PENSKE AUTOMOTIVE GROUP, INC.
Form 10-Q
July 29, 2016
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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, 2016

or

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

For the transition period from to

Commission file number 1-12297

Penske Automotive Group, Inc.

(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code:

(248) 648-2500

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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 22, 2016, there were 85,175,279 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, 2016	December 31, 2015
	(Unaudited)	
	(In millions, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	$ 97.5	$ 62.4
Accounts receivable, net of allowance for doubtful accounts of $4.6 and $4.2	827.8	782.3
Inventories	3,351.8	3,463.5
Other current assets	101.7	85.6
Assets held for sale	6.8	12.7
Total current assets	4,385.6	4,406.5
Property and equipment, net	1,576.7	1,520.1
Goodwill	1,313.4	1,323.2
Other indefinite-lived intangible assets	408.8	408.0
Equity method investments	371.1	336.4
Other long-term assets	19.6	19.2
Total assets	$ 8,075.2	$ 8,013.4
LIABILITIES AND EQUITY		
Floor plan notes payable	$ 2,061.8	$ 2,247.2
Floor plan notes payable — non-trade	969.4	1,132.4
Accounts payable	554.8	493.8
Accrued expenses	403.3	378.1
Current portion of long-term debt	47.7	28.0
Liabilities held for sale	4.6	6.2
Total current liabilities	4,041.6	4,285.7
Long-term debt	1,613.1	1,247.0
Deferred tax liabilities	449.4	433.4
Other long-term liabilities	238.2	212.4
Total liabilities	6,342.3	6,178.5
Commitments and contingent liabilities (Note 9)		
Equity		
Penske Automotive Group stockholders' equity:		
Preferred Stock, $0.0001 par value; 100,000 shares authorized; none issued and outstanding	—	—
	—	—

Common Stock, $0.0001 par value, 240,000,000 shares authorized; 85,175,279 shares issued and outstanding at June 30, 2016; 89,524,724 shares issued and outstanding at December 31, 2015		
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	490.3	656.0
Retained earnings	1,383.1	1,256.7
Accumulated other comprehensive income (loss)	(177.6)	(122.5)
Total Penske Automotive Group stockholders' equity	1,695.8	1,790.2
Non-controlling interest	37.1	44.7
Total equity	1,732.9	1,834.9
Total liabilities and equity	$ 8,075.2	$ 8,013.4

See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Unaudited) (In millions, except per share amounts)			
Revenue:				
Retail automotive dealership	$ 4,836.8	$ 4,554.9	$ 9,349.7	$ 8,741.7
Retail commercial truck dealership	309.5	241.9	516.2	434.6
Commercial vehicle distribution and other	107.8	123.8	212.8	227.2
Total revenues	$ 5,254.1	$ 4,920.6	$ 10,078.7	$ 9,403.5
Cost of sales:				
Retail automotive dealership	4,134.8	3,892.3	7,982.7	7,449.8
Retail commercial truck dealership	271.2	203.6	444.7	363.5
Commercial vehicle distribution and other	76.8	93.4	156.2	169.0
Total cost of sales	4,482.8	4,189.3	8,583.6	7,982.3
Gross profit	771.3	731.3	1,495.1	1,421.2
Selling, general and administrative expenses	582.7	553.1	1,141.6	1,088.9
Depreciation	24.5	19.3	45.3	37.9
Operating income	164.1	158.9	308.2	294.4
Floor plan interest expense	(13.1)	(11.0)	(25.9)	(21.3)
Other interest expense	(19.5)	(16.4)	(36.7)	(32.7)
Equity in earnings of affiliates	12.0	12.0	17.5	18.7
Income from continuing operations before income taxes	143.5	143.5	263.1	259.1
Income taxes	(47.3)	(47.7)	(86.7)	(86.5)
Income from continuing operations	96.2	95.8	176.4	172.6
Loss from discontinued operations, net of tax	(1.2)	(0.1)	(1.2)	(1.0)
Net income	95.0	95.7	175.2	171.6
Less: Income attributable to non-controlling interests	1.5	1.7	2.4	2.4
Net income attributable to Penske Automotive Group common stockholders	$ 93.5	$ 94.0	$ 172.8	$ 169.2
Basic earnings per share attributable to Penske Automotive Group common stockholders:				
Continuing operations	$ 1.11	$ 1.04	$ 2.01	$ 1.89
Discontinued operations	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.01)
Net income attributable to Penske Automotive Group common stockholders	$ 1.10	$ 1.04	$ 1.99	$ 1.88
Shares used in determining basic earnings per share	85.3	90.2	86.7	90.2
Diluted earnings per share attributable to Penske Automotive Group common stockholders:				
Continuing operations	$ 1.11	$ 1.04	$ 2.00	$ 1.88
Discontinued operations	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.01)
	$ 1.10	$ 1.04	$ 1.99	$ 1.87

