PENSKE AUTOMOTIVE GROUP, INC.
Form 10-Q
October 26, 2017
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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, 2017

or

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

For the transition period from to

Commission file number 1-12297

Penske Automotive Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware (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

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 October 20, 2017, there were 85,768,120 shares of voting common stock outstanding.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

	September 30, 2017	December 31, 2016
	(Unaudited)	
	(In millions, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	$ 37.2	$ 24.0
Accounts receivable, net of allowance for doubtful accounts of $5.9 and $4.5	938.8	879.0
Inventories	3,770.3	3,408.2
Other current assets	96.5	73.9
Assets held for sale	—	8.4
Total current assets	4,842.8	4,393.5
Property and equipment, net	2,091.4	1,806.5
Goodwill	1,660.4	1,291.2
Other indefinite-lived intangible assets	473.3	420.1
Equity method investments	1,184.9	893.4
Other long-term assets	29.5	28.3
Total assets	$ 10,282.3	$ 8,833.0
LIABILITIES AND EQUITY		
Floor plan notes payable	$ 2,222.3	$ 2,084.5
Floor plan notes payable — non-trade	1,388.5	1,233.3
Accounts payable	609.0	497.4
Accrued expenses	388.5	360.0
Current portion of long-term debt	67.6	48.3
Liabilities held for sale	0.7	6.1
Total current liabilities	4,676.6	4,229.6
Long-term debt	2,170.5	1,828.8
Deferred tax liabilities	771.6	564.6
Other long-term liabilities	551.6	430.5
Total liabilities	8,170.3	7,053.5
Commitments and contingent liabilities (Note 9)		
Equity		
Penske Automotive Group stockholders' equity:		
Preferred Stock, $0.0001 par value; 100,000 shares authorized; none issued and outstanding	—	—
Common Stock, $0.0001 par value, 240,000,000 shares authorized; 85,768,120 shares issued and outstanding at September 30, 2017; 85,214,345 shares issued and	—	—

outstanding at December 31, 2016		
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	523.0	497.1
Retained earnings	1,707.6	1,504.5
Accumulated other comprehensive income (loss)	(151.6)	(250.7)
Total Penske Automotive Group stockholders' equity	2,079.0	1,750.9
Non-controlling interest	33.0	28.6
Total equity	2,112.0	1,779.5
Total liabilities and equity	$ 10,282.3	$ 8,833.0

See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Unaudited) (In millions, except per share amounts)			
Revenue:				
Retail automotive dealership	$ 5,085.4	$ 4,772.1	$ 14,882.5	$ 14,121.8
Retail commercial truck dealership	299.6	266.1	739.8	782.3
Commercial vehicle distribution and other	139.4	113.8	366.6	326.6
Total revenues	$ 5,524.4	$ 5,152.0	$ 15,988.9	$ 15,230.7
Cost of sales:				
Retail automotive dealership	4,341.2	4,097.4	12,684.0	12,080.1
Retail commercial truck dealership	255.3	227.9	619.1	672.6
Commercial vehicle distribution and other	105.3	82.5	271.6	238.7
Total cost of sales	4,701.8	4,407.8	13,574.7	12,991.4
Gross profit	822.6	744.2	2,414.2	2,239.3
Selling, general and administrative expenses	646.1	581.2	1,869.8	1,722.8
Depreciation	24.3	21.5	70.0	66.8
Operating income	152.2	141.5	474.4	449.7
Floor plan interest expense	(16.4)	(11.9)	(45.6)	(37.8)
Other interest expense	(27.8)	(25.1)	(79.2)	(61.8)
Equity in earnings of affiliates	30.9	25.6	70.9	43.1
Income from continuing operations before income taxes	138.9	130.1	420.5	393.2
Income taxes	(44.7)	(41.7)	(136.0)	(128.4)
Income from continuing operations	94.2	88.4	284.5	264.8
Income (loss) from discontinued operations, net of tax	0.1	0.1	(0.3)	(1.1)
Net income	94.3	88.5	284.2	263.7
Less: (Loss) income attributable to non-controlling interests	(0.1)	1.0	1.0	3.4
Net income attributable to Penske Automotive Group common stockholders	$ 94.4	$ 87.5	$ 283.2	$ 260.3
Basic earnings per share attributable to Penske Automotive Group common stockholders:				
Continuing operations	$ 1.10	$ 1.03	$ 3.30	$ 3.03
Discontinued operations	$ 0.00	$ 0.00	$ (0.00)	$ (0.01)
Net income attributable to Penske Automotive Group common stockholders	$ 1.10	$ 1.03	$ 3.30	$ 3.02
Shares used in determining basic earnings per share	85.9	85.2	85.9	86.2
Diluted earnings per share attributable to Penske Automotive Group common stockholders:				
Continuing operations	$ 1.10	$ 1.03	$ 3.30	$ 3.03
Discontinued operations	$ 0.00	$ 0.00	$ (0.00)	$ (0.01)

