

GROUP 1 AUTOMOTIVE INC  
Form 10-Q  
November 01, 2018  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

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: 1-13461

Group 1 Automotive, Inc.

(Exact name of registrant as specified in its charter)

Delaware 76-0506313  
(State or other (I.R.S.  
jurisdiction of Employer  
incorporation or Identification  
organization) No.)

800 Gessner, Suite  
500  
Houston, Texas  
77024  
(Address of  
principal executive  
offices) (Zip code)  
(713) 647-5700  
(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  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

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Non-accelerated filer  Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of October 29, 2018, the registrant had 19,174,320 shares of common stock, par value \$0.01, outstanding.

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Table of Contents

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. <u>Financial Statements</u>	<u>3</u>
<u>Cautionary Statement about Forward-Looking Statements</u>	<u>41</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>43</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>81</u>
Item 4. <u>Controls and Procedures</u>	<u>83</u>

PART II. OTHER INFORMATION

Item 1. <u>Legal Proceedings</u>	<u>84</u>
Item 1A. <u>Risk Factors</u>	<u>84</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>84</u>
Item 6. <u>Exhibits</u>	<u>85</u>
<u>SIGNATURE</u>	<u>87</u>

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	September 30, 2018	December 31, 2017
	(Unaudited)	
	(In thousands, except per share amounts)	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$32,027	\$28,787
Contracts-in-transit and vehicle receivables, net	235,609	306,433
Accounts and notes receivable, net	169,318	188,611
Inventories, net	1,733,756	1,763,293
Prepaid expenses and other current assets	77,996	42,062
Total current assets	2,248,706	2,329,186
PROPERTY AND EQUIPMENT, net	1,350,929	1,318,959
GOODWILL	968,771	913,034
INTANGIBLE FRANCHISE RIGHTS	276,285	285,632
OTHER ASSETS	36,175	24,254
Total assets	\$4,880,866	\$4,871,065
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Floorplan notes payable - credit facility and other	\$1,155,034	\$1,240,695
Offset account related to floorplan notes payable - credit facility	(71,397 )	(86,547 )
Floorplan notes payable - manufacturer affiliates	415,615	397,183
Offset account related to floorplan notes payable - manufacturer affiliates	(20,500 )	(22,500 )
Current maturities of long-term debt and short-term financing	76,080	77,609
Current liabilities from interest rate risk management activities	311	1,996
Accounts payable	428,441	412,981
Accrued expenses	207,082	177,070
Total current liabilities	2,190,666	2,198,487
LONG-TERM DEBT, net of current maturities	1,304,127	1,318,184
DEFERRED INCOME TAXES	137,826	124,404
LIABILITIES FROM INTEREST RATE RISK MANAGEMENT ACTIVITIES	444	8,583
OTHER LIABILITIES	99,457	97,125
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, \$0.01 par value, 50,000 shares authorized; 25,494 and 25,515 issued, respectively	255	255
Additional paid-in capital	290,668	291,461
Retained earnings	1,368,946	1,246,323
Accumulated other comprehensive loss	(128,894 )	(123,226 )
Treasury stock, at cost; 5,913 and 4,617 shares, respectively	(382,629 )	(290,531 )
Total stockholders' equity	1,148,346	1,124,282
Total liabilities and stockholders' equity	\$4,880,866	\$4,871,065

The accompanying notes are an integral part of these consolidated financial statements.



Table of ContentsGROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Unaudited, in thousands, except per share amounts)			
<b>REVENUES:</b>				
New vehicle retail sales	\$1,539,498	\$1,710,241	\$4,608,658	\$4,496,222
Used vehicle retail sales	792,405	743,038	2,394,828	2,089,914
Used vehicle wholesale sales	86,570	104,827	283,453	308,361
Parts and service sales	354,501	343,193	1,062,145	994,522
Finance, insurance and other, net	116,084	110,993	343,462	314,297
Total revenues	2,889,058	3,012,292	8,692,546	8,203,316
<b>COST OF SALES:</b>				
New vehicle retail sales	1,461,896	1,621,909	4,379,047	4,263,752
Used vehicle retail sales	742,250	695,915	2,249,964	1,952,873
Used vehicle wholesale sales	86,884	105,012	281,871	308,713
Parts and service sales	162,927	158,036	488,637	458,144
Total cost of sales	2,453,957	2,580,872	7,399,519	6,983,482
<b>GROSS PROFIT</b>	435,101	431,420	1,293,027	1,219,834
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	316,771	328,327	949,210	916,674
<b>DEPRECIATION AND AMORTIZATION EXPENSE</b>	16,981	15,059	49,961	42,758
<b>ASSET IMPAIRMENTS</b>	23,159	9,526	27,427	9,526
<b>INCOME FROM OPERATIONS</b>	78,190	78,508	266,429	250,876
<b>OTHER EXPENSE:</b>				
Floorplan interest expense	(14,685	) (13,491	) (43,335	) (38,659
Other interest expense, net	(19,140	) (17,874	) (57,374	) (52,188
<b>INCOME BEFORE INCOME TAXES</b>	44,365	47,143	165,720	160,029
<b>PROVISION FOR INCOME TAXES</b>	(9,587	) (17,262	) (38,666	) (57,076
<b>NET INCOME</b>	\$34,778	\$29,881	\$127,054	\$102,953
<b>BASIC EARNINGS PER SHARE</b>	\$1.74	\$1.43	\$6.18	\$4.85
Weighted average common shares outstanding	19,253	20,222	19,859	20,475
<b>DILUTED EARNINGS PER SHARE</b>	\$1.74	\$1.43	\$6.18	\$4.85
Weighted average common shares outstanding	19,261	20,225	19,868	20,480
<b>CASH DIVIDENDS PER COMMON SHARE</b>	\$0.26	\$0.24	\$0.78	\$0.72

The accompanying notes are an integral part of these consolidated financial statements.

Table of ContentsGROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Unaudited, in thousands)			
NET INCOME	\$34,778	\$29,881	\$127,054	\$102,953
Other comprehensive (loss) income, net of taxes:				
Foreign currency translation adjustment	(5,908 )	8,399	(22,223 )	16,998
Net unrealized gain (loss) on interest rate risk management activities:				
Unrealized gain (loss) arising during the period, net of tax (provision) benefit of (\$846), \$154, (\$4,416), and \$1,462, respectively	2,680	(257 )	13,985	(2,437 )
Reclassification adjustment for realized gain on interest rate swap termination included in SG&A, net of tax provision of \$220.	—	—	(698 )	—
Reclassification adjustment for loss included in interest expense, net of tax benefit of \$266, \$1,027, \$1,080, and \$3,581, respectively	842	1,711	3,418	5,968
Unrealized gain on interest rate risk management activities, net of tax	3,522	1,454	16,705	3,531
OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAXES	(2,386 )	9,853	(5,518 )	20,529
COMPREHENSIVE INCOME	\$32,392	\$39,734	\$121,536	\$123,482

The accompanying notes are an integral part of these consolidated financial statements.

Table of ContentsGROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional	Retained	Accumulated	Treasury	Total
	Shares	Amount	Paid-in Capital	Earnings	Other Comprehensive Loss	Stock	
	(Unaudited, in thousands)						
Balance, December 31, 2017	25,515	\$ 255	\$ 291,461	\$ 1,246,323	\$ (123,226 )	\$(290,531)	\$ 1,124,282
Net income	—	—	—	127,054	—	—	127,054
Other comprehensive loss, net	—	—	—	—	(5,518 )	—	(5,518 )
Tax effects reclassified from accumulated other comprehensive loss	—	—	—	150	(150 )	—	—
Purchases of treasury stock	—	—	—	—	—	(108,624 )	(108,624 )
Net issuance of treasury shares to employee stock compensation plans	(21 )	—	(14,996 )	—	—	16,526	1,530
Stock-based compensation	—	—	14,203	—	—	—	14,203
Cash dividends, net of estimated forfeitures relative to participating securities	—	—	—	(15,978 )	—	—	(15,978 )
Impact of ASC 606 cumulative adjustment	—	—	—	11,397	—	—	11,397
Balance, September 30, 2018	25,494	\$ 255	\$ 290,668	\$ 1,368,946	\$ (128,894 )	\$(382,629)	\$ 1,148,346

The accompanying notes are an integral part of these consolidated financial statements.



Table of ContentsGROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2018      2017 (Unaudited, in thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 127,054	\$ 102,953
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49,961	42,758
Deferred income taxes	4,088	16,102
Asset impairments	27,427	9,526
Stock-based compensation	14,241	14,606
Amortization of debt discount and issue costs	2,475	2,852
Gain on disposition of assets	(26,964 )	(848 )
Other	589	(548 )
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts payable and accrued expenses	35,481	85,163
Accounts and notes receivable	28,431	(8,892 )
Inventories	33,737	68,454
Contracts-in-transit and vehicle receivables	70,211	(15,273 )
Prepaid expenses and other assets	(22,461 )	(4,930 )
Floorplan notes payable - manufacturer affiliates	13,923	(5,164 )
Deferred revenues	(778 )	475
Net cash provided by operating activities	357,415	307,234
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash paid in acquisitions, net of cash received	(135,342 )	(109,082 )
Proceeds from disposition of franchises, property and equipment	107,704	5,133
Purchases of property and equipment, including real estate	(118,215 )	(144,310 )
Deposits for real estate and dealership acquisitions	381	—
Other	—	1,526
Net cash used in investing activities	(145,472 )	(246,733 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings on credit facility - floorplan line and other	5,106,810	5,053,598
Repayments on credit facility - floorplan line and other	(5,185,225 )	(5,108,475 )
Borrowings on credit facility - acquisition line	98,596	68,085
Repayments on credit facility - acquisition line	(91,450 )	(35,576 )
Borrowings on other debt	123,298	126,316
Principal payments on other debt	(105,551 )	(88,701 )
Borrowings on debt related to real estate, net of debt issue costs	54,712	39,031
Principal payments on debt related to real estate	(83,242 )	(21,269 )
Employee stock purchase plan purchases, net of employee tax withholdings	1,529	4,196
Proceeds from termination of mortgage swap	918	—
Repurchases of common stock, amounts based on settlement date	(108,623 )	(40,094 )
Dividends paid	(16,014 )	(15,221 )
Net cash used in financing activities	(204,242 )	(18,110 )
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(2,941 )	867
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	4,760	43,258

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CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of period	29,631	24,246
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of period	\$34,391	\$67,504
SUPPLEMENTAL CASH FLOW INFORMATION:		
Purchases of property and equipment, including real estate, accrued in accounts payable	\$6,131	\$10,364

The accompanying notes are an integral part of these consolidated financial statements.

7

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Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. INTERIM FINANCIAL INFORMATION

Business and Organization

Group 1 Automotive, Inc., a Delaware corporation, is a leading operator in the automotive retailing industry with business activities in 15 states in the United States of America (“U.S.”), 32 towns in the United Kingdom (“U.K.”) and four states in Brazil. Group 1 Automotive, Inc. and its subsidiaries are collectively referred to as the “Company” in these Notes to Consolidated Financial Statements.

The Company, through its regions, sells new and used cars and light trucks; arranges related vehicle financing; sells service and insurance contracts; provides automotive maintenance and repair services; and sells vehicle parts. As of September 30, 2018, the Company’s U.S. retail network consisted of 117 dealerships within the following states: Alabama, California, Florida, Georgia, Kansas, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New Mexico, Oklahoma, South Carolina, and Texas. The President of U.S. Operations reports directly to the Company’s Chief Executive Officer and is responsible for the overall performance of the U.S. region, as well as for overseeing the market directors and dealership general managers. In addition, as of September 30, 2018, the Company had two international regions: (a) the U.K., which consisted of 47 dealerships and (b) Brazil, which consisted of 17 dealerships. The operations of the Company’s international regions are structured similar to the U.S. region.

