

PENSKE AUTOMOTIVE GROUP, INC.  
Form 10-K  
February 22, 2019  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10 K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2018

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

(248) 648 2500

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Voting Common Stock, par value \$0.0001 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes    No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the voting common stock held by non-affiliates as of June 30, 2018 was \$1,677,606,861. As of February 15, 2019, there were 84,911,298 shares of voting common stock outstanding.

Documents Incorporated by Reference

Certain portions, as expressly described in this report, of the registrant's proxy statement for the 2019 Annual Meeting of the Stockholders to be held May 9, 2019 are incorporated by reference into Part III, Items 10-14.

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PART I

Item 1. Business

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. We employ nearly 27,000 people worldwide.

In 2018, our business generated \$22.8 billion in total revenue, which is comprised of approximately \$20.8 billion from retail automotive dealerships, \$1.4 billion from retail commercial truck dealerships and \$0.6 billion from commercial vehicle distribution and other operations. We generated \$3.4 billion in gross profit, which is comprised of \$3.1 billion from retail automotive dealerships, \$211.5 million from retail commercial truck dealerships and \$144.8 million from commercial vehicle distribution and other operations.

**Retail Automotive Dealership.** We believe we are the second largest automotive retailer headquartered in the U.S. as measured by the \$20.8 billion in total retail automotive dealership revenue we generated in 2018. As of December 31, 2018, we operated 345 retail automotive franchises, of which 154 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 2018, we retailed and wholesaled more than 644,000 vehicles. We are diversified geographically, with 55% of our total retail automotive dealership revenues in 2018 generated in the U.S. and Puerto Rico and 45% generated outside the U.S. We offer over 40 vehicle brands, with 70% of our retail automotive dealership revenue in 2018 generated from premium brands, such as Audi, BMW, Land Rover, Mercedes-Benz and Porsche. Each of our 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 also operate fourteen stand-alone used vehicle supercenters in the U.S. and the U.K. which retail and wholesale previously owned vehicles under a one price, “no-haggle” methodology. 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 complement CarShop’s Southern England locations. CarShop and The Car People currently operate as one reportable segment (“Stand-Alone Used International”)

and we anticipate that both will begin to operate under the CarShop name in 2019.

During the year ended December 31, 2018, we acquired six retail automotive franchises, were awarded three retail automotive franchises, and disposed of seven retail automotive franchises. Of the retail automotive franchises acquired, four are located in Italy and represent the Mercedes-Benz and smart brands, and two are located in Texas and represent the Lexus brand. Of the franchises disposed of, five represented franchises in the U.S., and two represented franchises in the U.K.

Retail automotive dealerships represented 91.5% of our total revenues and 89.6% of our total gross profit in 2018.

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We believe our diversified retail automotive income streams help to mitigate the historical cyclicity found in some elements of the automotive sector. Revenues from higher margin service and parts sales include warranty work, customer paid work, collision repair services, and wholesale parts sales. Service and parts sales are typically less cyclical than retail vehicle sales and generate the largest part of our retail automotive gross profit. The following graphics show the percentage of our total retail automotive dealership revenues by product area and their respective contribution to our retail automotive gross profit:

Revenue Mix Gross Profit Mix

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 December 31, 2018, PTG operated twenty locations, offering primarily Freightliner and Western Star branded trucks. One of these locations was acquired in April 2018 in Canada. 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.

This business represented 6.0% of our total revenues and 6.2% of our total gross profit in 2018.

Our retail commercial truck business also benefits from diversified income streams similar to those of the retail automotive sector. The following graphics show the percentage of our total retail commercial truck dealership revenues by product area and their respective contribution to our retail commercial truck gross profit:

We believe our diversified retail automotive income streams help to mitigate the historical cyclicity found in some elements of the automotive sector. Revenues from higher margin service and parts sales include warranty work, customer paid work, collision repair services, and wholesale parts sales. Service and parts sales are typically less cyclical than retail vehicle sales and generate the largest part of our retail automotive gross profit. The following graphics show the percentage of our total retail automotive dealership revenues by product area and their respective contribution to our retail automotive gross profit:

Revenue Mix	Gross Profit Mix
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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 nine 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, MTU Onsite Energy, and Rolls Royce Power Systems. This business, known as Penske Power Systems (“PPS”), offers products across the on- and off-highway markets, construction, mining, marine, and defense, 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.

These businesses represented 2.5% of our total revenues and 4.2% of our total gross profit in 2018.

Penske Truck Leasing. We hold a 28.9% ownership interest in Penske Truck Leasing Co., L.P. (“PTL”), a leading provider of transportation and supply chain services. 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, lead logistics provider services and dry van truckload carrier services. On September 7, 2017, we acquired an additional 5.5% ownership interest in PTL. 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”). 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. We recorded \$129.5 million in equity earnings from this investment in 2018.

## 2018 & 2019 Key Developments

Retail Automotive Franchised Dealership Acquisitions and Dispositions. In 2018, we acquired or were granted open points (new franchises awarded from the automotive manufacturer) representing nine automotive franchises, which represented approximately \$750.0 million in annualized revenue. Of the six retail automotive franchises acquired, four are located in Italy and represent the Mercedes-Benz and smart brands, and two are located in Texas and represent the Lexus brand. In 2018, we disposed of seven retail automotive franchises, which represented approximately \$420.0 million in annualized revenue. Of the seven franchises disposed of, five represented franchises in the U.S. and two represented franchises in the U.K. In 2018, we acquired an additional 11.4% interest in the Jacobs Group, one of our German automotive dealership joint ventures, and now own a 79.4% interest in the Jacobs Group.



Acquisition of The Car People. In January 2018, we acquired The Car People, a stand-alone specialty retailer of used vehicles in the U.K. representing four locations across Northern England. During 2018, The Car People retailed over 24,000 vehicles and represented approximately \$375.1 million in revenue. The Car People operations across Northern England complement our CarShop stand-alone used vehicle dealerships in Southern England.

Stockholder Dividends and Stock Repurchases. We increased our quarterly stock dividend each quarter in 2018. Our latest declared dividend is \$0.38 per share payable March 1, 2019, which represents a dividend yield of 3.2% using our January 31, 2019 closing stock price. We repurchased 1,587,494 shares of our common stock in 2018 for \$68.9 million, which, together with quarterly dividends, represents a return to stockholders of approximately \$190.1 million. In February 2019, our Board of Directors increased the authority delegated to management to repurchase our outstanding securities from \$136.9 million to \$200.0 million.

Company and Dealership Awards. Twenty-four of our dealerships in the U.S. were named by Automotive News as among the 100 “Best Dealerships to Work For” in 2018. We believe these awards reflect our ongoing commitment to our valuable dealership employees, which enhances customer satisfaction and may result in improved sales over time. Additionally, in January 2019, we were named one of the “World’s Most Admired Companies” by Fortune Magazine.

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Outlook

Retail Automotive Dealership. In 2018, U.S. light vehicle sales increased 0.6%, as compared to last year, to 17.3 million units, with passenger car sales declining 12.5%, while sales of trucks, crossovers and sport utility vehicles increased 7.7%. We believe the sales of trucks, crossovers and sport utility vehicles will continue to outperform passenger car sales, largely due to consumer preference and OEM product offerings. We believe the U.S. market for new light vehicle sales remains strong, but has plateaued and may be impacted in future periods by several different factors including, but not limited to, consumer confidence, the level of unemployment, the level of OEM incentives, increasing lease returns, interest rates, strong credit availability, the age of vehicles on the road, vehicle innovation, tariffs, and tax reform, although actual sales may differ materially. We also expect to see strength across the used vehicle market as the number of lease returns is expected to remain strong, providing customers with an ample supply of affordable late model, low mileage vehicles.

In 2018, U.K. new vehicle registrations declined 6.8%, as compared to last year, to 2.4 million registrations. We believe the year over year decline is largely due to a temporary shortage of product availability from new fuel economy testing and emissions standards applicable to new vehicles sold in Europe beginning September 2018, partially offset by a pull forward of demand prior to the effective date of the new testing procedures, coupled with changing consumer preferences from diesel fueled vehicles of which registrations declined 29.6% during 2018. The new fuel economy testing and Co2 emissions legislation, known as “Worldwide Harmonised Light Vehicle Testing Procedure” (WLTP), requires more extensive vehicle testing and has impacted the availability of vehicles for sale for certain manufacturers. Premium/luxury unit sales, which account for approximately 86% of our U.K. new unit sales, continue to outperform the overall market, declining 6.1% in 2018, as compared to a 6.8% decline for the overall market. U.K. sales are also being negatively affected by the uncertainty of residual values and potentially higher taxes on diesel powered vehicles, as the U.K. and Western European countries consider the ramifications of diesel engines on the environment while also providing government incentives on certain electric vehicles. Sales of diesel powered vehicles experienced a 29.6% decline, while non-diesel vehicles experienced a 9.7% increase in sales during the year ended December 31, 2018. The March 2019 planned exit from the European Union (“Brexit”) is also causing and may continue to cause economic and political uncertainty, impacting the economic environment, which may lead to further declines in new vehicle registrations in future periods. Since no country has previously left the European Union, the outcome of any future negotiations between the U.K. and the European Union is uncertain and may affect the timing, terms of trade, and the level of new vehicle registrations in those markets.

Retail Commercial Truck Dealership. In 2018, North American sales of Class 5-8 heavy and medium duty trucks, the principal vehicles for our PTG business, were 577,523 units, an increase of 15.5% from 2017. The Class 5-7 medium duty truck market increased 6.0% to 262,806 units from 247,902 units in 2017. The largest North American market, Class 8 heavy duty trucks, increased 24.9% to 314,717 units from 251,951 units in 2017. Generally strong economic conditions, improved freight metrics, and increased utilization are expected to continue to positively impact the truck market in 2019, and we expect stronger Class 8 retail unit sales in North America in 2019.

Commercial Vehicle Distribution. Our PCV Australia distribution business and the on-highway portion of our PPS business each operate principally in the Australian and New Zealand heavy and medium duty truck markets. In

2018, the Australian heavy duty truck market reported sales of 14,344 units, representing an increase of 19.5% from 2017. The New Zealand market reported sales of 3,479 units in 2018, representing an increase of 5.6% from 2017. The brands we represent in Australia hold a 6.5% market share in the Australian heavy duty truck market, and a 3.9% market share in New Zealand. The Australian heavy duty commercial vehicle market has recently been experiencing increased industry sales largely due to improvements in overall market conditions. We expect continued new order growth and engine repowers from the on- and off-highway engine distribution business.

Penske Truck Leasing. We expect PTL to benefit from continued strong demand for its full-service truck leasing, truck rental and contract maintenance, and logistics services resulting from continued positive economic conditions in the United States and customers' desire to increase efficiency and lower costs by outsourcing non-core responsibilities such as fleet ownership. As a global logistics services provider, we also expect PTL to experience increased demand for its logistics supply chain solutions based primarily on optimizing the use of drivers, trucks, warehouses, and other services within the supply chain. As a result of recent improvements in the truck market, we have seen freight growth

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and improved conditions within PTL's commercial truck rental business, an increase in the utilization rate of its fleet, and stabilization of used truck prices. We anticipate continued freight growth, but at slower rates, in 2019.

As discussed in "Item 1A. Risk Factors," there are a number of factors that could cause actual results to differ materially from our expectations. For a detailed discussion of our financial and operating results, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

## Long-Term Business Strategy

Our long-term business strategy focuses on several key areas in an effort to foster long-term relationships with our customers and our associates. The key areas of our long-term strategy are:

- Attract, develop, and empower associates to grow our business;
- Diversification;
- Offer outstanding brands in premium facilities and superior customer service;
- Expand revenues at existing locations and increase higher-margin businesses;
- Grow through strategic acquisitions;
- Enhance customer satisfaction;
- Leverage scale and implement "best practices"; and
- Embrace digital sales and marketing.

## Attract, Develop, and Empower Associates to Grow our Business

We view our local managers and associates as one of our most important assets. We operate in a decentralized manner that fosters an entrepreneurial spirit where each dealership or business unit has independent operational and financial management responsible for day-to-day operations. We believe experienced local managers are better qualified to make day-to-day decisions concerning the successful operation of a business unit and can be more responsive to our customers' needs. We seek local management that not only has relevant industry experience, but is also familiar with the local market. We also have regional management that oversees operations and supports the local unit operationally and administratively. We invest for future growth and offer outstanding brands and facilities which we believe attract outstanding talent. We believe attracting the best talent and allowing our associates to make business decisions at the local level helps to foster long-term growth through increased repeat and referral business.

## Diversification

Our business benefits from our diversified revenue and gross profit mix, including the multiple revenue and gross profit streams in our traditional vehicle and commercial truck dealerships (new vehicles, used vehicles, finance and insurance, and service and parts operations), our commercial vehicle distribution and power systems operations, and returns relating to our joint venture investments, which we believe helps to mitigate the cyclicity that has historically impacted some elements of the automotive sector. We are further diversified within our retail automotive operations due to revenues generated from franchised dealerships and stand-alone used vehicle dealerships, due to our brand mix where we represent more than 40 brands, and geographically where we operate across 19 states and internationally. One of the unique attributes of our operations versus our peers is our diversification outside the U.S., with operations across nine countries.

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The following table shows our consolidated revenues by country, and by state in the U.S., as a percentage of our total revenue:

Country	% of Total 2018 Revenue	
United States	56	%
United States Revenue by State		
Arizona	6	%
Arkansas	2	%
California	10	%
Connecticut	3	%
Florida	2	%
Georgia	4	%
Indiana	1	%
Maryland	1	%
Minnesota	1	%
New Jersey	8	%
New York	1	%
Ohio	2	%
Oklahoma	1	%
Pennsylvania	1	%
Puerto Rico	1	%
Rhode Island	2	%
Tennessee	1	%
Texas	6	%
Virginia	2	%
Wisconsin	1	%
United Kingdom	35	%
Germany/Italy	6	%
Canada	1	%
Australia/New Zealand/Pacific	2	%

The U.K. is the second largest automotive retail market in Western Europe as measured by new units sold. We generated 82% of our revenue in the U.K. through the sale and service of premium brands in 2018. We believe we are among the largest Audi, Bentley, BMW, Ferrari, Jaguar, Land Rover, Maserati, Mercedes-Benz, MINI, and Porsche dealers in the U.K. based on new unit sales. Additionally, we operate a number of dealerships in Germany, Western Europe's largest automotive retail market, including through joint ventures with experienced local partners, which sell and service Audi, Lexus, Porsche, Toyota, Volkswagen and other brands. We also operate BMW, MINI, Maserati, Porsche, Audi, Land Rover, Volvo, Mercedes-Benz, smart, and Lamborghini dealerships in Northern Italy, as well as BMW and MINI dealerships in Spain, through joint ventures with local partners. Our non-consolidated joint venture in Japan operates BMW, MINI, Rolls-Royce, Ferrari, and ALPINA dealerships.

Diversification Through Stand-Alone Used Vehicle Dealerships. Our acquisitions of CarSense in the U.S. and CarShop and The Car People in the U.K., each representing stand-alone used vehicle dealerships, complement and provide more diversification to our retail automotive operations and provide scalable opportunities across our market areas.

Diversification Through Retail Commercial Truck Dealership. Our PTG business provides more diversification to our overall business model and allows us to bring our automotive dealership expertise to the retail commercial truck market. Operations in Canada, in addition to our U.S. locations, further diversifies our revenue stream.

Diversification Through Penske Truck Leasing. We currently hold a 28.9% ownership interest in PTL, a leading provider of transportation and supply chain services, which further diversifies our total results of operations. We continue to expect to realize significant cash tax savings as a result of our investment in PTL in addition to the diversification offered by earnings from PTL.

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Offer Outstanding Brands in Premium Facilities and Superior Customer Service

We offer outstanding brands through premium facilities, in attractive geographic markets, and believe offering our customers a superior customer service experience will generate repeat and referral business and will help to foster a loyal and dedicated customer base. Customer satisfaction is measured at each of our franchised automotive dealerships on a monthly, quarterly, and/or yearly basis by the manufacturers we represent, and we compensate our employees, in part, based on their performance in such rankings.

We sell over 40 brands in our markets and our automotive dealership revenue mix consists of 70% related to premium brands, 22% related to volume non-U.S. brands, 2% related to brands of U.S. based manufacturers, and 6% related to our stand-alone used vehicle dealerships. We believe our largely premium and non-U.S. brand mix will continue to offer us the opportunity to generate same-store growth, including higher margin service and parts sales. The following chart reflects our percentage of total retail automotive dealership revenue by brand:

Where advantageous, we aggregate our automotive dealerships in a campus setting in order to build a destination location for our customers, which we believe helps to drive increased customer traffic to each of the brands at the location. This strategy also creates an opportunity to reduce personnel expenses, consolidate advertising and administrative expenses and leverage operating expenses over a larger base of dealerships.

Our PTG dealerships provide a similar suite of services as our automotive dealerships, and similar to our retail automotive business, our retail commercial truck business is committed to providing outstanding brands and superior customer service in premium facilities. The necessity of repairing trucks for our customers is a key area of differentiation for our commercial truck dealerships, and we provide around-the-clock service in certain locations to get our customers' commercial trucks back on the road so they can complete their routes.



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### Expand Revenues at Existing Locations and Increase Higher-Margin Businesses

**Increase Same-Store Sales.** We believe our emphasis on superior customer service and premium facilities will contribute to increases in same-store sales over time. We have added a significant number of incremental service bays in recent years in order to better accommodate our customers and further enhance our higher-margin service and parts revenues.

**Grow Finance, Insurance, and Other Aftermarket Revenues.** Each sale of a vehicle provides us the opportunity to assist in arranging financing for the sale of a vehicle, to sell the customer an extended service contract or other insurance product, and to sell aftermarket products, such as security systems and protective coatings. Where possible, we attempt to vertically integrate with the captive finance companies of the manufacturers we represent and to supplement these offerings with preferred lenders as necessary. In order to improve our finance and insurance business, we focus on enhancing training programs and implementing process improvements which we believe will improve our overall revenues. We are in the process of installing docuPAD, an interactive tool designed to improve document processing and menu presentation of finance and insurance options. The rollout is scheduled to be completed at the end of 2019. We expect the new system to create a more consistent process for our dealerships, yield higher finance and insurance revenue, improve compliance and reduce the need for printed copies and paper storage.

**Expand Service and Parts and Collision Repair Revenues.** Today's vehicles are increasingly complex and require sophisticated equipment and specially trained technicians to perform certain services. Additionally, many manufacturers today are offering maintenance programs packaged with the vehicle sale. These programs require customers to have the service work performed at a factory-authorized dealership. Unlike independent service shops, our dealerships are authorized to perform this work under warranties provided by manufacturers. Additionally, we offer maintenance programs for sale through our dealerships. We believe that our brand mix and the complexity of today's vehicles, combined with our investment in expanded service facilities, including the addition of a significant number of incremental service bays in recent years, and our focus on customer service, will contribute to increases in our service and parts revenue. We also operate 37 automotive collision repair centers and six commercial truck collision centers which are integrated with local dealership operations. We offer rapid repair services such as paint-less dent repair, headlight reconditioning, wheel repairs, tire sales, seat sales for our retail commercial truck operations, and windshield replacement at most of our facilities in order to offer our customers the convenience of one-stop shopping for all of their vehicle requirements.

### Grow Through Strategic Acquisitions

We believe that attractive retail automotive acquisition opportunities exist for well-capitalized dealership groups with experience in identifying, acquiring and integrating dealerships. The fragmented automotive retail market provides us with significant growth opportunities in our markets. We generally seek to acquire dealerships with high-growth automotive brands in highly concentrated or growing demographic areas that will benefit from our management expertise, manufacturer relations and scale of operations, as well as smaller, single location dealerships that can be

effectively integrated into our existing operations. Over time, we have also been awarded new franchises from various manufacturers. In 2018, we acquired or were granted open points representing nine franchises, which is expected to represent approximately \$750.0 million in annualized revenue.

In 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 retail automotive dealership operations and provide scalable opportunities across our market areas. These businesses generated approximately \$893.7 million in revenue in 2018. We believe there are attractive acquisition opportunities to grow these operations in both the U.S. and the U.K., and in January 2018, we acquired The Car People in the U.K., as discussed previously, which represented approximately \$375.1 million in revenue.

We also believe there are attractive retail commercial truck acquisition opportunities. We see continued growth in the brands we represent at our existing retail commercial truck dealerships and believe there are opportunities for us to continue to make strategic acquisitions over time.

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### Enhance Customer Satisfaction

We strive for superior customer satisfaction. By offering outstanding brands in premium facilities, “one-stop” shopping convenience in our aggregated facilities, and a well-trained and knowledgeable sales staff, we aim to forge lasting relationships with our customers, enhance our reputation in the community, and create the opportunity for significant repeat and referral business. We monitor customer satisfaction data to track the performance of operations, and incent our personnel to provide exceptional customer service, thereby driving increased customer loyalty and enhancing our reputation.

Reputation management is an extremely important and powerful business tool. Our reputation management strategy, which includes encouraging, monitoring, and responding to customer reviews, is crucial for generating and maintaining trust and customer loyalty in a competitive market. We proactively monitor online reputation management sites, including Google and Yelp, among others, to enhance our online presence, build loyalty, assess customer comments, ensure we are offering a superior customer service experience, and ultimately drive sales and profitability. We encourage customer reviews and have automated tools in place that make it easy for customers to review our business. Analysis of online reviews provides us valuable operational insights that we leverage to foster customer loyalty, stay ahead of the competition, and drive new sales.

### Leverage Scale and Implement “Best Practices”

We seek to build scale in many of the markets where we have operations. Our desire is to reduce or eliminate redundant administrative costs such as accounting, payroll, information technology systems and other general administrative costs. In addition, we seek to leverage our industry knowledge and experience to foster communication and cooperation between like brand dealerships throughout our organization. Corporate management and local management meet regularly to review operating performance, examine industry trends, and implement operating improvements. Key financial information is discussed and compared across all markets. This frequent interaction facilitates implementation of successful strategies throughout the organization.

### Embrace Digital Sales and Marketing

With our consumers deeply immersed in the digital space, we continue to execute a comprehensive digital marketing strategy that encompasses all avenues of customer engagement including websites, social media, video, mobile, email marketing, advertising, search engine optimization, branding, and content. We strive to build and optimize our presence across all digital platforms to deliver a seamless, convenient and transparent experience for our customers on their terms.

Each of our dealerships uses a custom content management system to maintain its own website. All of our dealership websites have consistent functionality and responsive formats, except where otherwise required by original equipment manufacturers, which helps to minimize costs, attract customers and provide a consistent image across dealerships.

To drive high quality traffic to our web properties, we primarily focus on search engine optimization and search engine marketing, and employ some third-party lead providers in key markets to augment our traffic. Most importantly, we have invested heavily in our own websites so we can retain traffic and deliver an engaging, dynamic user experience. As the majority of our web traffic is now coming from mobile devices, we operate with a “mobile first” mentality and ensure that the content we serve our customers is tailored to their preferred method of engagement and specific needs, where applicable.

We promote our U.S. and U.K. automotive retail new and pre-owned vehicle inventory online through PenskeCars.com, Sytner.co.uk, agnewcars.com, CarSense.com, CarShop.co.uk, and TheCarPeople.co.uk. The websites are designed to streamline the car-buying process and allow consumers to view and compare on average over 60,000 new, certified and pre-owned vehicles. These sites, together with our dealership websites, provide consumers a simple way to schedule service appointments online 24/7 and view extensive vehicle information, including photos, prices, promotions, videos, and third-party vehicle history reports for pre-owned vehicles. Additionally, customers may download the PenskeCars.com app to access vehicle inventory, locate or contact a dealership, explore payments, and get instant trade offers at their convenience.

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Social media is an essential component of our digital strategy and enables us to proactively communicate with our customers and receive input on our service, branding, and engagement. Our dealerships maintain social media pages, including Facebook, Instagram and Twitter, among others, to attract new customers, build stronger relationships with current customers, and help grow the business. Using a social media mobile app, our dealerships can easily capture customer photos, send automated review invitations, record personalized videos for sales and service customers, and submit content for their social media sites. Social media one of the most powerful and cost-effective ways to engage with our customers, enhance brand visibility, and generate customer leads. By choosing a specific audience using a range of demographic tools, our dealerships are able to reach targeted potential customers effectively and efficiently.

As part of our continued efforts to improve the online customer experience, we research consumer behavior and survey our customers to validate our approach and help guide our site design. Customers are interested in a transparent and quick process, and use the web as a way to save time and educate themselves about their potential purchase.

To further our digital strategy, and respond to changing consumer preferences, we created a digital retailing experience, called Preferred Purchase, for our U.S. dealerships that incorporates new online functionality to streamline the sales process in our traditional business model. Preferred Purchase allows customers to value trade-in vehicles, review pricing, leasing and financing options, manufacturer incentive programs, and pre-qualify for credit, all online without visiting the dealership. This functionality is integrated and automated on a single platform that resides on both our individual dealership sites as well as our corporate sites. Preferred Purchase promotes transparency, decreases customer transaction times and gives our customers the flexibility to choose the path or sales process most comfortable to them — whether that is in the dealership or from the comfort of their home. We continue to assess consumers' purchasing habits, opinions, and preferences to ensure we are meeting consumer needs and making the right investments in new technology.

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## Retail Automotive Dealership Operations

Retail Automotive Franchises. We routinely acquire and dispose of retail automotive franchises. Our financial statements include the results of operations of acquired dealerships from the date of acquisition. We expect to continue to pursue acquisitions and selected dispositions in the future. The following table exhibits our retail automotive franchises by location and manufacturer as of December 31, 2018:

Location	Franchises	Franchises	U.S.	Non-U.S.	Total
Arizona	26	BMW/MINI	22	44	66
Arkansas	10	Toyota/Lexus	24	—	24
California	29	Mercedes-Benz/Sprinter/smart	17	29	46
Connecticut	9	Audi/Volkswagen/Bentley	18	50	68
Florida	3	Chrysler/Jeep/Dodge/Fiat/Alfa Romeo	8	—	8
Georgia	4	Honda/Acura	21	—	21
Indiana	2	Ferrari/Maserati	4	12	16
Maryland	2	Porsche	8	11	19
Minnesota	2	Jaguar/Land Rover	14	20	34
New Jersey	27	Lamborghini	1	5	6
Ohio	7	Nissan/Infiniti	3	—	3
Puerto Rico	4	Cadillac/Chevrolet	4	—	4
Rhode Island	9	Others	10	20	30
Tennessee	1	Total	154	191	345
Texas	11				
Virginia	6				
Wisconsin	2				
Total U.S.	154				
U.K.	141				
Germany	29				
Italy	21				
Total Non-U.S.	191				
Total Worldwide	345				

Retail Automotive Stand-Alone Used Vehicle Dealerships. The following table exhibits the stand-alone used vehicle dealerships we currently operate by geographic location:

Location	Number of Dealerships
U.S.	
Pennsylvania	4
New Jersey	1
Total U.S.	5
U.K.	

CarShop	5
The Car People	4
Total U.K.	9
Total	14

New Vehicle Retail Sales. In 2018, we retailed 235,964 new vehicles which generated 46.4% of our retail automotive dealership revenue and 23.7% of our retail automotive dealership gross profit. New vehicles are typically acquired by dealerships directly from the manufacturer. We strive to maintain outstanding relationships with the automotive manufacturers, based in part on our long-term presence in the retail automotive market, our commitment to providing premium facilities, our commitment to drive customer satisfaction, the reputation of our management team and the consistent sales volume at our dealerships. Our dealerships finance the purchase of most new vehicles from the manufacturers through floor plan financing provided primarily by various manufacturers' captive finance companies.

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Used Vehicle Retail Sales. In 2018, we retailed 282,542 used vehicles, including 71,013 from our stand-alone used vehicle dealerships, which generated 34.8% of our retail automotive dealership revenue and 13.4% of our retail automotive dealership gross profit. We acquire used vehicles from various sources including auctions open only to authorized new vehicle dealers, public auctions, trade-ins from consumers in connection with their purchase of a new vehicle from us, and lease expirations or terminations. To improve customer confidence in our used vehicle inventory, we provide vehicle history reports for all used vehicles and virtually all of our franchised new vehicle dealerships participate in manufacturer certification processes for used vehicles. If certification is obtained, the used vehicle owner is typically provided benefits and warranties similar to those offered to new vehicle owners by the applicable manufacturer. Most of our dealerships have implemented software tools which assist in procuring and selling used vehicles. In the U.K., we offer used vehicles to wholesalers and other dealers via online auction.

We currently operate fourteen stand-alone used vehicle dealerships in the U.S. and U.K. While we operate these dealerships under separate names (CarSense, CarShop and The Car People), each of these dealerships are committed to offering high quality “like-new” used vehicles at “no-haggle” prices. We anticipate that both CarShop and The Car People will begin to operate under the CarShop name in 2019. These businesses typically sell low mileage, high quality vehicles in a friendly and transparent buying experience. We acquired these businesses in 2017 and 2018, but each has a long history of serving their local communities. We include the results of our stand-alone used vehicle dealerships within used vehicle retail sales. Our total revenue from stand-alone used vehicle dealerships in 2018 was \$1.3 billion. In 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 retail automotive dealership operations and provide scalable opportunities across our market areas. These businesses generated approximately \$893.7 million in revenue in 2018. We believe there are attractive acquisition opportunities to grow these operations in both the U.S. and the U.K., and in January 2018, we acquired The Car People in the U.K., as discussed previously, which represented approximately \$375.1 million in revenue.

Vehicle Finance, Extended Service and Insurance Sales. Finance, extended service and insurance sales represented 3.0% of our retail automotive dealership revenue and 20.6% of our retail automotive dealership gross profit in 2018. At our customers’ option, our dealerships can arrange third-party financing or leasing in connection with vehicle purchases. We typically receive a portion of the cost of the financing or leasing paid by the customer for each transaction as a fee. While these services are generally non-recourse to us, we are subject to chargebacks in certain circumstances, such as default under a financing arrangement or prepayment. These chargebacks vary by finance product, but typically are limited to the fee we receive.

We also offer our customers various vehicle warranty and extended protection products, including extended service contracts, maintenance programs, guaranteed auto protection (known as “GAP,” this protection covers the shortfall between a customer’s loan balance and insurance payoff in the event of a total loss), lease “wear and tear” insurance and theft protection products. The extended service contracts and other products that our dealerships currently offer to customers are underwritten by independent third parties, including the vehicle manufacturers’ captive finance companies. Similar to finance transactions, we are subject to chargebacks relating to fees earned in connection with the sale of certain extended protection products. We also offer for sale other aftermarket products, including security systems and protective coatings.



We offer finance and insurance products using a “menu” process, which is designed to ensure that we offer our customers a complete range of finance, insurance, protection, and other aftermarket products in a transparent manner. We are in the process of installing docuPAD, an interactive tool designed to improve document processing and menu presentation of finance and insurance options. The rollout is scheduled to be completed at the end of 2019. We expect the new system to create a more consistent process for our dealerships, yield higher finance and insurance revenue, improve compliance and reduce the need for printed copies and paper storage.

**Service and Parts Sales.** Service and parts sales represented 10.3% of our retail automotive dealership revenue and 41.8% of our retail automotive dealership gross profit in 2018. We generate service and parts sales in connection with warranty work performed at each of our franchised dealerships and non-warranty work. We believe our service and parts revenues benefit from the increasingly complex technology used in vehicles that makes it difficult for independent repair facilities or vehicle owners to maintain and repair today’s automobiles.

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A goal of each of our dealerships is to make each vehicle purchaser a customer of our service and parts department. Our dealerships keep detailed records of our customers' maintenance and service histories, and many dealerships send reminders to customers when vehicles are due for periodic maintenance or service. Many of our dealerships have extended evening and weekend service hours for the convenience of our customers. We also offer rapid repair services such as paint-less dent repair, headlight reconditioning, wheel repairs, tire sales and windshield replacement at most of our facilities in order to offer our customers the convenience of one-stop shopping for all of their automotive requirements. We also operate 37 automotive collision repair centers, each of which is operated as an integral part of our dealership operations.

Fleet and Wholesale Sales. Fleet and wholesale sales represented 5.5% of our retail automotive dealership revenue and 0.5% of our retail automotive dealership gross profit in 2018. Fleet activities represent the sale of new units to customers that are deemed to not be retail customers such as cities, municipalities or rental car companies, and are generally sold at contracted amounts. Wholesale activities relate to the sale of used vehicles generally to other dealers and occur at auction. Vehicles sold through this channel generally include units acquired by trade-in that do not meet certain standards or aged units.

### Retail Commercial Truck Dealership Operations

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 December 31, 2018, PTG operated twenty locations, offering primarily Freightliner and Western Star branded trucks. One of these locations was acquired in April 2018 in Canada. 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. This business generated \$1,374.5 million of revenue and \$211.5 million of gross profit in 2018.

PTG dealerships provide a similar suite of services as our automotive dealerships, offering new trucks and a large selection of used trucks for sale, a full range of parts, maintenance and repair services, and finance and insurance options for its customers by facilitating truck and trailer financing and leasing, extended maintenance plans, physical damage insurance, GAP insurance, roadside relief and other programs.

The necessity of repairing trucks for our customers is a key area of differentiation for our commercial truck dealerships, and we provide around-the-clock service in certain locations to get our customers' commercial trucks back on the road so they can complete their routes. PTG also carries an extensive inventory of parts for the new and used trucks they sell and service, including Thomas Built Buses, and other makes of medium and heavy duty trucks. The service and parts business of our PTG commercial truck dealerships represents approximately 69% of our retail commercial truck dealership gross profit.

Similar to our retail automotive business, PTG is committed to providing outstanding brands and superior customer service in premium facilities. For example, our Dallas Freightliner location offers a state-of-the-art facility of climate controlled office space, service shops, customer amenities, parts inventory storage, and a parts showroom. This facility is equipped with 80 full-service truck bays with a full suite of on-hand parts inventory. Guests of Dallas Freightliner enjoy a television lounge with HDTV theater seating, a large comfortable customer lounge with lockers, laundry and shower facilities, on-site trailer parking, and free recreational vehicle electrical hook-up.

#### Commercial Vehicle Distribution Operations

Penske Commercial Vehicles Australia. 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 nine company-owned retail commercial vehicle dealerships.

Our local headquarters is located in Brisbane, Australia, which is the country’s third largest city. Our headquarters includes administrative facilities as well as a parts distribution center and a production center. We also have a parts distribution center in Auckland, New Zealand.

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Western Star trucks are manufactured by Daimler Trucks North America in Portland, Oregon. These technologically advanced, custom-built vehicles are ordered by customers to meet their particular needs for line haul, long distance road train, mining, logging and other heavy duty applications. We are also the exclusive importer of MAN trucks and buses. MAN Truck and Bus, a VW Group company, is a leading producer of medium and heavy duty trucks as well as city and coach buses. These cab-forward, fuel efficient vehicles are principally produced in several sites in Germany and are ordered by customers for line haul, local distribution, mining and other off-road applications. Dennis Eagle refuse collection vehicles are manufactured by Ros Roca in Warwick, England. Together these brands represented 6.5% of heavy duty truck units sold in Australia and 3.9% in New Zealand during 2018.