Net income attributable to Penske Automotive Group common stockholders	$ 1.10	$ 1.03	$ 3.30	$ 3.02
Shares used in determining diluted earnings per share	86.0	85.2	85.9	86.3
Amounts attributable to Penske Automotive Group common stockholders:				
Income from continuing operations	$ 94.2	$ 88.4	$ 284.5	$ 264.8
Less: (Loss) income attributable to non-controlling interests	(0.1)	1.0	1.0	3.4
Income from continuing operations, net of tax	94.3	87.4	283.5	261.4
Income (loss) from discontinued operations, net of tax	0.1	0.1	(0.3)	(1.1)
Net income attributable to Penske Automotive Group common stockholders	$ 94.4	$ 87.5	$ 283.2	$ 260.3
Cash dividends per share	$ 0.32	$ 0.28	$ 0.93	$ 0.81

See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Unaudited) (In millions)			
Net income	$ 94.3	$ 88.5	$ 284.2	$ 263.7
Other comprehensive income:				
Foreign currency translation adjustment	31.7	(9.6)	94.1	(65.4)
Other adjustments to comprehensive income, net	3.6	(1.2)	7.8	0.3
Other comprehensive income (loss), net of tax	35.3	(10.8)	101.9	(65.1)
Comprehensive income	129.6	77.7	386.1	198.6
Less: Comprehensive income attributable to non-controlling interests	0.6	1.3	3.8	4.5
Comprehensive income attributable to Penske Automotive Group common stockholders	$ 129.0	$ 76.4	$ 382.3	$ 194.1

See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2017	2016
	(Unaudited) (In millions)	
Operating Activities:		
Net income	$ 284.2	$ 263.7
Adjustments to reconcile net income to net cash from continuing operating activities:		
Depreciation	70.0	66.8
Earnings of equity method investments	(53.1)	(37.3)
Loss from discontinued operations, net of tax	0.3	1.1
Deferred income taxes	204.9	96.4
Changes in operating assets and liabilities:		
Accounts receivable	(48.7)	(67.1)
Inventories	(226.7)	246.6
Floor plan notes payable	137.8	(174.1)
Accounts payable and accrued expenses	98.4	15.5
Other	(0.3)	51.7
Net cash provided by continuing operating activities	466.8	463.3
Investing Activities:		
Purchase of equipment and improvements	(180.1)	(171.7)
Acquisition of additional ownership interest in Penske Truck Leasing	(239.1)	(498.5)
Acquisitions net, including repayment of sellers' floor plan notes payable of $101.6 and $59.1, respectively	(449.7)	(106.0)
Other	13.3	(9.5)
Net cash used in continuing investing activities	(855.6)	(785.7)
Financing Activities:		
Proceeds from borrowings under U.S. credit agreement revolving credit line	1,621.0	1,172.5
Repayments under U.S. credit agreement revolving credit line	(1,645.0)	(1,127.5)
Issuance of 3.75% senior subordinated notes	300.0	—
Issuance of 5.50% senior subordinated notes	—	500.0
Net borrowings of other long-term debt	74.3	74.3
Net borrowings of floor plan notes payable — non-trade	155.2	12.8
Payment of debt issuance costs	(4.0)	(6.7)
Repurchases of common stock	(18.5)	(173.6)
Dividends	(80.1)	(70.3)
Other	(5.8)	(15.8)
Net cash provided by continuing financing activities	397.1	365.7
Discontinued operations:		
Net cash provided by discontinued operating activities	0.5	1.3
Net cash provided by discontinued investing activities	2.4	1.7

Net cash used in discontinued financing activities	(0.2)	—
Net cash provided by discontinued operations	2.7	3.0
Effect of exchange rate changes on cash and cash equivalents	2.2	(19.3)
Net change in cash and cash equivalents	13.2	27.0
Cash and cash equivalents, beginning of period	24.0	62.4
Cash and cash equivalents, end of period	$ 37.2	$ 89.4
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$ 102.2	$ 76.2
Income taxes	21.3	37.2
Seller financed/assumed debt	3.8	—
Non cash activities:		
Consideration transferred through common stock issuance	$ 32.4	$ —
Contingent consideration	20.0	—