The Company’s operating results are generally subject to seasonal variations, as well as changes in the economic environment. This seasonality is generally attributable to consumer buying trends and the timing of manufacturer new vehicle model introductions. In addition, in some regions of the U.S., vehicle purchases decline during the winter months due to inclement weather. As a result, U.S. revenues and operating income are typically lower in the first and fourth quarters and higher in the second and third quarters. For the U.K., the first and third quarters tend to be stronger, driven by the vehicle license plate change months of March and September. For Brazil, the Company expects higher volumes in the third and fourth calendar quarters. The first quarter in Brazil is generally the weakest, driven by more consumer vacations and activities associated with Carnival. Other factors unrelated to seasonality, such as changes in economic conditions, manufacturer incentive programs, supply issues, seasonal weather events and/or changes in currency exchange rates may exaggerate seasonal or cause counter-seasonal fluctuations in the Company’s revenues and operating income. Due to seasonality and other factors, the results of operations for the interim period are not necessarily indicative of the results that will be realized for any other interim period or for the entire fiscal year.

Basis of Presentation

The accompanying unaudited condensed Consolidated Financial Statements and footnotes thereto that include financial information as of September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017 have been prepared in accordance with accounting principles generally accepted in the U.S. (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements and are unaudited. In the opinion of management, all adjustments of a normal and recurring nature considered necessary for a fair presentation have been included in the accompanying unaudited condensed Consolidated Financial Statements. All business acquisitions completed during the periods presented have been accounted for by applying the acquisition method of accounting, and their results of operations are included from the effective dates of the closings of the acquisitions. The allocations of purchase price to the assets acquired and liabilities assumed are assigned and recorded based on estimates of fair value and are subject to change within the purchase price allocation period (generally one year from the respective acquisition date). All intercompany balances and transactions have been eliminated in consolidation.

For further information, refer to the Consolidated Financial Statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 (“2017 Form 10-K”).

Business Segment Information

The Company has three reportable segments: the U.S., which includes the activities of the Company's corporate office, the U.K. and Brazil. The reportable segments are the business activities of the Company for which discrete financial information is available and for which operating results are regularly reviewed by its chief operating decision maker to allocate resources and assess performance. The Company's chief operating decision maker is its Chief Executive Officer. See Note 15, "Segment Information", for additional details regarding the Company's reportable segments.

Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## Statements of Cash Flows

The Company utilizes various credit facilities to finance the purchase of its new and used vehicle inventory. With respect to all new vehicle floorplan borrowings, the manufacturers of the vehicles draft the Company's credit facilities directly with no cash flow to or from the Company. With respect to borrowings for used vehicle financing in the U.S., the Company finances up to 85% of the value of the used vehicle inventory and the funds flow directly between the Company and the lender. In the U.K. and Brazil, the Company chooses which used vehicles to finance and the borrowings flow directly to the Company from the lender.

The Company categorizes the cash flows associated with borrowings and repayments on these various credit facilities as Operating or Financing Activities in its Consolidated Statements of Cash Flows. All borrowings from, and repayments to, lenders affiliated with the vehicle manufacturers (excluding the cash flows from or to manufacturer affiliated lenders participating in the Company's syndicated lending group under the Revolving Credit Facility (as defined in Note 9, "Credit Facilities")) are presented within Cash Flows from Operating Activities on the Consolidated Statements of Cash Flows. All borrowings from, and repayments to, the syndicated lending group under the Revolving Credit Facility (including the cash flows from or to manufacturer affiliated lenders participating in the facility), as well as borrowings from, and repayments to, the Company's other credit facilities, are presented within Cash Flows from Financing Activities.

Cash paid for interest, including the monthly settlement of the Company's interest rate derivatives, was \$84.4 million and \$76.0 million for the nine months ended September 30, 2018 and 2017, respectively. Cash paid for taxes, net of refunds, was \$31.0 million and \$45.7 million for the nine months ended September 30, 2018 and 2017, respectively.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported on the Consolidated Balance Sheets to the total of the same amounts shown in the Consolidated Statements of Cash Flows. See Note 11, "Fair Value Measurements", for additional details regarding the Company's restricted cash balances.

	September 30, 2018	December 31, 2017
	(In thousands)	
Cash and cash equivalents	\$32,027	\$ 28,787
Restricted cash, included in other assets	2,364	844
Total cash, cash equivalents, and restricted cash	\$34,391	\$ 29,631

## Recently Adopted Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments in this update addresses several specific cash flow issues with the objective of reducing the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The Company adopted ASU 2016-15 during the first quarter of 2018. The adoption of this ASU did not materially impact its net income, retained earnings, consolidated financial statements, results of operations or cash flows.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, a consensus of the FASB Emerging Issues Task Force ("EITF"). The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted ASU 2016-18 during the first quarter of 2018. The adoption of this ASU did not materially impact its consolidated financial statements, results of operations or cash flows.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments in this update clarify the definition of a business in order to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this ASU should be applied prospectively. The Company adopted ASU 2017-01 during the first quarter of 2018. The adoption of this ASU did not materially impact its consolidated financial statements or results of operations.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. The amendments in this update provide clarity and reduce both diversity in practice and cost and complexity when applying the guidance of Topic 718 to a change to the terms or conditions of a share-based payment award. Under the new guidance, an entity will not apply modification accounting to a share-based payment award if all of the following are the same immediately before and after the change: 1) the award's fair value (or calculated value or intrinsic value, if those measurement methods are used), 2) the award's vesting conditions, and 3) the award's classification as an equity or liability instrument. The

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Company adopted ASU 2017-09 during the first quarter of 2018. The adoption of this ASU did not impact its consolidated financial statements or results of operations.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this update will permit entities to reclassify tax effects stranded in accumulated other comprehensive income as a result of tax legislation enacted by the U.S. government on December 22, 2017, commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"), to retained earnings. The FASB gave entities the option to reclassify these amounts rather than require reclassification and the option to apply the guidance retrospectively or in the period of adoption. The amendments in this update are effective for interim and annual periods beginning after December 15, 2018 with early adoption permitted. The Company early adopted ASU 2018-02 as of July 1, 2018, and reclassified \$0.2 million of stranded tax effects from accumulated other comprehensive income to retained earnings.

Adoption of ASC Topic 606, "Revenue from Contracts with Customers"

Effective January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) ("Topic 606"), and all subsequent amendments issued thereafter, that amend the accounting guidance on revenue recognition. The Company adopted Topic 606 using the modified retrospective method applied to those contracts that were not completed as of January 1, 2018, with a cumulative-effect adjustment to retained earnings recognized as of the date of adoption. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting policies under Topic 605.

The Company identified its material revenue streams to be the sale of new and used vehicles; arrangement of associated vehicle financing and the sale of service and other insurance contracts; the performance of vehicle maintenance and repair services; and the sale of vehicle parts. The Company concluded that no changes to the timing of revenue recognition for the sale of new and used vehicles, as well as vehicle parts are necessary. As it relates to the performance of vehicle maintenance and repair services recognized as a part of Parts and service sales in the accompanying Consolidated Statements of Operations, the Company identified a change in its accounting policies and procedures. Through December 31, 2017, the Company recognized revenue once the maintenance or repair services were completed and the vehicle was delivered to the customer. Under Topic 606, the Company determined that it has an enforceable right to payment during the course of the work being performed in certain jurisdictions and, thus, the Company changed its policy under Topic 606 for those jurisdictions to recognize revenue over time as the maintenance and repair services are performed. With regards to the revenue generated from the arrangement of vehicle financing and the sale of service and other insurance contracts recognized as a part of Finance, insurance and other, net in the accompanying Consolidated Statements of Operations, the Company also identified a change in the Company's accounting policies and procedures. Generally, the Company receives an upfront commission for these transactions from the finance or insurance provider and recognizes the associated revenue when the contract is executed. In some cases, the Company also earns retrospective commission income by participating in the future profitability of the portfolio of contracts sold by the Company. Through December 31, 2017, the Company's accounting policy was to recognize upfront commission income earned when the contract was executed and the amount was determinable, and to recognize retrospective commission income as the amounts were determined and realized. The Company concluded that this retrospective commission income represents variable consideration for which the Company's performance obligation is satisfied when the finance or insurance product contract is executed with the end user. Under the new standard, an estimate of variable consideration, subject to a constraint, is to be included in the transaction price and recognized when or as the performance obligation is satisfied. Therefore, the Company's accounting policy changed under Topic 606 such that the Company will estimate the amount of future earnings that it will realize from the ultimate profitability of the portfolio of contracts subject to a retrospective commission and recognize such estimate, subject to any constraint in the estimate, upfront when the contract is executed with the end user. The Company's estimates of the amount of variable consideration to be ultimately realized will be reassessed at the end of each reporting period and changes in those estimates will be adjusted through revenue.

As a result of adopting Topic 606 and implementing the changes aforementioned, the Company recognized net, after-tax cumulative effect adjustments to increase retained earnings as of the date of adoption for maintenance and repair services of \$4.8 million and for the arrangement of associated vehicle financing and the sale of service and other insurance contracts of \$6.6 million.



Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The cumulative effect of the changes made to the Company's Consolidated Balance Sheet as of January 1, 2018 for the adoption of Topic 606 were as follows:

	January 1, 2018		
	Balance at December 31, 2017	Adjustment due to Topic 606	Balance at January 1, 2018
(In thousands)			
<b>Balance Sheet</b>			
<b>Assets</b>			
Accounts and notes receivable, net	\$ 188,611	\$ 11,623	\$ 200,234
Inventories, net	1,763,293	(3,660 )	1,759,633
Prepaid expense and other current assets	42,062	8,683	50,745
<b>Liabilities</b>			
Accounts payable	\$ 412,981	\$ 1,756	\$ 414,737
Deferred income taxes	124,404	3,493	127,897
<b>Stockholders' equity</b>			
Retained earnings	\$ 1,246,323	\$ 11,397	\$ 1,257,720

The impact of applying Topic 606 for the three and nine months ended September 30, 2018 was as follows:

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	As Reported	Balances Without Adoption of Topic 606	Effect of Change Higher / (Lower)	As Reported	Balances Without Adoption of Topic 606	Effect of Change Higher / (Lower)
(In thousands)						
<b>Income Statement</b>						
<b>Revenues</b>						
Parts and service sales	\$ 354,501	\$ 353,588	\$ 913	\$ 1,062,145	\$ 1,061,160	\$ 985
Finance, insurance and other, net	116,084	111,943	4,141	343,462	340,139	3,323
<b>Cost of sales</b>						
Parts and service sales	\$ 162,927	\$ 162,601	\$ 326	\$ 488,637	\$ 488,412	\$ 225
Selling, general and administrative expenses	316,771	316,640	131	949,210	948,991	219
Provision for income taxes	9,587	8,490	1,097	38,666	37,771	895
Net income	\$ 34,778	\$ 31,278	\$ 3,500	\$ 127,054	\$ 124,085	\$ 2,969

Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The impact of applying Topic 606 at September 30, 2018 was as follows:

	September 30, 2018		
	As Reported	Balances Without Adoption of Topic 606	Effect of Change Higher / (Lower)
Balance Sheet	(In thousands)		
Assets			
Accounts and notes receivable, net	\$ 169,318	\$ 156,900	\$ 12,418
Inventories, net	1,733,756	1,737,582	(3,826 )
Prepaid expense and other current assets	77,996	65,989	12,007
Liabilities			
Accounts payable	\$ 428,441	\$ 426,505	\$ 1,936
Deferred income taxes	137,826	133,453	4,373
Stockholders' equity			
Retained earnings and accumulated other comprehensive loss	\$ 1,240,052	\$ 1,225,762	\$ 14,290

Refer to Note 2, "Revenue" for further discussion of the Company's significant revenue streams.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The amendments in this update relate to the accounting for leasing transactions. This standard requires a lessee to recognize on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than 12 months. In addition, this standard requires both lessees and lessors to disclose certain key information about lease transactions. This standard will be effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. Originally, entities were required to adopt this ASU using a modified retrospective transition method. However, in July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements ("ASU 2018-11"), which provides entities with an additional transition method. Under ASU 2018-11, entities have the option of recognizing the cumulative effect of applying the new standard as an adjustment to beginning retained earnings in the year of adoption while continuing to present all prior periods under previous lease accounting guidance. In July 2018, the FASB also issued ASU 2018-10, Codification Improvements to Topic 842, Leases, which clarifies how to apply certain aspects of the new standard. The Company is in the process of evaluating the impact of adopting this guidance on its consolidated financial statements. However, the Company expects that the adoption will have a significant impact on its consolidated balance sheets, as currently approximately half of its real estate is rented, not owned, via operating leases.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendment in this update replaces the current incurred loss impairment methodology of recognizing credit losses when a loss is probable, with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to assess credit loss estimates. The standard will be effective for fiscal years beginning after December 15, 2019, with early adoption permitted for periods after December 15, 2018. The Company is currently evaluating the impact that the adoption of the provisions of the ASU will have on its consolidated financial statements or results of operations, but does not expect the impact of the amendment in this ASU to be significant.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The amendment in this update eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. This standard should be applied prospectively and is effective for interim and annual periods beginning after December 15, 2019. Earlier application is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the impact of the adoption of the ASU to have a material impact on its consolidated financial statements, results of operations or cash flows.