Our commercial vehicle distribution operations include seven company-owned retail commercial vehicle dealerships in Australia and two company-owned retail commercial vehicle dealerships in New Zealand. Our dealership in Brisbane, Australia is the largest retailer of Western Star Trucks in Australia by volume. We finance our purchases of these vehicles under floor plan agreements with a local Daimler affiliate and a local Volkswagen affiliate with terms similar to our other floor plan agreements.

Penske Power Systems. We are also a leading distributor of diesel and gas engines and power systems, principally representing MTU, Detroit Diesel, Allison Transmission, MTU Onsite Energy, and Rolls Royce Power Systems. This business, known as Penske Power Systems (“PPS”), offers products across the on- and off-highway markets, construction, mining, marine, and defense, 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 Power Systems’ principal headquarters is located at its Melbourne workshop/office facility. In addition to sales, distribution and full product repair capability, this facility includes the offices for national sales, engineering and marketing, a regional training facility, and a regional engineering center. In addition, PPS operates a corporate office based at its Sydney (Chipping Norton) branch which is dedicated to corporate activities, distribution and product repair capability, and retail truck sales. PPS operates 14 branch facilities across Australia and in Auckland, New Zealand, and utilizes mobile remote field service units travelling directly to customer premises.

Penske Power Systems’ 82 dealers are strategically located throughout Australia, New Zealand and the Pacific. Most of the dealers (68) represent the Detroit Diesel brand, with the majority aligned to Western Star and/or Freightliner truck manufacturers. The remaining dealers represent the MTU (1) and Allison Transmission (13) brands. The “off-highway” business of PPS principally includes the sale of power systems by PPS directly to customers in the commercial, defense and maritime sectors, and to several dealers.

These two businesses generated \$558.5 million of revenue and \$144.6 million of gross profit in 2018.

## Penske Truck Leasing

We currently hold a 28.9% ownership interest in PTL, a leading provider of transportation and supply chain services. 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 logistics services such as dedicated contract carriage, distribution center management, transportation management, lead logistics provider, and dry van truckload carrier services. PTL has a highly diversified customer base ranging from multi-national corporations across industries such as food and beverage, transportation, manufacturing, automotive, retail and healthcare, with whom they have long-term contracts to individual consumers who rent a single truck on a daily basis.

PTL operates one of the leading full-service truck leasing, truck rental and contract maintenance businesses in North America, and an international logistics business in North America, South America, Europe and Asia. PTL also operates its truck leasing and truck rental business in Australia through a joint venture with us.

Full-service truck leasing, truck rental and contract maintenance. Full-service truck leasing, truck rental and contract maintenance of commercial trucks, tractors and trailers constitutes PTL's largest business. PTL manages a fleet of

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approximately 299,000 trucks, tractors and trailers, consisting of approximately 207,700 vehicles owned by PTL and leased to customers under full-service lease or rental agreements and approximately 91,800 customer-owned and -operated vehicles for which they provided contract maintenance services. Terms under its full-service leases generally range from four to seven years for tractors and trucks and six to ten years for trailers. Its commercial and consumer rental fleet as of December 31, 2018 consisted of approximately 75,500 vehicles for use by its full-service truck leasing, small business and consumer customers for periods generally ranging from less than a day to 12 months. Most of its leased vehicles are configured according to customer specifications, including custom painting and lettering, while its rental trucks bear Penske branding.

Commercial customers often outsource to PTL to reduce the complexity and cost of vehicle ownership. Under a full-service lease, PTL provides and fully maintains the vehicle, which is generally specifically configured for the customer. The services provided under full-service lease and contract maintenance agreements generally include preventive maintenance, advanced diagnostics, emergency road service, fleet services, safety programs, and fuel services through its network of 725 company-operated facilities. In addition, PTL's commercial rental operations offer short term availability of tractors, trucks and trailers, typically to accommodate seasonal, emergency and other temporary needs. This short-term availability of tractors, trucks and trailers typically accommodates seasonal, emergency and other temporary needs. A significant portion of these rentals are to existing full-service leasing and contract maintenance customers who are seeking flexibility in their fleet management. PTL's commercial rental business generated 22% of its operating revenue for 2018 and its full-service lease and contract maintenance business generated 47% of its operating revenue in 2018.

For consumer customers, PTL provides short-term rental of light and medium duty vehicles on a one-way and local basis, typically to transport household goods. Customers typically include local small businesses and individuals seeking a do-it-yourself solution to their moving needs. PTL's consumer fleet generally consists of late model vehicles ranging in size from small vans to 26-foot trucks, and its consumer rentals are conducted through approximately 1,890 independent rental agents and approximately 375 of its company-operated leasing and rental facilities. PTL's consumer business generated 6% of its operating revenue for 2018.

Logistics. PTL's logistics business offers an extensive variety of services, including dedicated contract carriage, distribution center management, transportation management, lead logistics provider and dry van truckload carrier services. PTL coordinates services for its customers across the supply chain, including: inbound material flow, handling and packaging, inventory management, distribution and technologies, and sourcing of third-party carriers. These services are available individually or on a combined basis and often involve its associates performing services at the customer's location. By offering a scalable series of services to its customers, PTL can manage the customer's entire supply chain or any stand-alone service. PTL also utilizes specialized software that enables real-time fleet visibility and provides reporting metrics, giving customers detailed information on fuel economy and other critical supply chain costs. PTL's international logistics business has approximately 445 locations in North America, South America, Europe and Asia. PTL's logistics business generated 25% of its operating revenue for 2018.

## Industry Information

Retail Automotive Dealership. Approximately 55% of our retail automotive dealership revenues are generated in the U.S., which in 2018 was the world's second largest automotive retail market as measured by units sold. In 2018, sales of new cars and light trucks were approximately 17.3 million units, an increase of 0.6% from 2017, and were generated at approximately 18,300 franchised new-car dealerships. According to the latest available data from the National Automobile Dealers Association, dealership revenue is derived as follows: 58% from new vehicle sales, 30% from used vehicle sales, and 12% from service and parts sales. Dealerships also offer a wide range of higher-margin products and services, including extended service contracts, financing arrangements and credit insurance. The National Automobile Dealers Association figures noted above include finance and insurance revenues within either new or used vehicle sales, as sales of these products are usually incremental to the sale of a vehicle.

In the U.S., the franchised automotive dealer industry is the largest retail business by revenue, with virtually all new cars and light trucks bought in the U.S. through franchised dealers in a market in excess of \$1.0 trillion. Publicly held automotive retail groups account for less than 10% of total industry revenue. Although significant consolidation has already taken place, the industry remains highly fragmented, with more than 90% of the U.S. industry's market share

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remaining in the hands of smaller regional and independent players. Our other markets are similarly fragmented. We believe that further consolidation in these markets is probable due to the significant capital requirements of maintaining manufacturer facility standards and the limited number of viable alternative exit strategies for dealership owners.

Our European markets consist of Germany, the U.K., Italy, and Spain, which represented the first, second, fourth, and fifth largest automotive retail markets, respectively, in Western Europe in 2018, and accounted for approximately 64% of the total vehicle sales in Western Europe. Unit sales of automobiles in Western Europe were approximately 14.2 million in 2018, a 0.8% decrease compared to 2017. In Germany, the U.K., Italy, and Spain, new car sales were approximately 3.4 million, 2.4 million, 1.9 million and 1.3 million units, respectively, in 2018.

We also own a 49% interest in a Japanese joint venture. Unit sales in Japan were approximately 4.4 million in 2018, and remained relatively flat compared to 2017.

We also operate fourteen stand-alone used vehicle dealerships in the U.S. and the U.K. Used vehicle sales are even more fragmented than new vehicle sales and are generated by new car dealerships, used vehicle “superstores,” individual small lot sellers, as well as individual to individual sales. Used vehicle sales were approximately 40 million units in the U.S. and approximately 8 million units in the U.K. in 2018.

**Retail Commercial Truck Dealership.** In 2018, North America sales of Class 5-8 medium and heavy duty trucks, the principal vehicles for our PTG business, were approximately 577,523 units, an increase of 15.5% from 2017. The Class 5-7 medium duty truck market increased 6.0% to 262,806 units from 247,902 units in the same period in 2017. The largest market, Class 8 heavy duty trucks, increased 24.9% to approximately 314,717 units from approximately 251,951 units in 2017. In this market, our principal brands, Freightliner and Western Star, represent approximately 37.5% of that market.

**Commercial Vehicle Distribution.** Our commercial vehicle distribution business operates principally in Australia and New Zealand. In 2018, heavy duty truck sales in Australia and New Zealand combined were 17,823 units, representing an increase of 16.5% from 2017. The brands we represent in Australia hold a 6.5% market share in the Australian heavy duty truck market, and a 3.9% market share in New Zealand.

**Penske Truck Leasing.** PTL participates broadly in the global supply chain, estimated at \$8.7 trillion annually, and particularly in the U.S. supply chain, estimated at \$1.6 trillion annually. Only 11% of the total U.S. supply chain function is outsourced to third parties, such as PTL. We estimate, based on R. L. Polk registration data, that there are approximately 8.2 million commercial trucks operating in the United States, of which up to 3.9 million could be potential opportunities for PTL’s full-service leasing and contract maintenance offerings.



Dealership. Generally, new vehicle unit sales are cyclical and, historically, fluctuations have been influenced by factors such as manufacturer incentives, interest rates, fuel prices, unemployment, inflation, weather, the level of personal discretionary spending, credit availability, consumer confidence and other general economic factors. However, from a profitability perspective, automotive and truck retailers have historically been less vulnerable than manufacturers and parts suppliers to declines in new vehicle sales. We believe this is due to the retailers' more flexible expense structure (a significant portion of the retail industry's costs are variable) and their diversified revenue streams such as used vehicle sales and service and parts sales. In addition, manufacturers may offer various dealer incentives when sales are slow, which further increases the volatility in profitability for manufacturers and may help to decrease volatility for franchised automotive retailers.

## Business Description

### Information Technology and Customer Privacy

We consolidate financial, accounting and operational data received from our local operations through private data communications networks. Local operating data is gathered and processed through individual systems utilizing common centralized management systems predominately licensed from, and in many cases operated by, third parties. Our local systems follow our standardized accounting procedures and are compliant with any guidelines established by our vehicle manufacturers. Our database technology allows us to extract and aggregate data from the systems in a consistent format

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to generate consolidated financial and operational analysis. These systems also allow us to access detailed information for each individual location, as a group, or on a consolidated basis. Information we can access includes, among other things, inventory, cash, unit sales, the mix of new and used vehicle sales and sales of aftermarket products and services. Our ability to access this data allows us to continually analyze our local results of operations and financial position so as to identify areas for improvement.

We utilize common customer relationship management systems that assist us in identifying customer opportunities and responding to customer inquiries. We utilize compliance systems that assist us with our regulatory obligations and assist us in maintaining the privacy of the information we receive from customers that we collect, process, and retain in the normal course of our business. We have adopted rigorous customer information safeguard programs and “red flag” policies to assist us in maintaining customer privacy.

As part of our business model, we receive sensitive information regarding customers, associates and vendors, from various online and offline channels. Our internal and third-party systems are under a moderate level of risk from cyber criminals or other individuals with malicious intent to gain unauthorized access to our systems. Cyber-attacks continue to grow in number and sophistication thus presenting an ongoing threat to systems, whether internal or external, used to operate the business on a day to day basis. We perform periodic control testing and audits on our systems. Despite these measures, our facilities and systems, and those of our third-party service providers, could be vulnerable to security breaches, malicious software, or other events. Any security breach or event resulting in the unauthorized disclosure of confidential information, or degradation of services provided by critical business systems, whether by us directly or our third-party service providers, could adversely affect our business operations, sales, reputation with current and potential customers, associates or vendors, as well as other operational and financial impacts derived from investigations, litigation, imposition of penalties, or other means.

## Marketing

Retail Automotive Dealership. Our marketing strategy focuses on our individual businesses to capitalize on local branding, as well as corporate programs and web presence, which allows us to leverage scale and our parent brand recognition. We align ourselves with the marketing implemented by our OEM partners for their respective brands and integrate those initiatives and resources across the brands we represent.

Our marketing strategy reflects a data-driven approach that combines key metrics and trends from industry and consumer studies, our customer relationship management systems, and performance data from our businesses. This approach emphasizes objectivity and transparency in our marketing efforts and allows us to measure and gauge our success.

Our dealerships have strong local brand and name recognition and are respected in their communities. As such, we focus our efforts on our individual businesses to capitalize on their strong local reputation. To supplement local marketing, we implement corporate initiatives that link our local businesses to leverage scale and our parent brand recognition.

We leverage scale by using consistent performance metrics across the group to identify best practices and opportunities to negotiate enterprise arrangements for key marketing partners. A single, unified, customer relationship management tool is used by our new vehicle dealerships in the U.S. to enhance and streamline customer communication, provide visibility into our sales pipeline, and measure return on investment across the organization.

To attract customers and enhance customer service, each of our dealerships maintains its own website platform. All dealership websites have consistent functionality and responsive formats, except where otherwise required by vehicle manufacturers, which helps to minimize costs and provides a consistent image across dealerships. In addition to the dealership websites, we advertise most of our U.S. and U.K. automotive retail new and pre-owned vehicle inventory online through PenskeCars.com and Sytner.co.uk, as discussed previously under “Embrace Digital Sales and Marketing” above.

Consistent with our data-driven approach, as consumer activity continues to move toward digital, our marketing strategy places a strong emphasis on all forms of digital marketing. We strive to build and optimize our online presence

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across multiple platforms in order to drive high quality traffic to our business and maintain consistent and professional messaging. By focusing on social media, video, mobile, email marketing, online advertising, search engine optimization, branding, and content, we proactively optimize all avenues of digital customer engagement.

We monitor customer satisfaction data to track the performance of operations, and incent our personnel to provide exceptional customer service, thereby driving increased customer loyalty. Social media is a highly-valued element of our marketing strategy that allows us to engage with customers, build dealership awareness and enhance repeat and referral business. Additionally, we leverage corporate social media efforts and partners to benefit our dealerships and create a strong sense of community. Online reputation management sites, such as Google and Yelp, are proactively monitored to ensure we are offering a superior customer experience.

Through our marketing strategy, we aim to forge lasting relationships with our customers, enhance our reputation, and create the opportunity for significant repeat and referral business.

Retail Commercial Truck Dealership and Commercial Vehicle Distribution. We market commercial trucks in the U.S., Canada and Western Europe, and commercial vehicles and other products in Australia and New Zealand principally through a network of dealership and service locations, supported by corporate level marketing efforts. Our digital marketing leverages manufacturer websites supplemented by brand specific websites to promote our brands. We also employ local sponsorships to generate brand awareness in our markets and market to customers at various trade shows and other industry events. While we rely on our dealerships and service locations to market to local customers, we typically assign a regional sales manager to oversee local dealer marketing efforts.

## Agreements with Vehicle Manufacturers

We operate our franchised new vehicle dealerships under separate agreements with the manufacturers or distributors of each brand of vehicle sold at that dealership. These agreements are typical throughout the industry and may contain provisions and standards governing almost every aspect of the dealership, including ownership, management, personnel, training, maintenance of a minimum of working capital, net worth requirements, maintenance of minimum lines of credit, advertising and marketing activities, facilities, signs, products and services, maintenance of minimum amounts of insurance, achievement of minimum customer service standards and monthly financial reporting. In addition, the General Manager and/or the owner of a dealership typically cannot be changed without the manufacturer's consent. In exchange for complying with these provisions and standards, we are granted the non-exclusive right to sell the manufacturer's or distributor's brand of vehicles and related parts and warranty services at our dealerships. The agreements also grant us a non-exclusive license to use each manufacturer's trademarks, service marks and designs in connection with our sales and service of its brand at our dealership.

Some of our agreements, including those with BMW, Honda, Mercedes-Benz and Toyota, expire after a specified period of time, ranging from one to six years. Manufacturers have generally not terminated our franchise agreements, and our franchise agreements with fixed terms have typically been renewed without substantial cost. We currently expect the manufacturers to renew all of our franchise agreements as they expire. In addition, certain agreements with the manufacturers limit the total number of dealerships of that brand that we may own in a particular geographic area and, in some cases, limit the total number of their vehicles that we may sell as a percentage of a particular manufacturer's overall sales. Manufacturers may also limit the ownership of stores in contiguous markets. We have reached certain geographical limitations with certain manufacturers in the U.S. and U.K. Where these limits are reached, we cannot acquire additional franchises of those brands in the relevant market unless we can negotiate modifications to the agreements. We may not be able to negotiate any such modifications.

Many of these agreements also grant the manufacturer or distributor a security interest in the vehicles and/or parts sold by them to the dealership, as well as other dealership assets, and permit them to terminate or not renew the agreement for a variety of causes, including failure to adequately operate the dealership, insolvency or bankruptcy, impairment of the dealer's reputation or financial standing, changes in the dealership's management, owners or location without consent, sales of the dealership's assets without consent, failure to maintain adequate working capital or floor plan financing, changes in the dealership's financial or other condition, failure to submit required information to them on a timely basis, failure to have any permit or license necessary to operate the dealership, and material breaches of other provisions of the agreement. In the U.S., these termination rights are subject to state franchise laws that limit a

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manufacturer's right to terminate a franchise. In the U.K., we operate without such local franchise law protection (see "Regulation" below).

Our agreements with manufacturers or distributors usually give them the right, in some circumstances (including upon a merger, sale, or change of control of the Company, or in some cases a material change in our business or capital structure), to acquire the dealerships from us at fair market value. For example, our agreement with General Motors provides that, upon a proposed purchase of 20% or more of our voting stock by any new person or entity or another manufacturer (subject to certain exceptions), an extraordinary corporate transaction (such as a merger, reorganization or sale of a material amount of assets) or a change of control of our board of directors, General Motors has the right to acquire all assets, properties and business of any General Motors dealership owned by us for fair value. Some of our agreements with other major manufacturers, including Honda and Toyota, contain provisions similar to the General Motors provisions.

With respect to our commercial vehicle distribution operations in Australia and New Zealand, we are party to distributor agreements with each manufacturer of products we distribute pursuant to which we are the distributor of these products in those countries and nearby markets. The agreements govern all aspects of our distribution rights, including sales and service activities, service and warranty terms, use of intellectual property, promotion and advertising provisions, pricing and payment terms, and indemnification requirements. The agreement with Western Star expires in 2025, the agreement with MTU expires in 2024 and the agreement with Detroit Diesel expires in 2025. We also are party to shipping agreements with respect to importing those products. For each of our non-company owned dealers, we have signed a franchise agreement with terms that set forth the dealer's obligations with respect to the sales and servicing of these vehicles.

## Competition

Dealership. We believe that the principal factors consumers consider when determining where to purchase a vehicle are the marketing campaigns conducted by manufacturers, the ability of dealerships to offer a wide selection of the most popular vehicles, the location of dealerships and the quality of the customer experience. Other factors include customer preference for particular brands of vehicles, pricing (including manufacturer rebates and other special offers) and warranties. We believe that our dealerships are competitive in all of these areas.

The automotive and truck retail industry is currently served by franchised dealerships, independent used vehicle dealerships and individual consumers who sell used vehicles in private transactions. For new vehicle sales, we compete primarily with other franchised dealers in each of our marketing areas, relying on our premium facilities, superior customer service, advertising and merchandising, management experience, sales expertise, reputation, and the location of our dealerships to attract and retain customers. Each of our markets may include a number of well-capitalized competitors, including in certain instances dealerships owned by manufacturers and national and regional retail chains. In our retail commercial truck dealership operations, we compete with other manufacturers and retailers of medium and heavy duty trucks such as Ford, International Kenworth, Mack, Peterbilt and Volvo. We also

compete with dealers that sell the same brands of new vehicles that we sell and with dealers that sell other brands of new vehicles that we do not represent in a particular market. Our new vehicle dealership competitors have franchise agreements which give them access to new vehicles on the same terms as us. Automotive dealers also face competition in the sale of new vehicles from purchasing services and warehouse clubs. With respect to arranging financing for our customers' vehicle purchases, we compete with a broad range of financial institutions such as banks and local credit unions.

For used vehicle sales, we compete in a highly fragmented market which sells approximately 40 million units in the U.S. and 8 million units in the U.K. annually through other franchised dealers, independent used vehicle dealers, automobile rental agencies, purchasing services, private parties, and used vehicle "superstores" for the procurement and resale of used vehicles.

We compete with other franchised dealers to perform warranty repairs, and with other dealers, franchised and non-franchised service center chains, and independent garages for non-warranty repair and routine maintenance business. We compete with other dealers, franchised and independent aftermarket repair shops, and parts retailers in our parts operations. We believe that the principal factors consumers consider when determining where to purchase vehicle parts and service are price, the use of factory-approved replacement parts, facility location, the familiarity with a

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manufacturer's brands and the quality of customer service. A number of regional or national chains offer selected parts and services at prices that may be lower than our prices.

We believe the majority of consumers are utilizing the Internet and other digital media in connection with the purchase of new and used vehicles. Accordingly, we face increased competition from online vehicle websites, including those developed by manufacturers and other dealership groups.

**Commercial Vehicle Distribution.** With respect to our commercial vehicle distribution operations in Australia and New Zealand, we compete with manufacturers, distributors, and retailers of other vehicles and products in our markets. The brands we represent in Australia hold a 6.5% market share in the Australian heavy duty truck market, and a 3.9% market share in New Zealand.

**PTL.** As an alternative to using PTL's full-service truck leasing or contract maintenance services, we believe that most potential customers perform some or all of these services themselves. They may also purchase similar or alternative services from other third-party vendors. Its full-service truck leasing operations compete with companies providing similar services on a national, regional and local level. Many regional and local competitors provide services on a national level through their participation in various cooperative programs. Competitive factors include price, maintenance, service and geographic coverage. PTL competes with finance lessors, truck and trailer manufacturers, and independent dealers, each of which provides full-service lease products, finance leases, extended warranty maintenance, rental, and other transportation services. Its contract maintenance offering competes primarily with truck and trailer manufacturers and independent dealers who provide maintenance services.

PTL's commercial and consumer rental operations compete with several other nationwide vehicle rental systems, a large number of vehicle leasing and rental companies with multiple branches operating on a regional basis, and many similar companies operating primarily on a local basis. Because a significant portion of its rentals are used for moving and relocation, PTL competes with local and national moving and storage companies, as well as alternatives such as portable container-based transportation and storage. In its rental operations, it competes primarily on the basis of equipment availability, geographic location and customer service.

PTL's logistics business competes with other dedicated logistics providers, transportation management businesses, freight brokers, warehouse providers and truckload carriers on a national, regional and local level, as well as with the internal supply chain functions of prospective customers who rely on their own resources for logistics management. Competitive factors include price, efficient logistical design offerings, equipment, maintenance, service, technology and geographic coverage, and driver and operations expertise. PTL seeks to combine its logistics services with its existing full-service truck leasing and truck rental business to create an integrated transportation solution for its customers.



## Employees and Labor Relations

As of December 31, 2018, we employed nearly 27,000 people, approximately 748 of whom were covered by collective bargaining agreements with labor unions. We consider our relations with our employees to be satisfactory. Our policy is to motivate our key managers through, among other things, variable compensation programs tied principally to local profitability. Due to our reliance on vehicle manufacturers, we may be adversely affected by labor strikes or work stoppages at the manufacturers' facilities.

## Regulation

We operate in a highly regulated industry and a number of regulations affect the marketing, selling, financing, servicing, and distribution of vehicles. Under the laws of the jurisdictions in which we currently operate, we typically must obtain a license in order to establish, operate or relocate a dealership, or operate a repair facility. These laws also regulate our conduct of business, including our advertising, operating, financing, employment, distribution and sales practices. Other laws and regulations include franchise laws and regulations, environmental laws and regulations (see "Environmental Matters" below), laws and regulations applicable to new and used motor vehicle dealers, as well as customer and employee privacy, identity theft prevention, wage-hour, anti-discrimination and other employment practices laws. With respect to online sales, many laws and regulations applicable to our business were adopted prior to

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the introduction of the Internet, certain digital technologies, and e-commerce, generally. As a result, we are tasked with maintaining compliance in an uncertain regulatory environment.

Our financing activities with customers are subject to truth-in-lending, consumer leasing, equal credit opportunity and similar regulations, as well as motor vehicle finance laws, installment finance laws, insurance laws, usury laws and other installment sales laws. Some jurisdictions regulate finance fees that may be paid as a result of vehicle sales. In recent years, private plaintiffs, state attorneys general and federal agencies in the U.S. have increased their scrutiny of advertising, sales, and finance and insurance activities in the sale and leasing of motor vehicles.

In the U.S., we benefit from the protection of numerous state franchise laws that generally provide that a manufacturer or distributor may not terminate or refuse to renew a franchise agreement unless it has first provided the dealer with written notice setting forth good cause and stating the grounds for termination or non-renewal. Some state franchise laws allow dealers to file protests or petitions or to attempt to comply with the manufacturer's criteria within the notice period to avoid the termination or non-renewal. Our international locations generally do not have these laws and, as a result, our international operations operate without these types of protections.

## Environmental Matters

We are subject to a wide range of environmental laws and regulations, including those governing discharges into the air and water, the operation and removal of aboveground and underground storage tanks, the use, handling, storage and disposal of hazardous substances and other materials and the investigation and remediation of environmental contamination. Our business involves the generation, use, handling and contracting for recycling or disposal of hazardous or toxic substances or wastes, including environmentally sensitive materials such as motor oil, filters, transmission fluid, antifreeze, refrigerant, batteries, solvents, lubricants, tires, and fuel. We have incurred, and will continue to incur, capital and operating expenditures and other costs in complying with such laws and regulations.

Our operations involving the management of hazardous and other environmentally sensitive materials are subject to numerous requirements. Our business also involves the operation of storage tanks containing such materials. Storage tanks are subject to periodic testing, containment, upgrading and removal under applicable law. Furthermore, investigation or remediation may be necessary in the event of leaks or other discharges from current or former underground or aboveground storage tanks. In addition, water quality protection programs govern certain discharges from some of our operations. Similarly, certain air emissions from our operations, such as vehicle painting, may be subject to relevant laws. Various health and safety standards also apply to our operations.

We may have liability in connection with materials that are sent to third-party recycling, treatment, and/or disposal facilities under the U.S. Comprehensive Environmental Response, Compensation and Liability Act and comparable statutes. These statutes impose liability for investigation and remediation of contamination without regard to fault or

the legality of the conduct that contributed to the contamination. Responsible parties under these statutes may include the owner or operator of the site where the contamination occurred and companies that disposed or arranged for the disposal of the hazardous substances released at these sites.

An expanding trend in environmental regulation is to place more restrictions and limitations on activities that may affect the environment. U.S. vehicle manufacturers are subject to federally mandated corporate average fuel economy standards, which are expected to increase substantially through 2025. Furthermore, in response to concerns that emissions of carbon dioxide and certain other gases, referred to as “greenhouse gases,” may be contributing to warming of the Earth’s atmosphere, climate change-related legislation and policy changes to restrict greenhouse gas emissions are being considered, or have been implemented, at state and federal levels. European regulation requires a 37.5% reduction in emissions carbon dioxide for cars by 2030. Furthermore, numerous states, including California, have adopted or are considering requiring the sale of specified numbers of zero-emission vehicles. Significant increases in fuel economy requirements or new federal and state restrictions on emissions of carbon dioxide on vehicles and automobile fuels in the U.S. could adversely affect prices of and demand for the vehicles that we sell, such as the reduced demand for diesel vehicles we have experienced in 2018 in the United Kingdom.

We have a proactive strategy related to environmental, health and safety compliance, which includes contracting with third parties to inspect our facilities periodically. We believe that we do not have any material environmental liabilities

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and that compliance with environmental laws and regulations will not, individually or in the aggregate, have a material effect on us. However, soil and groundwater contamination is known to exist at certain of our current or former properties. Further, environmental laws and regulations are complex and subject to change. In addition, in connection with our acquisitions, it is possible that we will assume or become subject to new or unforeseen environmental costs or liabilities, some of which may be material. Compliance with current, amended, new or more stringent laws or regulations, stricter interpretations of existing laws or the future discovery of environmental conditions could require additional expenditures by us, and such expenditures could be material.

## Insurance

Our business is subject to substantial risk of loss due to significant concentrations of property value, including vehicles and parts at our locations. In addition, we are exposed to liabilities arising out of our operations such as employee claims, customer claims and claims for personal injury or property damage, and potential fines and penalties in connection with alleged violations of regulatory requirements. We attempt to manage such risks through loss control and risk transfer utilizing insurance programs which are subject to specified deductibles and significant retentions. Certain insurers have limited available property coverage in response to the natural catastrophes experienced in recent years. As a result, we are exposed to uninsured and underinsured losses that could have a material adverse effect on us.

## Available Information

For selected financial information concerning our various operating and geographic segments, see Note 18 to our consolidated financial statements included in Item 8 of this report. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are available free of charge through our website, [www.penskeautomotive.com](http://www.penskeautomotive.com), under the tab “Investor Relations” as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission (“SEC”). The SEC maintains an Internet site that contains reports, proxy and information statements, and other information that issuers file with the SEC. The address of the SEC’s website is [www.sec.gov](http://www.sec.gov). We also make available on our website copies of materials regarding our corporate governance policies and practices, including our Corporate Governance Guidelines; our Code of Business Ethics; and the charters relating to the committees of our Board of Directors. The content of any website referred to in this Form 10-K is not deemed incorporated by reference into this Form 10-K unless expressly noted. You may obtain a printed copy of any of the foregoing materials by sending a written request to: Investor Relations, Penske Automotive Group, Inc., 2555 Telegraph Road, Bloomfield Hills, MI 48302 or by calling toll-free 866-715-5289. The information on or linked to our website is not part of this document. We plan to disclose changes to our Code of Business Ethics, or waivers, if any, for our executive officers or directors, on our website. We incorporated in the state of Delaware in 1990 and began dealership operations in October 1992.

## Seasonality

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

Commercial Vehicle Distribution. Our commercial vehicle distribution business generally experiences higher sales volumes during the second quarter of the year, which is primarily attributable to commercial vehicle customers completing annual capital expenditures before their fiscal year-end, which is typically June 30 in Australia.

#### Item 1A. Risk Factors

Our business, financial condition, results of operations, cash flows, prospects, and the prevailing market price and performance of our common stock may be affected by a number of factors, including the matters discussed below. Certain statements and information set forth herein, as well as other written or oral statements made from time to time by

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us or by our authorized officers on our behalf, constitute “forward-looking statements” within the meaning of the Federal Private Securities Litigation Reform Act of 1995. Words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “goal,” “plan,” “seek,” “project,” “continue,” “will,” “would,” and variations of such words and similar expressions are used to identify such forward-looking statements. We intend for our forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and we set forth this statement in order to comply with such safe harbor provisions. You should note that our forward-looking statements speak only as of the date of this Annual Report on Form 10-K or when made and we undertake no duty or obligation to update or revise our forward-looking statements, whether as a result of new information, future events, or otherwise.

Although we believe that the expectations, plans, intentions, and projections reflected in our forward-looking statements are reasonable, such statements are subject to known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements.

The risks, uncertainties, and other factors that our stockholders and prospective investors should consider include the following:

Macro-economic conditions. Our performance is impacted by general economic conditions overall, and in particular by economic conditions in the markets in which we operate. These economic conditions include: levels of new and used vehicle sales; availability of consumer credit; changes in consumer demand; consumer confidence levels; fuel prices; personal discretionary spending levels; interest rates; and unemployment rates. When the worldwide economy faltered and the worldwide automotive industry experienced significant operational and financial difficulties in 2008 and 2009, we were adversely affected, and we expect a similar relationship between general economic and industry conditions and our performance in the future. The intended departure of the United Kingdom from the European Union (“Brexit”) noted below has generated significant macroeconomic challenges for the global economy. We cannot predict the future effect of Brexit on macroeconomic conditions or the automotive industry in particular, although any sustained drop in vehicle sales would adversely affect our operating results.

Vehicle manufacturers exercise significant control over us. Each of our new vehicle dealerships and distributor operations operate under franchise and other agreements with automotive manufacturers, commercial vehicle manufacturers, or related distributors. These agreements govern almost every aspect of the operation of our dealerships, and give manufacturers the discretion to terminate or not renew our franchise agreements for a variety of reasons, including certain events outside our control such as accumulation of our stock by third parties. Without franchise or distributor agreements, we would be unable to sell or distribute new vehicles or perform manufacturer authorized warranty service. If a significant number of our franchise agreements are terminated or are not renewed, or, with respect to our distributor operations, a competing distributor were introduced, we would be materially affected.

Brand reputation. Our businesses, and our commercial vehicle operations in particular as those are more concentrated with a particular manufacturer, are impacted by consumer demand and brand preference, including consumers' perception of the quality of those brands. A decline in the quality and brand reputation of the vehicles or other products we sell or distribute, as a result of events such as manufacturer recalls or legal proceedings, may adversely affect our business. If such events were to occur, the profitability of our business related to those manufacturers could be adversely affected. Beginning in 2015, Volkswagen AG received notice informing them that governmental agencies determined that certain Volkswagen and Audi diesel vehicles do not comply with applicable emissions regulations. There have been conflicting reports whether similar issues are present in other manufacturers' vehicles. While the Volkswagen and Audi diesel vehicles at issue represent a small portion of our total vehicle sales, should such non-compliance by the automotive manufacturers prove widespread or be present in a substantial number of vehicles we sell, our business could be adversely affected.

Restructuring, bankruptcy or other adverse conditions affecting a significant automotive manufacturer or supplier. Our success depends on the overall success of the automotive industry generally, and in particular on the success of the brands of vehicles that each of our dealerships sell. In 2018, revenue generated at our Audi/Volkswagen/Porsche/Bentley, BMW/MINI, Toyota/Lexus, and Mercedes-Benz/Sprinter/smart dealerships represented 24%, 23%, 13%, and 9%, respectively, of our total automotive dealership revenues. Significant adverse

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weather related or other events that interrupt vehicle or parts supply to our dealerships, would likely have a significant and adverse impact on the industry as a whole, including us, particularly if the events impact any of the manufacturers whose franchises generate a significant percentage of our revenue. For example, the earthquake and tsunami that struck Japan in March 2011 resulted in reduced new vehicle production by Japanese automotive manufacturers in 2011 adversely affected our results. In addition, in 2017, hurricanes in Puerto Rico, Florida, Georgia, and Texas generated storm-related losses. Should these or similar events reoccur, we would expect similar adverse effects.

Manufacturer incentive programs. Vehicle manufacturers offer incentive programs intended to promote and support vehicle sales. These incentive programs include but are not limited to customer rebates, dealer incentives on new vehicles, manufacturer floor plan interest and advertising assistance, and warranties on new and used vehicles. A discontinuation of or change to the manufacturers' incentive programs may adversely impact vehicle demand, the value of new and used vehicles, and may materially affect our results of operations.

