ASBURY AUTOMOTIVE GROUP INC
Form 10-Q
October 22, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015
OR
o 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: 001-31262

ASBURY AUTOMOTIVE GROUP, INC.
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	01-0609375 (I.R.S. Employer Identification No.)
2905 Premiere Parkway NW, Suite 300 Duluth, Georgia (Address of principal executive offices)	30097 (Zip Code)

(770) 418-8200
(Registrant's telephone number, including area code)

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 x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No o
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:

Large Accelerated Filer x Accelerated Filer o

Non-Accelerated Filer o Smaller Reporting Company o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: The number of shares of common stock outstanding as of October 21, 2015 was 25,382,105.

Table of Contents

ASBURY AUTOMOTIVE GROUP, INC.
INDEX

		Page
PART I—Financial Information		
Item 1.	Condensed Consolidated Financial Statements (unaudited)	
	Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014	3
	Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2015 and 2014	4
	Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2015 and 2014	5
	Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 and 2014	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	41
Item 4.	Controls and Procedures	41
	PART II—Other Information	
Item 1.	Legal Proceedings	42
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	42
Item 4.	Mine Safety Disclosures	42
Item 6.	Exhibits	43
	Signatures	44
	Index to Exhibits	45

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

ASBURY AUTOMOTIVE GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except par value and share data)

(Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$3.9	$2.9
Contracts-in-transit	132.3	155.6
Accounts receivable (net of allowance of $1.1 and $1.2, respectively)	103.8	107.0
Inventories	887.6	886.0
Deferred income taxes	11.7	10.2
Assets held for sale	46.6	6.4
Other current assets	96.1	108.6
Total current assets	1,282.0	1,276.7
PROPERTY AND EQUIPMENT, net	761.6	741.6
GOODWILL	130.2	104.0
OTHER LONG-TERM ASSETS	69.6	69.7
Total assets	$2,243.4	$2,192.0
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Floor plan notes payable—trade	$108.6	$116.5
Floor plan notes payable—non-trade	729.3	650.3
Current maturities of long-term debt	13.8	28.7
Accounts payable and accrued liabilities	264.5	245.6
Liabilities associated with assets held for sale	30.4	—
Total current liabilities	1,146.6	1,041.1
LONG-TERM DEBT	747.9	678.7
DEFERRED INCOME TAXES	4.5	3.9
OTHER LONG-TERM LIABILITIES	29.9	23.4
COMMITMENTS AND CONTINGENCIES (Note 9)		
SHAREHOLDERS' EQUITY:		
Preferred stock, $.01 par value, 10,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $.01 par value, 90,000,000 shares authorized; 40,505,112 and 40,327,625 shares issued, including shares held in treasury, respectively	0.4	0.4
Additional paid-in capital	534.9	522.6
Retained earnings	403.2	275.1
Treasury stock, at cost; 15,123,007 and 11,803,711 shares, respectively	(619.4)	(351.7)
Accumulated other comprehensive loss	(4.6)	(1.5)
Total shareholders' equity	314.5	444.9
Total liabilities and shareholders' equity	$2,243.4	$2,192.0

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

ASBURY AUTOMOTIVE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share data)
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
REVENUE:				
New vehicle	$964.0	$821.3	$2,720.7	$2,378.8
Used vehicle	493.0	457.0	1,474.0	1,319.2
Parts and service	190.6	168.3	555.5	495.9
Finance and insurance, net	68.8	59.0	197.6	170.8
TOTAL REVENUE	1,716.4	1,505.6	4,947.8	4,364.7
COST OF SALES:				
New vehicle	911.7	772.1	2,568.2	2,232.4
Used vehicle	459.6	425.8	1,371.6	1,220.6
Parts and service	72.4	63.1	207.6	189.1
TOTAL COST OF SALES	1,443.7	1,261.0	4,147.4	3,642.1
GROSS PROFIT	272.7	244.6	800.4	722.6
OPERATING EXPENSES:				
Selling, general and administrative	188.8	171.5	546.4	500.5
Depreciation and amortization	7.5	6.7	22.0	19.4
Other operating (income) expense, net	(0.2)	0.3	0.1	0.2
INCOME FROM OPERATIONS	76.6	66.1	231.9	202.5
OTHER (INCOME) EXPENSES:				
Floor plan interest expense	4.1	3.0	12.0	9.3
Other interest expense, net	10.7	9.6	31.5	28.2
Swap interest expense	1.0	0.5	2.0	1.5
Gain on divestitures	(21.4)	—	(21.4)	—
Total other (income) expenses, net	(5.6)	13.1	24.1	39.0
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	82.2	53.0	207.8	163.5
Income tax expense	31.0	20.6	79.6	63.4
INCOME FROM CONTINUING OPERATIONS	51.2	32.4	128.2	100.1
Discontinued operations, net of tax	(0.1)	0.1	(0.1)	(0.3)
NET INCOME	$51.1	$32.5	$128.1	$99.8
EARNINGS PER COMMON SHARE:				
Basic—				
Continuing operations	$1.98	$1.09	$4.80	$3.31
Discontinued operations	(0.01)	—	—	(0.01)
Net income	$1.97	$1.09	$4.80	$3.30
Diluted—				
Continuing operations	$1.96	$1.08	$4.77	$3.29
Discontinued operations	—	—	(0.01)	(0.01)
Net income	$1.96	$1.08	$4.76	$3.28
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	25.9	29.8	26.7	30.2

Restricted stock	0.1	0.1	0.1	0.1
Performance share units	0.1	0.1	0.1	0.1
Diluted	26.1	30.0	26.9	30.4

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

ASBURY AUTOMOTIVE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$51.1	$32.5	$128.1	$99.8
Other comprehensive income:				
Change in fair value of cash flow swaps	(4.0)	0.1	(5.0)	(1.7)
Income tax benefit associated with cash flow swaps	1.5	—	1.9	0.7
Comprehensive income	$48.6	$32.6	$125.0	$98.8

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

ASBURY AUTOMOTIVE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	For the Nine Months Ended September 30,	
	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	$128.1	$99.8
Adjustments to reconcile net income to net cash provided by operating activities—		
Depreciation and amortization	22.0	19.4
Stock-based compensation	7.7	6.7
Deferred income taxes	1.0	3.1
Loaner vehicle amortization	13.0	9.9
Excess tax benefit on share-based arrangements	(4.5)	(3.4)
Loss on disposal of fixed assets	0.7	1.0
Gain on divestitures	(21.4)	—
Other adjustments, net	2.3	1.1
Changes in operating assets and liabilities, net of acquisitions and divestitures—		
Contracts-in-transit	23.3	29.1
Accounts receivable	4.4	5.1
Proceeds from the sale of accounts receivable	—	2.5
Inventories	55.2	47.4
Other current assets	(90.8)	(62.7)
Floor plan notes payable—trade	(19.0)	(3.4)
Accounts payable and accrued liabilities	19.3	2.7
Other long-term assets and liabilities, net	3.7	0.3
Net cash provided by operating activities	145.0	158.6
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures—excluding real estate	(34.5)	(43.9)
Capital expenditures—real estate	(22.4)	(11.5)
Capital expenditures—capitalized interest	(0.1)	(0.7)
Purchases of previously leased real estate	—	(5.0)
Acquisitions	(69.4)	(21.9)
Divestitures	56.3	—
Proceeds from the sale of assets	2.3	—
Net cash used in investing activities	(67.8)	(83.0)
CASH FLOW FROM FINANCING ACTIVITIES:		
Floor plan borrowings—non-trade	3,151.2	2,564.6
Floor plan borrowings—non-trade acquisitions	16.7	6.5
Floor plan repayments—non-trade	(3,036.7)	(2,620.1)
Floor plan repayments—non-trade divestitures	(17.2)	—
Proceeds from borrowings	82.9	59.8
Repayments of borrowings	(8.6)	(7.9)
Payment of debt issuance costs	(1.3)	(0.7)
Repurchases of common stock, including those associated with net share settlement of employee share-based awards	(267.7)	(75.5)
Excess tax benefit on share-based arrangements	4.5	3.4
Net cash used in financing activities	(76.2)	(69.9)