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 715): Targeted Improvements to Accounting for Hedging Activities. The amendments in this update better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also eases the administrative burden of hedge documentation requirements and assessing hedge effectiveness. The amendments to cash flow and net investment hedge relationships should be applied using a modified retrospective approach while the presentation and disclosure requirements are applied prospectively, effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact that the adoption of the provisions of the ASU will have on its consolidated financial statements or results of operations, but does not expect the impact of the amendments in this ASU to be significant.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. The amendment modifies the disclosure requirements on fair value measurements by removing, modifying, or adding certain disclosures. The amendment will be effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. Certain disclosures in this standard, are required to be applied on a retrospective basis and others on a prospective basis. The Company is currently evaluating the potential impact of adopting this guidance on its consolidated financial statements.

Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 2. REVENUE

As discussed in Note 1, “Interim Financial Information”, the Company’s material revenue streams are the sale of new and used vehicles; arrangement of associated vehicle financing and the sale of service and other insurance contracts; the performance of vehicle maintenance and repair services (including collision restoration); and the sale of vehicle parts.

The following table presents the Company’s revenues disaggregated by revenue source:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017 <sup>(1)</sup>	September 30, 2018	September 30, 2017 <sup>(1)</sup>
	(In thousands)			
REVENUES:				
New vehicle retail sales	\$1,539,498	\$1,710,241	\$4,608,658	\$4,496,222
Used vehicle retail sales	792,405	743,038	2,394,828	2,089,914
Used vehicle wholesale sales	86,570	104,827	283,453	308,361
Total new and used vehicle sales	2,418,473	2,558,106	7,286,939	6,894,497
Vehicle parts sales	83,773	81,273	254,326	234,369
Maintenance and repair sales	270,728	261,920	807,819	760,153
Total parts and service sales	354,501	343,193	1,062,145	994,522
Finance, insurance and other, net	116,084	110,993	343,462	314,297
Total revenues	\$2,889,058	\$3,012,292	\$8,692,546	\$8,203,316

<sup>(1)</sup> As described in Note 1, “Interim Financial Information”, prior period amounts have not been adjusted under the modified retrospective approach.

The following tables present the Company's revenues disaggregated by its geographical segments:

	Three Months Ended September 30, 2018				Nine Months Ended September 30, 2018			
	U.S.	U.K.	Brazil	Total	U.S.	U.K.	Brazil	Total
	(In thousands)				(In thousands)			
REVENUES:								
New vehicle retail sales	\$1,196,551	\$278,046	\$64,901	\$1,539,498	\$3,433,386	\$971,085	\$204,187	\$4,608,658
Used vehicle retail sales	572,011	200,058	20,336	792,405	1,727,848	600,715	66,265	2,394,828
Used vehicle wholesale sales	40,724	41,696	4,150	86,570	137,507	134,408	11,538	283,453
Total new and used vehicle sales	1,809,286	519,800	89,387	2,418,473	5,298,741	1,706,208	281,990	7,286,939
Vehicle parts sales	72,935	9,546	1,292	83,773	220,964	29,537	3,825	254,326
Maintenance and repair sales	216,399	44,271	10,058	270,728	641,773	135,417	30,629	807,819
Total parts and service sales	289,334	53,817	11,350	354,501	862,737	164,954	34,454	1,062,145

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Finance, insurance and other, net	101,610	12,319	2,155	116,084	295,239	42,199	6,024	343,462
Total revenues	\$2,200,230	\$585,936	\$102,892	\$2,889,058	\$6,456,717	\$1,913,361	\$322,468	\$8,692,546

14

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Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Three Months Ended September 30, 2017 <sup>(1)</sup>				Nine Months Ended September 30, 2017 <sup>(1)</sup>			
	U.S. (In thousands)	U.K.	Brazil	Total	U.S. (In thousands)	U.K.	Brazil	Total
<b>REVENUES:</b>								
New vehicle retail sales	\$1,296,267	\$334,772	\$79,202	\$1,710,241	\$3,458,287	\$824,827	\$213,108	\$4,496,222
Used vehicle retail sales	562,031	158,076	22,931	743,038	1,620,171	401,851	67,892	2,089,914
Used vehicle wholesale sales	63,363	38,647	2,817	104,827	200,384	99,604	8,373	308,361
Total new and used vehicle sales	1,921,661	531,495	104,950	2,558,106	5,278,842	1,326,282	289,373	6,894,497
Vehicle parts sales	71,667	8,190	1,416	81,273	209,276	20,648	4,445	234,369
Maintenance and repair sales	212,248	38,593	11,079	261,920	628,496	99,966	31,691	760,153
Total parts and service sales	283,915	46,783	12,495	343,193	837,772	120,614	36,136	994,522
Finance, insurance and other, net	96,383	12,448	2,162	110,993	276,754	31,260	6,283	314,297
Total revenues	\$2,301,959	\$590,726	\$119,607	\$3,012,292	\$6,393,368	\$1,478,156	\$331,792	\$8,203,316

<sup>(1)</sup> As described in Note 1, “Interim Financial Information”, prior period amounts have not been adjusted under the modified retrospective approach.

**New and Used Vehicle Sales**

Specific to the sale of new and used vehicles, the Company has a single performance obligation associated with these contracts - the delivery of the vehicle to the customer, which is the point at which transfer of control occurs. Revenue from the sale of new and used vehicles is recognized upon satisfaction of the performance obligation (i.e., delivery of the vehicle to the customer). In some cases, the Company uses a third-party auction as an agent to facilitate delivery of used vehicles to the customer. Incidental items that are immaterial in the context of the contract are accrued at the time of sale. The transaction price for new and used vehicle sales (i.e., the amount that the Company has the right to under the terms of the sales contract with the customer) is the stand-alone sales price of each individual vehicle and is generally settled within 30 days of the satisfaction of the performance obligation. In many new and used vehicle sales transactions, a portion of the consideration applied by the customer to the satisfaction of the total transaction price is a used vehicle trade-in (i.e., noncash consideration). The Company measures such noncash consideration at fair value. Revenue recognized from the sale of new and used vehicles is reflected in New vehicle retail sales, Used vehicle retail sales, and Used vehicle wholesale sales in the accompanying Consolidated Statements of Operations. With respect to the cost of freight and shipping from its dealerships to its customers, the Company’s policy is to recognize such cost in the corresponding cost of sales category. With respect to taxes assessed by governmental authorities that are imposed upon new and used vehicle sales transactions and collected by the Company from its customers, the Company’s policy is to exclude such amounts from revenues.

**Vehicle Parts Sales**

Related to the sale of vehicle parts, the Company has a single performance obligation associated with these contracts - the delivery of the parts to the customer, which is the point at which transfer of control occurs. Revenue from the sale of vehicle parts is recognized upon satisfaction of the performance obligation (i.e., delivery of the parts to the customer). The transaction price for vehicle parts sales (i.e., the amount that the Company has the right to under the terms of the sales contract with the customer) is the stand-alone sales price of each individual part and is generally

settled within 30 days of the satisfaction of the performance obligation. Revenue recognized from the sale of vehicle parts is reflected in Parts and service sales in the accompanying Consolidated Statements of Operations. With respect to the cost of freight and shipping to its customers, the Company's policy is to recognize such fulfillment cost in the corresponding cost of sales category. With respect to taxes assessed by governmental authorities that are imposed upon vehicle parts sales transactions and collected by the Company from its customers, the Company's policy is to exclude such amounts from revenues.



Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Maintenance and Repair Services

As it relates to vehicle maintenance and repair services (including collision restoration), the Company has a single performance obligation associated with these contracts - the completion of the services. The Company has an enforceable right to payment in certain jurisdictions and, as such, transfers control of vehicle maintenance and repair services to its customer over time. Therefore, satisfaction of the performance obligation associated with the vehicle maintenance and repair services occurs, and the associated revenue is recognized, over time. The Company uses the input method for the measurement of progress and recognition of revenue, utilizing labor hours and parts applied to the customer vehicle to estimate the services performed for which the Company has an enforceable right to payment. The transaction price for vehicle maintenance and repair services (i.e., the amount that the Company has the right to under the terms of the service contract with the customer) is the sum total of the labor and, if applicable, vehicle parts used in the performance of the service, as well as the margin above cost charged to the customer. The transaction price is typically settled within 30 days of the satisfaction of the performance obligation, which generally occurs within a short period of time from contract inception. Revenue recognized from vehicle maintenance and repair services is reflected in Parts and service sales in the accompanying Consolidated Statements of Operations. With respect to taxes assessed by governmental authorities that are imposed upon vehicle maintenance and repair service transactions and collected by the Company from its customer, the Company's policy is to exclude such amounts from revenues.

Arrangement of Vehicle Financing and the Sale of Service and Other Insurance Contracts

The Company receives commissions from finance and insurance providers, under the terms of its contracts with such providers, for the arrangement of vehicle financing and the sale of service and other insurance products. Within the context of the Company's contracts with the finance or insurance provider, the Company has determined that it is an agent for the finance or insurance provider and the finance or insurance provider is the Company's customer. The Company has a single performance obligation associated with these contracts for all commissions earned - the facilitation of the financing of the vehicle or sale of the insurance product. Revenue from these contracts is recognized upon satisfaction of the performance obligation, which is when the finance or insurance product contract is executed with the purchaser. The transaction price (i.e., the amount that the Company has the right to under the terms of the contract with the customer) consists of both fixed and variable consideration. With regards to the upfront commission for these contracts, the transaction price is the amount earned for each individual contract executed and is generally collected within 30 days of the satisfaction of the performance obligation. The Company may be charged back for unearned financing, insurance contract or vehicle service contract fees in the event of early termination of the contracts by customers. A reserve for future amounts estimated to be charged back is recorded, as a reduction of Finance, insurance and other revenue, net in the accompanying Consolidated Statement of Operations, based on the Company's historical chargeback results and the termination provisions of the applicable contracts. In some cases, the Company also earns retrospective commission income by participating in the future profitability of the portfolio of product contracts sold by the Company. This consideration is variable (i.e., contingent upon the performance of the portfolio of contracts) and is generally settled over 5-7 years from the satisfaction of the performance obligation. The Company utilizes the "expected value" method to predict the amount of consideration to which the Company will be entitled, subject to constraint in the estimate. Therefore, the Company estimates the amount of future earnings that it will realize from the ultimate profitability of the portfolio and recognizes such estimate, subject to any constraint in the estimate, upfront when the product contract is executed with the end user, which is when the performance obligation is satisfied. Changes in the Company's estimates of the amount of variable consideration to be ultimately realized are adjusted through revenue. Revenue recognized from the arrangement of vehicle financing and the sale of service and other insurance contracts is reflected in Finance, insurance and other, net in the accompanying Consolidated Statements of Operations and as a contract asset (reflected in Prepaid expenses and other current assets) in the Consolidated Balance Sheet until the right to such consideration becomes unconditional, at which time amounts due are reclassified to accounts receivable.

3. ACQUISITIONS AND DISPOSITIONS

During the nine months ended September 30, 2018, the Company acquired five dealerships, inclusive of eight franchises, and added one franchise in the U.K. The Company also acquired one dealership in Brazil, representing one franchise, and acquired four dealerships in the U.S., inclusive of four franchises. Aggregate consideration paid for these dealerships totaled \$140.4 million, including the associated real estate and goodwill. Also included in the consideration paid was \$5.1 million of cash received in the acquisition of the dealerships. The purchase prices have been allocated based upon the consideration paid and the estimated fair values of the assets acquired and liabilities assumed at the acquisition dates. The allocation of the purchase prices is preliminary and based on estimates and assumptions that are subject to change within the purchase price

Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

allocation periods (generally one year from the respective acquisition date). Also, during the nine months ended September 30, 2018, the Company disposed of two dealerships in the U.S., representing three franchises, as well as one franchise in the U.K.