Our business is very competitive. We generally compete with: other franchised dealerships in our markets; used vehicle superstores, private market buyers and sellers of used vehicles; an increasing number of Internet-based vehicle sellers; national and local service and repair shops and parts retailers; with respect to commercial vehicles, distributors of similar products; and manufacturers in certain markets. Purchase decisions by consumers when shopping for a vehicle are extremely price sensitive. The level of competition in the market generally, coupled with increasing price transparency resulting from the use of the Internet by consumers, and pricing discounts to customers, can lead to lower selling prices and related profits. If there is a prolonged drop in retail prices, new vehicle sales are allowed to be made over the Internet without the involvement of franchised dealers, or if dealerships or other competitors are able to effectively use the Internet to sell outside of their markets, our business could be materially adversely affected.

Evolving automotive and trucking industries. The automotive and trucking industries are predicted to experience rapid change. Shared vehicle services such as Uber and Lyft provide consumers with increased choice in their personal mobility options. The effect of these and similar mobility options on the retail automotive industry is uncertain, and may include lower levels of new vehicles sales, but with increasing miles driven, which could require additional demand for vehicle maintenance. In part due to regulatory requirements to limit vehicle emissions, many automotive manufacturers have announced plans to further electrify their vehicle offerings. We expect to continue to sell electric and hybrid gas/electric vehicles through our franchised dealerships, though if pure electric vehicles were widely accepted by customers, our service revenues may decline, as these vehicles may require less physical maintenance than gas and hybrid vehicles. In addition, technological advances are facilitating the development of driverless vehicles. The eventual timing of availability of driverless vehicles is uncertain due to regulatory requirements, additional technological requirements, and uncertain consumer acceptance of these vehicles. The effect of driverless vehicles on the automotive retail and trucking industries is uncertain and could include changes in the level of new and used vehicles sales, the price of new vehicles, and the role of franchised dealers, any of which could materially and adversely affect our business.

Property loss, business interruption or other liabilities. Our business is subject to substantial risk of loss due to: the significant concentration of property values, including vehicle and parts inventories, at our operating locations; claims by employees, customers and third parties for personal injury or property damage; and fines and penalties in



connection with alleged violations of regulatory requirements. While we have insurance for many of these risks, we retain risk relating to certain of these perils and certain perils are not covered by our insurance. Certain insurers have limited available property coverage in response to the natural catastrophes experienced in recent years. If we experience significant losses that are not covered by our insurance, whether due to adverse weather conditions or otherwise, or we are required to retain a significant portion of a loss, it could have a significant and adverse effect on us.

Leverage. Our significant debt and other commitments expose us to a number of risks, including:

Cash requirements for debt and lease obligations. A significant portion of the cash flow we generate must be used to service the interest and principal payments relating to our various financial commitments, including \$3.8 billion of floor plan notes payable, \$2.2 billion of non-vehicle long-term debt and \$5.4 billion of future lease commitments (including extension periods that are reasonably assured of being exercised and assuming constant consumer price indices). A sustained or significant decrease in our operating cash flows could lead to an inability to meet our debt service or lease requirements or to a failure to meet specified financial and operating covenants included in certain of our agreements. If this were to occur, it may lead to a default under one or more of our

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commitments and potentially the acceleration of amounts due, which could have a significant and adverse effect on us.

Availability. Because we finance the majority of our operating and strategic initiatives using a variety of commitments, including floor plan notes payable and revolving credit facilities, we are dependent on continued availability of these sources of funds. If these agreements are terminated or we are unable to access them because of a breach of financial or operating covenants or otherwise, we will likely be materially affected.

Interest rate variability. The interest rates we are charged on a substantial portion of our debt, including the floor plan notes payable we issue to purchase the majority of our inventory, are variable, increasing or decreasing based on changes in certain published interest rates. Increases to such interest rates has resulted and may continue to result in higher interest expense for us, which negatively affects our operating results. Because many of our customers finance their vehicle purchases, further increased interest rates may also decrease vehicle sales, which would negatively affect our operating results.

Impairment of our goodwill or other indefinite-lived intangible assets has in the past had, and in the future could have, a material adverse impact on our earnings. We evaluate goodwill and other indefinite-lived intangible assets for impairment annually and upon the occurrence of an indicator of impairment. Our process for impairment testing of these assets is described further under “Impairment Testing” in Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates. If we determine that the amount of our goodwill or other indefinite-lived intangible assets are impaired at any point in time, we would be required to reduce the value of these assets on our balance sheet, which would also result in a material non-cash impairment charge that could also have a material adverse effect on our results of operations for the period in which the impairment occurs.

Performance of sublessees. In connection with the sale, relocation and closure of certain of our franchises, we have entered into a number of third-party sublease agreements. The rent paid by our sub-tenants on such properties in 2018 totaled approximately \$21.6 million. In the aggregate, we remain ultimately liable for approximately \$233.7 million of such lease payments including payments relating to all available renewal periods. We rely on our sub-tenants to pay the rent and maintain the properties covered by these leases. In the event a subtenant does not perform under the terms of their lease with us, we could be required to fulfill such obligations, which could have a significant and adverse effect on us.

Information technology. Our information systems are fully integrated into our operations and we rely on them to operate effectively, including with respect to: electronic communications and data transfer protocols with manufacturers and other vendors; customer relationship management; sales and service scheduling; data storage; and financial and operational reporting. The majority of our systems are licensed from third parties, the most significant of which are provided by a limited number of suppliers in the U.S., U.K. and Australia. The failure of our information systems to perform as designed, the failure to protect the integrity of these systems, or the interruption of these

systems due to natural disasters, power loss, unexpected termination of our agreements, or other reasons, could significantly and adversely disrupt our business operations, impact sales and results of operations, expose us to customer or third-party claims, or result in adverse publicity.

Cyber-security. As part of our business model, we receive sensitive information regarding customers, associates and vendors, from various online and offline channels. We collect, process, and retain this information in the normal course of our business. Our internal and third-party systems are under a moderate level of risk from cyber criminals or other individuals with malicious intent to gain unauthorized access to our systems. Cyber-attacks continue to grow in number and sophistication thus presenting an ongoing threat to systems, whether internal or external, used to operate the business on a day to day basis. Despite the security measures we have in place, our facilities and systems, and those of our third-party service providers, could be vulnerable to security breaches, malicious software, lost or misplaced data, programming errors, human errors, acts of vandalism, or other events. Any security breach or event resulting in the misappropriation, loss, or other unauthorized disclosure of confidential information, or degradation of services provided by critical business systems, whether by us directly or our third-party service providers, could adversely affect our business operations, sales, reputation with current and potential customers, associates or vendors, as well as other operational and financial impacts derived from investigations, litigation, imposition of penalties or other means.

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The United Kingdom's potential departure from the European Union could adversely affect us. The United Kingdom is currently scheduled to exit the European Union ("Brexit") on March 29, 2019. The future terms of the United Kingdom's relationship with the European Union remain uncertain. The effects of Brexit will depend on any agreements the United Kingdom makes to retain access to European Union markets either during a transitional period or more permanently. Brexit could adversely affect European and worldwide economic and market conditions and could contribute to instability in global financial and foreign exchange markets, including volatility in the value of the British Pound and the Euro. More specifically, it could lead to increased retail prices in the United Kingdom since the majority of vehicles sold in the U.K. are imported from other countries in Europe and may be subject to additional tax, breakdowns in the supply chain of automotive retailers and manufacturers which could delay delivery of vehicles or parts and other negative effects, which are difficult to predict.

As exchange rates fluctuate, our revenue and results of operations as reported in U.S. Dollars fluctuate. A weakening British Pound as compared to the U.S. Dollar negatively impacts our U.S. Dollar reported results of operations. Our U.K. business generated 35% of our total revenue for the year ended December 31, 2018. Any of these effects of Brexit, and others we cannot anticipate, could adversely affect our business, consolidated financial position, results of operations, and cash flows.

The success of our commercial vehicle distribution businesses are directly impacted by availability and demand for the vehicles and other products we distribute. We are the exclusive distributor of Western Star commercial trucks, MAN commercial trucks and buses, and Dennis Eagle refuse collection vehicles, together with associated parts, across Australia, New Zealand and portions of the Pacific. We are also the distributor of diesel and gas engines and power systems in these same markets. The profitability of these businesses depends upon the number of vehicles, engines, power systems and parts we distribute, which in turn is impacted by demand for these products. We believe demand is subject to general economic conditions, exchange rate fluctuations, regulatory changes, competitiveness of the products and other factors over which we have limited control. In the event sales of these products are less than we expect, our related results of operations and cash flows for this aspect of our business may be materially adversely affected. The products we distribute are principally manufactured at a limited number of locations. In the event of a supply disruption or if sufficient quantities of the vehicles, engines, power systems and parts are not made available to us, or if we accept these products and are unable to economically distribute them, our cash flows or results of operations may be materially adversely affected.

Australian economic conditions. Our commercial vehicle distribution operations in Australia and New Zealand may be impacted by local economic conditions and in particular, the price of commodities such as copper and iron ore which may impact the desire of our customers to operate their mining operations and replace their vehicle fleets. Adverse pricing concerns of those, and other commodities, may have a material adverse effect on our ability to distribute, and/or retail, commercial vehicles and other products profitably. These same conditions may also negatively impact the value of the Australian Dollar versus the U.S. Dollar, which negatively impacts our U.S. Dollar reported financial results and the pricing of products sold by Penske Commercial Vehicles, which are manufactured in the U.S., U.K., and Germany.

International and foreign currency risk. We have significant operations outside the U.S. that expose us to changes in foreign exchange rates and to the impact of economic and political conditions in the markets where we operate. As exchange rates fluctuate, our results of operations as reported in U.S. Dollars fluctuate. For example, if the U.S. Dollar were to continue to strengthen against the British Pound, our U.K. results of operations would translate into less U.S. Dollar reported results. Sustained levels or an increase in the value of the U.S. Dollar, particularly as compared to the British Pound, could result in a significant and adverse effect on our reported results.

Joint ventures. We have significant investments in a variety of joint ventures, including retail automotive operations in Germany, Japan, Italy and Spain. We have a 28.9% interest in PTL. We expect to receive annual operating distributions from PTL and the other ventures, and in the case of PTL, realize significant cash tax savings. These benefits may not be realized if the joint ventures do not perform as expected, or if changes in tax, financial, or regulatory requirements negatively impact the results of the joint venture operations. Our ability to dispose of these investments may be limited. In addition, the relevant joint venture agreement and other contractual restrictions may limit our access to the cash flows of these joint ventures. For example, PTL's principal debt agreements allow partner distributions only

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as long as PTL is not in default under that agreement and the amount PTL distributes does not exceed 50% of its consolidated net income.

Additional risks relating to PTL. PTL's business has additional risks to those in the retail business.

Customers. PTL has a more concentrated customer base than we do and is subject to changes in the financial health of its customers, changes in their asset utilization rates and increased competition for those customers.

Workforce. PTL requires a significant number of qualified drivers and technicians which may be difficult to hire, and is subject to increased compliance costs or work stoppages relating to those employees, particularly in regards to changes in labor laws and time of work rules regarding those employees. PTL contributes to 19 U.S. multi-employer pension plans that provide defined benefits to approximately 3,600 associates covered by collective bargaining agreements. If they withdraw or are deemed to withdraw from participation in any of these plans, then applicable law could require them to make withdrawal liability payments to the plan. If any of those plans were deemed to be underfunded, PTL could be subject to additional assessments, which could be substantial.

Fleet risk. As one of the largest purchasers of commercial trucks in North America, PTL requires continued availability from truck manufacturers and suppliers of vehicles and parts for its fleet, which may be uncertain, in particular if a significant recall were to occur. In addition, because PTL sells a large number of trucks each year and is subject to residual risk for the vehicles it leases to customers, changes in values of used trucks affects PTL's profitability.

Capital markets risk. PTL relies on banks and the capital markets to fund its operations and capital commitments. PTL had a significant amount of total indebtedness at December 31, 2018, which it uses in part to purchase its vehicle fleet, and therefore is subject to changes in, and continued access to, the capital markets.

Key personnel. We believe that our success depends to a significant extent upon the efforts and abilities of our senior management, and in particular upon Roger Penske who is our Chair and Chief Executive Officer. To the extent Mr. Penske, or other key personnel, were to depart from our Company unexpectedly, our business could be significantly disrupted.

Regulatory issues. We are subject to a wide variety of regulatory activities, including:

Governmental regulations, claims and legal proceedings. Governmental regulations affect almost every aspect of our business, including the fair treatment of our employees, wage and hour issues, and our financing activities with customers. In California, judicial decisions call into question whether long-standing methods for compensating dealership employees comply with the local wage and hour rules. We could be susceptible to claims or related actions if we fail to operate our business in accordance with applicable laws or it is determined that long-standing compensation methods did not comply with local laws. Many laws and regulations applicable to our business were adopted prior to the introduction of online vehicle sales, the Internet, and certain digital technology, generally. As a result, we are tasked with maintaining compliance in an uncertain regulatory environment. Claims arising out of actual or alleged violations of law which may be asserted against us or any of our dealers by individuals, through class actions, or by governmental entities in civil or criminal investigations and proceedings, may expose us to substantial monetary damages which may adversely affect us.

European Union General Data Protection Regulation. We are subject to numerous laws and regulations in the U.S. and internationally designed to protect the information of clients, customers, employees, and other third parties that we collect and maintain, including the European Union General Data Protection Regulation (the “GDPR”). The GDPR, among other things, mandates new requirements regarding the handling of personal data of employees and customers, including its use, protection and the ability of persons whose data is stored to correct or delete such data about themselves. In addition, the state of California has proposed a similar law called the California Consumer Privacy Act which mandates similar requirements beginning in January 2020. If we fail to comply with these laws or regulations, we could be subject to significant litigation, monetary damages, regulatory enforcement actions or fines in one or more jurisdictions. For example, a failure to comply with the GDPR could result in fines up to the greater of €20 million or 4% of annual global revenues.

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Recalls. Legislative and regulatory bodies from time to time have considered laws or regulations that would prohibit companies from renting or selling any vehicle that is subject to a recall until the recall service is performed. Whether any such prohibition may be enacted, and its ultimate scope, cannot be determined at this time. If a law or regulation is enacted that prevents the sale of vehicles until recall service has been performed, we could be required to reserve a significant portion of our vehicles from being available for sale for even a minor recall unrelated to vehicle safety. In addition, various manufacturers have issued stop sale notices in relation to certain recalls that require that we retain vehicles until the recall can be performed, whether or not parts are then available. While servicing recall vehicles yields parts and service revenue to us, the inability to sell a significant portion of our vehicles could increase our costs and have an adverse effect on our results of operations if a large number of our vehicles are the subject of simultaneous recalls, or if needed replacement parts are not in adequate supply.

Vehicle requirements. Federal and state governments in our markets have increasingly placed restrictions and limitations on the vehicles sold in the market in an effort to combat perceived negative environmental effects. For example, in the U.S., automotive manufacturers are subject to federally mandated corporate average fuel economy standards which will increase substantially through 2025. Furthermore, numerous states and other jurisdictions, including California, have adopted or are considering regulations requiring the sale of specified numbers of zero-emission vehicles. Moreover, several countries, including the U.K. and Germany, have announced or are considering plans to ban or restrict the sale of diesel or combustible fuel vehicles. Significant increases in fuel economy requirements and new federal or state restrictions on emissions on vehicles and fuels could adversely affect prices of and demand for the new vehicles that we sell, which could materially adversely affect us.

In September 2018, new fuel economy testing and Co2 emissions legislation known as “Worldwide Harmonised Light Vehicle Testing Procedure” (WLTP) was implemented and required all vehicles sold in the United Kingdom (our second largest market) and Europe to comply with new fuel economy testing and Co2 emissions standards. Compliance with the new rules has proven to be challenging for certain manufacturers, resulting in a shortage of product availability. Should the brands we represent experience continued product unavailability, we may be significantly and adversely affected.

Tariff and trade risk. Increased tariffs, import product restrictions, and foreign trade risks may impair our ability to sell foreign vehicles profitably. In May 2018, the Trump Administration threatened to add 25% tariffs on foreign vehicles or parts and instructed the U.S. Commerce Department to begin an inquiry to determine if the importation of foreign vehicles or parts adversely impacts U.S. national security. There is substantial uncertainty regarding whether additional tariffs will be imposed, as well as whether “foreign” vehicles include those made by non-U.S. based manufacturers in the U.S or parts made outside the U.S. but included in U.S. assembled vehicles, the retaliatory response of foreign governments, and many other factors. In November 2018, the United States, Mexico and Canada signed a replacement trade agreement for the North American Free Trade Agreement (NAFTA), known as United States Mexico Canada Agreement (USMCA). If approved by Congress, starting in January 1, 2020 or such later date as the agreement takes force, USMCA may allow tariff-free importing of automobiles among the countries only if (i) the vehicles have 75% of their components manufactured in the US, Mexico or Canada, (ii) workers with an hourly wage of at least \$16, manufacture at least 30% of the vehicle, which graduates up to 40% of the vehicle in 2023, or in the case of trucks, 45% and (iii) 70% of the steel and aluminum used in the production of the vehicle is sourced within



North America. Should tariffs increase, we expect the price of many new vehicles we sell to increase which may adversely affect our new vehicle sales and related finance and insurance sales.

Franchise laws in the U.S. In the U.S., state law generally provides protections to franchised vehicle dealers from discriminatory practices by manufacturers and from unreasonable termination or non-renewal of their franchise agreements. In many states, the laws require that new vehicle sales be conducted exclusively by automotive retailers (not manufacturers). If these franchise laws are repealed or amended, manufacturers may have greater flexibility to terminate or not renew our franchises. Franchised automotive dealers in the European Union operate without such protections.

Changes in law. New laws and regulations at the state and federal level may be enacted which could materially adversely impact our business. For example, in 2013, a ballot initiative in California titled the California Car Buyers Protection Act was proposed that would have eliminated our ability to be compensated for assisting in financing

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customer vehicle purchases, among other matters. If these initiatives or other adverse changes in law were to be enacted, it could have a significant and adverse effect on us.

Environmental regulations. We are subject to a wide range of environmental laws and regulations, including those governing: discharges into the air and water; the operation and removal of storage tanks; and the use, storage and disposal of hazardous substances. In the normal course of our operations we use, generate and dispose of materials covered by these laws and regulations. We face potentially significant costs relating to claims, penalties and remediation efforts in the event of non-compliance with existing and future laws and regulations.

Accounting rules and regulations. The Financial Accounting Standards Board is currently evaluating several significant changes to GAAP in the U.S., including new guidance recently issued for revenue recognition and lease accounting. Changes to U.S. GAAP could significantly affect our reported financial position, earnings and cash flows upon adoption and effectiveness. For example, adoption of the new lease accounting standard will result in a significant increase in lease liabilities and right-of-use assets on our consolidated balance sheets. In addition, changes to lease accounting could affect PTL customers' decisions to purchase or lease trucks, which could adversely affect their business if leasing becomes a less favorable option. See the disclosure provided under "Recent Accounting Pronouncements" in Part II, Item 8, Note 1 of the Notes to our Consolidated Financial Statements for additional detail on accounting standard updates expected to have an impact on us.

Related parties. Our two largest stockholders, Penske Corporation and its affiliates ("Penske Corporation") and Mitsui & Co., Ltd. and its affiliates ("Mitsui"), together beneficially own approximately 57% of our outstanding common stock. The presence of such significant stockholders results in several risks, including:

Our principal stockholders have substantial influence. Penske Corporation and Mitsui have entered into a stockholders agreement pursuant to which they have agreed to vote together as to the election of our directors. As a result, Penske Corporation has the ability to control the composition of our Board of Directors, which may allow it to control our affairs and business. This concentration of ownership, coupled with certain provisions contained in our agreements with manufacturers, our certificate of incorporation, and our bylaws, could discourage, delay or prevent a change in control of us.

Some of our directors and officers may have conflicts of interest with respect to certain related party transactions and other business interests. Roger Penske, our Chair and Chief Executive Officer and a director, holds the same offices at Penske Corporation. Robert Kurnick, Jr., our President and a director, is also the Vice Chair and a director of Penske Corporation. Bud Denker, our Executive Vice President, Human Resources, is also the President of Penske Corporation. Each of these officers is paid much of their compensation by Penske Corporation. The compensation they receive from us is based on their efforts on our behalf, however, they are not required to spend any specific amount of time on our matters. One of our directors, Roger S. Penske, Jr., is the son of our Chair and also serves as a director of Penske Corporation. Masashi Yamanaka, one of our directors, is also an employee of Mitsui & Co. Roger Penske also serves as Chairman of Penske Truck Leasing, for which he is compensated by PTL.

Penske Corporation ownership levels. Certain of our agreements have clauses that are triggered in the event of a material change in the level of ownership of our common stock by Penske Corporation, such as our trademark agreement between us and Penske Corporation that governs our use of the “Penske” name which can be terminated 24 months after the date that Penske Corporation no longer owns at least 20% of our voting stock. We may not be able to renegotiate such agreements on terms that are acceptable to us, if at all, in the event of a significant change in Penske Corporation’s ownership.

We have a significant number of shares of common stock eligible for future sale. Penske Corporation and Mitsui own approximately 57% of our common stock and each has two demand registration rights that could result in a substantial number of shares being introduced for sale in the market. We also have a significant amount of authorized but unissued shares. Penske Corporation has pledged all of its shares of our common stock as collateral to secure a loan facility. A default by Penske Corporation could result in the foreclosure on those shares by the lenders, after which the lenders could attempt to sell those shares on the open market or to a third party.” The introduction of any of these shares into the market could have a material adverse effect on our stock price.

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Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

We lease or sublease substantially all of our dealership properties and other facilities. These leases are generally for a period of between 5 and 20 years, and are typically structured to include renewal options at our election. We lease office space in Bloomfield Hills, Michigan, Leicester, England and Brisbane, Australia for our principal administrative headquarters and other corporate related activities. We believe that our facilities are sufficient for our needs and are in good repair.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

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## PART II

## Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the New York Stock Exchange under the symbol “PAG.” As of February 15, 2019, there were 169 holders of record of our common stock.

## Dividends

We have announced the payment of a cash dividend of \$0.38 per share to be paid on March 1, 2019 to stockholders of record as of February 11, 2019. While future cash dividends will depend upon our earnings, capital requirements, financial condition, restrictions imposed by any then-existing indebtedness and other factors considered relevant by our Board of Directors, we currently expect to continue to pay comparable dividends in the future.

## Securities Repurchases

In October 2017, our Board of Directors increased the authority delegated to management to repurchase our outstanding securities to \$200.0 million. As of December 31, 2018, we had \$136.9 million in repurchase authorization remaining under the securities repurchase program. In February 2019, our Board of Directors increased the authority delegated to management to repurchase our outstanding securities to \$200.0 million. For further information with respect to repurchases of our shares by us, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Securities Repurchases” and Part II, Item 8, Note 15 of the Notes to our Consolidated Financial Statements.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Program (in millions)
October 1 to October 31, 2018	—	\$ —	—	\$ 150.0

November 1 to November 30, 2018	—	\$ —	—	\$ 150.0
December 1 to December 31, 2018	334,870	\$ 39.21	—	\$ 136.9
	334,870		—	

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SHARE INVESTMENT PERFORMANCE

The following graph compares the cumulative total stockholder returns on our common stock based on an investment of \$100 on December 31, 2013 and the close of the market on December 31 of each year thereafter against (i) the Standard & Poor's 500 Index and (ii) an industry/peer group consisting of Asbury Automotive Group, Inc., AutoNation, Inc., Group 1 Automotive, Inc., Lithia Motors, Inc., and Sonic Automotive, Inc. The graph assumes the reinvestment of all dividends.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

Among Penske Automotive Group, Inc., the S&P 500 Index and a Peer Group

\*\$100 invested on 12/31/13 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

	Cumulative Total Return					
	12/13	12/14	12/15	12/16	12/17	12/18
Penske Automotive Group, Inc.	100.00	105.86	93.03	117.36	111.37	96.65
S&P 500	100.00	113.69	115.26	129.05	157.22	150.33
Peer Group	100.00	124.82	121.96	108.65	113.35	84.52

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## Item 6. Selected Financial Data

The following table sets forth our selected historical consolidated financial and other data as of and for each of the five years in the period ended December 31, 2018, which has been derived from our audited consolidated financial statements. During the periods presented, we made a number of acquisitions and have included the results of operations of the acquired dealerships from the date of acquisition. As a result, our period to period results of operations vary depending on the dates of the acquisitions. Accordingly, this selected financial data is not necessarily comparable or indicative of our future results. During the periods presented, we also sold or made available for sale certain entities which have been treated as discontinued operations in accordance with generally accepted accounting principles. You should read this selected consolidated financial data in conjunction with our audited consolidated financial statements and related footnotes included elsewhere in this report.

	As of and for the Years Ended December 31,				
	2018 (1)	2017 (2)	2016 (3)	2015	2014 (4)
	(In millions, except share and per share data)				
Consolidated Statement of Operations Data:					
Total revenues	\$ 22,785.1	\$ 21,386.9	\$ 20,118.5	\$ 19,284.9	\$ 17,232.0
Gross profit	\$ 3,414.9	\$ 3,222.5	\$ 2,966.6	\$ 2,867.5	\$ 2,579.2
Income from continuing operations attributable to Penske Automotive Group common stockholders (5)	\$ 470.5	\$ 613.5	\$ 343.9	\$ 329.6	\$ 301.4
Net income attributable to Penske Automotive Group common stockholders	\$ 471.0	\$ 613.3	\$ 342.9	\$ 326.1	\$ 286.7
Diluted earnings per share from continuing operations attributable to Penske Automotive Group common stockholders	\$ 5.52	\$ 7.14	\$ 4.00	\$ 3.67	\$ 3.34
Diluted earnings per share attributable to Penske Automotive Group common stockholders	\$ 5.53	\$ 7.14	\$ 3.99	\$ 3.63	\$ 3.17
Shares used in computing diluted share data	85,165,367	85,877,227	86,000,754	89,759,626	90,354,839
Balance Sheet Data:					
Total assets (6)	\$ 10,904.5	\$ 10,540.6	\$ 8,833.0	\$ 7,982.9	\$ 7,186.3
Total floor plan notes payable	\$ 3,790.8	\$ 3,761.8	\$ 3,317.8	\$ 3,379.6	\$ 2,746.4



Total debt (excluding floor plan notes payable)	\$ 2,216.7	\$ 2,163.2	\$ 1,877.1	\$ 1,275.0	\$ 1,342.6
Total equity attributable to Penske Automotive Group common stockholders	\$ 2,609.1	\$ 2,395.2	\$ 1,750.9	\$ 1,790.2	\$ 1,652.8
Cash dividends per share	\$ 1.42	\$ 1.26	\$ 1.10	\$ 0.94	\$ 0.78

- (1) Includes an \$11.6 million income tax benefit, or \$0.14 per share, relating to the final reconciliation of the 2017 benefit under the 2017 U.S. Tax Cuts and Jobs Act, as further discussed in note (2) immediately below and Part II, Item 8, Note 17 of the Notes to our Consolidated Financial Statements set forth below, and a net benefit totaling \$4.0 million after tax, or \$0.05 per share, consisting of a \$22.7 million net gain related to the sale of dealerships, partially offset by valuation adjustments with respect to certain franchised dealerships totaling \$18.7 million.
- (2) Includes a \$243.4 million income tax benefit, or \$2.83 per share, from the enactment of the U.S. Tax Cuts and Jobs Act in December 2017, as further discussed in Part II, Item 8, Note 17 of the Notes to our Consolidated Financial Statements set forth below.
- (3) Includes a \$5.1 million income tax benefit, or \$0.06 per share, from the revaluation of a deferred tax liability as a result of our acquisition of the remaining ownership interests of PTG in April 2016.
- (4) Includes a gain of \$16.0 million (\$9.7 million after tax), or \$0.10 per share, from the revaluation at fair value of a previously held non-controlling interest in PTG, of which we acquired a controlling interest in November 2014.
- (5) Excludes income (loss) from continuing operations attributable to non-controlling interests of \$(0.7) million, \$(0.5) million, \$3.5 million, \$4.3 million, and \$3.4 million in 2018, 2017, 2016, 2015, and 2014, respectively.
- (6) Includes reclassifications due to the retrospective application of Accounting Standards Update No. 2015-17, "Income Taxes (Topic 740) — Balance Sheet Classification of Deferred Taxes" of \$28.1 million, \$30.5 million, and \$31.4 million in 2016, 2015, and 2014, respectively.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those discussed in Item 1A. "Risk Factors" and "Forward-Looking Statements." We have acquired and initiated a number of businesses during the periods presented and addressed in this Management's Discussion and Analysis of Financial Condition and Results of Operations. Our financial statements include the results of operations of those businesses from the date acquired or when they commenced operations. This Management's Discussion and Analysis of Financial Condition and Results of Operations has been updated to reflect the revision of our financial statements for entities which have been treated as discontinued operations.

Overview

We are 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. We employ nearly 27,000 people worldwide.

In 2018, our business generated \$22.8 billion in total revenue, which is comprised of approximately \$20.8 billion from retail automotive dealerships, \$1.4 billion from retail commercial truck dealerships and \$0.6 billion from commercial vehicle distribution and other operations. We generated \$3.4 billion in gross profit, which is comprised of \$3.1 billion from retail automotive dealerships, \$211.5 million from retail commercial truck dealerships and \$144.8 million from commercial vehicle distribution and other operations.

**Retail Automotive Dealership.** We believe we are the second largest automotive retailer headquartered in the U.S. as measured by the \$20.8 billion in total retail automotive dealership revenue we generated in 2018. As of December 31, 2018, we operated 345 retail automotive franchises, of which 154 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 2018, we retailed and wholesaled more than 644,000 vehicles. We are diversified geographically, with 55% of our total retail automotive dealership revenues in 2018 generated in the U.S. and Puerto Rico and 45% generated outside the U.S. We offer over 40 vehicle brands, with 70% of our retail automotive dealership revenue in 2018 generated from premium brands, such as Audi, BMW, Land Rover, 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. In 2018, we acquired an additional 11.4% interest in the Jacobs

Group, one of our German automotive dealership joint ventures, and now own a 79.4% interest in the Jacobs Group.

We also operate fourteen stand-alone used vehicle supercenters in the U.S. and the U.K. which retail and wholesale previously owned vehicles under a one price, “no-haggle” methodology. 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 complement CarShop’s Southern England locations. CarShop and The Car People currently operate as one reportable segment (“Stand-Alone Used International”) and we anticipate that both will begin to operate under the CarShop name in 2019. For the year ended December 31, 2018, these stand-alone used vehicle dealerships retailed 71,013 units and generated \$1.3 billion in revenue.

Retail automotive dealerships represented 91.5% of our total revenues and 89.6% of our total gross profit in 2018.

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 December 31, 2018,

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PTG operated twenty locations, offering primarily Freightliner and Western Star branded trucks. One of these locations was acquired in April 2018 in Canada. PTG also offers a full range of used trucks available for sale as well as service and parts departments, providing maintenance and repair services.

This business represented 6.0% of our total revenues and 6.2% of our total gross profit in 2018.

**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 nine 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, MTU Onsite Energy, and Rolls Royce Power Systems. This business, known as Penske Power Systems (“PPS”), offers products across the on- and off-highway markets, construction, mining, marine, and defense, 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.

These businesses represented 2.5% of our total revenues and 4.2% of our total gross profit in 2018.

**Penske Truck Leasing.** We hold a 28.9% ownership interest in Penske Truck Leasing Co., L.P. (“PTL”), a leading provider of transportation and supply chain services. 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, lead logistics provider services and dry van truckload carrier services. On September 7, 2017, we acquired an additional 5.5% ownership interest in PTL. 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”). 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. We recorded \$129.5 million in equity earnings from this investment in 2018.

## Outlook

Please see the discussion provided under “Outlook” in Part I, Item 1 for a discussion of our outlook in our markets.

## Operating Overview

Automotive and commercial truck dealerships represent the majority of our results of operations. 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, and the sale of replacement parts and other aftermarket accessories, as well as warranty repairs that are reimbursed directly by various OEMs.

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

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

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Aggregate revenue and gross profit increased \$1,398.2 million, or 6.5%, and \$192.4 million, or 6.0%, respectively, during 2018 compared to 2017. The increases are largely attributable to same-store increases in the used Retail Automotive and Retail Commercial Truck segments, finance and insurance, and service and parts revenue and gross profit.

As our various exchange rates fluctuate, our revenue and results of operations as reported in U.S. Dollars fluctuate. For example, if the British Pound were to weaken against the U.S. Dollar, our U.K. results of operations would translate into less U.S. Dollar reported results. Foreign currency average rate fluctuations increased revenue and gross profit by \$354.3 million and \$44.9 million, respectively, in 2018. Foreign currency average rate fluctuations increased earnings per share from continuing operations by approximately \$0.07 per share in 2018. Excluding the impact of foreign currency average rate fluctuations, revenue and gross profit increased 4.9% and 4.6%, respectively, in 2018.

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

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

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

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

## Critical Accounting Policies and Estimates

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

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

### Revenue Recognition

Dealership Vehicle, Parts and Service Sales. We record revenue 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. We record revenue for vehicle service and collision work over time as work is completed, and when parts are delivered to our customers. Sales promotions that we offer to customers are accounted for as a reduction of revenues at

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the time of sale. Rebates and other incentives offered directly to us by manufacturers are recognized as a reduction of cost of sales. Reimbursements of qualified advertising expenses are treated as a reduction of selling, general and administrative expenses. The amounts received under certain manufacturer rebate and incentive programs are based on the attainment of program objectives, and such earnings are recognized either upon the sale of the vehicle for which the award was received, or upon attainment of the particular program goals if not associated with individual vehicles. Taxes collected from customers and remitted to governmental authorities are recorded on a net basis (excluded from revenue). During 2018, 2017, and 2016, we earned \$699.4 million, \$693.9 million, and \$654.9 million, respectively, of rebates, incentives and reimbursements from manufacturers, of which \$680.0 million, \$675.3 million, and \$638.2 million, respectively, was recorded as a reduction of cost of sales. The remaining \$19.4 million, \$18.6 million, and \$16.7 million, was recorded as a reduction of selling, general and administrative expenses during 2018, 2017, and 2016, respectively.

**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 \$26.0 million and \$24.9 million as of December 31, 2018 and December 31, 2017, respectively.

**Commercial Vehicle Distribution.** We record revenue from the distribution of vehicles, 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 our long-term power generation contracts, we record revenue over time as services are provided in accordance with contract milestones.

Refer to the disclosures provided in Part II, Item 8, Note 2 of the Notes to our Consolidated Financial Statements for additional detail on revenue recognition.