Net income attributable to Penske Automotive Group common stockholders				
Shares used in determining diluted earnings per share	85.3	90.2	86.8	90.3
Amounts attributable to Penske Automotive Group common stockholders:				
Income from continuing operations	$ 96.2	$ 95.8	$ 176.4	$ 172.6
Less: Income attributable to non-controlling interests	1.5	1.7	2.4	2.4
Income from continuing operations, net of tax	94.7	94.1	174.0	170.2
Loss from discontinued operations, net of tax	(1.2)	(0.1)	(1.2)	(1.0)
Net income attributable to Penske Automotive Group common stockholders	$ 93.5	$ 94.0	$ 172.8	$ 169.2
Cash dividends per share	$ 0.27	$ 0.23	$ 0.53	$ 0.45

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,	
	2016	2015	2016	2015
	(Unaudited) (In millions)			
Net income	$ 95.0	$ 95.7	$ 175.2	$ 171.6
Other comprehensive income:				
Foreign currency translation adjustment	(56.1)	37.8	(55.8)	(15.0)
Other adjustments to comprehensive income, net	0.6	0.5	1.5	(1.8)
Other comprehensive income (loss), net of tax	(55.5)	38.3	(54.3)	(16.8)
Comprehensive income	39.5	134.0	120.9	154.8
Less: Comprehensive income attributable to non-controlling interests	0.8	1.5	3.2	1.6
Comprehensive income attributable to Penske Automotive Group common stockholders	$ 38.7	$ 132.5	$ 117.7	$ 153.2

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	2015
	(Unaudited) (In millions)	
Operating Activities:		
Net income	$ 175.2	$ 171.6
Adjustments to reconcile net income to net cash from continuing operating activities:		
Depreciation	45.3	37.9
Earnings of equity method investments	(15.7)	(16.1)
Loss from discontinued operations, net of tax	1.2	1.0
Deferred income taxes	19.0	(18.4)
Changes in operating assets and liabilities:		
Accounts receivable	(41.2)	(36.5)
Inventories	156.5	(186.1)
Floor plan notes payable	(185.4)	192.3
Accounts payable and accrued expenses	80.6	99.0
Other	29.0	25.9
Net cash provided by continuing operating activities	264.5	270.6
Investing Activities:		
Purchase of equipment and improvements	(136.7)	(83.5)
Acquisitions net, including repayment of sellers' floor plan notes payable of $44.7 and $41.2, respectively	(65.4)	(86.4)
Other	(25.0)	—
Net cash used in continuing investing activities	(227.1)	(169.9)
Financing Activities:		
Proceeds from borrowings under U.S. credit agreement revolving credit line	629.5	780.4
Repayments under U.S. credit agreement revolving credit line	(789.5)	(702.4)
Repayments under U.S. credit agreement term loan	—	(88.0)
Repayment of U.S. commercial truck capital loan	—	(60.5)
Issuance of 5.50% senior subordinated notes	500.0	—
Net borrowings (repayments) of other long-term debt	60.9	(123.7)
Net (repayments) borrowings of floor plan notes payable — non-trade	(163.0)	120.3
Payment of debt issuance costs	(6.6)	(1.7)
Repurchases of common stock	(173.6)	(22.0)
Dividends	(46.4)	(40.7)
Other	(9.8)	0.2
Net cash provided by (used in) continuing financing activities	1.5	(138.1)
Discontinued operations:		
Net cash provided by (used in) discontinued operating activities	1.3	(1.3)
Net cash provided by discontinued investing activities	1.7	129.5
Net cash used in discontinued financing activities	(0.1)	(87.3)