Net increase in cash and cash equivalents	1.0	5.7
CASH AND CASH EQUIVALENTS, beginning of period	2.9	5.4
CASH AND CASH EQUIVALENTS, end of period	$3.9	$11.1

See Note 8 for supplemental cash flow information
See accompanying Notes to Condensed Consolidated Financial Statements

6

Table of Contents

ASBURY AUTOMOTIVE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. DESCRIPTION OF BUSINESS

We are one of the largest automotive retailers in the United States, operating 103 franchises (84 dealership locations) in 17 metropolitan markets within 9 states as of September 30, 2015. We offer an extensive range of automotive products and services, including new and used vehicles; vehicle maintenance, replacement parts and collision repair services; and financing, insurance and service contracts. As of September 30, 2015, we offered 29 domestic and foreign brands of new vehicles. For the nine months ended September 30, 2015 our new vehicle revenue brand mix consisted of 46% mid-line imports, 35% luxury, and 19% mid-line domestic brands. We also operate 25 collision repair centers that serve customers in our local markets.

Our retail network is made up of dealerships operating primarily under the following locally-branded dealership groups:

• Coggin dealerships operating primarily in Jacksonville, Fort Pierce and Orlando, Florida;

• Courtesy dealerships operating in Tampa, Florida;

• Crown dealerships operating in North Carolina, South Carolina and Virginia;

• Nalley dealerships operating in metropolitan Atlanta, Georgia;

• McDavid dealerships operating in Austin, Dallas and Houston, Texas;

• North Point dealerships operating in the Little Rock, Arkansas area;

• Plaza dealerships operating in metropolitan St. Louis, Missouri; and

• Gray-Daniels dealerships operating in the Jackson, Mississippi area.

In addition, we own and operate three stand-alone used vehicle stores under the “Q auto” brand name in Florida.

Our operating results are generally subject to changes in the economic environment as well as seasonal variations. Historically, we have generated more revenue and operating income in the second, third and fourth quarters than in the first quarter of the calendar year. Generally, the seasonal variations in our operations are caused by factors related to weather conditions, changes in manufacturer incentive programs, model changeovers and consumer buying patterns, among other things.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), and reflect the consolidated accounts of Asbury Automotive Group, Inc. and our wholly owned subsidiaries. All intercompany transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ materially from these estimates. Estimates and assumptions are reviewed quarterly and the effects of any revisions are reflected in the condensed consolidated financial statements in the period

they are determined to be necessary. Significant estimates made in the accompanying condensed consolidated financial statements include, but are not limited to, those relating to inventory valuation reserves, reserves for chargebacks against revenue recognized from the sale of finance and insurance products, certain assumptions related to intangible and long-lived assets, reserves for insurance programs, reserves for certain legal or similar proceedings relating to our business operations, and realization of deferred tax assets.

In the opinion of management, all adjustments (consisting only of normal, recurring adjustments) considered necessary for a fair presentation of the condensed consolidated financial statements as of September 30, 2015, and for the three and nine months ended September 30, 2015 and 2014, have been included. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for any other interim period, or any full year period. Our condensed consolidated financial statements should be read together with our consolidated financial statements and the notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2014.

Table of Contents

Contracts-In-Transit

Contracts-in-transit represent receivables from third-party finance companies for the portion of new and used vehicle purchase price financed by customers through sources arranged by us.

Revenue Recognition

Revenue from the sale of new and used vehicles (which excludes sales tax) is recognized upon the latest of delivery, passage of title, signing of the sales contract or approval of financing. Revenue from the sale of parts, service and collision repair work (which excludes sales tax) is recognized upon delivery of parts to the customer or at the time vehicle service or repair work is completed, as applicable. Manufacturer incentives and rebates, including manufacturer holdbacks, floor plan interest assistance and certain advertising assistance, are recognized as a reduction of new vehicle cost of sales at the time the related vehicles are sold.

We receive commissions from third-party lending and insurance institutions for arranging customer financing and from the sale of vehicle service contracts, credit life insurance and disability insurance, and other insurance, to customers (collectively "F&I"). We may be charged back ("chargebacks") for F&I commissions in the event a contract is prepaid, defaulted upon or terminated. F&I commissions are recorded at the time a vehicle is sold and a reserve for future chargebacks is established based on historical chargeback experience and the termination provisions of the applicable contract. F&I commissions, net of estimated future chargebacks, are included in Finance and Insurance, net in the accompanying Condensed Consolidated Statements of Income.

Earnings per Common Share

Basic earnings per common share is computed by dividing net income by the weighted-average common shares outstanding during the period. Diluted earnings per common share is computed by dividing net income by the weighted-average common shares and common share equivalents outstanding during the period. For all periods presented, there were no adjustments to the numerator necessary to compute diluted earnings per share.

Assets Held for Sale and Discontinued Operations

Certain amounts reflected in the accompanying Condensed Consolidated Balance Sheets have been classified as Assets Held for Sale and associated liabilities, if any, as Liabilities Associated with Assets Held for Sale, with such classification beginning on the date that the assets and any associated liabilities were first considered held for sale and which we intend to sell within one year.

In April 2014, the Financial Accounting Standards Board (the "FASB") issued an accounting standard which raised the threshold for asset disposals, occurring on or after January 1, 2015, to qualify as discontinued operations and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The standard revised the definition of a discontinued operation to cover only asset disposals that are considered to be a strategic shift with a major impact on an entity's operations and finances, such as the disposal of a major geographic area or a significant line of business.

We adopted the standard in January 2015 and currently do not have any pending dealership disposals that meet the new criteria to be classified as discontinued operations.