## Impairment Testing



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

Goodwill impairment is assessed at the reporting unit level annually on October 1 and upon the occurrence of an indicator of impairment. Our operations are organized by management into operating segments by line of business and geography. We have determined that we have 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. We have determined that the dealerships in each of our operating segments within the Retail Automotive reportable segment are components that are aggregated into six reporting units for the purpose of goodwill

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impairment testing, as they (A) have similar economic characteristics (all are automotive dealerships having similar margins), (B) offer similar products and services (all sell new and/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). The reporting units are Eastern, Central, and Western United States, Stand-Alone Used United States, International, and Stand-Alone Used International. Our Retail Commercial Truck reportable segment has been determined to represent one operating segment and reporting unit. The goodwill included in our Other reportable segment relates primarily to our commercial vehicle distribution operating segment. There is no goodwill recorded in our Non-Automotive Investments reportable segment.

For our Retail Automotive, Retail Commercial Truck, and Other reporting units, we prepared a qualitative assessment of the carrying value of goodwill using the criteria in ASC 350-20-35-3 to determine whether it is more likely than not that a reporting unit's fair value is less than its carrying value. If it were determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, additional analysis would be unnecessary. During 2018, we concluded that for the retail automotive, retail commercial truck, and other reporting units that their fair values were more likely than not greater than their carrying values. If additional impairment testing was necessary, we would have estimated the fair value of our reporting units using an "income" valuation approach. The "income" valuation approach estimates our enterprise value using a net present value model, which discounts projected free cash flows of our business using the weighted average cost of capital as the discount rate. We would also validate the fair value for each reporting unit using the income approach by calculating a cash earnings multiple and determining whether the multiple was reasonable compared to recent market transactions completed by the Company or in the industry. As part of that assessment, we would also reconcile the estimated aggregate fair values of our reporting units to our market capitalization. We believe this reconciliation process is consistent with a market participant perspective. This consideration would also include a control premium that represents the estimated amount an investor would pay for our equity securities to obtain a controlling interest, and other significant assumptions including revenue and profitability growth, franchise profit margins, residual values and the cost of capital.

## Investments

We account for each of our investments under the equity method, pursuant to which we record our proportionate share of the investee's income each period. The net book value of our investments was \$1,305.2 million and \$1,256.6 million as of December 31, 2018 and 2017, respectively, including \$1,237.4 million and \$1,185.6 million relating to PTL as of December 31, 2018 and 2017, respectively. In July 2016, we increased our ownership interest in PTL from 9.0% to 23.4% as a result of our acquisition of an additional 14.4% ownership interest, and in September 2017, we acquired an additional 5.5% ownership interest, as discussed previously. We currently hold a 28.9% ownership interest in PTL.

Investments for which there is not a liquid, actively traded market are reviewed periodically by management for indicators of impairment. If an indicator of impairment is identified, management estimates the fair value of the investment using a discounted cash flow approach, which includes assumptions relating to revenue and profitability growth, profit margins, residual values, and our cost of capital. Declines in investment values that are deemed to be other than temporary may result in an impairment charge reducing the investments' carrying value to fair value.

## Self-Insurance

We retain risk relating to certain of our general liability insurance, workers' compensation insurance, vehicle physical damage insurance, property insurance, employment practices liability insurance, directors and officers insurance, and employee medical benefits in the U.S. As a result, we are likely to be responsible for a significant portion of the claims and losses incurred under these programs. The amount of risk we retain varies by program, and for certain exposures, we have pre-determined maximum loss limits for certain individual claims and/or insurance periods. Losses, if any, above the pre-determined loss limits are paid by third-party insurance carriers. Certain insurers have limited available property coverage in response to the natural catastrophes experienced in recent years. Our estimate of future losses is prepared by management using our historical loss experience and industry-based development factors. Aggregate reserves relating to retained risk were \$31.3 million and \$30.3 million as of December 31, 2018 and 2017, respectively.

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### 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.

On December 22, 2017, the President of the United States signed into law P.L. 115-97, commonly referred to as the U.S. Tax Cuts and Jobs Act (the “Act”). The Act modified 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.

Refer to the disclosures provided in Part II, Item 8, Note 17 of the Notes to our Consolidated Financial Statements for additional detail on our accounting for income taxes, including additional discussion on the enactment of the Act and the resulting impact on our 2018 financial statements.

### Recent Accounting Pronouncements

Please see the disclosures provided under “Recent Accounting Pronouncements” in Part II, Item 8, Note 1 of the Notes to our Consolidated Financial Statements set forth below which are incorporated by reference herein.

### Results of Operations

The following tables present comparative financial data relating to our operating performance in the aggregate and on a “same-store” basis. Dealership results are included in same-store comparisons when we have consolidated the acquired entity during the entirety of both periods being compared. As an example, if a dealership were acquired on January 15, 2016, the results of the acquired entity would be included in annual same-store comparisons beginning with the year ended December 31, 2018 and in quarterly same-store comparisons beginning with the quarter ended June 30, 2017.

The results for 2018 include a tax benefit of \$11.6 million, or \$0.14 per share, recorded in the third quarter of 2018 for final adjustments to our provisional estimates per the U.S. Tax Cuts and Jobs Act and related Staff Accounting Bulletin No. 118 (discussed in “Income Taxes” within Part II, Item 8, Note 17). The results for 2018 also include a net benefit totaling \$4.0 million after tax, or \$0.05 per share, consisting of a \$22.7 million net gain related to the sale of several retail automotive dealerships, partially offset by valuation adjustments with respect to certain franchised dealerships totaling \$18.7 million.

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## Retail Automotive Dealership New Vehicle Data

(In millions, except unit and per unit amounts)

New Vehicle Data	2018	2017	2018 vs. 2017		2017	2016	2017 vs. 2016		
			Change	% Change			Change	% Change	
New retail unit sales	235,964	248,774	(12,810)	(5.1)	%	248,774	249,695	(921)	(0.4)
Same-store new retail unit sales	227,201	236,163	(8,962)	(3.8)	%	231,458	241,680	(10,222)	(4.2)
New retail sales revenue	\$ 9,666.4	\$ 9,678.5	\$ (12.1)	(0.1)	%	\$ 9,678.5	\$ 9,547.1	\$ 131.4	1.4
Same-store new retail sales revenue	\$ 9,186.1	\$ 9,163.7	\$ 22.4	0.2	%	\$ 8,980.1	\$ 9,272.5	\$ (292.4)	(3.2)
New retail sales revenue per unit	\$ 40,966	\$ 38,905	\$ 2,061	5.3	%	\$ 38,905	\$ 38,235	\$ 670	1.8
Same-store new retail sales revenue per unit	\$ 40,432	\$ 38,802	\$ 1,630	4.2	%	\$ 38,798	\$ 38,367	\$ 431	1.1
Gross profit — new	\$ 724.6	\$ 746.2	\$ (21.6)	(2.9)	%	\$ 746.2	\$ 733.8	\$ 12.4	1.7
Same-store gross profit — new	\$ 680.9	\$ 707.2	\$ (26.3)	(3.7)	%	\$ 685.5	\$ 710.3	\$ (24.8)	(3.5)
Average gross profit per new vehicle retained	\$ 3,070	\$ 2,999	\$ 71	2.4	%	\$ 2,999	\$ 2,939	\$ 60	2.0
Same-store average gross profit per new vehicle retained	\$ 2,997	\$ 2,995	\$ 2	0.1	%	\$ 2,962	\$ 2,939	\$ 23	0.8
Gross margin % — new	7.5	% 7.7	% (0.2)	% (2.6)	%	7.7	% 7.7	% —	% —
Same-store gross margin % — new	7.4	% 7.7	% (0.3)	% (3.9)	%	7.6	% 7.7	% (0.1)	% (1.3)

## Units

Retail unit sales of new vehicles decreased from 2017 to 2018 due to an 8,962 unit, or 3.8%, decrease in same-store new retail unit sales, coupled with a 3,848 unit decrease from net dealership divestitures. New units decreased 6.1% in the U.S. and 3.7% internationally. Same-store units decreased 2.9% in the U.S. due to a decrease in premium, volume foreign, and domestic brand sales. Same-store units decreased 5.1% internationally primarily due to a shortage of product availability in the fourth quarter, resulting from the new “Worldwide Harmonised Light Vehicle Testing Procedure” (WLTP) fuel economy testing and emissions standards applicable to new vehicles sold in Europe beginning September 2018.

The decrease from 2016 to 2017 is due to a 10,222 unit, or 4.2%, decrease in same-store new retail unit sales, offset by a 9,301 unit increase from net dealership acquisitions during the year. New units decreased 1.7% in the U.S. and increased 1.8% internationally. Same-store units decreased 3.3% in the U.S., primarily due to a decrease in premium and domestic brand sales. Same-store units decreased 5.8% internationally, primarily due to a decline in unit sales in Germany that offset the strength of unit sales in the U.K.

## Revenues

New vehicle retail sales revenue decreased from 2017 to 2018 due to a \$34.5 million decrease from net dealership divestitures, offset by a \$22.4 million, or 0.2%, increase in same-store revenues. Excluding \$154.4 million of favorable foreign currency fluctuations, same-store new retail revenue decreased 1.4%. The same-store revenue increase is due to the \$1,630 per unit increase in comparative average selling prices (including a \$680 per unit increase attributable to favorable foreign currency fluctuations), which increased revenue by \$370.2 million, partially offset by a decrease in same-store new retail unit sales, which decreased revenue by \$347.8 million.

The increase from 2016 to 2017 is due to a \$423.8 million increase from net dealership acquisitions, offset by a \$292.4 million, or 3.2%, decrease in same-store revenues. Excluding \$158.8 million of negative foreign currency fluctuations, same-store new retail revenue decreased 1.4%. The same-store revenue decrease is due to a decrease in same-store new retail unit sales, which decreased revenue by \$392.2 million, offset by the \$431 per unit increase in comparative average

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selling prices per unit (offset by a \$686 per unit decrease attributable to negative foreign currency fluctuations), which increased revenue by \$99.8 million.

## Gross Profit

Retail gross profit from new vehicle sales decreased from 2017 to 2018 due to a \$26.3 million, or 3.7%, decrease in same-store gross profit, offset by a \$4.7 million increase from net dealership acquisitions. Excluding \$12.7 million of favorable foreign currency fluctuations, same-store gross profit decreased 5.5%. The decrease in same-store gross profit is due to a decrease in same-store new retail unit sales, which decreased gross profit by \$26.8 million, partially offset by a \$2 per unit increase in the average gross profit per new vehicle retailed (including a \$56 per unit increase attributable to favorable foreign currency fluctuations), which increased gross profit by \$0.5 million.

The increase from 2016 to 2017 is due to a \$37.2 million increase from net dealership acquisitions, offset by a \$24.8 million, or 3.5%, decrease in same-store gross profit during the year. Excluding \$12.3 million of negative foreign currency fluctuations, same-store gross profit decreased 1.8%. The decrease in same-store gross profit is due to the decrease in same-store new retail unit sales, which decreased gross profit by \$30.1 million, offset by a \$23 per unit increase in the average gross profit per new vehicle retailed (offset by a \$53 per unit decrease attributable to negative foreign currency fluctuations), which increased gross profit by \$5.3 million.

## Retail Automotive Dealership Used Vehicle Data

(In millions, except unit and per unit amounts)

Used Vehicle Data	2018	2017	2018 vs. 2017			2017	2016	2017 vs. 2016		
			Change	% Change	%			Change	% Change	%
Used retail unit sales	282,542	252,922	29,620	11.7	%	252,922	207,556	45,366	21.9	%
Same-store used retail unit sales	205,081	201,031	4,050	2.0	%	201,283	202,463	(1,180)	(0.6)	%
Used retail sales revenue	\$ 7,252.1	\$ 6,386.8	\$ 865.3	13.5	%	\$ 6,386.8	\$ 5,663.7	\$ 723.1	12.8	%
Same-store used retail sales revenue	\$ 5,979.3	\$ 5,539.2	\$ 440.1	7.9	%	\$ 5,502.7	\$ 5,536.3	\$ (33.6)	(0.6)	%
Used retail sales revenue per unit	\$ 25,667	\$ 25,252	\$ 415	1.6	%	\$ 25,252	\$ 27,287	\$ (2,035)	(7.5)	%
Same-store used retail sales revenue per unit	\$ 29,156	\$ 27,554	\$ 1,602	5.8	%	\$ 27,338	\$ 27,345	\$ (7)	—	%



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Gross profit — used	\$ 409.1	\$ 358.0	\$ 51.1	14.3	%	\$ 358.0	\$ 330.5	\$ 27.5	8.3	%
Same-store gross profit — used	\$ 320.8	\$ 296.7	\$ 24.1	8.1	%	\$ 297.2	\$ 324.1	\$ (26.9)	(8.3)	%
Average gross profit per used vehicle retailed	\$ 1,448	\$ 1,415	\$ 33	2.3	%	\$ 1,415	\$ 1,592	\$ (177)	(11.1)	%
Same-store average gross profit per retailed vehicle	\$ 1,564	\$ 1,476	\$ 88	6.0	%	\$ 1,476	\$ 1,601	\$ (125)	(7.8)	%
Gross margin % — used	5.6	% 5.6	% —	% —	%	5.6	% 5.8	% (0.2)	% (3.4)	%
Same-store gross margin % — used	5.4	% 5.4	% —	% —	%	5.4	% 5.9	% (0.5)	% (8.5)	%

Units

Retail unit sales of used vehicles increased from 2017 to 2018 due to a 25,570 unit increase from net dealership acquisitions, coupled with a 4,050 unit, or 2.0%, increase in same-store used retail unit sales. Used units increased 27.4% internationally and decreased 2.2% in the U.S. The decrease of 2.2% is due to the divestiture of several franchised dealerships in the U.S. during 2018. The increase internationally is primarily due to our acquisitions of stand-alone used vehicle dealerships in the U.K. Same-store units increased 4.7% internationally and decreased 0.1% in the U.S.

The increase from 2016 to 2017 is due to a 46,546 unit increase from net dealership acquisitions, offset by a 1,180 unit, or 0.6%, decrease in same-store retail unit sales. Used units increased 38.9% internationally and 9.9% in the U.S. These increases are primarily due to our 2017 acquisitions of the stand-alone used vehicle dealerships in the U.S. and the

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U.K., CarSense and CarShop, respectively. Same-store used units increased 1.7% internationally and decreased 2.1% in the U.S.

### Revenues

Used vehicle retail sales revenue increased from 2017 to 2018 due to a \$440.1 million, or 7.9%, increase in same-store revenues, coupled with a \$425.2 million increase from net dealership acquisitions. Excluding \$117.1 million of favorable foreign currency fluctuations, same-store used retail revenue increased 5.8%. The same-store revenue increase is primarily due to a \$1,602 per unit increase in comparative average selling prices (including a \$571 per unit increase attributable to favorable foreign currency fluctuations), which increased revenue by \$322.0 million, coupled with an increase in same-store used retail unit sales, which increased revenue by \$118.1 million. The increase in used retail sales revenue per unit was partially offset by lower selling prices from our stand-alone used vehicle dealerships in the U.S. and the U.K., which reduced used retail sales revenue per unit by \$3,610. The average sales price per unit for our stand-alone used vehicle dealerships is \$14,913 compared to \$29,278 at our franchised dealerships.

The increase from 2016 to 2017 is due to a \$756.7 million increase from net dealership acquisitions, offset by a \$33.6 million, or 0.6%, decrease in same-store revenues. Excluding \$127.7 million of negative foreign currency fluctuations, same-store used retail revenue increased 1.7%. The same-store revenue decrease is due to the decrease in same-store used retail unit sales, which decreased revenue by \$32.2 million, coupled with a \$7 per unit decrease in comparative average selling prices (including a \$634 per unit decrease attributable to negative foreign currency fluctuations), which decreased revenue by \$1.4 million. Used retail sales revenue per unit was also negatively impacted by lower selling prices from our stand-alone used vehicle dealerships in the U.S. and the U.K., which reduced used retail sales revenue per unit by \$2,046.

### Gross Profit

Retail gross profit from used vehicle sales increased from 2017 to 2018 due to a \$27.0 million increase from net dealership acquisitions, coupled with a \$24.1 million, or 8.1%, increase in same-store gross profit. Excluding \$6.3 million of favorable foreign currency fluctuations, same-store gross profit increased 6.0%. The increase in same-store gross profit is due to an \$88 per unit increase in average gross profit per used vehicle retailed (including a \$31 per unit increase attributable to favorable foreign currency fluctuations), which increased gross profit by \$17.7 million, coupled with an increase in same-store used retail unit sales, which increased gross profit by \$6.4 million. The increase in used average gross profit per unit was partially offset by the impact of lower average selling prices for our stand-alone used vehicle dealerships, which reduced used average gross profit per unit by \$123. The average gross profit per unit for our stand-alone used vehicle dealerships is \$1,080 compared to \$1,571 at our franchised dealerships.

The increase from 2016 to 2017 is due to a \$54.4 million increase from net dealership acquisitions, offset by a \$26.9 million, or 8.3%, decrease in same-store gross profit. Excluding \$6.8 million of negative foreign currency fluctuations, same-store gross profit decreased 6.2%. The decrease in same-store gross profit is due to a \$125 per unit decrease in average gross profit per used vehicle retailed (including a \$34 per unit decrease attributable to negative foreign currency fluctuations), which decreased gross profit by \$25.1 million, coupled with the decrease in same-store used retail unit sales, which decreased gross profit by \$1.8 million. Used average gross profit per unit was also negatively impacted by lower margins from our stand-alone used vehicle dealerships in the U.S. and the U.K., which reduced used average gross profit per unit by \$53.

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## Retail Automotive Dealership Finance and Insurance Data

(In millions, except unit and per unit amounts)

Finance and Insurance Data	2018	2017	2018 vs. 2017		2017	2016	2017 vs. 2016		
			Change	% Change			Change	% Change	
Retail unit sales	518,506	501,696	16,810	3.4	%	501,696	457,251	44,445	9.7
Same-store retail unit	432,282	437,194	(4,912)	(1.1)	%	432,741	444,143	(11,402)	(2.6)
Finance and insurance revenue	\$ 629.6	\$ 581.8	\$ 47.8	8.2	%	\$ 581.8	\$ 495.0	\$ 86.8	17.5
Same-store finance and insurance revenue	\$ 538.8	\$ 509.0	\$ 29.8	5.9	%	\$ 508.3	\$ 484.5	\$ 23.8	4.9
Finance and insurance revenue per unit	\$ 1,214	\$ 1,160	\$ 54	4.7	%	\$ 1,160	\$ 1,082	\$ 78	7.2
Same-store finance and insurance revenue per unit	\$ 1,246	\$ 1,164	\$ 82	7.0	%	\$ 1,175	\$ 1,091	\$ 84	7.7

Finance and insurance revenue increased from 2017 to 2018 due to a \$29.8 million, or 5.9%, increase in same-store revenues, coupled with an \$18.0 million increase from net dealership acquisitions. Excluding \$8.3 million of favorable foreign currency fluctuations, same-store finance and insurance revenue increased 4.2%. The same-store revenue increase is due to an \$82 per unit increase in comparative average finance and insurance revenue per unit (including a \$19 per unit increase attributable to favorable foreign currency fluctuations), which increased revenue by \$35.5 million, partially offset by the decrease in same-store retail unit sales, which decreased revenue by \$5.7 million. Finance and insurance revenue per unit was partially offset by the impact of lower per unit amounts from our stand-alone used vehicle dealerships, which reduced average finance and insurance revenue per unit by \$28. We believe the increase in same-store finance and insurance revenue per unit, particularly in the U.S., is primarily due to our continued efforts to increase finance and insurance revenue, which include additional training, adding resources to target underperforming locations, product penetration, and changes to product portfolios.

The increase from 2016 to 2017 is due to a \$63.0 million increase from net dealership acquisitions, coupled with a \$23.8 million, or 4.9%, increase in same-store revenues. Excluding \$10.0 million of negative foreign currency fluctuations, same-store finance and insurance revenue increased 7.0%. The same-store revenue increase is due to an \$84 per unit increase in comparative average selling prices per unit (offset by a \$23 per unit decrease attributable to negative foreign currency fluctuations), which increased revenue by \$36.3 million, offset by a decrease in same-store retail unit sales, which decreased revenue by \$12.5 million. We believe the increase in same-store finance and insurance revenue per unit, particularly in the U.S., is primarily due to our efforts to increase finance and insurance revenue, which include adding resources to target underperforming locations and drive additional training, product penetration, and changes to product portfolios.

## Retail Automotive Dealership Service and Parts Data

(In millions)

Service and Parts Data	2018	2017	2018 vs. 2017		2017	2016	2017 vs. 2016	
			Change	% Change			Change	% Change
Service and parts revenue	\$ 2,151.4	\$ 2,057.5	\$ 93.9	4.6 %	\$ 2,057.5	\$ 1,948.6	\$ 108.9	5.6 %
Same-store service and parts revenue	\$ 2,046.0	\$ 1,950.4	\$ 95.6	4.9 %	\$ 1,950.5	\$ 1,919.0	\$ 31.5	1.6 %
Gross profit — service and parts	\$ 1,277.3	\$ 1,219.7	\$ 57.6	4.7 %	\$ 1,219.7	\$ 1,129.7	\$ 90.0	8.0 %
Same-store service and parts gross profit	\$ 1,192.2	\$ 1,142.8	\$ 49.4	4.3 %	\$ 1,148.1	\$ 1,112.1	\$ 36.0	3.2 %
Gross margin % — service and parts	59.4 %	59.3 %	0.1 %	0.2 %	59.3 %	58.0 %	1.3 %	2.2 %
Same-store service and parts gross margin %	58.3 %	58.6 %	(0.3) %	(0.5) %	58.9 %	58.0 %	0.9 %	1.6 %

## Revenues

Service and parts revenue increased from 2017 to 2018, with an increase of 12.7% internationally and 0.8% in the U.S. The overall increase in service and parts revenue is due to a \$95.6 million, or 4.9%, increase in same-store revenues,

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offset by a \$1.7 million decrease from net dealership divestitures. Excluding \$26.5 million of favorable foreign currency fluctuations, same-store revenue increased 3.5%. The increase in same-store revenue is due to a \$90.3 million, or 6.9%, increase in customer pay revenue and a \$5.3 million, or 1.1%, increase in warranty revenue.

The increase from 2016 to 2017 is due to a \$77.4 million increase from net dealership acquisitions, coupled with a \$31.5 million, or 1.6%, increase in same-store revenues during the year. Excluding \$22.2 million of negative foreign currency fluctuations, same-store service and parts revenue increased 2.8%. The increase in same-store revenue is due to a \$37.6 million, or 8.2%, increase in warranty revenue, and a \$0.6 million, or 0.4%, increase in vehicle preparation and body shop revenue, offset by a \$6.7 million, or 0.5%, decrease in customer pay revenue.

## Gross Profit

Service and parts gross profit increased from 2017 to 2018 due to a \$49.4 million, or 4.3%, increase in same-store gross profit, coupled with an \$8.2 million increase from net dealership acquisitions. Excluding \$14.4 million of favorable foreign currency fluctuations, same-store gross profit increased 3.1%. The same-store gross profit increase is due to an increase in same-store revenues, which increased gross profit by \$55.7 million, partially offset by a 0.3% decrease in same-store gross margin, which decreased gross profit by \$6.3 million. The same-store gross profit increase is due to a \$38.8 million, or 6.3%, increase in customer pay gross profit, an \$8.5 million, or 3.3%, increase in warranty gross profit, and a \$2.1 million, or 0.8%, increase in vehicle preparation and body shop gross profit.

The increase from 2016 to 2017 is due to a \$54.0 million increase from net dealership acquisitions, coupled with a \$36.0 million, or 3.2%, increase in same-store gross profit. Excluding \$14.4 million of negative foreign currency fluctuations, same-store service and parts gross profit increased 4.5%. The same-store gross profit increase is due to the increase in same-store revenues, which increased gross profit by \$18.6 million, coupled with a 0.9% increase in same-store gross margin, which increased gross profit by \$17.4 million. The same-store gross profit increase is due to a \$25.8 million, or 11.0%, increase in warranty gross profit, a \$6.6 million, or 1.1%, increase in customer pay gross profit, and a \$3.6 million, or 1.3%, increase in vehicle preparation and body shop gross profit.

## Retail Commercial Truck Dealership Data

(In millions, except unit and per unit amounts)

New Commercial Truck Data	2018	2017	2018 vs. 2017			2017	2016	2017
			Change	% Change				
New retail unit sales	8,291	5,952	2,339	39.3	%	5,952	6,079	(1)
	8,200	5,952	2,248	37.8	%	4,781	5,245	(4)

Same-store new retail unit sales									
New retail sales revenue	\$ 866.9	\$ 613.2	\$ 253.7	41.4	%	\$ 613.2	\$ 625.5	\$ (12.3)	
Same-store new retail sales revenue	\$ 854.3	\$ 613.2	\$ 241.1	39.3	%	\$ 491.7	\$ 534.6	\$ (42.9)	
New retail sales revenue per unit	\$ 104,563	\$ 103,022	\$ 1,541	1.5	%	\$ 103,022	\$ 102,892	\$ 130	
Same-store new retail sales revenue per unit	\$ 104,179	\$ 103,022	\$ 1,157	1.1	%	\$ 102,851	\$ 101,920	\$ 931	
Gross profit — new	\$ 40.8	\$ 27.1	\$ 13.7	50.6	%	\$ 27.1	\$ 23.1	\$ 4.0	
Same-store gross profit — new	\$ 40.0	\$ 27.1	\$ 12.9	47.6	%	\$ 22.1	\$ 20.7	\$ 1.4	
Average gross profit per new truck retailed	\$ 4,916	\$ 4,550	\$ 366	8.0	%	\$ 4,550	\$ 3,808	\$ 742	
Same-store average gross profit per new truck retailed	\$ 4,873	\$ 4,550	\$ 323	7.1	%	\$ 4,625	\$ 3,946	\$ 679	
Gross margin % — new	4.7	% 4.4	% 0.3	% 6.8	%	4.4	% 3.7	% 0.7	
Same-store gross margin % — new	4.7	% 4.4	% 0.3	% 6.8	%	4.5	% 3.9	% 0.6	

#### Units

Retail unit sales of new trucks increased from 2017 to 2018 primarily due to a 2,248 unit increase in same-store retail unit sales, coupled with a 91 unit increase from net dealership acquisitions. Same-store new truck units increased 37.8% from 2017 to 2018, largely due to the 24.9% increase in the North American Class 8 heavy duty truck market during 2018.

The decrease from 2016 to 2017 is primarily due to a 464 unit decrease in same-store retail unit sales, offset by a 337 unit increase from net dealership acquisitions. Same-store new truck units decreased 8.8% from 2016 to 2017, primarily

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due to decline in North American Class 8 heavy duty truck sales throughout the majority of 2017; however, year over year improvements in the Class 8 market occurred in the later months of 2017, which moderated the decrease in our retail new unit sales in 2017.

## Revenues

New commercial truck retail sales revenue increased from 2017 to 2018 due to a \$241.1 million increase in same-store revenues, coupled with a \$12.6 million increase from net dealership acquisitions. The same-store revenue increase is due to the increase in same-store new retail unit sales, which increased revenue by \$234.2 million, coupled with a \$1,157 per unit increase in comparative average selling prices, which increased revenue by \$6.9 million.

The decrease from 2016 to 2017 is due to a \$42.9 million decrease in same-store revenues, offset by a \$30.6 million increase from net dealership acquisitions. The same-store revenue decrease is due to the decrease in same-store new retail unit sales, which decreased revenue by \$47.3 million, coupled with a \$931 per unit increase in comparative average selling prices, which increased revenue by \$4.4 million.

## Gross Profit

New commercial truck retail gross profit increased from 2017 to 2018 due to a \$12.9 million increase in same-store gross profit, coupled with a \$0.8 million increase from net dealership acquisitions. The increase in same-store gross profit is due to an increase in same-store new retail unit sales, which increased gross profit by \$11.0 million, coupled with a \$323 per unit increase in average gross profit per new truck retailed, which increased gross profit by \$1.9 million.

The increase from 2016 to 2017 is due to a \$2.6 million increase from net dealership acquisitions, coupled with a \$1.4 million increase in same-store gross profit. The increase in same-store gross profit is due to a \$679 per unit increase in average gross profit per new truck retailed, which increased gross profit by \$3.2 million, offset by a decrease in same-store new retail unit sales, which decreased gross profit by \$1.8 million.

Used Commercial Truck Data	2018	2017	2018 vs. 2017		2017	2016	2017 vs. Change
			Change	% Change			
Used retail unit sales	1,973	1,632	341	20.9 %	1,632	1,031	601
Same-store used retail unit sales	1,971	1,632	339	20.8 %	1,426	993	433



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Used retail sales revenue	\$ 112.0	\$ 89.4	\$ 22.6	25.3	%	\$ 89.4	\$ 51.8	\$ 37.6
Same-store used retail sales revenue	\$ 111.9	\$ 89.4	\$ 22.5	25.2	%	\$ 79.9	\$ 50.2	\$ 29.7
Used retail sales revenue per unit	\$ 56,767	\$ 54,808	\$ 1,959	3.6	%	\$ 54,808	\$ 50,276	\$ 4,532
Same-store used retail sales revenue per unit	\$ 56,782	\$ 54,808	\$ 1,974	3.6	%	\$ 56,031	\$ 50,581	\$ 5,450
Gross profit — used	\$ 12.7	\$ 8.7	\$ 4.0	46.0	%	\$ 8.7	\$ (1.7)	\$ 10.4
Same-store gross profit — used	\$ 12.7	\$ 8.7	\$ 4.0	46.0	%	\$ 8.2	\$ (1.8)	\$ 10.0
Average gross profit per used truck retailed	\$ 6,422	\$ 5,317	\$ 1,105	20.8	%	\$ 5,317	\$ (1,626)	\$ 6,943
Same-store average gross profit per used truck retailed	\$ 6,418	\$ 5,317	\$ 1,101	20.7	%	\$ 5,732	\$ (1,842)	\$ 7,574
Gross margin % — used	11.3	% 9.7	% 1.6	% 16.5	%	9.7	% (3.3)	% 13.0
Same-store gross margin % — used	11.3	% 9.7	% 1.6	% 16.5	%	10.3	% (3.6)	% 13.9

Units

Retail unit sales of used trucks increased from 2017 to 2018 principally due to a 339 unit increase in same-store retail unit sales. The increase from 2017 to 2018 is primarily due to a more stable used truck pricing environment due in part to the strong new truck environment driven by the strength of the U.S. economy, higher utilization rates, and our ability to proactively manage our used truck inventory through the purchase and sale of more desirable trucks.

The increase from 2016 to 2017 is due to a 433 unit increase in same-store retail unit sales, coupled with a 168 unit increase from net dealership acquisitions. The overall increase from 2016 to 2017 is primarily due to a more stable used truck pricing environment due in part to a reduction in excess capacity in the market and our ability to proactively manage our used truck inventory through the purchase and sale of more desirable trucks.

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## Revenues

Used commercial truck retail sales revenue increased from 2017 to 2018 due to a \$22.5 million increase in same-store revenues, coupled with a \$0.1 million increase from net dealership acquisitions. The same-store revenue increase is due to the increase in same-store used retail unit sales, which increased revenue by \$19.2 million, coupled with a \$1,974 per unit increase in comparative average selling prices, which increased revenue by \$3.3 million.

The increase from 2016 to 2017 is due to a \$29.7 million increase in same-store revenues, coupled with a \$7.9 million increase from net dealership acquisitions. The same-store revenue increase is due to the increase in same-store used retail unit sales, which increased revenue by \$24.3 million, coupled with a \$5,450 per unit increase in comparative average selling prices, which increased revenue by \$5.4 million.

## Gross Profit

Used commercial truck retail gross profit increased from 2017 to 2018 due to a \$4.0 million increase in same-store gross profit. The increase in same-store gross profit is due to the increase in same-store used retail unit sales, which increased gross profit by \$2.2 million, coupled with a \$1,101 per unit increase in average gross profit per used truck retailed, which increased gross profit by \$1.8 million.

The increase from 2016 to 2017 is due to a \$10.0 million increase in same-store gross profit, coupled with a \$0.4 million increase from net dealership acquisitions. The increase in same-store gross profit is due to a \$7,574 per unit increase in average gross profit per used truck retailed, which increased gross profit by \$7.5 million, coupled with the increase in same-store used retail unit sales, which increased gross profit by \$2.5 million.

Service and Parts Data	2018	2017	2018 vs. 2017			2017	2016	2017 vs. 2016		
			Change	% Change	%			Change	% Change	%
Service and parts revenue	\$ 364.5	\$ 325.6	\$ 38.9	11.9	%	\$ 325.6	\$ 306.0	\$ 19.6	6.4	%
Same-store service and parts revenue	\$ 359.9	\$ 325.6	\$ 34.3	10.5	%	\$ 283.3	\$ 279.0	\$ 4.3	1.5	%
Gross profit — service and parts	\$ 140.8	\$ 121.4	\$ 19.4	16.0	%	\$ 121.4	\$ 113.2	\$ 8.2	7.2	%
Same-store service and parts gross profit	\$ 138.7	\$ 121.4	\$ 17.3	14.3	%	\$ 107.3	\$ 104.6	\$ 2.7	2.6	%
Gross margin % — service and parts	38.6 %	37.3 %	1.3 %	3.5	%	37.3 %	37.0 %	0.3 %	0.8	%

Same-store service and parts gross margin %	38.5 %	37.3 %	1.2 %	3.2 %	37.9 %	37.5 %	0.4 %	1.1 %
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Revenues

Service and parts revenue increased from 2017 to 2018 due to a \$34.3 million increase in same-store revenues, coupled with a \$4.6 million increase from net dealership acquisitions. Customer pay work represents approximately 85.1% of PTG's 2018 service and parts revenue, largely due to the significant amount of retail sales of parts and accessories. The increase in same-store revenue is due to a \$28.6 million, or 10.4%, increase in customer pay revenue, a \$5.8 million, or 15.0%, increase in warranty revenue, partially offset by a \$0.1 million, or 0.9%, decrease in body shop revenue.

The increase from 2016 to 2017 is due to a \$15.3 million increase from net dealership acquisitions, coupled with a \$4.3 million increase in same-store revenues. Customer pay work represents approximately 86% of PTG's 2017 service and parts revenue, largely due to the significant amount of retail sales of parts and accessories. The increase in same-store revenue is due to a \$7.6 million, or 3.3%, increase in customer pay revenue, offset by a \$2.0 million, or 5.6%, decrease in warranty revenue, and a \$1.3 million, or 10.8%, decrease in body shop revenue. The increase in same-store service and parts revenue is largely due to an increase in parts sales.

Gross Profit

Service and parts gross profit increased from 2017 to 2018 due to a \$17.3 million increase in same-store gross profit, coupled with a \$2.1 million increase from net dealership acquisitions. The same-store gross profit increase is due to the increase in same-store revenues, which increased gross profit by \$13.2 million, coupled with a 1.2% increase in gross margin, which increased gross profit by \$4.1 million. The same-store gross profit increase is due to a \$13.1 million, or

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14.5%, increase in customer pay gross profit, a \$3.9 million, or 21.5%, increase in warranty gross profit, and a \$0.3 million, or 2.3%, increase in body shop gross profit.

