

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 March 31, 2019  
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**  
(State or other jurisdiction of  
incorporation or organization)

**76-0506313**  
(I.R.S. Employer  
Identification 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 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	<input checked="" type="checkbox"/>	<input type="checkbox"/> Accelerated filer
Non-accelerated filer	<input type="checkbox"/>	<input type="checkbox"/> Smaller reporting company
		<input type="checkbox"/> 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

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

Title of each class	Ticker symbol	Name of exchange on which registered
Common stock, par value \$0.01 per share	GPI	New York Stock Exchange

As of April 30, 2019, the registrant had 18,518,069 shares of common stock, par value \$0.01, outstanding.

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**PART I. FINANCIAL INFORMATION**
**Item 1. Financial Statements**
**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except per share amounts)**

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 33,623	\$ 15,932
Contracts-in-transit and vehicle receivables, net	261,194	265,660
Accounts and notes receivable, net	185,311	193,981
Inventories, net	1,860,907	1,844,059
Prepaid expenses and other current assets	92,036	82,734
<b>TOTAL CURRENT ASSETS</b>	<b>2,433,071</b>	<b>2,402,366</b>
Property and equipment, net	1,370,743	1,347,835
Operating lease assets	214,776	—
Goodwill	965,882	963,925
Intangible franchise rights	260,465	259,630
Other assets	18,554	27,319
<b>TOTAL ASSETS</b>	<b>\$ 5,263,491</b>	<b>\$ 5,001,075</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Floorplan notes payable - credit facility and other	\$ 1,255,784	\$ 1,292,452
Offset account related to floorplan notes payable - credit facility	(72,728)	(33,637)
Floorplan notes payable - manufacturer affiliates	444,003	417,924
Offset account related to floorplan notes payable - manufacturer affiliates	(26,000)	(100)
Current maturities of long-term debt and short-term financing	96,359	92,967
Current operating lease liabilities	23,907	—
Accounts payable	507,348	419,350
Accrued expenses and other current liabilities	208,069	197,609
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,436,742</b>	<b>2,386,565</b>
Long-term debt, net of current maturities	1,262,582	1,281,489
Operating lease liabilities, net of current portion	204,331	—
Deferred income taxes	136,219	134,683
Liabilities from interest rate risk management activities	2,430	1,696
Other liabilities	93,474	100,948
Commitments and Contingencies (Note 12)		
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, \$0.01 par value, 50,000 shares authorized; 25,522 and 25,494 issued, respectively	255	255
Additional paid-in capital	287,115	292,774
Retained earnings	1,422,576	1,394,817
Accumulated other comprehensive income (loss)	(138,749)	(137,772)
Treasury stock, at cost; 7,001 and 7,172 shares, respectively	(443,484)	(454,380)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>1,127,713</b>	<b>1,095,694</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 5,263,491</b>	<b>\$ 5,001,075</b>

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

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)  
(In thousands, except per share amounts)

	Three Months Ended March 31,	
	2019	2018
<b>REVENUES:</b>		
New vehicle retail sales	\$ 1,414,485	\$ 1,513,590
Used vehicle retail sales	819,203	780,570
Used vehicle wholesale sales	92,138	104,029
Parts and service sales	369,174	349,515
Finance, insurance and other, net	113,376	112,322
Total revenues	2,808,376	2,860,026
<b>COST OF SALES:</b>		
New vehicle retail sales	1,343,094	1,438,163
Used vehicle retail sales	771,394	737,075
Used vehicle wholesale sales	91,687	102,374
Parts and service sales	170,698	162,651
Total cost of sales	2,376,873	2,440,263
<b>GROSS PROFIT</b>	431,503	419,763
Selling, general and administrative expenses	327,708	324,347
Depreciation and amortization expense	16,997	16,342
<b>INCOME (LOSS) FROM OPERATIONS</b>	86,798	79,074
<b>OTHER INCOME (EXPENSE):</b>		
Floorplan interest expense	(15,703)	(14,087)
Other interest expense, net	(18,919)	(18,820)
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	52,176	46,167
Benefit (provision) for income taxes	(13,528)	(10,353)
<b>NET INCOME (LOSS)</b>	\$ 38,648	\$ 35,814
<b>BASIC EARNINGS (LOSS) PER SHARE</b>		
Weighted average common shares outstanding	17,797	20,298
<b>DILUTED EARNINGS (LOSS) PER SHARE</b>	\$ 2.08	\$ 1.70
Weighted average common shares outstanding	17,849	20,307

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

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(Unaudited)**  
**(In thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>NET INCOME (LOSS)</b>	\$ 38,648	35,814
Other comprehensive income (loss):		
Foreign currency translation adjustment	3,607	7,871
Net unrealized gain (loss) on interest rate risk management activities, net of tax:		
Unrealized gain (loss) arising during the period, net of tax benefit (provision) of \$1,316 and (\$2,492), respectively	(4,238)	7,892
Reclassification adjustment for (gain) loss included in interest expense, net of tax (benefit) provision of \$108 and (\$478), respectively	(346)	1,513
Unrealized gain (loss) on interest rate risk management activities, net of tax	(4,584)	9,405
<b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES</b>	(977)	17,276
<b>COMPREHENSIVE INCOME (LOSS)</b>	<b>\$ 37,671</b>	<b>\$ 53,090</b>

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

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(Unaudited)  
(In thousands, except per share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Amount					
<b>BALANCE, December 31, 2018</b>	25,494	\$ 255	\$ 292,774	\$ 1,394,817	\$ (137,772)	\$ (454,380)	\$ 1,095,694
Net income (loss)	—	—	—	38,648	—	—	38,648
Other comprehensive income (loss), net of taxes	—	—	—	—	(977)	—	(977)
Net issuance of treasury shares to employee stock compensation plans	28	—	(11,726)	—	—	10,896	(830)
Stock-based compensation	—	—	6,067	—	—	—	6,067
Dividends paid, net of estimated forfeitures relative to participating securities (\$0.26)	—	—	—	(4,828)	—	—	(4,828)
ASC 842 cumulative adjustment	—	—	—	(6,061)	—	—	(6,061)
<b>BALANCE, March 31, 2019</b>	<u>25,522</u>	<u>\$ 255</u>	<u>\$ 287,115</u>	<u>\$ 1,422,576</u>	<u>\$ (138,749)</u>	<u>\$ (443,484)</u>	<u>\$ 1,127,713</u>

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Amount					
<b>BALANCE, December 31, 2017</b>	25,515	\$ 255	\$ 291,461	\$ 1,246,323	\$ (123,226)	\$ (290,531)	\$ 1,124,282
Net income (loss)	—	—	—	35,814	—	—	35,814
Other comprehensive income (loss), net of taxes	—	—	—	—	17,276	—	17,276
Purchases of treasury stock	—	—	—	—	—	(9,199)	(9,199)
Net issuance of treasury shares to employee stock compensation plans	12	—	(10,846)	—	—	9,208	(1,638)
Stock-based compensation	—	—	5,629	—	—	—	5,629
Dividends paid, net of estimated forfeitures relative to participating securities (\$0.26)	—	—	—	(5,482)	—	—	(5,482)
ASC 606 cumulative adjustment	—	—	—	11,397	—	—	11,397
<b>BALANCE, March 31, 2018</b>	<u>25,527</u>	<u>\$ 255</u>	<u>\$ 286,244</u>	<u>\$ 1,288,052</u>	<u>\$ (105,950)</u>	<u>\$ (290,522)</u>	<u>\$ 1,178,079</u>

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

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited, in thousands)

	Three Months Ended March 31,	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 38,648	\$ 35,814
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	16,997	16,342
Change in operating lease assets	7,624	—
Deferred income taxes	4,088	2,675
Stock-based compensation	6,080	5,642
Amortization of debt discount and issue costs	946	650
(Gain) loss on disposition of assets	(5,778)	(516)
Other	234	(6)
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts payable and accrued expenses	101,618	65,200
Accounts and notes receivable	9,155	12,727
Inventories	(28,058)	7,153
Contracts-in-transit and vehicle receivables	5,117	11,237
Prepaid expenses and other assets	(17,672)	(12,548)
Floorplan notes payable - manufacturer affiliates	(2,468)	5,067
Deferred revenues	(178)	(655)
Operating lease liabilities	(8,414)	—
Net cash provided by (used in) operating activities	127,939	148,782
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash paid for acquisitions, net of cash received	—	(71,499)
Proceeds from disposition of franchises, property and equipment	35,125	2,940
Purchases of property and equipment, including real estate	(41,711)	(47,948)
Other	(200)	140
Net cash provided by (used in) investing activities	(6,786)	(116,367)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings on credit facility - floorplan line and other	1,631,544	1,656,192
Repayments on credit facility - floorplan line and other	(1,697,455)	(1,702,447)
Borrowings on credit facility - acquisition line	107,777	66,945
Repayments on credit facility - acquisition line	(111,466)	(66,444)
Borrowings on other debt	20,329	65,614
Principal payments on other debt	(26,693)	(40,078)
Borrowings on debt related to real estate, net of debt issue costs	—	46,835
Principal payments on debt related to real estate	(20,864)	(37,819)
Employee stock purchase plan purchases, net of employee tax withholdings	(830)	(1,638)
Repurchases of common stock, amounts based on settlement date	—	(9,199)
Dividends paid	(4,841)	(5,495)
Net cash provided by (used in) financing activities	(102,499)	(27,534)
Effect of exchange rate changes on cash	(519)	47
Net increase (decrease) in cash, cash equivalents and restricted cash	18,135	4,928
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of period</b>	18,720	29,631
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of period</b>	<b>\$ 36,855</b>	<b>\$ 34,559</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Purchases of property and equipment, including real estate, accrued in accounts payable	\$ 5,094	\$ 6,066

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

**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 March 31, 2019, the Company’s U.S. retail network consisted of 116 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 March 31, 2019, the Company had two international regions: (a) the U.K., which consisted of 47 dealerships and (b) Brazil, which consisted of 18 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 Consolidated Financial Statements and footnotes thereto that include financial information as of March 31, 2019 and for the three months ended March 31, 2019 and 2018 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 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, 2018 (“2018 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 16, “Segment Information”, for additional details regarding the Company’s reportable segments.



**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 \$21.9 million and \$20.3 million for the three months ended March 31, 2019 and 2018, respectively. Cash paid for taxes, net of refunds, was \$1.2 million for the three months ended March 31, 2019 and, during the three months ended March 31, 2018, the Company received a net tax refund of \$0.4 million.

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 (in thousands).

	March 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 33,623	\$ 15,932
Restricted cash, included in Prepaid expenses and other current assets	3,232	2,788
<b>Total cash, cash equivalents, and restricted cash</b>	<b>\$ 36,855</b>	<b>\$ 18,720</b>

**Recently Adopted Accounting Pronouncements**

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, *Leases (“Topic 842”)*, that amends the accounting guidance on leases. The standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. The Company adopted this ASU and all subsequent amendments on January 1, 2019, using the optional transition method applied to leases existing at January 1, 2019, with no restatement of comparative periods. Results for reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts have not been adjusted and continue to be reported in accordance with the Company’s historical accounting policies under Accounting Standards Codification (“ASC”) Topic 840, *Leases (“ASC 840”)*. The Company elected the package of practical expedients available under the transition guidance within Topic 842, which among other things, permits the Company to carry forward its historical lease classification. The Company also elected other practical expedients under the transition guidance to (i) not record short-term leases on the balance sheet for all asset classes; (ii) not apply hindsight when determining its lease terms or assessing impairment of its ROU assets during transition; and (iii) combine and account for both lease and non-lease components as a single component for all asset classes, except dealership operating assets. For the Company’s dealership operating asset leases, the allocation of the consideration between the lease and non-lease components was based on the estimated fair value of the leased component as of the adoption date. The Company expenses short-term leases, defined as leases with an initial term of 12 months or less, on a straight-line basis over the lease term. Upon adoption of Topic 842, the Company recognized ROU assets and lease liabilities based on the present value of its remaining minimum rental payments for existing operating leases as of the adoption date, utilizing the Company’s applicable incremental borrowing rate also as of the adoption date. The adoption of Topic 842 resulted in the Company recognizing approximately \$236.7 million of incremental operating ROU asset with corresponding lease liabilities as of January 1, 2019. Such incremental amounts exclude prepaid rent, favorable lease assets and net unfavorable lease liabilities that were reflected in the Company’s Consolidated Balance Sheets as of December 31, 2018. Additionally, the Company recognized a \$6.1 million cumulative-effect adjustment, net of deferred tax impact, to retained earnings as of January 1, 2019. The adjustment to retained earnings resulted from the impairment of certain operating ROU assets subjected to impairment testing under existing accounting guidance for which indicators of impairment existed at the time of the adoption of T

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

opic 842. The Company's accounting for its finance leases, previously termed as capital leases under ASC 840 remained substantially unchanged. The adoption of Topic 842 had no material impact on the Company's consolidated statements of operations or consolidated statements of cash flows. For further details, see Note 13, "Leases".

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): 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, and interim periods within those fiscal years. The Company adopted ASU 2017-12 during the first quarter of 2019. The adoption of this ASU did not impact its consolidated financial statements.

**Recently Issued Accounting Pronouncements**

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, but does not expect the impact of the amendment, if any, 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.

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.

## **2. REVENUE**

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.

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The following table presents the Company's revenues disaggregated by revenue source (in thousands):

	Three Months Ended March 31,	
	2019	2018
<b>REVENUES:</b>		
New vehicle retail sales	\$ 1,414,485	\$ 1,513,590
Used vehicle retail sales	819,203	780,570
Used vehicle wholesale sales	92,138	104,029
Total new and used vehicle sales	2,325,826	2,398,189
Vehicle parts sales	86,661	85,196
Maintenance and repair sales	282,513	264,319
Total parts and service sales	369,174	349,515
Finance, insurance and other, net	113,376	112,322
Total revenues	\$ 2,808,376	\$ 2,860,026

The following tables present the Company's revenues disaggregated by its geographical segments (in thousands):

	Three Months Ended March 31, 2019			
	U.S.	U.K.	Brazil	Total
<b>REVENUES:</b>				
New vehicle retail sales	\$ 1,031,742	\$ 318,571	\$ 64,172	\$ 1,414,485
Used vehicle retail sales	594,418	203,561	21,224	819,203
Used vehicle wholesale sales	42,827	45,261	4,050	92,138
Total new and used vehicle sales	1,668,987	567,393	89,446	2,325,826
Vehicle parts sales	74,478	10,602	1,581	86,661
Maintenance and repair sales	223,124	48,964	10,425	282,513
Total parts and service sales	297,602	59,566	12,006	369,174
Finance, insurance and other, net	96,193	15,199	1,984	113,376
Total revenues	\$ 2,062,782	\$ 642,158	\$ 103,436	\$ 2,808,376

	Three Months Ended March 31, 2018			
	U.S.	U.K.	Brazil	Total
<b>REVENUES:</b>				
New vehicle retail sales	\$ 1,089,953	\$ 354,404	\$ 69,233	\$ 1,513,590
Used vehicle retail sales	563,830	192,549	24,191	780,570
Used vehicle wholesale sales	54,002	46,185	3,842	104,029
Total new and used vehicle sales	1,707,785	593,138	97,266	2,398,189
Vehicle parts sales	74,355	9,515	1,326	85,196
Maintenance and repair sales	210,159	43,626	10,534	264,319
Total parts and service sales	284,514	53,141	11,860	349,515
Finance, insurance and other, net	96,187	14,263	1,872	112,322
Total revenues	\$ 2,088,486	\$ 660,542	\$ 110,998	\$ 2,860,026

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

Contract assets associated with revenue from the arrangement of financing and sale of service and insurance contracts totaled \$14.7 million and \$14.6 million as of March 31, 2019 and December 31, 2018, respectively, and are reflected in *Prepaid expenses and other current assets* within the Consolidated Balance Sheets.

**3. ACQUISITIONS AND DISPOSITIONS**

**Acquisitions**

During the three months ended March 31, 2019, the Company opened one dealership representing one awarded franchise in the U.S. and one dealership representing one awarded franchise in the U.K.

During the three months ended March 31, 2018, the Company acquired 5 dealerships, inclusive of 8 franchises, and opened one dealership for one awarded franchise in the U.K. Additionally, the Company acquired two dealerships in the U.S., inclusive of two franchises. Aggregate consideration paid for these dealerships totaled \$76.6 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 were allocated based upon the consideration paid and the estimated fair values of the assets acquired and liabilities assumed at the acquisition dates.

**Dispositions**

During the three months ended March 31, 2019, the Company disposed of three dealerships representing six franchises in the U.S., and one dealership representing one franchise in the U.K, and recorded a net pre-tax gain of \$5.2 million.

During the three months ended March 31, 2018, the Company had no dispositions.

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

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 income (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 March 31, 2019, 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 months ended March 31, 2019 or 2018, respectively.

The Company held 26 interest rate derivative instruments in effect as of March 31, 2019 of \$902.4 million in notional value that fixed its underlying one-month London Interbank Offered Rate ("LIBOR") at a weighted average rate of 2.3%. For the three months ended March 31, 2019 and 2018, the impact of the Company's interest rate hedges in effect decreased floorplan interest expense by \$0.3 million and increased floorplan interest expense by \$1.7 million, respectively. Total floorplan interest expense, inclusive of the aforementioned impact of the Company's interest rate hedges, was \$15.7 million and \$14.1 million for the three months ended March 31, 2019 and 2018, respectively.

In addition to the \$902.4 million of swaps in effect as of March 31, 2019, the Company held two additional interest rate derivative instruments, both of which have forward start dates of December 2020. These two forward-starting swaps expire in December 2025 and December 2030. The aggregate notional value of these two forward-starting swaps was \$125.0 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 (in thousands):

	March 31, 2019	December 31, 2018
<b>Assets from interest rate risk management activities:</b>		
Prepaid expenses and other current assets	\$ 189	\$ 444
Other assets	8,251	13,132
Total	<u>\$ 8,440</u>	<u>\$ 13,576</u>
<b>Liabilities from interest rate risk management activities:</b>		
Accrued expenses and other current liabilities	\$ 254	\$ 115
Liabilities from interest rate risk management activities	2,430	1,696
Total	<u>\$ 2,684</u>	<u>\$ 1,811</u>

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

Included in Accumulated other comprehensive income (loss) at March 31, 2019 and 2018, were accumulated unrealized gains, net of income taxes, totaling \$4.4 million and \$8.7 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 (in thousands):

<b>Derivatives in Cash Flow Hedging Relationship</b>	<b>Amount of Unrealized Income (Loss), Net of Tax, Recognized in Other Comprehensive Income (Loss)</b>	
	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Interest rate derivative instruments	\$ (4,238)	\$ 7,892

  

<b>Location of Income (Loss) Reclassified from Other Comprehensive Income (Loss) into Statements of Operations</b>	<b>Amount of Income (Loss) Reclassified from Other Comprehensive Income (Loss) into Statements of Operations</b>	
	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Floorplan interest expense, net	\$ 344	\$ (1,737)
Other interest expense, net	110	(254)

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 \$2.4 million.

## 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).

### **2014 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 March 31, 2019, there were 631,013 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.

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

A summary of the restricted stock awards as of March 31, 2019, along with the changes during the three months then ended, is as follows:

	Awards	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2018	681,800	\$ 71.60
Granted	202,831	60.84
Vested	(172,775)	68.99
Forfeited	(2,000)	75.97
Nonvested at March 31, 2019	709,856	\$ 69.17

***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 March 31, 2019, there were 945,882 shares available for issuance under the Purchase Plan. During the three months ended March 31, 2019 and 2018, the Company issued 45,229 and 36,270 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 \$12.52 and \$16.22 for the three months ended March 31, 2019 and 2018, 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.

***Performance Awards***

During the three months ended March 31, 2019 under the Incentive Plan, the Company granted 30,555 performance awards to certain employees at no cost to the recipient. The weighted average grant date fair value of these awards was \$67.17 per share. The performance awards do not qualify as participating securities. The performance awards contain both performance and market conditions to be evaluated over a two-year performance period and are subject to vesting over a three-year service period. Based upon the performance criteria, up to 200% of the granted shares may be earned. Compensation expense for the awards with performance conditions is calculated based on the market price of the Company’s common stock at the date of grant and the forecasted achievement of such performance conditions and is recognized over the requisite service period. Compensation expense for the awards with market conditions is calculated based upon the fair value of the grant on the date of grant and is recognized over the requisite service period. All such awards remained unvested as of March 31, 2019.

