

PENSKE AUTOMOTIVE GROUP, INC.

Form 10-Q

July 28, 2017

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2017

or

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

For the transition period from to

Commission file number 1-12297

Penske Automotive Group, Inc.

(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code:

(248) 648-2500

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

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

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

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

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

As of July 21, 2017, there were 86,020,397 shares of voting common stock outstanding.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

	June 30, 2017 (Unaudited)	December 31, 2016 (Unaudited)
	(In millions, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	\$ 20.7	\$ 24.0
Accounts receivable, net of allowance for doubtful accounts of \$4.9 and \$4.5	827.7	879.0
Inventories	3,711.9	3,408.2
Other current assets	104.2	73.9
Assets held for sale	—	8.4
Total current assets	4,664.5	4,393.5
Property and equipment, net	1,990.3	1,806.5
Goodwill	1,641.3	1,291.2
Other indefinite-lived intangible assets	467.7	420.1
Equity method investments	921.5	893.4
Other long-term assets	26.6	28.3
Total assets	\$ 9,711.9	\$ 8,833.0
LIABILITIES AND EQUITY		
Floor plan notes payable	\$ 2,151.1	\$ 2,084.5
Floor plan notes payable — non-trade	1,364.7	1,233.3
Accounts payable	559.9	497.4
Accrued expenses	413.2	360.0
Current portion of long-term debt	70.1	48.3
Liabilities held for sale	0.7	6.1
Total current liabilities	4,559.7	4,229.6
Long-term debt	1,955.8	1,828.8
Deferred tax liabilities	655.2	564.6
Other long-term liabilities	524.5	430.5
Total liabilities	7,695.2	7,053.5
Commitments and contingent liabilities (Note 9)		
Equity		
Penske Automotive Group stockholders' equity:		
Preferred Stock, \$0.0001 par value; 100,000 shares authorized; none issued and outstanding	—	—
Common Stock, \$0.0001 par value, 240,000,000 shares authorized; 86,020,397 shares issued and outstanding at June 30, 2017; 85,214,345 shares issued and outstanding at	—	—

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December 31, 2016

Non-voting Common Stock, \$0.0001 par value; 7,125,000 shares authorized; none issued and outstanding	—	—
Class C Common Stock, \$0.0001 par value; 20,000,000 shares authorized; none issued and outstanding	—	—
Additional paid-in-capital	529.6	497.1
Retained earnings	1,640.9	1,504.5
Accumulated other comprehensive income (loss)	(186.2)	(250.7)
Total Penske Automotive Group stockholders' equity	1,984.3	1,750.9
Non-controlling interest	32.4	28.6
Total equity	2,016.7	1,779.5
Total liabilities and equity	\$ 9,711.9	\$ 8,833.0

See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
	June 30,	2016	June 30,	2016
	2017		2017	
	(Unaudited)			
	(In millions, except per share amounts)			
Revenue:				
Retail automotive dealership	\$ 5,040.7	\$ 4,836.8	\$ 9,797.1	\$ 9,349.7
Retail commercial truck dealership	228.5	309.5	440.2	516.2
Commercial vehicle distribution and other	114.2	107.8	227.2	212.8
Total revenues	\$ 5,383.4	\$ 5,254.1	\$ 10,464.5	\$ 10,078.7
Cost of sales:				
Retail automotive dealership	4,294.7	4,134.8	8,342.8	7,982.7
Retail commercial truck dealership	188.5	271.2	363.8	444.7
Commercial vehicle distribution and other	82.9	76.8	166.3	156.2
Total cost of sales	4,566.1	4,482.8	8,872.9	8,583.6
Gross profit	817.3	771.3	1,591.6	1,495.1
Selling, general and administrative expenses	622.0	582.7	1,223.7	1,141.6
Depreciation	23.3	24.5	45.7	45.3
Operating income	172.0	164.1	322.2	308.2
Floor plan interest expense	(15.5)	(13.1)	(29.2)	(25.9)
Other interest expense	(26.4)	(19.5)	(51.4)	(36.7)
Equity in earnings of affiliates	26.8	12.0	40.0	17.5
Income from continuing operations before income taxes	156.9	143.5	281.6	263.1
Income taxes	(50.2)	(47.3)	(91.3)	(86.7)
Income from continuing operations	106.7	96.2	190.3	176.4
Income (loss) from discontinued operations, net of tax	0.2	(1.2)	(0.4)	(1.2)
Net income	106.9	95.0	189.9	175.2
Less: Income attributable to non-controlling interests	0.7	1.5	1.1	2.4
Net income attributable to Penske Automotive Group common stockholders	\$ 106.2	\$ 93.5	\$ 188.8	\$ 172.8
Basic earnings per share attributable to Penske Automotive Group common stockholders:				
Continuing operations	\$ 1.23	\$ 1.11	\$ 2.20	\$ 2.01
Discontinued operations	\$ 0.00	\$ (0.01)	\$ (0.00)	\$ (0.01)
Net income attributable to Penske Automotive Group common stockholders	\$ 1.23	\$ 1.10	\$ 2.20	\$ 1.99
Shares used in determining basic earnings per share	86.1	85.3	85.9	86.7
Diluted earnings per share attributable to Penske Automotive Group common stockholders:				
Continuing operations	\$ 1.23	\$ 1.11	\$ 2.20	\$ 2.00
Discontinued operations	\$ 0.00	\$ (0.01)	\$ (0.00)	\$ (0.01)
	\$ 1.23	\$ 1.10	\$ 2.20	\$ 1.99