During the nine months ended September 30, 2017, the Company acquired 12 U.K. dealerships, inclusive of 14 franchises, and opened one dealership for one awarded franchise in the U.K. In addition, the Company acquired three dealerships, inclusive of four franchises, opened one dealership for one awarded franchise in the U.S., and added motorcycles to an existing BMW dealership in Brazil. Aggregate consideration paid for these dealerships totaled \$120.2 million, including the associated real estate and goodwill. Also included in the consideration paid was \$11.2 million of cash received in the acquisition of the dealerships. The purchase prices have been allocated based upon the consideration paid and the estimated fair values of the assets acquired and liabilities assumed at the acquisition dates. Also, during the nine months ended September 30, 2017, the Company disposed of two dealerships in Brazil representing two franchises.

**4. DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES**

The periodic interest rates of the Revolving Credit Facility (as defined in Note 9, “Credit Facilities”) and certain variable-rate real estate related borrowings in the U.S. are indexed to the one-month London Inter Bank Offered Rate (“LIBOR”), plus an associated company credit risk rate. In order to minimize the earnings variability related to fluctuations in these periodic interest rates, the Company employs an interest rate hedging strategy, whereby it enters into arrangements with various financial institutional counterparties with investment grade credit ratings, swapping its variable interest rate exposure for a fixed interest rate over terms not to exceed the related variable-rate debt.

The Company presents the fair value of all interest rate derivative instruments on its Consolidated Balance Sheets.

The Company measures the fair value of its interest rate derivative instruments utilizing an income approach valuation technique, converting future amounts of cash flows to a single present value in order to obtain a transfer exit price within the bid and ask spread that is most representative of the fair value of its derivative instruments. In measuring fair value, the Company utilizes the option-pricing Black-Scholes present value technique for all of its derivative instruments. This option-pricing technique utilizes a one-month LIBOR forward yield curve, obtained from an independent external service provider, matched to the identical maturity term of the instrument being measured.

Observable inputs utilized in the income approach valuation technique incorporate identical contractual notional amounts, fixed coupon rates, periodic terms for interest payments and contract maturity. The fair value estimate of the interest rate derivative instruments also considers the credit risk of the Company for instruments in a liability position or the counterparty for instruments in an asset position. The credit risk is calculated by using the spread between the one-month LIBOR yield curve and the relevant average 10 and 20-year rate according to Standard and Poor’s. The Company has determined the valuation measurement inputs of these derivative instruments to maximize the use of observable inputs that market participants would use in pricing similar or identical instruments and market data obtained from independent sources, which is readily observable or can be corroborated by observable market data for substantially the full term of the derivative instrument. Further, the valuation measurement inputs minimize the use of unobservable inputs. Accordingly, the Company has classified the derivatives within Level 2 of the hierarchy framework as described by Accounting Standards Codification (“ASC”) 820, Fair Value Measurement.

All of the Company’s interest rate derivative instruments are designated as cash flow hedges. The related gains or losses on these interest rate derivative instruments are deferred in stockholders’ equity as a component of accumulated other comprehensive loss. These deferred gains or losses are recognized in income in the period in which the related items being hedged are recognized in expense. Monthly contractual settlements of these swap positions are recognized as “Floorplan interest expense or Other interest expense, net” in the Company’s accompanying Consolidated Statements of Operations. To the extent that the change in value of a derivative contract does not perfectly offset the change in the value of the items being hedged, that ineffective portion is immediately recognized in other income or expense. As of September 30, 2018, all of the Company’s derivative instruments that were in effect were determined to be effective. The Company had no gains or losses related to ineffectiveness or amounts excluded from effectiveness testing recognized in the Consolidated Statements of Operations for the three and nine months ended September 30,

2018 or 2017, respectively.

The Company held 24 interest rate derivative instruments in effect as of September 30, 2018 of \$803.9 million in notional value that fixed its underlying one-month LIBOR at a weighted average rate of 2.6%. For the three months ended September 30, 2018 and 2017, the impact of the Company's interest rate hedges in effect increased floorplan interest expense by \$1.0 million and \$2.3 million, respectively. For the nine months ended September 30, 2018 and 2017, the impact of the Company's interest rate hedges in effect increased floorplan expense by \$4.0 million and \$8.0 million, respectively. Total floorplan interest expense, inclusive of the aforementioned impact of the Company's interest rate hedges, was \$14.7 million and \$13.5 million for the three months ended September 30, 2018 and 2017, respectively, and \$43.3 million and \$38.7 million for the nine months ended September 30, 2018 and 2017, respectively.

Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

In addition to the \$803.9 million of swaps in effect as of September 30, 2018, the Company held seven additional interest rate derivative instruments with forward start dates between December 2018 and December 2020 and expiration dates between December 2021 and December 2030. The aggregate notional value of these seven forward-starting swaps was \$375.0 million, and the weighted average interest rate was 1.8%. The combination of the interest rate derivative instruments currently in effect and these forward-starting derivative instruments is structured such that the notional value in effect at any given time through December 2030 does not exceed \$902.4 million, which is less than the Company's expectation for variable-rate debt outstanding during such period.

Assets and liabilities associated with interest rate derivative instruments as reflected in the accompanying balance sheets were as follows:

	As of September 30, 2018	As of December 31, 2017
	(In thousands)	
Assets from interest rate risk management activities:		
Other long-term assets	\$21,659	\$ 9,501
Total	\$21,659	\$ 9,501

## Liabilities from interest rate risk management activities:

Current	\$311	\$ 1,996
Long-term	444	8,583
Total	\$755	\$ 10,579

Included in Accumulated other comprehensive loss at September 30, 2018 and 2017 were accumulated unrealized gains, net of income taxes, totaling \$15.9 million and unrealized losses, net of income taxes, totaling \$5.8 million, respectively, related to these interest rate derivative instruments.

The following table presents the impact during the current and comparative prior year periods for the Company's interest rate derivative instruments on its Consolidated Statements of Operations and Consolidated Balance Sheets.

	Amount of Unrealized Income (Loss), Net of Tax, Recognized in Other Comprehensive (Loss) Income	
	Nine Months Ended September 30, 2018	2017
Derivatives in Cash Flow Hedging Relationship	(In thousands)	
Interest rate derivative instruments	\$ 13,985	\$ (2,437 )

	Amount of Loss Reclassified from Other Comprehensive (Loss) Income into Statements of Operations	
	Nine Months Ended September 30, 2018	2017
Location of Loss Reclassified from Other Comprehensive (Loss) Income into Statements of Operations	(In thousands)	
Floorplan interest expense	\$ (4,021 )	\$ (7,995 )
Other interest expense, net	(477 )	(1,554 )

The net amount of gain expected to be reclassified out of other comprehensive income (loss) into earnings as an offset to floorplan interest expense or other interest expense, net in the next twelve months is \$1.5 million.



Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 5. STOCK-BASED COMPENSATION PLANS

The Company provides stock-based compensation benefits to employees and non-employee directors pursuant to its 2014 Long Term Incentive Plan (the “Incentive Plan”), as well as to employees pursuant to its Employee Stock Purchase Plan, as amended and restated (the “Purchase Plan”, formerly named the Group 1 Automotive, Inc. 1998 Employee Stock Purchase Plan).

## Long Term Incentive Plan

The Incentive Plan provides for the grant of options (including options qualified as incentive stock options under the Internal Revenue Code of 1986, as amended (the “Code”) and options that are non-qualified), restricted stock, performance awards, bonus stock, and phantom stock to the Company's employees, consultants, non-employee directors and officers. The Incentive Plan expires on May 21, 2024. The terms of the awards (including vesting schedules), are established by the Compensation Committee of the Company’s Board of Directors. As of September 30, 2018, there were 859,339 shares available for issuance under the Incentive Plan.

## Restricted Stock and Restricted Stock Unit Awards

Under the Incentive Plan, the Company grants to non-employee directors and certain employees restricted stock awards or, at their election, restricted stock units (to non-employee directors only) at no cost to the recipient. Restricted stock awards qualify as participating securities because each award contains non-forfeitable rights to dividends. As such, the two-class method is required for the computation of earnings per share. See Note 6, “Earnings Per Share”, for further details. Restricted stock awards are considered outstanding at the date of grant but are subject to vesting periods upon issuance of up to five years. Since they convey no voting rights, restricted stock units are not considered outstanding when issued. In the event an employee or non-employee director terminates his or her employment or directorship with the Company prior to the lapse of the restrictions, the awards, in most cases, will be forfeited to the Company. When restricted stock vests, the Company settles utilizing new shares or treasury shares, if available. Restricted stock units settle in cash upon the termination of the grantees’ employment or directorship. Compensation expense for restricted stock awards is calculated based on the market price of the Company’s common stock at the date of grant and recognized over the requisite service period. Forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. This estimate is adjusted annually based on the extent to which actual or expected forfeitures differ from the previous estimate.

A summary of the restricted stock awards as of September 30, 2018, along with the changes during the nine months then ended, is as follows:

	Awards	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2017	702,778	\$ 68.23
Granted	229,421	75.33
Vested	(220,254)	63.92
Forfeited	(30,065 )	69.76
Nonvested at September 30, 2018	681,880	\$ 71.93

## Employee Stock Purchase Plan

The Purchase Plan authorizes the issuance of up to 4.5 million shares of common stock and provides that no options to purchase shares may be granted under the Purchase Plan after May 19, 2025. The Purchase Plan is available to all employees of the Company and its participating subsidiaries and is a qualified plan as defined by Section 423 of the Code. At the end of each fiscal quarter (the “Option Period”) during the term of the Purchase Plan, employees can acquire shares of common stock from the Company at 85% of the fair market value of the common stock on the first or the last day of the Option Period, whichever is lower. As of September 30, 2018, there were 1,029,506 shares available for issuance under the Purchase Plan. During the nine months ended September 30, 2018 and 2017, the Company issued 109,589 and 96,098 shares, respectively, of common stock to employees participating in the Purchase Plan. With respect to shares issued under the Purchase Plan, the Company's Board of Directors has

authorized specific share repurchases to fund the shares issuable under the Purchase Plan.

The weighted average per share fair value of employee stock purchase rights issued pursuant to the Purchase Plan was \$15.38 and \$16.69 for the nine months ended September 30, 2018 and 2017, respectively. The fair value of stock purchase rights is calculated using the grant date stock price, the value of the embedded call option and the value of the embedded put option.



Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## Stock-Based Compensation

Total stock-based compensation cost was \$4.4 million and \$4.1 million for the three months ended September 30, 2018 and 2017, respectively, and \$14.2 million and \$14.6 million for the nine months ended September 30, 2018 and 2017, respectively. Cash received from Purchase Plan purchases was \$5.9 million and \$5.5 million for the nine months ended September 30, 2018 and 2017, respectively.

## 6. EARNINGS PER SHARE

The two-class method is utilized for the computation of the Company's earnings per share ("EPS"). The two-class method requires a portion of net income to be allocated to participating securities, which are unvested awards of share-based payments with non-forfeitable rights to receive dividends or dividend equivalents. The Company's restricted stock awards are participating securities. Income allocated to these participating securities is excluded from net earnings available to common shares, as shown in the table below. Basic EPS is computed by dividing net income available to basic common shares by the weighted average number of basic common shares outstanding during the period. Diluted EPS is computed by dividing net income available to diluted common shares by the weighted average number of dilutive common shares outstanding during the period.