Net cash provided by discontinued operations	2.9	40.9
Effect of exchange rate changes on cash and cash equivalents	(6.7)	(0.4)
Net change in cash and cash equivalents	35.1	3.1
Cash and cash equivalents, beginning of period	62.4	36.3
Cash and cash equivalents, end of period	$ 97.5	$ 39.4
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$ 60.5	$ 52.1
Income taxes	26.9	64.7
Seller financed/assumed debt	—	2.6

See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENT OF EQUITY

	Common Stock Issued Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Penske Automotive Group Stockholders' Equity	Non-controlling Interest	Total Equity
	(Unaudited) (Dollars in millions)							
Balance, January 1, 2016	89,524,724	$ —	$ 656.0	$ 1,256.7	$ (122.5)	$ 1,790.2	$ 44.7	$ 1,834.9
Equity compensation	307,597	—	7.6	—	—	7.6	—	7.6
Repurchases of common stock	(4,657,042)	—	(173.6)	—	—	(173.6)	—	(173.6)
Dividends	—	—	—	(46.4)	—	(46.4)	—	(46.4)
Purchase of subsidiary shares from non-controlling interest	—	—	(0.3)	—	—	(0.3)	(10.4)	(10.7)
Distributions to non-controlling interests	—	—	—	—	—	—	(0.4)	(0.4)
Foreign currency translation	—	—	—	—	(56.6)	(56.6)	0.8	(55.8)
Other	—	—	0.6	—	1.5	2.1	—	2.1
Net income	—	—	—	172.8	—	172.8	2.4	175.2
Balance, June 30, 2016	85,175,279	$ —	$ 490.3	$ 1,383.1	$ (177.6)	$ 1,695.8	$ 37.1	$ 1,732.9

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 $17.9 billion in total retail automotive dealership revenue we generated in 2015. As of June 30, 2016, we operated 352 automotive retail franchises, of which 180 franchises are located in the U.S. and 172 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, 2016, we retailed and wholesaled more than 273,000 vehicles. We are diversified geographically, with 58% of our total retail automotive dealership revenues in the six months ended June 30, 2016 generated in the U.S. and Puerto Rico and 42% generated outside the U.S. We offer over 40 vehicle brands, with 72% of our retail automotive dealership revenue in the six months ended June 30, 2016 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.

During the six months ended June 30, 2016, we acquired one retail automotive franchise in the U.K., were awarded four retail automotive franchises, and disposed of eight retail automotive franchises. During the six months ended

June 30, 2016, we acquired an additional 8% interest in the Jacobs Group, one of our German automotive dealership joint ventures and now own 68% of that joint venture. We began consolidating this joint venture during the third quarter of 2015. We also acquired a 49% interest in the Nicole Group, a luxury dealership group in Tokyo and nearby suburbs in January 2016. The Nicole Group operates four BMW and three MINI dealerships, a Rolls-Royce dealership and a Ferrari dealership, and is the exclusive importer and distributor of Alpina. This investment is accounted for under the equity method. Subsequent to June 30, 2016, we acquired a dealer group in the U.K. with twelve franchises, including seven Volkswagen, one BMW, one MINI, and one Audi.

Retail Commercial Truck Dealership. In November 2014, we acquired a controlling interest in a heavy and medium duty truck dealership group located primarily in Texas and Oklahoma, which we renamed Premier Truck Group (“PTG”). Prior to the 2014 transaction, we held a 32% interest in PTG and accounted for this investment under the equity method. During 2015, we acquired an additional 5% of PTG, bringing our ownership interest to 96%. In April 2016, we acquired the remaining ownership interests of PTG, bringing our total ownership interest to 100%.

