

PENSKE AUTOMOTIVE GROUP, INC.

Form 10-Q

April 27, 2018

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 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 1-12297

Penske Automotive Group, Inc.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

22-3086739
(I.R.S. Employer
Identification No.)

2555 Telegraph Road
Bloomfield Hills, Michigan
(Address of principal executive offices)

48302-0954
(Zip Code)

Registrant's telephone number, including area code:

(248) 648-2500

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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
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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.

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

As of April 23, 2018, there were 84,975,160 shares of voting common stock outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Condensed Balance Sheets as of March 31, 2018 and December 31, 2017</u>	<u>3</u>
<u>Consolidated Condensed Statements of Income for the three months ended March 31, 2018 and 2017</u>	<u>4</u>
<u>Consolidated Condensed Statements of Comprehensive Income for the three months ended March 31, 2018 and 2017</u>	<u>5</u>
<u>Consolidated Condensed Statements of Cash Flows for the three months ended March 31, 2018 and 2017</u>	<u>6</u>
<u>Consolidated Condensed Statement of Equity for the three months ended March 31, 2018</u>	<u>7</u>
<u>Notes to Consolidated Condensed Financial Statements</u>	<u>8</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>32</u>
<u>Item 3. Quantitative & Qualitative Disclosures About Market Risk</u>	<u>51</u>
<u>Item 4. Controls and Procedures</u>	<u>52</u>
<u>PART II — OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>53</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>53</u>
<u>Item 6. Exhibits</u>	<u>54</u>

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

	March 31, 2018 (Unaudited)	December 31, 2017
	(In millions, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	\$ 52.8	\$ 45.7
Accounts receivable, net of allowance for doubtful accounts of \$5.0 and \$5.5	1,035.4	954.9
Inventories	3,972.2	3,944.1
Other current assets	105.0	81.8
Total current assets	5,165.4	5,026.5
Property and equipment, net	2,173.5	2,108.6
Goodwill	1,731.8	1,660.5
Other indefinite-lived intangible assets	481.4	474.0
Equity method investments	1,276.2	1,256.6
Other long-term assets	14.7	14.4
Total assets	\$ 10,843.0	\$ 10,540.6
LIABILITIES AND EQUITY		
Floor plan notes payable	\$ 2,355.6	\$ 2,343.2
Floor plan notes payable — non-trade	1,413.8	1,418.6
Accounts payable	720.5	641.6
Accrued expenses	563.9	523.5
Current portion of long-term debt	84.3	72.8
Liabilities held for sale	0.7	0.7
Total current liabilities	5,138.8	5,000.4
Long-term debt	2,136.9	2,090.4
Deferred tax liabilities	505.5	481.5
Other long-term liabilities	567.4	540.3
Total liabilities	8,348.6	8,112.6
Commitments and contingent liabilities (Note 9)		
Equity		
Penske Automotive Group stockholders' equity:	—	—

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Preferred Stock, \$0.0001 par value; 100,000 shares authorized; none issued and outstanding		
Common Stock, \$0.0001 par value, 240,000,000 shares authorized; 84,975,410 shares issued and outstanding at March 31, 2018; 85,787,507 shares issued and outstanding at December 31, 2017	—	—
Non-voting Common Stock, \$0.0001 par value; 7,125,000 shares authorized; none issued and outstanding	—	—
Class C Common Stock, \$0.0001 par value; 20,000,000 shares authorized; none issued and outstanding	—	—
Additional paid-in capital	485.2	532.3
Retained earnings	2,094.9	2,009.4
Accumulated other comprehensive income (loss)	(114.7)	(146.5)
Total Penske Automotive Group stockholders' equity	2,465.4	2,395.2
Non-controlling interest	29.0	32.8
Total equity	2,494.4	2,428.0
Total liabilities and equity	\$ 10,843.0	\$ 10,540.6

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

	Three Months Ended March 31,	
	2018	2017
	(Unaudited)	
	(In millions, except per share amounts)	
Revenue:		
Retail automotive dealership	\$ 5,296.0	\$ 4,756.4
Retail commercial truck dealership	292.4	211.7
Commercial vehicle distribution and other	158.5	113.0
Total revenues	5,746.9	5,081.1
Cost of sales:		
Retail automotive dealership	4,517.7	4,048.1
Retail commercial truck dealership	245.8	175.3
Commercial vehicle distribution and other	119.0	83.4
Total cost of sales	4,882.5	4,306.8
Gross profit	864.4	774.3
Selling, general and administrative expenses	663.1	601.7
Depreciation	25.6	22.4
Operating income	175.7	150.2
Floor plan interest expense	(18.9)	(13.7)
Other interest expense	(29.8)	(25.0)
Equity in earnings of affiliates	17.3	13.2
Income from continuing operations before income taxes	144.3	124.7
Income taxes	(36.6)	(41.1)
Income from continuing operations	107.7	83.6
Income (loss) from discontinued operations, net of tax	0.1	(0.6)
Net income	107.8	83.0
Less: (Loss) income attributable to non-controlling interests	(0.3)	0.4
Net income attributable to Penske Automotive Group common stockholders	\$ 108.1	\$ 82.6
Basic earnings per share attributable to Penske Automotive Group common stockholders:		
Continuing operations	\$ 1.26	\$ 0.97
Discontinued operations	0.00	(0.01)
Net income attributable to Penske Automotive Group common stockholders	\$ 1.26	\$ 0.96
Shares used in determining basic earnings per share	86.0	85.6
Diluted earnings per share attributable to Penske Automotive Group common stockholders:		
Continuing operations	\$ 1.26	\$ 0.97
Discontinued operations	0.00	(0.01)
Net income attributable to Penske Automotive Group common stockholders	\$ 1.26	\$ 0.96
Shares used in determining diluted earnings per share	86.0	85.6

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Amounts attributable to Penske Automotive Group common stockholders:

Income from continuing operations	\$ 107.7	\$ 83.6
Less: (Loss) income attributable to non-controlling interests	(0.3)	0.4
Income from continuing operations, net of tax	108.0	83.2
Income (loss) from discontinued operations, net of tax	0.1	(0.6)
Net income attributable to Penske Automotive Group common stockholders	\$ 108.1	\$ 82.6
Cash dividends per share	\$ 0.34	\$ 0.30

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31,	
	2018	2017
	(Unaudited)	
	(In millions)	
Net income	\$ 107.8	\$ 83.0
Other comprehensive income:		
Foreign currency translation adjustment	30.7	24.7
Other adjustments to comprehensive income, net	1.1	1.4
Other comprehensive income, net of tax	31.8	26.1
Comprehensive income	139.6	109.1
Less: Comprehensive (loss) income attributable to non-controlling interests	(0.3)	0.8
Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 139.9	\$ 108.3