See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENT OF EQUITY

	Common Stock Issued Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Penske Automotive Group Stockholders' Equity	Non-controlling Interest	Total Equity
	(Unaudited) (Dollars in millions)							
Balance, January 1, 2017	85,214,345	$ —	$ 497.1	$ 1,504.5	$ (250.7)	$ 1,750.9	$ 28.6	$ 1,779.5
Equity compensation	323,998	—	12.4	—	—	12.4	—	12.4
Repurchases of common stock	(435,710)	—	(18.5)	—	—	(18.5)	—	(18.5)
Issuance of common stock	665,487	—	32.4	—	—	32.4	—	32.4
Dividends	—	—	—	(80.1)	—	(80.1)	—	(80.1)
Purchase of subsidiary shares from non-controlling interest	—	—	(0.4)	—	—	(0.4)	(0.3)	(0.7)
Distributions to non-controlling interests	—	—	—	—	—	—	(1.4)	(1.4)
Foreign currency translation	—	—	—	—	91.3	91.3	2.8	94.1
Other	—	—	—	—	7.8	7.8	2.3	10.1
Net income	—	—	—	283.2	—	283.2	1.0	284.2
Balance, September 30, 2017	85,768,120	$ —	$ 523.0	$ 1,707.6	$ (151.6)	$ 2,079.0	$ 33.0	$ 2,112.0

See Notes to Consolidated Condensed Financial Statements

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

Retail Automotive Dealership. We believe we are the second largest automotive retailer headquartered in the U.S. as measured by the $18.7 billion in total retail automotive dealership revenue we generated in 2016. As of September 30, 2017, we operated 354 retail automotive franchises, of which 162 franchises are located in the U.S. and 192 franchises are located outside of the U.S. The franchises outside the U.S. are located primarily in the U.K. In the nine months ended September 30, 2017, we retailed and wholesaled more than 471,700 vehicles. We are diversified geographically, with 58% of our total retail automotive dealership revenues in the nine months ended September 30, 2017 generated in the U.S. and Puerto Rico and 42% generated outside the U.S. We offer over 40 vehicle brands, with 70% of our retail automotive dealership revenue in the nine months ended September 30, 2017 generated from premium brands, such as Audi, BMW, Mercedes-Benz and Porsche. Each of our dealerships offer a wide selection of new and used vehicles for sale. In addition to selling new and used vehicles, we generate higher-margin revenue at each of our dealerships through maintenance and repair services and the sale and placement of third-party finance and insurance products, third-party extended service and maintenance contracts and replacement and aftermarket automotive products. We operate these dealerships under franchise agreements with a number of automotive manufacturers and distributors that are subject to certain rights and restrictions typical of the industry.

In the first quarter of 2017, we acquired CarSense in the U.S. and CarShop in the U.K., both businesses representing stand-alone used vehicle dealerships which we believe complement our existing franchised retail automotive dealership operations and provide scalable opportunities across our market areas. Our CarSense operations consist of five locations operating in the Philadelphia and Pittsburgh, Pennsylvania market areas, including southern New Jersey. Our CarShop operations consist of five retail locations throughout the United Kingdom and a vehicle preparation center in Leighton Buzzard.

During the nine months ended September 30, 2017, we also acquired eight retail automotive franchises, were awarded three retail automotive franchises, and disposed of twelve retail automotive franchises. Of the retail automotive franchises acquired, two are located in New Jersey and represent the Jaguar and Land Rover brands, two are located in Arizona and represent the Mercedes-Benz and Sprinter brands, two are located in the U.K. and represent the BMW and MINI brands, and two are located in Germany as part of the Jacobs Group and represent the Audi and Volkswagen brands. Of the franchises disposed of, five represented smart franchises in the U.S. and three represented BMW and MINI franchises in the U.K.

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 September 30, 2017, PTG operated twenty locations, including fourteen full-service dealerships and six collision centers, offering primarily Freightliner and Western Star branded trucks. Four of these locations were acquired in April 2016 in the greater Toronto, Canada market area, and two of these locations were acquired in December 2016 in the Niagara Falls, Canada market area. 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.

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

We are also a leading distributor of diesel and gas engines and power systems, principally representing MTU, Detroit Diesel, Mercedes-Benz Industrial, Allison Transmission and MTU Onsite Energy. This business, known as Penske Power Systems (“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 shared with PCV.