As of June 30, 2016, PTG operated nineteen locations, including fourteen full-service dealerships offering primarily Freightliner and Western Star branded trucks. Two of these locations, Chattanooga and Knoxville, were acquired in February 2015. Five of these locations were acquired in April 2016 and represent Freightliner and Western Star in the greater Toronto, Canada market area and service Highway 401, a major truck thoroughfare between Buffalo, New York and Detroit, Michigan. 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, distributes commercial vehicles and parts to a network of more than 70 dealership locations, including three 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, 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 existing Penske Commercial Vehicles Australia distribution business.

Penske Truck Leasing. As of June 30, 2016, we held a 9.0% ownership interest in Penske Truck Leasing Co., L.P. (“PTL”), a leading provider of transportation and supply chain services. 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 $498.7 million in cash, subject to adjustment based on the earnings of PTL through July 27, 2016. PTL operates and maintains more than 238,000 vehicles and serves customers in North America, South America, Europe, Australia and Asia and is one of the largest purchasers of commercial trucks in North America. Product lines include full-service truck leasing, contract maintenance, commercial and consumer truck rentals, used truck sales, transportation and warehousing management and supply chain management solutions. As of July 27, 2016, PTL is 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, 2016 and December 31, 2015 and for the three and six month periods ended June 30, 2016 and 2015 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, 2015, 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. This ASU can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption. 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 from January 1, 2017 to January 1, 2018; however, early adoption is still permissible as of January 1, 2017 for public entities. In March 2016, the FASB issued ASU No. 2016-08, “Revenue from Contracts with Customers (Topic 606) – Principal versus Agent Considerations.” The amendments under this ASU clarify the implementation guidance on principal versus agent considerations included within ASU

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2014-09. In April 2016, the FASB issued ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing." This ASU includes updates which are intended to reduce the cost and complexity of applying guidance on identifying promised goods and services under Topic 606. In May 2016, the FASB issued ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606) – Narrow-Scope Improvements and Practical Expedients." This ASU clarifies several aspects of Topic 606 such as the assessment of collectability, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. We are currently assessing the impact the adoption of these accounting standard updates will have on our consolidated financial position, results of operations, and cash flows.

In April 2015, the FASB issued ASU No. 2015-03, "Interest – Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued ASU No. 2015-15, "Interest – Imputation of Interest (Subtopic 835-30) – Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements," which clarifies the treatment of debt issuance costs associated with line-of-credit arrangements that were not specifically addressed in ASU 2015-03. ASU 2015-15 states that entities may elect to continue to treat debt issuance costs associated with lines of credit as an asset, consistent with current treatment. We adopted these accounting standard updates in the first quarter of 2016. We applied this new guidance retrospectively, which resulted in the reclassification of debt issuance costs from other current and other long-term assets to current and long-term debt for the periods presented. Amounts reclassified from "Other current assets" to "Current portion of long-term debt" were $1.2 million as of December 31, 2015. Amounts reclassified from "Other long-term assets" to "Long-term debt" were $8.1 million as of December 31, 2015.

In July 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory (Topic 330)." Under ASU 2015-11, inventory that is measured using the first-in, first-out (FIFO) or average cost methods should be measured at the lower of cost or net realizable value. This ASU does not impact inventory measurement under the last-in, first-out (LIFO) or retail inventory methods. This ASU is effective for us beginning after January 1, 2017. We do not expect the adoption of this accounting standard update to have a material impact on our consolidated financial position, results of operations, and cash flows.

In September 2015, the FASB issued ASU No. 2015-16, "Business Combinations (Topic 805) – Simplifying the Accounting for Measurement-Period Adjustments." Under ASU 2015-16, acquirers will be required to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, eliminating the requirement to retrospectively account for such adjustments. We adopted this accounting standard update effective January 1, 2016. The adoption of ASU No. 2015-16 has not had a material impact on our consolidated financial position, results of operations, or cash flows.