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2018	2017
	(Unaudited)	
	(In millions)	
Operating Activities:		
Net income	\$ 107.8	\$ 83.0
Adjustments to reconcile net income to net cash from continuing operating activities:		
Depreciation	25.6	22.4
Earnings of equity method investments	(17.3)	(13.2)
(Income) loss from discontinued operations, net of tax	(0.1)	0.6
Deferred income taxes	23.7	42.5
Changes in operating assets and liabilities:		
Accounts receivable	(76.7)	33.5
Inventories	9.2	(52.5)
Floor plan notes payable	20.9	20.4
Accounts payable and accrued expenses	108.8	86.0
Other	(27.1)	(24.1)
Net cash provided by continuing operating activities	174.8	198.6
Investing Activities:		
Purchase of equipment and improvements	(64.7)	(36.9)
Proceeds from sale of dealerships	58.4	9.0
Acquisitions net, including repayment of sellers' floor plan notes payable of \$25.8 and \$81.2, respectively	(156.5)	(314.2)
Other	(6.3)	—
Net cash used in continuing investing activities	(169.1)	(342.1)
Financing Activities:		
Proceeds from borrowings under U.S. credit agreement revolving credit line	396.0	523.0
Repayments under U.S. credit agreement revolving credit line	(440.0)	(476.0)
Net borrowings of other long-term debt	128.6	106.1
Net (repayments) borrowings of floor plan notes payable — non-trade	(4.8)	63.0
Repurchases of common stock	(50.0)	(2.7)
Dividends	(29.2)	(25.6)
Net cash provided by continuing financing activities	0.6	187.8
Discontinued operations:		
Net cash provided by (used in) discontinued operating activities	0.1	(7.0)
Net cash provided by discontinued investing activities	—	9.7
Net cash used in discontinued financing activities	—	(0.2)
Net cash provided by discontinued operations	0.1	2.5
Effect of exchange rate changes on cash and cash equivalents	0.7	1.4
Net change in cash and cash equivalents	7.1	48.2
Cash and cash equivalents, beginning of period	45.7	24.0

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Cash and cash equivalents, end of period	\$ 52.8	\$ 72.2
Supplemental disclosures of cash flow information:		
Cash paid (received) for:		
Interest	\$ 32.4	\$ 20.3
Income taxes	6.4	(8.4)
Seller financed/assumed debt	—	3.8
Non cash activities:		
Deferred consideration	\$ 12.0	\$ —
Consideration transferred through common stock issuance	—	32.4
Contingent consideration	—	20.0

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENT OF EQUITY

	Common Stock Issued Shares (Unaudited) (Dollars in millions)	Additional Paid-in Capital Amount	Retained Earnings	Accumulated Total Other Comprehensive Income (Loss)	Penske Automotive Group Stockholders' Equity	Non-control- ling Interest	Total Equity	
Balance, December 31, 2017	85,787,507	\$ —	\$ 532.3	\$ 2,009.4	\$ (146.5)	\$ 2,395.2	\$ 32.8	\$ 2,428.0
Adoption of ASC 606 (Note 1)	—	—	—	6.6	—	6.6	—	6.6
Equity compensation	320,919	—	4.5	—	—	4.5	—	4.5
Repurchases of common stock	(1,133,016)	—	(50.0)	—	—	(50.0)	—	(50.0)
Dividends	—	—	—	(29.2)	—	(29.2)	—	(29.2)
Purchase of subsidiary shares from non-controlling interest	—	—	(1.4)	—	—	(1.4)	(3.1)	(4.5)
Distributions to non-controlling interest	—	—	—	—	—	—	(0.1)	(0.1)
Foreign currency translation	—	—	—	—	30.7	30.7	—	30.7
Other	—	—	(0.2)	—	1.1	0.9	(0.3)	0.6
Net income	—	—	—	108.1	—	108.1	(0.3)	107.8
Balance, March 31, 2018	84,975,410	\$ —	\$ 485.2	\$ 2,094.9	\$ (114.7)	\$ 2,465.4	\$ 29.0	\$ 2,494.4

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

(In millions, except share and per share amounts)

1. Interim Financial Statements

Business Overview

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

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

Retail Automotive Dealership. We believe we are the second largest automotive retailer headquartered in the U.S. as measured by the \$19.8 billion in total retail automotive dealership revenue we generated in 2017. As of March 31, 2018, we operated 342 retail automotive franchises, of which 151 franchises are located in the U.S. and 191 franchises are located outside of the U.S. The franchises outside the U.S. are located primarily in the U.K. In the three months ended March 31, 2018, we retailed and wholesaled more than 162,000 vehicles. We are diversified geographically, with 52% of our total retail automotive dealership revenues in the three months ended March 31, 2018 generated in the U.S. and Puerto Rico and 48% generated outside the U.S. We offer over 40 vehicle brands, with 70% of our retail automotive dealership revenue in the three months ended March 31, 2018 generated from premium brands, such as Audi, BMW, Mercedes-Benz and Porsche. Each of our franchised dealerships offers a wide selection of new and used vehicles for sale. In addition to selling new and used vehicles, we generate higher-margin revenue at each of our dealerships through maintenance and repair services and the sale and placement of third-party finance and insurance products, third-party extended service and maintenance contracts and replacement and aftermarket automotive products. We operate our franchised dealerships under franchise agreements with a number of automotive manufacturers and distributors that are subject to certain rights and restrictions typical of the industry.

We operate fourteen stand-alone used vehicle dealerships in the U.S. and the U.K. We acquired CarSense in the U.S. and CarShop in the U.K. in the first quarter of 2017 and acquired The Car People in the U.K. in January 2018. Our

CarSense operations in the U.S. consist of five locations operating in the Philadelphia and Pittsburgh, Pennsylvania market areas, including southern New Jersey. Our CarShop operations in the U.K. consist of five retail locations and a vehicle preparation center operating principally throughout Southern England. The Car People operations in the U.K. consist of four retail locations operating across Northern England, which complements CarShop's locations principally in Southern England.

During the three months ended March 31, 2018, we acquired four retail automotive franchises and disposed of five retail automotive franchises. The four retail automotive franchises acquired are located in Italy and represent the Mercedes-Benz and smart brands.

Retail Commercial Truck Dealership. We operate a heavy and medium-duty truck dealership group known as Premier Truck Group ("PTG") with locations in Texas, Oklahoma, Tennessee, Georgia, and Canada. As of March 31, 2018, PTG operated twenty locations, including fourteen full-service dealerships and six collision centers, offering primarily Freightliner and Western Star branded trucks. PTG also offers a full range of used trucks available for sale as well as service and parts departments, providing a full range of maintenance and repair services.

Commercial Vehicle Distribution. We are the exclusive importer and distributor of Western Star heavy-duty trucks (a Daimler brand), MAN heavy and medium-duty trucks and buses (a VW Group brand), and Dennis Eagle refuse collection vehicles, together with associated parts, across Australia, New Zealand and portions of the Pacific. This business, known as Penske Commercial Vehicles Australia ("PCV Australia"), distributes commercial vehicles and parts

Table of Contents

to a network of more than 70 dealership locations, including eight company-owned retail commercial vehicle dealerships.

We are also a leading distributor of diesel and gas engines and power systems, principally representing MTU, Detroit Diesel, Allison Transmission and MTU Onsite Energy. This business, known as Penske Power Systems (“PPS”), offers products across the on- and off-highway markets in Australia, New Zealand and portions of the Pacific and supports full parts and aftersales service through a network of branches, field locations and dealers across the region. The on-highway portion of this business complements our PCV Australia distribution business, including integrated operations at retail locations selling PCV brands.