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 July 27, 2016, we acquired an additional 14.4% ownership interest in PTL from subsidiaries of GE Capital Global Holdings, LLC (collectively, “GE Capital”) for approximately $498.5 million in cash to bring our total ownership interest to 23.4%. Prior to this acquisition, we held a 9.0% ownership interest in PTL. On September 7, 2017, we acquired an additional 5.5% ownership interest from GE Capital for approximately $239.1 million in cash. At the same time, affiliates of Mitsui & Co., Ltd. (“Mitsui”), our second largest shareholder, acquired an additional 10.0% ownership interest in PTL at the same valuation. PTL is currently owned 41.1% by Penske Corporation, 28.9% by us, and 30.0% by 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 have been condensed or omitted pursuant to the SEC rules and regulations. The information presented as of September 30, 2017 and December 31, 2016 and for the three and nine month periods ended September 30, 2017 and 2016 is unaudited, but includes all adjustments which our management believes to be necessary for the fair presentation of results for the periods presented. The consolidated condensed financial statements for prior periods have been revised for entities that have been treated as discontinued operations, and results for interim periods are not necessarily indicative of results to be expected for the year. These consolidated condensed financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2016, which are included as part of our Annual Report on Form 10-K.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” This ASU supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. ASU No. 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers using a five-step model that requires entities to exercise judgment when considering the terms of contracts with customers. In August 2015, the FASB issued ASU 2015-14 “Revenue from Contracts with Customers (Topic 606) — Deferral of the Effective Date” providing for a one-year deferral of the effective date of ASU 2014-09 and allowing for early adoption as of the original effective date. 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. The FASB has since also issued additional ASUs containing various updates to

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Topic 606 which will all be adopted along with ASU 2014-09. These ASUs can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption, with early adoption permitted. We intend to adopt these ASUs on January 1, 2018. We have performed our preliminary assessment of the potential impact these accounting standard updates will have on our consolidated financial position, results of operations, and cash flows and have begun our documentation of the results of this assessment. Based on our assessment performed to date, we do not expect the adoption of these updates to have a material impact on our financial statements; however, we will be required to enhance our disclosures on revenue recognition upon adoption. We do not expect there to be a significant change in the timing of our revenue recognition, as we anticipate that our performance obligations under the new standard will be similar to those under existing guidance. Therefore, we expect to adopt using a cumulative-effect adjustment as of the date of adoption. We are also in the process of evaluating and documenting any changes in controls and procedures that may be necessary as part of our implementation of the new standards; however, we do not expect material changes. We will continue to assess the impact that these new standards will have our on our consolidated financial position, results of operations, and cash flows throughout the remainder of 2017.

In July 2015, the FASB issued ASU No. 2015-11, “Simplifying the Measurement of Inventory (Topic 330).” Under ASU 2015-11, inventory that is measured using the first-in, first-out (FIFO), specific identification, or average cost methods should be measured at the lower of cost or net realizable value. This ASU does not impact inventory measurement under the last-in, first-out (LIFO) or retail inventory methods. For public companies, this ASU is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. The amendments from this update are to be applied prospectively. We adopted this ASU prospectively on the effective date of January 1, 2017. The adoption of this accounting standard update has not had a material impact on our consolidated financial position, results of operations, and cash flows.

In November 2015, the FASB issued ASU No. 2015-17, “Income Taxes (Topic 740) — Balance Sheet Classification of Deferred Taxes.” Under ASU 2015-17, entities are required to classify all deferred tax liabilities and assets as noncurrent in a classified statement of financial position. For public companies, this ASU is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. The amendments from this update are to be applied either prospectively or retrospectively. We adopted this ASU retrospectively on the effective date of January 1, 2017. Amounts reclassified from “Other current assets” to “Deferred tax liabilities” were $28.1 million as of December 31, 2016. Other than the revised presentation of our consolidated balance sheets, the adoption of this accounting standard update has not had a material impact on our consolidated financial position, results of operations, and cash flows.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” Under this new guidance, a company will now recognize most leases on its balance sheet as lease liabilities with corresponding right-of-use assets. 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 are currently evaluating the other effects the adoption of this ASU will have on our consolidated financial statements. We believe our current off-balance sheet leasing commitments are reflected in our credit rating.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation —Stock Compensation (Topic 718) — Improvement to Employee Share-Based Payment Accounting.” This ASU simplified several aspects of accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public companies, this ASU is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. This ASU was adopted on the effective date of January 1, 2017. As part of the adoption of this ASU, we have elected to record forfeitures as they occur. The amendments to timing of recognition of excess tax benefits, minimum statutory withholding requirements, and forfeitures were adopted using a modified retrospective approach. The cumulative-effect adjustment to retained earnings as of January 1, 2017 was not material. Amendments related to cash flow presentation of employee taxes paid was adopted retrospectively, with $6.1 million reclassified from operating activities to financing activities for the nine months ended September 30, 2016. Amendments related to the recognition of excess tax benefits on the income statement and presentation of excess tax benefits on the

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statement of cash flows were adopted prospectively, and therefore, prior periods were not adjusted. The adoption of this accounting standard update has not had a material impact on our consolidated financial position, results of operations, and cash flows.