***Stock-Based Compensation***

Total stock-based compensation cost was \$6.1 million and \$5.6 million for the three months ended March 31, 2019 and 2018, respectively. Cash received from Purchase Plan purchases was \$2.1 million and \$2.0 million for the three months ended March 31, 2019 and 2018, 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.

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The following table sets forth the calculation of EPS for the three months ended March 31, 2019 and 2018 (in thousands, except per share amounts):

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Weighted average basic common shares outstanding	17,797	20,298
Dilutive effect of stock awards and employee stock purchases, net of assumed repurchase of treasury stock	52	9
Weighted average dilutive common shares outstanding	<u>17,849</u>	<u>20,307</u>
<b>Basic:</b>		
Net income (loss)	\$ 38,648	\$ 35,814
Less: Earnings (loss) allocated to participating securities	1,458	1,209
Net income (loss) available to basic common shares	<u>\$ 37,190</u>	<u>\$ 34,605</u>
Basic earnings (loss) per common share	\$ 2.09	\$ 1.70
<b>Diluted:</b>		
Net income (loss)	\$ 38,648	\$ 35,814
Less: Earnings (loss) allocated to participating securities	1,455	1,208
Net income (loss) available to basic common shares	<u>\$ 37,193</u>	<u>\$ 34,606</u>
Diluted earnings (loss) per common share	\$ 2.08	\$ 1.70

## 7. INCOME TAXES

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 25.9% for the three months ended March 31, 2019, was higher than the U.S. federal statutory rate of 21.0%, primarily due 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) tax deductions for restricted stock that were less than the related book expense, partially offset by income generated in the U.K., which is taxed at a 19.0% statutory rate.

For the three months ended March 31, 2019, the Company's effective tax rate increased to 25.9% as compared to 22.4% for the three months ended March 31, 2018. This increase was primarily due to tax deductions for restricted stock that were less than the related book expense, additional valuation allowances provided for net operating losses in Brazil and the impact of New Jersey's adoption of a unitary tax scheme. The Company recognizes the tax on Global Intangible Low-Taxed ("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. For the three months ended March 31, 2019 and 2018, the Company estimated it had no GILTI tax liability.

As of March 31, 2019, the Company's unrecognized tax benefits totaled \$1.7 million, including related interest and penalties. 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.

Based on the statutes of limitations in the applicable jurisdiction in which the Company operates, the Company is generally no longer subject to examinations by U.S. tax authorities in years prior to 2014, by U.K. tax authorities in years prior to 2014 and by Brazil tax authorities in years prior to 2013.

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

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

Accounts and notes receivable consisted of the following (in thousands):

	March 31, 2019	December 31, 2018
Amounts due from manufacturers	\$ 101,797	\$ 105,140
Parts and service receivables	54,267	51,922
Finance and insurance receivables	22,441	26,446
Other	9,880	13,673
<b>Total accounts and notes receivable</b>	<b>188,385</b>	<b>197,181</b>
Less: allowance for doubtful accounts	3,074	3,200
<b>Accounts and notes receivable, net</b>	<b>\$ 185,311</b>	<b>\$ 193,981</b>

Inventories consisted of the following (in thousands):

	March 31, 2019	December 31, 2018
New vehicles	\$ 1,303,397	\$ 1,278,863
Used vehicles	343,033	350,219
Rental vehicles	143,372	142,926
Parts, accessories and other	79,629	80,556
<b>Total inventories</b>	<b>1,869,431</b>	<b>1,852,564</b>
Less: lower of cost or net realizable value allowance	8,524	8,505
<b>Inventories, net</b>	<b>\$ 1,860,907</b>	<b>\$ 1,844,059</b>

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 (in thousands):

	Estimated Useful Lives in Years	March 31, 2019	December 31, 2018
Land	—	\$ 499,272	\$ 487,618
Buildings	25 to 50	739,702	727,826
Leasehold improvements	Varies	186,382	189,248
Machinery and equipment	7 to 20	128,347	125,919
Furniture and fixtures	3 to 10	112,909	109,274
Company vehicles	3 to 5	14,871	12,333
Construction in progress	—	48,372	42,959
<b>Total</b>		<b>1,729,855</b>	<b>1,695,177</b>
Less: accumulated depreciation and amortization		359,112	347,342
<b>Property and equipment, net</b>		<b>\$ 1,370,743</b>	<b>\$ 1,347,835</b>

During the three months ended March 31, 2019, the Company incurred \$23.4 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 \$9.2 million of capital expenditures accrued as of December 31, 2018. As of March 31, 2019, the Company had accrued \$5.1 million of capital expenditures. Additionally, during the three months ended March 31, 2019, the Company purchased real estate (including land and buildings) associated with existing dealership operations totaling \$14.1 million.

**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 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. In the



**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

U.K., the Company has financing arrangements with BMW Financial Services NA, LLC (“BMWFS”), Volkswagen Finance, Toyota Motor Credit Corporation, FMCC and a third-party financial institution for financing of its new, used, and rental vehicles. In Brazil, the Company has financing arrangements for new, used, and rental vehicles with several financial institutions, most of which are manufacturer affiliated.

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***

The Revolving Credit Facility consists of two tranches, providing a maximum of \$1.75 billion for U.S. vehicle inventory floorplan financing (“Floorplan Line”), as well as a maximum of \$360.0 million and a minimum of \$50.0 million for working capital and general corporate purposes, including acquisitions (“Acquisition Line”).

After considering the outstanding balance of \$1.2 billion at March 31, 2019, the Company had \$288.1 million of available floorplan borrowing capacity under the Floorplan Line. Included in the \$288.1 million available borrowings under the Floorplan Line was \$72.7 million of immediately available funds. The weighted average interest rate on the Floorplan Line was 3.7% as of March 31, 2019 and December 31, 2018, respectively, excluding the impact of the Company’s interest rate derivative instruments.

With regards to the Acquisition Line, there were \$29.3 million of borrowings outstanding as of March 31, 2019 and \$31.8 million of borrowings outstanding as of December 31, 2018, both of which consisted entirely of borrowings in British pound sterling. The interest rate on the Acquisition Line was 2.45% and 2.47% as of March 31, 2019 and December 31, 2018, respectively, 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 \$305.1 million of available borrowing capacity under the Acquisition Line as of March 31, 2019. The amount of available borrowing capacity under the Acquisition Line is limited from time to time based upon certain debt covenants.

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 financing institutions. 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 March 31, 2019, the Credit Facility Restricted Payment Basket totaled \$83.2 million.

The Company was in compliance with all applicable covenants and ratios under the Revolving Credit Facility as of March 31, 2019 and December 31, 2018.

***Ford Motor Credit Company Facility***

As of March 31, 2019, the Company had an outstanding balance of \$154.2 million under the FMCC Facility with an available floorplan borrowing capacity of \$145.8 million. Included in the \$145.8 million of available borrowings under the FMCC Facility was \$26.0 million of immediately available funds. This facility bears interest at a rate of Prime plus 150 basis

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

points minus certain incentives. The interest rate on the FMCC Facility was 7.00% before considering the applicable incentives as of March 31, 2019.

**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 March 31, 2019, borrowings outstanding under these facilities totaled \$161.7 million. Annual interest rates charged on borrowings outstanding under these facilities, after the grace period of zero to 30 days, ranged from 1.22% to 4.32%.

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 March 31, 2019, borrowings outstanding under these facilities totaled \$15.8 million. Annual interest rates charged on borrowings outstanding under these facilities, after the grace period of zero to 90 days, ranged from 10.81% to 15.12%.

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 March 31, 2019, borrowings outstanding under these rental vehicle facilities totaled \$117.6 million, with interest rates that vary up to 7.00%.

**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 (in thousands):

	March 31, 2019	December 31, 2018
5.00% Senior Notes (aggregate principal of \$550,000)	\$ 544,158	\$ 543,730
5.25% Senior Notes (aggregate principal of \$300,000)	296,884	296,735
Acquisition Line	29,342	31,842
Real estate related and other long-term debt	422,396	445,248
Finance leases related to real estate <sup>(1)</sup>	47,339	48,612
Total debt	1,340,119	1,366,167
Less: current maturities of long-term debt	77,537	84,678
Long-term debt, net of current maturities	\$ 1,262,582	\$ 1,281,489

<sup>(1)</sup> Balances as of December 31, 2018 were unchanged under the optional transition method applied as part of the implementation of Topic 842. See Note 1, “Interim Financial Information” and Note 13, “Leases” for further information.

**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 March 31, 2019 and December 31, 2018, the Company had a short-term financing arrangement in Brazil that totaled \$0.2 million and \$0.7 million, respectively. During the three months ended March 31, 2019, the Company made no additional borrowings and made repayments of \$0.5 million on the short-term financing arrangement in Brazil.

As of March 31, 2019 and December 31, 2018, the Company had working capital loans with third-party financial institutions in the U.K. that totaled \$13.0 million and \$7.6 million, respectively. During the three months ended March 31, 2019, the Company had borrowings of \$13.0 million and made principal payments of \$7.6 million on these U.K. third-party loans.

**Real Estate Related and Other Long-Term Debt**

The mortgage loans in the U.S. consist of 57 term loans with an aggregate principal amount of \$402.8 million (collectively, “U.S. Notes”), which are being repaid in monthly installments and will mature between April 2019 and November 2032. As of March 31, 2019 and December 31, 2018, aggregate borrowings outstanding under these notes totaled \$326.9 million and \$343.8 million, respectively, with \$60.7 million and \$67.9 million, respectively, classified as *Current maturities of long-term debt and short-term financing* in the accompanying Consolidated Balance Sheets. During the three months ended March 31, 2019, the Company made no additional borrowings and principal payments of \$16.9 million associated with the U.S. Notes.

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

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 March 31, 2019 and December 31, 2018, borrowings under the U.K. mortgage loans totaled \$73.8 million and \$73.8 million, respectively, with \$7.8 million and \$7.6 million, respectively, classified as *Current maturities of long-term debt and short-term financing* in the accompanying Consolidated Balance Sheets. During the three months ended March 31, 2019, the Company made no additional borrowings and made principal payments of \$2.0 million, associated with the U.K. Notes. The Company has also entered into an unsecured loan agreement in the U.K. with a third-party financial institution that matures in March 2028. As of March 31, 2019 and December 31, 2018, borrowings under the agreement totaled \$18.6 million and \$18.5 million, respectively, with \$2.0 million and \$2.0 million, respectively, classified as *Current maturities of long-term debt and short-term financing* in the accompanying Consolidated Balance Sheets. During the three months ended March 31, 2019, the Company made no additional borrowings and made principal payments of \$0.3 million associated with the unsecured loan agreement in the U.K.

The Company has a separate term mortgage loan in Brazil with a third-party financial institution (the "Brazil Note"). The Brazil Note 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 Brazil Note is being repaid in monthly installments that will mature by April 2025. As of March 31, 2019 and December 31, 2018, borrowings under the Brazil Note totaled \$2.4 million and \$2.5 million, respectively, with \$0.4 million and \$0.3 million, respectively, classified as *Current maturities of long-term debt and short-term financing* in the accompanying Consolidated Balance Sheets. During the three months ended March 31, 2019, the Company made no additional borrowings and made principal payments of \$0.1 million associated with the Brazil Note.

The Company also has a working capital loan agreement with a third-party financial institution in Brazil. The principal balance on the loan is due by February 2020 with interest-only payments being made until the due date. As of March 31, 2019 and December 31, 2018, borrowings under the Brazilian third-party loan totaled \$5.6 million and \$5.7 million, respectively. During the three months ended March 31, 2019, the Company made no additional borrowings or principal payments.

#### ***Fair Value of Long-Term Debt***

The Company's outstanding 5.00% Senior Notes due 2022 ("5.00% Notes") had a fair value of \$556.0 million and \$521.6 million as of March 31, 2019 and December 31, 2018, respectively. The Company's outstanding 5.25% Senior Notes due 2023 ("5.25% Senior Notes") had a fair value of \$303.0 million and \$286.5 million as of March 31, 2019 and December 31, 2018, respectively. The carrying value of the Company's fixed interest rate borrowings included in *Real estate related and other long-term debt* totaled \$74.3 million and \$79.5 million as of March 31, 2019 and December 31, 2018, respectively. The fair value of such fixed interest rate borrowings was \$73.8 million and \$76.2 million as of March 31, 2019 and December 31, 2018, respectively.

The fair value estimates of the Company's long-term debt are based on Level 2 inputs of the fair value hierarchy available as of March 31, 2019 and December 31, 2018. 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.

### **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.

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

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 *Prepaid expenses and other current assets* within its 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 March 31, 2019 and December 31, 2018, respectively, were as follows (in thousands):

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
<b>Assets:</b>		
Investments	\$ 3,232	\$ 2,788
Demand obligations	13	13
Interest rate derivative financial instruments	8,440	13,576
<b>Total</b>	<b>\$ 11,685</b>	<b>\$ 16,377</b>
<b>Liabilities:</b>		
Interest rate derivative financial instruments	\$ 2,684	\$ 1,811
<b>Total</b>	<b>\$ 2,684</b>	<b>\$ 1,811</b>

## 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*

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

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 Consolidated Balance Sheet as *Operating Lease Liabilities* as of March 31, 2019.

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 \$43.4 million as of March 31, 2019. 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 required under these leases would not have a material adverse effect on the Company's business, financial condition, or cash flows.

**13. LEASES**

The Company leases real estate, office equipment, and dealership operating assets under long-term lease agreements, and subleases certain real estate to third parties. The Company's real estate leases in the U.S., U.K., and Brazil generally have initial terms of 15 years, 20 years and five years, respectively.

The Company uses an implicit rate to determine the present value of its lease payments when that rate is readily determinable from a leasing agreement; and when such a rate is not readily determinable, the Company uses its incremental borrowing rate based on information available as of the measurement date. For leases effective on or after January 1, 2019, the Company determines if an arrangement is a lease at inception and recognizes ROU assets and lease liabilities at commencement date based on the present value of lease payments over the lease term. And for such leases effective on or after January 1, 2019, the aggregate present value of the Company's lease payments may include options to purchase the leased property or lease terms with options to renew or terminate the lease, when it is reasonably certain that the Company will exercise such an option. The exercise of lease renewals, terminations, or purchase options is generally at the Company's discretion. The Company's leases may also include rental payments adjusted periodically for inflation. Payments based on a change in an index or rate are not considered in the determination of lease payments for purposes of measuring the related lease liability. Subsequent to the recognition of its ROU assets and lease liabilities, the Company recognizes lease expense related to its operating lease

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

payments on a straight-line basis over the lease term. None of the Company's lease agreements contains material residual value guarantees or material restrictive covenants.

Effective January 1, 2019, operating leases are included in the Company's Consolidated Balance Sheets as *Operating lease assets, Current operating lease liabilities, and Operating lease liabilities, net of current portion*. Finance leases are historically, and will continue to be, included within *Property and equipment, net, Current maturities of long-term debt and short-term financing, and Long-term debt, net of current maturities* in the Company's Consolidated Balance Sheets.

The components of operating and finance leases included in the Company's Consolidated Balance Sheet as of March 31, 2019 were as follows (in thousands):

Leases	Balance Sheet Classification	March 31, 2019
<b>Assets:</b>		
Operating	Operating lease assets	\$ 214,776
Finance	Property and equipment, net	41,634
Total		<u>\$ 256,410</u>
<b>Liabilities:</b>		
Current		
Operating	Current operating lease liabilities	\$ 23,907
Finance	Current maturities of long-term debt and short-term financing	6,025
Noncurrent		
Operating	Operating lease liabilities, net of current portion	204,331
Finance	Long-term debt, net of current maturities	41,314
Total		<u>\$ 275,577</u>

Maturities of the Company's lease liabilities as of March 31, 2019 were as follows (in thousands):

	March 31, 2019	
	Operating Leases	Finance Leases
2019 (excluding the three months ended March 31, 2019)	\$ 26,054	\$ 7,771
2020	37,710	7,765
2021	34,646	7,758
2022	30,893	5,378
2023	27,869	5,637
Thereafter	164,742	40,416
Total lease payments	<u>321,914</u>	<u>74,725</u>
Less: Interest	(93,676)	(27,386)
Present value of lease liabilities	<u>\$ 228,238</u>	<u>\$ 47,339</u>

As of March 31, 2019, the Company's weighted-average remaining lease terms for its operating and finance leases were approximately 11.6 years and 12.3 years, respectively. The weighted-average discount rates used to determine the Company's operating and finance lease liabilities were 5.6% and 9.4%, respectively as of March 31, 2019.

The components of lease expense included in the Company's Consolidated Statements of Operations for the three months ended March 31, 2019 are as follows (in thousands):

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

Lease Expense	Income Statement Classification	Three Months Ended March 31, 2019
Operating <sup>(1)</sup>	Selling, general and administrative expenses	\$ 10,950
Finance:		
Amortization of lease assets	Depreciation and amortization expense	1,123
Interest on lease liabilities	Other interest expense, net	972
Sublease income <sup>(2)</sup>	Selling, general and administrative expenses	(320)
Net lease expense		<u>\$ 12,725</u>

<sup>(1)</sup> Includes short-term lease and variable lease expenses, which are immaterial.

<sup>(2)</sup> Excludes rental income from owned properties of \$0.1 million for the three months ended March 31, 2019, which is included in Finance, insurance and other, net.

Supplemental cash flow information related to leases for the three months ended March 31, 2019 are as follows (in thousands):

Other Information	Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 11,664
Operating cash flows from finance leases	972
Financing cash flows from finance leases	969
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	\$ 5,032

#### 14. INTANGIBLE FRANCHISE RIGHTS AND GOODWILL

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

	Intangible Franchise Rights			
	U.S.	U.K.	Brazil	Total
Balance, December 31, 2018	\$ 224,394	\$ 35,092	\$ 144	\$ 259,630
Currency translation	—	837	(2)	835
Balance, March 31, 2019	<u>\$ 224,394</u>	<u>\$ 35,929</u>	<u>\$ 142</u>	<u>\$ 260,465</u>

  

	Goodwill			
	U.S.	U.K.	Brazil	Total
Balance, December 31, 2018	\$ 861,628	\$ 87,587	\$ 14,710	\$ 963,925
Disposals and purchase price allocation adjustments	33	—	—	33
Currency translation	—	2,090	(166)	1,924
Balance, March 31, 2019	<u>\$ 861,661</u>	<u>\$ 89,677</u>	<u>\$ 14,544</u>	<u>\$ 965,882</u>

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**15. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

Changes in the balances of each component of accumulated other comprehensive income (loss) for the three months ended March 31, 2019 and 2018 were as follows (in thousands):

	Three Months Ended March 31, 2019		
	Accumulated income (loss) on foreign currency translation	Accumulated income (loss) on interest rate swaps	Total
Balance, December 31, 2018	\$ (146,708)	\$ 8,936	\$ (137,772)
Other comprehensive income (loss) before reclassifications:			
Pre-tax	3,607	(5,554)	(1,947)
Tax effect	—	1,316	1,316
Amounts reclassified from accumulated other comprehensive income (loss) to:			
Floorplan interest expense (pre-tax)	—	(344)	(344)
Other interest expense, net (pre-tax)	—	(110)	(110)
Tax effect	—	108	108
Net current period other comprehensive income (loss)	3,607	(4,584)	(977)
Balance, March 31, 2019	\$ (143,101)	\$ 4,352	\$ (138,749)
	Three Months Ended March 31, 2018		
	Accumulated income (loss) on foreign currency translation	Accumulated income (loss) on interest rate swaps	Total
Balance, December 31, 2017	\$ (122,552)	\$ (674)	\$ (123,226)
Other comprehensive income (loss) before reclassifications:			
Pre-tax	7,871	10,384	18,255
Tax effect	—	(2,492)	(2,492)
Amounts reclassified from accumulated other comprehensive income (loss) to:			
Floorplan interest expense (pre-tax)	—	1,737	1,737
Other interest expense, net (pre-tax)	—	254	254
Tax effect	—	(478)	(478)
Net current period other comprehensive income (loss)	7,871	9,405	17,276
Balance, March 31, 2018	\$ (114,681)	\$ 8,731	\$ (105,950)



**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**16. SEGMENT INFORMATION**

As of March 31, 2019, 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, benefit (provision) for income taxes and net income (loss) were as follows for the three months ended March 31, 2019 and 2018 (in thousands):

	<b>Three Months Ended March 31, 2019</b>			
	<b>U.S.</b>	<b>U.K.</b>	<b>Brazil</b>	<b>Total</b>
Total revenues	\$ 2,062,782	\$ 642,158	\$ 103,436	\$ 2,808,376
Income (loss) before income taxes	46,367	6,244	(435)	52,176
Benefit (provision) for income taxes	(12,413)	(1,096)	(19)	(13,528)
Net income (loss) <sup>(1)</sup>	33,954	5,148	(454)	38,648

	<b>Three Months Ended March 31, 2018</b>			
	<b>U.S.</b>	<b>U.K.</b>	<b>Brazil</b>	<b>Total</b>
Total revenues	\$ 2,088,486	\$ 660,542	\$ 110,998	\$ 2,860,026
Income (loss) before income taxes	40,510	5,737	(80)	46,167
Benefit (provision) for income taxes	(9,357)	(862)	(134)	(10,353)
Net income (loss)	31,153	4,875	(214)	35,814

<sup>(1)</sup> Includes the following, net of tax: gain of \$3.8 million on real estate and dealership transactions in the U.S. segment; loss of \$1.5 million due to catastrophic events in the U.S. segment; and loss of \$1.9 million for legal claim settlements in the U.S. and Brazil segment for the three months ended March 31, 2019.