Penske Truck Leasing. We currently hold a 28.9% ownership interest in Penske Truck Leasing Co., L.P. (“PTL”), a leading provider of transportation services and supply chain management. PTL is capable of meeting customers’ needs across the supply chain with a broad product offering that includes full-service truck leasing, truck rental and contract maintenance, along with logistic services such as dedicated contract carriage, distribution center management, transportation management and lead logistics provider. On September 7, 2017, we acquired an additional 5.5% ownership interest in PTL from subsidiaries of GE Capital Global Holdings, LLC (collectively, “GE Capital”) for approximately \$239.1 million in cash. Prior to this acquisition, we held a 23.4% ownership interest in PTL. PTL is currently owned 41.1% by Penske Corporation, 28.9% by us, and 30.0% by Mitsui & Co., Ltd. (“Mitsui”). GE Capital no longer owns any ownership interests in PTL. We account for our investment in PTL under the equity method, and we therefore record our share of PTL’s earnings on our statements of income under the caption “Equity in earnings of affiliates,” which also includes the results of our other equity method investments.

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of PAG have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and disclosures normally included in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) have been condensed or omitted pursuant to the SEC rules and regulations. The information presented as of March 31, 2018 and December 31, 2017 and for the three month periods ended March 31, 2018 and 2017 is unaudited, but includes all adjustments which our management believes to be necessary for the fair presentation of results for the periods presented. Results for interim periods are not necessarily indicative of results to be expected for the year. These consolidated condensed financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2017, which are included as part of our Annual Report on Form 10-K.

Estimates

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

Fair Value of Financial Instruments

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

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

Table of Contents

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

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

Our fixed rate debt consists of amounts outstanding under our senior subordinated notes and mortgage facilities. We estimate the fair value of our senior unsecured notes using quoted prices for the identical liability (Level 2), and we estimate the fair value of our mortgage facilities using a present value technique based on current market interest rates for similar types of financial instruments (Level 2). A summary of the carrying values and fair values of our 5.75% senior subordinated notes, 5.375% senior subordinated notes, 5.50% senior subordinated notes, 3.75% senior subordinated notes, and our fixed rate mortgage facilities are as follows:

	March 31, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
5.75% senior subordinated notes due 2022	\$ 546.2	\$ 561.2	\$ 545.9	\$ 562.3
5.375% senior subordinated notes due 2024	297.3	298.1	297.2	300.2
5.50% senior subordinated notes due 2026	494.6	484.6	494.4	505.0
3.75% senior subordinated notes due 2020	296.8	295.1	296.5	301.7
Mortgage facilities	214.4	210.0	235.5	233.4

Assets Held for Sale and Discontinued Operations

We had no entities newly classified as held for sale during the three months ended March 31, 2018 or 2017 that met the criteria to be classified as discontinued operations. The financial information for entities that were classified as discontinued operations prior to adoption of Accounting Standards Update No. 2014-08 are included in "Income (loss)

from discontinued operations” in the accompanying consolidated condensed statements of income and “Liabilities held for sale” in the accompanying consolidated condensed balance sheets for all periods presented.

Disposals

During the three months ended March 31, 2018, we disposed of five retail automotive franchises. The results of operations for these businesses are included within continuing operations for the three months ended March 31, 2018 and 2017, as these franchises did not meet the criteria to be classified as held for sale and treated as discontinued operations.

Income Taxes

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

Table of Contents

The U.S. Tax Cuts and Jobs Act (the “Act”) was signed into law on December 22, 2017. The Act modifies several provisions of the Internal Revenue Code related to corporations, including a permanent corporate income tax rate reduction from 35% to 21%, effective January 1, 2018. The Act also significantly changes international tax laws for tax years beginning after December 31, 2017 and requires a one-time mandatory deemed repatriation of all cumulative post-1986 foreign earnings and profits of a U.S. shareholder’s foreign subsidiaries, which we recognized in 2017, the year of enactment.

On December 22, 2017, Staff Accounting Bulletin No. 118 (“SAB 118”) was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. SAB 118 provides a measurement period that should not extend beyond one year from the Act enactment date for companies to complete such income tax accounting under ASC 740. In accordance with SAB 118, we have analyzed and computed the U.S. tax impact of the Act to the best of our ability with the information available at this time and consider our conclusions to be reasonable estimates. Additional information gathering and analysis will be required to refine our detailed computations, primarily related to the earnings and profits and related foreign tax credits for the most recent tax year ended December 31, 2017. Any subsequent adjustments to our provisional estimates will be recorded to current tax expense or deferred tax expense (for foreign tax credit carryovers) in the quarter of 2018 when our analysis is considered final and complete. No adjustments were recorded during the first quarter of 2018.

We have considered and analyzed the applicability of the global intangible low-taxed income (“GILTI”) provisions of the Act beginning in 2018 and its effect on our annualized effective tax rate for 2018. The effect of the GILTI inclusions on the 2018 annualized effective tax rate was not material. We have adopted the method of accounting for GILTI inclusions as a period expense and therefore have not accrued any deferred taxes in relation to this provision in the first quarter of 2018 or in the 2017 consolidated financial statements.

Recent Accounting Pronouncements

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” The FASB also issued additional ASUs containing various updates to Topic 606 which are to be adopted along with ASU 2014-09 (collectively, “the new revenue recognition standard,” “ASC 606”). ASC 606 supersedes the revenue recognition requirements in ASC 605, “Revenue Recognition.” In accordance with the new revenue recognition standard, an entity recognizes revenue when it transfers promised goods or services to customers using a five-step model that requires entities to exercise judgment when considering the terms of contracts with customers. For public companies, the new revenue recognition standard is effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods

within those annual periods. Entities may adopt the new guidance retrospectively to each prior reporting period presented under a full retrospective approach, or as a cumulative-effect adjustment as of the date of adoption under a modified retrospective approach. We adopted ASC 606 on January 1, 2018 using the modified retrospective approach to contracts not completed as of the date of adoption, with no restatement of comparative periods, and a cumulative-effect adjustment to retained earnings recognized as of the date of adoption.

As part of the adoption of ASC 606, we performed an assessment of the impact the new revenue recognition standard would have on our consolidated financial statements. Our assessment also considered required changes in internal controls resulting from the adoption of the new revenue recognition standard. Although new controls have been implemented as a result of the adoption, such changes were not deemed material. A summary of the impact of the adoption of ASC 606 on our consolidated financial statements is included below.

For our Retail Automotive and Retail Commercial Truck reportable segments, under legacy guidance we recognized revenues at a point in time upon meeting relevant revenue recognition criteria. Under ASC 606, the timing of revenue recognition for our service, parts and collision revenue stream changed, as we concluded that performance obligations for service and collision work are satisfied over time under the new revenue recognition standard. All other revenue

Table of Contents

streams for these businesses continue to be recognized at a point in time, and our performance obligations and revenue recognition timing and practices are substantially similar to how revenues were recorded under legacy guidance.