The increase from 2016 to 2017 is due to a \$5.5 million increase from net dealership acquisitions, coupled with a \$2.7 million increase in same-store gross profit. The same-store gross profit increase is due to the increase in same-store revenues, which increased gross profit by \$1.6 million, coupled with a 0.4% increase in gross margin, which increased gross profit by \$1.1 million. The same-store gross profit increase is due to a \$4.4 million, or 5.8%, increase in customer pay gross profit, offset by a \$1.1 million, or 6.4%, decrease in warranty gross profit, and a \$0.6 million, or 5.1%, decrease in body shop gross profit.

## Commercial Vehicle Distribution Data

(In millions, except unit amounts)

Commercial Vehicles Australia Data	2018 vs. 2017				2017 vs. 2016					
	2018	2017	Change	% Change	2017	2016	Change	% Change		
Vehicle and parts unit sales	1,345	1,354	(9)	(0.7)	%	1,354	1,049	305	29.1	%
Sales revenue	\$ 558.5	\$ 511.0	\$ 47.5	9.3	%	\$ 511.0	\$ 428.8	\$ 82.2	19.2	%
Gross profit	\$ 144.6	\$ 131.2	\$ 13.4	10.2	%	\$ 131.2	\$ 115.6	\$ 15.6	13.5	%

Our commercial vehicle distribution business is comprised of our Penske Commercial Vehicles Australia business and our Penske Power Systems business. These businesses generated \$558.5 million of revenue during 2018 compared to \$511.0 million of revenue during 2017, an increase of 9.3%. Excluding \$13.3 million of negative foreign currency fluctuations, revenues increased 11.9%. These businesses generated \$144.6 million of gross profit during 2018 compared to \$131.2 million of gross profit during 2017, an increase of 10.2%. Excluding \$3.5 million of negative foreign currency fluctuations, gross profit increased 12.9%.

The increase in revenue, and gross profit from 2017 to 2018 is primarily attributable to an overall improvement in market conditions, with an increase in the heavy duty truck markets in Australia and New Zealand. The increases are also attributable to continued new order growth when compared to the same period last year, timing of completion of projects and delivery of products, and improving economic conditions which have led to an increase in mining repowers, military and marine market sales, and engine and parts sales. Increased efforts to integrate PCV Australia operations with PPS locations now selling PCV Australia brands also contributed to increased revenues and gross profit. The increase in gross profit from 2017 to 2018 is also due to an increase in parts sales due to stronger demand.

These businesses generated \$511.0 million of revenue during 2017 compared to \$428.8 million of revenue during 2016, an increase of 19.2%. Excluding \$14.7 million of favorable foreign currency fluctuations, revenues increased 15.7%. These businesses generated \$131.2 million of gross profit during 2017 compared to \$115.6 million of gross profit during 2016, an increase of 13.5%. Excluding \$3.9 million of favorable foreign currency fluctuations, gross profit increased 10.1%.

The increase in revenue and gross profit from 2016 to 2017 is primarily attributable to an overall improvement in market conditions, with an increase in the heavy duty truck markets in Australia and New Zealand of 21.8% in 2017, as well as new business gained in military truck supply and service. In addition, the strengthening of the Australian Dollar versus the U.S. Dollar and British Pound, including the pricing impact on the products purchased by PCV Australia from these countries, has contributed to an improvement in gross margin. The increase in revenue and gross profit of PPS from 2016 to 2017 is primarily attributable to continued new order growth when compared to the same period last year, as well as the addition of company owned Western Star and MAN franchises, and improving economic conditions.

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## Selling, General and Administrative Data

(In millions)

Selling, General and Administrative Data			2018 vs. 2017						2017 vs. 2016						
	2018	2017	Change	% Change	2017	2016	Change	% Change	2017	2016	Change	% Change			
Total SG&A expense	\$ 1,542.7	\$ 1,439.2	\$ 103.5	7.2	%	\$ 1,439.2	\$ 1,317.5	\$ 121.7	9.2	%	\$ 1,317.5	\$ 1,195.8	\$ 121.7	9.2	%
Variable SG&A expense	\$ 115.2	\$ 115.8	\$ (0.6)	(0.5)	%	\$ 115.8	\$ 102.5	\$ 13.3	13.0	%	\$ 102.5	\$ 99.2	\$ 3.3	3.3	%
Fixed SG&A expense	\$ 336.4	\$ 323.9	\$ 12.5	3.9	%	\$ 323.9	\$ 291.2	\$ 32.7	11.2	%	\$ 291.2	\$ 292.3	\$ (1.1)	(0.4)	%
SG&A expense	\$ 652.0	\$ 637.1	\$ 14.9	2.3	%	\$ 637.1	\$ 590.8	\$ 46.3	7.8	%	\$ 590.8	\$ 544.5	\$ 46.3	8.5	%
SG&A expenses	\$ 2,646.3	\$ 2,516.0	\$ 130.3	5.2	%	\$ 2,516.0	\$ 2,302.0	\$ 214.0	9.3	%	\$ 2,302.0	\$ 2,187.3	\$ 114.7	5.3	%
Same-store SG&A expenses	\$ 2,402.5	\$ 2,314.7	\$ 87.8	3.8	%	\$ 2,284.4	\$ 2,237.0	\$ 47.4	2.1	%	\$ 2,237.0	\$ 2,219.6	\$ 17.4	0.8	%
SG&A expense as % of gross profit	45.2	% 44.7	% 0.4	% 0.9	%	44.7	% 44.4	% 0.3	% 0.7	%	44.4	% 44.1	% 0.3	% 0.7	%
Variable SG&A expense as % of gross profit	3.4	% 3.6	% (0.2)	% (5.6)	%	3.6	% 3.5	% 0.1	% 2.9	%	3.5	% 3.4	% 0.1	% 2.9	%
Fixed SG&A expense as % of gross profit	9.9	% 10.0	% (0.1)	% (1.0)	%	10.0	% 9.8	% 0.2	% 2.0	%	9.8	% 9.7	% 0.1	% 1.3	%
SG&A expenses as % of gross profit	19.1	% 19.8	% (0.7)	% (3.5)	%	19.8	% 19.9	% (0.1)	% (0.5)	%	19.9	% 19.6	% 0.3	% 1.5	%
Same-store SG&A expenses as % of gross profit	77.5	% 78.1	% (0.6)	% (0.8)	%	78.1	% 77.6	% 0.5	% 0.6	%	77.6	% 77.3	% 0.3	% 0.4	%
Variable SG&A expenses as % of gross profit	77.7	% 78.0	% (0.3)	% (0.4)	%	77.9	% 77.3	% 0.6	% 0.8	%	77.3	% 77.0	% 0.3	% 0.4	%

Selling, general and administrative expenses (“SG&A”) increased from 2017 to 2018 due to an \$87.8 million, or 3.8%, increase in same-store SG&A, coupled with a \$42.5 million increase from net acquisitions. Excluding the increase related to foreign currency fluctuations, same-store SG&A increased 2.5%. The increase in SG&A is primarily due to an increase in variable personnel expenses as a result of the 6.0% increase in gross profit compared to the prior year, coupled with a \$29.7 million increase due to foreign currency fluctuations.

The increase from 2016 to 2017 is due to a \$166.6 million increase from net acquisitions, coupled with a \$47.4 million, or 2.1%, increase in same-store SG&A expenses. The increase in same-store SG&A is primarily due to an increase in same-store variable personnel expenses as a result of the 0.3% increase in same-store retail gross profit versus the prior year, offset by a \$27.4 million decrease due to negative foreign currency fluctuations. Excluding the reduction related to foreign currency fluctuations, same-store SG&A increased 3.3%.

SG&A expenses as a percentage of total revenue were 11.6%, 11.8% and 11.4% in 2018, 2017, and 2016, respectively, and as a percentage of gross profit were 77.5%, 78.1%, and 77.6%, in 2018, 2017, and 2016, respectively.

Depreciation

(In millions)

	2018	2017	2018 vs. 2017		2017	2016	2017 vs. 2016		
			Change	% Change			Change	% Change	
Depreciation	\$ 103.7	\$ 95.1	\$ 8.6	9.0	% \$ 95.1	\$ 89.7	\$ 5.4	6.0	%

Depreciation increased from 2017 to 2018 due to an \$8.4 million, or 9.4%, increase in same-store depreciation, coupled with a \$0.2 million increase from net acquisitions.

The increase from 2016 to 2017 is due to a \$4.6 million increase from net acquisitions, coupled with a \$0.8 million, or 0.9%, increase in same-store depreciation during the year.

The overall same-store increases are primarily related to our ongoing facility improvements and expansion programs.

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## Floor Plan Interest Expense

(In millions)

	2018	2017	2018 vs. 2017		2017	2016	2017 vs. 2016		
			Change	% Change			Change	% Change	
Floor plan interest expense	\$ 80.9	\$ 63.4	\$ 17.5	27.6	% \$ 63.4	\$ 50.9	\$ 12.5	24.6	%

Floor plan interest expense increased from 2017 to 2018 due to a \$16.1 million, or 27.1%, increase in same-store floor plan interest expense, coupled with a \$1.4 million increase from net dealership acquisitions.

The increase from 2016 to 2017 is due to a \$9.6 million, or 19.5%, increase in same-store floor plan interest expense, coupled with a \$2.9 million increase from net dealership acquisitions.

The overall increases are primarily due to increases in amounts outstanding under floor plan arrangements, due in part to increased levels of inventory, and increases in applicable rates.

## Other Interest Expense

(In millions)

	2018	2017	2018 vs. 2017		2017	2016	2017 vs. 2016		
			Change	% Change			Change	% Change	
Other interest expense	\$ 114.7	\$ 107.4	\$ 7.3	6.8	% \$ 107.4	\$ 85.4	\$ 22.0	25.8	%

Other interest expense increased from 2017 to 2018 primarily due to the issuance of our \$300.0 million 3.75% senior subordinated notes in August 2017, increases in applicable rates, as well as an increase in outstanding revolver borrowings under the U.K. credit agreement. This increase was partially offset by a decrease in outstanding revolver borrowings under the U.S. credit agreement.



The increase from 2016 to 2017 is primarily due to the issuance of our \$300.0 million 3.75% senior subordinated notes in August 2017, as well as an increase in outstanding revolver borrowings under the U.S. and U.K. credit agreements, and our Australia working capital and capital loan agreements, as well as due to increases in applicable rates.

#### Equity in Earnings of Affiliates

(In millions)

	2018	2017	2018 vs. 2017		2017	2016	2017 vs. 2016		
			Change	% Change			Change	% Change	
Equity in earnings of affiliates	\$ 134.8	\$ 107.6	\$ 27.2	25.3	% \$ 107.6	\$ 69.5	\$ 38.1	54.8	%

Equity in earnings of affiliates increased from 2017 to 2018 primarily due to an increase in our ownership percentage in PTL from 23.4% to 28.9% in September 2017, coupled with a 10.3% increase in PTL earnings. Equity in earnings of affiliates from PTL increased by \$27.9 million from 2017 to 2018. Equity in earnings of affiliates also increased due to an increase in earnings from our retail automotive joint ventures, partially offset by a decrease in earnings due to certain non-automotive investments that were sold in 2017.

The increase from 2016 to 2017 is primarily due to increases in our investment in PTL from 23.4% to 28.9% in September 2017 and from 9.0% to 23.4% in July 2016. Equity in earnings of affiliates from PTL increased by \$40.0 million from 2016 to 2017. This increase was offset primarily by decreases in earnings from other non-automotive equity method investments, some of which were sold in 2017.

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## Income Taxes

(In millions)

	2018	2017	2018 vs. 2017		2017	2016	2017 vs. 2016		
			Change	% Change			Change	% Change	
Income taxes	\$ 134.3	\$ (64.8)	\$ 199.1	(307.3)	% \$ (64.8)	\$ 160.7	\$ (225.5)	(140.3)	%

Income taxes increased from 2017 to 2018 primarily due to the enactment of the U.S. Tax Cuts and Jobs Act (the “Act”), which resulted in a net tax benefit of \$243.4 million in 2017, offset by a reduction in our effective tax rate. The increase was also due to a \$55.9 million increase in our pre-tax income compared to the prior year, offset by a tax benefit of \$11.6 million for final adjustments to our provisional estimates per the Act and related Staff Accounting Bulletin No.118 (discussed in “Income Taxes” within Part II, Item 8, Note 17).

The decrease from 2016 to 2017 is due to the enactment of the Act, which resulted in a net tax benefit of \$243.4 million in 2017. The decrease in income taxes as a result of the Act is from the remeasurement of certain deferred tax assets and liabilities due to the corporate income tax rate reduction, partially offset by taxes on the accumulated earnings and profits from our international operations. The decrease from the net tax benefit was partially offset by a \$40.1 million increase in our pre-tax income compared to 2016.

## Liquidity and Capital Resources

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

We have historically expanded our operations through organic growth and the acquisition of dealerships and other businesses. We believe that cash flow from operations, dividends and distributions from our joint venture investments, and our existing capital resources, including the liquidity provided by our credit agreements and floor plan financing arrangements, will be sufficient to fund our existing operations and current commitments for at least the next twelve months. In the event we pursue significant acquisitions or other expansion opportunities, pursue significant repurchases of our outstanding securities, or refinance or repay existing debt, we may need to raise additional capital either through the public or private issuance of equity or debt securities or through additional borrowings, which

sources of funds may not necessarily be available on terms acceptable to us, if at all. In addition, our liquidity could be negatively impacted in the event we fail to comply with the covenants under our various financing and operating agreements or in the event our floor plan financing is withdrawn.

As of December 31, 2018, we had working capital of \$46.9 million, including \$39.4 million of cash, available to fund our operations and capital commitments. In addition, we had \$670.0 million, £30.6 million (\$39.0 million), and AU \$41.4 million (\$29.2 million) available for borrowing under our U.S. credit agreement, U.K. credit agreement, and Australian working capital loan agreement, respectively.

### Securities Repurchases

From time to time, our Board of Directors has authorized securities repurchase programs pursuant to which we may, as market conditions warrant, purchase our outstanding common stock or debt on the open market, in privately negotiated transactions, via a tender offer, or through a pre-arranged trading plan. We have historically funded any such repurchases using cash flow from operations, borrowings under our U.S. credit agreement, and borrowings under our U.S. floor plan arrangements. The decision to make repurchases will be based on factors such as the market price of the relevant security versus our view of its intrinsic value, the potential impact of such repurchases on our capital structure, and our consideration of any alternative uses of our capital, such as for acquisitions and strategic investments in our current businesses, in addition to any then-existing limits imposed by our finance agreements and securities trading policy. As of December 31, 2018, we had \$136.9 million in repurchase authorization under the securities repurchase

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program. In February 2019, our Board of Directors increased the authority delegated to management to repurchase our outstanding securities to \$200.0 million. Refer to the disclosures provided in Part II, Item 8, Note 15 of the Notes to our Consolidated Financial Statements for a summary of shares repurchased during 2018

Dividends

We paid the following cash dividends on our common stock in 2017 and 2018:

Per Share Dividends

2017

First Quarter	\$ 0.30
Second Quarter	0.31
Third Quarter	0.32
Fourth Quarter	0.33

2018

First Quarter	\$ 0.34
Second Quarter	0.35
Third Quarter	0.36
Fourth Quarter	0.37

We also announced a cash dividend of \$0.38 per share payable on March 1, 2019 to stockholders of record as of February 11, 2019. Future quarterly or other cash dividends will depend upon a variety of factors considered relevant by our Board of Directors, which may include our earnings, capital requirements, restrictions relating to any then-existing indebtedness, financial condition and other factors.

Vehicle Financing

Refer to the disclosures provided in Part II, Item 8, Note 9 of the Notes to our Consolidated Condensed Financial Statements for a detailed description of financing for the vehicles we purchase, including discussion of our floor plan and other revolving arrangements.

Long-Term Debt Obligations

As of December 31, 2018, we had the following long-term debt obligations outstanding:

(In millions)	December 31, 2018
U.S. credit agreement — revolving credit line	\$ 30.0
U.K. credit agreement — revolving credit line	163.3
U.K. credit agreement — overdraft line of credit	1.8
3.75% senior subordinated notes due 2020	297.9
5.75% senior subordinated notes due 2022	546.8
5.375% senior subordinated notes due 2024	297.6
5.50% senior subordinated notes due 2026	495.1
Australia capital loan agreement	33.6
Australia working capital loan agreement	6.1
Mortgage facilities	289.6
Other	54.9
Total long-term debt	\$ 2,216.7

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As of December 31, 2018, we were in compliance with all covenants under our credit agreements, and we believe we will remain in compliance with such covenants for the next twelve months. Refer to the disclosures provided in Part II, Item 8, Note 10 of the Notes to our Consolidated Financial Statements set forth below for a detailed description of our long-term debt obligations.

### Short-Term Borrowings

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

During 2018, outstanding revolving commitments varied between \$0.0 million and \$315.0 million under the U.S. credit agreement, between £5.0 million and £140.0 million (\$6.4 million and \$178.6 million) under the U.K. credit agreement's revolving credit line (excluding the overdraft facility), and between AU \$0.0 million and AU \$17.6 million (\$0.0 million and \$12.4 million) under the Australia working capital loan agreement. The amounts outstanding under our floor plan agreements varied based on the timing of the receipt and expenditure of cash in our operations, driven principally by the levels of our vehicle inventories.

### PTL Dividends

We currently hold a 28.9% ownership interest in Penske Truck Leasing. As discussed previously, we increased our ownership interest in PTL during 2016 and 2017 by 14.4% and 5.5%, respectively. The PTL partnership agreement requires PTL, subject to applicable law and the terms of its credit agreements, to make quarterly distributions to the partners with respect to each fiscal year by no later than 45 days after the end of each of the first three quarters of the year and by April 15 of the following year. PTL's principal debt agreements allow partner distributions only as long as they are not in default under that agreement and the amount they pay does not exceed 50% of its consolidated net income. During 2018, 2017, and 2016 we received \$63.2 million, \$52.4 million, and \$21.7 million, respectively, of pro rata cash distributions relating to this investment. We currently expect to continue to receive future distributions from PTL quarterly, subject to its financial performance.

### Operating Leases

We estimate the total rent obligations under our operating leases, including any extension periods we may exercise at our discretion and assuming constant consumer price indices, to be \$5.4 billion. As of December 31, 2018, we were in compliance with all covenants under these leases, and we believe we will remain in compliance with such covenants for the next twelve months. Refer to the disclosures provided in Part II, Item 8, Note 12 of the Notes to our Consolidated Financial Statements for a description of our operating leases.

#### Sale/Leaseback Arrangements

We have in the past and may in the future enter into sale-leaseback transactions to finance certain property acquisitions and capital expenditures, pursuant to which we sell property and/or leasehold improvements to third parties and agree to lease those assets back for a certain period of time. Such sales generate proceeds that vary from period to period.

#### Off-Balance Sheet Arrangements

Refer to the disclosures provided in Part II, Item 8, Note 12 of the Notes to our Consolidated Financial Statements for a description of our off-balance sheet arrangements which include lease obligations and repurchase commitment related to our floor plan credit agreement with Mercedes Benz Financial Services Australia.

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## Cash Flows

The following table summarizes the changes in our cash provided by (used in) operating, investing, and financing activities. The major components of these changes are discussed below.

(In millions)	Year Ended December 31,		
	2018	2017	2016
Net cash provided by continuing operating activities	\$ 614.2	\$ 623.0	\$ 371.3
Net cash used in continuing investing activities	(525.2)	(928.7)	(836.7)
Net cash (used in) provided by continuing financing activities	(94.3)	322.6	433.0
Net cash provided by discontinued operations	0.5	2.7	3.1
Effect of exchange rate changes on cash and cash equivalents	(1.5)	2.1	(9.1)
Net change in cash and cash equivalents	\$ (6.3)	\$ 21.7	\$ (38.4)

## Cash Flows from Continuing Operating Activities

Cash flows from continuing operating activities includes net income, as adjusted for non-cash items and the effects of changes in working capital.

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

In accordance with generally accepted accounting principles relating to the statement of cash flows, we report all cash flows arising in connection with floor plan notes payable with the manufacturer of a particular new vehicle as an operating activity in our statement of cash flows, and all cash flows arising in connection with floor plan notes payable to a party other than the manufacturer of a particular new vehicle, all floor plan notes payable relating to pre-owned vehicles, and all floor plan notes payable related to our commercial vehicles in Australia and New Zealand, as a financing activity in our statement of cash flows. Currently, the majority of our non-trade vehicle financing is with other manufacturer captive lenders. To date, we have not experienced any material limitation with respect to the amount or availability of financing from any institution providing us vehicle financing.



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

(In millions)	Year Ended December 31,		
	2018	2017	2016
Net cash from continuing operating activities as reported	\$ 614.2	\$ 623.0	\$ 371.3
Floor plan notes payable — non-trade as reported	10.0	185.3	101.0
Net cash from continuing operating activities including all floor plan notes payable	\$ 624.2	\$ 808.3	\$ 472.3

#### Cash Flows from Continuing Investing Activities

Cash flows from continuing investing activities consist primarily of cash used for capital expenditures, proceeds from the sale of dealerships, and net expenditures for acquisitions and other investments. Capital expenditures were \$305.6 million, \$247.0 million, and \$203.1 million during 2018, 2017, and 2016, respectively. Capital expenditures relate primarily to improvements to our existing dealership facilities, the construction of new facilities, the acquisition of the property or buildings associated with existing leased facilities, and the acquisition of land for future development. We currently expect to finance our retail automotive segment and retail commercial truck segment capital expenditures with operating cash flows or borrowings under our U.S. or U.K. credit agreements. Proceeds from the sale of dealerships were

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\$84.5 million, \$25.1 million and \$4.2 million during 2018, 2017, and 2016, respectively. Cash used in acquisitions and other investments, net of cash acquired, was \$309.1 million, \$449.7 million, and \$140.8 million during 2018, 2017, and 2016, respectively, and included cash used to repay sellers' floor plan liabilities in such business acquisitions of \$58.2 million, \$101.6 million, and \$62.2 million, respectively. Cash used to acquire additional ownership interests in PTL was \$239.1 million and \$498.5 million during 2017 and 2016, respectively. Proceeds from sale-leaseback transactions were \$10.7 million and \$22.2 million during 2018 and 2017, respectively.

## Cash Flows from Continuing Financing Activities

Cash flows from continuing financing activities include net borrowings or repayments of long-term debt, issuance of long-term debt, net borrowings or repayments of floor plan notes payable non-trade, payment of debt issuance costs, repurchases of common stock, and dividends.

We had net borrowings of long-term debt of \$93.5 million and \$122.9 million during 2018 and 2016, respectively, and net repayments of long-term debt of \$26.0 million during 2017. We issued \$300.0 million and \$500.0 million of senior subordinated notes in 2017 and 2016, respectively, and paid \$4.0 million and \$6.7 million of debt issuance costs in conjunction with the issuance of the senior subordinated notes during 2017 and 2016, respectively. We had net borrowings of floor plan notes payable non-trade of \$10.0 million, \$185.3 million and \$101.0 million during 2018, 2017 and 2016, respectively. In 2018, 2017, and 2016, we repurchased 1.6 million, 0.4 million, and 4.7 million shares of common stock for \$68.9 million, \$18.5 million, and \$173.6 million, respectively. We also paid \$121.2 million, \$108.4 million, and \$95.1 million of cash dividends to our stockholders during 2018, 2017, and 2016, respectively.

## Contractual Payment Obligations

The table below sets forth our best estimates as to the amounts and timing of future payments relating to our most significant contractual obligations as of December 31, 2018, excluding amounts related to entities classified as discontinued operations. The information in the table reflects future unconditional payments and is based upon, among other things, the terms of any relevant agreements. Future events, including acquisitions, divestitures, new or revised operating lease agreements, borrowings or repayments under our credit agreements and our floor plan arrangements, and purchases or refinancing of our securities, could cause actual payments to differ significantly from these amounts. Potential payments noted above under "Off-Balance Sheet Arrangements" are excluded from this table.

(In millions)	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Floor plan notes payable (A)	\$ 3,790.8	\$ 3,790.8	\$ —	\$ —	\$ —
Long-term debt obligations	2,216.7	92.0	398.4	756.9	969.4
Operating lease commitments	5,432.8	222.5	437.9	428.0	4,344.4
Scheduled interest payments (B)	538.4	99.4	184.9	137.6	116.5

Deferred Compensation (C)	2.5	—	—	—	2.5
	\$ 11,981.2	\$ 4,204.7	\$ 1,021.2	\$ 1,322.5	\$ 5,432.8

- (A) Floor plan notes payable are revolving financing arrangements. Payments are generally made as required pursuant to the floor plan borrowing agreements discussed above under “Vehicle Financing.”
- (B) Estimates of future variable rate interest payments under floor plan notes payable and our credit agreements are excluded due to our inability to estimate changes in interest rates in the future. See “Vehicle Financing,” “U.S. Credit Agreement,” “U.K. Credit Agreement,” and “Australia Loan Agreements” in Part II, Item 8 of the Notes to our Consolidated Financial Statements set forth below for a discussion of such variable rates.
- (C) Due to the subjective nature of our deferred compensation, we are unable to make reasonably reliable estimates of the timing of payments.

We expect that, other than for scheduled payments upon the maturity or termination dates of certain of our debt instruments, the amounts above will be funded through cash flows from operations or borrowings under our credit agreements. In the case of payments upon the maturity or termination dates of our debt instruments, we currently expect to be able to refinance such instruments in the normal course of business or otherwise fund them from cash flows from operations or borrowings under our credit agreements.

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Related Party Transactions

Stockholders Agreement

Several of our directors and officers are affiliated with Penske Corporation or related entities. Roger S. Penske, our Chair of the Board and Chief Executive Officer, is also Chair of the Board and Chief Executive Officer of Penske Corporation, and through entities affiliated with Penske Corporation, our largest stockholder owning approximately 42% of our outstanding common stock. Mitsui & Co., Ltd. and Mitsui & Co. (USA), Inc. (collectively, "Mitsui") own approximately 16% of our outstanding common stock. Mitsui, Penske Corporation and certain other affiliates of Penske Corporation are parties to a stockholders agreement pursuant to which the Penske affiliated companies agreed to vote their shares for up to two directors who are representatives of Mitsui. In turn, Mitsui agreed to vote their shares for up to fourteen directors voted for by the Penske affiliated companies. This agreement terminates in March 2030, upon the mutual consent of the parties, or when either party no longer owns any of our common stock.

Other Related Party Interests and Transactions

Robert Kurnick, Jr., our President and a director, is also the Vice Chair and a director of Penske Corporation. Bud Denker, our Executive Vice President, Human Resources, is also the President of Penske Corporation. Roger S. Penske, Jr., one of our directors, is the son of our chair and is also a director of Penske Corporation. Masashi Yamanaka, one of our directors, is also an employee of Mitsui & Co.

We sometimes pay to and/or receive fees from Penske Corporation, its subsidiaries, and its affiliates for services rendered in the ordinary course of business, or to reimburse payments made to third parties on each other's behalf. These transactions are reviewed periodically by our Audit Committee and reflect the provider's cost or an amount mutually agreed upon by both parties.

We own a 28.9% interest in PTL. PTL, discussed previously, is owned 41.1% by Penske Corporation, 28.9% by us, and 30.0% by Mitsui. We have also entered into other joint ventures with certain related parties as more fully discussed in Part II, Item 8, Note 13 of the Notes to our Consolidated Financial Statements.

Cyclicality

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

#### Seasonality

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

**Commercial Vehicle Distribution.** Our commercial vehicle distribution business generally experiences higher sales volumes during the second quarter of the year, which is primarily attributable to commercial vehicle customers completing annual capital expenditures before their fiscal year-end, which is typically June 30 in Australia.

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### Effects of Inflation

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

### Forward-Looking Statements

Certain statements and information set forth herein, as well as other written or oral statements made from time to time by us or by our authorized officers on our behalf, constitute “forward-looking statements” within the meaning of the Federal Private Securities Litigation Reform Act of 1995. Words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “goal,” “plan,” “seek,” “project,” “continue,” “will,” “would,” and variations of such words and similar expressions are used to identify such forward-looking statements. We intend for our forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and we set forth this statement in order to comply with such safe harbor provisions. You should note that our forward-looking statements speak only as of the date of this Annual Report on Form 10-K or when made and we undertake no duty or obligation to update or revise our forward-looking statements, whether as a result of new information, future events, or otherwise. Forward-looking statements include, without limitation, statements with respect to:

- our future financial and operating performance;
- future acquisitions and dispositions;
- future potential capital expenditures and securities repurchases;
- our ability to realize cost savings and synergies;
- our ability to respond to economic cycles;
- trends in the automotive retail industry and commercial vehicles industries and in the general economy in the various countries in which we operate;
- our ability to access the remaining availability under our credit agreements;
- our liquidity;
- performance of joint ventures, including PTL;
- future foreign exchange rates;
- the outcome of various legal proceedings;
- results of self-insurance plans;
- trends affecting the automotive industry generally and our future financial condition or results of operations; and
- our business strategy.



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Forward-looking statements involve known and unknown risks and uncertainties and are not assurances of future performance. Actual results may differ materially from anticipated results due to a variety of factors, including the factors identified under “Item 1A. Risk Factors.” Important factors that could cause actual results to differ materially from our expectations include those mentioned in “Item 1A. Risk Factors” such as the following:

- our business and the automotive retail and commercial vehicles industries in general are susceptible to adverse economic conditions, including changes in interest rates, foreign exchange rates, customer demand, customer confidence, fuel prices, unemployment rates and credit availability;
- the political and economic outcome of Brexit in the U.K.;
- increased tariffs, import product restrictions, and foreign trade risks that may impair our ability to sell foreign vehicles profitably, including any eventual tariffs resulting from the threats from the Trump Administration to add 25% tariffs on foreign vehicles or parts;
- the number of new and used vehicles sold in our markets;
- the effect on our businesses of the trend of electrification of vehicle engines, new mobility technologies such as shared vehicle services, such as Uber and Lyft, and the eventual availability of driverless vehicles;
- vehicle manufacturers exercise significant control over our operations, and we depend on them and the continuation of our franchise and distribution agreements in order to operate our business;
- we depend on the success, popularity and availability of the brands we sell, and adverse conditions affecting one or more vehicle manufacturers, including the adverse impact on the vehicle and parts supply chain due to natural disasters or other disruptions that interrupt the supply of vehicles and parts to us (including any disruptions resulting from the new fuel economy testing and Co2 emissions legislation in the United Kingdom and Europe discussed in Part I, Item 1A, Risk Factors), may negatively impact our revenues and profitability;
- we are subject to the risk that a substantial number of our new or used inventory may be unavailable due to recall or other reasons;
- the success of our commercial vehicle distribution operations and engine and power systems distribution operations depends upon continued availability of the vehicles, engines, power systems, and other parts we distribute, demand for those vehicles, engines, power systems, and parts, and general economic conditions in those markets;
- a restructuring of any significant vehicle manufacturer or supplier;
- our operations may be affected by severe weather, such as the recent hurricanes in Puerto Rico, Florida, and Texas, or other periodic business interruptions;
- we have substantial risk of loss not covered by insurance;
- we may not be able to satisfy our capital requirements for acquisitions, facility renovation projects, financing the purchase of our inventory, or refinancing of our debt when it becomes due;
- our level of indebtedness may limit our ability to obtain financing generally and may require that a significant portion of our cash flow be used for debt service;
- non-compliance with the financial ratios and other covenants under our credit agreements and operating leases;
- higher interest rates may significantly increase our variable rate interest costs and, because many customers finance their vehicle purchases, decrease vehicle sales;
- our operations outside of the U.S. subject our profitability to fluctuations relating to changes in foreign currency values, which have most recently occurred as a result of the June 2016 U.K. referendum for Brexit;





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- with respect to PTL, changes in the financial health of its customers, labor strikes or work stoppages by its employees, a reduction in PTL's asset utilization rates, continued availability from truck manufacturers and suppliers of vehicles and parts for its fleet, changes in values of used trucks which affects PTL's profitability on truck sales, compliance costs in regards to its trucking fleet and truck drivers, its ability to retain qualified drivers and technicians, risks associated with its participation in multi-employer pension plans, conditions in the capital markets to assure PTL's continued availability of capital to purchase trucks, the effect of changes in lease accounting rules on PTL customers' purchase/lease decisions, and industry competition, each of which could impact distributions to us;
- we are dependent on continued security and availability of our information technology systems and we may be subject to fines, penalties, and other costs under applicable privacy laws if we do not maintain our confidential customer and employee information properly;
- if we lose key personnel, especially our Chief Executive Officer, or are unable to attract additional qualified personnel;
- new or enhanced regulations relating to automobile dealerships including those that may be issued by the Consumer Finance Protection Bureau in the U.S. or the Financial Conduct Authority in the U.K. restricting automotive financing;
- changes in tax, financial or regulatory rules or requirements;
- we could be subject to legal and administrative proceedings which, if the outcomes are adverse to us, could have a material adverse effect on our business;
- if state dealer laws in the U.S. are repealed or weakened, our automotive dealerships may be subject to increased competition and may be more susceptible to termination, non-renewal or renegotiation of their franchise agreements;
- some of our directors and officers may have conflicts of interest with respect to certain related party transactions and other business interests; and
- shares of our common stock eligible for future sale may cause the market price of our common stock to drop significantly, even if our business is doing well.

We urge you to carefully consider these risk factors and further information under "Item 1A. Risk Factors" in evaluating all forward-looking statements regarding our business. Readers of this report are cautioned not to place undue reliance on the forward-looking statements contained in this report. All forward-looking statements attributable to us are qualified in their entirety by this cautionary statement. Except to the extent required by the federal securities laws and the Securities and Exchange Commission's rules and regulations, we have no intention or obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise.

## Additional Information

Investors and others should note that we announce material financial information using our company website ([www.penskeautomotive.com](http://www.penskeautomotive.com)), our investor relations website ([investors.penskeautomotive.com](http://investors.penskeautomotive.com)), SEC filings, press releases, public conference calls and webcasts. Information about Penske Automotive Group, its business, and its results of operations may also be announced by posts on the following social media channels from time to time:

- Penske Automotive Group's Twitter feed ([www.twitter.com/penskecarscorp](http://www.twitter.com/penskecarscorp))
- Penske Automotive Group's Facebook page ([www.facebook.com/penskecars](http://www.facebook.com/penskecars))
- Penske Automotive Group's Social website ([www.penskesocial.com](http://www.penskesocial.com))

The information that we post on these social media channels could be deemed to be material information. As a result, we encourage investors, the media, and others interested in Penske Automotive Group to review the information that we post on these social media channels. These channels may be updated from time to time on Penske Automotive Group's

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investor relations website. The information on or accessible through our websites and social media channels is not incorporated by reference in this Annual Report on Form 10-K and our references to such content are intended to be inactive textual or oral references only.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

**Interest Rates.** We are exposed to market risk from changes in the interest rates on a significant portion of our outstanding debt. Outstanding revolving balances under our credit agreements bear interest at variable rates based on a margin over defined LIBOR, the Bank of England Base Rate, or the Australian Bank Bill Swap Rate. Based on the amount outstanding under these facilities as of December 31, 2018, a 100 basis point change in interest rates would result in an approximate \$2.0 million change to our annual other interest expense. Similarly, amounts outstanding under floor plan financing arrangements bear interest at a variable rate based on a margin over the prime rate, defined LIBOR, the Finance House Base Rate, the Euro Interbank Offered Rate, the Canadian Prime Rate, the Australian Bank Bill Swap Rate, or the New Zealand Bank Bill Benchmark Rate.