Reportable segment total assets as of March 31, 2019 and December 31, 2018, were as follows (in thousands):

	<b>As of March 31, 2019</b>			
	<b>U.S.</b>	<b>U.K.</b>	<b>Brazil</b>	<b>Total</b>
Total assets	\$ 4,213,916	\$ 917,655	\$ 131,920	\$ 5,263,491

  

	<b>As of December 31, 2018</b>			
	<b>U.S.</b>	<b>U.K.</b>	<b>Brazil</b>	<b>Total</b>
Total assets <sup>(1)</sup>	\$ 4,113,049	\$ 756,350	\$ 131,676	\$ 5,001,075

<sup>(1)</sup> Balances as of December 31, 2018 were unchanged under the optional transition method applied as part of the implementation of Topic 842. See Note 1, "Interim Financial Information" and Note 13, "Leases" for further information.

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**17. CONDENSED CONSOLIDATING FINANCIAL INFORMATION**

The following tables include condensed consolidating financial information as of March 31, 2019 and December 31, 2018, and for the three months ended March 31, 2019 and 2018, 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 100%-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.

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**CONDENSED CONSOLIDATED BALANCE SHEET**

As of March 31, 2019

(Unaudited, in thousands)

	Group 1 Automotive, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ —	\$ 10,245	\$ 23,378	\$ —	\$ 33,623
Contracts-in-transit and vehicle receivables, net	—	183,894	77,300	—	261,194
Accounts and notes receivable, net	—	137,168	48,143	—	185,311
Intercompany accounts receivable	29,338	14,433	—	(43,771)	—
Inventories, net	—	1,499,284	361,623	—	1,860,907
Prepaid expenses and other current assets	643	21,541	69,852	—	92,036
<b>TOTAL CURRENT ASSETS</b>	<b>29,981</b>	<b>1,866,565</b>	<b>580,296</b>	<b>(43,771)</b>	<b>2,433,071</b>
Property and equipment, net	—	1,143,606	227,137	—	1,370,743
Operating lease assets	—	127,140	87,636	—	214,776
Goodwill	—	861,661	104,221	—	965,882
Intangible franchise rights	—	224,393	36,072	—	260,465
Investment in subsidiaries	3,192,888	—	—	(3,192,888)	—
Other assets	—	10,363	8,191	—	18,554
<b>TOTAL ASSETS</b>	<b>\$ 3,222,869</b>	<b>\$ 4,233,728</b>	<b>\$ 1,043,553</b>	<b>\$ (3,236,659)</b>	<b>\$ 5,263,491</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Floorplan notes payable — credit facility and other	\$ —	\$ 1,224,583	\$ 31,201	\$ —	\$ 1,255,784
Offset account related to floorplan notes payable - credit facility	—	(72,728)	—	—	(72,728)
Floorplan notes payable — manufacturer affiliates	—	297,788	146,215	—	444,003
Offset account related to floorplan notes payable - manufacturer affiliates	—	(26,000)	—	—	(26,000)
Current maturities of long-term debt and short-term financing	—	66,542	29,817	—	96,359
Current operating lease liabilities	—	17,751	6,156	—	23,907
Accounts payable	—	218,615	288,733	—	507,348
Intercompany accounts payable	1,223,548	—	53,171	(1,276,719)	—
Accrued expenses and other current liabilities	—	172,288	35,781	—	208,069
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,223,548</b>	<b>1,898,839</b>	<b>591,074</b>	<b>(1,276,719)</b>	<b>2,436,742</b>
Long-term debt, net of current maturities	870,384	283,850	108,348	—	1,262,582
Operating lease liabilities, net of current portion	—	117,067	87,264	—	204,331
Liabilities from interest rate risk management activities	—	2,430	—	—	2,430
Deferred income taxes	1,224	221,726	6,743	—	229,693
<b>STOCKHOLDERS' EQUITY:</b>					
Group 1 stockholders' equity	1,127,713	2,942,764	250,124	(3,192,888)	1,127,713
Intercompany note receivable	—	(1,232,948)	—	1,232,948	—
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>1,127,713</b>	<b>1,709,816</b>	<b>250,124</b>	<b>(1,959,940)</b>	<b>1,127,713</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 3,222,869</b>	<b>\$ 4,233,728</b>	<b>\$ 1,043,553</b>	<b>\$ (3,236,659)</b>	<b>\$ 5,263,491</b>

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**CONDENSED CONSOLIDATED BALANCE SHEET**

As of December 31, 2018

(In thousands)

	Group 1 Automotive, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ —	\$ 4,613	\$ 11,319	\$ —	\$ 15,932
Contracts-in-transit and vehicle receivables, net	—	232,095	33,565	—	265,660
Accounts and notes receivable, net	—	153,871	40,110	—	193,981
Intercompany accounts receivable	31,842	21,636	—	(53,478)	—
Inventories, net	—	1,468,422	375,637	—	1,844,059
Prepaid expenses and other current assets	992	32,118	49,624	—	82,734
<b>TOTAL CURRENT ASSETS</b>	<b>32,834</b>	<b>1,912,755</b>	<b>510,255</b>	<b>(53,478)</b>	<b>2,402,366</b>
Property and equipment, net	—	1,124,559	223,276	—	1,347,835
Goodwill	—	861,628	102,297	—	963,925
Intangible franchise rights	—	224,394	35,236	—	259,630
Investment in subsidiaries	3,100,931	—	—	(3,100,931)	—
Other assets	—	16,165	11,154	—	27,319
<b>TOTAL ASSETS</b>	<b>\$ 3,133,765</b>	<b>\$ 4,139,501</b>	<b>\$ 882,218</b>	<b>\$ (3,154,409)</b>	<b>\$ 5,001,075</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Floorplan notes payable — credit facility and other	\$ —	\$ 1,251,402	\$ 41,050	\$ —	\$ 1,292,452
Offset account related to floorplan notes payable - credit facility	—	(33,637)	—	—	(33,637)
Floorplan notes payable — manufacturer affiliates	—	276,862	141,062	—	417,924
Offset account related to floorplan notes payable - manufacturer affiliates	—	(100)	—	—	(100)
Current maturities of long-term debt and short-term financing	—	73,834	19,133	—	92,967
Accounts payable	—	200,912	218,438	—	419,350
Intercompany accounts payable	1,164,949	—	53,478	(1,218,427)	—
Accrued expenses	—	164,998	32,611	—	197,609
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,164,949</b>	<b>1,934,271</b>	<b>505,772</b>	<b>(1,218,427)</b>	<b>2,386,565</b>
Long-term debt, net of current maturities	872,307	294,388	114,794	—	1,281,489
Liabilities from interest rate risk management activities	—	1,696	—	—	1,696
Deferred income taxes and other liabilities	815	223,022	11,794	—	235,631
<b>STOCKHOLDERS' EQUITY:</b>					
Group 1 stockholders' equity	1,095,694	2,851,073	249,858	(3,100,931)	1,095,694
Intercompany note receivable	—	(1,164,949)	—	1,164,949	—
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>1,095,694</b>	<b>1,686,124</b>	<b>249,858</b>	<b>(1,935,982)</b>	<b>1,095,694</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 3,133,765</b>	<b>\$ 4,139,501</b>	<b>\$ 882,218</b>	<b>\$ (3,154,409)</b>	<b>\$ 5,001,075</b>

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**Three Months Ended March 31, 2019**  
(Unaudited, in thousands)

	Group 1 Automotive, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
Revenues	\$ —	\$ 2,062,782	\$ 745,594	\$ —	\$ 2,808,376
Cost of Sales	—	1,715,865	661,008	—	2,376,873
Gross Profit	—	346,917	84,586	—	431,503
Selling, General and Administrative Expenses	1,891	252,044	73,773	—	327,708
Depreciation and Amortization Expense	—	13,234	3,763	—	16,997
Income (loss) from operations	(1,891)	81,639	7,050	—	86,798
Other expense:					
Floorplan interest expense	—	(13,989)	(1,714)	—	(15,703)
Other interest income (expense), net	—	(17,175)	(1,744)	—	(18,919)
Income (loss) before income taxes and equity in earnings of subsidiaries	(1,891)	50,475	3,592	—	52,176
Benefit (provision) for income taxes	490	(12,902)	(1,116)	—	(13,528)
Equity in earnings of subsidiaries	40,049	—	—	(40,049)	—
Net income (loss)	\$ 38,648	\$ 37,573	\$ 2,476	\$ (40,049)	\$ 38,648
Comprehensive income (loss)	(977)	(4,584)	3,607	977	(977)
Comprehensive income (loss) attributable to parent	\$ 37,671	\$ 32,989	\$ 6,083	\$ (39,072)	\$ 37,671

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**Three Months Ended March 31, 2018**  
(Unaudited, in thousands)

	Group 1 Automotive, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
Revenues	\$ —	\$ 2,088,487	\$ 771,539	\$ —	\$ 2,860,026
Cost of Sales	—	1,752,802	687,461	—	2,440,263
Gross Profit	—	335,685	84,078	—	419,763
Selling, General and Administrative Expenses	1,768	249,165	73,414	—	324,347
Depreciation and Amortization Expense	—	12,881	3,461	—	16,342
Income (loss) from operations	(1,768)	73,639	7,203	—	79,074
Other expense:					
Floorplan interest expense	—	(12,337)	(1,750)	—	(14,087)
Other interest income (expense), net	—	(17,017)	(1,803)	—	(18,820)
Income (loss) before income taxes and equity in earnings of subsidiaries	(1,768)	44,285	3,650	—	46,167
Benefit (provision) for income taxes	424	(9,780)	(997)	—	(10,353)
Equity in earnings of subsidiaries	37,158	—	—	(37,158)	—
Net income (loss)	\$ 35,814	\$ 34,505	\$ 2,653	\$ (37,158)	\$ 35,814
Comprehensive income (loss)	—	9,405	7,871	—	17,276
Comprehensive income (loss) attributable to parent	\$ 35,814	\$ 43,910	\$ 10,524	\$ (37,158)	\$ 53,090

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**Three Months Ended March 31, 2019**  
(Unaudited, in thousands)

	Group 1 Automotive, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Company
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net cash provided by (used in) operating activities	\$ 32,601	\$ 71,795	\$ 23,543	\$ 127,939
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Proceeds from disposition of franchises, property and equipment	—	33,178	1,947	35,125
Purchases of property and equipment, including real estate	—	(36,614)	(5,097)	(41,711)
Other	(200)	—	—	(200)
Net cash provided by (used in) investing activities	(200)	(3,436)	(3,150)	(6,786)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Borrowings on credit facility - floorplan line and other	—	1,624,256	7,288	1,631,544
Repayments on credit facility - floorplan line and other	—	(1,679,425)	(18,030)	(1,697,455)
Borrowings on credit facility - acquisition line	107,777	—	—	107,777
Repayments on credit facility - acquisition line	(111,466)	—	—	(111,466)
Borrowings on other debt	—	7,288	13,041	20,329
Principal payments on other debt	—	(18,206)	(8,487)	(26,693)
Principal payments on debt related to real estate	—	(17,702)	(3,162)	(20,864)
Employee stock purchase plan purchases, net of employee tax withholdings	(830)	—	—	(830)
Dividends paid	(4,841)	—	—	(4,841)
Borrowings (repayments) with subsidiaries	69,908	(68,496)	(1,412)	—
Investment in subsidiaries	(92,949)	92,790	159	—
Net cash provided by (used in) financing activities	(32,401)	(59,495)	(10,603)	(102,499)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	—	—	(519)	(519)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	—	8,864	9,271	18,135
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of period	—	4,613	14,107	18,720
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of period	\$ —	\$ 13,477	\$ 23,378	\$ 36,855

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**Three Months Ended March 31, 2018**  
(Unaudited, in thousands)

	Group 1 Automotive, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Company
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net cash provided by (used in) operating activities	\$ 35,814	\$ 114,862	\$ (1,894)	\$ 148,782
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Cash paid in acquisitions, net of cash received	—	(31,414)	(40,085)	(71,499)
Proceeds from disposition of franchises, property and equipment	—	918	2,022	2,940
Purchases of property and equipment, including real estate	—	(34,101)	(13,847)	(47,948)
Other	—	140	—	140
Net cash provided by (used in) investing activities	—	(64,457)	(51,910)	(116,367)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Borrowings on credit facility - floorplan line and other	—	1,612,866	43,326	1,656,192
Repayments on credit facility - floorplan line and other	—	(1,675,917)	(26,530)	(1,702,447)
Borrowings on credit facility - acquisition line	66,945	—	—	66,945
Repayments on credit facility - acquisition line	(66,444)	—	—	(66,444)
Borrowings on other debt	—	43,326	22,288	65,614
Principal payments on other debt	(24,742)	(1,987)	(13,349)	(40,078)
Borrowings on debt related to real estate	—	34,817	12,018	46,835
Principal payments on debt related to real estate	—	(31,000)	(6,819)	(37,819)
Employee stock purchase plan purchases, net of employee tax withholdings	(1,638)	—	—	(1,638)
Repurchases of common stock, amounts based on settlement date	(9,199)	—	—	(9,199)
Dividends paid	(5,495)	—	—	(5,495)
Borrowings (repayments) with subsidiaries	22,730	(50,554)	27,824	—
Investment in subsidiaries	(17,971)	16,822	1,149	—
Net cash provided by (used in) financing activities	(35,814)	(51,627)	59,907	(27,534)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	—	—	47	47
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	—	(1,222)	6,150	4,928
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of period	—	10,096	19,535	29,631
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of period	\$ —	\$ 8,874	\$ 25,685	\$ 34,559

## CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this “Form 10-Q”) includes certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (“Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (“Exchange Act”). Forward-looking statements may appear throughout this report including, but not limited to, the following sections: “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Quantitative and Qualitative Disclosures About Market Risk.” This information includes statements regarding our strategy, plans, goals or current expectations with respect to, among other things:

- our future operating performance;
- our ability to maintain or improve our margins;
- operating cash flows and availability of capital;
- the completion of future acquisitions and divestitures;
- the future revenues of acquired dealerships;
- future stock repurchases, refinancing of debt, and dividends;
- future capital expenditures;
- changes in sales volumes and availability of credit for customer financing in new and used vehicles and sales volumes in the parts and service markets;
- business trends in the retail automotive industry, including the level of manufacturer incentives, new and used vehicle retail sales volume, customer demand, interest rates and changes in industry-wide inventory levels;
- availability of financing for inventory, working capital, real estate and capital expenditures; and
- implementation of international and domestic trade tariffs.

Although we believe that the expectations reflected in these forward-looking statements are reasonable when and as made, we cannot assure you that these expectations will prove to be correct. When used in this Form 10-Q, the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may” and similar expressions, as they relate to our company and management, are intended to identify forward-looking statements, which are generally not historical in nature. These forward-looking statements are based on our expectations and beliefs as of the date of this Form 10-Q concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. All comments concerning our expectations for future revenues and operating results are based on our forecasts for our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Known material factors that could cause actual results to differ from those in the forward-looking statements for a number of reasons, include:

- future deterioration in the economic environment, including consumer confidence, interest rates, the prices of oil and gasoline, the level of manufacturer incentives, the implementation of international and domestic trade tariffs, and the availability of consumer credit may affect the demand for new and used vehicles, replacement parts, maintenance and repair services, and finance and insurance products;
- adverse domestic and international developments such as war, terrorism, political conflicts, or other hostilities may adversely affect the demand for our products and services;
- the existing and future regulatory environment, including legislation related to the Dodd-Frank Wall Street Reform and Consumer Protection Act, climate control changes legislation, changes to U.S. federal, U.S. state, U.K. or Brazil tax regulations and unexpected litigation or adverse legislation, including changes in U.S. state franchise laws, may impose additional costs on us or otherwise adversely affect us;
- a concentration of risk associated with our principal automobile manufacturers, especially Toyota, Nissan, Honda, BMW, Ford, Daimler, General Motors, Chrysler, and Volkswagen, because of financial distress, bankruptcy, natural disasters that disrupt production, or other reasons, may not continue to produce or make available to us vehicles that are in high demand by our customers or provide financing, insurance, advertising, or other assistance to us;
- restructuring by one or more of our principal manufacturers, up to and including bankruptcy, may cause us to suffer financial loss in the form of uncollectible receivables, devalued inventory, or loss of franchises;



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- requirements imposed on us by our manufacturers may require dispositions, limit our acquisitions, or require increases in the level of capital expenditures related to our dealership facilities;
- our existing and/or new dealership operations may not perform at expected levels or achieve expected improvements;
- our failure to achieve expected future cost savings or future costs may be higher than we expect;
- manufacturer quality issues, including the recall of vehicles, may negatively impact vehicle sales and brand reputation;
- available capital resources, increases in cost of financing (such as higher interest rates), and our various debt agreements may limit our ability to complete acquisitions, complete construction of new or expanded facilities, repurchase shares, or pay dividends;
- our ability to refinance or obtain financing in the future may be limited and the cost of financing could increase significantly;
- foreign exchange controls and currency fluctuations;
- new accounting standards could materially impact our reported earnings per share;
- our ability to acquire new dealerships and successfully integrate those dealerships into our business;
- the impairment of our goodwill, our indefinite-lived intangibles, and our other long-lived assets;
- natural disasters, adverse weather events, and other catastrophic events;
- a cybersecurity event, including a breach of personally identifiable information about our customers or employees;
- our foreign operations and sales in the U.K. and Brazil, which pose additional risks;
- the inability to adjust our cost structure and inventory levels to offset any reduction in the demand for our products and services;
- loss of our key personnel;
- competition in our industry may impact our operations or our ability to complete additional acquisitions;
- insurance costs could increase significantly and all of our losses may not be covered by insurance;
- our inability to obtain inventory of new and used vehicles and parts, including imported inventory, at the cost, or in the volume, we expect; and
- advancements in vehicle technology and changes in vehicle ownership models/consumer preferences.

For additional information regarding known material factors that could cause our actual results to differ from our projected results, please see Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018 (the “2018 Form 10-K”), as well as “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Quantitative and Qualitative Disclosures About Market Risk.”

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no responsibility, and expressly disclaim any duty, to update any such statements, whether as a result of new information, new developments, or otherwise, or to publicly release the result of any revision of our forward-looking statements after the date they are made, except to the extent required by law.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements because of various factors. See "Cautionary Statement about Forward-Looking Statements."*

*In the preparation of our financial statements and reporting of our operating results in accordance with United States generally accepted accounting principles ("U.S. GAAP"), certain non-core business items are required to be presented. Examples of items that we consider non-core include non-cash asset impairment charges, gains and losses on dealership, franchise or real estate transactions, and catastrophic events such as hail storms, hurricanes, and snow storms. In order to improve the transparency of our disclosures, provide a meaningful presentation of results from our core business operations, and improve period-over-period comparability, we have included certain adjusted financial measures that exclude the impact of these non-core business items. These adjusted measures are not measures of financial performance under U.S. GAAP, but are instead considered non-GAAP financial performance measures.*

*In addition, management evaluates our results of operations on both an as reported and a constant currency basis. The constant currency presentation, which is a non-GAAP measure, excludes the impact of fluctuations in foreign currency exchange rates. We believe providing constant currency information provides valuable supplemental information regarding our underlying business and results of operations, consistent with how we evaluate our performance. We calculate constant currency percentages by converting our current period reported results for entities reporting in currencies other than United States dollars using comparative period exchange rates rather than the actual exchange rates in effect during the respective periods. The constant currency performance measures should not be considered a substitute for, or superior to, the measures of financial performance prepared in accordance with U.S. GAAP.*

*Our management uses these adjusted measures in conjunction with U.S. GAAP financial measures to assess our business, including communication with our Board of Directors, investors, and industry analysts concerning financial performance. Therefore, we believe these adjusted financial measures are relevant and useful to users of the following financial information. For further explanation and reconciliation to the most directly comparable U.S. GAAP measures, see "Non-GAAP Financial Measures" below.*

### Overview

We are a leading operator in the automotive retail industry. Through our dealerships, we 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. Our operations are aligned into three geographic regions: the United States ("U.S."), the United Kingdom ("U.K.") and Brazil. Our President of U.S. Operations reports directly to our Chief Executive Officer and is responsible for the overall performance of the U.S. region, including dealership operations management. The operations of the Company's international regions are structured similar to the U.S. region. As such, our three reportable segments are the U.S., which includes the activities of our corporate office, the U.K., and Brazil.