For our Other reportable segment consisting primarily of our businesses in Australia and New Zealand, Penske Commercial Vehicles Australia and Penske Power Systems, under legacy guidance we recognized revenues for vehicles, engines, parts, and services at a point in time upon meeting relevant revenue recognition criteria. For our long-term power generation contracts at Penske Power Systems, we recognized revenues using the percentage of completion method in accordance with contract milestones. Under ASC 606, the timing of revenue recognition for the service and parts revenue stream for PCV Australia and PPS changed, as we concluded that performance obligations for service work are satisfied over time under the new revenue recognition standard. For revenues previously recognized using the percentage of completion method, these revenues are recognized as performance obligations are satisfied over time, consistent with the timing of recognition under legacy guidance, but are now recognized using an output method, which measures the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised. All other revenue streams for these businesses continue to be recognized at a point in time, and our performance obligations and revenue recognition timing and practices are substantially similar to how revenues were recorded under legacy guidance.

See Note 2 “Revenues” for additional disclosures in accordance with the new revenue recognition standard.

The adoption of the new revenue recognition standard resulted in a net, after-tax cumulative effect adjustment to retained earnings of approximately \$6.6 million as of January 1, 2018. The details of this adjustment are summarized below.

	Balance at December 31, 2017	Adjustments Due to ASC 606	Balance at January 1, 2018
Assets			
Accounts receivable	\$ 954.9	\$ 22.4	\$ 977.3
Inventories	3,944.1	(13.4)	3,930.7
Liabilities and Equity			
Accrued expenses	\$ 523.5	\$ 0.1	\$ 523.6
Deferred tax liabilities	481.5	2.3	483.8
Retained earnings	2,009.4	6.6	2,016.0

The following tables summarize the impact of the adoption of ASC 606 on our consolidated condensed statement of income and consolidated condensed balance sheet for the three months ended and as of March 31, 2018:

Statement of Income	For the Three Months Ended March 31, 2018		
	As Reported	Without Adoption of ASC 606	Impact of Adoption of ASC 606
Revenue:			
Retail automotive dealership	\$ 5,296.0	\$ 5,295.5	\$ 0.5
Retail commercial truck dealership	292.4	291.5	0.9
Commercial vehicle distribution and other	158.5	157.0	1.5
Cost of sales:			
Retail automotive dealership	4,517.7	4,517.1	0.6
Retail commercial truck dealership	245.8	245.3	0.5
Commercial vehicle distribution and other	119.0	117.8	1.2
Gross profit	864.4	863.8	0.6
Income taxes	(36.6)	(36.4)	0.2
Net income	107.8	107.4	0.4

Table of Contents

Balance Sheet	March 31, 2018		
	As Reported	Without Adoption of ASC 606	Impact of ASC 606 Adoption
Assets			
Accounts receivable	\$ 1,035.4	\$ 1,010.1	\$ 25.3
Inventories	3,972.2	3,987.9	(15.7)
Liabilities and Equity			
Accrued expenses	\$ 563.9	\$ 563.8	\$ 0.1
Deferred tax liabilities	505.5	503.0	2.5
Retained earnings	2,094.9	2,087.9	7.0

Accounting for Leases

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” Under this new guidance, a company will now recognize most leases on its balance sheet as lease liabilities with corresponding right-of-use assets. For public companies, this ASU is effective for financial statements issued for annual periods beginning after December 15, 2018, and interim periods within those annual periods, with early adoption permitted. We intend to adopt this ASU on January 1, 2019. The amendments from this update are to be applied using a modified retrospective approach. The adoption of this ASU will result in a significant increase to our consolidated balance sheets for lease liabilities and right-of-use assets. We believe our current off-balance sheet leasing commitments are reflected in our credit rating. We are currently evaluating the other impacts the adoption of this accounting standard update will have on our consolidated financial statements. We are also in the process of evaluating and documenting any changes in controls and procedures that may be necessary as part of the adoption.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230) — Classification of Certain Cash Receipts and Cash Payments.” This ASU provides new guidance on eight specific cash flow issues related to how such cash receipts and cash payments should be presented in a statement of cash flows. For public companies, this ASU is effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within those annual periods, with early adoption permitted. The amendments from this update are to be applied retrospectively. We adopted this ASU retrospectively on January 1, 2018. The adoption of this accounting standard update did not have an impact on our consolidated cash flows for the three months ended March 31, 2018.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued ASU No. 2018-02, “Income Statement — Reporting Comprehensive Income (Topic 220) — Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” This ASU allows for a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the enactment of the U.S. Tax Cuts and Jobs Act (“the Act”). The update also requires entities to disclose whether or not they elected to reclassify the tax effects related to the Act as well as their accounting policy for releasing income tax effects from accumulated other comprehensive income. This ASU is effective for financial statements issued for annual periods beginning after December 15, 2018, and interim periods within those annual periods, with early adoption permitted. We do not intend to adopt the optional guidance of this accounting standard update, as the potential impact on our consolidated financial statements is not material.

2. Revenues

Automotive and commercial truck dealerships represent the majority of our revenues. New and used vehicle revenues typically include sales to retail customers, to fleet customers, and to leasing companies providing consumer leasing. We generate finance and insurance revenues from sales of third-party extended service contracts, sales of third-party insurance policies, commissions relating to the sale of finance and lease contracts to third parties, and the sales of certain other products. Service and parts revenues include fees paid by customers for repair, maintenance and collision services,

Table of Contents

and the sale of replacement parts and other aftermarket accessories, as well as warranty repairs that are reimbursed directly by various OEMs. Revenues are recognized upon satisfaction of our performance obligations under contracts with our customers and are measured at the amount of consideration we expect to be entitled to in exchange for transferring goods or providing services. A discussion of revenue recognition by reportable segment is included below.

Retail Automotive and Retail Commercial Truck Dealership Revenue Recognition

Dealership Vehicle Sales. We record revenue for vehicle sales at a point in time when vehicles are delivered, which is when the transfer of title, risks and rewards of ownership and control are considered passed to the customer. The amount of consideration we receive for vehicle sales is stated within the executed contract with our customer and is reduced by any noncash consideration representing the fair value of trade-in vehicles, if applicable. Payment is typically due and collected within 30 days subsequent to transfer of control of the vehicle.

Dealership Parts and Service Sales. We record revenue for vehicle service and collision work over time as work is completed, and when parts are delivered to our customers. For service and parts revenues recorded over time, we utilize a method that considers total costs incurred to date and the applicable margin in relation to total expected efforts to complete our performance obligation in order to determine the appropriate amount of revenue to recognize over time. Recognition of this revenue over time reflects the amount of consideration we expect to be entitled to for the transfer of goods and services performed to date, representative of the amount for which we have a right to payment. The amount of consideration we receive for parts and service sales, including collision repair work, is based upon labor hours expended and parts utilized to perform and complete the necessary services to our customers. Payment is typically due upon delivery or within a period of time shortly thereafter. We receive payment from our customers upon transfer of control or within a period typically less than 30 days subsequent to the completion of services for the customer. We allow for customer returns of parts sales up to 30 days after the sale; however, parts returns are not material.