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 intend to adopt this ASU on January 1, 2018. We do not expect the adoption of this accounting standard update to have a material impact on our consolidated cash flows.

Assets Held for Sale and Discontinued Operations

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

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

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

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

We had no entities newly classified as held for sale during the nine months ended September 30, 2017 that met the criteria to be classified as discontinued operations. As such, the combined financial information presented below represents only retail automotive dealerships that were classified as discontinued operations prior to adoption of ASU No. 2014-08:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues	$ —	$ 5.6	$ 2.1	$ 19.6
Pre-tax gain (loss)	0.1	0.3	(0.5)	(1.7)

	September 30, 2017	December 31, 2016
Inventories	$ —	$ 4.6
Other assets	—	3.8
Total assets	$ —	$ 8.4
Floor plan notes payable (including non-trade)	$ —	$ 4.8
Other liabilities	0.7	1.3
Total liabilities	$ 0.7	$ 6.1

Dispositions

During the nine months ended September 30, 2017, we disposed of twelve retail automotive franchises. The results of operations for one of the retail automotive franchises is included in discontinued operations for the nine months ended September 30, 2017 and for the three and nine months ended September 30, 2016. The remaining eleven retail automotive franchises did not meet the criteria to be classified as held for sale and treated as discontinued operations. Therefore, the results of operations for these businesses are included within continuing operations for the three and nine months ended September 30, 2017 and 2016.

Estimates

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

Fair Value of Financial Instruments

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

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

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

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

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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:

	September 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
5.75% senior subordinated notes due 2022	$ 545.7	$ 562.9	$ 545.1	$ 567.6
5.375% senior subordinated notes due 2024	297.1	307.5	296.8	293.0
5.50% senior subordinated notes due 2026	494.2	511.4	493.7	489.4
3.75% senior subordinated notes due 2020	296.2	302.1	—	—
Mortgage facilities	211.8	210.2	199.9	195.6

2. Inventories

Inventories consisted of the following:

	September 30, 2017	December 31, 2016
Retail automotive dealership new vehicles	$ 2,228.4	$ 2,153.0
Retail automotive dealership used vehicles	926.6	771.7
Retail automotive parts, accessories and other	129.4	119.1
Retail commercial truck dealership vehicles and parts	227.8	170.3
Commercial vehicle distribution vehicles, parts and engines	258.1	194.1
Total inventories	$ 3,770.3	$ 3,408.2

We receive credits from certain vehicle manufacturers that reduce cost of sales when the vehicles are sold. Such credits amounted to $15.7 million and $12.9 million during the three months ended September 30, 2017 and 2016, respectively, and $40.2 million and $38.2 million during the nine months ended September 30, 2017 and 2016, respectively.

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3. Business Combinations

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 locations and a vehicle preparation center, and acquired eight retail automotive franchises during the nine months ended September 30, 2017. During the nine months ended September 30, 2016, we acquired thirteen retail automotive franchises and five retail commercial truck dealerships. Our financial statements include the results of operations of the acquired entities from the date of acquisition. The fair value of the assets acquired and liabilities assumed have been recorded in our consolidated condensed financial statements, and may be subject to adjustment pending completion of final valuation. A summary of the aggregate consideration paid and the aggregate amounts of the assets acquired and liabilities assumed for the nine months ended September 30, 2017 and 2016 follows:

	September 30,	
	2017	2016
Accounts receivable	$ 11.1	$ 3.9
Inventory	139.9	63.4
Other current assets	2.9	0.2
Property and equipment	21.8	12.1
Indefinite-lived intangibles	366.9	32.9
Other non-current assets	0.1	2.7
Current liabilities	(33.6)	(4.4)
Non-current liabilities	(3.2)	(4.8)
Total consideration	505.9	106.0
Consideration transferred through common stock issuance	(32.4)	—
Contingent consideration	(20.0)	—
Seller financed/assumed debt	(3.8)	—
Total cash used in acquisitions	$ 449.7	$ 106.0