The following table sets forth the calculation of EPS for the three and nine months ended September 30, 2018 and 2017.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands, except per share amounts)			
Weighted average basic common shares outstanding	19,253	20,222	19,859	20,475
Dilutive effect of employee stock purchases, net of assumed repurchase of treasury stock	8	3	9	5
Weighted average dilutive common shares outstanding	19,261	20,225	19,868	20,480
Basic:				
Net income	\$34,778	\$29,881	\$127,054	\$102,953
Less: Earnings allocated to participating securities	1,182	1,024	4,308	3,660
Net income available to basic common shares	\$33,596	\$28,857	\$122,746	\$99,293
Basic earnings per common share	\$1.74	\$1.43	\$6.18	\$4.85
Diluted:				
Net income	\$34,778	\$29,881	\$127,054	\$102,953
Less: Earnings allocated to participating securities	1,181	1,023	4,306	3,659
Net income available to diluted common shares	\$33,597	\$28,858	\$122,748	\$99,294
Diluted earnings per common share	\$1.74	\$1.43	\$6.18	\$4.85

## 7. INCOME TAXES

For the three and nine months ended September 30, 2018, the Company's effective tax rate decreased to 21.6% and 23.3%, respectively, as compared to 36.6% and 35.7% for the three and nine months ended September 30, 2017, respectively. This decrease was primarily due to the impact of the Tax Act that made broad and complex changes to the Code. Those changes include, but are not limited to, reducing the U.S. federal corporate tax rate from 35.0% to 21.0%, creating a territorial tax system that generally eliminates U.S. federal income taxes on dividends from foreign subsidiaries, requiring companies to pay a one-time transition tax on unrepatriated earnings of their foreign subsidiaries, creating a "minimum tax" on certain foreign earnings (i.e. global intangible low-taxed income, or "GILTI"), limiting the deduction for net interest expense incurred by U.S. corporations, and eliminating certain deductions, including deductions for certain compensation arrangements and certain other business expenses. The Company recognizes the tax on GILTI as a period expense in the period the tax is incurred. Under this policy, the Company has

not provided deferred taxes related to temporary differences that upon their reversal will affect the amount of income subject to GILTI in the period. As of September 30, 2018, the Company estimated that the 2018 GILTI tax will not be material.

The Company is subject to U.S. federal income taxes and income taxes in numerous U.S. states. In addition, the Company is subject to income tax in the U.K. and Brazil relative to its foreign subsidiaries. The Company's effective income tax rate of 21.6% and 23.3% for the three and nine months ended September 30, 2018, respectively, was more than the U.S. federal

Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

statutory rate of 21.0%, due primarily to: (1) the taxes provided for in U.S. state jurisdictions; (2) valuation allowances provided for net operating losses and other deferred tax assets in certain U.S. states and in Brazil; (3) unrecognized tax benefits with respect to uncertain tax positions; and (4) the deferred tax impact of certain goodwill amortization in Brazil, partially offset by: (1) income generated in the U.K., which is taxed at a 19.0% statutory rate; and (2) excess tax deductions for restricted stock awards.

In accordance with SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Job Act (“SAB 118”), the Company made a reasonable estimate of the Tax Act’s impact and provisionally recorded this estimate in its results for the period ended December 31, 2017. As of September 30, 2018, the Company has not completed its accounting for all aspects of the Tax Act recorded provisionally. However, based on further analysis of certain aspects of the Tax Act and refinement of our calculations during the three months ended September 30, 2018, we recorded a \$0.7 million adjustment to our provisional amount as a reduction of income tax expense from continuing operations. We also determined that the Company does not have a transition tax liability for previously untaxed accumulated and current earnings and profits of foreign subsidiaries. The Company will continue to gather data and evaluate the impact of the Tax Act after the Company has considered additional guidance issued by the U.S. Treasury Department, the IRS, state tax authorities and other standard-setting bodies. This analysis may result in adjustments to the provisional amounts, which would impact the Company's provision for income taxes and effective tax rate for the period in which the adjustments are made. The Company expects to complete its accounting for the Tax Act in 2018.

As of September 30, 2018, the Company's unrecognized tax benefits totaled \$1.8 million, including related interest and penalty. To the extent that any such tax benefits are recognized in the future, such recognition would reduce the tax liability in that period by approximately \$1.4 million. Consistent with prior treatment of tax related assessments, the Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

The Company's taxable years 2013 and subsequent remain open for examination in the U.S. The Company's taxable years 2016 and subsequent remain open in the U.K., and taxable years 2012 and subsequent remain open in Brazil.

**8. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS**

Accounts and notes receivable consisted of the following:

	September 30, 2018	December 31, 2017
	(In thousands)	
Amounts due from manufacturers	\$89,338	\$109,599
Parts and service receivables <sup>(1)</sup>	52,118	39,343
Finance and insurance receivables	22,169	25,293
Other	8,826	17,514
Total accounts and notes receivable	172,451	191,749
Less allowance for doubtful accounts	3,133	3,138
Accounts and notes receivable, net <sup>(1)</sup>	\$169,318	\$188,611

Inventories consisted of the following:

	September 30, 2018	December 31, 2017
	(In thousands)	
New vehicles	\$1,170,844	\$1,194,632
Used vehicles	359,997	350,760
Rental vehicles	132,113	144,213
Parts, accessories and other <sup>(1)</sup>	80,133	82,755
Total inventories	1,743,087	1,772,360
Less lower of cost or net realizable value allowance	9,331	9,067
Inventories, net <sup>(1)</sup>	\$1,733,756	\$1,763,293

<sup>(1)</sup> December 31, 2017 balances have not been adjusted under the modified retrospective approach as a part of the implementation of Topic 606. See Note 1, “Interim Financial Information”, for further detail.

21

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Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

New, used, and rental vehicles are valued at the lower of specific cost or net realizable value and are removed from inventory using the specific identification method. Parts and accessories are valued at lower of cost (determined on either a first-in, first-out or an average cost basis) or net realizable value.

Property and equipment consisted of the following:

	Estimated Useful Lives in Years	September 30, 2018	December 31, 2017
		(In thousands)	
Land	—	\$489,401	\$482,600
Buildings	25 to 50	717,354	700,257
Leasehold improvements	varies	189,059	172,071
Machinery and equipment	7 to 20	123,388	117,781
Furniture and fixtures	3 to 10	109,031	100,881
Company vehicles	3 to 5	12,488	11,933
Construction in progress	—	46,196	41,824
Total		1,686,917	1,627,347
Less accumulated depreciation		335,988	308,388
Property and equipment, net		\$1,350,929	\$1,318,959

During the nine months ended September 30, 2018, the Company incurred \$85.5 million of capital expenditures for the construction of new or expanded facilities and the purchase of equipment and other fixed assets in the maintenance of the Company's dealerships and facilities, excluding \$8.8 million of capital expenditures accrued as of December 31, 2017. As of September 30, 2018, the Company had accrued \$6.1 million of capital expenditures. Additionally, during the nine months ended September 30, 2018, the Company purchased real estate (including land and buildings) associated with existing dealership operations totaling \$30.1 million. In conjunction with the acquisition of dealerships and franchises in the nine months ended September 30, 2018, the Company acquired \$22.3 million of real estate and other property and equipment.

In conjunction with the two U.S. dealership dispositions during the nine months ended September 30, 2018 that are described in Note 3, "Acquisitions and Dispositions", the Company disposed of land, building and other equipment that totaled \$38.9 million. Further, the Company identified \$4.8 million of property and equipment qualifying as held-for-sale assets as of September 30, 2018 and reclassified such assets to Prepaid expenses and other current assets.

**9. CREDIT FACILITIES**

In the U.S., the Company has a \$1.8 billion revolving syndicated credit arrangement that matures on June 17, 2021 and is comprised of 24 financial institutions, including six manufacturer-affiliated finance companies ("Revolving Credit Facility"), consisting of two tranches. The borrowing capacity of the Revolving Credit Facility can be allocated between the two tranches, subject to certain limits. For U.S. vehicle inventory floorplan financing, the Revolving Credit Facility provides a maximum of \$1.75 billion ("Floorplan Line") and, for working capital and general corporate purposes (including acquisitions), the Revolving Credit Facility provides a maximum of \$360.0 million and a minimum of \$50.0 million ("Acquisition Line"). The Company also has a \$300.0 million floorplan financing arrangement ("FMCC Facility") with Ford Motor Credit Company ("FMCC") for financing of new Ford vehicles in the U.S. and other floorplan financing arrangements with several other automobile manufacturers for financing of a portion of its U.S. rental vehicle inventory. Within the Company's Consolidated Balance Sheets, Floorplan notes payable - credit facility and other primarily reflects amounts payable for the purchase of specific new, used, and rental vehicle inventory (with the exception of new and rental vehicle purchases financed through lenders affiliated with the respective manufacturer) whereby financing is provided by the Revolving Credit Facility. Floorplan notes payable - manufacturer affiliates reflects amounts related to the purchase of vehicles whereby financing is provided by the FMCC Facility, the financing of a portion of the Company's rental vehicles in the U.S. (through lenders affiliated with the respective manufacturer), as well as the financing of new, used, and rental vehicles with manufacturer affiliates in both the U.K. and Brazil. Payments on the floorplan notes payable are generally due as the vehicles are sold. As a

result, these obligations are reflected in the accompanying Consolidated Balance Sheets as current liabilities.

Revolving Credit Facility

After considering the outstanding balance of \$1.1 billion at September 30, 2018, the Company had \$384.9 million of available floorplan borrowing capacity under the Floorplan Line. Included in the \$384.9 million available borrowings under the

Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Floorplan Line was \$71.4 million of immediately available funds. The weighted average interest rate on the Floorplan Line was 3.3% and 2.7% as of September 30, 2018 and December 31, 2017, respectively, excluding the impact of the Company's interest rate derivative instruments. With regards to the Acquisition Line, there were \$32.6 million of borrowings outstanding as of September 30, 2018 and \$27.0 million of borrowings outstanding as of December 31, 2017, both of which consisted entirely of borrowings in British pound sterling. The interest rate on the Acquisition Line was 2.47% as of September 30, 2018, representing the applicable rate for borrowings in British pound sterling. After considering \$25.4 million of outstanding letters of credit and other factors included in the Company's available borrowing base calculation, there was \$301.8 million of available borrowing capacity under the Acquisition Line as of September 30, 2018. The amount of available borrowing capacity under the Acquisition Line is limited from time to time based upon certain debt covenants.

The Revolving Credit Facility contains a number of significant covenants that, among other things, restrict the Company's ability to make disbursements outside of the ordinary course of business, dispose of assets, incur additional indebtedness, create liens on assets, make investments, and engage in mergers or consolidations. The Company is also required to comply with specified financial tests and ratios defined in the Revolving Credit Facility, such as the fixed charge coverage and total adjusted leverage ratios. Further, the Revolving Credit Facility restricts the Company's ability to make certain payments, such as dividends or other distributions of assets, properties, cash, rights, obligations or securities ("Restricted Payments"). The Restricted Payments cannot exceed the sum of \$208.5 million plus (or minus if negative) (a) one-half of the aggregate consolidated net income for the period beginning on April 1, 2014 and ending on the date of determination and (b) the amount of net cash proceeds received from the sale of capital stock after June 2, 2014 and ending on the date of determination less (c) cash dividends and share repurchases after June 2, 2014 ("Credit Facility Restricted Payment Basket"). For purposes of the calculation of the Credit Facility Restricted Payment Basket, net income represents such amounts per the Consolidated Financial Statements adjusted to exclude the Company's foreign operations, non-cash interest expense, non-cash asset impairment charges, and non-cash stock-based compensation. As of September 30, 2018, the Credit Facility Restricted Payment Basket totaled \$128.2 million. The Company was in compliance with all applicable covenants and ratios under the Revolving Credit Facility as of September 30, 2018. All of the U.S. dealership-owning subsidiaries are co-borrowers under the Revolving Credit Facility. The Company's obligations under the Revolving Credit Facility are secured by essentially all of the Company's U.S. personal property (other than equity interests in dealership-owning subsidiaries), including all motor vehicle inventory and proceeds from the disposition of dealership-owning subsidiaries, excluding inventory financed directly with manufacturer-affiliates and other third-party financial institutions.

**Ford Motor Credit Company Facility**

As of September 30, 2018, the Company had an outstanding balance of \$128.2 million under the FMCC Facility with an available floorplan borrowing capacity of \$171.8 million. Included in the \$171.8 million of available borrowings under the FMCC Facility was \$20.5 million of immediately available funds. This facility bears interest at a rate of Prime plus 150 basis points minus certain incentives. The interest rate on the FMCC Facility was 6.75% before considering the applicable incentives as of September 30, 2018.

**Other Credit Facilities**

The Company has credit facilities with financial institutions in the U.K., most of which are affiliated with the manufacturers, for financing new, used, and rental vehicle inventories related to its U.K. operations. As of September 30, 2018, borrowings outstanding under these facilities totaled \$168.4 million. Annual interest rates charged on borrowings outstanding under these facilities, after the grace period of zero to 30 days, ranged from 2.15% to 3.45%.