Statements of Cash Flows

Borrowings and repayments of floor plan notes payable to a lender unaffiliated with the manufacturer from which we purchase a particular new vehicle ("Non-Trade"), and all floor plan notes payable relating to used vehicles (together referred to as "Floor Plan Notes Payable—Non-Trade"), are classified as financing activities on the accompanying Condensed Consolidated Statements of Cash Flows, with borrowings reflected separately from repayments. The net change in floor plan notes payable to a lender affiliated with the manufacturer from which we purchase a particular new vehicle (collectively referred to as "Floor Plan Notes Payable—Trade") is classified as an operating activity on the accompanying Condensed Consolidated Statements of Cash Flows. Borrowings of floor plan notes payable associated with inventory acquired in connection with all acquisitions are classified as a financing activity. Cash flows related to floor plan notes payable included in operating activities differ from cash flows related to floor plan notes payable included in financing activities only to the extent that the former are payable to a lender affiliated with the manufacturer from which we purchased the related inventory, while the latter are payable to a lender not affiliated with the manufacturer from which we purchased the related inventory. Repayments of Floor Plan Notes Payable—Trade associated with divestitures are classified as an operating activity. Repayments of Floor Plan Notes Payable—Non-Trade

associated with divestitures are classified as a financing activity.

Table of Contents

Loaner vehicles account for a significant portion of Other Current Assets. We acquire loaner vehicles either with available cash or through borrowings from manufacturer affiliated lenders. Loaner vehicles are initially used by our service department for only a short period of time (typically six to twelve months) before we seek to sell them. Therefore, we classify the acquisition of loaner vehicles and the related borrowings and repayments as operating activities in the accompanying Condensed Consolidated Statements of Cash Flows. The cash outflow to acquire loaner vehicles is presented in Other Current Assets in the accompanying Condensed Consolidated Statements of Cash Flows. Borrowings and repayments of loaner vehicle notes payable are presented in Accounts Payable and Accrued Liabilities in the accompanying Condensed Consolidated Statements of Cash Flows. When loaner vehicles are taken out of loaner status they are transferred to used vehicle inventory at amortized cost, which is reflected as a non-cash transfer in the accompanying Condensed Consolidated Statements of Cash Flows. The cash inflow from the sale of loaner vehicles is reflected in Inventories in the accompanying Condensed Consolidated Statements of Cash Flows.

Recent Accounting Pronouncements

In May 2014, the FASB issued their new standard on revenue recognition. The new standard will supersede existing revenue recognition guidance and apply to all entities that enter into contracts to provide goods or services to customers. The guidance also addresses the measurement and recognition of gains and losses on the sale of certain non-financial assets, such as real estate, property and equipment. In July 2015, the FASB approved deferring the effective date of this standard by one year to December 15, 2017 for annual reporting periods beginning after that date. The new standard will become effective beginning with the first quarter of 2018 and can be adopted either retrospectively to each reporting period presented or as a cumulative effect adjustment as of the date of adoption. The FASB also approved early adoption of the standard, but not before the original effective date of December 15, 2016. We are currently evaluating the impact of adopting this new guidance on our consolidated financial statements.

In April 2015, the FASB issued an accounting standard that requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction of the debt liability rather than as an asset. In August 2015, the FASB clarified that given the absence of specific guidance regarding debt issuance costs associated with line-of-credit arrangements, companies can defer and present debt issuance costs as an asset and subsequently amortize ratably over the term of the line-of-credit, regardless of whether or not there were any outstanding borrowings on the line-of-credit. Application of the standard, which is required to be applied retrospectively, is required for fiscal years beginning on or after December 15, 2015 and for interim periods within that year. We are currently evaluating the impact of adopting this new guidance on our consolidated financial statements.

In July 2015, the FASB issued an accounting standard to simplify the measurement of inventory by changing the subsequent measurement guidance from the lower of cost or market to the lower of cost or net realizable value. Application of the standard, which is required to be applied prospectively, is required for fiscal years beginning on or after December 15, 2016 and for interim periods within that year. We are currently evaluating the impact of adopting this new guidance on our consolidated financial statements.

In September 2015, the FASB issued an accounting standard to simplify the accounting for measurement period adjustments related to business combinations. The new guidance would require that measurement period adjustments be made in the current period as opposed to a retrospective adjustment under the current guidance. Application of the standard, which is required to be applied prospectively, is required for fiscal years beginning on or after December 15, 2015 and for interim periods within that year. We are currently evaluating the impact of adopting this new guidance on our consolidated financial statements.

3. ACQUISITIONS AND DIVESTITURES

Results of acquired dealerships are included in our accompanying Condensed Consolidated Statements of Income commencing on the date of acquisition. Our acquisitions are accounted for using the acquisition method of accounting, which requires, among other things, that the assets acquired and liabilities assumed be recognized at their acquisition date fair values, with any excess of the consideration transferred over the estimated fair values of the identifiable net assets acquired recorded as goodwill. Goodwill is an asset representing operational synergies and future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.

During the nine months ended September 30, 2015, we acquired the assets of one franchise (one dealership location) in our existing Jacksonville, Florida market and one franchise (one dealership location) in our existing Atlanta, Georgia market for a combined purchase price of $69.4 million. We financed these acquisitions with $52.7 million of cash and $16.7 million of floor plan borrowings for the purchase of the related new vehicle inventory.

Table of Contents

Below is the preliminary allocation of purchase price for the acquisitions completed during the nine months ended September 30, 2015. We have not finished our final assessments of third party real estate appraisals and our internal valuation of manufacturer franchise rights. The $34.6 million of goodwill and manufacturer franchise rights associated with our acquisitions will be deductible for federal and state income tax purposes ratably over a 15 year period.

	As of September 30, 2015 (In millions)
Inventory	$19.0
Real estate	15.2
Property and equipment	0.9
Goodwill	28.3
Manufacturer franchise rights	6.3
Liabilities assumed	(0.3)
Total purchase price	$69.4

During the nine months ended September 30, 2015, we sold two franchises (two dealership locations) in the Princeton, New Jersey market, one franchise in our St. Louis, Missouri market, and one collision center in our Austin, Texas market. The Company recorded a gain of $21.4 million ($13.1 million after-tax) during the third quarter of 2015 in Gain on Divestitures in our accompanying Condensed Consolidated Statements of Income. The divested businesses would not be considered significant subsidiaries as defined in Rule 1-02(w) of Regulation S-X.

4. INVENTORIES

Inventories consisted of the following:

	As of September 30, 2015	December 31, 2014
	(In millions)	
New vehicles	$696.4	$699.5
Used vehicles	147.1	141.7
Parts and accessories	44.1	44.8
Total inventories	$887.6	$886.0

The lower of cost or market reserves reduced total inventory cost by $6.5 million and $6.4 million as of September 30, 2015 and December 31, 2014, respectively. In addition to the inventories shown above, as of September 30, 2015 we had $27.1 million of inventories classified as Assets Held for Sale on the accompanying Condensed Consolidated Balance Sheets, as they were associated with dealerships held for sale. As of September 30, 2015 and December 31, 2014, certain automobile manufacturer incentives reduced new vehicle inventory cost by $9.1 million and $8.0 million, respectively, and reduced new vehicle cost of sales from continuing operations for the nine months ended September 30, 2015 and September 30, 2014 by $28.6 million and $22.5 million, respectively.

5. ASSETS AND LIABILITIES HELD FOR SALE

Assets and liabilities classified as held for sale include (i) assets and liabilities associated with pending dealership disposals and (ii) real estate not currently used in our operations that we are actively marketing to sell and (iii) the related mortgage notes payable, if applicable.