The following unaudited consolidated pro forma results of operations of PAG for the three and nine months ended September 30, 2017 and 2016 give effect to acquisitions consummated during 2017 and 2016 as if they had occurred effective at the beginning of the periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues	$ 5,524.4	$ 5,531.2	$ 16,150.1	$ 16,561.2
Income from continuing operations	94.3	93.7	285.6	282.1
Net income	94.4	93.9	285.3	281.0
Income from continuing operations per diluted common share	$ 1.10	$ 1.10	$ 3.32	$ 3.27

Net income per diluted common share	$ 1.10	$ 1.10	$ 3.32	$ 3.26

4. Intangible Assets

Following is a summary of the changes in the carrying amount of goodwill and other indefinite-lived intangible assets during the nine months ended September 30, 2017:

	Goodwill	Other Indefinite-Lived Intangible Assets
Balance, January 1, 2017	$ 1,291.2	$ 420.1
Additions	326.1	40.8
Disposals	(1.9)	(1.5)
Foreign currency translation	45.0	13.9
Balance, September 30, 2017	$ 1,660.4	$ 473.3

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The additions and disposals during the nine months ended September 30, 2017 were within our Retail Automotive reportable segment. As of September 30, 2017, the goodwill balance within our Retail Automotive, Retail Commercial Truck, and Other reportable segments was $1,411.6 million, $163.2 million and $85.6 million, respectively. There is no goodwill recorded in our Non-Automotive Investments reportable segment.

5. Vehicle Financing

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

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

The weighted average interest rate on floor plan borrowings was 1.8% for the nine months ended September 30, 2017 and 1.5% for the nine months ended September 30, 2016. We classify floor plan notes payable to a party other than the manufacturer of a particular new vehicle, and all floor plan notes payable relating to pre-owned vehicles, as "Floor plan notes payable—non-trade" on our consolidated balance sheets and classify related cash flows as a financing activity on our consolidated statements of cash flows.

6. Earnings Per Share

Basic earnings per share is computed using net income attributable to Penske Automotive Group common stockholders and the number of weighted average shares of voting common stock outstanding, including outstanding unvested equity awards which contain rights to non-forfeitable dividends. Diluted earnings per share is computed using net income attributable to Penske Automotive Group common stockholders and the number of weighted average shares of voting common stock outstanding, adjusted for any dilutive effects. A reconciliation of the number of shares used in the calculation of basic and diluted earnings per share for the three and nine months ended September 30, 2017 and 2016 follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Weighted average number of common shares outstanding	85,921,118	85,175,857	85,873,142	86,241,910
Effect of non-participatory equity compensation	45,000	36,000	45,000	36,000
Weighted average number of common shares outstanding, including effect of dilutive securities	85,966,118	85,211,857	85,918,142	86,277,910

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7. Long-Term Debt

Long-term debt consisted of the following:

	September 30, 2017	December 31, 2016
U.S. credit agreement — revolving credit line	$ 216.0	$ 240.0
U.K. credit agreement — revolving credit line	107.2	48.1
U.K. credit agreement — overdraft line of credit	—	2.7
5.75% senior subordinated notes due 2022	545.7	545.1
5.375% senior subordinated notes due 2024	297.1	296.8
5.50% senior subordinated notes due 2026	494.2	493.7
3.75% senior subordinated notes due 2020	296.2	—
Australia working capital loan agreement	32.8	24.7
Mortgage facilities	211.8	199.9
Other	37.1	26.1
Total long-term debt	2,238.1	1,877.1
Less: current portion	(67.6)	(48.3)
Net long-term debt	$ 2,170.5	$ 1,828.8

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, 2020, subject to its “evergreen” termination provisions. The revolving loans bear interest at LIBOR plus 2.00%, subject to an incremental 1.50% for uncollateralized borrowings in excess of a defined borrowing base.

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 September 30, 2017, we had $216.0 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 plus 3.0% and the demand overdraft line of credit bears interest at the Bank of England Base Rate plus 1.75%. As of September 30, 2017, outstanding loans under the U.K. credit agreement amounted to £80.0 million ($107.2 million).

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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.

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

5.75% Senior Subordinated Notes due 2022

In August 2012, we issued $550.0 million in aggregate principal amount of 5.75% Senior Subordinated Notes due 2022 (the "5.75% Notes"). Interest on the 5.75% Notes is payable semi-annually on April 1 and October 1 of each year. The 5.75% Notes mature on October 1, 2022, unless earlier redeemed or purchased by us. The 5.75% Notes are our unsecured senior subordinated obligations and are guaranteed on an unsecured senior subordinated basis by our 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 Working Capital Loan Agreement

Penske Commercial Vehicles Australia and Penske Power Systems, are party to a working capital loan agreement with Mercedes-Benz Financial Services Australia Pty Ltd with a capacity of AU $50.5 million. This agreement provides the lender with a secured interest in all assets of these businesses. The loan bears interest at the Australian BBSW 30-day Bill Rate plus 2.7%. As of September 30, 2017, we had AU $41.9 million ($32.8 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 September 30, 2017, we owed $211.8 million of principal under our mortgage facilities.