Based on an average of the aggregate amounts outstanding under our floor plan financing arrangements subject to variable interest payments during the year ended December 31, 2018, a 100 basis point change in interest rates would result in an approximate \$35.4 million change to our annual floor plan interest expense.

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

- the maintenance of our overall debt portfolio with targeted fixed and variable rate components;
- the use of authorized derivative instruments;
- the prohibition of using derivatives for trading or other speculative purposes; and
- the prohibition of highly leveraged derivatives or derivatives which we are unable to reliably value, or for which we are unable to obtain a market quotation.

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

**Foreign Currency Exchange Rates.** As of December 31, 2018, we had consolidated operations in the U.K., Germany, Italy, Canada, Australia and New Zealand. In each of these markets, the local currency is the functional currency. In the event we change our intent with respect to the investment in any of our international operations, we would expect to implement strategies designed to manage those risks in an effort to mitigate the effect of foreign currency

fluctuations on our earnings and cash flows. A ten percent change in average exchange rates versus the U.S. Dollar would have resulted in an approximate \$1,017.7 million change to our revenues for the year ended December 31, 2018.

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

#### Item 8. Financial Statements and Supplementary Data

The consolidated financial statements listed in the accompanying Index to Consolidated Financial Statements are incorporated by reference into this Item 8.

#### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Deloitte & Touche LLP is our principal independent registered public accounting firm. In delivering its audit opinion, Deloitte & Touche LLP has historically relied on the opinions of KPMG LLP, principally in respect of our subsidiary

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which holds our U.K. operations. In an effort to achieve synergies associated with retaining only one auditing firm, our Audit Committee approved the dismissal of KPMG LLP on May 9, 2017 and Deloitte & Touche LLP is now our sole independent auditor, as previously disclosed.

The report of KPMG LLP for the fiscal year ended December 31, 2016 did not contain any adverse opinion or disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principle. During our fiscal year ended December 31, 2016 and through the subsequent date of dismissal (i) there were no disagreements (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) between us and KPMG LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the satisfaction of KPMG LLP would have caused KPMG LLP to make reference to the subject matter of the disagreement in connection with its reports on our consolidated financial statements for such years, and (ii) there were no “reportable events” (as that term is defined in Item 304(a)(1)(v) of Regulation S-K).

### Item 9A. Controls and Procedures

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

Based upon this evaluation, our principal executive and financial officers concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, we maintain internal controls designed to provide us with the information required for accounting and financial reporting purposes. There were no changes in our internal control over financial reporting that occurred during the most recent quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management’s and our auditor’s reports on our internal control over financial reporting are included with our financial statements filed as part of this Annual Report on Form 10-K.

### Item 9B. Other Information

Not applicable.

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## PART III

The information required by Items 10 through 14 is included in our definitive proxy statement under the captions “Election of Directors,” “Our Corporate Governance,” “Ratification of the Selection of our Independent Auditor,” “Executive Officers,” “Compensation Committee Report,” “Compensation Discussion and Analysis,” “Executive Compensation,” “Director Compensation,” “Security Ownership of Certain Beneficial Owners and Management,” and “Related Party Transactions.” Such information is incorporated herein by reference.

## Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides details regarding the shares of common stock issuable upon the exercise of outstanding options, warrants and rights granted under our equity compensation plans (including individual equity compensation arrangements) as of December 31, 2018. Our equity plan is described in more detail in Part II, Item 8, Note 14 of the Notes to our Consolidated Financial Statements appearing below in this report.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (A)	Weighted average exercise price of outstanding options, warrants and rights (B)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A)) (C)
Equity compensation plans approved by security holders	—	\$ —	2,825,133
Equity compensation plans not approved by security holders	—	—	—
Total	—	\$ —	2,825,133



PART IV

Item 15. Exhibits, Financial Statement Schedules

(1) Financial Statements

The consolidated financial statements listed in the accompanying Index to Consolidated Financial Statements are filed as part of this Annual Report on Form 10-K.

(2) Financial Statement Schedule

The Schedule II — Valuation and Qualifying Accounts following the Consolidated Financial Statements is filed as part of this Annual Report on Form 10-K.

Pursuant to Rule 3-09 of Regulation S-X, the audited financial statements of Penske Truck Leasing Co., L.P., our equity method investment, are included as an exhibit in this Annual Report on Form 10-K.

(3) Exhibits

The Exhibits listed below are filed as part of this Annual Report on Form 10-K.

Item 16. Form 10-K Summary

None.

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Each management contract or compensatory plan or arrangement is identified with an asterisk.

- 3.1 Certificate of Incorporation (incorporated by reference to exhibit 3.2 to our Form 8-K filed July 2, 2007).
- 3.2 Amended and Restated Bylaws of Penske Automotive Group, Inc. (incorporated by reference to exhibit 3.1 to our Form 8-K filed October 23, 2013).
- 4.1.1 Indenture, regarding our 5.75% senior subordinated notes due 2022, dated as of August 28, 2012, by and among us, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to exhibit 4.1 to our Form 8-K filed August 28, 2012).
- 4.1.2 Form of 5.75% senior subordinated notes due 2022 (included within the Indenture filed as exhibit 4.1.1).
- 4.1.3 Supplemental Indenture dated February 25, 2014, regarding our 5.75% senior subordinated notes due 2022, dated as of August 28, 2012, by and among us, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to exhibit 4.1.3 to our Form 10-K filed March 3, 2014).
- 4.1.4 First Supplemental Indenture dated as of April 27, 2016, regarding our 5.75% Senior Subordinated Notes due 2022, dated as of August 28, 2012 by and among us, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to exhibit 4.1 to our Form 10-Q filed April 27, 2016).
- 4.1.5 Second Supplemental Indenture dated as of July 13, 2016, regarding our 5.75% senior subordinated notes due 2022, dated as of August 28, 2012, by and among us, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to exhibit 4.1 to our Form 10-Q filed July 29, 2016).
- 4.1.6 Third Supplemental Indenture dated as of October 24, 2018, regarding our 5.75% senior subordinated notes due 2022, dated as of August 28, 2012 by and among us, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to exhibit 4.1 to our Form 10-Q filed October 26, 2018).
- 4.2.1 Indenture dated November 21, 2014 (the “2014 Indenture”), between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to exhibit 4.1 to our Form 8-K filed November 21, 2014).
- 4.2.2 First Supplemental Indenture to 2014 Indenture, dated November 21, 2014 relating to the Company’s 5.375% senior subordinated notes due 2024 (incorporated by reference to exhibit 4.2 to our Form 8-K filed November 21, 2014).
- 4.2.3 Form of 5.375% senior subordinated notes due 2024 (included within the First Supplemental Indenture filed as exhibit 4.2.2).
- 4.2.4 Second Supplemental Indenture to 2014 Indenture, dated April 27, 2016 adding additional guarantors (incorporated by reference to exhibit 4.2 to our Form 10-Q filed April 27, 2016).
- 4.2.5 Third Supplemental Indenture to 2014 Indenture, dated May 25, 2016 related to the Company’s 5.50% senior subordinated notes due 2026 (incorporated by reference to exhibit 4.1 to our Form 8-K filed May 25, 2016).
- 4.2.6 Form of 5.50% senior subordinated notes due 2026 (included within the Third Supplemental Indenture filed as exhibit 4.2.5).
- 4.2.7 Fourth Supplemental Indenture to 2014 Indenture, dated July 13, 2016 adding additional guarantors (incorporated by reference to exhibit 4.2 to our Form 10-Q filed July 29, 2016).
- 4.2.8

- Fifth Supplemental Indenture to 2014 Indenture, dated August 15, 2017 related to the Company's 3.75% senior subordinated notes due 2020 (incorporated by reference to exhibit 4.1 to our Form 8-K filed August 15, 2017).
- 4.2.9 Form of 3.75% senior subordinated notes due 2020 (included within the Fifth Supplemental Indenture filed as Exhibit 4.2.8).
- 4.2.10 Sixth Supplemental Indenture to 2014 Indenture, dated as of October 24, 2018, adding additional guarantors (incorporated by reference to exhibit 4.2 to our Form 10-Q filed October 26, 2018).

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- 4.3.1 Fifth Amended and Restated Credit Agreement dated May 1, 2015 among us, Mercedes-Benz Financial Services USA LLC and Toyota Motor Credit Corporation (incorporated by reference to exhibit 4.1 to our Form 10-Q filed May 1, 2015).
- 4.3.2 First Amendment to Fifth Amended and Restated Credit Agreement dated July 27, 2016 among us, Mercedes-Benz Financial Services USA LLC and Toyota Motor Credit Corporation (incorporated by reference to exhibit 4.1 to our Form 8-K filed July 28, 2016).
- 4.3.3 Consent and Second Amendment to Fifth Amended and Restated Credit Agreement dated August 1, 2017 among us, Mercedes-Benz Financial Services USA LLC and Toyota Motor Credit Corporation (incorporated by reference to exhibit 4.1 to our Form 8-K filed August 1, 2017).
- 4.3.4 Second Amended and Restated Security Agreement dated as of September 8, 2004 among us, Mercedes-Benz Financial Services USA LLC and Toyota Motor Credit Corporation (incorporated by reference to exhibit 10.2 to our Form 8-K filed September 10, 2004).
- 4.4 Amended and Restated Credit Agreement dated December 12, 2018, by and among our U.K. Subsidiaries, National Westminster Bank plc, and BMW Financial Services (GB) Limited (incorporated by reference to exhibit 4.1 to our Form 8-K filed December 17, 2018).
- \*10.1 Penske Automotive Group, Inc. 2012 Equity Incentive Plan (incorporated by reference to exhibit 4.3 to our Form S-8 filed November 2, 2012).
- \*10.2 Penske Automotive Group 2015 Equity Incentive Plan (incorporated by reference to exhibit 10.1 to our Form 8-K filed May 6, 2015).
- \*10.3 Form of Restricted Stock Agreement (incorporated by reference to exhibit 10.13 to our Form 10-K filed February 25, 2016).
- \*10.4 Form of Restricted Stock Unit Agreement (incorporated by reference to exhibit 10.14 to our Form 10-K filed February 25, 2016).
- \*10.5 Amended and Restated Penske Automotive Group, Inc. Non-Employee Director Compensation Plan (incorporated by reference to exhibit 10.16 to our Form 10-K filed February 28, 2011).
- \*10.6 Penske Automotive Group, Inc. Deferred Compensation Plan dated October 11, 2017, effective January 1, 2018 (incorporated by reference to exhibit 10.1 to our Form 8-K filed October 13, 2017).
- 10.7.1 First Amended and Restated Limited Liability Company Agreement dated April 1, 2003 between UAG Connecticut I, LLC and Noto Holdings, LLC (incorporated by reference to exhibit 10.3 to our Form 10-Q filed May 15, 2003).
- 10.7.2 Letter Agreement dated April 1, 2003 between UAG Connecticut I, LLC and Noto Holdings, LLC (incorporated by reference to exhibit 10.5 to our Form 10-Q filed May 15, 2003).
- 10.8 First Amended and Restated Limited Liability Company Agreement dated November 15, 2013 between PAG Greenwich Holdings, LLC and Noto Automotive LLC (incorporated by reference to exhibit 10.21 to our Form 10-K filed March 3, 2014).
- 10.9 Registration Rights Agreement among us and Penske Automotive Holdings Corp. dated as of December 22, 2000 (incorporated by reference to exhibit 10.26.1 to our Form 10-K filed March 29, 2001).
- 10.10 Second Amended and Restated Registration Rights Agreement among us, Mitsui & Co., Ltd. and Mitsui & Co. (U.S.A.), Inc. dated as of March 26, 2004 (incorporated by reference to exhibit 10.2 to our Form 8-K filed March 26, 2004).
- 10.11.1 Stockholders Agreement by and among Mitsui & Co., Ltd., Mitsui & Co (U.S.A.), Inc., Penske Corporation and Penske Automotive Holdings Corp. dated as of July 20, 2013 (incorporated by reference to exhibit 46 to Amendment No. 26 to Schedule 13D filed July 30, 2013).
- 10.11.2 Letter Agreement re: Amendment of PAG Stockholders Agreement, dated as of October 20, 2017, by and among Penske Corporation, Penske Automotive Holdings Corp., Mitsui & Co. Ltd. and Mitsui & Co. (U.S.A.), Inc. (incorporated by reference to exhibit 21 of Amendment No. 29 to Schedule 13D filed October 23, 2017).



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10.11.3	<u>Letter Agreement re: Second Amendment of PAG Stockholders Agreement, dated as of March 27, 2018, by and among Penske Corporation, Penske Automotive Holdings Corp., Mitsui &amp; Co., Ltd. and Mitsui &amp; Co. (U.S.A.), Inc. (incorporated by reference to exhibit 22 of Amendment No. 30 to Schedule 13D filed March 27, 2018).</u>
10.12	<u>Services Agreement dated as of December 12, 2018 between us and Mitsui &amp; Co., (U.S.A.), Inc. (incorporated by reference to exhibit 10.1 to our Form 8-K filed December 13, 2018).</u>
10.13	<u>Letter Agreement dated December 12, 2018 among us, Mitsui &amp; Co., Ltd. and Mitsui &amp; Co., (U.S.A.), Inc. (incorporated by reference to exhibit 10.2 to our Form 8-K filed December 13, 2018).</u>
10.14	<u>Trade name and Trademark Agreement dated May 6, 2008 between us and Penske System, Inc. (incorporated by reference to exhibit 10.1 to our Form 10-Q filed May 8, 2008).</u>
10.15	<u>Seventh Amended and Restated Agreement of Limited Partnership of Penske Truck Leasing Co., L.P. dated September 7, 2017 by and among Penske Truck Leasing Corporation, PTL GP, LLC, GE Capital Truck Leasing Holding LLC, General Electric Credit Corporation of Tennessee, MBK USA Commercial Vehicles Inc. and us (incorporated by reference to exhibit 10.3 to our Form 8-K filed September 8, 2017).</u>
10.16	<u>Cooperation Agreement dated as of September 7, 2017 by and among us, Penske Truck Leasing Co., L.P., Penske Truck Leasing Corporation, PTL GP, LLC, General Electric Credit Corporation of Tennessee, GE Capital Truck Leasing Holding LLC and MBK USA Commercial Vehicles, Inc. (incorporated by reference to exhibit 10.2 to our Form 8-K filed September 8, 2017).</u>
10.17	<u>Amended and Restated Rights Agreement dated March 17, 2015 by and between us and Penske Truck Leasing Corporation (incorporated by reference to exhibit 10.2 to our Form 10-Q filed May 1, 2015).</u>
10.18	<u>Third Amended and Restated Limited Liability Company Agreement of LJ VP Holdings LLC dated September 7, 2017 by and among Penske Truck Leasing Corporation, GE Capital US Holdings, Inc. and us (incorporated by reference to exhibit 10.5 to our Form 8-K filed September 8, 2017).</u>
10.19.1	<u>Second Amended and Restated Penske Automotive Group 401(k) Savings and Retirement Plan dated December 28, 2017, effective January 1, 2018 (incorporated by reference to exhibit 10.18 to our Form 10-K filed February 22, 2018).</u>
10.19.2	<u>Penske Automotive Group 401(k) Savings and Retirement Plan Amendment Number 2018-1 dated June 7, 2018, effective July 1, 2018 (incorporated by reference to exhibit 10.1 to our Form 10-Q filed July 27, 2018).</u>
10.19.3	<u>Penske Automotive Group 401(k) Savings and Retirement Plan Amendment to Permit In-Plan Roth Transfers dated June 7, 2018, effective July 1, 2018 (incorporated by reference to exhibit 10.2 to our Form 10-Q filed July 27, 2018).</u>
10.19.4	<u>Penske Automotive Group 401(k) Savings and Retirement Plan Amendment Number 2018-2 dated December 7, 2018, effective December 1, 2018.</u>
21	<u>Subsidiary List.</u>
23.1	<u>Consent of Deloitte &amp; Touche LLP.</u>
23.2	<u>Consent of KPMG LLP.</u>
23.3	<u>Consent of Deloitte &amp; Touche LLP.</u>
31.1	<u>Rule 13(a)-14(a)/15(d)-14(a) Certification.</u>
31.2	<u>Rule 13(a)-14(a)/15(d)-14(a) Certification.</u>
32	<u>Section 1350 Certification.</u>
99.1	<u>Penske Truck Leasing Co., L.P. audited financial statements as of December 31, 2018.</u>
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.



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101.PRE XBRL Taxonomy Extension Presentation Linkbase.

\*Compensatory plans or contracts

In accordance with Item 601(b)(4)(iii)(A) of Regulation S-K, copies of certain instruments defining the rights of holders of long-term debt of the Company or its subsidiaries are not filed herewith. We hereby agree to furnish a copy of any such instrument to the Commission upon request.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 22, 2019.

Penske Automotive Group,  
Inc.

By: /s/ Roger S. Penske  
Roger S. Penske

Chair of the Board and

Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Roger S. Penske Roger S. Penske	Chair of the Board and Chief Executive Officer (Principal Executive Officer)	February 22, 2019
/s/ J.D. Carlson J.D. Carlson	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 22, 2019
/s/ John D. Barr John D. Barr	Director	February 22, 2019
/s/ Lisa Davis Lisa Davis	Director	February 22, 2019
/s/ Michael R. Eisenson Michael R. Eisenson	Director	February 22, 2019
/s/ Robert H. Kurnick, Jr. Robert H. Kurnick, Jr.	Director	February 22, 2019
/s/ Wolfgang Dürheimer Wolfgang Dürheimer	Director	February 22, 2019

/s/ Kimberly J. McWaters Kimberly J. McWaters	Director	February 22, 2019
/s/ Roger S. Penske Jr. Roger S. Penske Jr.	Director	February 22, 2019
/s/ Sandra E. Pierce Sandra E. Pierce	Director	February 22, 2019
/s/ Masashi Yamanaka Masashi Yamanaka	Director	February 22, 2019
/s/ Greg C. Smith Greg C. Smith	Director	February 22, 2019
/s/ Ronald G. Steinhart Ronald G. Steinhart	Director	February 22, 2019
/s/ H. Brian Thompson H. Brian Thompson	Director	February 22, 2019

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

PENSKE AUTOMOTIVE GROUP, INC.

As of December 31, 2018 and 2017 and For the Years Ended

December 31, 2018, 2017 and 2016

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MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Penske Automotive Group, Inc. and subsidiaries (the “Company”) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company’s internal control system was designed to provide reasonable assurance to the Company’s management and board of directors that the Company’s internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation and presentation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2018. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework (2013). Based on our assessment we believe that, as of December 31, 2018, the Company’s internal control over financial reporting is effective based on those criteria.

The Company’s independent registered public accounting firm that audited the consolidated financial statements included in the Company’s Annual Report on Form 10-K has issued an audit report on the effectiveness of the Company’s internal control over financial reporting. This report appears on page F-3.

Penske Automotive Group, Inc.

February 22, 2019

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Penske Automotive Group, Inc.

Opinions on the Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Penske Automotive Group, Inc. and subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, based on our audits and the reports of the other auditors for 2016, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

We did not audit the financial statements of Sytner Group Limited (a consolidated subsidiary) for the year ended December 31, 2016, which statements reflect total revenues constituting 32% of consolidated total revenues for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Sytner Group Limited for the year ended December 31, 2016, is based solely on the report of the other auditors.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in

accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Detroit, Michigan  
February 22, 2019

We have served as the Company's auditor since 1999.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Sytner Group Limited

We have audited the consolidated statements of income, comprehensive income, equity and cash flows of Sytner Group Limited (“Sytner”) and subsidiaries (together the “Company”) for the year ended December 31, 2016. In connection with our audit of the consolidated financial statements, we also have audited the related financial statement schedule. These consolidated financial statements and financial statement schedule are the responsibility of Sytner’s management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and the cash flows of the Company for the year ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. In addition, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Milton Keynes, United Kingdom

February 24, 2017

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## PENSKE AUTOMOTIVE GROUP, INC.

## CONSOLIDATED BALANCE SHEETS

	December 31,	
	2018	2017
	(In millions, except share and per share amounts)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 39.4	\$ 45.7
Accounts receivable, net of allowance for doubtful accounts of \$5.4 and \$5.5	929.1	954.9
Inventories	4,040.1	3,944.1
Other current assets	86.6	81.8
Total current assets	5,095.2	5,026.5
Property and equipment, net	2,250.0	2,108.6
Goodwill	1,752.0	1,660.5
Other indefinite-lived intangible assets	486.2	474.0
Equity method investments	1,305.2	1,256.6
Other long-term assets	15.9	14.4
Total assets	\$ 10,904.5	\$ 10,540.6
<b>LIABILITIES AND EQUITY</b>		
Floor plan notes payable	\$ 2,362.2	\$ 2,343.2
Floor plan notes payable — non-trade	1,428.6	1,418.6
Accounts payable	598.2	641.6
Accrued expenses	566.6	523.5
Current portion of long-term debt	92.0	72.8
Liabilities held for sale	0.7	0.7
Total current liabilities	5,048.3	5,000.4
Long-term debt	2,124.7	2,090.4
Deferred tax liabilities	577.8	481.5
Other long-term liabilities	519.0	540.3
Total liabilities	8,269.8	8,112.6
Commitments and contingent liabilities (Note 12)		
<b>Equity</b>		
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; 84,546,970 shares issued and outstanding at December 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	—	—

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Additional paid-in capital	477.8	532.3
Retained earnings	2,365.8	2,009.4
Accumulated other comprehensive income (loss)	(234.5)	(146.5)
Total Penske Automotive Group stockholders' equity	2,609.1	2,395.2
Non-controlling interest	25.6	32.8
Total equity	2,634.7	2,428.0
Total liabilities and equity	\$ 10,904.5	\$ 10,540.6

See Notes to Consolidated Financial Statements.

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## PENSKE AUTOMOTIVE GROUP, INC.

## CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2018	2017	2016
	(In millions, except share and per share amounts)		
Revenue:			
Retail automotive dealership	\$ 20,849.2	\$ 19,824.3	\$ 18,673.2
Retail commercial truck dealership	1,374.5	1,048.0	1,000.7
Commercial vehicle distribution and other	561.4	514.6	444.6
Total revenues	22,785.1	21,386.9	20,118.5
Cost of sales:			
Retail automotive dealership	17,790.6	16,899.5	15,968.4
Retail commercial truck dealership	1,163.0	882.2	857.8
Commercial vehicle distribution and other	416.6	382.7	325.7
Total cost of sales	19,370.2	18,164.4	17,151.9
Gross profit	3,414.9	3,222.5	2,966.6
Selling, general and administrative expenses	2,646.3	2,516.0	2,302.0
Depreciation	103.7	95.1	89.7
Operating income	664.9	611.4	574.9
Floor plan interest expense	(80.9)	(63.4)	(50.9)
Other interest expense	(114.7)	(107.4)	(85.4)
Equity in earnings of affiliates	134.8	107.6	69.5
Income from continuing operations before income taxes	604.1	548.2	508.1
Income taxes	(134.3)	64.8	(160.7)
Income from continuing operations	469.8	613.0	347.4
Income (loss) from discontinued operations, net of tax	0.5	(0.2)	(1.0)
Net income	470.3	612.8	346.4
Less: (Loss) income attributable to non-controlling interests	(0.7)	(0.5)	3.5
Net income attributable to Penske Automotive Group common stockholders	\$ 471.0	\$ 613.3	\$ 342.9
Basic earnings per share attributable to Penske Automotive Group common stockholders:			
Continuing operations	\$ 5.52	\$ 7.14	\$ 4.00
Discontinued operations	0.01	(0.00)	(0.01)
Net income attributable to Penske Automotive Group common stockholders	\$ 5.53	\$ 7.14	\$ 3.99
Shares used in determining basic earnings per share	85,165,367	85,877,227	86,000,754
Diluted earnings per share attributable to Penske Automotive Group common stockholders:			
Continuing operations	\$ 5.52	\$ 7.14	\$ 4.00
Discontinued operations	0.01	(0.00)	(0.01)
	\$ 5.53	\$ 7.14	\$ 3.99

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Net income attributable to Penske Automotive Group common stockholders			
Shares used in determining diluted earnings per share	85,165,367	85,877,227	86,000,754
Amounts attributable to Penske Automotive Group common stockholders:			
Income from continuing operations	\$ 469.8	\$ 613.0	\$ 347.4
Less: (Loss) income attributable to non-controlling interests	(0.7)	(0.5)	3.5
Income from continuing operations, net of tax	470.5	613.5	343.9
Income (loss) from discontinued operations, net of tax	0.5	(0.2)	(1.0)
Net income attributable to Penske Automotive Group common stockholders	\$ 471.0	\$ 613.3	\$ 342.9
Cash dividends per share	\$ 1.42	\$ 1.26	\$ 1.10

See Notes to Consolidated Financial Statements.

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PENSKE AUTOMOTIVE GROUP, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2018	2017	2016
	(In millions)		
Net income	\$ 470.3	\$ 612.8	\$ 346.4
Other comprehensive income:			
Foreign currency translation adjustment	(75.8)	99.2	(117.3)
Other adjustments to comprehensive income, net	(13.7)	8.2	(11.7)
Other comprehensive (loss) income, net of tax	(89.5)	107.4	(129.0)
Comprehensive income	380.8	720.2	217.4
Less: Comprehensive (loss) income attributable to non-controlling interests	(2.2)	2.7	2.7
Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 383.0	\$ 717.5	\$ 214.7

See Notes to Consolidated Financial Statements.

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## PENSKE AUTOMOTIVE GROUP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2018	2017	2016
	(In millions)		
<b>Operating Activities:</b>			
Net income	\$ 470.3	\$ 612.8	\$ 346.4
Adjustments to reconcile net income to net cash from continuing operating activities:			
Depreciation	103.7	95.1	89.7
Earnings of equity method investments	(89.0)	(68.9)	(50.0)
(Income) loss from discontinued operations, net of tax	(0.5)	0.2	1.0
Deferred income taxes	105.9	(108.7)	162.2
Changes in operating assets and liabilities:			
Accounts receivable	30.4	(73.1)	(92.5)
Inventories	(12.6)	(419.9)	130.4
Floor plan notes payable	27.4	276.3	(162.8)
Accounts payable and accrued expenses	(17.1)	272.0	(17.8)
Other	(4.3)	37.2	(35.3)
Net cash provided by continuing operating activities	614.2	623.0	371.3
<b>Investing Activities:</b>			
Purchase of equipment and improvements	(305.6)	(247.0)	(203.1)
Proceeds from sale of dealerships	84.5	25.1	4.2
Proceeds from sale-leaseback transactions	10.7	22.2	—
Acquisition of additional ownership interest in Penske Truck Leasing	—	(239.1)	(498.5)
Acquisitions net, including repayment of sellers' floor plan notes payable of \$58.2, \$101.6 and \$62.2, respectively	(309.1)	(449.7)	(140.8)
Other	(5.7)	(40.2)	1.5
Net cash used in continuing investing activities	(525.2)	(928.7)	(836.7)
<b>Financing Activities:</b>			
Proceeds from borrowings under U.S. credit agreement revolving credit line	1,642.0	2,040.0	1,476.5
Repayments under U.S. credit agreement revolving credit line	(1,784.0)	(2,108.0)	(1,396.5)
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	235.5	42.0	42.9
Net borrowings of floor plan notes payable — non-trade	10.0	185.3	101.0
Payment of debt issuance costs	(1.9)	(4.0)	(6.7)
Repurchases of common stock	(68.9)	(18.5)	(173.6)
Dividends	(121.2)	(108.4)	(95.1)

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Other	(5.8)	(5.8)	(15.5)
Net cash (used in) provided by continuing financing activities	(94.3)	322.6	433.0
Discontinued operations:			
Net cash provided by discontinued operating activities	0.5	0.5	1.6
Net cash provided by discontinued investing activities	—	2.4	1.7
Net cash used in discontinued financing activities	—	(0.2)	(0.2)
Net cash provided by discontinued operations	0.5	2.7	3.1
Effect of exchange rate changes on cash and cash equivalents	(1.5)	2.1	(9.1)
Net change in cash and cash equivalents	(6.3)	21.7	(38.4)
Cash and cash equivalents, beginning of period	45.7	24.0	62.4
Cash and cash equivalents, end of period	\$ 39.4	\$ 45.7	\$ 24.0
Supplemental disclosures of cash flow information:			
Cash paid for:			
Interest	\$ 190.2	\$ 163.2	\$ 129.8
Income taxes	39.6	(29.7)	48.6
Seller financed/assumed debt	—	0.8	—
Non cash activities:			
Deferred consideration	\$ 6.8	\$ —	\$ —
Consideration transferred through common stock issuance	—	32.4	—
Contingent consideration	—	20.0	—

See Notes to Consolidated Financial Statements.

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## PENSKE AUTOMOTIVE GROUP, INC.

## CONSOLIDATED STATEMENTS OF EQUITY

	Voting and Non-voting Common Stock Issued Shares (Dollars in millions)	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Total Other Comprehensive Income (Loss)	Penske Automotive Stockholders' Equity	Non-Controlling Interest	Total Equity
Balance, January 1, 2016	89,524,724	\$ —	\$ 656.0	\$ 1,256.7	\$ (122.5)	\$ 1,790.2	\$ 44.7	\$ 1,834.9
Equity compensation	346,663	—	14.3	—	—	14.3	—	14.3
Repurchases of common stock	(4,657,042)	—	(173.6)	—	—	(173.6)	—	(173.6)
Dividends (\$1.10 per share)	—	—	—	(95.1)	—	(95.1)	—	(95.1)
Purchase of subsidiary shares from non-controlling interest	—	—	(0.3)	—	—	(0.3)	(10.4)	(10.7)
Distributions to non-controlling interest	—	—	—	—	—	—	(2.4)	(2.4)
Foreign currency translation	—	—	—	—	(116.5)	(116.5)	(0.8)	(117.3)
Other	—	—	0.7	—	(11.7)	(11.0)	(6.0)	(17.0)
Net income	—	—	—	342.9	—	342.9	3.5	346.4
Balance, December 31, 2016	85,214,345	—	497.1	1,504.5	(250.7)	1,750.9	28.6	1,779.5
Equity compensation	343,385	—	14.9	—	—	14.9	—	14.9
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 (\$1.26 per share)	—	—	—	(108.4)	—	(108.4)	—	(108.4)



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Purchase of subsidiary shares from non-controlling interest	—	—	(0.4)	—	—	(0.4)	(0.3)	(0.7)
Distributions to non-controlling interest	—	—	—	—	—	—	(1.4)	(1.4)
Foreign currency translation	—	—	—	—	96.0	96.0	3.2	99.2
Other	—	—	6.8	—	8.2	15.0	3.2	18.2
Net income	—	—	—	613.3	—	613.3	(0.5)	612.8
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	346,957	—	16.1	—	—	16.1	—	16.1
Repurchases of common stock	(1,587,494)	—	(68.9)	—	—	(68.9)	—	(68.9)
Dividends (\$1.42 per share)	—	—	—	(121.2)	—	(121.2)	—	(121.2)
Purchase of subsidiary shares from non-controlling interest	—	—	(1.5)	—	—	(1.5)	(5.4)	(6.9)
Distributions to non-controlling interest	—	—	—	—	—	—	(0.9)	(0.9)
Foreign currency translation	—	—	—	—	(74.3)	(74.3)	(1.5)	(75.8)
Other	—	—	(0.2)	—	(13.7)	(13.9)	1.3	(12.6)
Net income	—	—	—	471.0	—	471.0	(0.7)	470.3
Balance, December 31, 2018	84,546,970	\$ —	\$ 477.8	\$ 2,365.8	\$ (234.5)	\$ 2,609.1	\$ 25.6	\$ 2,634.7

See Notes to Consolidated Financial Statements.



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PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions, except share and per share amounts)

1. Organization and Summary of Significant Accounting Policies

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

Business Overview and Concentrations

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.

In 2018, our business generated \$22.8 billion in total revenue, which is comprised of approximately \$20.8 billion from retail automotive dealerships, \$1.4 billion from retail commercial truck dealerships and \$0.6 billion from commercial vehicle distribution and other operations.

**Retail Automotive Dealership.** We believe we are the second largest automotive retailer headquartered in the U.S. as measured by the \$20.8 billion in total retail automotive dealership revenue we generated in 2018. As of December 31, 2018, we operated 345 retail automotive franchises, of which 154 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.

We are engaged in the sale of new and used motor vehicles and related products and services, including vehicle service, collision repair, and placement of finance and lease contracts, third-party insurance products and other aftermarket products. We operate dealerships under franchise agreements with a number of automotive manufacturers

and distributors. In accordance with individual franchise agreements, each dealership is subject to certain rights and restrictions typical of such industry. The ability of the manufacturers to influence the operations of the dealerships, or the loss of a significant number of franchise agreements, could have a material impact on our results of operations, financial position and cash flows.

For the year ended December 31, 2018, Audi/Volkswagen/Porsche/Bentley franchises accounted for 24% of our total retail automotive dealership revenues, BMW/MINI franchises accounted for 23%, and Toyota/Lexus franchises accounted for 13%. No other manufacturers' franchises accounted for more than 10% of our total retail automotive dealership revenues. At December 31, 2018 and 2017, we had receivables from manufacturers of \$211.3 million and \$230.1 million, respectively. In addition, a large portion of our contracts in transit, which are included in accounts receivable, are due from manufacturers' captive finance companies.

During the year ended December 31, 2018, we acquired six retail automotive franchises, were awarded three retail automotive franchises, and disposed of seven retail automotive franchises. Of the retail automotive franchises acquired, four are located in Italy and represent the Mercedes-Benz and smart brands, and two are located in Texas and represent the Lexus brand. Of the franchises disposed of, five represented franchises in the U.S., and two represented franchises in the U.K. We also acquired an additional 11.4% interest in the Jacobs Group, one of our German automotive dealership joint ventures, and now own a 79.4% interest in the Jacobs Group.

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 complement CarShop's Southern England locations. CarShop and The Car People currently operate as one reportable segment ("Stand-Alone Used International") and we anticipate that both will begin to operate under the CarShop name in 2019.

