 30, 2018, we had remaining authorization to repurchase \$42.8 million in shares of our common stock under the Repurchase Program.

## Item 4. Mine Safety Disclosures

Not applicable.

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Item 6. Exhibits

| Exhibit Number | Description of Documents   |
|----------------|--|
| <u>31.1</u>    | Certificate of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| <u>31.2</u>    | Certificate of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| <u>32.1</u>    | Certificate of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| <u>32.2</u>    | Certificate of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 101.INS        | XBRL Instance Document   |
| 101.SCH        | XBRL Taxonomy Extension Schema Document  |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document   |

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Asbury Automotive Group, Inc.

Date: October 24, 2018 By: /s/ David W. Hult  
Name: David W. Hult  
Title: Chief Executive Officer and President  
Asbury Automotive Group, Inc.

Date: October 24, 2018 By: /s/ Sean D. Goodman  
Name: Sean D. Goodman  
Title: Senior Vice President and Chief Financial Officer

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