The Company has credit facilities with financial institutions in Brazil, most of which are affiliated with the manufacturers, for the financing of new, used, and rental vehicle inventories related to its Brazilian operations. As of September 30, 2018, borrowings outstanding under these facilities totaled \$16.1 million. Annual interest rates charged on borrowings outstanding under these facilities, after the grace period of zero to 90 days, ranged from 10.80% to 13.76%.

Excluding rental vehicles financed through the Revolving Credit Facility, financing for U.S. rental vehicles is typically obtained directly from the automobile manufacturers. As of September 30, 2018, borrowings outstanding under these rental vehicle facilities totaled \$111.0 million, with interest rates that vary up to 6.75%.



Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 10. LONG-TERM DEBT

The Company carries its long-term debt at face value, net of applicable discounts and capitalized debt issuance costs. Long-term debt consisted of the following:

	September 30, 2018	December 31, 2017
	(In thousands)	
5.00% senior notes (aggregate principal of \$550,000 at September 30, 2018 and December 31, 2017)	\$543,306	\$542,063
5.25% senior notes (aggregate principal of \$300,000 at September 30, 2018 and December 31, 2017)	296,587	296,151
Acquisition line	32,584	26,988
Real estate related and other long-term debt	455,190	440,845
Capital lease obligations related to real estate, maturing in varying amounts through December 2037, with a weighted average interest rate of 10.4% at September 30, 2018 and December 31, 2017	51,418	51,665
	1,379,085	1,357,712
Less current maturities of long-term debt	74,958	39,528
	\$1,304,127	\$1,318,184

## Short-Term Financing

The Company includes short-term financing loans within Current maturities of long-term debt and short-term financing, in the Company's Consolidated Balance Sheets. As of September 30, 2018, the Company had a short-term financing arrangement in Brazil that totaled \$1.1 million, which included borrowings of \$2.4 million and repayments of \$0.8 million during the nine months ended September 30, 2018. At December 31, 2017, the Company had two working capital loans with third-party financial institutions in the U.K. that totaled \$13.4 million. During the nine months ended September 30, 2018, the Company had borrowings of \$30.3 million and made principal payments of \$43.2 million to the two short-term revolving working capital loan agreements, leaving no outstanding balance as of September 30, 2018. Also, at December 31, 2017, the Company had an unsecured loan agreement with a third-party financial institution in the U.S. that totaled \$24.7 million. During the nine months ended September 30, 2018, the Company repaid the entire balance outstanding for this U.S. unsecured loan agreement.

## Real Estate Related and Other Long-Term Debt

The mortgage loans in the U.S. consist of 60 term loans for an aggregate principal amount of \$418.9 million. As of September 30, 2018, borrowings outstanding under these notes totaled \$349.0 million, with \$59.8 million classified as a current maturity of long-term debt. For the nine months ended September 30, 2018, the Company made additional borrowings and principal payments, including repayment of the mortgage associated with two of the U.S. dealership dispositions described in Note 3, "Acquisitions and Dispositions", of \$42.7 million and \$43.7 million, respectively. The Company has entered into 18 separate term mortgage loans in the U.K. with other third-party financial institutions, which are secured by the Company's U.K. properties. These mortgage loans (collectively, "U.K. Notes") are denominated in British pound sterling and are being repaid in monthly installments that will mature by September 2034. As of September 30, 2018, borrowings under the U.K. mortgage loans totaled \$77.6 million, with \$7.8 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets. For the nine months ended September 30, 2018, the Company made additional borrowings and principal payments of \$12.1 million and \$10.6 million, respectively, associated with the U.K. Notes. Additionally, during the nine months ended September 30, 2018, the Company entered into an unsecured loan agreement in the U.K. with a third-party financial institution that matures in March 2028. As of September 30, 2018, borrowings under the agreement totaled \$19.6 million, with \$2.0 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets.

The Company has a separate term mortgage loan in Brazil with a third-party financial institution, which is denominated in Brazilian real and is secured by one of the Company's Brazilian properties, as well as a guarantee from the Company. The mortgage is being repaid in monthly installments through April 2025. As of September 30, 2018, borrowings under the Brazil mortgage totaled \$2.4 million, with \$0.3 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets. For the nine months ended September 30, 2018, the Company made no additional borrowings and made principal payments of \$0.4 million associated with the Brazil mortgage.

The Company also has a working capital loan agreement with a third-party financial institution in Brazil. As of September 30, 2018, borrowings under the Brazilian third-party loan totaled \$5.4 million. For the nine months ended September

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

30, 2018, the Company made no additional borrowings or principal payments associated with the working capital loan agreement.

**Fair Value of Long-Term Debt**

The Company's outstanding 5.00% Senior Notes due 2022 ("5.00% Notes") had a fair value of \$549.1 million and \$567.9 million as of September 30, 2018 and December 31, 2017, respectively. The Company's outstanding 5.25% Senior Notes due 2023 ("5.25% Senior Notes") had a fair value of \$296.3 million and \$310.9 million as of September 30, 2018 and December 31, 2017, respectively. The carrying value of the Company's fixed interest rate borrowings included in real estate related and other long-term debt totaled \$81.3 million and \$86.8 million as of September 30, 2018 and December 31, 2017, respectively. The fair value of such fixed interest rate borrowings was \$77.4 million and \$92.9 million as of September 30, 2018 and December 31, 2017, respectively. The fair value estimates are based on Level 2 inputs of the fair value hierarchy available as of September 30, 2018 and December 31, 2017. The Company determined the estimated fair value of its long-term debt using available market information and commonly accepted valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, these estimates are not necessarily indicative of the amounts that the Company, or holders of the instruments, could realize in a current market exchange. The use of different assumptions and/or estimation methodologies could have a material effect on estimated fair values. The carrying value of the Company's variable rate debt approximates fair value due to the short-term nature of the interest rates.

Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 11. FAIR VALUE MEASUREMENTS

ASC 820 defines fair value as the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; requires disclosure of the extent to which fair value is used to measure financial and non-financial assets and liabilities, the inputs utilized in calculating valuation measurements, and the effect of the measurement of significant unobservable inputs on earnings, or changes in net assets, as of the measurement date; and establishes a three-level valuation hierarchy based upon the transparency of inputs utilized in the measurement and valuation of financial assets or liabilities as of the measurement date:

- Level 1 — unadjusted, quoted prices for identical assets or liabilities in active markets;
- Level 2 — quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted market prices that are observable or that can be corroborated by observable market data by correlation; and
- Level 3 — unobservable inputs based upon the reporting entity’s internally developed assumptions that market participants would use in pricing the asset or liability.

The Company’s financial instruments consist primarily of cash and cash equivalents, contracts-in-transit and vehicle receivables, accounts and notes receivable, investments in debt and equity securities, accounts payable, credit facilities, long-term debt, and interest rate derivative instruments. The fair values of cash and cash equivalents, contracts-in-transit and vehicle receivables, accounts and notes receivable, accounts payable, and credit facilities approximate their carrying values due to the short-term nature of these instruments and/or the existence of variable interest rates. The Company evaluated its assets and liabilities for those that met the criteria of the disclosure requirements and fair value framework of ASC 820 and identified demand obligations, interest rate derivative instruments, and investment balances in certain financial institutions as having met such criteria. See Note 10, “Long-Term Debt”, for details regarding the fair value of the Company’s long-term debt.

The Company periodically invests in unsecured, corporate demand obligations with manufacturer-affiliated finance companies, which bear interest at a variable rate and are redeemable on demand by the Company. Therefore, the Company has classified these demand obligations as Cash and cash equivalents in the accompanying Consolidated Balance Sheets. The Company determined that the valuation measurement inputs of these instruments include inputs other than quoted market prices, that are observable or that can be corroborated by observable data by correlation. Accordingly, the Company has classified these instruments within Level 2 of the hierarchy framework.

In addition, the Company maintains an investment balance with certain of the financial institutions in Brazil that provide credit facilities for the financing of new, used, and rental vehicle inventories. The investment balances bear interest at a variable rate and are redeemable by the Company in the future under certain conditions. The Company has classified these investment balances as restricted cash within Other Assets in the accompanying Consolidated Balance Sheets. The Company determined that the valuation measurement inputs of these instruments include inputs other than quoted market prices that are observable or that can be corroborated by observable data by correlation. Accordingly, the Company has classified these instruments within Level 2 of the hierarchy framework.

The Company’s derivative financial instruments are recorded at fair market value. See Note 4, “Derivative Instruments and Risk Management Activities”, for further details regarding the Company’s derivative financial instruments.

Assets and liabilities recorded at fair value, within Level 2 of the hierarchy framework, in the accompanying balance sheets as of September 30, 2018 and December 31, 2017, respectively, were as follows:

	As of September 30, 2018	As of December 31, 2017
	(In thousands)	
Assets:		
Investments	\$2,364	\$ 844

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Demand obligations	13	13
Interest rate derivative financial instruments	21,659	9,501
Total	\$24,036	\$ 10,358
Liabilities:		
Interest rate derivative financial instruments	\$755	\$ 10,579
Total	\$755	\$ 10,579

26

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Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

12. COMMITMENTS AND CONTINGENCIES

From time to time, the Company's dealerships are named in various types of litigation involving customer claims, employment matters, class action claims, purported class action claims, as well as claims involving the manufacturers of automobiles, contractual disputes, and other matters arising in the ordinary course of business. Due to the nature of the automotive retailing business, the Company may be involved in legal proceedings or suffer losses that could have a material adverse effect on the Company's business. In the normal course of business, the Company is required to respond to customer, employee, and other third-party complaints. Amounts that have been accrued or paid related to the settlement of litigation are included in selling, general and administrative expenses in the Company's Consolidated Statements of Operations. In addition, the manufacturers of the vehicles that the Company sells and services have audit rights allowing them to review the validity of amounts claimed for incentive, rebate, or warranty-related items and charge the Company back for amounts determined to be invalid payments under the manufacturers' programs, subject to the Company's right to appeal any such decision. Amounts that have been accrued or paid related to the settlement of manufacturer chargebacks of recognized incentives and rebates are included in cost of sales in the Company's Consolidated Statements of Operations, while such amounts for manufacturer chargebacks of recognized warranty-related items are included as a reduction of Revenues in the Company's Consolidated Statements of Operations.

Legal Proceedings

Currently, the Company is not party to any legal proceedings that, individually or in the aggregate, are reasonably expected to have a material adverse effect on the Company's results of operations, financial condition, or cash flows, including class action lawsuits. However, the results of current, or future, matters cannot be predicted with certainty, and an unfavorable resolution of one or more of such matters could have a material adverse effect on the Company's results of operations, financial condition, or cash flows.

Other Matters

The Company, acting through its subsidiaries, is the lessee under many real estate leases that provide for the use by the Company's subsidiaries of their respective dealership premises. Pursuant to these leases, the Company's subsidiaries generally agree to indemnify the lessor and other parties from certain liabilities arising as a result of the use of the leased premises, including environmental liabilities, or a breach of the lease by the lessee. Additionally, from time to time, the Company enters into agreements in connection with the sale of assets or businesses in which it agrees to indemnify the purchaser, or other parties, from certain liabilities or costs arising in connection with the assets or business. Also, in the ordinary course of business in connection with purchases or sales of goods and services, the Company enters into agreements that may contain indemnification provisions. In the event that an indemnification claim is asserted, liability would be limited by the terms of the applicable agreement.

From time to time, primarily in connection with dealership dispositions, the Company's subsidiaries sublet to the dealership purchaser the subsidiaries' interests in any real property leases associated with such dealerships and continue to be primarily obligated on the lease. In these situations, the Company's subsidiaries retain primary responsibility for the performance of certain obligations under such leases. To the extent that the Company remains primarily responsible under such leases, a quantification of such lease obligations is included in the Company's disclosure of future minimum lease payments for non-cancelable operating leases in Note 18. "Operating Leases", to Item 8. "Financial Statements and Supplementary Data" of the 2017 Form 10-K.