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PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

**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 December 31, 2018, PTG operated twenty locations, offering primarily Freightliner and Western Star branded trucks. One of these locations was acquired in April 2018 in Canada. PTG also offers a full range of used trucks available for sale as well as service and parts departments, providing 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 to a network of more than 70 dealership locations, including nine 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, MTU Onsite Energy, and Rolls Royce Power Systems. This business, known as Penske Power Systems (“PPS”), offers products across the on- and off-highway markets, construction, mining, marine, and defense, 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 hold a 28.9% ownership interest in Penske Truck Leasing Co., L.P. (“PTL”), a leading provider of transportation and supply chain services. 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, lead logistics provider services and dry van truckload carrier services. On September 7, 2017, we acquired an additional 5.5% ownership interest in PTL. 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”). 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 consolidated financial statements include all majority owned subsidiaries. Investments in affiliated companies, representing an ownership interest in the voting stock of the affiliate of between 20% and 50% or an investment in a limited partnership or a limited liability corporation for which our investment is more than minor, are stated at the cost of acquisition plus our equity in undistributed net earnings since acquisition. All intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements, including the comparative periods presented, have been adjusted for entities that have been treated as discontinued operations prior to adoption of ASU No. 2014-08 in accordance with generally accepted accounting principles.

#### Estimates

The preparation of financial statements in accordance 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.

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PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments that have an original maturity of three months or less at the date of purchase.

Contracts in Transit

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. Contracts in transit, included in accounts receivable, net in our consolidated balance sheets, amounted to \$314.2 million and \$356.1 million as of December 31, 2018 and 2017, respectively.

Inventory Valuation

Inventories are stated at the lower of cost or net realizable value. Cost for new and used vehicle inventories includes acquisition, reconditioning, dealer installed accessories, and transportation expenses and is determined using the specific identification method. Inventories of dealership parts and accessories are accounted for using the "first in, first out" ("FIFO") method of inventory accounting and the cost is based on factory list prices.

Property and Equipment

Property and equipment are recorded at cost and depreciated over estimated useful lives using the straight line method. Useful lives for purposes of computing depreciation for assets, other than leasehold improvements, range between 3 and 15 years. Leasehold improvements and equipment under capital lease are depreciated over the shorter of the term of the lease or the estimated useful life of the asset, not to exceed 40 years.

Expenditures relating to recurring repair and maintenance are expensed as incurred. Expenditures that increase the useful life or substantially increase the serviceability of an existing asset are capitalized. When equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the balance sheet, with any resulting gain or loss being reflected in income.

#### Income Taxes

Tax regulations may require items to be included in our tax return at different times than when those items are reflected in our financial statements. Some of the 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 return in future years which we have already recorded in our financial statements. Deferred tax liabilities generally represent deductions taken on our tax return that have not yet been recognized as an expense in our financial statements. We establish valuation allowances for our deferred tax assets if the amount of expected future taxable income is not more likely than not to allow for the use of the deduction or credit.

On December 22, 2017, the President of the United States signed into law P.L. 115-97, commonly referred to as the U.S. Tax Cuts and Jobs Act (the “Act”). The Act modified 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. Refer to the disclosures provided in Part II, Item 8, Note 17 of the Notes to our Consolidated Financial Statements for additional detail on our accounting for income taxes, including additional discussion on the enactment of the Act and the resulting impact on our 2018 financial statements.



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PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

Intangible Assets

Our principal intangible assets relate to our franchise agreements with vehicle manufacturers and distributors, which represent the estimated value of franchises acquired in business combinations, our distribution agreements with commercial vehicle manufacturers, which represent the estimated value of distribution rights acquired in business combinations, and goodwill, which represents the excess of cost over the fair value of tangible and identified intangible assets acquired in business combinations. We believe the franchise values of our automotive dealerships and the distribution agreements of our commercial vehicle distribution operations have an indefinite useful life based on the following:

- Automotive retailing and commercial vehicle distribution are mature industries and are based on franchise and distribution agreements with the vehicle manufacturers and distributors;
- There are no known changes or events that would alter the automotive retailing franchise or commercial vehicle distribution environments;
- Certain franchise agreement terms are indefinite;
- Franchise and distribution agreements that have limited terms have historically been renewed by us without substantial cost; and
- Our history shows that manufacturers and distributors have not terminated our franchise or distribution agreements.

Impairment Testing

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

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

Goodwill impairment is assessed at the reporting unit level annually on October 1 and upon the occurrence of an indicator of impairment. Our operations are organized by management into operating segments by line of business and geography. We have determined that we have 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. We have determined that the dealerships in each of our operating segments within the Retail Automotive reportable segment are components that are aggregated into six reporting units for the purpose of goodwill impairment testing, as they (A) have similar economic characteristics (all are automotive dealerships having similar margins), (B) offer similar products and services (all sell new and/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). The reporting units are Eastern, Central, and Western United States, Stand-Alone Used United States, International, and Stand-Alone Used International. Our Retail Commercial Truck reportable segment has been determined to represent one operating segment and reporting unit. The goodwill included in our Other reportable segment relates primarily to our commercial vehicle distribution operating segment. There is no goodwill recorded in our Non-Automotive Investments reportable segment.

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PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

For our Retail Automotive, Retail Commercial Truck, and Other reporting units, we prepared a qualitative assessment of the carrying value of goodwill using the criteria in ASC 350-20-35-3 to determine whether it is more likely than not that a reporting unit's fair value is less than its carrying value. If it were determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, additional analysis would be unnecessary. During 2018, we concluded that for the retail automotive, retail commercial truck, and other reporting units that their fair values were more likely than not greater than their carrying values. If additional impairment testing was necessary, we would have estimated the fair value of our reporting units using an "income" valuation approach. The "income" valuation approach estimates our enterprise value using a net present value model, which discounts projected free cash flows of our business using the weighted average cost of capital as the discount rate. We would also validate the fair value for each reporting unit using the income approach by calculating a cash earnings multiple and determining whether the multiple was reasonable compared to recent market transactions completed by the Company or in the industry. As part of that assessment, we would also reconcile the estimated aggregate fair values of our reporting units to our market capitalization. We believe this reconciliation process is consistent with a market participant perspective. This consideration would also include a control premium that represents the estimated amount an investor would pay for our equity securities to obtain a controlling interest, and other significant assumptions including revenue and profitability growth, franchise profit margins, residual values and the cost of capital.

Investments

We account for each of our investments under the equity method, pursuant to which we record our proportionate share of the investee's income each period. The net book value of our investments was \$1,305.2 million and \$1,256.6 million as of December 31, 2018 and 2017, respectively, including \$1,237.4 million and \$1,185.6 million relating to PTL as of December 31, 2018 and 2017, respectively. In July 2016, we increased our ownership interest in PTL from 9.0% to 23.4% as a result of our acquisition of an additional 14.4% ownership interest, and in September 2017, we acquired an additional 5.5% ownership interest, as discussed previously. We currently hold a 28.9% ownership interest in PTL.

Investments for which there is not a liquid, actively traded market are reviewed periodically by management for indicators of impairment. If an indicator of impairment is identified, management estimates the fair value of the investment using a discounted cash flow approach, which includes assumptions relating to revenue and profitability

growth, profit margins, residual values, and our cost of capital. Declines in investment values that are deemed to be other than temporary may result in an impairment charge reducing the investments' carrying value to fair value.

#### Foreign Currency Translation

For all of our non-U.S. operations, the functional currency is the local currency. The revenue and expense accounts of our non-U.S. operations are translated into U.S. dollars using the average exchange rates that prevailed during the period. Assets and liabilities of non-U.S. operations are translated into U.S. dollars using period end exchange rates. Cumulative translation adjustments relating to foreign functional currency assets and liabilities are recorded in accumulated other comprehensive income (loss), a separate component of equity.

#### 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 which requires an entity to

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PENSKE AUTOMOTIVE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

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, 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 our current market interest rates for similar types of financial instruments (Level 2). A summary of our fixed rate debt is as follows:

	December 31, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
3.75% senior subordinated notes due 2020	\$ 297.9	\$ 291.9	\$ 296.5	\$ 301.7
5.75% senior subordinated notes due 2022	546.8	537.6	545.9	562.3
5.375% senior subordinated notes due 2024	297.6	278.7	297.2	300.2
5.50% senior subordinated notes due 2026	495.1	465.2	494.4	505.0
Mortgage facilities	289.6	290.2	235.5	233.4

## Revenue Recognition

### Dealership Vehicle, Parts and Service 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. We record revenue for vehicle service and collision work over time as work is completed, and when parts are delivered to our customers. Sales promotions that we offer to customers are accounted for as a reduction of revenues at the time of sale. Rebates and other incentives offered directly to us by manufacturers are recognized as a reduction of cost of sales. Reimbursements of qualified advertising expenses are treated as a reduction of selling, general and administrative expenses. The amounts received under certain manufacturer rebate and incentive programs are based on the attainment of program objectives, and such earnings are recognized either upon the sale of the vehicle for which the award was received, or upon attainment of the particular program goals if not associated with individual vehicles. Taxes collected from customers and remitted to governmental authorities are recorded on a net basis (excluded from revenue).

### 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

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PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

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 \$26.0 million and \$24.9 million as of December 31, 2018 and December 31, 2017, respectively.

#### Commercial Vehicle Distribution

We record revenue from the distribution of vehicles, 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 our long-term power generation contracts, we record revenue over time as services are provided in accordance with contract milestones.

See Note 2 “Revenues” for additional disclosures on revenue recognition.

#### Defined Contribution Plans

We sponsor a number of defined contribution plans covering a significant majority of our employees. Our contributions to such plans are discretionary and are based on the level of compensation and contributions by plan participants. We incurred expenses of \$24.8 million, \$16.8 million, and \$14.5 million relating to such plans during the years ended December 31, 2018, 2017, and 2016, respectively.

#### Advertising

Advertising costs are expensed as incurred or when such advertising takes place. We incurred net advertising costs of \$115.3 million, \$115.8 million, and \$102.5 million during the years ended December 31, 2018, 2017, and 2016, respectively. Qualified advertising expenditures reimbursed by manufacturers, which are treated as a reduction of advertising expense, were \$19.3 million, \$18.6 million, and \$16.6 million during the years ended December 31, 2018, 2017, and 2016, respectively.

#### Self-Insurance

We retain risk relating to certain of our general liability insurance, workers' compensation insurance, vehicle physical damage insurance, property insurance, employment practices liability insurance, directors and officers insurance, and employee medical benefits in the U.S. As a result, we are likely to be responsible for a significant portion of the claims and losses incurred under these programs. The amount of risk we retain varies by program, and for certain exposures, we have pre-determined maximum loss limits for certain individual claims and/or insurance periods. Losses, if any, above the pre-determined loss limits are paid by third-party insurance carriers. Certain insurers have limited available property coverage in response to the natural catastrophes experienced in recent years. Our estimate of future losses is prepared by management using our historical loss experience and industry-based development factors. Aggregate reserves relating to retained risk were \$31.3 million and \$30.3 million as of December 31, 2018 and 2017, respectively.



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PENSKE AUTOMOTIVE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

## 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 restricted stock 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 years ended December 31, 2018, 2017, and 2016 follows:

	Year Ended December 31,		
	2018	2017	2016
Weighted average number of common shares outstanding	85,165,367	85,877,227	86,000,754
Effect of non-participatory equity compensation	—	—	—
Weighted average number of common shares outstanding, including effect of dilutive securities	85,165,367	85,877,227	86,000,754

## Hedging

Generally accepted accounting principles relating to derivative instruments and hedging activities require all derivatives, whether designated in hedging relationships or not, to be recorded on the balance sheet at fair value. These accounting principles also define requirements for designation and documentation of hedging relationships, as well as ongoing effectiveness assessments, which must be met in order to qualify for hedge accounting. For a

derivative that does not qualify as a hedge, changes in fair value are recorded in earnings immediately. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and the hedged item are recorded in earnings. If the derivative is designated as a cash flow hedge, effective changes in the fair value of the derivative are recorded in accumulated other comprehensive income (loss), a separate component of equity, and recorded in the income statement only when the hedged item affects earnings. Changes in the fair value of the derivative attributable to hedge ineffectiveness are recorded in earnings immediately.

#### Stock Based Compensation

Generally accepted accounting principles relating to share based payments require us to record compensation expense for all awards based on their grant date fair value. Our share based payments have generally been in the form of “non vested shares,” the fair value of which are measured as if they were vested and issued on the grant date.

#### 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

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PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

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 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
<b>Assets</b>			
Accounts receivable	\$ 954.9	\$ 22.4	\$ 977.3
Inventories	3,944.1	(13.4)	3,930.7
<b>Liabilities and Equity</b>			
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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

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 year ended and as of December 31, 2018:

Statement of Income	For the Year Ended December 31, 2018		
	As Reported	Without Adoption of ASC 606	Impact of Adoption of ASC 606
Revenue:			
Retail automotive dealership	\$ 20,849.2	\$ 20,846.0	\$ 3.2
Retail commercial truck dealership	1,374.5	1,373.9	0.6
Commercial vehicle distribution and other	561.4	558.5	2.9
Cost of sales:			
Retail automotive dealership	17,790.6	17,788.5	2.1
Retail commercial truck dealership	1,163.0	1,162.7	0.3
Commercial vehicle distribution and other	416.6	415.1	1.5
Gross profit	3,414.9	3,412.1	2.8
Income taxes	(134.3)	(133.5)	0.8
Net income	470.3	468.3	2.0

Balance Sheet	December 31, 2018		
	As Reported	Without Adoption of ASC 606	Impact of Adoption of ASC 606
Assets			
Accounts receivable	\$ 929.1	\$ 899.9	\$ 29.2
Inventories	4,040.1	4,057.2	(17.1)

Liabilities and Equity			
Accrued expenses	\$ 566.6	\$ 566.2	\$ 0.4
Deferred tax liabilities	577.8	574.8	3.0
Retained earnings	2,365.8	2,357.1	8.7

#### 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. The FASB has since issued further ASUs related to the standard providing additional practical expedients and an optional transition method allowing entities to not recast comparative periods. We intend to adopt this ASU, including all available practical expedients, on January 1, 2019 using the optional transition method. As such, we will recognize the effects of applying the new standard as a cumulative-effect adjustment to retained earnings as of January 1, 2019.

As part of the adoption of ASC 842, we performed an assessment of the impact the new lease recognition standard will have on our consolidated financial statements. Based on our assessment performed, we concluded that the adoption of the new lease recognition standard will result in a material increase to our consolidated balance sheets for lease liabilities and right-of-use assets. We lease a significant amount of our dealership properties, which are classified as operating leases. We also have various operating leases relating to office and computer equipment, shop equipment, service loaner and company owned vehicles, and other miscellaneous items. We do not have any material leases, individually or in the aggregate, classified as a finance leasing arrangement under the new lease recognition standard.

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(In millions, except share and per share amounts)

The impact on our consolidated financial statements as a result of the changes in lease recognition practices described previously is not expected to result in a material adjustment to retained earnings as of January 1, 2019. The future minimum lease payments for our operating leases as of December 31, 2018 are discussed in Part II, Item 8, Note 12 of the Notes to our Consolidated Financial Statements. We estimate the total undiscounted rent obligations under these leases, including any extension periods that we are reasonably certain to exercise, to be \$5.4 billion. Upon adoption of ASC 842, we expect to recognize lease liabilities and right-of-use assets that reflect the present value of these future payments. We estimate the adoption of the new lease recognition standard will result in an approximately \$2.4 billion increase to our lease liabilities and right-of-use assets.

In addition to the changes in lease recognition practices noted above, we are also required to enhance our disclosures on lease recognition upon adoption beginning with interim periods in 2019. Under the optional transition method, we will apply ASC 840 in the comparative periods presented and provide the disclosures required by ASC 840 for all periods that continue to be presented in accordance with ASC 840, in addition to the disclosures required per ASC 842. We also evaluated, documented, and have implemented required changes in internal controls that were deemed necessary as part of our adoption of the new lease recognition standard. Although new controls have been implemented as a result of the adoption, such changes were not deemed material.

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 year ended December 31, 2018 and December 31, 2017.

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.

Fair Value Measurement Disclosure

In August 2018, the FASB issued ASU No. 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.” This ASU eliminates, modifies, and adds certain disclosure requirements on fair value measurements. For public companies, this ASU is effective for financial statements issued for annual periods beginning after December 15, 2019, and interim periods within those annual periods, with early adoption permitted. Entities are permitted to early adopt any eliminated or amended disclosures and delay adoption of the additional disclosure requirements until the effective date. We intend to adopt this ASU on January 1, 2020. We do not expect the adoption of this accounting standard update to have a significant impact on our consolidated financial statements.



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Accounting for Cloud Computing Arrangements

In August 2018, the FASB issued ASU No. 2018-15, “Intangibles—Goodwill and Other—Internal-Use Software - Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.” Under this new guidance, certain implementation costs incurred in a hosted cloud computing service arrangement will be capitalized in accordance with ASC 350-40. For public companies, this ASU is effective for financial statements issued for annual periods beginning after December 15, 2019, and interim periods within those annual periods, with early adoption permitted. The amendments from this update are to be applied retrospectively or prospectively to all implementation costs incurred after adoption. We intend to adopt this ASU on January 1, 2020. We do not expect the adoption of this accounting standard update to have a significant impact on our consolidated financial statements.

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, 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

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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 \$26.0 million and \$24.9 million as of December 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 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

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## PENSKE AUTOMOTIVE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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 year ended December 31, 2018, 2017, and 2016:

Retail Automotive Dealership Revenue	Year Ended December 31,		
	2018	2017	2016
New vehicle	\$ 9,666.4	\$ 9,678.5	\$ 9,547.1
Used vehicle	7,252.1	6,386.8	5,663.7
Finance and insurance, net	629.6	581.8	495.0
Service and parts	2,151.4	2,057.5	1,948.6
Fleet and wholesale	1,149.7	1,119.7	1,018.8
Total retail automotive dealership revenue	\$ 20,849.2	\$ 19,824.3	\$ 18,673.2

Retail Automotive Dealership Revenue	Year Ended December 31,		
	2018	2017	2016
U.S.	\$ 11,504.3	\$ 11,610.1	\$ 11,109.6
U.K.	7,961.4	7,048.7	6,520.1
Germany and Italy	1,383.5	1,165.5	1,043.5
Total retail automotive dealership revenue	\$ 20,849.2	\$ 19,824.3	\$ 18,673.2

## Retail Commercial Truck Dealership

The following table disaggregates our retail commercial truck reportable segment revenue by product type for the year ended December 31, 2018, 2017, and 2016:

Retail Commercial Truck Dealership Revenue	Year Ended December 31,		
	2018	2017	2016
New truck	\$ 866.9	\$ 613.2	\$ 625.5
Used truck	112.0	89.4	51.8
Finance and insurance, net	11.9	8.9	7.3
Service and parts	364.5	325.6	306.0
Wholesale	19.2	10.9	10.1
Total retail commercial truck dealership revenue	\$ 1,374.5	\$ 1,048.0	\$ 1,000.7

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PENSKE AUTOMOTIVE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

## Commercial Vehicle Distribution and Other

The following table disaggregates our other reportable segment revenue by business for the year ended December 31, 2018, 2017, and 2016:

	Year Ended December 31,		
	2018	2017	2016
Commercial Vehicle Distribution and Other			
Commercial Vehicles Australia	\$ 558.5	\$ 511.0	\$ 428.8
Other	2.9	3.6	15.8
Total commercial vehicle distribution and other revenue	\$ 561.4	\$ 514.6	\$ 444.6
Contract Balances			

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

	December 31, 2018	December 31, 2017
Accounts receivable		
Contracts in transit	\$ 314.2	\$ 356.1
Vehicle receivables	266.9	233.0
Manufacturer receivables	211.3	230.1
Trade receivables	129.1	136.7

## Accrued expenses

Unearned revenues	\$ 269.8	\$ 302.6
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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.

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, \$263.2 million was recognized as revenue during the year ended December 31, 2018.

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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. Equity Method Investees

As of December 31, 2018, we had investments in the following companies that are accounted for under the equity method: the Nix Group (50%) operating automotive dealerships in Germany, Ibericar Keldinich SL (50%) operating automotive dealerships in Spain, the Nicole Group (49%) operating automotive dealerships in Japan, and Penske Commercial Leasing Australia (28%) which rents heavy duty commercial vehicles in Australia.

In September 2016, we sold a 12% interest, and in September 2017 sold an additional 5% interest, in our Penske Commercial Leasing Australia joint venture to PTL and continue to account for this investment under the equity method under our current 28% ownership.

In May 2017, we sold our 7% interest in National Powersport Auctions. In December 2017, we sold our 31% interest in Penske Vehicle Services to PTL. The equity earnings associated with these investments are included within continuing operations under the caption "Equity in earnings of affiliates" for the years ended December 31, 2017 and

2016.

We also have a 28.9% ownership interest in PTL, a leading provider of transportation and supply chain services. Our investment in PTL, which is accounted for under the equity method, amounted to \$1,237.4 million and \$1,185.6 million at December 31, 2018 and 2017, respectively. In July 2016, we increased our ownership interest in PTL from 9.0% to 23.4% as a result of our acquisition of an additional 14.4% ownership interest, and in September 2017, we acquired an additional 5.5% ownership interest, as discussed previously.

The net book value of our equity method investments was \$1,305.2 million and \$1,256.6 million as of December 31, 2018 and 2017, respectively. We recorded \$134.8 million, \$107.6 million, and \$69.5 million during the years ended December 31, 2018, 2017, and 2016, respectively, on our statements of income under the caption “Equity in earnings of affiliates” related to earnings from our equity method investments.

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PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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The combined results of operations and financial position of our equity method investees as of December 31 for each of the years presented are summarized as follows:

Condensed income statement information:

	Year Ended December 31,		
	2018	2017	2016
Revenues	\$ 9,013.7	\$ 7,680.8	\$ 7,397.2
Gross profit	2,011.7	1,792.4	1,670.4
Net income	458.7	416.1	411.5

Condensed balance sheet information:

	December 31,	
	2018	2017
Current assets	\$ 1,467.5	\$ 1,317.9
Noncurrent assets	13,360.8	11,729.4
Total assets	\$ 14,828.3	\$ 13,047.3
Current liabilities	\$ 1,880.1	\$ 2,101.0
Noncurrent liabilities	9,976.1	8,160.3
Equity	2,972.1	2,786.0
Total liabilities and equity	\$ 14,828.3	\$ 13,047.3

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PENSKE AUTOMOTIVE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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## 4. Business Combinations

During 2018, we acquired The Car People, a stand-alone specialty retailer of used vehicles in the U.K. representing four locations; acquired six retail automotive franchises; and acquired one retail commercial truck dealership. The companies acquired in 2018 generated \$484.7 million of revenue and \$14.1 million of pre-tax income from our date of acquisition through December 31, 2018. During 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 eight 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 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 years ended December 31, 2018 and 2017 follows:

	December 31,	
	2018	2017
Accounts receivable	\$ 3.6	\$ 11.1
Inventories	101.1	139.9
Other current assets	0.2	2.9
Property and equipment	55.4	21.8
Indefinite-lived intangibles	173.9	365.6
Other noncurrent assets	—	0.1
Current liabilities	(17.7)	(33.6)
Noncurrent liabilities	(0.6)	(1.9)
Total consideration	\$ 315.9	\$ 505.9
Deferred consideration	(6.8)	—
Consideration transferred through common stock issuance	—	(32.4)
Contingent consideration	—	(20.0)
Seller financed/assumed debt	—	(3.8)
Total cash used in acquisitions	\$ 309.1	\$ 449.7

The following unaudited consolidated pro forma results of operations of PAG for the years ended December 31, 2018 and 2017 give effect to acquisitions consummated during 2018 and 2017 as if they had occurred on January 1, 2017:

	Year Ended December 31,	
	2018	2017
Revenues	\$ 23,007.7	\$ 22,172.6
Income from continuing operations	472.1	622.3
Net income	473.3	622.6
Income from continuing operations per diluted common share	\$ 5.55	\$ 7.25
Net income per diluted common share	\$ 5.56	\$ 7.25

## 5. Discontinued Operations and Divestitures

### 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;

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an active program to locate a buyer and other actions required to complete the plan to sell have been initiated;

the sale is probable and transfer is expected to be completed within one year;

the entity is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and

actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

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

Prior to the adoption of ASU No. 2014-08, we accounted for dispositions as discontinued operations when it was evident that the operations and cash flows of an entity being disposed of would be eliminated from ongoing operations and we would not have any significant continuing involvement in its operations. The results of operations for those entities that were classified as discontinued operations prior to adoption of ASU No. 2014-08 are included in "Loss from discontinued operations" in the accompanying Consolidated 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 in 2018, 2017, or 2016 that met the criteria to be classified as discontinued operations. As such, the combined financial information presented below represents only retail automotive dealerships and our car rental business that were classified as discontinued operations prior to adoption of ASU No. 2014-08:

	Year Ended December 31,		
	2018	2017	2016
Revenues	\$ —	\$ 2.1	\$ 24.8
Pre-tax loss	0.6	(0.4)	(1.7)
Pre-tax gain on disposal	—	—	—

	December 31,	
	2018	2017
Inventories	\$ —	\$ —
Other assets	—	—
Total assets	\$ —	\$ —
Floor plan notes payable (including non-trade)	\$ —	\$ —
Other liabilities	0.7	0.7
Total liabilities	\$ 0.7	\$ 0.7

#### Divestitures

In 2018, we disposed of seven retail automotive franchises and one retail commercial truck dealership. These divestitures 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 years ended December 31, 2018, 2017, and 2016.



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PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

In 2017, we disposed of twenty-five retail automotive franchises. The results of operations for one of the retail automotive franchises is included in discontinued operations for the years ended December 31, 2017 and 2016. The remaining twenty-four 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 years ended December 31, 2017 and 2016.

In 2016, we disposed of ten retail automotive franchises, closed one retail commercial truck dealership and one retail commercial truck parts location, and transitioned seventeen retail automotive franchises which represented the Scion brand to our existing Toyota franchises. The results of operations for two of the retail automotive franchises are included in discontinued operations for the year ended December 31, 2016. In December 2016, we sold our 90% ownership interest in i.M. Branded, a provider of dealership graphics and millwork, which we previously consolidated in our financial statements. The results of operations for this business are included within continuing operations for the year ended December 31, 2016 as this business did not meet the criteria to be classified as held for sale and treated as discontinued operations.

6. Inventories

Inventories consisted of the following:

	December 31,	
	2018	2017
Retail automotive dealership new vehicles	\$ 2,397.0	\$ 2,344.1

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Retail automotive dealership used vehicles	1,060.8	993.1
Retail automotive parts, accessories and other	140.8	141.7
Retail commercial truck dealership vehicles and parts	207.9	207.0
Commercial vehicle distribution vehicles, parts and engines	233.6	258.2
Total inventories	\$ 4,040.1	\$ 3,944.1

We receive credits from certain vehicle manufacturers that reduce cost of sales when the vehicles are sold. Such credits amounted to \$54.6 million, \$55.4 million, and \$51.6 million during the years ended December 31, 2018, 2017, and 2016, respectively.

## 7. Property and Equipment

Property and equipment consisted of the following:

	December 31,	
	2018	2017
Buildings and leasehold improvements	\$ 1,770.4	\$ 1,633.3
Furniture, fixtures and equipment	1,097.9	1,080.1
Total	\$ 2,868.3	\$ 2,713.4
Less: Accumulated depreciation	(618.3)	(604.8)
Property and equipment, net	\$ 2,250.0	\$ 2,108.6

Approximately \$28.6 million and \$27.8 million of capitalized interest is included in buildings and leasehold improvements as of December 31, 2018 and 2017, respectively, and is being depreciated over the useful life of the related assets.

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PENSKE AUTOMOTIVE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

## 8. Intangible Assets

Following is a summary of the changes in the carrying amount of goodwill and other indefinite-lived intangible assets during the years ended December 31, 2018 and 2017, net of accumulated impairment losses recorded prior to December 31, 2012 of \$606.3 million and \$37.1 million, respectively:

	Goodwill	Other Indefinite- Lived Intangible Assets
Balance — December 31, 2016	\$ 1,291.2	\$ 420.1
Additions	324.8	40.8
Disposals	(4.5)	(1.7)
Foreign currency translation	49.0	14.8
Balance — December 31, 2017	\$ 1,660.5	\$ 474.0
Additions	144.1	29.8
Disposals	(13.8)	(0.5)
Impairment	—	(5.8)
Foreign currency translation	(38.8)	(11.3)
Balance — December 31, 2018	\$ 1,752.0	\$ 486.2

Following is a summary of the changes in the carrying amount of goodwill by reportable segment during the years ended December 31, 2018 and 2017:

Retail

	Retail Automotive	Commercial Truck	Other	Total
Balance — December 31, 2016	\$ 1,050.2	\$ 162.0	\$ 79.0	\$ 1,291.2
Additions	324.8	—	—	324.8
Disposals	(4.5)	—	—	(4.5)
Foreign currency translation	41.6	1.0	6.4	49.0
Balance — December 31, 2017	\$ 1,412.1	\$ 163.0	\$ 85.4	\$ 1,660.5
Additions	143.2	0.9	—	144.1
Disposals	(13.8)	—	—	(13.8)
Foreign currency translation	(29.6)	(1.3)	(7.9)	(38.8)
Balance — December 31, 2018	\$ 1,511.9	\$ 162.6	\$ 77.5	\$ 1,752.0

There is no goodwill recorded in our Non-Automotive Investments reportable segment.

We test for impairment of our intangible assets at least annually. During 2018, we recorded \$5.8 million of impairment charges relating to our intangible assets with respect to certain franchised dealerships. We did not record any impairment charges relating to our intangible assets in 2017 or 2016.

## 9. 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

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 2.1%, 1.8%, and 1.5% for 2018, 2017, and 2016, respectively. 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.

10. Long Term Debt

Long term debt consisted of the following:

December 31,	
2018	2017

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U.S. credit agreement — revolving credit line	\$ 30.0	\$ 172.0
U.K. credit agreement — revolving credit line	163.3	47.3
U.K. credit agreement — overdraft line of credit	1.8	—
3.75% senior subordinated notes due 2020	297.9	296.5
5.75% senior subordinated notes due 2022	546.8	545.9
5.375% senior subordinated notes due 2024	297.6	297.2
5.50% senior subordinated notes due 2026	495.1	494.4
Australia capital loan agreement	33.6	39.0
Australia working capital loan agreement	6.1	—
Mortgage facilities	289.6	235.5
Other	54.9	35.4
Total long-term debt	\$ 2,216.7	\$ 2,163.2
Less: current portion	(92.0)	(72.8)
Net long-term debt	\$ 2,124.7	\$ 2,090.4

Scheduled maturities of long term debt for each of the next five years and thereafter are as follows:

2019	\$ 92.0
2020	329.8
2021	68.6
2022	577.9
2023	179.0
2024 and thereafter	969.4
Total long-term debt reported	\$ 2,216.7

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PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

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, 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 December 31, 2018, we had \$30.0 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 National Westminster Bank plc and BMW Financial Services (GB) Limited, and an additional demand overdraft line of credit (collectively, the “U.K. credit agreement”) to be used for working capital, acquisitions, capital expenditures, investments and general corporate purposes. On December 12, 2018, we amended and restated our existing U.K. revolving credit agreement to, among other things, extend the stated termination date to December 12, 2023. The revolving loans bear interest between defined LIBOR plus 1.10% and defined LIBOR plus 2.10%. The U.K. credit agreement also includes a £100.0 million “accordion” feature which allows the U.K. subsidiaries to request up to an additional £100.0 million of facility capacity. The lenders may agree to provide the additional capacity, and, if not, the U.K. subsidiaries may add an additional lender, if available, to the facility to provide such additional capacity. As of December 31, 2018, outstanding loans under the U.K. credit agreement amounted to £129.4 million (\$165.1 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.

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PENSKE AUTOMOTIVE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

## Senior Subordinated Notes

We have issued the following senior subordinated notes:

Description	Maturity Date	Interest Payment Dates	Principal Amount
3.75% Notes	August 15, 2020	February 15, August 15	\$300 million
5.75% Notes	October 1, 2022	April 1, October 1	\$550 million
5.375% Notes	December 1, 2024	June 1, December 1	\$300 million
5.50% Notes	May 15, 2026	May 15, November 15	\$500 million

Each of these notes are our unsecured, senior subordinated obligations and are guaranteed on an unsecured senior subordinated basis by our 100% owned U.S. subsidiaries. Each also contain customary negative covenants and events of default. If we experience certain “change of control” events specified in the indentures, holders of these 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.

Optional redemption. 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. We may redeem the 5.75% Notes for cash at the redemption prices noted in the indenture, plus any accrued and unpaid interest. 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. 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.

#### 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 December 31, 2018, we had AU \$47.7 million (\$33.6 million) outstanding under the capital loan agreement and AU \$8.6 million (\$6.1 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 December 31, 2018, we

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

owed \$289.6 million of principal under our mortgage facilities.

#### 11. 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 an asset of \$1.6 million and an asset of \$0.2 million as of December 31, 2018 and 2017, respectively.

#### 12. 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 December 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. We estimate the total undiscounted rent obligations under these leases, including any extension periods that we are reasonably certain to exercise and assuming constant consumer price indices, to be \$5.4 billion. 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.

Minimum future rental payments required under operating leases in effect as of December 31, 2018 are as follows:

2019	\$ 222.5
2020	220.5
2021	217.4
2022	216.0
2023	212.0
2024 and thereafter	4,344.4
	\$ 5,432.8

Rent expense for the years ended December 31, 2018, 2017, and 2016 amounted to \$232.1 million, \$225.4 million, and \$206.6 million, respectively.

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

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PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

fulfill these obligations. We believe we have made appropriate reserves relating to these locations. The aggregate rent paid by the tenants on those properties in 2018 was approximately \$21.6 million and, in aggregate, we currently guarantee or are otherwise liable for approximately \$233.7 million of these lease payments, including lease payments during available renewal periods.

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 \$41.4 million of letters of credit outstanding as of December 31, 2018, and have posted \$29.2 million of surety bonds in the ordinary course of business.

### 13. Related Party Transactions

We sometimes pay to and/or receive fees from Penske Corporation and its affiliates for services rendered in the normal course of business, or to reimburse payments made to third parties on each other’s behalf. These transactions are reviewed periodically by our Audit Committee and reflect the provider’s cost or an amount mutually agreed upon by both parties. During 2018, 2017, and 2016, Penske Corporation and its affiliates billed us \$6.2 million, \$6.2 million, and \$6.9 million, respectively, and we billed Penske Corporation and its affiliates \$183 thousand, \$159 thousand, and \$148 thousand, respectively, for such services. As of December 31, 2018 and 2017, we had \$100 thousand and \$58 thousand of receivables from, and \$0.6 million and \$0.7 million of payables to, Penske Corporation and its subsidiaries, respectively.

On September 7, 2017, we acquired an additional 5.5% ownership interest in PTL, a leading provider of transportation and supply chain services, from GE Capital for approximately \$239.1 million in cash. At the same time, Mitsui, our

second largest shareholder, acquired an additional 10.0% ownership interest in PTL at the same valuation. After the transaction, PTL is 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. In connection with this transaction, the PTL partners agreed to amend and restate the existing partnership agreement among the partners, which among other things, provides us with specified partner distribution and governance rights and restricts our ability to transfer our interests. We and Mitsui were granted additional governance rights as part of the transaction. In addition, the partnership now has a six member advisory committee (previously seven member) and we continue to be entitled to one of the six representatives. We continue to have the right to pro rata quarterly distributions equal to 50% of PTL's consolidated net income and we expect to continue to realize significant cash tax savings.