Dealership Finance and Insurance Sales. Subsequent to the sale of a vehicle to a customer, we sell installment sale contracts to various financial institutions on a non recourse basis (with specified exceptions) to mitigate the risk of default. We receive a commission from the lender equal to either the difference between the interest rate charged to the customer and the interest rate set by the financing institution or a flat fee. We also receive commissions for facilitating the sale of various products to customers, including guaranteed vehicle protection insurance, vehicle theft protection and extended service contracts. These commissions are recorded as revenue at a point in time when the customer enters into the contract. Payment is typically due and collected within 30 days subsequent to the execution of the contract with the customer. In the case of finance contracts, a customer may prepay or fail to pay their contract, thereby terminating the contract. Customers may also terminate extended service contracts and other insurance products, which are fully paid at purchase, and become eligible for refunds of unused premiums. In these circumstances, a portion of the commissions we received may be charged back based on the terms of the contracts. The revenue we record relating to these transactions is net of an estimate of the amount of chargebacks we will be required to pay. Our estimate is based upon our historical experience with similar contracts, including the impact of refinance and default rates on retail finance contracts and cancellation rates on extended service contracts and other

insurance products. Aggregate reserves relating to chargeback activity were \$25.3 million and \$24.9 million as of March 31, 2018 and December 31, 2017, respectively.

Commercial Vehicle Distribution and Other Revenue Recognition

Penske Commercial Vehicles Australia. We record revenue from the distribution of vehicles and other products at a point in time when delivered, which is when the transfer of title, risks and rewards of ownership and control are considered passed to the customer. We record revenue for service or repair work over time as work is completed, and when parts are delivered to our customers. For service and parts revenues recorded over time, we utilize a method that considers total costs incurred to date and the applicable margin in relation to total expected efforts to complete our performance obligation in order to determine the appropriate amount of revenue to recognize over time. Recognition of this revenue over time reflects the amount of consideration we expect to be entitled to for the transfer of goods and services performed to date, representative of the amount for which we have a right to payment.

The amount of consideration we receive for vehicle and product sales is stated within the executed contract with our customer. The amount of consideration we receive for parts and service sales is based upon labor hours expended and

Table of Contents

parts utilized to perform and complete the necessary services to our customers. Payment is typically due upon delivery, upon invoice, or within a period of time shortly thereafter. We receive payment from our customers upon transfer of control or within a period typically less than 30 days subsequent to transfer of control or invoice.

Penske Power Systems. We record revenue from the distribution of engines and other products at a point in time when delivered, which is when the transfer of title, risks and rewards of ownership and control are considered passed to the customer. We record revenue for service or repair work over time as work is completed, and when parts are delivered to our customers. For service and parts revenues recorded over time, we utilize a method that considers total costs incurred to date and the applicable margin in relation to total expected efforts to complete our performance obligation in order to determine the appropriate amount of revenue to recognize over time. Recognition of revenue over time reflects the amount of consideration we expect to be entitled to for the transfer of goods and services performed to date, representative of the amount for which we have a right to payment.

For our long-term power generation contracts, we record revenue over time as services are provided in accordance with contract milestones, which is considered an output method that requires judgment to determine our progress towards contract completion and the corresponding amount of revenue to recognize. Any revisions to estimates related to revenues or costs to complete contracts are recorded in the period in which the revisions to estimates are identified and the amounts can be reasonably estimated.

The amount of consideration we receive for engine, product, and power generation sales is stated within the executed contract with our customer. The amount of consideration we receive for service sales is based upon labor hours expended and parts utilized to perform and complete the necessary services to our customers. Payment is typically due upon delivery, upon invoice, or within a period of time shortly thereafter. We receive payment from our customers upon transfer of control or within a period typically less than 30 days subsequent to transfer of control or invoice.

Other. Other revenue primarily consists of our non-automotive motorcycle dealership operations. Revenue recognition practices for these operations do not differ materially from those described under “Retail Automotive and Retail Commercial Truck Dealership Revenue Recognition” above.

Retail Automotive Dealership

The following tables disaggregate our retail automotive reportable segment revenue by product type and geographic location for the three months ended March 31, 2018 and 2017:

	Three Months Ended	
	March 31,	
	2018	2017
Retail Automotive Dealership Revenue		
New vehicle	\$ 2,446.8	\$ 2,307.4
Used vehicle	1,866.8	1,541.0
Finance and insurance, net	160.8	137.4
Service and parts	543.5	498.9
Fleet and wholesale	278.1	271.7
Total retail automotive dealership revenue	\$ 5,296.0	\$ 4,756.4

	Three Months Ended	
	March 31,	
	2018	2017
Retail Automotive Dealership Revenue		
U.S.	\$ 2,750.9	\$ 2,656.2
U.K.	2,192.8	1,826.4
Germany and Italy	352.3	273.8
Total retail automotive dealership revenue	\$ 5,296.0	\$ 4,756.4

Table of Contents

Retail Commercial Truck Dealership

The following table disaggregates our retail commercial truck reportable segment revenue by product type for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,	
	2018	2017
Retail Commercial Truck Dealership Revenue		
New truck	\$ 170.4	\$ 110.7
Used truck	26.5	19.0
Finance and insurance, net	3.2	2.1
Service and parts	90.4	78.0
Wholesale	1.9	1.9
Total retail commercial truck dealership revenue	\$ 292.4	\$ 211.7

Commercial Vehicle Distribution and Other

The following table disaggregates our other reportable segment revenue by business for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,	
	2018	2017
Commercial Vehicle Distribution and Other		
Penske Commercial Vehicles Australia	\$ 57.5	\$ 64.8
Penske Power Systems	100.2	47.3
Other	0.8	0.9
Total commercial vehicle distribution and other revenue	\$ 158.5	\$ 113.0

Contract Balances

The following table summarizes our accounts receivable and unearned revenues as of March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Accounts receivable		
Contracts in transit	\$ 376.5	\$ 356.1
Vehicle receivables	251.2	233.0
Manufacturer receivables	238.7	230.1
Trade receivables	162.6	136.7
Accrued expenses		
Unearned revenues	\$ 310.5	\$ 302.6

Contracts in transit represent receivables from unaffiliated finance companies relating to the sale of customers' installment sales and lease contracts arising in connection with the sale of a vehicle by us. Vehicle receivables represent receivables for any portion of the vehicle sales price not paid by the finance company. Manufacturer receivables represent amounts due from manufacturers, including incentives, holdbacks, rebates, warranty claims, and other receivables due from the factory. Trade receivables represent receivables due from customers, including amounts due for parts and service sales, as well as receivables due from finance companies and others for the commissions earned on financing and commissions earned on insurance and extended service products provided by third parties. We evaluate collectability of receivables and estimate an allowance for doubtful accounts based on the age of the receivable and historical collection experience, which is recorded within "Accounts receivable" on our consolidated balance sheets with our receivables presented net of the allowance.

Table of Contents

Unearned revenues primarily relate to payments received from customers prior to satisfaction of our performance obligations, such as customer deposits and deferred revenues from operating leases. These amounts are presented within “Accrued expenses” on our consolidated balance sheets. Of the amounts recorded as unearned revenues as of December 31, 2017, \$115.7 million was recognized as revenue during the three months ended March 31, 2018. The increase in unearned revenues during the first quarter of 2018 is primarily driven by vehicle registration practices in the U.K. for our retail automotive business resulting in an increase in customer deposits during the period.