As of March 31, 2019, we owned and operated 233 franchises, representing 30 brands of automobiles, at 181 dealership locations and 47 collision centers worldwide. We own 147 franchises at 116 dealerships and 29 collision centers in the U.S., 63 franchises at 47 dealerships and 11 collision centers in the U.K., and 23 franchises at 18 dealerships and seven collision centers in Brazil. Our U.S. operations are primarily located in major metropolitan areas in Alabama, California, Florida, Georgia, Kansas, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New Mexico, Oklahoma, South Carolina, and Texas in the U.S., in 32 towns of the U.K. and in key metropolitan markets in the states of São Paulo, Paraná, Mato Grosso do Sul, and Santa Catarina in Brazil.

### Outlook

Our operating results reflect the combined performance of each of our interrelated business activities, which include the sale of new vehicles, used vehicles, finance and insurance contracts, and parts, as well as maintenance, repair, and collision restoration services. Historically, each of these activities has been directly or indirectly impacted by a variety of supply/demand factors, including vehicle inventories, consumer confidence, discretionary spending levels, availability and affordability of consumer credit, manufacturer incentives, weather patterns, fuel prices, and interest rates. For example, during periods of sustained economic downturn or significant supply/demand imbalances, new vehicle sales may be negatively impacted, as consumers tend to shift their purchases to used vehicles. Some consumers may even delay their purchasing decisions altogether, electing instead to continue to maintain and repair their existing vehicles. In such cases, however, we believe the new vehicle sales impact on our overall business is mitigated by our ability to offer other products and services, such as used vehicles and parts, as well as maintenance, repair, and collision services. In addition, our ability to expediently adjust our cost structure in response to changes in vehicle sales volumes also tempers the negative impact of any such volume changes. Further, governmental actions, such as the imposition of tariffs or trade restrictions on imported goods, may adversely affect vehicle sales and depress demand.

In the U.S., we generally experience higher volumes of vehicle sales and service in the second and third calendar quarters of each year. 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, our U.S. revenues and operating income are typically lower in the first and fourth calendar quarters. For the U.K., the first and third quarters' sales volumes tend to be stronger, driven by the vehicle license plate change months of March and September. For Brazil, we expect higher sales volumes in the third and fourth quarters. The first quarter is generally the weakest, driven by heavy consumer vacations and activities associated with Carnival. Other factors unrelated to seasonality, such as changes in economic conditions, manufacturer incentive programs, supply issues, the impact of severe weather events, or changes in currency exchange rates, may exaggerate seasonal or cause counter-seasonal fluctuations in our reported consolidated revenues and consolidated operating income.

During the three months ended March 31, 2019, industry new vehicle sales volume in the U.S. declined 3.2% as compared to the same period a year ago. In response, we continued to focus on opportunities to counter the decline in industry new vehicle sales volumes and enhance our operating results by: (a) maintaining and growing our new and used vehicle gross profit per unit sold; (b) expanding used vehicle sales by maximizing used retail sales opportunities and limiting wholesale activity; (c) continuing to focus on our higher margin parts and service (or aftersales) business by implementing strategic selling methods and improving operational efficiencies; (d) investing capital where necessary to support our anticipated growth, particularly in our parts and service business; (e) further leveraging our revenue and gross profit growth through the continued implementation of cost efficiencies; and (f) implementing focused strategies to improve employee retention and recruitment in both our vehicle sales and aftersales sectors of the business.

In terms of gross domestic product ("GDP"), the U.K. economy represents the fifth largest economy in the world. The ongoing uncertainty related to the ultimate resolution of the Referendum of the United Kingdom's Membership of the European Union ("E.U.") advising for the exit of the U.K. from the E.U. (referred to as "Brexit"), continues to generate much uncertainty in the U.K., as well as in global markets. As a result, the overall U.K. economy and, more specifically, retail automotive industry sales continue to experience disruption. The U.K. industry's new vehicle sales have been more volatile than normal. Also, as of September 1, 2018, all light vehicles sold in the E.U. are subjected to mandatory emissions standards testing known as the Worldwide Harmonised Light Vehicle Test Procedure ("WLTP"). Delays by various original equipment manufacturer ("OEM") partners in passing this test have led to near-term constraints in new vehicle supply. As a result of these disruptions, industry new vehicle registrations in the U.K. decreased 2.4% in the three months ended March 31, 2019, as compared to the same period a year ago. While we have experienced relative improvements in new vehicle supply most recently, we expect industry sales to remain volatile in the near future. In addition, the uncertainty surrounding Brexit continues to cause significant exchange rate fluctuations that resulted in the weakening of the British pound sterling, in which we conduct business in the U.K., against the U.S. dollar and other global currencies. While the British pound sterling has strengthened relative to the U.S. dollar more recently, volatility in exchange rates may continue in the short term. Any further weakening of the British pound sterling in the future would adversely affect our results of operations as reported under U.S. GAAP, as well as have a negative impact on the pricing and affordability of the vehicles in the U.K. Similar to our priorities in the U.S., we are focused on opportunities in the U.K. to enhance our operating results by: (a) integrating recent acquisitions and further leveraging our revenue and gross profit growth through the continued implementation of cost efficiencies; (b) expanding used vehicle sales by maximizing used retail sales opportunities and limiting wholesale activity; (c) continuing to focus on our higher margin parts and service business, implementing strategic selling methods, and improving operational efficiencies; and (d) investing capital where necessary to support our anticipated growth, particularly in our parts and service business.

In terms of GDP, the Brazilian economy represents the eighth largest economy in the world. Industry new vehicle registrations in Brazil increased 11.4% for the three months ended March 31, 2019 as compared to the same period a year ago. We expect macro-economic conditions in Brazil, as well as retail automotive industry sales, to continue to improve. We remain focused on optimizing our brand portfolio, continued implementation of cost efficiencies and leveraging our structure with dealership acquisitions. Longer term, we expect sustained improvements in industry sales volumes and are utilizing a strategy of aligning with growing brands. We expect that the net impact to our profitability of this adjustment to our portfolio, as well as a more efficient organizational structure, will be positive.

We expect that our consolidated operations will continue to consistently generate positive cash flow in the future, and we are focused on maximizing the return that we generate from our invested capital, as well as positioning our balance sheet to take advantage of investment opportunities as they arise. Our capital allocation strategy is dynamic and dependent on a variety of market conditions and, as such, we will continue to monitor the relative value of dealership acquisitions, dealership dispositions, share repurchases, and shareholder dividends in the future. Our objective will be to allocate capital to those areas that best enhance shareholder value.

We continue to closely scrutinize all planned future capital spending and work closely with our manufacturer partners to make prudent capital investment decisions that are expected to generate an adequate return and/or improve the customer experience. We anticipate that our capital spending for the year of 2019 will be less than \$110.0 million. This amount excludes real estate purchases associated with franchise acquisitions and lease buy-outs.

### Key Performance Indicators

On a consolidated basis for the three months ended March 31, 2019, our total revenues decreased 1.8%, as compared to the same period in 2018, to \$2.8 billion, and gross profit improved 2.8% to \$431.5 million. We generated net income of \$38.6 million, or \$2.08 per diluted common share for the three months ended March 31, 2019, compared to \$35.8 million, or \$1.70 per diluted share for the three months ended March 31, 2018.

### Consolidated Statistical Data

The following table highlights certain of the additional key performance indicators we use to manage our business.

	Three Months Ended March 31,	
	2019	2018
Unit Sales		
Retail Sales		
New Vehicle	38,874	41,190
Used Vehicle	38,836	36,216
Total Retail Sales	77,710	77,406
Used Wholesale Sales	12,989	15,327
Total Vehicle Sales	90,699	92,733
Gross Margin		
New Vehicle Retail Sales	5.0%	5.0%
Total Used Vehicle Sales	5.3%	5.1%
Parts and Service Sales	53.8%	53.5%
Total Gross Margin	15.4%	14.7%
SG&A <sup>(1)</sup> as a % of Gross Profit	75.9%	77.3%
Adjusted SG&A <sup>(1)</sup> as a % of Gross Profit <sup>(2)</sup>	76.1%	77.3%
Operating Margin	3.1%	2.8%
Pretax Margin	1.9%	1.6%
Adjusted Pretax Margin <sup>(2)</sup>	1.8%	1.6%
Finance and Insurance Revenues per Retail Unit Sold	\$ 1,459	\$ 1,451

<sup>(1)</sup> Selling, general and administrative expenses.

<sup>(2)</sup> See "Non-GAAP Financial Measures" for more details.

In addition to key performance indicators presented above, we also reference numerous Same Store metrics as key indicators of results and trends occurring within the business. Those Same Store metrics, results and trends are discussed in more detail in the "Results of Operations" section that follows.

### Critical Accounting Policies and Accounting Estimates

The preparation of our Consolidated Financial Statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions. In particular, to evaluate the carrying value of goodwill and intangible franchise rights for impairment, we must estimate the fair market value of the net assets of each of our reporting units and our intangible franchise rights, using estimates, assumptions and unobservable inputs that require us to use our knowledge of (1) the industry, (2) recent transactions and (3) reasonable performance expectations for our operations.

We disclosed certain critical accounting policies and estimates in our 2018 Form 10-K, and no significant changes have occurred since that time with the exception of the adoption of ASU 2016-02, *Leases (Topic 842)*, and all subsequent amendments issued thereafter, that amends the accounting guidance on leases. Refer to Note 1, "Interim Financial Information", for additional information regarding the adoption of Topic 842.

## Results of Operations

The “Same Store” amounts presented below include the results of dealerships for the identical months in each period presented in comparison, commencing with the first full month in which the dealership was owned by us and, in the case of dispositions, ending with the last full month it was owned by us. The following table summarizes our combined Same Store results for the three months ended March 31, 2019, as compared to 2018. Same Store results also include the activities of our corporate headquarters.

### Total Same Store Data

(dollars in thousands, except per unit amounts)

	Three Months Ended March 31,			
	2019	% Increase/(Decrease)	Constant Currency <sup>(1)</sup> % Increase/(Decrease)	2018
<b>Revenues</b>				
New Vehicle Retail	\$ 1,342,057	(7.8)%	(5.9)%	\$ 1,455,789
Used Vehicle Retail	774,943	2.5 %	4.5 %	756,351
Used Vehicle Wholesale	87,145	(13.7)%	(10.2)%	100,949
Parts and Service	355,995	6.1 %	7.7 %	335,372
Finance, Insurance and Other, net	109,084	(0.3)%	0.7 %	109,445
<b>Total Revenues</b>	<b>2,669,224</b>	<b>(3.2)%</b>	<b>(1.3)%</b>	<b>2,757,906</b>
<b>Cost of Sales</b>				
New Vehicle Retail	\$ 1,273,745	(7.9)%	(6.0)%	\$ 1,383,031
Used Vehicle Retail	729,433	2.2 %	4.2 %	713,990
Used Vehicle Wholesale	86,437	(12.9)%	(9.4)%	99,271
Parts and Service	165,222	6.2 %	7.9 %	155,523
<b>Total Cost of Sales</b>	<b>2,254,837</b>	<b>(4.1)%</b>	<b>(2.1)%</b>	<b>2,351,815</b>
Gross Profit	\$ 414,387	2.0 %	3.5 %	\$ 406,091
SG&A	\$ 315,637	1.2 %	2.9 %	\$ 311,967
Adjusted SG&A <sup>(1)</sup>	312,911	0.3 %	2.0 %	311,967
Depreciation and Amortization Expense	16,177	3.5 %	5.2 %	15,625
Floorplan Interest Expense	15,096	11.4 %	12.3 %	13,547
<b>Gross Margin</b>				
New Vehicle Retail	5.1%			5.0%
Total Used Vehicle	5.4%			5.1%
Parts and Service	53.6%			53.6%
<b>Total Gross Margin</b>	<b>15.5%</b>			<b>14.7%</b>
SG&A as a % of Gross Profit	76.2%			76.8%
Adjusted SG&A as a % of Gross Profit <sup>(1)</sup>	75.5%			76.8%
Operating Margin	3.1%			2.8%
Adjusted Operating Margin <sup>(1)</sup>	3.2%			2.8%
Finance and Insurance Revenues per Retail Unit Sold, net	\$ 1,488	1.7%	2.8 %	\$ 1,463

<sup>(1)</sup> See “Non-GAAP Financial Measures” for more details.

The discussion that follows provides explanations for the variances noted above by region (U.S., U.K., and Brazil). In addition, each table presents by primary income statement line item comparative financial and non-financial data of our Same Store locations, those locations acquired or disposed of (“Transactions”) during the periods, and the consolidated company for the three months ended March 31, 2019 and 2018.

**New Vehicle Retail Data**

(dollars in thousands, except per unit amounts)

	Three Months Ended March 31,			
	2019	% Increase/(Decrease)	Constant Currency <sup>(1)</sup> % Increase/(Decrease)	2018
<b>Retail Unit Sales</b>				
Same Stores				
U.S.	25,569	(8.7)%		28,007
U.K.	9,215	(4.6)%		9,657
Brazil	1,850	(10.5)%		2,067
Total Same Stores	36,634	(7.8)%		39,731
Transactions	2,240			1,459
Total	38,874	(5.6)%		41,190
<b>Retail Sales Revenues</b>				
Same Stores				
U.S.	\$ 1,004,977	(5.3)%	N/A	\$ 1,061,294
U.K.	280,164	(13.9)%	(8.2)%	325,262
Brazil	56,916	(17.8)%	(4.6)%	69,233
Total Same Stores	1,342,057	(7.8)%	(5.9)%	1,455,789
Transactions	72,428			57,801
Total	\$ 1,414,485	(6.5)%	(4.5)%	\$ 1,513,590
<b>Gross Profit</b>				
Same Stores				
U.S.	\$ 49,404	(4.0)%	N/A	\$ 51,471
U.K.	15,493	(11.5)%	(5.9)%	17,506
Brazil	3,415	(9.7)%	4.8 %	3,781
Total Same Stores	68,312	(6.1)%	(4.0)%	72,758
Transactions	3,079			2,669
Total	\$ 71,391	(5.4)%	(3.1)%	\$ 75,427
<b>Gross Profit per Retail Unit Sold</b>				
Same Stores				
U.S.	\$ 1,932	5.1 %	N/A	\$ 1,838
U.K.	1,681	(7.3)%	(1.4)%	1,813
Brazil	1,846	0.9 %	17.1 %	1,829
Total Same Stores	1,865	1.9 %	4.1 %	1,831
Transactions	1,375			1,829
Total	1,836	0.3 %	2.6 %	1,831
<b>Gross Margin</b>				
Same Stores				
U.S.	4.9%			4.8%
U.K.	5.5%			5.4%
Brazil	6.0%			5.5%
Total Same Stores	5.1%			5.0%
Transactions	4.3%			4.6%
Total	5.0%			5.0%

(1) See “Non-GAAP Financial Measures” for more details.

### Same Store New Vehicle Unit Sales

The following table sets forth our Same Store new vehicle retail unit sales volume by manufacturer:

	Three Months Ended March 31,		
	2019	% Increase/(Decrease)	2018
Toyota/Lexus	8,677	(12.2)%	9,883
Volkswagen/Audi/Porsche/SEAT/SKODA	5,803	(0.4)%	5,824
BMW/MINI	4,840	(4.6)%	5,072
Ford/Lincoln	4,112	(8.4)%	4,489
Honda/Acura	3,580	(8.9)%	3,931
Chevrolet/GMC/Buick/Cadillac	2,445	1.8%	2,402
Nissan	2,314	(16.3)%	2,766
Hyundai/Kia	1,315	(13.8)%	1,526
Chrysler/Dodge/Jeep/RAM	1,182	(23.9)%	1,553
Mercedes-Benz/Smart/Sprinter	1,080	(9.9)%	1,199
Jaguar/Land Rover	973	31.0%	743
Other	313	(8.7)%	343
<b>Total</b>	<b>36,634</b>	<b>(7.8)%</b>	<b>39,731</b>

The level of retail sales, as well as our own ability to retain or grow market share during any future period, is difficult to predict. In total, our Same Store new vehicle retail unit sales fell 7.8% for the three months ended March 31, 2019, as compared to the same period in 2018. The decrease was driven by declines of 8.7%, 4.6% and 10.5% in the U.S., U.K., and Brazil, respectively. Our Same Store U.S. new vehicle unit sales decrease was primarily driven by a decline in industry retail unit sales versus the same period in 2018 and strategic initiatives by our management team to increase new vehicle gross profit per retail unit instead of unit volume. While the total U.K. industry decreased 2.4% for the first quarter of 2019 as compared to the same period last year, our brands were disproportionately affected, especially in our Audi models where we continued to experience supply constraints stemming from delays by the OEM in passing the new WLTP emissions standards that became effective on September 1, 2018. The 10.5% decline in our Brazil Same Store new vehicle retail unit sales for the three months ended March 31, 2019 was primarily due to a strategic focus to prioritize margins over volume.

Our total Same Store new vehicle retail sales revenue decreased 7.8% for the three months ended March 31, 2019, as compared to the same period in 2018, reflecting declines in the U.S., U.K., and Brazil of 5.3%, 13.9%, and 17.8%, respectively. The 5.3% decrease in U.S. Same Store new vehicle revenue was primarily due to the decline in new vehicle retail units of 8.7%, partially offset by a 3.7% increase in the average new vehicle retail sales price to \$39,305. The increase in U.S. Same Store average new vehicle retail sales price was primarily due to a mix shift in sales from cars to trucks, largely driven by consumer preference and lower gas prices, as well as the continued increase in new vehicle prices in general. For the first quarter of 2019, U.S. Same Store new vehicle retail truck sales represented 66.0% of total Same Store new vehicle retail units sold, as compared to 64.0% for the same period last year. Our U.K. Same Store new vehicle retail revenues decline of 13.9% is explained by a 9.7% decrease in average new vehicle retail sales price, coupled with the 4.6% decrease in unit sales. The decline in Same Store average new vehicle retail sales price was due to the mix effect of selling fewer luxury units, as the availability of many models, especially Audi models, continued to be restricted due to the WLTP legislation. Our Brazil Same Store new vehicle retail sales revenue decrease of 17.8% is partially explained by the change in exchange rates between periods. On a constant currency basis, our Brazil Same Store new vehicle retail revenue fell 4.6%, as a 6.6% increase in new vehicle average retail sales price was more than offset by the 10.5% decrease in new vehicle retail units for the three months ended March 31, 2019, as compared to the same period last year. The 6.6% increase in our Brazil Same Store new vehicle average retail sales price was primarily a result of the shift in sales mix in our Honda and Toyota brands towards higher priced models.

Our total Same Store new vehicle gross profit decreased 6.1% for the three months ended March 31, 2019, as compared to the same period in 2018, reflecting decreases of 4.0%, 11.5% and 9.7% in the U.S., U.K., and Brazil, respectively. In the U.S., the Same Store new vehicle gross profit decline is explained by the 8.7% decrease in new vehicle retail units, partially offset by a 5.1% increase in gross profit per retail unit (“PRU”) to \$1,932. The increase in our U.S. Same Store gross profit per retail unit was largely driven by a decision to prioritize gross profit per unit ahead of volume. The decline in our Same Store new vehicle gross profit in the U.K. is explained by the 4.6% decrease in new vehicle retail unit sales, as well as a 7.3% decline in new vehicle gross profit PRU. The decline in the U.K. Same Store new vehicle gross profit PRU can primarily be attributed to the change in exchange rates between periods. On a constant currency basis, Same Store new vehicle gross profit PRU declined only 1.4%, while Same Store gross profit decreased 5.9%. The decline in Same Store gross profit on a constant currency basis was driven by the shortage of Audi models that continued to be restricted during the first quarter of 2019. The decline in Brazil was driven by the change in exchange rates as on a constant currency basis, Brazil new vehicle gross profit rose 4.8%, driven by a 17.1% increase in new vehicle gross profit PRU for the three months ended March 31, 2019, as compared to the same period last year, partially offset by the 10.5% decline in new vehicle retail unit sales. These increases are reflective of a strategic decision to focus on growing margins over volume. Our total Same Store new vehicle gross margin for the three months ended March 31, 2019 as compared to the same period in 2018, increased 10 basis points from 5.0% to 5.1%.