During the nine months ended September 30, 2015, we sold two vacant properties with a combined net book value of $2.2 million. In addition, during the nine months ended September 30, 2015, we reclassified one vacant property with a net book value of $2.3 million to assets held for sale.

As of September 30, 2015, there were four franchises (three dealership locations) pending disposition. The assets and liabilities associated with pending dispositions as of September 30, 2015 totaled $40.1 million and $30.4 million, respectively.

There were no assets or liabilities associated with pending dispositions as of December 31, 2014.

Table of Contents

Real estate not currently used in our operations that we are actively marketing to sell totaled $6.5 million and $6.4 million as of September 30, 2015 and December 31, 2014, respectively. There were no liabilities associated with our real estate assets held for sale as of September 30, 2015 or December 31, 2014.

A summary of assets held for sale and liabilities associated with assets held for sale is as follows:

	As of September 30, 2015	December 31, 2014
	(In millions)	
Assets:		
Inventories	$27.1	$—
Property and equipment, net	18.1	6.4
Franchise rights	0.4	—
Goodwill	1.0	—
Total assets	46.6	6.4
Liabilities:		
Floor plan notes payable	23.9	—
Mortgage notes payable	6.5	—
Total liabilities	30.4	—
Net assets held for sale	$16.2	$6.4

6. LONG-TERM DEBT

Long-term debt consists of the following:

	As of September 30, 2015	December 31, 2014
	(In millions)	
6.0% Senior Subordinated Notes due 2024	$400.0	$400.0
Mortgage notes payable bearing interest at fixed and variable rates	196.0	232.3
Real estate credit agreement (a)	64.9	71.5
Master loan agreement (b)	97.3	—
Capital lease obligations	3.5	3.6
Long-term debt, including current portion	761.7	707.4
Less: current portion	(13.8)	(28.7)
Long-term debt	$747.9	$678.7

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(a) Real estate credit agreement does not include a $3.8 million mortgage note payable classified as Liabilities Associated with Assets Held for Sale as of September 30, 2015.

(b) Master loan agreement does not include a $2.7 million mortgage note payable classified as Liabilities Associated with Assets Held for Sale as of September 30, 2015.

Master Loan Agreement

In June 2015, we made additional borrowings under our amended and restated Master Loan Agreement (the “Master Loan Agreement”) with Wells Fargo, resulting in our having drawn the full $100.0 million (the “Master Loan Facility”) of availability thereunder. In connection with our final draw under the Master Loan Agreement, in June 2015 we entered into a cash flow interest rate swap with Wells Fargo, effectively fixing the interest rate at 4.8%. We paid a total of $1.2 million in debt issuance costs associated with the Master Loan Agreement.

6.0% Senior Subordinated Notes due 2024

Asbury Automotive Group, Inc. is a holding company with no independent assets or operations. For all relevant periods presented, our 6.0% Notes have been fully and unconditionally guaranteed, on a joint and several basis, by substantially all of

11

Table of Contents

our subsidiaries. Any subsidiaries which have not guaranteed such notes are "minor" (as defined in Rule 3-10(h) of Regulation S-X). As of September 30, 2015, there were no significant restrictions on the ability of our subsidiaries to distribute cash to us or our guarantor subsidiaries.

7. FINANCIAL INSTRUMENTS AND FAIR VALUE

In determining fair value, we use various valuation approaches, including market, income and/or cost approaches. Accounting standards establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs are inputs that reflect our assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1-Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access.

Level 2-Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Assets and liabilities utilizing Level 2 inputs include cash flow swap instruments, exchange-traded debt securities that are not actively traded or do not have a high trading volume and mortgage notes payable.

Level 3-Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Asset and liability measurements utilizing Level 3 inputs include those used in estimating fair value of non-financial assets and non-financial liabilities in purchase acquisitions and those used in assessing impairment of manufacturer franchise rights and goodwill.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment required to determine fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, our assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. We use inputs that are current as of the measurement date, including during periods of significant market fluctuations.

Financial instruments consist primarily of cash and cash equivalents, contracts-in-transit, accounts receivable, cash surrender value of corporate-owned life insurance policies, accounts payable, floor plan notes payable, subordinated long-term debt, mortgage notes payable and interest rate swap agreements. The carrying values of our financial instruments, with the exception of subordinated long-term debt and mortgage notes payable, approximate fair value due to (i) their short-term nature, (ii) recently completed market transactions or (iii) existence of variable interest rates, which approximate market rates. The fair market value of our subordinated long-term debt is based on reported market prices which reflect Level 2 inputs. We estimate the fair value of our mortgage notes payable using a present value technique based on current market interest rates for similar types of financial instruments which reflect Level 2 inputs.

A summary of the carrying values and fair values of our 6.0% Notes and our mortgage notes payable is as follows:

Table of Contents

	As of September 30, 2015	December 31, 2014
	(In millions)	
Carrying Value:		
6.0% Senior Subordinated Notes due 2024	$400.0	$400.0
Mortgage notes payable (a)	358.2	303.8
Total carrying value	$758.2	$703.8
Fair Value:		
6.0% Senior Subordinated Notes due 2024	$413.0	$407.0
Mortgage notes payable (a)	368.0	318.0
Total fair value	$781.0	$725.0

(a) Mortgage notes payable do not include mortgages with a $6.5 million carrying value classified as Liabilities Associated with Assets Held for Sale as of September 30, 2015.

In June 2015, we entered into a new interest rate swap agreement with a notional principal amount of $100.0 million. This swap was designed to provide a hedge against changes in variable rate cash flows through maturity in February 2025. The notional value of this swap was $100.0 million as of September 30, 2015 and is reducing over its remaining term to $53.1 million at maturity.

In November 2013, we entered into an interest rate swap agreement with a notional principal amount of $75.0 million. This swap was designed to provide a hedge against changes in variable rate cash flows through maturity in September 2023. The notional value of this swap was $68.7 million as of September 30, 2015 and is reducing over its remaining term to $38.7 million at maturity.

We are also party to an interest rate swap agreement that had a notional principal amount of $16.2 million as of September 30, 2015. This swap is designed to provide a hedge against changes in variable interest rate cash flows through maturity in October 2015. The notional value of this swap is reducing over the remaining term to $16.1 million at maturity.

All of our interest rate swaps qualify for cash flow hedge accounting treatment and do not, and will not, contain any ineffectiveness.