In certain instances, also in connection with dealership dispositions, the Company's subsidiaries assign to the dealership purchaser the subsidiaries' interests in any real property leases associated with such dealerships. The Company's subsidiaries may retain secondary responsibility for the performance of certain obligations under such leases to the extent that the assignee does not perform, if such performance is required following the assignment of the lease. Additionally, the Company and its subsidiaries may remain subject to the terms of a guaranty made by the Company and its subsidiaries in connection with such leases. In these circumstances, the Company generally has indemnification rights against the assignee in the event of non-performance under these leases, as well as certain defenses. Although the Company has no reason to believe that it or its subsidiaries will be called upon to perform

under any such assigned leases or subleases, the Company estimates that lessee rental payment obligations during the remaining terms of these leases were \$43.9 million as of September 30, 2018. The Company and its subsidiaries also may be called on to perform other obligations under these leases, such as environmental remediation of the leased premises or repair of the leased premises upon termination of the lease. However, potential environmental liabilities are generally known at the time of the sale of the dealership if not previously remediated. The Company does not have any known material environmental commitments or contingencies and presently has no reason to believe that it or its subsidiaries will be called on to so perform. Although not estimated to be material, the Company's exposure under these leases is difficult to estimate and there can be no assurance that any performance of the Company or its subsidiaries

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

required under these leases would not have a material adverse effect on the Company's business, financial condition, or cash flows.

28

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Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 13. INTANGIBLE FRANCHISE RIGHTS AND GOODWILL

The following is a roll-forward of the Company's intangible franchise rights and goodwill accounts by reportable segment:

	Intangible Franchise Rights			
	U.S.	U.K.	Brazil	Total
	(In thousands)			
BALANCE, December 31, 2017	\$255,981	\$29,483	\$168	\$285,632
Additions through acquisitions	11,540	8,423	—	19,963
Disposals	(4,872 )	—	—	(4,872 )
Impairments	(22,909 )	—	—	(22,909 )
Currency translation	—	(1,498 )	(31 )	(1,529 )
Balance, September 30, 2018	\$239,740	\$36,408	\$137	\$276,285
	Goodwill			
	U.S.	U.K.	Brazil	Total
	(In thousands)			
BALANCE, December 31, 2017	\$835,267	\$65,034	\$12,733	\$913,034 <sup>(1)</sup>
Additions through acquisitions	39,765	28,476	4,284	72,525
Purchase price allocation adjustments	2	—	—	2
Disposals	(9,973 )	—	—	(9,973 )
Currency translation	—	(3,882 )	(2,935 )	(6,817 )
Balance, September 30, 2018	\$865,061	\$89,628	\$14,082	\$968,771 <sup>(1)</sup>

<sup>(1)</sup> Net of accumulated impairment of \$97.8 million.

The Company evaluates intangible franchise rights and goodwill assets for impairment annually, or more frequently if events or circumstances indicate possible impairment. During the three months ended September 30, 2018, the Company identified circumstances indicating possible impairment of some individual franchise rights, requiring a quantitative assessment. The Company did not identify any such circumstances relative to the goodwill for each of its reporting units. Based on the results of the Company's assessment, the Company determined that the fair value of the franchise rights on two of its U.S. dealerships were below its respective carrying values, resulting in franchise asset impairment charges of \$21.7 million. This was recognized as an asset impairment in the Company's Consolidated Statements of Operations during the three months ended September 30, 2018.

Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 14. ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in the balances of each component of accumulated other comprehensive loss for the nine months ended September 30, 2018 and 2017 were as follows:

	Nine Months Ended September 30, 2018		
	Accumulated foreign currency translation loss	Accumulated (loss) gain on interest rate swaps	Total
	(In thousands)		
Balance, December 31, 2017	\$(122,552)	\$ (674 )	\$(123,226)
Other comprehensive (loss) income before reclassifications:			
Pre-tax	(22,223 )	18,401	(3,822 )
Tax effect	—	(4,416 )	(4,416 )
Amounts reclassified from accumulated other comprehensive loss to:			
Floorplan interest expense (pre-tax)	—	4,021	4,021
Other interest expense (pre-tax)	—	477	477
Realized gain on swap termination (pre-tax)	—	(918 )	(918 )
Tax effect	—	(860 )	(860 )
Net current period other comprehensive (loss) income	(22,223 )	16,705	(5,518 )
Tax effects reclassified from accumulated other comprehensive loss	\$—	\$ (150 )	\$(150 )
Balance, September 30, 2018	\$(144,775)	\$ 15,881	\$(128,894)
	Nine Months Ended September 30, 2017		
	Accumulated foreign currency translation loss	Accumulated loss on interest rate swaps	Total
	(In thousands)		
Balance, December 31, 2016	\$(137,613)	\$ (9,331 )	\$(146,944)
Other comprehensive income (loss) before reclassifications:			
Pre-tax	16,998	(3,899 )	13,099
Tax effect	—	1,462	1,462
Amounts reclassified from accumulated other comprehensive loss to:			
Floorplan interest expense (pre-tax)	—	7,995	7,995
Other interest expense (pre-tax)	—	1,554	1,554
Tax effect	—	(3,581 )	(3,581 )
Net current period other comprehensive income	16,998	3,531	20,529
Balance, September 30, 2017	\$(120,615)	\$ (5,800 )	\$(126,415)

Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 15. SEGMENT INFORMATION

As of September 30, 2018, the Company had three reportable segments: (1) the U.S., (2) the U.K., and (3) Brazil. Each of the reportable segments is comprised of retail automotive franchises, which sell new and used cars and light trucks; arrange related vehicle financing; sell service and insurance contracts; provide automotive maintenance and repair services; and sell vehicle parts. The vast majority of the Company's corporate activities are associated with the operations of the U.S. operating segment and, therefore, the corporate financial results are included within the U.S. reportable segment.

Reportable segment revenue, income (loss) before income taxes, (provision) benefit for income taxes and net income (loss) were as follows for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30, 2018				Nine Months Ended September 30, 2018			
	U.S.	U.K.	Brazil	Total	U.S.	U.K.	Brazil	Total
	(In thousands)				(In thousands)			
Total revenues	\$2,200,230	\$585,936	\$102,892	\$2,889,058	\$6,456,717	\$1,913,361	\$322,468	\$8,692,546
Income (loss) before income taxes	43,415	2,663	(1,713)	44,365	152,867	14,416	(1,563)	165,720
Provision for income taxes	(9,061)	(366)	(160)	(9,587)	(35,821)	(2,131)	(714)	(38,666)
Net income (loss) <sup>(1)</sup>	34,354	2,297	(1,873)	34,778	117,046	12,285	(2,277)	127,054
	Three Months Ended September 30, 2017				Nine Months Ended September 30, 2017			
	U.S.	U.K.	Brazil	Total	U.S.	U.K.	Brazil	Total
	(In thousands)				(In thousands)			
Total revenues <sup>(2)</sup>	\$2,301,959	\$590,726	\$119,607	\$3,012,292	\$6,393,368	\$1,478,156	\$331,792	\$8,203,316
Income before income taxes	41,133	5,435	575	47,143	142,808	15,745	1,476	160,029
(Provision) benefit for income taxes	(16,258)	(1,105)	101	(17,262)	(54,301)	(2,781)	6	(57,076)
Net income <sup>(3)</sup>	24,875	4,330	676	29,881	88,507	12,964	1,482	102,953

<sup>(1)</sup> Includes the following, after tax: gain of \$4.1 million and \$19.3 million on real estate and dealership transactions, for the three and nine months ended September 30, 2018, respectively, in the U.S. segment; loss of \$17.7 million and \$20.8 million for non-cash asset impairments for the three and nine months ended September 30, 2018, respectively, in the U.S. segment; gain of \$1.1 million and a loss of \$0.4 million for legal settlements for the three and nine months ended September 30, 2018, respectively, in the U.S. segment; a loss of \$4.4 million due to catastrophic events, for the nine months ended September 30, 2018 in the U.S. segment; and loss of \$2.6 million and \$3.1 million for legal settlements for the three and nine months ended September 30, 2018, respectively, in the Brazil segment.

<sup>(2)</sup> Includes the impact of chargeback reserves for finance and insurance revenues associated with catastrophic events of \$6.6 million for the three and nine months ended September 30, 2017, in the U.S. segment.

<sup>(3)</sup> Includes the following, after tax: loss due to catastrophic events of \$9.0 million and \$9.4 million, inclusive of the finance and insurance chargeback reserve noted above, for the three and nine months ended September 30, 2017, respectively, in the U.S. segment and asset impairment charges of \$5.9 million for the three and nine months ended September 30, 2017 in the U.S. segment.

Reportable segment total assets as of September 30, 2018 and December 31, 2017, were as follows:

As of September 30, 2018			
U.S.	U.K.	Brazil	Total

(In thousands)

Total assets \$3,977,995 \$779,293 \$123,578 \$4,880,866

As of December 31, 2017

U.S. U.K. Brazil Total

(In thousands)

Total assets \$4,087,039 \$654,154 \$129,872 \$4,871,065

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

16. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The following tables include condensed consolidating financial information as of September 30, 2018 and December 31, 2017, and for the nine months ended September 30, 2018 and 2017, for Group 1 Automotive, Inc.'s (as issuer of the 5.00% Notes) guarantor subsidiaries and non-guarantor subsidiaries (representing foreign entities). The condensed consolidating financial information includes certain allocations of balance sheet, statement of operations, and cash flows items that are not necessarily indicative of the financial position, results of operations, or cash flows of these entities had they operated on a stand-alone basis. In accordance with Rule 3-10 of Regulation S-X, condensed consolidated financial statements of non-guarantors are not required. The Company has no assets or operations independent of its subsidiaries. Obligations under the 5.00% Notes are fully and unconditionally and jointly and severally guaranteed on a senior unsecured basis by the Company's current wholly owned domestic subsidiaries and certain of the Company's future domestic subsidiaries, with the exception of the Company's "minor" subsidiaries (as defined by Rule 3-10 of Regulation S-X). There are no significant restrictions on the ability of the Company or subsidiary guarantors for the Company to obtain funds from its subsidiary guarantors by dividend or loan. None of the subsidiary guarantors' assets represent restricted assets pursuant to SEC Rule 4-08(e)(3) of Regulation S-X.

Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## CONDENSED CONSOLIDATED BALANCE SHEET

September 30, 2018

	Group 1 Automotive, Inc. (Unaudited, in thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$—	\$9,062	\$ 22,965	\$—	\$32,027
Contracts-in-transit and vehicle receivables, net	—	169,199	66,410	—	235,609
Accounts and notes receivable, net	—	133,506	35,812	—	169,318
Intercompany accounts receivable	32,585	51,159	—	(83,744 )	—
Inventories, net	—	1,392,370	341,386	—	1,733,756
Prepaid expenses and other current assets	214	23,953	53,829	—	77,996
Total current assets	32,799	1,779,249	520,402	(83,744 )	2,248,706
PROPERTY AND EQUIPMENT, net	—	1,125,421	225,508	—	1,350,929
GOODWILL	—	865,062	103,709	—	968,771
INTANGIBLE FRANCHISE RIGHTS	—	239,738	36,547	—	276,285
INVESTMENT IN SUBSIDIARIES	3,194,823	—	—	(3,194,823 )	—
OTHER ASSETS	—	25,028	11,147	—	36,175
Total assets	\$3,227,622	\$4,034,498	\$ 897,313	\$(3,278,567)	\$4,880,866
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Floorplan notes payable — credit facility and other	\$—	\$1,126,477	\$ 28,557	\$—	\$1,155,034
Offset account related to floorplan notes payable - credit facility	—	(71,397 )	—	—	(71,397 )
Floorplan notes payable — manufacturer affiliates	—	259,697	155,918	—	415,615
Offset account related to floorplan notes payable - manufacturer affiliates	—	(20,500 )	—	—	(20,500 )
Current maturities of long-term debt and short-term financing	—	63,940	12,140	—	76,080
Current liabilities from interest rate risk management activities	—	311	—	—	311
Accounts payable	—	202,823	225,618	—	428,441
Intercompany accounts payable	1,088,282	—	51,159	(1,139,441 )	—
Accrued expenses	—	170,607	36,475	—	207,082
Total current liabilities	1,088,282	1,731,958	509,867	(1,139,441 )	2,190,666
LONG-TERM DEBT, net of current maturities	872,477	311,592	120,058	—	1,304,127
LIABILITIES FROM INTEREST RATE RISK MANAGEMENT ACTIVITIES	—	444	—	—	444
DEFERRED INCOME TAXES AND OTHER LIABILITIES	1,148	224,405	11,730	—	237,283
<b>STOCKHOLDERS' EQUITY:</b>					
Group 1 stockholders' equity	1,265,715	2,821,796	255,658	(3,194,823 )	1,148,346
Intercompany note receivable	—	(1,055,697 )	—	1,055,697	—
Total stockholders' equity	1,265,715	1,766,099	255,658	(2,139,126 )	1,148,346