In the U.S., most manufacturers offer interest assistance to offset floorplan interest charges incurred in connection with inventory purchases. This assistance varies by manufacturer, but generally provides for a defined amount, adjusted periodically for changes in market interest rates, regardless of our actual floorplan interest rate or the length of time for which the inventory is financed. We record these incentives as a reduction of new vehicle cost of sales as the vehicles are sold, impacting the gross profit and gross margin detailed above. The total interest assistance recognized in cost of sales during the three months ended March 31, 2019 and 2018 was \$10.5 million and \$11.0 million, respectively. The amount of interest assistance we recognize in a given period is primarily a function of: (a) the mix of units being sold, as U.S. domestic brands tend to provide more assistance, (b) the specific terms of the respective manufacturers’ interest assistance programs and market interest rates, (c) the average wholesale price of inventory sold, and (d) our rate of inventory turnover. Over the past three years, consolidated manufacturers’ interest assistance as a percentage of our total consolidated floorplan interest expense has ranged from 66.8% in the first quarter of 2019 to 116.6% in the third quarter of 2016. In the U.S., manufacturers’ interest assistance was 73.8% of floorplan interest expense in the first quarter of 2019, as compared to 87.1% in the first quarter of 2018.

We increased our consolidated new vehicle inventory levels by \$24.5 million, or 1.9%, from \$1,278.9 million as of December 31, 2018 to \$1,303.4 million as of March 31, 2019, largely reflecting seasonal changes and normal inventory management in preparation for the spring selling season in the U.S. As compared to March 31, 2018, our consolidated inventory levels have increased by \$66.4 million, or 5.4%. Our consolidated days’ supply of new vehicle inventory at March 31, 2019 was at 59 days, representing a decline from 66 days as of December 31, 2018 and an increase from 53 days as of March 31, 2018.



**Used Vehicle Retail Data**

(dollars in thousands, except per unit amounts)

	<b>Three Months Ended March 31,</b>			
	<b>2019</b>	<b>% Increase/(Decrease)</b>	<b>Constant Currency (<sup>1</sup>) % Increase/(Decrease)</b>	<b>2018</b>
<b>Retail Unit Sales</b>				
Same Stores				
U.S.	28,389	6.6 %		26,635
U.K.	7,291	(1.1)%		7,369
Brazil	991	(7.5)%		1,071
Total Same Stores	36,671	4.6 %		35,075
Transactions	2,165			1,141
Total	38,836	7.2 %		36,216
<b>Retail Sales Revenues</b>				
Same Stores				
U.S.	\$ 577,645	5.2 %	N/A	\$ 549,242
U.K.	177,855	(2.8)%	3.9 %	182,918
Brazil	19,443	(19.6)%	(6.8)%	24,191
Total Same Stores	774,943	2.5 %	4.5 %	756,351
Transactions	44,260			24,219
Total	\$ 819,203	4.9 %	7.2 %	\$ 780,570
<b>Gross Profit</b>				
Same Stores				
U.S.	\$ 37,335	14.6 %	N/A	\$ 32,589
U.K.	7,073	(15.0)%	(9.2)%	8,320
Brazil	1,102	(24.1)%	(11.8)%	1,452
Total Same Stores	45,510	7.4 %	9.0 %	42,361
Transactions	2,299			1,134
Total	\$ 47,809	9.9 %	11.7 %	\$ 43,495
<b>Gross Profit per Unit Sold</b>				
Same Stores				
U.S.	\$ 1,315	7.4 %	N/A	\$ 1,224
U.K.	970	(14.1)%	(8.2)%	1,129
Brazil	1,112	(18.0)%	(4.7)%	1,356
Total Same Stores	1,241	2.7 %	4.3 %	1,208
Transactions	1,062			994
Total	\$ 1,231	2.5 %	4.1 %	\$ 1,201
<b>Gross Margin</b>				
Same Stores				
U.S.	6.5%			5.9%
U.K.	4.0%			4.5%
Brazil	5.7%			6.0%
Total Same Stores	5.9%			5.6%
Transactions	5.2%			4.7%
Total	5.8%			5.6%

<sup>(1)</sup> See “Non-GAAP Financial Measures” for more details.

**Used Vehicle Wholesale Data**

(dollars in thousands, except per unit amounts)

	Three Months Ended March 31,			
	2019	% Increase/(Decrease)	Constant Currency <sup>(1)</sup> % Increase/(Decrease)	2018
<b>Wholesale Unit Sales</b>				
Same Stores				
U.S.	6,921	(24.5)%		9,171
U.K.	4,870	(9.7)%		5,391
Brazil	411	15.1 %		357
Total Same Stores	12,202	(18.2)%		14,919
Transactions	787			408
Total	12,989	(15.3)%		15,327
<b>Wholesale Sales Revenues</b>				
Same Stores				
U.S.	\$ 41,874	(20.3)%	N/A	\$ 52,539
U.K.	41,221	(7.5)%	(1.2)%	44,568
Brazil	4,050	5.4 %	22.9 %	3,842
Total Same Stores	87,145	(13.7)%	(10.2)%	100,949
Transactions	4,993			3,080
Total	\$ 92,138	(11.4)%	(7.8)%	\$ 104,029
<b>Gross Profit</b>				
Same Stores				
U.S.	\$ 1,199	(16.1)%	N/A	\$ 1,429
U.K.	(788)	(904.1)%	(1,018.0)%	98
Brazil	297	96.7 %	127.9 %	151
Total Same Stores	708	(57.8)%	(62.0)%	1,678
Transactions	(257)			(23)
Total	\$ 451	(72.7)%	(80.6)%	\$ 1,655
<b>Gross Profit per Wholesale Unit Sold</b>				
Same Stores				
U.S.	\$ 173	10.9 %	N/A	\$ 156
U.K.	(162)	(1,000.0)%	(1,116.2)%	18
Brazil	723	70.9 %	97.9 %	423
Total Same Stores	58	(48.2)%	(53.5)%	112
Transactions	(327)			(56)
Total	\$ 35	(67.6)%	(77.1)%	\$ 108
<b>Gross Margin</b>				
Same Stores				
U.S.	2.9 %			2.7 %
U.K.	(1.9)%			0.2 %
Brazil	7.3 %			3.9 %
Total Same Stores	0.8 %			1.7 %
Transactions	(5.1)%			(0.7)%
Total	0.5 %			1.6 %

<sup>(1)</sup> See “Non-GAAP Financial Measures” for more details.

**Total Used Vehicle Data**

(dollars in thousands, except per unit amounts)

	Three Months Ended March 31,			
	2019	% Increase/(Decrease)	Constant Currency <sup>(1)</sup> % Increase/(Decrease)	2018
<b>Used Vehicle Unit Sales</b>				
Same Stores				
U.S.	35,310	(1.4)%		35,806
U.K.	12,161	(4.7)%		12,760
Brazil	1,402	(1.8)%		1,428
Total Same Stores	48,873	(2.2)%		49,994
Transactions	2,952			1,549
Total	51,825	0.5 %		51,543
<b>Sales Revenues</b>				
Same Stores				
U.S.	\$ 619,519	2.9 %	N/A	\$ 601,781
U.K.	219,076	(3.7)%	2.9 %	227,486
Brazil	23,493	(16.2)%	(2.8)%	28,033
Total Same Stores	862,088	0.6 %	2.7 %	857,300
Transactions	49,253			27,299
Total	\$ 911,341	3.0 %	5.4 %	\$ 884,599
<b>Gross Profit</b>				
Same Stores				
U.S.	\$ 38,534	13.3 %	N/A	\$ 34,018
U.K.	6,285	(25.3)%	(21.0)%	8,418
Brazil	1,399	(12.7)%	1.3 %	1,603
Total Same Stores	46,218	4.9 %	6.3 %	44,039
Transactions	2,042			1,111
Total	\$ 48,260	6.9 %	8.3 %	\$ 45,150
<b>Gross Profit per Unit Sold</b>				
Same Stores				
U.S.	\$ 1,091	14.8 %	N/A	\$ 950
U.K.	517	(21.7)%	(17.1)%	660
Brazil	998	(11.1)%	3.2 %	1,123
Total Same Stores	946	7.4 %	8.7 %	881
Transactions	692			717
Total	\$ 931	6.3 %	7.7 %	\$ 876
<b>Gross Margin</b>				
Same Stores				
U.S.	6.2%			5.7%
U.K.	2.9%			3.7%
Brazil	6.0%			5.7%
Total Same Stores	5.4%			5.1%
Transactions	4.1%			4.1%
Total	5.3%			5.1%

(1) See “Non-GAAP Financial Measures” for more details.

In addition to factors such as general economic conditions and consumer confidence, our used vehicle business is affected by the level of manufacturer incentives on new vehicles and new vehicle financing, the number and quality of used vehicle

trade-ins and lease turn-ins, the availability of consumer credit, and our ability to effectively manage the level and quality of our overall used vehicle inventory.

Our total Same Store used vehicle retail revenues increased \$18.6 million, or 2.5%, for the three months ended March 31, 2019, as compared to the same period in 2018, reflecting a 4.6% increase in total Same Store used vehicle retail unit sales, partially offset by 2.0% decrease in average used vehicle retail selling price to \$21,132. In the U.S., Same Store used vehicle retail revenues increased \$28.4 million, or 5.2%, reflecting a 6.6% increase in Same Store used vehicle retail unit sales, partially offset by a 1.3%, or \$274, decrease in the average used vehicle retail sales price to \$20,347. The improvements in Same Store used vehicle retail unit sales were driven by the continued development of Val-U-Line®, a proprietary brand for older model, higher mileage, pre-owned vehicles that targets customer demand and enables the Company to retail lower cost units that otherwise would have been sent to auction. Our Val-U-Line® unit sales grew approximately 29.0% over the same period last year and represented 11.0% of U.S. Same Store used vehicle retail units for the three months ended March 31, 2019. The success of Val-U-Line® also drove a first for us - our U.S. used vehicle retail unit sales outpaced our U.S. new vehicle retail unit sales by more than 2,800 units, which was the first time in the Company's history that our U.S. used vehicle unit sales levels exceeded new vehicle unit sales. The decrease in U.S. Same Store average used vehicle retail sales price reflected the mix shift effect of units sold resulting from the growth of our Val-U-Line® brand. Further, this mix shift also drove a 250 basis point decline in our Certified Pre-Owned ("CPO") units sold as a percentage of U.S. Same Store used vehicle retail units sold to 23.3% for the first quarter of 2019, as compared to 25.8% for the same period in 2018. In the U.K., Same Store used vehicle retail revenues decreased by \$5.1 million, or 2.8%, for the quarter ended March 31, 2019 as compared to the same period last year. The decline in Same Store used vehicle retail revenue in the U.K. can be more than explained by the unfavorable change in exchange rates between periods. On a constant currency basis, U.K. Same Store used vehicle retail revenue rose 3.9%. This increase was driven by an improvement in our average Same Store used vehicle retail selling price of 5.0%, on a constant currency basis, reflecting the execution by our U.K. operating team that focused on growing the used vehicle portion of our business to help partially offset the decline in U.K. new vehicle unit sales. The increase in our average Same Store used vehicle retail selling price in the U.K. was partially offset by a 1.1% decrease in Same Store used vehicle retail unit sales. In Brazil, for the three months ended March 31, 2019, Same Store used vehicle retail revenues decreased 19.6%, reflecting a 13.1% decline in Same Store average used vehicle retail selling price, coupled with a 7.5% decrease in Same Store used vehicle retail unit sales.

In total, our Same Store used vehicle retail total gross profit for the three months ended March 31, 2019 increased 7.4%, as compared to the same period in 2018, reflecting improvements in the U.S. that were partially offset by declines in the U.K. and Brazil. In the U.S., Same Store used vehicle gross profit increased by 14.6%, driven by an increase in Same Store used vehicle gross profit PRU of 7.4%, or \$91, coupled with a 6.6% increase in Same Store used vehicle retail unit sales. The increase in Same Store gross profit PRU was driven by recently implemented pricing strategies, as well as unusually low Same Store gross profit PRU in the same period last year caused by the liquidation of excess used vehicle inventory following Hurricane Harvey. In the U.K., Same Store used vehicle retail gross profit decreased 15.0% for the three months ended March 31, 2019, reflecting declines of 14.1% and 1.1% in Same Store used vehicle gross profit PRU and Same Store used vehicle retail unit sales. The decline in Same Store used vehicle gross profit PRU in the U.K. was the result of inventory control measures taken during the first quarter of 2019. In Brazil, the 24.1% decrease in Same Store used vehicle retail gross profit resulted from an 18.0% and 7.5% decline in Same Store used vehicle retail gross profit PRU and Same Store used vehicle retail unit sales, respectively, as we strategically sacrificed margin in a few of our brands to manage inventory levels.

During the three months ended March 31, 2019, total Same Store used vehicle wholesale revenue decreased 13.7%, as compared to the same period in 2018, driven by declines in the U.S. and the U.K., partially offset by increases in Brazil. In the U.S., the 20.3% decrease in Same Store used vehicle wholesale revenue for the three months ended March 31, 2019 was the result of a 24.5% decrease in Same Store used vehicle wholesale unit sales, partially offset by 5.6% increase in Same Store used vehicle wholesale average sales price. The decline in U.S. Same Store used vehicle wholesale unit sales volume was primarily driven by the execution of strategic initiatives designed to sell more vehicles through retail channels and reduce our reliance on the wholesale auction markets, which includes the growth in our Val-U-Line® brand. In the U.K., Same Store used vehicle wholesale revenue decreased 7.5%, driven by a 9.7% decrease in Same Store wholesale used vehicle unit sales, partially offset by a 2.4% increase in Same Store used vehicle wholesale average sales price. The decrease in Same Store used vehicle wholesale unit sales was primarily a sourcing issue, as lower Same Store new vehicle unit sales during the fourth quarter of 2018 and the first quarter of 2019 produced fewer used vehicle trade-ins. This decline was partially offset by an increase in Same Store used vehicle wholesale average sales price as we wholesaled higher valued excess inventory units. In Brazil, Same Store used vehicle wholesale revenue increased 5.4%, primarily as a result of a 15.1% increase in Same Store wholesale unit sales partially offset by an 8.4% decrease in Same Store wholesale used vehicle average sales price. The decline in Brazil Same Store used vehicle wholesale average sales price was the result of the change in exchange rates, as on a constant currency basis, our Brazil Same Store used vehicle average wholesale price increased 6.7%. The increase in Brazil Same Store used vehicle wholesale revenue reflects our focus on faster inventory turns and inventory control.

Our total Same Store used vehicle wholesale gross profit decreased \$1.0 million, or 57.8%, for the three months ended March 31, 2019 as compared to the same period in 2018 driven by decreases in the U.S. and U.K., partially offset by increases in Brazil. In the U.S., Same Store used vehicle wholesale gross profit declined 16.1%, as a result of a 24.5% decrease in Same Store used vehicle wholesale unit sales. This volume decline was partially offset by a 10.9% increase in Same Store used vehicle wholesale gross profit per unit sold that primarily reflects lower reliance on the used vehicle wholesale markets and, in addition, was positively impacted by the 3.5% increase in average market prices during the period as reflected in the Manheim Index. In the U.K., the decline in Same Store used vehicle wholesale gross profit was driven by a decrease in Same Store used vehicle wholesale gross profit per unit from a profit of \$18 for the three months ended March 31, 2018 to a loss of \$162 for the three months ended March 31, 2019, offset by a decrease of 9.7% in Same Store used vehicle wholesale unit sales. In Brazil, Same Store used vehicle gross profit increased 96.7% as compared to the same period last year, reflecting a 70.9% increase in used vehicle gross profit per wholesale unit sold, coupled with a 15.1% increase in wholesale unit sales. The increase in used vehicle wholesale gross profit reflects our efforts to manage inventory levels.

We decreased our consolidated used vehicle inventory levels by \$7.2 million, or 2.1%, from December 31, 2018 and by \$16.7 million, or 4.6%, from March 31, 2018 to \$343.0 million as of March 31, 2019. Our consolidated days' supply of used vehicle inventory was 30 days as of March 31, 2019, as compared to 39 days as of December 31, 2018 and 31 days as of March 31, 2018.

### Parts and Service Data

(dollars in thousands)

	Three Months Ended March 31,			
	2019	% Increase/(Decrease)	Constant Currency (1) % Increase/(Decrease)	2018
<b>Parts and Services Revenue</b>				
Same Stores				
U.S.	\$ 293,980	6.8 %	N/A	\$ 275,288
U.K.	50,745	5.2 %	12.4%	48,224
Brazil	11,270	(5.0)%	10.2%	11,860
Total Same Stores	355,995	6.1 %	7.7%	335,372
Transactions	13,179			14,143
Total	\$ 369,174	5.6 %	7.3%	\$ 349,515
<b>Gross Profit</b>				
Same Stores				
U.S.	\$ 158,025	7.5 %	N/A	\$ 146,975
U.K.	27,842	1.2 %	8.1%	27,501
Brazil	4,906	(8.7)%	5.9%	5,373
Total Same Stores	190,773	6.1 %	7.6%	179,849
Transactions	7,703			7,015
Total	\$ 198,476	6.2 %	7.9%	\$ 186,864
<b>Gross Margin</b>				
Same Stores				
U.S.	53.8%			53.4%
U.K.	54.9%			57.0%
Brazil	43.5%			45.3%
Total Same Stores	53.6%			53.6%
Transactions	58.4%			49.6%
Total	53.8%			53.5%

(1) See "Non-GAAP Financial Measures" for more details.

Our total Same Store parts and service revenues increased \$20.6 million, or 6.1%, to \$356 million for the three months ended March 31, 2019, as compared to the same period in 2018, primarily driven by growth in the U.S. and U.K. that was partially offset by a decline in our Brazil business. For the three months ended March 31, 2019, our U.S. Same Store parts and service revenue increased 6.8%, or \$18.7 million, reflecting a 7.6% increase in customer-pay parts and service revenues, a 12.2% increase in warranty parts and service revenues, a 2.8% increase in wholesale parts revenues and a 3.1% increase in collision revenues. Overall, these improvements reflect our continued focus and commitment in these areas of the business to improve selling methods, enhance operating efficiencies, better retain and recruit employees, and make capital investments, as necessary. More specifically, the growth in our customer-pay parts and service revenue in the U.S. was supported by continued implementation of numerous aftersales initiatives, including the rollout of a four-day work week service schedule that has increased capacity and efficiency in a significant number of our service departments, by allowing us to improve our recruiting and retention efforts with our service technician and service advisor professionals. The growth in our U.S. warranty parts and service revenues reflects a general increase in manufacturer recall activity, and, in particular, high volume recalls within our BMW, Audi, Ford and Volkswagen brands.

Our U.K. Same Store parts and service revenues increased 5.2%, or \$2.5 million, for the three months ended March 31, 2019, as compared to 2018, driven by a 34.0% increase in warranty parts and service revenue and a 6.9% increase in wholesale parts revenues that was partially offset by decreases of 3.1% in customer-pay parts and service revenues and 10.2% in collision revenue. On a constant currency basis, U.K. Same Store parts and service revenues improved 12.4% for the first quarter of 2019 compared to 2018, representing growth of 43.1% in warranty parts and service, 14.2% in wholesale parts and 3.5% in customer-pay parts and service revenues. The increase in warranty parts and service revenue primarily reflects high volume manufacturer recall activity in our BMW, Volkswagen, Audi and Ford brands.

Our Same Store parts and service revenues in Brazil decreased 5.0%, or \$0.6 million, for the three months ended March 31, 2019, compared to the same period in 2018. The decrease in Brazil Same Store parts and service revenues can be more than explained by the unfavorable change in exchange rates between periods. On a constant currency basis, Same Store parts and service revenue in Brazil increased 10.2%. This increase was driven by a 12.0% improvement in our customer-pay parts and service revenue and a 4.1% improvement in warranty parts and service revenues for the three months ended March 31, 2019 compared to the same period in 2018. The improvement in customer-pay parts and service revenue reflects the result of management initiatives to enhance the effectiveness of our sales processes, as well as the efficiency of our parts and service operations. The increase in our warranty parts and service revenues was primarily driven by growth in our Honda brand from high volume recall campaigns for Takata airbags.