8. Derivatives and Hedging

Penske Commercial Vehicles Australia and Penske Power Systems sell vehicles, engines, parts and other products purchased from manufacturers in the U.S., Germany, and the U.K. In order to protect against exchange rate movements, Penske Commercial Vehicles Australia and Penske Power Systems enter into foreign exchange forward contracts against anticipated cash flows. The contracts are timed to mature when major shipments are scheduled to arrive in Australia and when receipt of payment from customers is expected. We classify our foreign exchange forward contracts as cash flow hedges and state them at fair value. We used Level 2 inputs to estimate the fair value of the foreign exchange forward contracts. The fair value of the contracts designated as hedging instruments was estimated to be a liability of $0.6 million and an asset of $0.3 million as of September 30, 2017 and December 31, 2016, respectively.

9. Commitments and Contingent Liabilities

We are involved in litigation which may relate to claims brought by governmental authorities, issues with customers, and employment related matters, including class action claims and purported class action claims. As of September 30, 2017, 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.

We currently hold a 28.9% ownership interest in PTL. Historically, affiliates of GE Capital (“GEC”) provided PTL with a majority of its financing, though PTL has refinanced all of its GEC indebtedness. As part of that refinancing, we and the other PTL partners created a new company (“Holdings”), which, together with GEC, co-issued $700.0 million of 3.8% senior unsecured notes due 2019 (the “Holdings Bonds”). GEC agreed to be a co-obligor of the Holdings Bonds in order to achieve lower interest rates on the Holdings Bonds. As part of Mitsui’s purchase of its 20.0% ownership interest in PTL in March 2015, the ownership interest of GEC in Holdings was redeemed, Holdings was relieved of its obligations under the indenture for the Holdings Bonds, and Holdings became obligated to pay to GEC 50.1% of all interest and principal due under, and 100% of the expenses related to, the Holdings Bonds to the extent Holdings has cash in excess of a certain level of permitted working capital, subject to certain limitations. We agreed to indemnify

GEC for 9.0% of any principal or interest that GEC is required to pay on these bonds and pay GEC an annual fee of approximately $0.95 million for acting as obligor. The maximum amount of our contingent obligations to GEC under this agreement was 9.0% of the required principal repayment due in 2019 and 9.0% of interest payments under the Holdings Bonds, plus fees and default interest, if any. On October 2, 2017, we elected to make a payment in full of our obligations under this agreement of $63.8 million and have no further obligations to make payments under this agreement.

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

We have $33.0 million of letters of credit outstanding as of September 30, 2017, and have posted $26.1 million of surety bonds in the ordinary course of business.

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10. Equity

During the nine months ended September 30, 2017, we repurchased or acquired 435,710 shares of our common stock. In the third quarter of 2017, we repurchased 252,000 shares of our outstanding common stock for $10.0 million, or an average of $39.75 per share, under our securities repurchase program approved by our Board of Directors. Additionally, we repurchased 50,000 shares of our outstanding common stock for $2.7 million, or an average of $53.03 per share, under this program during the first quarter of 2017. We did not repurchase any common stock under this program during the second quarter of 2017. As of September 30, 2017, our remaining authorization under the program was $19.4 million. In October 2017, our Board of Directors increased the authority delegated to management to repurchase our outstanding securities to $200.0 million.

During the second quarter of 2017, we acquired 133,710 shares of our common stock for $5.8 million, or an average of $43.28 per share, from employees in connection with a net share settlement feature of employee equity awards.

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11. Accumulated Other Comprehensive Income/(Loss)

Changes in accumulated other comprehensive income/(loss) by component and the reclassifications out of accumulated other comprehensive income/(loss) during the three and nine months ended September 30, 2017 and 2016, respectively, attributable to Penske Automotive Group common stockholders follows:

Three Months Ended September 30, 2017

	Foreign Currency Translation	Other	Total
Balance at June 30, 2017	$ (169.7)	$ (16.5)	$ (186.2)
Other comprehensive income (loss) before reclassifications	31.0	3.6	34.6
Amounts reclassified from accumulated other comprehensive income — net of tax	—	—	—
Net current period other comprehensive income (loss)	31.0	3.6	34.6
Balance at September 30, 2017	$ (138.7)	$ (12.9)	$ (151.6)