In November 2015, the FASB issued ASU No. 2015-17, "Income Taxes (Topic 740) — Balance Sheet Classification of Deferred Taxes." Under ASU 2015-17, entities will be required to classify all deferred tax liabilities and assets as noncurrent in a classified statement of financial position. This ASU is effective for us beginning after January 1, 2017. Other than the revised presentation of our consolidated balance sheets, we do not expect the adoption of this

accounting standard update to have a material impact on our consolidated financial position, results of operations, and cash flows.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." Under this new guidance, a company will now recognize most leases on its balance sheet as lease liabilities with corresponding right-of-use assets. This ASU is effective for us beginning after January 1, 2019. The adoption of this ASU will result in a significant increase to our consolidated balance sheets for lease liabilities and right-of-use assets. We are currently evaluating the other effects the adoption of this ASU will have on our consolidated financial statements. We believe our current off-balance sheet leasing commitments are reflected in our credit rating.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation – Stock Compensation (Topic 718) – Improvement to Employee Share-Based Payment Accounting." This ASU simplified several aspects of accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for us beginning after January 1, 2017.

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We are currently assessing the impact the adoption of this update will have on our consolidated financial position, results of operations, and cash flows.

Assets Held for Sale and Discontinued Operations

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

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

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

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

We had no entities newly classified as held for sale during the six months ended June 30, 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues	$ 5.6	$ 19.5	$ 14.0	$ 48.0
Pre-tax loss	(2.0)	(0.9)	(2.0)	(4.7)
Pre-tax gain on disposal	—	0.6	—	2.9

	June 30, 2016	December 31, 2015
Inventories	$ 3.4	$ 6.2
Other assets	3.4	6.5
Total assets	$ 6.8	$ 12.7
Floor plan notes payable (including non-trade)	$ 2.9	$ 4.3
Other liabilities	1.7	1.9
Total liabilities	$ 4.6	$ 6.2

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Divestitures

During the six months ended June 30, 2016, we disposed of eight retail automotive franchises and one retail commercial truck parts location. The results of operations for two of the retail automotive franchises are included in discontinued operations for the six months ended June 30, 2016 and 2015. The remaining six retail automotive franchises and retail commercial truck parts location did not meet the criteria to be classified as held for sale and treated as discontinued operations. Therefore, the results of operations for these businesses are included within continuing operations for the three and six months ended June 30, 2016 and 2015.

In February 2015, we divested our car rental business that included Hertz car rental franchises in the Memphis, Tennessee market and certain markets throughout Indiana. We received proceeds of $17.8 million from the sale excluding sales of car rental vehicles. The results of operations of our car rental business are included in discontinued operations for the six months ended June 30, 2015.

Estimates

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

Fair Value of Financial Instruments

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

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

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

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

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

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senior subordinated notes, 5.375% senior subordinated notes, 5.50% senior subordinated notes, and our fixed rate mortgage facilities are as follows:

	June 30, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
5.75% senior subordinated notes due 2022	$ 544.7	$ 544.7	$ 544.3	$ 558.6
5.375% senior subordinated notes due 2024	296.6	293.3	296.4	295.7
5.50% senior subordinated notes due 2026	493.5	468.8	—	—
Mortgage facilities	204.4	213.9	165.8	165.8

2. Inventories

Inventories consisted of the following:

	June 30, 2016	December 31, 2015
Retail automotive dealership new vehicles	$ 2,057.1	$ 2,218.6
Retail automotive dealership used vehicles	741.8	719.0
Retail automotive parts, accessories and other	118.6	113.6
Retail commercial truck dealership vehicles and parts	230.6	208.8
Commercial vehicle distribution vehicles and parts	203.7	203.5
Total inventories	$ 3,351.8	$ 3,463.5

We receive credits from certain vehicle manufacturers that reduce cost of sales when the vehicles are sold. Such credits amounted to $11.0 million and $14.4 million during the three months ended June 30, 2016 and 2015, respectively, and $22.4 million and $23.5 million during the six months ended June 30, 2016 and 2015, respectively.