Our total Same Store parts and service gross profit for the three months ended March 31, 2019 increased 6.1%, as compared to the same period in 2018. This increase in gross profit was driven by increases of 7.5% in the U.S. and 1.2% in the U.K., respectively, partially offset by a decline of 8.7% in our Brazil business. The increase in the U.S. was the result of growth in all sectors of our business, but driven primarily by improvements in our customer-pay parts and service and warranty parts and service components of the business. The increase in Same Store parts and service gross profit in the U.K. primarily reflects improvements in our warranty parts and service. In Brazil, the decline in Same Store parts and service gross profit is due to the unfavorable change in exchange rates between periods. On a constant currency basis, Same Store parts and service gross profit in Brazil improved 5.9%. This increase was driven by an improvement in our customer-pay parts and service and warranty parts and service businesses for the three months ended March 31, 2019.

For the three months ended March 31, 2019, our total Same Store parts and service gross margin remained flat, as compared to the same period in 2018, at 53.6%. This result was driven by a 40 basis-point improvement in the U.S. that was offset by 210 and 180 basis points declines in the U.K. and Brazil, respectively. Same Store parts and service gross margin in the U.S. improved in the warranty parts and service sector of the business and was further enhanced by internal work between our parts and service and used vehicle departments within our dealerships, stemming from the growth in retail used unit volume. The decline in total Same Store parts and service margin in the U.K. primarily reflects the mix effect from the growth in our relatively lower margin warranty parts and service segment of the business, as described above. The decline in Same Store parts and service gross margin in Brazil was primarily explained by a shift in mix of business, as a high volume of relatively lower-margin recall campaigns, particularly in our Honda brand dealerships, surpassed the growth in our customer-pay parts and service sector on a constant currency basis.

**Finance and Insurance Data**

(dollars in thousands, except per unit amounts)

	Three Months Ended March 31,			
	2019	% Increase/(Decrease)	Constant Currency <sup>(1)</sup> % Increase/(Decrease)	2018
<b>Retail New and Used Unit Sales</b>				
Same Stores				
U.S.	53,958	(1.3)%		54,642
U.K.	16,506	(3.1)%		17,026
Brazil	2,841	(9.5)%		3,138
Total Same Stores	73,305	(2.0)%		74,806
Transactions	4,405			2,600
Total	77,710	0.4 %		77,406
<b>Retail Finance Fees</b>				
Same Stores				
U.S.	\$ 28,287	5.3 %	N/A	\$ 26,875
U.K.	7,995	0.4 %	7.1 %	7,962
Brazil	613	19.0 %	37.9 %	515
Total Same Stores	36,895	4.4 %	6.1 %	35,352
Transactions	1,590			1,199
Total	\$ 38,485	5.3 %	7.2 %	\$ 36,551
<b>Vehicle Service Contract Fees</b>				
Same Stores				
U.S.	\$ 37,840	(0.7)%	N/A	\$ 38,123
U.K.	331	49.8 %	58.8 %	221
Brazil	—	— %	— %	—
Total Same Stores	38,171	(0.5)%	(0.4)%	38,344
Transactions	1,033			549
Total	\$ 39,204	0.8 %	0.8 %	\$ 38,893
<b>Insurance and Other</b>				
Same Stores				
U.S.	\$ 27,584	(5.2)%	N/A	\$ 29,108
U.K.	5,332	0.9 %	7.6 %	5,284
Brazil	1,102	(18.8)%	(6.1)%	1,357
Total Same Stores	34,018	(4.8)%	(3.4)%	35,749
Transactions	1,669			1,129
Total	\$ 35,687	(3.2)%	(1.6)%	\$ 36,878
<b>Total Finance and Insurance Revenues</b>				
Same Stores				
U.S.	\$ 93,711	(0.4)%	N/A	\$ 94,106
U.K.	13,658	1.4 %	8.1 %	13,467
Brazil	1,715	(8.4)%	6.0 %	1,872
Total Same Stores	109,084	(0.3)%	0.7 %	109,445
Transactions	4,292			2,877
Total	\$ 113,376	0.9 %	2.1 %	\$ 112,322
<b>Finance and Insurance Revenues per Retail Unit Sold</b>				
Same Stores				
U.S.	\$ 1,737	0.9 %	N/A	\$ 1,722
U.K.	827	4.6 %	11.6 %	791
Brazil	604	1.2 %	17.1 %	597
Total Same Stores	1,488	1.7 %	2.8 %	1,463
Transactions	974			1,107
Total	\$ 1,459	0.6 %	1.7 %	\$ 1,451

<sup>(1)</sup> See “Non-GAAP Financial Measures” for more details.

Our total Same Store finance and insurance revenues declined 0.3% for the three months ended March 31, 2019, as compared to the same period in 2018, as declines in the U.S. and Brazil of 0.4% and 8.4%, respectively, were almost fully offset by an improvement in the U.K. of 1.4%. Our U.S. Same Store finance and insurance revenue decreased \$0.4 million for the quarter ended March 31, 2019, as compared to the same quarter last year, as improvements in our income per contract on vehicle service contracts and retail finance fees were more than offset by a 1.3% decline in Same Store retail unit sales, lower penetration rates for most of our U.S. finance and insurance product offerings, and an increase in our overall chargeback experience. Our Brazil Same Store finance and insurance revenue decreased \$0.2 million for the three months ended March 31, 2019, as compared to the same period in 2018, which was more than explained by an unfavorable change in exchange rates. On a constant currency basis, our Brazil Same Store finance and insurance revenue increased 6.0%, primarily as a result of an increase in commissions on fleet sales for our BMW, Toyota, and Honda brands and an improvement in our income per contract on retail finance fees. These increases were accomplished in spite of a 9.5% decline in Same Store retail unit sales in Brazil. Our U.K. Same Store finance and insurance revenue increased 1.4%, or \$0.2 million, for the three months ended March 31, 2019, as compared to 2018, which was tempered by an unfavorable change in the exchange rates. On a constant currency basis, our U.K. Same Store finance and insurance revenue increased 8.1% despite a 3.1% decline in our Same Store retail unit sales, reflecting improvements in both our income per contract and penetration rates for most of our U.K. product offerings. Our total Same Store finance and insurance revenue PRU increased 1.7% for the quarter ended March 31, 2019, to \$1,488, as compared to the same quarter in 2018, which can be explained by increases in PRU for all three of our segments as compared to the same period a year ago.



**Selling, General and Administrative Data**

(dollars in thousands)

	Three Months Ended March 31,			
	2019	% Increase/(Decrease)	Constant Currency <sup>(1)</sup> % Increase/(Decrease)	2018
<b>Personnel</b>				
Same Stores				
U.S.	\$ 164,570	3.5 %	N/A	\$ 159,059
U.K.	29,956	(8.0)%	(1.7)%	32,558
Brazil	6,238	(2.8)%	12.8 %	6,416
Total Same Stores	200,764	1.4 %	2.9 %	198,033
Transactions	8,419			6,927
Total	\$ 209,183	2.1 %	3.7 %	\$ 204,960
<b>Advertising</b>				
Same Stores				
U.S.	\$ 15,533	2.0 %	N/A	\$ 15,227
U.K.	1,833	(19.0)%	(13.4)%	2,263
Brazil	212	(36.1)%	(25.6)%	332
Total Same Stores	17,578	(1.4)%	(0.5)%	17,822
Transactions	766			484
Total	\$ 18,344	0.2 %	1.2 %	\$ 18,306
<b>Rent and Facility Costs</b>				
Same Stores				
U.S.	\$ 19,674	7.3 %	N/A	\$ 18,343
U.K.	5,618	(9.2)%	(2.8)%	6,185
Brazil	2,027	(12.6)%	1.4 %	2,320
Total Same Stores	27,319	1.8 %	4.4 %	26,848
Transactions	2,083			1,554
Total	\$ 29,402	3.5 %	6.4 %	\$ 28,402
<b>Other SG&amp;A</b>				
Same Stores				
U.S.	\$ 53,510	2.3 %	N/A	\$ 52,323
U.K.	13,881	(2.8)%	3.8 %	14,278
Brazil	2,585	(2.9)%	12.5 %	2,663
Total Same Stores	69,976	1.0 %	3.0 %	69,264
Transactions	803			3,415
Total	\$ 70,779	(2.6)%	(0.4)%	\$ 72,679
<b>Total SG&amp;A</b>				
Same Stores				
U.S.	\$ 253,287	3.4 %	N/A	\$ 244,952
U.K.	51,288	(7.2)%	(0.9)%	55,284
Brazil	11,062	(5.7)%	9.4 %	11,731
Total Same Stores	315,637	1.2 %	2.9 %	311,967
Transactions	12,071			12,380
Total	\$ 327,708	1.0 %	2.9 %	\$ 324,347

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<b>Total Gross Profit</b>					
Same Stores					
U.S.	\$	339,674	4.0 %	N/A	\$ 326,570
U.K.		63,278	(5.4)%	0.9 %	66,892
Brazil		11,435	(9.5)%	5.0 %	12,629
Total Same Stores		414,387	2.0 %	3.5 %	406,091
Transactions		17,116			13,672
Total	\$	431,503	2.8 %	4.4 %	\$ 419,763
<b>SG&amp;A as a % of Gross Profit</b>					
Same Stores					
U.S.		74.6%			75.0%
U.K.		81.1%			82.6%
Brazil		96.7%			92.9%
Total Same Stores		76.2%			76.8%
Transactions		70.5%			90.6%
Total		75.9%			77.3%
<b>Adjusted Total SG&amp;A <sup>(1)</sup></b>					
Same Stores					
U.S.	\$	250,561	2.3 %	N/A	\$ 244,952
U.K.		51,288	(7.2)%	(0.9)%	55,284
Brazil		11,062	(5.7)%	9.4 %	11,731
Total Same Stores		312,911	0.3 %	2.0 %	311,967
Transactions		15,639			12,380
Total	\$	328,550	1.3 %	3.1 %	\$ 324,347
<b>Adjusted SG&amp;A as a % of Gross Profit <sup>(1)</sup></b>					
Same Stores					
U.S.		73.8%			75.0%
U.K.		81.1%			82.6%
Brazil		96.7%			92.9%
Total Same Stores		75.5%			76.8%
Transactions		91.4%			90.6%
Total		76.1%			77.3%
<b>Employees</b>					
		14,800			14,400

(1) See “Non-GAAP Financial Measures” for more details.

Our SG&A consists primarily of salaries, commissions, and incentive-based compensation, as well as rent and facility costs, advertising, insurance, benefits, utilities, and other fixed expenses. We believe that the majority of our personnel, all of our advertising, and a portion of certain other expenses are variable and can be adjusted in response to changing business conditions. We continue to aggressively pursue opportunities that take advantage of our size and negotiating leverage with our vendors and service providers in order to more effectively rationalize our cost structure.

Our total Same Store SG&A increased 1.2% for the three months ended March 31, 2019, as compared to the same period in 2018, explained by a 3.4% increase in the U.S., partially offset by decreases of 7.2% and 5.7%, in the U.K. and Brazil, respectively. During the first quarter of 2019, Same Store SG&A was impacted by \$2.7 million in net non-core items, which include \$2.0 million for catastrophic events and \$1.8 million for legal settlements that were offset by gains of \$1.1 million on real estate and dealership transactions. Excluding these non-core items, our adjusted total Same Store SG&A increased 0.3% to \$312.9 million for the three months ended March 31, 2019, as compared to the same period in 2018. There were no exclusions for non-core items in Same Store SG&A for the three months ended March 31, 2018.

Our total Same Store personnel costs increased 1.4% for the three months ended March 31, 2019, to \$200.8 million, as compared to the same period in 2018, explained by an increase of 3.5% in the U.S., partially offset by decreases of 8.0% and 2.8% in the U.K. and Brazil, respectively. The increase in Same Store personnel costs in the U.S. was primarily due to growth in variable commission payments, as a result of the improvements in Same Store used vehicle retail unit sales volume and Same Store used vehicle retail gross profit, as well as improvements in Same Store parts and service revenue and gross profit. The decrease in Same Store personnel costs in the U.K. was primarily due to lower variable commission payments as a result of the decrease in the new and used retail vehicle unit sales volume, as well as the associated gross profit. As described above, much of this volume decline was the result of the lack of 2019 model year new vehicle inventory availability caused by the WLTP legislation, which was effective on September 1, 2018. The decrease in personnel costs in Brazil was more than explained by the change in exchange rates between periods. On a constant currency basis, Same Store personnel costs in Brazil increased 12.8%.

For the three months ended March 31, 2019, our total Same Store advertising costs decreased 1.4% to \$17.6 million, which was more than explained by decreases of 19.0% and 36.1% in our U.K. and Brazil segments, respectively. The decrease was partially offset by a 2.0% increase in our U.S. segment. The decreases in the U.K. and Brazil were the result of efforts to rationalize and enhance the efficiency of our advertising spend, as well as capitalize on our size and negotiating leverage.

Our consolidated Same Store rent and facility costs increased 1.8% to \$27.3 million for the three months ended March 31, 2019, as compared to the same period a year ago, explained by a 7.3% increase in the U.S. that was partially offset by decreases of 9.2% and 12.6% in the U.K. and Brazil, respectively. The increase in the U.S. is primarily attributable to other facility cost, such as insurance and real estate taxes generally correlated with recent building renovations that enhance productivity, improve the customer experience and/or meet manufacturer requirements, as well as routine, contractual real estate rent increases. The decrease in Brazil was more than explained by the change in exchange rates between periods, as on a constant currency basis, Same Store rent and facility costs increased 1.4%.

For the three months ended March 31, 2019, our total Same Store other SG&A costs increased 1.0% to \$70.0 million as compared to the same period in 2018, explained by an increase of 2.3% in the U.S., partially offset by decreases of 2.8% and 2.9% in the U.K. and Brazil, respectively. The increase in the U.S. was primarily attributable to non-core charges in the first quarter of 2019 of \$2.0 million for catastrophic events and of \$1.8 million for legal matters. These non-core charges were partially offset by a net gain on real estate and dealership transactions of \$1.1 million. Also contributing to the increase in U.S. Same Store other SG&A for the three months ended March 31, 2019 were particular variable costs that expanded with sales volume growth in certain sectors of the business, as well as increases in certain insurance costs. The decreases in Same Store other SG&A in the U.K. and Brazil for the three months ended March 31, 2019 were more than explained by the change in exchange rates. On a constant currency basis, Same Store other SG&A increased 3.8% and 12.5% in the U.K. and Brazil, respectively.

Our total Same Store SG&A as a percentage of gross profit for the three months ended March 31, 2019, as compared to 2018, decreased 60 basis points to 76.2%, reflecting an improvement in the U.S. and U.K. that was partially offset by an increase in Brazil. On an adjusted basis, total Same Store SG&A as a percentage of gross profit for the three months ended March 31, 2019 decreased 130 basis points to 75.5%, reflecting decreases of 120 and 150 points in the U.S. and U.K. respectively, partially offset by an increase of 380 basis points in Brazil. The improvement in adjusted U.S. Same Store SG&A as a percentage of gross profit primarily reflects the leverage from growth in our U.S. Same Store gross profit, coupled with continued cost control efforts. The improvement in the U.K. reflects the efforts of the local operating team to rationalize costs, particularly in light of the constrained new and used retail vehicle selling environments.

**Depreciation and Amortization Data**

(dollars in thousands)

	Three Months Ended March 31,			
	2019	% Increase/(Decrease)	Constant Currency ( <sup>1</sup> ) % Increase/(Decrease)	2018
Same Stores				
U.S.	\$ 12,949	4.5 %	N/A	\$ 12,388
U.K.	2,838	(0.4)%	6.5%	2,848
Brazil	390	0.3 %	15.7%	389
Total Same Stores	16,177	3.5 %	5.2%	15,625
Transactions	820			717
Total	\$ 16,997	4.0 %	5.8%	\$ 16,342

(1) See “Non-GAAP Financial Measures” for more details.

Our total Same Store depreciation and amortization expense increased \$0.6 million, or 3.5%, for the three months ended March 31, 2019, when compared to the same period in 2018. This increase is substantially explained by the 4.5% increase in our U.S. segment, as we continue to strategically add dealership-related real estate to our investment portfolio and make improvements to our existing facilities intended to enhance the profitability of our dealerships and the overall customer experience. We critically evaluate all planned future capital spending, working closely with our manufacturer partners to maximize the return on our investments.

### **Floorplan Interest Expense**

(dollars in thousands)

	<b>Three Months Ended March 31,</b>			
	<b>2019</b>	<b>% Increase/(Decrease)</b>	<b>Constant Currency (1) % Increase/(Decrease)</b>	<b>2018</b>
Same Stores				
U.S.	\$ 13,619	14.4 %	N/A	\$ 11,900
U.K.	1,378	(2.3)%	4.4 %	1,411
Brazil	99	(58.1)%	(50.7)%	236
Total Same Stores	15,096	11.4 %	12.3 %	13,547
Transactions	607			540
Total	\$ 15,703	11.5 %	12.4 %	\$ 14,087
Total manufacturers' assistance	\$ 10,483	(5.0)%	(4.9)%	\$ 11,035

(1) See "Non-GAAP Financial Measures" for more details.

Our floorplan interest expense fluctuates with changes in our borrowings outstanding and interest rates, which are based on the one-month London Interbank Offered Rate ("LIBOR") (or Prime rate in some cases) plus a spread in the U.S. and U.K. and a benchmark rate plus a spread in Brazil. To mitigate the impact of interest rate fluctuations, we employ an interest rate hedging strategy, whereby we swap variable interest rate exposure for a fixed interest rate over the term of the variable interest rate debt.

As of March 31, 2019, our average notional amount of interest rate swaps in effect was \$901.6 million, that fixed our underlying one-month LIBOR at a weighted average interest rate of 2.3%. The average notional amount of interest rate swaps in effect represented 62.1% of our average total U.S. floorplan borrowings outstanding for the quarter ended March 31, 2019. The majority of the monthly settlements of these interest rate swap liabilities are recognized as floorplan interest expense. From time to time, we utilize excess cash on hand to pay down our floorplan borrowings, and the resulting interest earned is recognized as an offset to our gross floorplan interest expense.

Our total Same Store floorplan interest expense increased 11.4% for the three months ended March 31, 2019, as compared to the same period in 2018. Our U.S. Same Store floorplan interest expense grew \$1.7 million, or 14.4%, for the quarter ended March 31, 2019, primarily explained by increases in LIBOR and a \$91.5 million increase in our U.S. weighted average borrowings outstanding, partially offset by the impact of our interest rates swaps, compared to the same quarter a year ago. In the U.K., our Same Store floorplan interest expense decreased 2.3% for the three months ended March 31, 2019, as compared to the same period in 2018, more than explained by the change in exchange rates. On a constant currency basis, our U.K. Same Store floorplan interest increased 4.4%, reflecting an increase in our U.K. weighted average borrowings outstanding that was partially offset by a decline in our weighted average interest rates. Our Brazil Same Store floorplan interest expense declined 58.1% as compared to the same period in 2018, driven by a decrease in both our weighted average rates and borrowings outstanding. The decline in weighted average borrowings outstanding in Brazil reflects the impact of our inventory and cash management strategies.

### **Other Interest Expense, net**

Other interest expense, net consists of interest charges primarily on our real estate related debt, working capital lines of credit, and our other long-term debt, partially offset by interest income. For the three months ended March 31, 2019, other interest expense net increased \$0.1 million, or 0.5%, to \$18.9 million, as compared to the same period in 2018. This increase was primarily attributable to an increase in the weighted average borrowings, as well as the weighted average rates associated with our variable-rate, real estate and other long-term debt. The increase in weighted average interest rates corresponds with an increase in LIBOR.

### **Provision for Income Taxes**

Our provision for income taxes increased \$3.2 million to \$13.5 million for the three months ended March 31, 2019, as compared to the same period in 2018. The increase was primarily due to the increase of pretax book income. For the three months ended March 31, 2019, our effective tax rate increased to 25.9% from 22.4%, as compared to the same period in 2018. This increase was primarily due to tax deductions for restricted stock that were less than the related book expense and additional valuation allowances provided for the net operating losses in Brazil and the impact of New Jersey's adoption of a combined unitary tax scheme.

We expect our effective tax rate for the full-year of 2019 will be between 23.5% and 24.0%. We believe that it is more likely than not that our deferred tax assets, net of valuation allowances provided, will be realized, based primarily on assumptions of our future taxable income, considering future reversals of existing taxable temporary differences.

### **Liquidity and Capital Resources**

Our liquidity and capital resources are primarily derived from cash on hand, cash temporarily invested as a pay down of our Floorplan Line and FMCC Facility (defined below) levels, cash from operations, borrowings under our credit facilities, which provide vehicle floorplan financing, working capital, and dealership and real estate acquisition financing, and proceeds from debt and equity offerings. Based on current facts and circumstances, we believe we will have adequate cash flow, coupled with available borrowing capacity, to fund our current operations, capital expenditures, and acquisitions for the remainder of 2019. If economic and business conditions deteriorate or if our capital expenditures or acquisition plans for 2019 change, we may need to access the private or public capital markets to obtain additional funding.