Three Months Ended September 30, 2016

	Foreign Currency Translation	Other	Total
Balance at June 30, 2016	$ (170.1)	$ (7.5)	$ (177.6)
Other comprehensive income (loss) before reclassifications	(9.9)	(1.2)	(11.1)
Amounts reclassified from accumulated other comprehensive income — net of tax	—	—	—
Net current period other comprehensive income (loss)	(9.9)	(1.2)	(11.1)
Balance at September 30, 2016	$ (180.0)	$ (8.7)	$ (188.7)

Nine Months Ended September 30, 2017

	Foreign Currency Translation	Other	Total
Balance at December 31, 2016	$ (230.0)	$ (20.7)	$ (250.7)
Other comprehensive income (loss) before reclassifications	91.3	7.8	99.1
Amounts reclassified from accumulated other comprehensive income — net of tax	—	—	—
Net current period other comprehensive income (loss)	91.3	7.8	99.1

Balance at September 30, 2017	$ (138.7)	$ (12.9)	$ (151.6)

Nine Months Ended September 30, 2016

	Foreign Currency Translation	Other	Total
Balance at December 31, 2015	$ (113.5)	$ (9.0)	$ (122.5)
Other comprehensive income (loss) before reclassifications	(66.5)	0.3	(66.2)
Amounts reclassified from accumulated other comprehensive income — net of tax	—	—	—
Net current period other comprehensive income (loss)	(66.5)	0.3	(66.2)
Balance at September 30, 2016	$ (180.0)	$ (8.7)	$ (188.7)

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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, CarSense, International, and CarShop. 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 and nine months ended September 30, 2017 and 2016 follows:

Three Months Ended September 30

	Retail Automotive	Retail Commercial Truck	Other	Non-Automotive Investments	Intersegment Elimination	Total
Revenues						
2017	$ 5,085.4	$ 299.6	$ 139.4	$ —	$ —	$ 5,524.4
2016	4,772.1	266.1	114.7	—	(0.9)	5,152.0
Segment income						
2017	$ 94.3	$ 11.7	$ 2.4	$ 30.5	$ —	$ 138.9
2016	97.2	8.4	0.1	24.4	—	130.1

Nine Months Ended September 30

Retail Non-Automotive Intersegment

	Automotive	Retail Commercial Truck	Other	Investments	Elimination	Total
Revenues						
2017	$ 14,882.5	$ 739.8	$ 366.6	$ —	$ —	$ 15,988.9
2016	14,121.8	782.3	329.2	—	(2.6)	15,230.7
Segment income						
2017	$ 319.9	$ 27.5	$ 4.9	$ 68.2	$ —	$ 420.5
2016	330.7	21.8	1.7	39.0	—	393.2

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13. Condensed Consolidating Financial Information

The following tables include condensed consolidating financial information as of September 30, 2017 and December 31, 2016 and for the three and nine month periods ended September 30, 2017 and 2016 for Penske Automotive Group, Inc. (as the issuer of the 5.75% Notes, the 5.375% Notes, the 5.50% Notes, 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

September 30, 2017

	Total Company	Eliminations	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Cash and cash equivalents	$ 37.2	$ —	$ —	$ —	$ 37.2
Accounts receivable, net	938.8	(458.9)	458.9	420.8	518.0
Inventories	3,770.3	—	—	1,876.7	1,893.6
Other current assets	96.5	—	6.3	18.7	71.5
Assets held for sale	—	—	—	—	—
Total current assets	4,842.8	(458.9)	465.2	2,316.2	2,520.3
Property and equipment, net	2,091.4	—	3.6	1,007.6	1,080.2
Intangible assets	2,133.7	—	—	1,334.8	798.9
Equity method investments	1,184.9	—	1,118.8	—	66.1
Other long-term assets	29.5	(2,596.4)	2,601.8	4.5	19.6
Total assets	$ 10,282.3	$ (3,055.3)	$ 4,189.4	$ 4,663.1	$ 4,485.1
Floor plan notes payable	$ 2,222.3	$ —	$ —	$ 1,104.7	$ 1,117.6
Floor plan notes payable — non-trade	1,388.5	—	219.7	634.0	534.8
Accounts payable	609.0	—	4.1	161.2	443.7
Accrued expenses	388.5	(458.9)	1.0	43.3	803.1
Current portion of long-term debt	67.6	—	—	5.4	62.2
Liabilities held for sale	0.7	—	—	0.7	—
Total current liabilities	4,676.6	(458.9)	224.8	1,949.3	2,961.4