3. Business Combinations

We acquired one retail automotive franchise and five retail commercial truck dealerships during the six months ended June 30, 2016. During the six months ended June 30, 2015, we acquired one retail automotive franchise and two retail commercial truck dealerships. Our financial statements include the results of operations of the acquired entities from the date of acquisition. The fair value of the assets acquired and liabilities assumed have been recorded in our consolidated condensed financial statements, and may be subject to adjustment pending completion of final valuation. A summary of the aggregate consideration paid and the aggregate amounts of the assets acquired and liabilities assumed for the six months ended June 30, 2016 and 2015 follows:

	June 30,	
	2016	2015
Accounts receivable	$ 3.9	$ —
Inventory	45.2	46.8
Other current assets	0.1	0.2
Property and equipment	0.6	4.4
Indefinite-lived intangibles	24.8	38.8
Current liabilities	(9.2)	(1.2)
Total consideration	65.4	89.0
Seller financed/assumed debt	—	(2.6)
Total cash used in acquisitions	$ 65.4	$ 86.4

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The following unaudited consolidated pro forma results of operations of PAG for the three and six months ended June 30, 2016 and 2015 give effect to acquisitions consummated during 2016 and 2015 as if they had occurred effective at the beginning of the periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues	$ 5,254.1	$ 5,171.3	$ 10,123.5	$ 9,931.5
Income from continuing operations	94.7	95.3	174.1	173.0
Net income	93.5	95.2	172.9	172.0
Income from continuing operations per diluted common share	$ 1.11	$ 1.06	$ 2.01	$ 1.92
Net income per diluted common share	$ 1.10	$ 1.05	$ 1.99	$ 1.91

4. Intangible Assets

Following is a summary of the changes in the carrying amount of goodwill and other indefinite-lived intangible assets during the six months ended June 30, 2016:

	Goodwill	Other Indefinite-Lived Intangible Assets
Balance, January 1, 2016	$ 1,323.2	$ 408.0
Additions	18.3	6.5
Disposals	(0.2)	—
Foreign currency translation	(27.9)	(5.7)
Balance, June 30, 2016	$ 1,313.4	$ 408.8

The additions during the six months ended June 30, 2016 were within our Retail Automotive and Retail Commercial Truck reportable segments. The disposals during the six months ended June 30, 2016 were within our Retail Automotive reportable segment. As of June 30, 2016, the goodwill balance within our Retail Automotive, Retail Commercial Truck, and Other reportable segments was $1,069.2 million, $161.2 million and $83.0 million, respectively.

5. Vehicle Financing

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

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

The weighted average interest rate on floor plan borrowings was 1.6% for the six months ended June 30, 2016 and 1.5% for the six months ended June 30, 2015. 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

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payable—non-trade" on our consolidated balance sheets and classify related cash flows as a financing activity on our consolidated statements of cash flows.

6. Earnings Per Share

Basic earnings per share is computed using net income attributable to Penske Automotive Group common stockholders and the number of weighted average shares of voting common stock outstanding, including outstanding unvested equity awards which contain rights to non-forfeitable dividends. Diluted earnings per share is computed using net income attributable to Penske Automotive Group common stockholders and the number of weighted average shares of voting common stock outstanding, adjusted for any dilutive effects. A reconciliation of the number of shares used in the calculation of basic and diluted earnings per share for the three and six months ended June 30, 2016 and 2015 follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Weighted average number of common shares outstanding	85,268,625	90,198,899	86,743,783	90,225,948
Effect of non-participatory equity compensation	36,000	36,000	36,000	36,000
Weighted average number of common shares outstanding, including effect of dilutive securities	85,304,625	90,234,899	86,779,783	90,261,948

7. Long-Term Debt

Long-term debt consisted of the following:

	June 30, 2016	December 31, 2015
U.S. credit agreement — revolving credit line	$ —	$ 160.0
U.K. credit agreement — revolving credit line	65.2	70.7
U.K. credit agreement — overdraft line of credit	—	—
5.50% senior subordinated notes due 2026	493.5	—