Information about the effect of derivative instruments on the accompanying Condensed Consolidated Statements of Income, including the impact on Accumulated Other Comprehensive Income ("AOCI") (in millions):

For the Three Months Ended September 30,	Derivative in Cash Flow Hedging Relationships	Results Recognized in AOCI (Effective Portion)	Location of Results Reclassified from AOCI to Earnings	Amount Reclassified from AOCI to Earnings–Active Swaps	Ineffective Results Recognized in Earnings	Location of Ineffective Results
2015	Interest rate swaps	$(5.0)	Swap interest expense	$ (1.0)	$—	N/A
2014	Interest rate swaps	$(0.4)	Swap interest expense	$ (0.5)	$—	N/A

For the Nine Months Ended September 30,	Derivative in Cash Flow Hedging Relationships	Results Recognized in AOCI (Effective Portion)	Location of Results Reclassified from AOCI to Earnings	Amount Reclassified from AOCI to Earnings–Active Swaps	Ineffective Results Recognized in Earnings	Location of Ineffective Results
2015	Interest rate swaps	$(7.0)	Swap interest expense	$ (2.0)	$—	N/A
2014		$(3.2)		$ (1.5)	$—	N/A

Interest rate swaps	Swap interest expense

13

Table of Contents

On the basis of yield curve conditions as of September 30, 2015 and including assumptions about future changes in fair value, we expect the amount to be reclassified out of AOCI into earnings in the next 12 calendar months will be a loss of $3.3 million.

Fair value estimates reflect a credit adjustment to the discount rate applied to all expected cash flows under the swaps. Other than that assumption, all other inputs reflect Level 2 inputs.

Information about adjustments to AOCI	(In millions)
Accumulated other comprehensive loss—December 31, 2014	$(1.5)
Change in fair value of cash flow swaps	(5.0)
Income tax impact associated with cash flow swaps	1.9
Accumulated other comprehensive loss—September 30, 2015	$(4.6)

Market Risk Disclosures as of September 30, 2015:

Instruments entered into for trading purposes—None

Instruments entered into for hedging purposes (in millions)—

Type of Derivative	Notional Size	Underlying Rate	Expiration	Fair Value
Interest Rate Swap*	$100.0	1 month LIBOR	February 2025	$(4.2)
Interest Rate Swap*	$68.7	1 month LIBOR	September 2023	$(3.6)
Interest Rate Swap*	$16.2	1 month LIBOR	October 2015	$(0.1)

* The total fair value of our swaps is a $7.9 million net liability, of which $3.4 million is included in Accounts Payable and Accrued Liabilities, $4.5 million is included in Other Long-Term Liabilities on the accompanying Condensed Consolidated Balance Sheet.

Market Risk Disclosures as of December 31, 2014:

Instruments entered into for trading purposes—None

Instruments entered into for hedging purposes (in millions)—

Type of Derivative	Notional Size	Underlying Rate	Expiration	Fair Value
Interest Rate Swap*	$71.5	1 month LIBOR	September 2023	$(2.5)
Interest Rate Swap*	$17.2	1 month LIBOR	October 2015	$(0.2)

* The total fair value of our swaps is a $2.7 million net liability, of which $1.8 million is included in Accounts Payable and Accrued Liabilities and $0.9 million is included in Other Long-Term Liabilities on the accompanying Condensed Consolidated Balance Sheet.

8. SUPPLEMENTAL CASH FLOW INFORMATION

During the nine months ended September 30, 2015 and 2014, we made interest payments, including amounts capitalized, totaling $38.4 million and $31.7 million, respectively. Included in these interest payments are $12.2 million and $9.6 million, of floor plan interest payments for the nine months ended September 30, 2015 and 2014, respectively.

During the nine months ended September 30, 2015 and 2014, we made income tax payments, net of refunds received, totaling $52.4 million and $48.7 million, respectively.

During the nine months ended September 30, 2015 and 2014, we transferred $83.8 million and $56.9 million, respectively, of loaner vehicles from Other Current Assets to Inventory on our Condensed Consolidated Balance Sheets.

Included in the $56.3 million of cash flow from divestitures for the nine months ended September 30, 2015 was $13.5 million of mortgage notes payable associated with our Princeton, New Jersey dealerships.

Table of Contents

9. COMMITMENTS AND CONTINGENCIES

Our dealerships are party to dealer and framework agreements with applicable vehicle manufacturers. In accordance with these agreements, each dealership has certain rights and is subject to restrictions typical in the industry. The ability of these manufacturers to influence the operations of the dealerships or the loss of any of these agreements could have a materially negative impact on our operating results.

In some instances, manufacturers may have the right, and may direct us, to implement costly capital improvements to dealerships as a condition to entering into, renewing or extending franchise agreements with them. Manufacturers also typically require that their franchises meet specific standards of appearance. These factors, either alone or in combination, could cause us to use our financial resources on capital projects that we might not have planned for or otherwise determined to undertake.

From time to time, we and our dealerships are or may become involved in various claims relating to, and arising out of, our business and our operations. These claims may involve, but not be limited to, financial and other audits by vehicle manufacturers, lenders and certain federal, state and local government authorities, which have historically related primarily to (a) incentive and warranty payments received from vehicle manufacturers, or allegations of violations of manufacturer agreements or policies, (b) compliance with lender rules and covenants and (c) payments made to government authorities relating to federal, state and local taxes, as well as compliance with other government regulations. Claims may also arise through litigation, government proceedings and other dispute resolution processes. Such claims, including class actions, could relate to, but may not be limited to, the practice of charging administrative fees and other fees and commissions, employment-related matters, truth-in-lending and other dealer assisted financing obligations, contractual disputes, actions brought by governmental authorities and other matters. We evaluate pending and threatened claims and establish loss contingency reserves based upon outcomes we currently believe to be probable and reasonably estimable.

We believe we have adequately accrued for the potential impact of loss contingencies that are probable and reasonably estimable. Based on our review of the various types of claims currently known to us, there is no indication of material reasonably possible losses in excess of amounts accrued in the aggregate. We currently do not anticipate that any known claim will materially adversely affect our financial condition, liquidity or results of operations. However, the outcome of any matter cannot be predicted with certainty, and an unfavorable resolution of one or more matters presently known or arising in the future could have a material adverse effect on our financial condition, liquidity or results of operations.

A significant portion of our business involves the sale of vehicles, parts or vehicles composed of parts that are manufactured outside the United States. As a result, our operations are subject to customary risks of importing merchandise, including fluctuations in the relative values of currencies, import duties, exchange controls, trade restrictions, work stoppages and general political and socio-economic conditions in foreign countries. The United States or the countries from which our products are imported may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duties or tariffs, which may affect our operations and our ability to purchase imported vehicles and/or parts at reasonable prices.

Substantially all of our facilities are subject to federal, state and local provisions regarding the discharge of materials into the environment. Compliance with these provisions has not had, nor do we expect such compliance to have, any material effect upon our capital expenditures, net earnings, financial condition, liquidity or competitive position. We believe that our current practices and procedures for the control and disposition of such materials comply with applicable federal, state and local requirements. No assurances can be provided, however, that future laws or regulations, or changes in existing laws or regulations, would not require us to expend significant resources in order to comply therewith.

We had $10.3 million of letters of credit outstanding as of September 30, 2015, which are required by certain of our insurance providers. In addition, as of September 30, 2015, we maintained a $5.0 million surety bond line in the ordinary course of our business. Our letters of credit and surety bond line are considered to be off balance sheet arrangements.