Additional Revenue Recognition Related Policies

We do not have any material significant payment terms associated with contracts with our customers. Payment is due and collected as previously detailed for each reportable segment. We do not offer material rights of return or service-type warranties.

Taxes collected from customers and remitted to governmental authorities are recorded on a net basis (excluded from revenue). Shipping costs incurred subsequent to transfer of control to our customers are recognized as cost of sales. Sales promotions that we offer to customers are accounted for as a reduction of revenues at the time of sale.

We expense sales commissions as incurred, as the amortization period for such costs would be less than one year. We do not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less nor for contracts that we recognize revenue at the amount to which we have the right to invoice for services performed. The effect of applying these practical expedients is not material.

3. Inventories

Inventories consisted of the following:

	March 31, 2018	December 31, 2017
Retail automotive dealership new vehicles	\$ 2,345.3	\$ 2,344.1
Retail automotive dealership used vehicles	1,066.2	993.1
Retail automotive parts, accessories and other	126.2	141.7
Retail commercial truck dealership vehicles and parts	196.6	207.0
Commercial vehicle distribution vehicles, parts and engines	237.9	258.2

Total inventories	\$ 3,972.2	\$ 3,944.1
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We receive credits from certain vehicle manufacturers that reduce cost of sales when the vehicles are sold. Such credits amounted to \$12.0 million and \$10.1 million during the three months ended March 31, 2018 and 2017, respectively.

4. Business Combinations

During the three months ended March 31, 2018, we acquired The Car People, a stand-alone specialty retailer of used vehicles in the U.K. representing four locations, and four retail automotive franchises. During the three months ended March 31, 2017, we acquired CarSense, a stand-alone specialty retailer of used vehicles in the U.S. representing five locations, acquired CarShop, a stand-alone specialty retailer of used vehicles in the U.K. representing five retail locations and a vehicle preparation center, and acquired four retail automotive franchises. Our financial statements include the results of operations of the acquired entities from the date of acquisition. The fair value of the assets acquired and liabilities assumed have been recorded in our consolidated condensed financial statements, and may be subject to adjustment pending completion of final valuation.

Table of Contents

A summary of the aggregate consideration paid and the aggregate amounts of the assets acquired and liabilities assumed for the three months ended March 31, 2018 and 2017 follows:

	March 31,	
	2018	2017
Accounts receivable	\$ 3.6	\$ 6.9
Inventories	56.6	109.5
Other current assets	—	2.5
Property and equipment	52.6	13.2
Indefinite-lived intangibles	69.5	263.0
Other noncurrent assets	0.1	0.1
Current liabilities	(13.2)	(22.0)
Noncurrent liabilities	(0.7)	(2.8)
Total consideration	168.5	370.4
Deferred consideration	(12.0)	—
Consideration transferred through common stock issuance	—	(32.4)
Contingent consideration	—	(20.0)
Seller financed/assumed debt	—	(3.8)
Total cash used in acquisitions	\$ 156.5	\$ 314.2

The following unaudited consolidated pro forma results of operations of PAG for the three months ended March 31, 2018 and 2017 give effect to acquisitions consummated during 2018 and 2017 as if they had occurred effective at the beginning of the periods:

	Three Months Ended	
	March 31,	
	2018	2017
Revenues	\$ 5,761.3	\$ 5,323.8
Income from continuing operations	108.1	86.5
Net income	108.2	85.9
Income from continuing operations per diluted common share	\$ 1.26	\$ 1.01
Net income per diluted common share	\$ 1.26	\$ 1.00

5. Intangible Assets

Following is a summary of the changes in the carrying amount of goodwill and other indefinite-lived intangible assets during the three months ended March 31, 2018:

	Goodwill	Other Indefinite- Lived Intangible Assets
Balance, January 1, 2018	\$ 1,660.5	\$ 474.0
Additions	61.8	7.7
Disposals	(6.7)	(3.3)
Foreign currency translation	16.2	3.0
Balance, March 31, 2018	\$ 1,731.8	\$ 481.4

The additions and disposals during the three months ended March 31, 2018 were within our Retail Automotive reportable segment. During the quarter, we sold five franchises and terminated several franchises. As of March 31, 2018, the goodwill balance within our Retail Automotive, Retail Commercial Truck, and Other reportable segments was \$1,485.2 million, \$162.6 million and \$84.0 million, respectively. There is no goodwill recorded in our Non-Automotive Investments reportable segment.

Table of Contents

6. Vehicle Financing

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

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

The weighted average interest rate on floor plan borrowings was 2.0% for the three months ended March 31, 2018 and 1.6% for the three months ended March 31, 2017. We classify floor plan notes payable to a party other than the manufacturer of a particular new vehicle, and all floor plan notes payable relating to pre-owned vehicles, as “Floor plan notes payable — non-trade” on our consolidated balance sheets and classify related cash flows as a financing activity on our consolidated statements of cash flows.

7. Earnings Per Share

Basic earnings per share is computed using net income attributable to Penske Automotive Group common stockholders and the number of weighted average shares of voting common stock outstanding, including outstanding unvested equity awards which contain rights to non-forfeitable dividends. Diluted earnings per share is computed using net income attributable to Penske Automotive Group common stockholders and the number of weighted average shares of voting common stock outstanding, adjusted for any dilutive effects. A reconciliation of the number of shares used in the calculation of basic and diluted earnings per share for the three months ended March 31, 2018 and 2017 follows:

	Three Months Ended	
	March 31,	
	2018	2017
Weighted average number of common shares outstanding	85,952,347	85,602,907
Effect of non-participatory equity compensation	40,000	40,000
Weighted average number of common shares outstanding, including effect of dilutive securities	85,992,347	85,642,907

Table of Contents

8. Long-Term Debt

Long-term debt consisted of the following:

	March 31, 2018	December 31, 2017
U.S. credit agreement — revolving credit line	\$ 128.0	\$ 172.0
U.K. credit agreement — revolving credit line	155.6	47.3
U.K. credit agreement — overdraft line of credit	—	—
5.75% senior subordinated notes due 2022	546.2	545.9
5.375% senior subordinated notes due 2024	297.3	297.2
5.50% senior subordinated notes due 2026	494.6	494.4
3.75% senior subordinated notes due 2020	296.8	296.5
Australia capital loan agreement	38.1	39.0
Australia working capital loan agreement	0.4	—
Mortgage facilities	214.4	235.5
Other	49.8	35.4
Total long-term debt	2,221.2	2,163.2
Less: current portion	(84.3)	(72.8)
Net long-term debt	\$ 2,136.9	\$ 2,090.4

U.S. Credit Agreement

Our U.S. credit agreement (the “U.S. credit agreement”) with Mercedes-Benz Financial Services USA LLC and Toyota Motor Credit Corporation provides for up to \$700.0 million in revolving loans for working capital, acquisitions, capital expenditures, investments and other general corporate purposes, which includes \$250.0 million in revolving loans solely for future U.S. acquisitions. The U.S. credit agreement provides for a maximum of \$150.0 million of future borrowings for foreign acquisitions and expires on September 30, 2021. In April 2018, we and the lenders extended the term of this facility one year to September 30, 2021, pursuant to its “evergreen” extension provisions. The revolving loans bear interest at LIBOR plus 2.00%, subject to an incremental 1.50% for uncollateralized borrowings in excess of a defined borrowing base.