5.375% senior subordinated notes due 2024	296.6	296.4
5.75% senior subordinated notes due 2022	544.7	544.3
Australia working capital loan agreement	28.1	5.5
Mortgage facilities	204.4	165.8
Other	28.3	32.3
Total long-term debt	1,660.8	1,275.0
Less: current portion	(47.7)	(28.0)
Net long-term debt	$ 1,613.1	$ 1,247.0

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. In connection with the purchase of PTL interests noted previously, we have amended the U.S. credit agreement to allow for the purchase of interests, to provide for a maximum of $150.0 million of future borrowings under the U.S. credit agreement for foreign acquisitions and to extend the facility for an additional year through September 30, 2019, pursuant the U.S. credit agreement’s “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.

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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 June 30, 2016, we had no revolver borrowings outstanding under the U.S. credit agreement.

U.K. Credit Agreement

Our subsidiaries in the U.K. (the "U.K. subsidiaries") are party to a £150.0 million revolving credit agreement with the Royal Bank of Scotland plc (RBS) and BMW Financial Services (GB) Limited, and an additional demand overdraft line of credit with RBS (collectively, the "U.K. credit agreement") to be used for working capital, acquisitions, capital expenditures, investments and general corporate purposes. The loans mature on the termination date of the facility, which is December 19, 2019. The revolving loans bear interest between defined LIBOR plus 1.35% and defined LIBOR plus 3.0% and the demand overdraft line of credit bears interest at the Bank of England Base Rate plus 1.75%. As of June 30, 2016, outstanding loans under the U.K. credit agreement amounted to £49.0 million ($65.2 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.

5.50% Senior Subordinated Notes due 2026

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

Prior to May 15, 2021, we may redeem the 5.50% Notes at a redemption price equal to 100% of the principal amount of the 5.50% Notes, plus an applicable make whole premium, and any accrued and unpaid interest. On or after May 15, 2021, we may redeem the 5.50% Notes for cash at the redemption prices noted in the indenture, plus any accrued and unpaid interest. We may also redeem up to 40% of the 5.50% Notes using the proceeds of specified equity offerings at any time prior to May 15, 2019 at a price specified in the indenture. If we experience certain "change of control" events specified in the indenture, holders of the 5.50% Notes will have the option to require us to purchase for cash all or a portion of their notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest. In

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addition, if we make certain asset sales and do not reinvest the proceeds thereof or use such proceeds to repay certain debt, we will be required to use the proceeds of such asset sales to make an offer to purchase the notes at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest.

5.375% Senior Subordinated Notes due 2024

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

Prior to December 1, 2019, we may redeem the 5.375% Notes at a redemption price equal to 100% of the principal amount of the 5.375% Notes, plus an applicable make whole premium, and any accrued and unpaid interest. On or after December 1, 2019, we may redeem the 5.375% Notes for cash at the redemption prices noted in the indenture, plus any accrued and unpaid interest. We may also redeem up to 40% of the 5.375% Notes using the proceeds of specified equity offerings at any time prior to December 1, 2017 at a price specified in the indenture. If we experience certain “change of control” events specified in the indenture, holders of the 5.375% Notes will have the option to require us to purchase for cash all or a portion of their notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest. In addition, if we make certain asset sales and do not reinvest the proceeds thereof or use such proceeds to repay certain debt, we will be required to use the proceeds of such asset sales to make an offer to purchase the notes at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest.

5.75% Senior Subordinated Notes due 2022

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

Prior to October 1, 2017, we may redeem the 5.75% Notes at a redemption price equal to 100% of the principal amount of the 5.75% Notes, plus an applicable make whole premium, and any accrued and unpaid interest. On or after October 1, 2017, we may redeem the 5.75% Notes for cash at the redemption prices noted in the indenture, plus any accrued and unpaid interest. If we experience certain “change of control” events specified in the indenture, holders of the

5.75% Notes will have the option to require us to purchase for cash all or a portion of