Our other material commitments include (i) floor plan notes payable, (ii) operating leases, (iii) long-term debt and (iv) interest on long-term debt, as described elsewhere herein.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Forward-Looking Information
Certain of the discussions and information included in this report may constitute “forward-looking statements” within the meaning of the federal securities laws. Forward-looking statements are statements that are not historical in nature and may include statements relating to our goals, plans and projections regarding industry and general economic trends, our expected financial position, results of operations or market position and our business strategy. Such statements can generally be identified by words such as “may,” “target,” “could,” “would,” “will,” “should,” “believe,” “expec “anticipate,” “plan,” “intend,” “foresee” and other similar words or phrases. Forward-looking statements may also relate to our expectations and assumptions with respect to, among other things:

15

Table of Contents

- our ability to execute our business strategy;
- the seasonally adjusted annual rate ("SAAR") of new vehicle sales in the U.S.;
- our ability to further improve our operating cash flows, and the availability of capital and liquidity;
- our estimated future capital expenditures;
- the duration of the economic recovery process and its impact on our revenues and expenses;
- our parts and service revenue due to, among other things, improvements in manufacturing quality;
- the variable nature of significant components of our cost structure;
- our ability to limit our exposure to regional economic downturns due to our geographic diversity and brand mix;
- manufacturers' willingness to continue to use incentive programs to drive demand for their product offerings;
- our ability to leverage our common systems, infrastructure and processes in a cost-efficient manner;
- our capital allocation strategy, including acquisitions and divestitures, stock repurchases and capital expenditures;
- the continued availability of financing, including floor plan financing for inventory;
- the ability of consumers to secure vehicle financing, including at favorable rates;
- the growth of mid-line import and luxury brands over the long-term;
- our ability to mitigate any future negative trends in new vehicle sales; and
- our ability to increase our cash flow and net income as a result of the foregoing and other factors.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual future results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to:

- our ability to execute our balanced automotive retailing and service business strategy;
- changes in the mix, and total number, of vehicles we are able to sell;
- changes in general economic and business conditions, including changes in consumer confidence levels, interest rates, consumer credit availability and employment levels;
- changes in laws and regulations governing the operation of automobile franchises, including trade restrictions, consumer protections, accounting standards, taxation requirements and environmental laws;
- changes in the price of oil and gasoline;
- the timing and extent of any manufacturer recalls;
- our ability to generate sufficient cash flows, maintain our liquidity and obtain any necessary additional funds for working capital, capital expenditures, acquisitions, stock repurchases, debt maturity payments and other corporate purposes, if necessary or desirable;
- our continued ability to comply with applicable covenants in various of our financing and lease agreements, or to obtain waivers of these covenants as necessary;
- our relationships with, and the reputation and financial health and viability of, the vehicle manufacturers whose brands we sell, and their ability to design, manufacture, deliver and market their vehicles successfully;
- significant disruptions in the production and delivery of vehicles and parts for any reason, including natural disasters, product recalls, work stoppages or other occurrences that are outside of our control;
- adverse results from litigation or other similar proceedings involving us;
- our relationships with, and the financial stability of, our lenders and lessors;
- our ability to execute our initiatives and other strategies;
- high levels of competition in our industry, which may create pricing and margin pressures on our products and services;
- our ability to renew, and enter into new, framework and dealer agreements with vehicle manufacturers whose brands we sell, on terms acceptable to us;

Table of Contents

- our ability to attract and to retain key personnel;
- our ability to leverage gains from our dealership portfolio; and
- any disruptions in the financial markets, which may impact our ability to access capital.

Many of these factors are beyond our ability to control or predict, and their ultimate impact could be material. Moreover, the factors set forth in the discussion and analysis below and under Item 1A entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014 and other cautionary statements made in this report should be read and considered as forward-looking statements subject to such uncertainties. Forward-looking statements speak only as of the date they are made, and we assume no obligation to update any forward-looking statements.

OVERVIEW

We are one of the largest automotive retailers in the United States, operating 103 franchises (84 dealership locations) in 17 metropolitan markets within 9 states as of September 30, 2015. We offer an extensive range of automotive products and services, including new and used vehicles; vehicle maintenance, replacement parts and collision repair services; and financing, insurance and service contracts. As of September 30, 2015, we offered 29 domestic and foreign brands of new vehicles. For the nine months ended September 30, 2015 our new vehicle revenue brand mix consisted of 46% mid-line imports, 35% luxury, and 19% mid-line domestic brands. We also operate 25 collision repair centers that serve customers in our local markets.

Our retail network is made up of dealerships operating primarily under the following locally-branded dealership groups:

- Coggin dealerships operating primarily in Jacksonville, Fort Pierce and Orlando, Florida;
- Courtesy dealerships operating in Tampa, Florida;
- Crown dealerships operating in North Carolina, South Carolina and Virginia;
- Nalley dealerships operating in metropolitan Atlanta, Georgia;
- McDavid dealerships operating in Austin, Dallas and Houston, Texas;
- North Point dealerships operating in the Little Rock, Arkansas area;
- Plaza dealerships operating in metropolitan St. Louis, Missouri; and
- Gray-Daniels dealerships operating in the Jackson, Mississippi area.

In addition, we own and operate three stand-alone used vehicle stores under the “Q auto” brand name in Florida.

Our revenues are derived primarily from: (i) the sale of new vehicles to individual retail customers (“new vehicle retail”) and commercial customers (“fleet”) (the terms “new vehicle retail” and “fleet” being together referred to as “new”); (ii) the sale of used vehicles to individual retail customers (“used retail”) and to other dealers at auction (“wholesale”) (the terms “used retail” and “wholesale” being together referred to as “used”); (iii) maintenance and collision repair services and the sale of automotive parts (together referred to as “parts and service”); and (iv) the arrangement of vehicle financing and the sale of a number of aftermarket products, such as insurance and service contracts (collectively referred to as “F&I”). We evaluate the results of our new and used vehicle sales based on unit volumes and gross profit per vehicle sold, our parts and service operations based on aggregate gross profit, and F&I based on dealership generated F&I gross profit per vehicle sold. We assess the organic growth of our revenue and gross profit by using the results of stores that we have operated for comparative periods (“same store”).

Our organic growth is dependent upon the execution of our balanced automotive retailing and service business strategy, the continued strength of our brand mix and the production of desirable vehicles by automobile manufacturers whose brands we sell. Our vehicle sales have historically fluctuated with product availability as well as local and national economic conditions, including consumer confidence, availability of consumer credit, fuel prices and employment levels. We believe that the impact on our business of any future negative trends in new vehicle sales would be partially mitigated by (i) the expected relative stability of our parts and service operations over the long-term, (ii) the variable nature of significant components of our cost structure and (iii) our brand mix. We believe that our diversified new vehicle revenue brand mix is well positioned for growth over the long term.

Our operating results are generally subject to changes in the economic environment as well as seasonal variations. Historically, we have generated more revenue and operating income in the second, third and fourth quarters than in the first quarter of the calendar year. Generally, the seasonal variations in our operations are caused by factors related to weather conditions, changes in manufacturer incentive programs, model changeovers and consumer buying patterns, among other things.

Table of Contents

Our gross profit margin varies with our revenue mix. The sale of new vehicles generally results in lower gross profit margin than used vehicle sales and sales of parts and service. As a result, when used vehicle and parts and service revenue increase as a percentage of total revenue, we expect our overall gross profit margin to increase.