The U.S. credit agreement is fully and unconditionally guaranteed on a joint and several basis by substantially all of our U.S. subsidiaries and contains a number of significant covenants that, among other things, restrict our ability to dispose of assets, incur additional indebtedness, repay other indebtedness, pay dividends, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial and other tests and ratios, each as defined in the U.S. credit agreement including: a ratio of current assets to current liabilities, a fixed charge coverage ratio, a ratio of debt to stockholders’ equity and a ratio of debt to earnings

before interest, taxes, depreciation and amortization (“EBITDA”). A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of the amounts owed.

The U.S. credit agreement also contains typical events of default, including change of control, non-payment of obligations and cross-defaults to our other material indebtedness. Substantially all of our U.S. assets are subject to security interests granted to the lenders under the U.S. credit agreement. As of March 31, 2018, we had \$128.0 million of revolver borrowings outstanding under the U.S. credit agreement.

U.K. Credit Agreement

Our subsidiaries in the U.K. (the “U.K. subsidiaries”) are party to a £150.0 million revolving credit agreement with the Royal Bank of Scotland plc (RBS) and BMW Financial Services (GB) Limited, and an additional demand overdraft line of credit with RBS (collectively, the “U.K. credit agreement”) to be used for working capital, acquisitions, capital expenditures, investments and general corporate purposes. The loans mature on the termination date of the facility, which is December 19, 2019. The revolving loans bear interest between defined LIBOR plus 1.35% and defined LIBOR

Table of Contents

plus 3.0% and the demand overdraft line of credit bears interest at the Bank of England Base Rate plus 1.75%. As of March 31, 2018, outstanding loans under the U.K. credit agreement amounted to £111.0 million (\$155.6 million).

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

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

3.75% Senior Subordinated Notes due 2020

In August 2017, we issued \$300.0 million in aggregate principal amount of 3.75% Senior Subordinated Notes due 2020 (the “3.75% Notes”). Interest on the 3.75% Notes is payable semi-annually on February 15 and August 15 of each year. The 3.75% Notes mature on August 15, 2020, unless earlier redeemed or purchased by us. The 3.75% Notes are our unsecured senior subordinated obligations and are guaranteed on an unsecured senior subordinated basis by our 100% owned U.S. subsidiaries. The 3.75% Notes also contain customary negative covenants and events of default.

At any time, we may redeem the 3.75% Notes at a redemption price equal to 100% of the principal amount of the 3.75% Notes, plus an applicable make whole premium, and any accrued and unpaid interest. If we experience certain “change of control” events specified in the indenture, holders of the 3.75% Notes will have the option to require us to purchase for cash all or a portion of their notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest. In addition, if we make certain asset sales and do not reinvest the proceeds thereof or use such proceeds to repay certain debt, we will be required to use the proceeds of such asset sales to make an offer to purchase the notes at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest.

5.50% Senior Subordinated Notes due 2026

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

Prior to May 15, 2021, we may redeem the 5.50% Notes at a redemption price equal to 100% of the principal amount of the 5.50% Notes, plus an applicable make whole premium, and any accrued and unpaid interest. On or after May 15, 2021, we may redeem the 5.50% Notes for cash at the redemption prices noted in the indenture, plus any accrued and unpaid interest. We may also redeem up to 40% of the 5.50% Notes using the proceeds of specified equity offerings at any time prior to May 15, 2019 at a price specified in the indenture. If we experience certain “change of control” events specified in the indenture, holders of the 5.50% Notes will have the option to require us to purchase for cash all or a portion of their notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest. In addition, if we make certain asset sales and do not reinvest the proceeds thereof or use such proceeds to repay certain debt, we will be required to use the proceeds of such asset sales to make an offer to purchase the notes at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest.

Table of Contents

5.375% Senior Subordinated Notes due 2024

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

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

5.75% Senior Subordinated Notes due 2022

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

We may redeem the 5.75% Notes for cash at the redemption prices noted in the indenture, plus any accrued and unpaid interest. If we experience certain “change of control” events specified in the indenture, holders of the 5.75% Notes will have the option to require us to purchase for cash all or a portion of their notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest. In addition, if we make certain asset sales and do not reinvest the proceeds thereof or use such proceeds to repay certain debt, we will be required to use the proceeds of such asset sales to make an offer to purchase the notes at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest.

Australia Loan Agreements

Penske Commercial Vehicles Australia and Penske Power Systems are party to two facilities with Volkswagen Financial Services Australia Pty Limited representing a five-year AU \$50.0 million capital loan and a one-year AU \$50.0 million working capital loan. Both facilities are subject to annual extensions. These agreements each provide the lender with a secured interest in all assets of these businesses. The loans bear interest at the Australian BBSW 30-day Bill Rate plus 3.0%. Irrespective of the term of the agreements, both agreements provide the lender with the ability to call the loans on 90 days' notice. These facilities are also guaranteed by our U.S. parent company up to AU \$50.0 million. As of March 31, 2018, we had AU \$49.6 million (\$38.1 million) outstanding under the capital loan agreement and AU \$0.5 million and (\$0.4 million) outstanding under the working capital loan agreement.

Mortgage Facilities

We are party to several mortgages that bear interest at defined rates and require monthly principal and interest payments. These mortgage facilities also contain typical events of default, including non-payment of obligations, cross-defaults to our other material indebtedness, certain change of control events, and the loss or sale of certain franchises operated at the properties. Substantially all of the buildings and improvements on the properties financed pursuant to the mortgage facilities are subject to security interests granted to the lender. As of March 31, 2018, we owed \$214.4 million of principal under our mortgage facilities.

Table of Contents

9. Commitments and Contingent Liabilities

We are involved in litigation which may relate to claims brought by governmental authorities, issues with customers, and employment related matters, including class action claims and purported class action claims. As of March 31, 2018, we were not party to any legal proceedings, including class action lawsuits that, individually or in the aggregate, are reasonably expected to have a material adverse effect on our results of operations, financial condition or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on our results of operations, financial condition or cash flows.

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

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

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

We have \$36.2 million of letters of credit outstanding as of March 31, 2018, and have posted \$26.1 million of surety bonds in the ordinary course of business.

10. Equity

During the three months ended March 31, 2018, we repurchased 1,133,016 shares of our outstanding common stock from Mitsui for \$50.0 million, or an average of \$44.13 per share, under our securities repurchase program approved by our Board of Directors. As of March 31, 2018, our remaining authorization under the program was \$150.0 million.