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

The partnership agreement continues to allow Penske Corporation, beginning December 31, 2017, to give notice to require PTL to begin to effect an initial public offering of equity securities, subject to certain limitations, as soon as practicable after the first anniversary of the initial notice, and, beginning in 2025, we and Mitsui continue to have a similar right to require PTL to begin an initial public offering of equity securities, subject to certain limitations, as soon as reasonably practicable. The term of the partnership agreement was amended as part of the transaction to be indefinite.

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(In millions, except share and per share amounts)

In 2018, 2017, and 2016, we received \$63.2 million, \$52.4 million, and \$21.7 million, respectively, from PTL in pro rata cash dividends. In 2014, we formed a venture with PTL, Penske Commercial Leasing Australia. This venture combines PTL's fleet operations expertise with our market knowledge of commercial vehicles to rent heavy duty commercial vehicles in Australia. This venture is accounted for as an equity method investment as discussed in Note 3.

In December 2017, we sold our 31% ownership interest in Penske Vehicle Services, an automotive fleet management company, to PTL for a purchase price of \$19.2 million. We previously accounted for this venture as an equity method investment.

In September 2016, PTG completed the sale of certain assets to PTL, a related party. The assets sold consisted of approximately 300 vehicles, together with the associated full-service truck leasing and truck rental contracts with various PTG customers. PTL purchased these assets at fair value, which exceeded our carrying value for these assets, for a total purchase price of approximately \$17.0 million.

#### Joint Venture Relationships

From time to time we enter into joint venture relationships in the ordinary course of business, pursuant to which we own and operate automotive dealerships together with other investors. We may also provide these dealerships with working capital and other debt financing at costs that are based on our incremental borrowing rate. As of December 31, 2018, our automotive joint venture relationships were as follows:

Location	Dealerships	Ownership Interest
Fairfield, Connecticut	Audi, Mercedes-Benz, Sprinter, Porsche	80.00 (A)
Greenwich, Connecticut	Mercedes-Benz	% 80.00 (A)
Northern Italy	BMW, MINI, Maserati, Porsche, Audi, Land Rover, Volvo, Mercedes-Benz, smart, Lamborghini	% 84.00 (A)
Aachen, Germany	Audi, Maserati, SEAT, Skoda, Volkswagen	(A) 79.35 (C)
Frankfurt, Germany	Lexus, Toyota, Volkswagen	% 50.00 (B)
Barcelona, Spain	BMW, MINI	% 50.00 (B)
Tokyo, Japan	BMW, MINI, Rolls-Royce, Ferrari, ALPINA	% 49.00 (B)

- (a) Entity is consolidated in our financial statements.
- (b) Entity is accounted for using the equity method of accounting.
- (c) In 2018, we acquired an additional 11.4% ownership interest in this joint venture and now own 79.4%. We previously owned 68%.

Additionally, we are party to non-automotive joint ventures representing our investments in PTL (28.9%) and Penske Commercial Leasing Australia (28%) that are accounted for under the equity method, as more fully discussed in Note 3.



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PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

14. Stock Based Compensation

Key employees, outside directors, consultants and advisors of PAG are eligible to receive stock based compensation pursuant to the terms of our 2015 Equity Incentive Plan (the “2015 Plan”). This plan allows for the issuance of shares for stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and other awards. The 2015 Plan is a five-year plan which allows for up to 4,000,000 awards of which 2,825,133 shares of common stock were available for grant as of December 31, 2018. Compensation expense related to our equity incentive plan was \$16.8 million, \$16.0 million, and \$14.8 million during 2018, 2017, and 2016, respectively.

Restricted Stock

During 2018, 2017, and 2016, we granted 330,048, 320,018, and 316,486 shares, respectively, of restricted common stock and restricted stock units at no cost to participants under the plan. These awards provide the holder voting and dividend rights prior to vesting. The awards are subject to forfeiture and are non transferable, which restrictions generally lapse over a four year period from the grant date at a rate of 15%, 15%, 20% and 50% per year. We have determined that the grant date quoted market price of the underlying common stock is the appropriate measure of compensation cost. This cost is amortized as expense over the restriction period. As of December 31, 2018, there was \$23.8 million of unrecognized compensation cost related to the restricted stock, which is expected to be recognized over the restricted period.

Presented below is a summary of the status of our restricted stock as of December 31, 2018 and 2017, and changes during the year ended December 31, 2018:

Weighted Average      Aggregate

	Shares	Grant Date Fair Value	Intrinsic Value
December 31, 2017	899,474	\$ 46.59	
Granted	330,048	48.03	
Vested	(303,731)	45.48	
Forfeited	(13,383)	45.07	
December 31, 2018	912,408	\$ 47.19	\$ 36.8

## 15. Equity

A summary of shares repurchased under our securities repurchase program, and shares acquired, is as follows:

	Year Ended December 31,		
	2018	2017	2016
Shares repurchased (1)	1,467,886	302,000	4,512,325
Aggregate purchase price	\$ 63.1	\$ 12.7	\$ 167.9
Average purchase price per share	\$ 43.00	\$ 41.95	\$ 37.21
Shares acquired (2)	119,608	133,710	144,717
Aggregate purchase price	\$ 5.8	\$ 5.8	\$ 5.7
Average purchase price per share	\$ 48.61	\$ 43.28	\$ 39.47

- (1) Shares were repurchased under our securities repurchase program. As of December 31, 2018, we had \$136.9 million in repurchase authorization under the repurchase program. In February 2019, our Board of Directors increased the authority delegated to management to repurchase our outstanding securities to \$200.0 million.
- (2) Shares were acquired from employees in connection with a net share settlement feature of employee equity awards.

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PENSKE AUTOMOTIVE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

## 16. 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 years ended December 31, 2018, 2017, and 2016 attributable to Penske Automotive Group common stockholders follows:

	Foreign Currency Translation	Other	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2016	\$ (113.5)	\$ (9.0)	\$ (122.5)
Other comprehensive income before reclassifications	(116.5)	(11.7)	(128.2)
Amounts reclassified from accumulated other comprehensive income — net of tax provision of \$0.0	—	—	—
Net current-period other comprehensive income	(116.5)	(11.7)	(128.2)
Balance at December 31, 2016	\$ (230.0)	\$ (20.7)	\$ (250.7)
Other comprehensive income before reclassifications	96.0	8.2	104.2
Amounts reclassified from accumulated other comprehensive income — net of tax provision \$0.0	—	—	—
Net current-period other comprehensive income	96.0	8.2	104.2
Balance at December 31, 2017	\$ (134.0)	\$ (12.5)	\$ (146.5)
Other comprehensive income before reclassifications	(74.3)	(13.7)	(88.0)
Amounts reclassified from accumulated other comprehensive income — net of tax provision of \$0.0	—	—	—
Net current-period other comprehensive income	(74.3)	(13.7)	(88.0)
Balance at December 31, 2018	\$ (208.3)	\$ (26.2)	\$ (234.5)

## 17. Income Taxes

On December 22, 2017, the President of the United States signed into law P.L. 115-97, commonly referred to as the Tax Cuts and Jobs Act of 2017 (the "Act"). 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 U.S. 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 & profits ("E&P") of a U.S. Shareholder's foreign subsidiaries, effective during 2017.

In accordance with SAB 118, we have obtained, prepared, and analyzed additional information about facts and circumstances that existed as of the enactment date and computed the U.S. tax impact of the Act. Since the enactment of new tax legislation, the Internal Revenue Service ("IRS") and state tax authorities have issued news releases, notices, instructions and other forms of guidance to assist taxpayers with implementing the Act. We have also considered the impact of any new information provided by the IRS and state tax authorities in reaching our conclusions. We consider our conclusions to be final and complete.

We determined that our final U.S. federal and state tax liability as a result of the transition tax on repatriation resulted in \$52.2 million on a deemed repatriation of \$946.0 million of foreign earnings and profits. The remeasurement of certain deferred tax assets and liabilities due to the corporate income tax rate reduction provided an income tax benefit of \$301.2 million.

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PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

Changes made to the provisional estimates for the tax year ended December 31, 2017 were primarily related to our foreign earnings and profits ("E&P"), foreign tax credits, and partnership outside basis differences related to our investment in Penske Truck Leasing.

The following adjustments to our provisional estimates were recorded to current tax expense of deferred tax expense, as applicable, in the third quarter of 2018:

(In millions)	
Federal and State Changes Due to Repatriation	\$ 12.5
Other Adjustments	(0.9)
Total SAB 118 Benefit	\$ 11.6

As a result of the changes made to the provisional estimates mentioned above, the total benefit recorded as a result of the enactment of the Act increased from \$243.4 million to \$255.0 million, with the corresponding income tax benefit of \$11.6 million recorded in the third 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 is 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 2018 consolidated financial statements.

Income from continuing operations before income taxes by geographic region was as follows:

	Year Ended December 31,		
	2018	2017	2016
U.S.	\$ 390.3	\$ 375.4	\$ 316.7
Non-U.S.	213.8	172.8	191.4
Income from continuing operations before income taxes	\$ 604.1	\$ 548.2	\$ 508.1

Income taxes relating to income from continuing operations consisted of the following:

	Year Ended December 31,		
	2018	2017	2016
Current:			
Federal	\$ (15.6)	\$ (3.5)	\$ (47.2)
State and local	(2.9)	4.2	4.7
Foreign	46.9	43.2	41.0
Total current	\$ 28.4	\$ 43.9	\$ (1.5)
Deferred:			
Federal	85.9	(150.5)	140.6
State and local	20.0	47.2	22.3
Foreign	—	(5.4)	(0.7)
Total deferred	\$ 105.9	\$ (108.7)	\$ 162.2
Income taxes	\$ 134.3	\$ (64.8)	\$ 160.7

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PENSKE AUTOMOTIVE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

Income taxes relating to income from continuing operations varied from the U.S. federal statutory income tax rate due to the following:

	Year Ended December 31,		
	2018	2017	2016
Income taxes at federal statutory rate	\$ 126.9	\$ 191.9	\$ 177.8
State and local income taxes, net of federal taxes	13.8	13.7	14.7
Non-U.S. income taxed at other rates	1.9	(25.2)	(26.8)
Revaluation of U.S. deferreds	—	(301.6)	—
Deemed mandatory repatriation	—	54.8	—
SAB 118 benefit	(11.6)	—	—
Other	3.3	1.6	(5.0)
Income taxes	\$ 134.3	\$ (64.8)	\$ 160.7

The components of deferred tax assets and liabilities as of December 31, 2018 and 2017 were as follows:

	December 31,	
	2018	2017
Deferred Tax Assets		
Accrued liabilities	\$ 48.7	\$ 53.6
Net operating loss and credit carryforwards	81.4	131.0
Other	27.9	24.0
Total deferred tax assets	158.0	208.6
Valuation allowance	(40.5)	(36.6)
Net deferred tax assets	\$ 117.5	\$ 172.0
Deferred Tax Liabilities		
Depreciation and amortization	(188.0)	(178.1)
Partnership investments	(499.3)	(469.5)

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Convertible notes	—	(1.5)
Other	(8.0)	(4.4)
Total deferred tax liabilities	(695.3)	(653.5)
Net deferred tax liabilities	\$ (577.8)	\$ (481.5)

We are not permanently reinvested in a portion of our previously-taxed unremitted foreign earnings, which may be distributed in the future. At December 31, 2018, we have accrued the appropriate amount of U.S. state income taxes and foreign withholding taxes for the unremitted foreign earnings that are not permanently reinvested. We have not provided any U.S. taxes on a total temporary difference of \$110.5 million related to the excess of financial reporting basis over tax basis in our non-U.S. subsidiaries, as it is our position that we are permanently reinvested for this basis difference. Our U.K. subsidiary remains permanently reinvested in its non-UK subsidiaries. Therefore, we have not recognized any additional deferred tax liabilities related to our investments in non-U.S. subsidiaries.

At December 31, 2018, we have \$558.7 million of state net operating loss carryforwards in the U.S. that expire at various dates beginning in 2019 through 2038, U.S. federal and state credit carryforwards of \$5.4 million that will not expire, a U.S. foreign tax credit carryforward of \$31.5 million that will expire in 2027, U.K. capital loss carryforwards of \$3.4 million that will not expire, Germany net operating loss carryforwards of \$30.6 million that will not expire, Australia net operating loss carryforwards of \$10.0 million that will not expire, New Zealand net operating loss carryforwards of \$1.7 million that will not expire and Italy net operating loss carryforwards of \$0.1 million that will not expire. The Company generated \$86.3 million of state net operating loss carryforwards in the U.S. in 2018.

A valuation allowance of \$0.9 million has been recorded against the state net operating loss carryforwards in the U.S., a valuation allowance of \$0.4 million has been recorded against the state credit carryforwards in the U.S., and a



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PENSKE AUTOMOTIVE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

valuation allowance of \$17.9 million has been recorded against the U.S. foreign tax credit carryforward as of December 31, 2018. A valuation allowance of \$13.0 million has been recorded against German net operating losses and other deferred tax assets as of December 31, 2018. A valuation allowance of \$8.3 million has been recorded against U.K. deferred tax assets related to buildings as of December 31, 2018.

Generally accepted accounting principles relating to uncertain income tax positions prescribe a minimum recognition threshold a tax position is required to meet before being recognized, and provides guidance on the derecognition, measurement, classification, and disclosure relating to income taxes. The movement in uncertain tax positions for the years ended December 31, 2018, 2017, and 2016 were as follows:

	Year Ended December 31,		
	2018	2017	2016
Uncertain tax positions — January 1	\$ 3.5	\$ 3.4	\$ 12.8
Gross increase — tax position in prior periods	—	0.2	0.2
Gross decrease — tax position in prior periods	(3.4)	(0.1)	(0.3)
Gross increase — current period tax position	—	—	—
Settlements	—	—	(7.8)
Lapse in statute of limitations	—	—	—
Foreign exchange	—	—	(1.5)
Uncertain tax positions — December 31	\$ 0.1	\$ 3.5	\$ 3.4

We have elected to include interest and penalties in our income tax expense. We had no interest and penalties included within uncertain tax positions at December 31, 2018. We do not expect a significant change to the amount of uncertain tax positions within the next twelve months. Our U.S. federal returns remain open to examination for 2015 through 2017 and various U.S. state jurisdictions are open for periods ranging from 2011 through 2017. The portion of the total amount of uncertain tax positions as of December 31, 2018 that would, if recognized, impact the effective tax rate was \$0.1 million.

We have classified our tax reserves as a long term obligation on the basis that management does not expect to make payments relating to those reserves within the next twelve months.

## 18. 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). The accounting policies of the segments are the same and are described in Note 1.

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## PENSKE AUTOMOTIVE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

The following table summarizes revenues, floor plan interest expense, other interest expense, depreciation, equity in earnings of affiliates, and income (loss) from continuing operations before certain non-recurring items and income taxes, which is the measure by which management allocates resources to its segments and which we refer to as adjusted segment income, for each of our reportable segments.

	Retail Automotive	Retail Commercial Truck	Other	Non-Automotive Investments	Intersegment Elimination	Total
Revenues						
2018	\$ 20,849.2	\$ 1,374.5	\$ 561.4	\$ —	\$ —	\$ 22,785.1
2017	19,824.3	1,048.0	514.6	—	—	21,386.9
2016	18,673.2	1,000.7	448.5	—	(3.9)	20,118.5
Floor plan interest expense						
2018	\$ 74.9	\$ 4.2	\$ 1.8	\$ —	\$ —	\$ 80.9
2017	59.4	2.7	1.3	—	—	63.4
2016	47.1	2.9	0.9	—	—	50.9
Other interest expense						
2018	\$ 108.3	\$ 2.4	\$ 4.0	\$ —	\$ —	\$ 114.7
2017	95.0	3.4	9.0	—	—	107.4
2016	74.8	4.1	6.5	—	—	85.4
Depreciation						
2018	\$ 94.2	\$ 4.3	\$ 5.2	\$ —	\$ —	\$ 103.7
2017	85.7	4.1	5.3	—	—	95.1
2016	81.7	3.2	4.8	—	—	89.7
Equity in earnings of affiliates						
2018	\$ 5.2	\$ —	\$ —	\$ 129.6	\$ —	\$ 134.8
2017	4.6	—	—	103.0	—	107.6
2016	4.9	—	—	64.6	—	69.5

Adjusted segment  
income

2018	\$ 389.7	\$ 62.3	\$ 22.5	\$ 129.6	\$ —	\$ 604.1
2017	397.2	38.4	9.6	103.0	—	548.2
2016	412.9	26.2	4.4	64.6	—	508.1

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PENSKE AUTOMOTIVE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

Total assets, equity method investments, and capital expenditures by reportable segment are as set forth in the table below:

	Retail Automotive	Retail Commercial Truck	Other	Non-Automotive Investments	Intersegment Elimination	Total
Total assets						
2018	\$ 8,501.4	\$ 571.5	\$ 590.5	\$ 1,241.1	\$ —	\$ 10,904.5
2017	8,157.0	553.4	642.1	1,188.1	—	10,540.6
Equity method investments						
2018	\$ 64.1	\$ —	\$ —	\$ 1,241.1	\$ —	\$ 1,305.2
2017	68.5	—	—	1,188.1	—	1,256.6
Capital expenditures						
2018	\$ 292.6	\$ 9.3	\$ 3.7	\$ —	\$ —	\$ 305.6
2017	237.8	6.4	2.8	—	—	247.0
2016	195.6	3.3	4.2	—	—	203.1

The following table presents certain data by geographic area:

	Year Ended December 31,		
	2018	2017	2016
Revenue from external customers:			
U.S.	\$ 12,607.8	\$ 12,487.2	\$ 12,005.9
Non-U.S.	10,177.3	8,899.7	8,112.6
Total revenue from external customers	\$ 22,785.1	\$ 21,386.9	\$ 20,118.5
Long-lived assets, net:			
U.S.	\$ 2,365.5	\$ 2,268.1	
Non-U.S.	1,205.6	1,111.5	

Total long-lived assets	\$ 3,571.1	\$ 3,379.6
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The Company's non-U.S. operations are predominantly based in the U.K.

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PENSKE AUTOMOTIVE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

The following tables present our revenue from external customers by product type for our Retail Automotive and Retail Commercial Truck segments:

	Year Ended December 31,		
	2018	2017	2016
Retail Automotive Dealership Revenue			
New vehicle	\$ 9,666.4	\$ 9,678.5	\$ 9,547.1
Used vehicle	7,252.1	6,386.8	5,663.7
Finance and insurance, net	629.6	581.8	495.0
Service and parts	2,151.4	2,057.5	1,948.6
Fleet and wholesale	1,149.7	1,119.7	1,018.8
Total retail automotive dealership revenue	\$ 20,849.2	\$ 19,824.3	\$ 18,673.2

	Year Ended December 31,		
	2018	2017	2016
Retail Commercial Truck Dealership Revenue			
New truck	\$ 866.9	\$ 613.2	\$ 625.5
Used truck	112.0	89.4	51.8
Finance and insurance, net	11.9	9.0	7.3
Service and parts	364.5	325.6	306.0
Other	19.2	10.8	10.1
Total retail commercial truck dealership revenue	\$ 1,374.5	\$ 1,048.0	\$ 1,000.7

## 19. Summary of Quarterly Financial Data (Unaudited)

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	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2018 (1)(2)				
Total revenues	\$ 5,746.9	\$ 5,940.3	\$ 5,658.6	\$ 5,439.3
Gross profit	864.4	889.8	852.6	808.1
Income from continuing operations	107.7	135.2	130.0	96.9
Net income	107.8	135.2	130.1	97.2
Net income attributable to Penske Automotive Group common stockholders	108.1	134.6	130.2	98.1
Diluted earnings per share attributable to Penske Automotive Group common stockholders:				
Income from continuing operations per share	\$ 1.26	\$ 1.58	\$ 1.53	\$ 1.15
Net income per share	\$ 1.26	\$ 1.58	\$ 1.53	\$ 1.16
2017 (1)(2)				
Total revenues	\$ 5,081.1	\$ 5,383.4	\$ 5,524.4	\$ 5,398.0
Gross profit	774.3	817.3	822.6	808.3
Income from continuing operations	83.6	106.7	94.2	328.5
Net income	83.0	106.9	94.3	328.6
Net income attributable to Penske Automotive Group common stockholders	82.6	106.2	94.4	330.1
Diluted earnings per share attributable to Penske Automotive Group common stockholders:				
Income from continuing operations per share	\$ 0.97	\$ 1.23	\$ 1.10	\$ 3.85
Net income per share	\$ 0.96	\$ 1.23	\$ 1.10	\$ 3.85

(1) As discussed in Note 5, we have treated the operations of certain entities as discontinued operations. The results for all periods have been restated to reflect such treatment.

(2) Per share amounts are calculated independently for each of the quarters presented. The sum of the quarters may not equal the full year per share amounts due to rounding.



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PENSKE AUTOMOTIVE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

## 20. Condensed Consolidating Financial Information

The following tables include condensed consolidating financial information as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 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

December 31, 2018

	Total Company	Eliminations	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Cash and cash equivalents	\$ 39.4	\$ —	\$ —	\$ 12.9	\$ 26.5
Accounts receivable, net	929.1	(481.7)	481.7	507.1	422.0
Inventories	4,040.1	—	—	1,961.6	2,078.5
Other current assets	86.6	—	10.6	17.8	58.2
Total current assets	5,095.2	(481.7)	492.3	2,499.4	2,585.2
Property and equipment, net	2,250.0	—	3.9	1,077.7	1,168.4
Intangible assets	2,238.2	—	—	1,422.6	815.6
Equity method investments	1,305.2	—	1,239.9	—	65.3
Other long-term assets	15.9	(2,814.3)	2,821.0	2.9	6.3

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Total assets	\$ 10,904.5	\$ (3,296.0)	\$ 4,557.1	\$ 5,002.6	\$ 4,640.8
Floor plan notes payable	\$ 2,362.2	\$ —	\$ —	\$ 1,348.3	\$ 1,013.9
Floor plan notes payable — non-trade	1,428.6	—	232.3	505.9	690.4
Accounts payable	598.2	—	4.9	196.6	396.7
Accrued expenses	566.6	(481.7)	1.4	160.2	886.7
Current portion of long-term debt	92.0	—	—	6.3	85.7
Liabilities held for sale	0.7	—	—	0.7	—
Total current liabilities	5,048.3	(481.7)	238.6	2,218.0	3,073.4
Long-term debt	2,124.7	(88.6)	1,683.8	225.7	303.8
Deferred tax liabilities	577.8	—	—	570.5	7.3
Other long-term liabilities	519.0	—	—	57.6	461.4
Total liabilities	8,269.8	(570.3)	1,922.4	3,071.8	3,845.9
Total equity	2,634.7	(2,725.7)	2,634.7	1,930.8	794.9
Total liabilities and equity	\$ 10,904.5	\$ (3,296.0)	\$ 4,557.1	\$ 5,002.6	\$ 4,640.8

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## PENSKE AUTOMOTIVE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

## 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
Other long-term liabilities	540.3	—	—	64.7	475.6
Total liabilities	8,112.6	(613.8)	2,010.9	2,976.5	3,739.0
Total equity	2,428.0	(2,622.5)	2,428.0	1,886.0	736.5
Total liabilities and equity	\$ 10,540.6	\$ (3,236.3)	\$ 4,438.9	\$ 4,862.5	\$ 4,475.5

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PENSKE AUTOMOTIVE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

## CONDENSED CONSOLIDATING STATEMENT OF INCOME

Year Ended December 31, 2018

	Total Company	Eliminations	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	\$ 22,785.1	\$ —	\$ —	\$ 12,036.6	\$ 10,748.5
Cost of sales	19,370.2	—	—	10,130.4	9,239.8
Gross profit	3,414.9	—	—	1,906.2	1,508.7
Selling, general and administrative expenses	2,646.3	—	24.9	1,403.7	1,217.7
Depreciation	103.7	—	1.5	56.1	46.1
Operating income	664.9	—	(26.4)	446.4	244.9
Floor plan interest expense	(80.9)	—	(7.2)	(50.7)	(23.0)
Other interest expense	(114.7)	—	(77.8)	(8.8)	(28.1)
Equity in earnings of affiliates	134.8	—	129.5	—	5.3
Equity in earnings of subsidiaries	—	(586.8)	586.8	—	—
Income from continuing operations before income taxes	604.1	(586.8)	604.9	386.9	199.1
Income taxes	(134.3)	130.3	(134.3)	(88.6)	(41.7)
Income from continuing operations	469.8	(456.5)	470.6	298.3	157.4
Income (loss) from discontinued operations, net of tax	0.5	(0.5)	0.5	0.5	—
Net income	470.3	(457.0)	471.1	298.8	157.4
Other comprehensive (loss) income, net of tax	(89.5)	74.9	(89.5)	—	(74.9)
Comprehensive income	380.8	(382.1)	381.6	298.8	82.5
Less: Comprehensive income attributable to non-controlling interests	(2.2)	1.5	(1.5)	—	(2.2)

Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 383.0	\$ (383.6)	\$ 383.1	\$ 298.8	\$ 84.7
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PENSKE AUTOMOTIVE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

## CONDENSED CONSOLIDATING STATEMENT OF INCOME

Year Ended December 31, 2017

	Total Company	Eliminations	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	\$ 21,386.9	\$ —	\$ —	\$ 11,825.9	\$ 9,561.0
Cost of sales	18,164.4	—	—	9,945.0	8,219.4
Gross profit	3,222.5	—	—	1,880.9	1,341.6
Selling, general and administrative expenses	2,516.0	—	24.5	1,393.3	1,098.2
Depreciation	95.1	—	1.6	53.1	40.4
Operating income	611.4	—	(26.1)	434.5	203.0
Floor plan interest expense	(63.4)	—	(4.9)	(38.5)	(20.0)
Other interest expense	(107.4)	—	(73.5)	(8.9)	(25.0)
Equity in earnings of affiliates	107.6	—	102.8	—	4.8
Equity in earnings of subsidiaries	—	(550.6)	550.6	—	—
Income from continuing operations before income taxes	548.2	(550.6)	548.9	387.1	162.8
Income taxes	64.8	(64.8)	64.8	95.5	(30.7)
Income from continuing operations	613.0	(615.4)	613.7	482.6	132.1
(Loss) income from discontinued operations, net of tax	(0.2)	0.2	(0.2)	(0.2)	—
Net income	612.8	(615.2)	613.5	482.4	132.1
Other comprehensive income (loss), net of tax	107.4	(97.5)	107.4	—	97.5
Comprehensive income	720.2	(712.7)	720.9	482.4	229.6
Less: Comprehensive income attributable to non-controlling interests	2.7	(3.2)	3.2	—	2.7

Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 717.5	\$ (709.5)	\$ 717.7	\$ 482.4	\$ 226.9
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PENSKE AUTOMOTIVE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

## CONDENSED CONSOLIDATING STATEMENT OF INCOME

Year Ended December 31, 2016

	Total Company	Eliminations	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	\$ 20,118.5	\$ —	\$ —	\$ 10,946.2	\$ 9,172.3
Cost of sales	17,151.9	—	—	9,251.8	7,900.1
Gross profit	2,966.6	—	—	1,694.4	1,272.2
Selling, general and administrative expenses	2,302.0	—	19.2	1,284.4	998.4
Depreciation	89.7	—	1.7	47.3	40.7
Operating income	574.9	—	(20.9)	362.7	233.1
Floor plan interest expense	(50.9)	—	(3.0)	(29.1)	(18.8)
Other interest expense	(85.4)	—	(59.2)	(5.1)	(21.1)
Equity in earnings of affiliates	69.5	—	64.6	—	4.9
Equity in earnings of subsidiaries	—	(523.3)	523.3	—	—
Income from continuing operations before income taxes	508.1	(523.3)	504.8	328.5	198.1
Income taxes	(160.7)	166.6	(160.7)	(124.4)	(42.2)
Income from continuing operations	347.4	(356.7)	344.1	204.1	155.9
(Loss) income from discontinued operations, net of tax	(1.0)	1.0	(1.0)	(0.9)	(0.1)
Net income	346.4	(355.7)	343.1	203.2	155.8
Other comprehensive (loss) income, net of tax	(129.0)	123.9	(129.0)	—	(123.9)
Comprehensive income	217.4	(231.8)	214.1	203.2	31.9
Less: Comprehensive income attributable to non-controlling interests	2.7	0.8	(0.8)	—	2.7

Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 214.7	\$ (232.6)	\$ 214.9	\$ 203.2	\$ 29.2
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PENSKE AUTOMOTIVE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Year Ended December 31, 2018

	Total Company	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Net cash provided by continuing operating activities	\$ 614.2	\$ 3.4	\$ 535.2	\$ 75.6
Investing activities:				
Purchase of equipment and improvements	(305.6)	(1.2)	(173.9)	(130.5)
Proceeds from sale of dealerships	84.5	—	82.0	2.5
Proceeds from sale-leaseback transactions	10.7	—	—	10.7
Acquisitions, net	(309.1)	—	(140.5)	(168.6)
Other	(5.7)	(3.8)	—	(1.9)
Net cash used in continuing investing activities	(525.2)	(5.0)	(232.4)	(287.8)
Financing activities:				
Net borrowings (repayments) of long-term debt	93.5	(142.0)	81.1	154.4
Net borrowings (repayments) of floor plan notes payable — non-trade	10.0	35.6	(96.0)	70.4
Payment of debt issuance costs	(1.9)	(1.9)	—	—
Repurchases of common stock	(68.9)	(68.9)	—	—
Dividends	(121.2)	(121.2)	—	—
Other	(5.8)	(5.8)	—	—
Distributions from (to) parent	—	305.8	(290.3)	(15.5)
Net cash (used in) provided by continuing financing activities	(94.3)	1.6	(305.2)	209.3
Net cash provided by discontinued operations	0.5	—	0.5	—
Effect of exchange rate changes on cash and cash equivalents	(1.5)	—	—	(1.5)
Net change in cash and cash equivalents	(6.3)	—	(1.9)	(4.4)
Cash and cash equivalents, beginning of period	45.7	—	14.8	30.9

Cash and cash equivalents, end of period	\$ 39.4	\$ —	\$ 12.9	\$ 26.5
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PENSKE AUTOMOTIVE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Year Ended December 31, 2017

	Total Company	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Net cash provided by (used in) continuing operating activities	\$ 623.0	\$ (46.8)	\$ 643.3	\$ 26.5
Investing activities:				
Purchase of equipment and improvements	(247.0)	(3.2)	(138.0)	(105.8)
Proceeds from sale of dealerships	25.1	—	9.0	16.1
Proceeds from sale-leaseback transactions	22.2	—	—	22.2
Acquisition of additional ownership interest in Penske Truck Leasing	(239.1)	(239.1)	—	—
Acquisitions, net	(449.7)	—	(334.5)	(115.2)
Other	(40.2)	(40.0)	—	(0.2)
Net cash used in continuing investing activities	(928.7)	(282.3)	(463.5)	(182.9)
Financing activities:				
Issuance of 3.75% senior subordinated notes	300.0	300.0	—	—
Net (repayments) borrowings of long-term debt	(26.0)	(68.0)	6.4	35.6
Net borrowings of floor plan notes payable — non-trade	185.3	40.6	4.8	139.9
Payment of debt issuance costs	(4.0)	(4.0)	—	—
Repurchases of common stock	(18.5)	(18.5)	—	—
Dividends	(108.4)	(108.4)	—	—
Other	(5.8)	(5.8)	—	—
Distributions from (to) parent	—	193.2	(188.3)	(4.9)
Net cash provided by (used in) continuing financing activities	322.6	329.1	(177.1)	170.6
Net cash provided by discontinued operations	2.7	—	2.7	—
	2.1	—	—	2.1

Effect of exchange rate changes on cash and cash equivalents

Net change in cash and cash equivalents	21.7	—	5.4	16.3
Cash and cash equivalents, beginning of period	24.0	—	9.4	14.6
Cash and cash equivalents, end of period	\$ 45.7	\$ —	\$ 14.8	\$ 30.9

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PENSKE AUTOMOTIVE GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In millions, except share and per share amounts)

## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Year Ended December 31, 2016

	Total Company	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Net cash provided by (used in) continuing operating activities	\$ 371.3	\$ (31.6)	\$ 52.1	\$ 350.8
Investing activities:				
Purchase of equipment and improvements	(203.1)	(1.0)	(126.6)	(75.5)
Proceeds from sale of dealerships	4.2	—	4.2	—
Acquisition of additional ownership interest in Penske Truck Leasing	(498.5)	(498.5)	—	—
Acquisitions, net	(140.8)	—	—	(140.8)
Other	1.5	—	12.8	(11.3)
Net cash used in continuing investing activities	(836.7)	(499.5)	(109.6)	(227.6)
Financing activities:				
Issuance of 5.50% senior subordinated notes	500.0	500.0	—	—
Net borrowings of long-term debt	122.9	80.0	21.6	21.3
Net borrowings (repayments) of floor plan notes payable — non-trade	101.0	1.3	270.8	(171.1)
Payment of debt issuance costs	(6.7)	(6.7)	—	—
Repurchases of common stock	(173.6)	(173.6)	—	—
Dividends	(95.1)	(95.1)	—	—
Other	(15.5)	(5.8)	—	(9.7)
Distributions from (to) parent	—	231.0	(226.2)	(4.8)
Net cash provided by (used in) continuing financing activities	433.0	531.1	66.2	(164.3)
Net cash provided by discontinued operations	3.1	—	0.7	2.4
Effect of exchange rate changes on cash and cash equivalents	(9.1)	—	—	(9.1)

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Net change in cash and cash equivalents	(38.4)	—	9.4	(47.8)
Cash and cash equivalents, beginning of period	62.4	—	—	62.4
Cash and cash equivalents, end of period	\$ 24.0	\$ —	\$ 9.4	\$ 14.6

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## Schedule II

## PENSKE AUTOMOTIVE GROUP, INC.

## VALUATION AND QUALIFYING ACCOUNTS

(In millions)

Description	Balance at Beginning of Year	Additions	Deductions, Recoveries, & Other	Balance at End of Year
Year Ended December 31, 2018				
Allowance for doubtful accounts	\$ 5.5	\$ 2.0	\$ (2.1)	\$ 5.4
Tax valuation allowance	36.6	4.0	(0.1)	40.5
Year Ended December 31, 2017				
Allowance for doubtful accounts	\$ 4.5	\$ 2.5	\$ (1.5)	\$ 5.5
Tax valuation allowance	17.2	21.5	(2.1)	36.6
Year Ended December 31, 2016				
Allowance for doubtful accounts	\$ 4.2	\$ 2.8	\$ (2.5)	\$ 4.5
Tax valuation allowance	17.3	2.1	(2.2)	17.2