Selling, general and administrative (“SG&A”) expenses consist primarily of fixed and incentive-based compensation, advertising, rent, insurance, utilities and other customary operating expenses. A significant portion of our cost structure is variable (such as sales commissions), or controllable (such as advertising), which we believe better allows us to adapt to changes in the retail environment over the long-term. We evaluate commissions paid to salespeople as a percentage of retail vehicle gross profit and all other SG&A expenses in the aggregate as a percentage of total gross profit, with the exception of advertising expense, which we evaluate on a per vehicle retailed ("PVR") basis.

The United States automotive retail market showed continued year-over-year improvement through the third quarter of 2015, with new vehicle SAAR increasing to 17.8 million during the third quarter of 2015 as compared to 16.8 million during the third quarter of 2014. We continued to benefit from favorable general and industry specific economic conditions during 2015, which we attribute to consumer confidence, the continued availability of credit at terms favorable to consumers resulting primarily from the current low interest rate environment, relatively low overall unemployment levels, favorable fuel prices and the aging of the U.S. automotive fleet.

We had total available liquidity of $216.6 million as of September 30, 2015, which consisted of cash and cash equivalents of $3.9 million, $13.0 million of availability under our floor plan offset account, and borrowing availability of $164.7 million and $35.0 million under our revolving credit facility and our used vehicle revolving floor plan facility, respectively. For further discussion of our liquidity, please refer to “Liquidity and Capital Resources” below.

Table of Contents

RESULTS OF OPERATIONS
Three Months Ended September 30, 2015 Compared to the Three Months Ended September 30, 2014

	For the Three Months Ended September 30,		Increase (Decrease)	% Change
	2015	2014		
	(Dollars in millions, except per share data)			
REVENUE:				
New vehicle	$964.0	$821.3	$142.7	17 %
Used vehicle	493.0	457.0	36.0	8 %
Parts and service	190.6	168.3	22.3	13 %
Finance and insurance, net	68.8	59.0	9.8	17 %
TOTAL REVENUE	1,716.4	1,505.6	210.8	14 %
GROSS PROFIT:				
New vehicle	52.3	49.2	3.1	6 %
Used vehicle	33.4	31.2	2.2	7 %
Parts and service	118.2	105.2	13.0	12 %
Finance and insurance, net	68.8	59.0	9.8	17 %
TOTAL GROSS PROFIT	272.7	244.6	28.1	11 %
OPERATING EXPENSES:				
Selling, general and administrative	188.8	171.5	17.3	10 %
Depreciation and amortization	7.5	6.7	0.8	12 %
Other operating (income) expense, net	(0.2)	0.3	(0.5)	NM
INCOME FROM OPERATIONS	76.6	66.1	10.5	16 %
OTHER (INCOME) EXPENSES:				
Floor plan interest expense	4.1	3.0	1.1	37 %
Other interest expense, net	10.7	9.6	1.1	11 %
Swap interest expense	1.0	0.5	0.5	100 %
Gain on divestitures	(21.4)	—	(21.4)	NM
Total other (income) expenses, net	(5.6)	13.1	(18.7)	NM
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	82.2	53.0	29.2	55 %
Income tax expense	31.0	20.6	10.4	50 %
INCOME FROM CONTINUING OPERATIONS	51.2	32.4	18.8	58 %
Discontinued operations, net of tax	(0.1)	0.1	(0.2)	NM
NET INCOME	$51.1	$32.5	$18.6	57 %
Income from continuing operations per common share—Diluted	$1.96	$1.08	$0.88	81 %
Net income per common share—Diluted	$1.96	$1.08	$0.88	81 %

NM—Not Meaningful

Table of Contents

	For the Three Months Ended September 30,			
	2015		2014	
REVENUE MIX PERCENTAGES:				
New vehicles	56.2	%	54.5	%
Used retail vehicles	25.5	%	26.6	%
Used vehicle wholesale	3.2	%	3.8	%
Parts and service	11.1	%	11.2	%
Finance and insurance, net	4.0	%	3.9	%
Total revenue	100.0	%	100.0	%
GROSS PROFIT MIX PERCENTAGES:				
New vehicles	19.2	%	20.1	%
Used retail vehicles	13.0	%	13.4	%
Used vehicle wholesale	(0.7	)%	(0.6	)%
Parts and service	43.3	%	43.0	%
Finance and insurance, net	25.2	%	24.1	%
Total gross profit	100.0	%	100.0	%
GROSS PROFIT MARGIN	15.9	%	16.2	%
SG&A EXPENSES AS A PERCENTAGE OF GROSS PROFIT	69.2	%	70.1	%

Total revenue during the third quarter of 2015 as compared to the third quarter of 2014 increased by $210.8 million (14%) as a result of (i) a $142.7 million (17%) increase in new vehicle revenue, (ii) a $36.0 million (8%) increase in used vehicle revenue, (iii) a $22.3 million (13%) increase in parts and service revenue, and (iv) a $9.8 million (17%) increase in F&I revenue. The $28.1 million (11%) increase in gross profit during the three months ended September 30, 2015 was driven by (i) a $13.0 million (12%) increase in parts and service gross profit, (ii) a $9.8 million (17%) increase in F&I gross profit, (iii) a $3.1 million (6%) increase in new vehicle gross profit, and (iv) a $2.2 million (7%) increase in used vehicle gross profit.

Our total gross profit margin decreased 30 basis points to 15.9%, primarily due to increased competition across our new vehicle business. In addition, we also experienced decreases in gross profit margins in our used vehicles and parts and service businesses which were partially offset by a 17% increase in F&I gross profit. For the three months ended September 30, 2015 SG&A expenses increased $17.3 million (10%).

Net income increased by $18.6 million (57%) during the third quarter of 2015 as compared to the third quarter of 2014. The increase in net income was driven by the $10.5 million (16%) increase in income from operations and a $18.7 million favorable change in other (income) expense, primarily due to the $21.4 million of gain on divestitures recorded in the third quarter of 2015, partially offset by a $10.4 million (50%) increase in income tax expense.