*Cash on Hand.* As of March 31, 2019, our total cash on hand was \$33.6 million. The balance of cash on hand excludes \$98.7 million of immediately available funds used to pay down our Floorplan Line and FMCC Facility as of March 31, 2019. We use the pay down of our Floorplan Line and FMCC Facility as a channel for the short-term investment of excess cash.

*Cash Flows.* We utilize various credit facilities to finance the purchase of our new and used vehicle inventory. With respect to all new vehicle floorplan borrowings in the normal course of business, the manufacturers of the vehicles draft our credit facilities directly with no cash flows to or from us. With respect to borrowings for used vehicle financing, we finance up to 85% of the value of our used vehicle inventory in the U.S., and the funds flow directly between us and the lender.

We categorize the cash flows associated with borrowings and repayments on these various credit facilities as Operating or Financing Activities in our Consolidated Statements of Cash Flows. All borrowings from, and repayments to, lenders affiliated with our vehicle manufacturers (excluding the cash flows from or to manufacturer-affiliated lenders participating in our syndicated lending group) are presented within Cash Flows from Operating Activities on the Consolidated Statements of Cash Flows in conformity with U.S. GAAP. All borrowings from, and repayments to, the Revolving Credit Facility (defined below) (including the cash flows from or to manufacturer-affiliated lenders participating in the facility) and other credit facilities in the U.K. and Brazil unaffiliated with our manufacturer partners (collectively, "Non-OEM Floorplan Credit Facilities"), are presented within Cash Flows from Financing Activities in conformity with U.S. GAAP. However, the incurrence of all floorplan notes payable represents an activity necessary to acquire inventory for resale, resulting in a trade payable. Our decision to utilize our Revolving Credit Facility does not substantially alter the process by which our vehicle inventory is financed, nor does it significantly impact the economics of our vehicle procurement activities. Therefore, we believe that all floorplan financing of inventory purchases in the normal course of business should correspond with the related inventory activity and be classified as an operating activity. As a result, we use the non-GAAP measure "Adjusted net cash provided by operating activities," which makes such reclassification, to further evaluate our cash flows. We believe that this classification eliminates excess volatility in our operating cash flows prepared in accordance with U.S. GAAP and avoids the potential to mislead the users of our financial statements.

In addition, for dealership acquisitions and dispositions that are negotiated as asset purchases, we do not assume transfer of liabilities for floorplan financing in the execution of the transactions. Therefore, borrowings and repayments of all floorplan financing associated with dealership acquisition and disposition are characterized as either operating or financing activities in our statement of cash flows presented in conformity with U.S. GAAP, depending on the relationship described above. However, the floorplan financing activity is so closely related to the inventory acquisition process that we believe the presentation of all acquisition and disposition related floorplan financing activities should be classified as investing activity to correspond with the associated inventory activity, and we have made such adjustments in our adjusted operating cash flow presentations.

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The following tables set forth selected historical information regarding cash flows from our Consolidated Statements of Cash Flows on a GAAP and on an adjusted, non-GAAP basis. For further explanation and reconciliation to the most directly comparable GAAP measures, see “Non-GAAP Financial Measures” below (in thousands):

GAAP Basis	Three Months Ended March 31,	
	2019	2018
Net cash provided (used in) by operating activities	\$ 127,939	\$ 148,782
Net cash provided by (used in) investing activities	(6,786)	(116,367)
Net cash provided by (used in) financing activities	(102,499)	(27,534)
Effect of exchange rate changes on cash	(519)	47
Net increase (decrease) in cash, cash equivalents, and restricted cash	\$ 18,135	\$ 4,928

Adjusted, Non-GAAP Basis	Three Months Ended March 31,	
	2019	2018
Adjusted net cash provided by (used in) operating activities	\$ 131,955	\$ 102,491
Adjusted net cash provided by (used in) investing activities	(22,464)	(110,223)
Adjusted net cash provided by (used in) provided by financing activities	(90,837)	12,613
Effect of exchange rate changes on cash	(519)	47
Net increase (decrease) in cash, cash equivalents, and restricted cash	\$ 18,135	\$ 4,928

### **Sources and Uses of Liquidity from Operating Activities**

For the three months ended March 31, 2019, we generated \$127.9 million of net cash flows from operating activities. On an adjusted basis for the same period, we generated \$132.0 million in net cash flows from operating activities, primarily consisting of \$38.6 million in net income, coupled with non-cash adjustments related to depreciation and amortization of \$17.0 million, operating lease assets of \$7.6 million, stock-based compensation of \$6.1 million and deferred income taxes of \$4.1 million, partially offset by a \$5.8 million gain on the disposition of assets. Adjusted net cash flows from operating activities also includes a \$63.1 million adjusted net change in operating assets and liabilities, including cash inflows of \$101.6 million from increases in accounts payable and accrued expenses, \$9.2 million from the net decrease in accounts and notes receivable, \$5.1 million from the net decrease in contracts-in-transit and vehicle receivables and \$1.5 million from the adjusted net increase in floorplan borrowings. These cash inflows were partially offset by cash outflows of \$28.1 million from increases in inventory levels, \$17.7 million from the net increase in prepaid expenses and other assets and \$8.4 million from the decrease in operating lease liabilities.

For the three months ended March 31, 2018, we generated \$148.8 million of net cash flows from operating activities. On an adjusted basis for the same period, we generated \$102.5 million in net cash flows from operating activities, primarily consisting of \$35.8 million in net income, coupled with non-cash adjustments related to depreciation and amortization of \$16.3 million, deferred income taxes of \$2.7 million, stock-based compensation of \$5.6 million, and a \$41.9 million net change in operating assets and liabilities. Included in the adjusted net changes of operating assets and liabilities were cash inflows of \$7.2 million from decreases in inventory levels, \$12.7 million from the net decreases in accounts and notes receivable, \$11.2 million from the net decreases in contracts-in-transit and vehicle receivables and \$65.2 million from increases in accounts payable and accrued expenses. These cash inflows were partially offset by adjusted cash outflows of \$41.2 million from the net decrease in floorplan borrowings and \$12.5 million from the net increase in prepaid expenses and other assets.

**Working Capital.** At March 31, 2019, we were in a negative working capital position of \$3.7 million. This represents a decrease of \$19.5 million from December 31, 2018, when we had \$15.8 million of positive working capital. The decline is primarily attributable to the implementation of Topic 842 in which we recognized an incremental current liability, representing our operating lease liability, of \$26.1 million upon transition and utilized the optional transition method whereby balances as of December 31, 2018 were unchanged. See Note 1, “Interim Financial Information” and Note 13, “Leases” for further information. Changes in our working capital are also typically explained by changes in floorplan notes payable outstanding. Borrowings on our new vehicle floorplan notes payable, subject to agreed-upon pay-off terms, are equal to 100% of the factory invoice of the vehicles. Borrowings on our used vehicle floorplan notes payable, subject to agreed-upon pay-off terms, are limited to 85% of the aggregate book value of our used vehicle inventory, except in the U.K. and Brazil. At times, we have made payments on our floorplan notes payable using excess cash flows from operations and the proceeds of debt and equity offerings. As needed, we re-borrow the amounts later, up to the limits on the floorplan notes payable discussed above, for working capital, acquisitions, capital expenditures, or general corporate purposes.

### ***Sources and Uses of Liquidity from Investing Activities***

During the three months ended March 31, 2019, we used \$6.8 million in net cash flows from investing activities. On an adjusted basis for the same period, we used \$22.5 million in net cash flows from investing activities, representing \$41.7 million used for purchases of property and equipment, partially offset by cash inflows of \$19.4 million related to the disposition of franchises and property and equipment. Of the \$41.7 million in property and equipment purchases, \$23.4 million was used for capital expenditures, \$14.1 million was used for the purchase of real estate associated with existing dealership operations and \$4.1 million represents the net decrease in the accrual for capital expenditures from year-end.

During the three months ended March 31, 2018, we used \$116.4 million in net cash flows for investing activities. On an adjusted basis for the same period, we used \$110.2 million in net cash flows for investing activities, primarily consisting of \$65.4 million of cash flows for dealership acquisition activity and \$47.9 million for purchases of property and equipment to construct new and improve existing facilities. Within this total of property and equipment purchases, \$33.0 million was used for capital expenditures, \$12.2 million was used for the purchase of real estate associated with existing dealership operations, and \$2.7 million represents the net decrease in the accrual for capital expenditures from year-end. These cash outflows were partially offset by cash inflows of \$2.9 million related to dispositions of franchises and fixed assets.

**Capital Expenditures.** Our capital expenditures include costs to extend the useful lives of current facilities, as well as to start or expand operations. In general, expenditures relating to the construction or expansion of dealership facilities are driven by dealership acquisition activity, new franchises being granted to us by a manufacturer, significant growth in sales at an existing facility, relocation opportunities, or manufacturer imaging programs. We critically evaluate all planned future capital spending, working closely with our manufacturer partners to maximize the return on our investments. We forecast our capital expenditures for the full year of 2019 will be less than \$110.0 million, which could generally be funded from excess cash.

**Acquisitions.** We evaluate the expected return on investment in our consideration of potential business purchases. In general, the purchase price, excluding real estate and floorplan liabilities, is approximately 15% to 20% of the annual revenue. Cash needed to complete our acquisitions normally comes from excess working capital, operating cash flows of our dealerships, and borrowings under our floorplan facilities, term loans, and our Acquisition Line (defined below).

### ***Sources and Uses of Liquidity from Financing Activities***

For the three months ended March 31, 2019, we used \$102.5 million in net cash flows from financing activities. On an adjusted basis for the same period, we used \$90.8 million in net cash flows from financing activities, primarily related to cash outflows of \$20.9 million of net payments on real estate debt, \$4.8 million for dividend payments, \$3.7 million of net repayments on our Acquisition line and \$65.0 million in net repayments on our Floorplan lines (representing the net cash activity in our floorplan offset accounts). These outflows were partially offset by cash inflows of \$4.4 million of net borrowings of other debt.

For the three months ended March 31, 2018, we used \$27.5 million in net cash from financing activities. On an adjusted basis for the same period, we generated \$12.6 million in net cash flow from financing activities, primarily related to cash inflows of \$10.7 million in net borrowings on our Floorplan lines (representing the net cash activity in our floorplan offset accounts), \$0.5 million of net borrowings on our Acquisition line, \$9.0 million of net borrowings of real estate debt, and \$8.7 million of net borrowings of other debt. These inflows were partially offset by cash outflows of \$9.2 million to repurchase our Company's common stock and \$5.5 million for dividend payments.

**Credit Facilities, Debt Instruments and Other Financing Arrangements.** Our various credit facilities, debt instruments and other financing arrangements are used to finance the purchase of inventory and real estate, provide acquisition funding, and provide working capital for general corporate purposes.

The following table summarizes the position of our U.S. credit facilities as of March 31, 2019 (in thousands):

<b>U.S. Credit Facilities</b>	<b>Total Commitment</b>	<b>Outstanding</b>	<b>Available</b>
Floorplan Line <sup>(1)</sup>	\$ 1,440,000	\$ 1,151,854	\$ 288,146
Acquisition Line <sup>(2)</sup>	360,000	54,860	305,140
Total Revolving Credit Facility	1,800,000	1,206,714	593,286
FMCC Facility <sup>(3)</sup>	300,000	154,213	145,787
Total U.S. Credit Facilities <sup>(4)</sup>	<u>\$ 2,100,000</u>	<u>\$ 1,360,927</u>	<u>\$ 739,073</u>

(1) The available balance at March 31, 2019 includes \$72.7 million of immediately available funds.

(2) The outstanding balance of \$54.9 million is related to outstanding letters of credit of \$25.4 million and \$29.5 million in borrowings as of March 31, 2019. The borrowings outstanding under the Acquisition Line represent 22.5 million British pound sterling translated at the spot rate on the day borrowed, solely for the purpose of calculating the Outstanding and Available borrowings under the Acquisition Line. The available borrowings may be limited from time to time, based on certain debt covenants.

(3) The available balance at March 31, 2019 includes \$26.0 million of immediately available funds.

(4) The outstanding balance excludes \$295.0 million of borrowings with manufacturer-affiliates and third-party financial institutions for foreign and rental vehicle financing not associated with any of our U.S. credit facilities.

**Revolving Credit Facility.** The Revolving Credit Facility contains a number of significant covenants that, among other things, restrict our 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. We are 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 our ability to make certain payments, such as dividends or other distributions of assets, properties, cash, rights, obligations, or securities (“Restricted Payments”). As of March 31, 2019, the Credit Facility Restricted Payment Basket totaled \$83.2 million and we were in compliance with all our financial covenants, including:

	<b>As of March 31, 2019</b>	
	<b>Required</b>	<b>Actual</b>
Total Adjusted Leverage Ratio	< 5.50	3.70
Fixed Charge Coverage Ratio	> 1.20	2.46

Based upon our current five-year operating and financial projections, we believe that we will remain compliant with such covenants in the future.

**Other Inventory Credit Facilities and Financing Arrangements.** We have other credit facilities in the U.S., U.K. and Brazil with third-party financial institutions, most of which are affiliated with the automobile manufacturers that provide financing for portions of our new, used, and rental vehicle inventories. In addition, we have outstanding debt instruments, including our 5.00% Notes and 5.25% Notes, as well as real estate related and other long-term debt instruments.

See Note 9 and 10 to our Consolidated Financial Statements, “Credit Facilities” and “Long-Term Debt”, respectively, for further discussion of our credit facilities, debt instruments, and other financing arrangements existing as of March 31, 2019.

**Stock Issuances.** No shares of our common stock were issued during the three months ended March 31, 2019 or March 31, 2018.

**Stock Repurchases.** From time to time, our Board of Directors gives authorization to repurchase shares of our common stock, subject to the restrictions of various debt agreements and our judgment. On February 20, 2019, our Board of Directors authorized an increase of the previously authorized repurchase amount that was remaining under the plan to \$75.0 million. During the three months ended March 31, 2019, no shares of our common stock were repurchased, leaving the \$75.0 million of repurchase authorization remaining. Future repurchases are subject to the discretion of our Board of Directors after considering our results of operations, financial condition, cash flows, capital requirements, existing debt covenants, outlook for our business, general business conditions, and other factors.

The Company issues new shares or treasury shares, if available, when restricted stock and performance stock awards vest under the Incentive Plan and to fund shares issuable under the Purchase Plan. Separately, our Company’s Board of Directors has authorized specific share repurchases to fund the shares issuable under both the Incentive and Purchase Plans.



*Dividends.* The payment of dividends is subject to the discretion of our Board of Directors after considering the results of operations, financial condition, cash flows, capital requirements, outlook for our business, general business conditions, the political and legislative environments, and other factors.

Further, we are limited under the terms of the Revolving Credit Facility, certain mortgage term loans, 5.00% Notes and 5.25% Notes in our ability to make cash dividend payments to our stockholders and to repurchase shares of our outstanding common stock. As of March 31, 2019, the restricted payment baskets limited us to \$83.2 million in restricted payments. Generally, these restricted payment baskets will increase in the future periods by 50.0% of our future cumulative net income, adjusted to exclude the Company's foreign operations, non-cash interest expense, non-cash asset impairment charges, and non-cash stock-based compensation, plus the net proceeds received from the sale of our capital stock, and decrease by the amount of future payments for cash dividends and share repurchases. For the three months ended March 31, 2019, we paid dividends of \$4.6 million to common stock shareholders and \$0.2 million to unvested restricted stock award holders.

## **Non-GAAP Financial Measures**

In addition to evaluating the financial condition and results of our operations in accordance with U.S. GAAP, from time to time our management evaluates and analyzes results and any impact on the Company of strategic decisions and actions relating to, among other things, cost reduction, growth, profitability improvement initiatives, and other events outside of normal, or “core,” business and operations, by considering alternative financial measures not prepared in accordance with U.S. GAAP. In our evaluation of results from time to time, we exclude items that do not arise directly from core operations, such as non-cash asset impairment charges, legal settlements, gains and losses on dealership franchise or real estate transactions, and catastrophic events, such as hailstorms, hurricanes, and snow storms. Because these non-core charges and gains materially affect the Company’s financial condition or results in the specific period in which they are recognized, management also evaluates, and makes resource allocation and performance evaluation decisions based on, the related non-GAAP measures excluding such items. This includes evaluating measures such as adjusted selling, general and administrative expenses, adjusted net income, adjusted diluted income per share, adjusted cash flows from operating, investing and financing activities, and constant currency. These adjusted measures are not measures of financial performance under U.S. GAAP, but are instead considered non-GAAP financial performance measures. Non-GAAP measures do not have definitions under U.S. GAAP and may be defined differently by, and not be comparable to similarly titled measures used by, other companies. As a result, any non-GAAP financial measures considered and evaluated by management are reviewed in conjunction with a review of the most directly comparable measures calculated in accordance with U.S. GAAP. We caution investors not to place undue reliance on such non-GAAP measures, but also to consider them with the most directly comparable U.S. GAAP measures.

In addition to using such non-GAAP measures to evaluate results in a specific period, management believes that such measures may provide more complete and consistent comparisons of operational performance on a period-over-period historical basis and a better indication of expected future trends. Our management also uses these adjusted measures in conjunction with U.S. GAAP financial measures to assess our business, including communication with our Board of Directors, investors, and industry analysts concerning financial performance. We disclose these non-GAAP measures, and the related reconciliations, because we believe investors use these metrics in evaluating longer-term period-over-period performance, and to allow investors to better understand and evaluate the information used by management to assess operating performance. The exclusion of certain expenses in the calculation of non-GAAP financial measures should not be construed as an inference that these costs are unusual or infrequent. We anticipate excluding these expenses in the future presentation of our non-GAAP financial measures.

In addition, we evaluate our results of operations on both an as reported and a constant currency basis. The constant currency presentation, which is a non-GAAP measure, excludes the impact of fluctuations in foreign currency exchange rates. We believe providing constant currency information provides valuable supplemental information regarding our underlying business and results of operations, consistent with how we evaluate our performance. We calculate constant currency percentages by converting our current period reported results for entities reporting in currencies other than U.S. dollars using comparative period exchange rates rather than the actual exchange rates in effect during the respective periods. The constant currency performance measures should not be considered a substitute for, or superior to, the measures of financial performance prepared in accordance with U.S. GAAP.

The following tables reconcile certain reported non-GAAP measures to the most comparable U.S. GAAP measures from our Statements of Operations by segment and on a consolidated basis (in thousands, except per share amounts; may not foot due to rounding). Only adjusted amounts are reconciled below. We have not presented any non-GAAP measures associated with non-core items for the three months ended March 31, 2018. Therefore, no tables are presented for such period.