Table of Contents

11. Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) by component and the reclassifications out of accumulated other comprehensive income (loss) during the three months ended March 31, 2018 and 2017, respectively, attributable to Penske Automotive Group common stockholders follows:

Three Months Ended March 31, 2018

	Foreign Currency Translation	Other	Total
Balance at December 31, 2017	\$ (134.0)	\$ (12.5)	\$ (146.5)
Other comprehensive income before reclassifications	30.7	1.1	31.8
Amounts reclassified from accumulated other comprehensive income — net of tax	—	—	—
Net current period other comprehensive income	30.7	1.1	31.8
Balance at March 31, 2018	\$ (103.3)	\$ (11.4)	\$ (114.7)

Three Months Ended March 31, 2017

	Foreign Currency Translation	Other	Total
Balance at December 31, 2016	\$ (230.0)	\$ (20.7)	\$ (250.7)
Other comprehensive income before reclassifications	24.3	1.4	25.7
Amounts reclassified from accumulated other comprehensive income — net of tax	—	—	—
Net current period other comprehensive income	24.3	1.4	25.7
Balance at March 31, 2017	\$ (205.7)	\$ (19.3)	\$ (225.0)

Table of Contents

12. Segment Information

Our operations are organized by management into operating segments by line of business and geography. We have determined that we have four reportable segments as defined in generally accepted accounting principles for segment reporting: (i) Retail Automotive, consisting of our retail automotive dealership operations; (ii) Retail Commercial Truck, consisting of our retail commercial truck dealership operations in the U.S. and Canada; (iii) Other, consisting of our commercial vehicle and power systems distribution operations and other non-automotive consolidated operations; and (iv) Non-Automotive Investments, consisting of our equity method investments in non-automotive operations. The Retail Automotive reportable segment includes all automotive dealerships and all departments relevant to the operation of the dealerships and our retail automotive joint ventures. The individual dealership operations included in the Retail Automotive reportable segment represent six operating segments: Eastern, Central, and Western United States, Stand-Alone Used United States, International, and Stand-Alone Used International. These operating segments have been aggregated into one reportable segment as their operations (A) have similar economic characteristics (all are automotive dealerships having similar margins), (B) offer similar products and services (all sell new and/or used vehicles, service, parts and third-party finance and insurance products), (C) have similar target markets and customers (generally individuals) and (D) have similar distribution and marketing practices (all distribute products and services through dealership facilities that market to customers in similar fashions). Revenue and segment income for the three months ended March 31, 2018 and 2017 follows:

Three Months Ended March 31

	Retail Automotive	Retail Commercial Truck	Other	Non-Automotive Investments	Intersegment Elimination	Total
Revenues						
2018	\$ 5,296.0	\$ 292.4	\$ 158.5	\$ —	\$ —	\$ 5,746.9
2017	4,756.4	211.7	113.0	—	—	5,081.1
Segment income						
2018	\$ 106.6	\$ 12.1	\$ 9.6	\$ 16.0	\$ —	\$ 144.3
2017	104.8	6.5	0.9	12.5	—	124.7

Table of Contents

13. Condensed Consolidating Financial Information

The following tables include condensed consolidating financial information as of March 31, 2018 and December 31, 2017 and for the three month periods ended March 31, 2018 and 2017 for Penske Automotive Group, Inc. (as the issuer of the 5.75%, the 5.375%, the 5.50%, and the 3.75% Notes), guarantor subsidiaries, and non-guarantor subsidiaries (primarily representing non-U.S. entities). Guarantor subsidiaries are directly or indirectly 100% owned by PAG, and the guarantees are full and unconditional, and joint and several. The guarantees may be released under certain circumstances upon resale, or transfer by us of the stock of the related guarantor or all or substantially all of the assets of the guarantor to a non-affiliate.

CONDENSED CONSOLIDATING BALANCE SHEET

March 31, 2018

	Total Company	Eliminations	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Cash and cash equivalents	\$ 52.8	\$ —	\$ —	\$ —	\$ 52.8
Accounts receivable, net	1,035.4	(466.7)	466.7	444.0	591.4
Inventories	3,972.2	—	—	1,878.3	2,093.9
Other current assets	105.0	—	8.1	17.7	79.2
Total current assets	5,165.4	(466.7)	474.8	2,340.0	2,817.3
Property and equipment, net	2,173.5	—	3.0	997.7	1,172.8
Intangible assets	2,213.2	—	—	1,328.6	884.6
Equity method investments	1,276.2	—	1,204.7	—	71.5
Other long-term assets	14.7	(2,775.6)	2,780.8	4.3	5.2
Total assets	\$ 10,843.0	\$ (3,242.3)	\$ 4,463.3	\$ 4,670.6	\$ 4,951.4
Floor plan notes payable	\$ 2,355.6	\$ —	\$ —	\$ 1,203.1	\$ 1,152.5
Floor plan notes payable — non-trade	1,413.8	—	197.5	558.8	657.5
Accounts payable	720.5	—	4.2	168.2	548.1
Accrued expenses	563.9	(466.7)	1.0	180.5	849.1
Current portion of long-term debt	84.3	—	—	4.5	79.8
Liabilities held for sale	0.7	—	—	0.7	—
Total current liabilities	5,138.8	(466.7)	202.7	2,115.8	3,287.0
Long-term debt	2,136.9	(152.0)	1,766.2	170.6	352.1
Deferred tax liabilities	505.5	—	—	503.3	2.2
Other long-term liabilities	567.4	—	—	64.0	503.4
Total liabilities	8,348.6	(618.7)	1,968.9	2,853.7	4,144.7
Total equity	2,494.4	(2,623.6)	2,494.4	1,816.9	806.7
Total liabilities and equity	\$ 10,843.0	\$ (3,242.3)	\$ 4,463.3	\$ 4,670.6	\$ 4,951.4

Table of Contents

CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2017

	Total Company	Eliminations	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Cash and cash equivalents	\$ 45.7	\$ —	\$ —	\$ 14.8	\$ 30.9
Accounts receivable, net	954.9	(463.6)	463.6	523.8	431.1
Inventories	3,944.1	—	—	1,935.0	2,009.1
Other current assets	81.8	—	7.3	16.8	57.7
Total current assets	5,026.5	(463.6)	470.9	2,490.4	2,528.8
Property and equipment, net	2,108.6	—	3.3	1,032.9	1,072.4
Intangible assets	2,134.5	—	—	1,334.6	799.9
Equity method investments	1,256.6	—	1,186.9	—	69.7
Other long-term assets	14.4	(2,772.7)	2,777.8	4.6	4.7
Total assets	\$ 10,540.6	\$ (3,236.3)	\$ 4,438.9	\$ 4,862.5	\$ 4,475.5
Floor plan notes payable	\$ 2,343.2	\$ —	\$ —	\$ 1,272.4	\$ 1,070.8
Floor plan notes payable — non-trade	1,418.6	—	196.6	601.9	620.1
Accounts payable	641.6	—	3.9	194.4	443.3
Accrued expenses	523.5	(463.6)	1.0	165.2	820.9
Current portion of long-term debt	72.8	—	—	5.5	67.3
Liabilities held for sale	0.7	—	—	0.7	—
Total current liabilities	5,000.4	(463.6)	201.5	2,240.1	3,022.4
Long-term debt	2,090.4	(150.2)	1,809.4	191.6	239.6
Deferred tax liabilities	481.5	—	—	480.1	1.4