Table of Contents

New Vehicle—

	For the Three Months Ended September 30,		Increase (Decrease)	% Change
	2015	2014		
	(Dollars in millions, except for per vehicle data)			
As Reported:				
Revenue:				
Luxury	$322.3	$300.5	$21.8	7 %
Mid-line import	442.5	408.7	33.8	8 %
Mid-line domestic	199.2	112.1	87.1	78 %
Total new vehicle revenue	$964.0	$821.3	$142.7	17 %
Gross profit:				
Luxury	$20.4	$21.5	$(1.1)	(5)%
Mid-line import	20.5	21.0	(0.5)	(2)%
Mid-line domestic	11.4	6.7	4.7	70 %
Total new vehicle gross profit	$52.3	$49.2	$3.1	6 %
New vehicle units:				
Luxury	6,381	5,939	442	7 %
Mid-line import	16,501	15,457	1,044	7 %
Mid-line domestic	5,482	3,258	2,224	68 %
Total new vehicle units	28,364	24,654	3,710	15 %
Same Store (1):				
Revenue:				
Luxury	$321.8	$290.2	$31.6	11 %
Mid-line import	431.6	405.1	26.5	7 %
Mid-line domestic	137.1	112.1	25.0	22 %
Total new vehicle revenue	$890.5	$807.4	$83.1	10 %
Gross profit:				
Luxury	$20.4	$20.8	$(0.4)	(2)%
Mid-line import	20.0	20.7	(0.7)	(3)%
Mid-line domestic	7.8	6.7	1.1	16 %
Total new vehicle gross profit	$48.2	$48.2	$—	— %
New vehicle units				
Luxury	6,371	5,740	631	11 %
Mid-line import	16,096	15,326	770	5 %
Mid-line domestic	3,763	3,258	505	16 %
Total new vehicle units	26,230	24,324	1,906	8 %

(1) Same store amounts consist of information from dealerships which we operated for all of the months in both comparative periods

Table of Contents

New Vehicle Metrics—

	For the Three Months Ended September 30,		Increase (Decrease)	% Change
	2015	2014		
As Reported:				
Revenue per new vehicle sold	$33,987	$33,313	$674	2 %
Gross profit per new vehicle sold	$1,844	$1,996	$(152)	(8)%
New vehicle gross margin	5.4 %	6.0 %	(0.6)%	
Same Store (1):				
Revenue per new vehicle sold	$33,950	$33,194	$756	2 %
Gross profit per new vehicle sold	$1,838	$1,982	$(144)	(7)%
New vehicle gross margin	5.4 %	6.0 %	(0.6)%	

(1) Same store amounts consist of information from dealerships which we operated for all of the months in both comparative periods

New vehicle revenues increased by $142.7 million (17%) during the three months ended September 30, 2015 due to a 15% increase in new vehicle unit sales and a $674 (2%) increase in revenue per new vehicle sold. On a same store basis new vehicle revenue increased by $83.1 million (10%) due to an 8% increase in same store new vehicle unit sales and a $756 (2%)increase in same store revenue per new vehicle sold.

Same store unit volumes for our luxury, mid-line import and mid-line domestic brand categories increased 11%, 5%, and 16% respectively, reflecting (i) continued consumer demand, (ii) the continued availability of credit at terms favorable to our customers and (iii) the broad range of attractive vehicles we offer. Overall, same store total unit volumes have increased by 8% during the three months ended September 30, 2015 compared to a 6% increase in new vehicle SAAR over the same period.

Total new vehicle gross profit increased by $3.1 million (6%) during the three months ended September 30, 2015. Our same store gross profit per new vehicle sold decreased by $144 (7%), as a result of margin declines in each of our brand categories. We attribute the 60 basis point decrease in same store gross profit margin primarily due to increased competition across each of our new vehicles categories.

Table of Contents

Used Vehicle—

	For the Three Months Ended September 30, 2015	2014	Increase (Decrease)	% Change
	(Dollars in millions, except for per vehicle data)			
As Reported:				
Revenue:				
Used vehicle retail revenues	$438.8	$399.6	$39.2	10 %
Used vehicle wholesale revenues	54.2	57.4	(3.2)	(6)%
Used vehicle revenue	$493.0	$457.0	$36.0	8 %
Gross profit:				
Used vehicle retail gross profit	$35.2	$32.6	$2.6	8 %
Used vehicle wholesale gross profit	(1.8)	(1.4)	(0.4)	(29)%
Used vehicle gross profit	$33.4	$31.2	$2.2	7 %
Used vehicle retail units:				
Used vehicle retail units	21,306	19,625	1,681	9 %
Same Store (1):				
Revenue:				
Used vehicle retail revenues	$407.0	$391.8	$15.2	4 %
Used vehicle wholesale revenues	50.8	56.1	(5.3)	(9)%
Used vehicle revenue	$457.8	$447.9	$9.9	2 %
Gross profit:				
Used vehicle retail gross profit	$32.7	$32.0	$0.7	2 %
Used vehicle wholesale gross profit	(1.7)	(1.4)	(0.3)	(21)%
Used vehicle gross profit	$31.0	$30.6	$0.4	1 %
Used vehicle retail units:				
Used vehicle retail units	19,649	19,303	346	2 %

Used Vehicle Metrics—

	For the Three Months Ended September 30, 2015	2014	Increase (Decrease)	% Change
As Reported:				
Revenue per used vehicle retailed	$20,595	$20,362	$233	1 %
Gross profit per used vehicle retailed	$1,652	$1,661	$(9)	(1)%
Used vehicle retail gross margin	8.0 %	8.2 %	(0.2)%	
Same Store (1):				
Revenue per used vehicle retailed	$20,714	$20,297	$417	2 %
Gross profit per used vehicle retailed	$1,664	$1,658	$6	— %
Used vehicle retail gross margin	8.0 %	8.2 %	(0.2)%	

(1) Same store amounts consist of information from dealerships which we operated for all of the months in both comparative periods

Used vehicle revenue increased by $36.0 million (8%) primarily as a result of a 9% increase in used vehicle units retailed. Same store used vehicle revenue increased by $9.9 million (2%) due to an increase in used vehicle retail revenue of $15.2 million (4%) partially offset by a $5.3 million (9%) decrease in used vehicle wholesale revenue.

Same store used retail unit sales increased by 346 (2%) and same store revenue per used vehicle retailed increased by $417 (2%) to $20,714 per unit. The increase in same store used vehicle retail unit sales reflects continued consumer demand, the continued availability of credit at

23

Table of Contents

terms favorable to the customer and the ongoing impact of our volume-driven initiatives with a goal of retailing one used vehicle for every new vehicle retailed. This program is designed to drive not only used retail volume, but to increase revenues from associated parts and service reconditioning and F&I as well.

Used vehicle retail gross profit increased by $2.6 million (8%) during the three months ended September 30, 2015. Same store used vehicle retail gross profit increased by $0.7 million (2%), however same store gross profit margin decreased by 20 basis points from 8.2% to 8.0% for the three months ended September 30, 2014 and 2015, respectively. We attribute the decrease in used vehicle retail gross margin primarily to our efforts to grow sales volume during the current period. Same store wholesale losses during the third quarter of 2015 increased by $0.3 million to $1.7 million.

We believe that our used vehicle inventory continues to be well-aligned with current consumer demand, with approximately 36 days of supply in our inventory as of September 30, 2015.

Parts and Service—

	For the Three Months Ended September 30,		Increase (Decrease)	% Change
	2015	2014		
	(Dollars in millions)			
As Reported:				
Parts and service revenue	$190.6	$168.3	$22.3	13 %
Parts and service gross profit:				
Customer pay	$63.5	$58.3	$5.2	9 %
Reconditioning and preparation	30.9	27.5	3.4	12 %
Warranty	18.5	14.3	4.2	29 %
Wholesale parts	5.3	5.1	0.2	4 %
Total parts and service gross profit	$118.2	$105.2	$13.0	12 %
Parts and service gross margin	62.0 %	62.5 %	(0.5)%	