Total liabilities and stockholders' equity	\$3,227,622	\$4,034,498	\$ 897,313	\$(3,278,567)	\$4,880,866
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33

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Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## CONDENSED CONSOLIDATED BALANCE SHEET

December 31, 2017

	Group 1 Automotive, Inc. (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$—	\$10,096	\$ 18,691	\$—	\$28,787
Contracts-in-transit and vehicle receivables, net	—	266,788	39,645	—	306,433
Accounts and notes receivable, net	—	144,872	43,739	—	188,611
Intercompany accounts receivable	26,988	12,948	—	(39,936 )	—
Inventories, net	—	1,434,852	328,441	—	1,763,293
Prepaid expenses and other current assets	1,934	8,378	31,750	—	42,062
Total current assets	28,922	1,877,934	462,266	(39,936 )	2,329,186
PROPERTY AND EQUIPMENT, net	—	1,121,108	197,851	—	1,318,959
GOODWILL	—	835,268	77,766	—	913,034
INTANGIBLE FRANCHISE RIGHTS	—	255,980	29,652	—	285,632
INVESTMENT IN SUBSIDIARIES	2,999,407	—	—	(2,999,407 )	—
OTHER ASSETS	—	13,682	10,572	—	24,254
Total assets	\$3,028,329	\$4,103,972	\$ 778,107	\$(3,039,343)	\$4,871,065
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Floorplan notes payable — credit facility and other	\$—	\$1,219,844	\$ 20,851	\$—	\$1,240,695
Offset account related to floorplan notes payable - credit facility	—	(86,547 )	—	—	(86,547 )
Floorplan notes payable — manufacturer affiliates	—	272,563	124,620	—	397,183
Offset account related to floorplan notes payable - manufacturer affiliates	—	(22,500 )	—	—	(22,500 )
Current maturities of long-term debt and short-term financing	24,741	31,229	21,639	—	77,609
Current liabilities from interest rate risk management activities	—	1,996	—	—	1,996
Accounts payable	—	229,470	183,511	—	412,981
Intercompany accounts payable	890,995	—	39,936	(930,931 )	—
Accrued expenses	—	150,241	26,829	—	177,070
Total current liabilities	915,736	1,796,296	417,386	(930,931 )	2,198,487
LONG-TERM DEBT, net of current maturities	865,202	360,526	92,456	—	1,318,184
LIABILITIES FROM INTEREST RATE RISK MANAGEMENT ACTIVITIES	—	8,583	—	—	8,583
DEFERRED INCOME TAXES AND OTHER LIABILITIES	(117 )	210,216	11,430	—	221,529
<b>STOCKHOLDERS' EQUITY:</b>					
Group 1 stockholders' equity	1,247,508	2,619,346	256,835	(2,999,407 )	1,124,282
Intercompany note receivable	—	(890,995 )	—	890,995	—



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Total stockholders' equity	1,247,508	1,728,351	256,835	(2,108,412 )	1,124,282
Total liabilities and stockholders' equity	\$3,028,329	\$4,103,972	\$ 778,107	\$(3,039,343)	\$4,871,065

Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended September 30, 2018

	Group 1 Automotive Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
	(Unaudited, in thousands)				
REVENUES	\$—	\$2,200,230	\$ 688,828	\$—	\$2,889,058
COST OF SALES	—	1,847,757	606,200	—	2,453,957
GROSS PROFIT	—	352,473	82,628	—	435,101
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	323	240,167	76,281	—	316,771
DEPRECIATION AND AMORTIZATION EXPENSE	—	13,510	3,471	—	16,981
ASSET IMPAIRMENTS	—	23,159	—	—	23,159
(LOSS) INCOME FROM OPERATIONS	(323 )	75,637	2,876	—	78,190
OTHER EXPENSE:					
Floorplan interest expense	—	(12,903 )	(1,782 )	—	(14,685 )
Other interest expense, net	—	(17,272 )	(1,868 )	—	(19,140 )
(LOSS) INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF SUBSIDIARIES	(323 )	45,462	(774 )	—	44,365
BENEFIT (PROVISION) FOR INCOME TAXES	58	(9,120 )	(525 )	—	(9,587 )
EQUITY IN EARNINGS OF SUBSIDIARIES	35,042	—	—	(35,042 )	—
NET INCOME (LOSS)	\$34,777	\$36,342	\$ (1,299 )	\$(35,042 )	\$34,778
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES	—	3,522	(5,908 )	—	(2,386 )
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PARENT	\$34,777	\$39,864	\$ (7,207 )	\$(35,042 )	\$32,392

Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Nine Months Ended September 30, 2018

	Group 1 Automotive Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
	(Unaudited, in thousands)				
REVENUES	\$—	\$6,456,718	\$2,235,828	\$—	\$8,692,546
COST OF SALES	—	5,417,890	1,981,629	—	7,399,519
GROSS PROFIT	—	1,038,828	254,199	—	1,293,027
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,726	721,255	225,229	—	949,210
DEPRECIATION AND AMORTIZATION EXPENSE	—	39,431	10,530	—	49,961
ASSET IMPAIRMENTS	—	27,427	—	—	27,427
(LOSS) INCOME FROM OPERATIONS	(2,726 )	250,715	18,440	—	266,429
OTHER EXPENSE:					
Floorplan interest expense	—	(38,050 )	(5,285 )	—	(43,335 )
Other interest expense, net	—	(51,620 )	(5,754 )	—	(57,374 )
(LOSS) INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF SUBSIDIARIES	(2,726 )	161,045	7,401	—	165,720
BENEFIT (PROVISION) FOR INCOME TAXES	635	(36,457 )	(2,844 )	—	(38,666 )
EQUITY IN EARNINGS OF SUBSIDIARIES	129,145	—	—	(129,145 )	—
NET INCOME (LOSS)	\$127,054	\$124,588	\$4,557	\$(129,145 )	\$127,054
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES	—	16,705	(22,223 )	—	(5,518 )
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PARENT	\$127,054	\$141,293	\$(17,666 )	\$(129,145 )	\$121,536

Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended September 30, 2017

	Group 1 Automotive Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
	(Unaudited, in thousands)				
REVENUES	\$—	\$2,301,958	\$ 710,334	\$—	\$3,012,292
COST OF SALES	—	1,948,390	632,482	—	2,580,872
GROSS PROFIT	—	353,568	77,852	—	431,420
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	433	259,119	68,775	—	328,327
DEPRECIATION AND AMORTIZATION EXPENSE	—	12,380	2,679	—	15,059
ASSET IMPAIRMENTS	—	9,526	—	—	9,526
INCOME (LOSS) FROM OPERATIONS	(433 )	72,543	6,398	—	78,508
OTHER EXPENSE:					
Floorplan interest expense	—	(12,014 )	(1,477 )	—	(13,491 )
Other interest expense, net	—	(16,726 )	(1,148 )	—	(17,874 )
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF SUBSIDIARIES	(433 )	43,803	3,773	—	47,143
BENEFIT (PROVISION) FOR INCOME TAXES	163	(16,423 )	(1,002 )	—	(17,262 )
EQUITY IN EARNINGS OF SUBSIDIARIES	30,151	—	—	(30,151 )	—
NET INCOME (LOSS)	\$29,881	\$27,380	\$ 2,771	\$(30,151 )	\$29,881
OTHER COMPREHENSIVE INCOME, NET OF TAXES	—	1,454	8,399	—	9,853
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PARENT	\$29,881	\$28,834	\$ 11,170	\$(30,151 )	\$39,734

Table of Contents

## GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Nine Months Ended September 30, 2017

	Group 1 Automotive Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
	(Unaudited, in thousands)				
REVENUES	\$—	\$6,393,367	\$1,809,949	\$—	\$8,203,316
COST OF SALES	—	5,378,731	1,604,751	—	6,983,482
GROSS PROFIT	—	1,014,636	205,198	—	1,219,834
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,932	733,744	179,998	—	916,674
DEPRECIATION AND AMORTIZATION EXPENSE	—	35,873	6,885	—	42,758
ASSET IMPAIRMENTS	—	9,526	—	—	9,526
(LOSS) INCOME FROM OPERATIONS	(2,932 )	235,493	18,315	—	250,876
OTHER EXPENSE:					
Floorplan interest expense	—	(34,954 )	(3,705 )	—	(38,659 )
Other interest expense, net	—	(49,568 )	(2,620 )	—	(52,188 )
(LOSS) INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF SUBSIDIARIES	(2,932 )	150,971	11,990	—	160,029
BENEFIT (PROVISION) FOR INCOME TAXES	1,100	(55,402 )	(2,774 )	—	(57,076 )
EQUITY IN EARNINGS OF SUBSIDIARIES	104,785	—	—	(104,785 )	—
NET INCOME (LOSS)	\$102,953	\$95,569	\$9,216	\$(104,785 )	\$102,953
OTHER COMPREHENSIVE INCOME, NET OF TAXES	—	3,531	16,998	—	20,529
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PARENT	\$102,953	\$99,100	\$26,214	\$(104,785 )	\$123,482

Table of ContentsGROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Nine Months Ended September 30, 2018

	Group 1 Automotive Inc. (Unaudited, in thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Company
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net cash provided by operating activities	\$ 127,073	\$ 192,976	\$ 37,366	\$ 357,415
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Cash paid in acquisitions, net of cash received	—	(91,890 )	(43,452 )	(135,342 )
Proceeds from disposition of franchises, property and equipment	—	101,364	6,340	107,704
Purchases of property and equipment, including real estate	—	(79,490 )	(38,725 )	(118,215 )
Deposits for real estate and dealership acquisitions	381	—	—	381
Net cash provided by (used in) investing activities	381	(70,016 )	(75,837 )	(145,472 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Borrowings on credit facility - floorplan line and other	—	5,036,149	70,661	5,106,810
Repayments on credit facility - floorplan line and other	—	(5,124,860 )	(60,365 )	(5,185,225 )
Borrowings on credit facility - acquisition line	98,596	—	—	98,596
Repayments on credit facility - acquisition line	(91,450 )	—	—	(91,450 )
Borrowings on other debt	—	70,661	52,637	123,298
Principal payments on other debt	(24,741 )	(36,198 )	(44,612 )	(105,551 )
Borrowings on debt related to real estate	—	42,657	12,055	54,712
Principal payments on debt related to real estate	—	(71,762 )	(11,480 )	(83,242 )
Employee stock purchase plan purchases, net of employee tax withholdings	1,529	—	—	1,529
Repurchases of common stock, amounts based on settlement date	(108,623 )	—	—	(108,623 )
Proceeds from termination of mortgage swap	—	918	—	918
Dividends paid	(16,014 )	—	—	(16,014 )
Borrowings (repayments) with subsidiaries	208,665	(219,177 )	10,512	—
Investment in subsidiaries	(195,416 )	177,618	17,798	—
Net cash (used in) provided by financing activities	(127,454 )	(123,994 )	47,206	(204,242 )
EFFECT OF EXCHANGE RATE CHANGES ON CASH	—	—	(2,941 )	(2,941 )
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	—	(1,034 )	5,794	4,760
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of period	—	10,096	19,535	29,631
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of period	\$ —	\$ 9,062	\$ 25,329	\$ 34,391

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Nine Months Ended September 30, 2017

	Group 1 Automotive Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Company
	(Unaudited, in thousands)			
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net cash provided by operating activities	\$ 102,951	\$ 188,979	\$ 15,304	\$ 307,234
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Cash paid in acquisitions, net of cash received	—	(62,475 )	(46,607 )	(109,082 )
Proceeds from disposition of franchises, property and equipment	—	2,807	2,326	5,133
Purchases of property and equipment, including real estate	—			