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Net income attributable to Penske Automotive Group common stockholders				
Shares used in determining diluted earnings per share	86.1	85.3	85.9	86.8
Amounts attributable to Penske Automotive Group common stockholders:				
Income from continuing operations	\$ 106.7	\$ 96.2	\$ 190.3	\$ 176.4
Less: Income attributable to non-controlling interests	0.7	1.5	1.1	2.4
Income from continuing operations, net of tax	106.0	94.7	189.2	174.0
Income (loss) from discontinued operations, net of tax	0.2	(1.2)	(0.4)	(1.2)
Net income attributable to Penske Automotive Group common stockholders	\$ 106.2	\$ 93.5	\$ 188.8	\$ 172.8
Cash dividends per share	\$ 0.31	\$ 0.27	\$ 0.61	\$ 0.53

See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Unaudited)			
	(In millions)			
Net income	\$ 106.9	\$ 95.0	\$ 189.9	\$ 175.2
Other comprehensive income:				
Foreign currency translation adjustment	37.7	(56.1)	62.4	(55.8)
Other adjustments to comprehensive income, net	2.8	0.6	4.2	1.5
Other comprehensive income (loss), net of tax	40.5	(55.5)	66.6	(54.3)
Comprehensive income	147.4	39.5	256.5	120.9
Less: Comprehensive income attributable to non-controlling interests	2.4	0.8	3.2	3.2
Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 145.0	\$ 38.7	\$ 253.3	\$ 117.7

See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	June 30,	2016
	2017	(Unaudited)
	(In millions)	
Operating Activities:		
Net income	\$ 189.9	\$ 175.2
Adjustments to reconcile net income to net cash from continuing operating activities:		
Depreciation	45.7	45.3
Earnings of equity method investments	(34.1)	(15.7)
Loss from discontinued operations, net of tax	0.4	1.2
Deferred income taxes	89.2	19.0
Changes in operating assets and liabilities:		
Accounts receivable	58.2	(41.2)
Inventories	(177.8)	156.5
Floor plan notes payable	66.7	(185.4)
Accounts payable and accrued expenses	86.1	80.6
Other	(3.8)	35.1
Net cash provided by continuing operating activities	320.5	270.6
Investing Activities:		
Purchase of equipment and improvements	(113.4)	(136.7)
Acquisitions net, including repayment of sellers' floor plan notes payable of \$99.0 and \$44.7, respectively	(431.9)	(65.4)
Other	15.0	(25.0)
Net cash used in continuing investing activities	(530.3)	(227.1)
Financing Activities:		
Proceeds from borrowings under U.S. credit agreement revolving credit line	1,012.0	629.5
Repayments under U.S. credit agreement revolving credit line	(929.0)	(789.5)
Issuance of 5.50% senior subordinated notes	—	500.0
Net borrowings of other long-term debt	54.9	60.9
Net borrowings (repayments) of floor plan notes payable — non-trade	131.3	(163.0)
Payment of debt issuance costs	—	(6.6)
Repurchases of common stock	(8.5)	(173.6)
Dividends	(52.4)	(46.4)
Other	(5.8)	(15.9)
Net cash provided by (used in) continuing financing activities	202.5	(4.6)
Discontinued operations:		
Net cash provided by discontinued operating activities	0.4	1.3
Net cash provided by discontinued investing activities	2.3	1.7
Net cash used in discontinued financing activities	(0.2)	(0.1)
Net cash provided by discontinued operations	2.5	2.9
Effect of exchange rate changes on cash and cash equivalents	1.5	(6.7)

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Net change in cash and cash equivalents	(3.3)	35.1
Cash and cash equivalents, beginning of period	24.0	62.4
Cash and cash equivalents, end of period	\$ 20.7	\$ 97.5
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	\$ 78.9	\$ 60.5
Income taxes	8.3	26.9
Seller financed/assumed debt	3.8	—
Non cash activities:		
Consideration transferred through common stock issuance	\$ 32.4	\$ —
Contingent consideration	20.0	—

See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENT OF EQUITY

	Common Stock Issued Shares (Unaudited) (Dollars in millions)	Additional Paid-in Capital Amount	Retained Earnings	Accumulated Total Other Comprehensive Income (Loss)	Penske Automotive Group Stockholders' Equity	Non-control Interests	Total Equity	
Balance, January 1, 2017	85,214,345	\$ —	\$ 497.1	\$ 1,504.5	\$ (250.7)	\$ 1,750.9	\$ 28.6	\$ 1,779.5
Equity compensation	324,275	—	8.6	—	—	8.6	—	8.6
Repurchases of common stock	(183,710)	—	(8.5)	—	—	(8.5)	—	(8.5)
Issuance of common stock	665,487	—	32.4	—	—	32.4	—	32.4
Dividends	—	—	—	(52.4)	—	(52.4)	—	(52.4)
Distributions to non-controlling interests	—	—	—	—	—	—	(0.9)	(0.9)
Foreign currency translation	—	—	—	—	60.3	60.3	2.1	62.4
Other	—	—	—	—	4.2	4.2	1.5	5.7
Net income	—	—	—	188.8	—	188.8	1.1	189.9
Balance, June 30, 2017	86,020,397	\$ —	\$ 529.6	\$ 1,640.9	\$ (186.2)	\$ 1,984.3	\$ 32.4	\$ 2,016.7

See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

(In millions, except per share amounts)

1. Interim Financial Statements

Business Overview

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

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

Retail Automotive Dealership. We believe we are the second largest automotive retailer headquartered in the U.S. as measured by the \$18.7 billion in total retail automotive dealership revenue we generated in 2016. As of June 30, 2017, we operated 354 retail automotive franchises, of which 162 franchises are located in the U.S. and 192 franchises are located outside of the U.S. The franchises outside the U.S. are located primarily in the U.K. In the six months ended June 30, 2017, we retailed and wholesaled more than 315,200 vehicles. We are diversified geographically, with 58% of our total retail automotive dealership revenues in the six months ended June 30, 2017 generated in the U.S. and Puerto Rico and 42% generated outside the U.S. We offer over 40 vehicle brands, with 70% of our retail automotive dealership revenue in the six months ended June 30, 2017 generated from premium brands, such as Audi, BMW, Mercedes-Benz and Porsche. Each of our dealerships offer a wide selection of new and used vehicles for sale. In addition to selling new and used vehicles, we generate higher-margin revenue at each of our dealerships through maintenance and repair services and the sale and placement of third-party finance and insurance products, third-party extended service and maintenance contracts and replacement and aftermarket automotive products. We operate these dealerships under franchise agreements with a number of automotive manufacturers and distributors that are subject to certain rights and restrictions typical of the industry.

In the first quarter of 2017, we acquired CarSense in the U.S. and CarShop in the U.K., both businesses representing stand-alone used vehicle dealerships which we believe complement our existing franchised retail automotive

dealership operations, providing us with synergies in our used vehicle operations at our existing dealerships in the U.S. and the U.K., as well as scalable opportunities across our market areas. Our CarSense operations consist of five locations operating in the Philadelphia and Pittsburgh, Pennsylvania market areas, including southern New Jersey. Our CarShop operations consist of five retail locations throughout the United Kingdom and a vehicle preparation center in Leighton Buzzard.

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

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 June 30, 2017, PTG operated twenty locations, including fourteen full-service dealerships offering primarily Freightliner and Western Star branded trucks. Four of these locations were acquired in April 2016 in the greater Toronto, Canada market area, and two of these locations were acquired in December 2016 in the Niagara Falls, Canada market area, also representing Freightliner and Western Star branded trucks. PTG also offers a full range of used trucks available for sale as well as service and parts departments, many of which are open 24 hours a day, seven days a week.

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

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

Penske Truck Leasing. We currently hold a 23.4% ownership interest in Penske Truck Leasing Co., L.P. (“PTL”), a leading provider of transportation services and supply chain management. PTL is capable of meeting customers’ needs across the supply chain with a broad product offering that includes full-service truck leasing, truck rental and contract maintenance, along with logistic services such as dedicated contract carriage, distribution center management, transportation management and lead logistics provider. On July 27, 2016, we acquired an additional 14.4% ownership interest in PTL from subsidiaries of GE Capital Global Holdings, LLC (collectively, “GE Capital”) for approximately \$498.5 million in cash to bring our total ownership interest to 23.4%. Prior to this acquisition, we held a 9.0% ownership interest in PTL. PTL is currently owned 41.1% by Penske Corporation, 23.4% by us, 20.0% by affiliates of Mitsui & Co., Ltd. (“Mitsui”), and 15.5% by GE Capital. We account for our investment in PTL under the equity method, and we therefore record our share of PTL’s earnings on our statements of income under the caption “Equity in earnings of affiliates,” which also includes the results of our other equity method investments.

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of PAG have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and disclosures normally included in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the SEC rules and regulations. The information presented as of June 30, 2017 and December 31, 2016 and for the three and six month periods ended June 30, 2017 and 2016 is unaudited, but includes all adjustments which our management believes to be necessary for the fair presentation of results for the periods presented. The consolidated condensed financial statements for prior periods have been revised for entities that have been treated as discontinued operations, and results for interim periods are not necessarily indicative of results to be expected for the year. These consolidated condensed financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2016, which are included as part of our Annual Report on Form 10-K.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” This ASU supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. ASU No. 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers using a five-step model that requires entities to exercise judgment when considering the terms of contracts with customers. In August 2015, the FASB issued ASU 2015-14 “Revenue from Contracts with Customers (Topic 606) — Deferral of the Effective Date” providing for a one-year deferral of the effective date of ASU 2014-09 and allowing for early adoption as of the original effective date. For public companies, this ASU is effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The FASB has since also issued additio