**U.S. Adjustments for  
Three Months Ended March 31, 2019**

	U.S. GAAP	Catastrophic events	Gain / loss on real estate and dealership transactions	Legal settlements	Non-GAAP Adjusted
Selling, general and administrative expenses	\$ 256,153	\$ (1,973)	\$ 5,216	\$ (1,829)	\$ 257,567
Income (loss) from operations	77,530	1,973	(5,216)	1,829	76,116
Income (loss) before income taxes	46,367	1,973	(5,216)	1,829	44,953
(Provision) benefit for income taxes	(12,413)	(519)	1,381	(481)	(12,032)
Net income (loss)	\$ 33,954	\$ 1,454	\$ (3,835)	\$ 1,348	\$ 32,921
SG&A as % gross profit:	73.8				74.2
Operating margin %:	3.8				3.7
Pretax margin %:	2.2				2.2
Same Store SG&A	\$ 253,287	\$ (1,973)	\$ 1,076	\$ (1,829)	\$ 250,561
Same Store SG&A as % gross profit:	74.6				73.8
Same Store operating margin %:	3.6				3.8

**Brazil Adjustments for  
Three Months Ended March 31, 2019**

	U.S. GAAP	Legal settlements	Non-GAAP Adjusted
Selling, general and administrative expenses	\$ 12,363	\$ (572)	\$ 11,791
Income (loss) from operations	(174)	572	398
Income (loss) before income taxes	(435)	572	137
(Provision) benefit for income taxes	(19)	—	(19)
Net income (loss)	\$ (454)	\$ 572	\$ 118
SG&A as % gross profit:	98.2		93.7
Operating margin %:	(0.2)		0.4
Pretax margin %:	(0.4)		0.1

**Consolidated Adjustments for  
Three Months Ended March 31, 2019**

	U.S. GAAP	Catastrophic events	Gain / loss on real estate and dealership transactions	Legal settlements	Non-GAAP Adjusted
Selling, general and administrative expenses	\$ 327,708	\$ (1,973)	\$ 5,216	\$ (2,401)	\$ 328,550
Income (loss) from operations	86,798	1,973	(5,216)	2,401	85,956
Income (loss) before income taxes	52,176	1,973	(5,216)	2,401	51,334
(Provision) benefit for income taxes	(13,528)	(519)	1,381	(481)	(13,147)
Net income (loss)	38,648	1,454	(3,835)	1,920	38,187
Less: Adjusted earnings (loss) allocated to participating securities	1,455	54	(145)	73	1,437
Adjusted net income (loss) available to diluted common shares	\$ 37,193	\$ 1,400	\$ (3,690)	\$ 1,847	\$ 36,750
Diluted income (loss) per common share	\$ 2.08	\$ 0.08	\$ (0.20)	\$ 0.10	\$ 2.06
Effective tax rate %	25.9				25.6
SG&A as % gross profit:	75.9				76.1
Operating margin %:	3.1				3.1
Pretax margin %:	1.9				1.8

Same Store SG&A	\$ 315,637	\$ (1,973)	\$ 1,076	\$ (1,829)	\$ 312,911
Same Store SG&A as % gross profit:	76.2				75.5
Same Store income (loss) from operations	\$ 82,573	\$ 1,973	\$ (1,076)	\$ 1,829	\$ 85,299
Same Store operating margin %:	3.1				3.2

The following table reconciles cash flows provided by (used in) operating, investing and financing activities on a U.S. GAAP basis to the corresponding adjusted amounts (dollars in thousands):

	Three Months Ended March 31,		
	2019	2018	% Change
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net cash provided by (used in) operating activities	\$ 127,939	\$ 148,782	(14.0)
Change in floorplan notes payable-credit facilities, excluding floorplan offset account and net acquisition and disposition related activity	(21,884)	(47,791)	
Change in floorplan notes payable-manufacturer affiliates associated with net acquisition and disposition related activity	25,900	1,500	
Adjusted net cash provided by (used in) operating activities	\$ 131,955	\$ 102,491	28.7
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net cash provided by (used in) investing activities	\$ (6,786)	\$ (116,367)	(94.2)
Change in cash paid for acquisitions, associated with floorplan notes payable	—	6,144	
Change in proceeds from disposition of franchises, property and equipment, associated with floorplan notes payable	(15,678)	—	
Adjusted net cash provided by (used in) investing activities	\$ (22,464)	\$ (110,223)	(79.6)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net cash provided by (used in) financing activities	\$ (102,499)	\$ (27,534)	272.3
Change in net borrowings and repayments on floorplan notes payable-credit facilities, excluding net activity associated with our floorplan offset account	11,662	40,147	
Adjusted net cash provided by (used in) provided by financing activities	\$ (90,837)	\$ 12,613	(820.2)

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

*This Quantitative and Qualitative Disclosures About Market Risk contains information about our market-sensitive financial instruments that constitute forward-looking statements. See “Cautionary Statement about Forward-Looking Statements.”*

We are exposed to a variety of market risks, including interest rate risk and foreign currency exchange rate risk. We address interest rate risks primarily through the use of interest rate swaps. We do not currently hedge foreign exchange risk, as discussed further below. The following quantitative and qualitative information is provided about foreign currency exchange rates and financial instruments to which we are a party at March 31, 2019, and from which we may incur future gains or losses from changes in market interest rates. We do not enter into derivative or other financial instruments for speculative or trading purposes.

Hypothetical changes in interest rates and foreign currency exchange rates chosen for the following estimated sensitivity analysis are considered to be reasonable near-term changes generally based on consideration of past fluctuations for each risk category. However, since it is not possible to accurately predict future changes in interest rate and foreign currency exchange rates, these hypothetical changes may not necessarily be an indicator of probable future fluctuations.

As of March 31, 2019, our 5.00% Notes, with an outstanding principal amount of \$550.0 million, had a fair value and carrying amount of \$556.0 million and \$544.2 million, respectively. At December 31, 2018, our 5.00% Notes, with an outstanding principal amount of \$550.0 million, had a fair value and carrying amount of \$521.6 million and \$543.7 million, respectively. As of March 31, 2019, our 5.25% Notes, with an outstanding principal amount of \$300.0 million, had a fair value and carrying amount of \$303.0 million and \$296.9 million, respectively. At December 31, 2018, our 5.25% Notes, with an outstanding principal amount of \$300.0 million, had a fair value and carrying amount of \$286.5 million and \$296.7 million, respectively. Our other fixed-rate debt, primarily consisting of real estate related debt, had outstanding borrowings of \$74.3 million and \$79.5 million as of March 31, 2019 and December 31, 2018, respectively. The fair value of such fixed interest rate borrowings was \$73.8 million and \$76.2 million as of March 31, 2019 and December 31, 2018, respectively.

*Interest Rates.* We have interest rate risk in our variable-rate debt obligations. Our policy is to monitor the effects of market changes in interest rates and manage our interest rate exposure through the use of a combination of fixed and floating-rate debt and interest rate swaps.

We use interest rate swaps to adjust our exposure to interest rate movements, when appropriate, based upon market conditions. As of March 31, 2019, we held interest rate swaps in effect with aggregate notional amounts of \$902.4 million that fixed our underlying one-month LIBOR at a weighted average rate of 2.3%. These hedge instruments are designed to convert floating rate vehicle floorplan payables under our Revolving Credit Facility and variable rate real estate related borrowings to fixed rate debt. We entered into these swaps with several financial institutions that have investment grade credit ratings, thereby minimizing the risk of credit loss. We reflect the current fair value of all derivatives on our Consolidated Balance Sheets. The fair value of interest rate swaps is impacted by the forward one-month LIBOR curve, and the length of time to maturity of the swap contracts. The related gains or losses on these transactions are deferred in stockholders' equity as a component of accumulated other comprehensive income or loss. As of March 31, 2019, net unrealized gains, net of income taxes, totaled \$4.4 million. These deferred gains and losses are recognized in income in the period in which the related items being hedged are recognized in expense. However, 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 the results of operations. All of our interest rate hedges are designated as cash flow hedges. As of March 31, 2019, all of our derivative contracts were determined to be effective. In addition to the \$902.4 million of swaps in effect as of March 31, 2019, we also held two interest rate swaps with forward start dates of December 2020 and expiration dates of December 2025 and December 2030. As of March 31, 2019, the aggregate notional amount of these swaps was \$125.0 million with a weighted average interest rate of 1.8%. The combination of these swaps is structured such that the notional value in effect at any given time through December 2030 does not exceed \$902.4 million.

A summary of our interest rate swaps, including those in effect, as well as forward-starting, follows (dollars in millions):

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Weighted average notional amount in effect during the period	\$ 902	\$ 902	\$ 901	\$ 901	\$ 549	\$ 418	\$ 154	\$ 132	\$ 125	\$ 125	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100
Weighted average interest rate during the period	2.30%	2.30%	2.30%	2.30%	2.21%	1.77%	1.77%	1.82%	1.81%	1.81%	1.85%	1.85%	1.85%	1.85%	1.85%

As of March 31, 2019, we had \$1,792.8 million of variable-rate borrowings outstanding. Based on the average amount of variable-rate borrowings outstanding for the three months ended March 31, 2019, and before the impact of our interest rate swaps described above, a 100 basis-point change in interest rates would have resulted in an approximate \$18.4 million change to our annual interest expense. After consideration of the average interest rate swaps described in effect during the three months ended March 31, 2019, a 100 basis-point change would have yielded a net annual change of \$9.6 million in annual interest expense. This interest rate sensitivity increased from March 31, 2018 primarily as a result of the increase in variable-rate floorplan borrowings.

Our exposure to changes in interest rates with respect to our variable-rate floorplan borrowings is partially mitigated by manufacturers' interest assistance, which historically has been influenced by changes in market based variable interest rates. We reflect interest assistance as a reduction of new vehicle inventory cost until the associated vehicle is sold. During the three months ended March 31, 2019, we recognized \$10.5 million of interest assistance as a reduction of new vehicle cost of sales. For the past three years, the reduction to our new vehicle cost of sales has ranged from 66.8% of our floorplan interest expense for the first quarter of 2019 to 116.6% for the third quarter of 2016. In the U.S., manufacturer's interest assistance was 73.8% of floorplan interest expense in the first quarter of 2019. Although we can provide no assurance as to the amount of future interest assistance, it is our expectation, based on historical practice of the OEMs, that an increase in prevailing interest rates would result in increased assistance from certain manufacturers over time.

*Foreign Currency Exchange Rates.* As of March 31, 2019, we had dealership operations in the U.K. and Brazil. The functional currency of our U.K. subsidiaries is the British pound sterling (£) and of our Brazil subsidiaries is the Brazilian real (R\$). We intend to remain permanently invested in these foreign operations and, as such, do not hedge against foreign currency fluctuations that may temporarily impact our investment in our U.K. and Brazil subsidiaries. If we change our intent with respect to such international investment, we would expect to implement strategies designed to manage those risks in an effort to mitigate the effect of foreign currency fluctuations on our earnings and cash flows. A 10% devaluation in average exchange rates for the British pound sterling to the U.S. dollar would have resulted in a \$58.4 million decrease to our revenues for the three months ended March 31, 2019. A 10% devaluation in average exchange rates for the Brazilian real to the U.S. dollar would have resulted in a \$9.4 million decrease to our revenues for the three months ended March 31, 2019. We believe that inflation rates over the last few years have not had a significant impact on our consolidated revenues or profitability. We do not expect inflation to have near-term material effects on the sale of our products and services on a consolidated basis; however, we cannot be sure there will be no such effect in the future. We finance substantially all of our inventory through various revolving floor plan arrangements with interest rates that vary based on various benchmarks. Such rates have historically increased during periods of increasing inflation.

For additional information about our market sensitive financial instruments, please see Part II, "Item 7. Management's Discussion & Analysis of Financial Condition and Results of Operations", "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" and Note 4. to "Item 8. Financial Statements and Supplementary Data" in our 2018 Form 10-K.

#### **Item 4. Controls and Procedures**

##### **Evaluation of Disclosure Controls and Procedures**

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), we have evaluated, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2019 at the reasonable assurance level.

Our management, including our principal executive officer and our principal financial officer, does not expect that our disclosure controls and procedures can prevent all possible errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that objectives of the control system are met. There are inherent limitations in all control systems, including the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the intentional acts of one or more persons. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and while our disclosure controls and procedures are designed to be effective under circumstances where they should reasonably be expected to operate effectively, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in any control system, misstatements due to possible errors or fraud may occur and not be detected.

##### **Changes in Internal Control over Financial Reporting**

There were no changes in our system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

We implemented new internal controls and made changes to existing internal controls to ensure that we adequately evaluated and properly assessed the impact of the new accounting standard related to leases on our financial statements to facilitate its adoption on January 1, 2019 and ongoing compliance. There were no significant changes to our internal control over financial reporting due to the adoption of the new standard.

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

We are not party to any legal proceedings, including class action lawsuits that, individually or in the aggregate, are reasonably expected to have a material adverse effect on our results of operations, financial condition or cash flows. For a discussion of our legal proceedings, see Part I, “Item 1. Financial Statements”, Notes to Consolidated Financial Statements, Note 12, “Commitments and Contingencies”.

**Item 1A. Risk Factors**

In addition to the information set forth in this Form 10-Q, you should carefully consider the risk factors previously disclosed in “Item 1A. Risk Factors” of our 2018 Form 10-K, which could materially affect our business, financial condition or future results.

The risks described in our 2018 Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, or future results.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table provides information about purchases of equity securities that are registered by us pursuant to Section 12 of the Exchange Act during the three months ended March 31, 2019 (in thousands, excluding commissions):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup>
January 1 - January 31, 2019	—	\$ —	—	\$ 49,706
February 1 - February 20, 2019	—	—	—	49,706
February 21 - February 28, 2019	—	—	—	75,000
March 1 - March 31, 2019	—	—	—	75,000
<b>Total</b>	<b>—</b>	<b>—</b>	<b>—</b>	

<sup>(1)</sup> As of March 31, 2019, \$75.0 million remained available under our stock repurchase authorization limit.

On February 20, 2019, our Board of Directors authorized an increase of the previously authorized repurchase amount that was remaining under the plan to \$75.0 million. Future repurchases are subject to the discretion of our Board of Directors after considering our results of operations, financial condition, cash flows, capital requirements, existing debt covenants, outlook for our business, general business conditions, and other factors.

**Item 6. Exhibits**

The exhibits required to be filed or furnished by Item 601 of Regulation S-K are listed below.



## EXHIBIT INDEX

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
<a href="#">3.1</a>	— Amended and Restated Certificate of Incorporation of Group 1 Automotive, Inc. (incorporated by reference to Exhibit 3.1 of Group 1 Automotive, Inc.'s Current Report on Form 8-K (File No. 001-13461) filed May 22, 2015)
<a href="#">3.2</a>	— Third Amended and Restated Bylaws of Group 1 Automotive, Inc. (incorporated by reference to Exhibit 3.1 of Group 1 Automotive, Inc.'s Current Report on Form 8-K (File No. 001-13461) filed April 6, 2017)
<a href="#">10.1†*</a>	— Form of Performance Share Unit Agreement
<a href="#">31.1*</a>	— Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<a href="#">31.2*</a>	— Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<a href="#">32.1*</a>	— Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
<a href="#">32.2*</a>	— Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	— XBRL Instance Document
101.SCH*	— XBRL Taxonomy Extension Schema Document
101.CAL*	— XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	— XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	— XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	— XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed or furnished herewith

† Management contract or compensatory plan or arrangement

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Group 1 Automotive, Inc.

By: \_\_\_\_\_ /s/ John C. Rickel  
**John C. Rickel**  
**Senior Vice President and Chief Financial Officer**  
*(Duly Authorized Officer and Principal Financial  
and Accounting Officer)*

Date: May 7, 2019

## GROUP 1 AUTOMOTIVE, INC.

## PERFORMANCE SHARE UNIT AGREEMENT

This Performance Share Unit Agreement (the “**Agreement**”) is made and entered into by and between Group 1 Automotive, Inc., a Delaware corporation (the “**Company**”), and you. This Agreement is entered into as of the [•] day of [•], 20[•] (the “**Date of Grant**”).

1. Grant. The Company hereby grants to you as of the Date of Grant a Performance Award that is a Phantom Stock Award consisting of [•] performance share units (the “**Performance Share Units**”), subject to the terms and conditions set forth in this Agreement. Depending on the Company’s performance, you may earn from zero percent (0%) to two hundred percent (200%)<sup>1</sup> of the Performance Share Units, based on the Company’s performance on [•] measures set forth in Section 3 over a designated performance period.

2. The Plan. The Performance Share Units granted to you by this Agreement shall be granted under the Group 1 Automotive, Inc. 2014 Long-Term Incentive Plan (the “**Plan**”). A copy of the Plan has been furnished to you and shall be deemed a part of this Agreement as if fully set forth herein and the terms capitalized but not defined in this Agreement or on Appendix A attached hereto shall have the meanings set forth in the Plan. This Agreement is subject to all the terms, conditions, limitations and restrictions contained in the Plan.

3. Performance Period and Measures. This Section 3 sets forth the details of the Performance Award. You will be entitled to a payment in shares of Common Stock in the amount determined under Section 3(b) and payable at the time indicated in Section 5, subject to (i) your continuous employment with the Company through the Vesting Date and (ii) the satisfaction of the performance conditions set forth in this Section 3 measured as of December 31, 20[•].

(a) Performance Measures. The number of Performance Share Units earned for the Performance Period is determined based on the Company’s performance with respect to [Performance Measure 1] and [Performance Measure 2] over the Performance Period.

(b) Shares Payable. Subject to Sections 4 and 5, the number of shares of Common Stock payable is equal to the product determined by multiplying the total number of Performance Share Units awarded pursuant to this Agreement by the Performance Unit Payout Percentage achieved with respect to the Performance Period.

4. Termination of Employment.

(a) Termination Generally. If, prior to the Vesting Date you voluntarily separate from employment with the Company (other than due to your Planned Retirement, death or Disability) or your employment is terminated by action of the Company, all Performance Share Units awarded hereunder (and any related Dividend Equivalents) will be forfeited. In the case of a Planned Retirement, if you fail to comply with the Post-Retirement Obligations continuously from the date of the termination of your employment as a result of a Planned Retirement until the Compliance Expiration Date, all Performance Share Units awarded hereunder (or any Restricted Stock Award granted pursuant to Section 4(b) and any unpaid Dividend Equivalents) will be forfeited for no consideration and be null and void.

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<sup>1</sup> **Note:** Range of units potentially earned may be modified by the Committee with respect to awards granted in future years.

(b) Planned Retirement. If, prior to the Vesting Date, you separate from employment due to Planned Retirement, within thirty (30) days following the end of the Performance Period you will receive an unvested Restricted Stock Award with respect to the number of shares of Common Stock equal to the product determined by multiplying the total number of Performance Share Units awarded pursuant to this Agreement by the Performance Unit Payout Percentage achieved with respect to the Performance Period, which Restricted Stock Award will vest and become nonforfeitable to the extent you comply with the Post-Retirement Obligations continuously from the date of the termination of your employment as a result of a Planned Retirement until the Compliance Expiration Date.

(c) Death or Disability. If, prior to the Vesting Date, you separate from employment due to death or Disability, within thirty (30) days following the end of the Performance Period you will receive the number of shares of Common Stock equal to the product determined by multiplying the total number of Performance Share Units awarded pursuant to this Agreement by the Performance Unit Payout Percentage achieved with respect to the Performance Period.

(d) Leave of Absence. With respect to the Performance Share Units, the Company may, in its sole discretion, determine that if you are on leave of absence for any reason you will be considered to still be in the employ of the Company, provided that your rights to the Performance Share Units, if any, during a Performance Period in which such a leave of absence occurs may be prorated to reflect the period of time during the Performance Period that you provided actual services to the Company.

5. Payment of Performance Share Units. The number of shares of Common Stock payable hereunder shall be paid as soon as reasonably practicable after the Vesting Date but in no event later than thirty (30) days following the Vesting Date, in the amount determined in accordance with Section 3; provided, however, in the event that you separate from employment with the Company (a) pursuant to Section 4(b), the shares shall be paid in the form of a Restricted Stock Award within thirty (30) days following the end of the Performance Period, or (b) pursuant to Section 4(c), the shares of Common Stock shall be paid within thirty (30) days following your death or Disability. Such payment will be subject to withholding for taxes and other applicable payroll adjustments. The Committee's determination of the amount payable shall be binding upon you and your beneficiary or estate. The value of such shares shall not bear any interest owing to the passage of time. The number of shares of Common Stock payable will be rounded down to the nearest share. No fractional shares of Common Stock will be issued pursuant to this Agreement. Notwithstanding anything to the contrary in this Agreement, in no event may the number of shares of Common Stock (or, if applicable, Restricted Stock) issued to you pursuant to this Agreement have an aggregate Fair Market Value (determined as of the Vesting Date or, if applicable, the date of Planned Retirement, death or Disability) that exceeds the aggregate Fair Market Value of the number of shares of Common Stock underlying Performance Share Units granted hereunder multiplied by 4 (the "**Maximum Value**").<sup>2</sup> In the event the aggregate Fair Market Value of the shares of Common Stock payable pursuant to this Section 5 exceeds the Maximum Value, the number of shares of Common Stock payable pursuant to this Section 5 will be reduced to a number of whole shares of Common Stock the aggregate Fair Market Value of which is equal to or less than the Maximum Value.

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<sup>2</sup> **Note:** Maximum value may be modified by the Committee with respect to awards granted in future years.

6. Limited Stockholder Rights and Dividend Equivalents. The Performance Share Units granted pursuant to this Agreement do not and shall not entitle you to any rights of a holder of Common Stock, including the right to vote, prior to the date shares are issued to you in settlement of the Performance Share Units pursuant to Section 5; provided, however, that in the event the Company declares and pays a cash dividend in respect of its outstanding shares of Common Stock and, on the record date of that dividend, you hold Performance Share Units granted pursuant to this Agreement that have not been settled, you will be eligible to receive an amount in cash equal to the cash dividends you would have received if you were the holder of record as of such record date, of the number of shares of Common Stock earned pursuant to Section 3 (prior to any reduction for withholding) (such payment the “*Dividend Equivalents*”). Dividend Equivalents will be paid to you, less any applicable withholding for taxes or payroll adjustments, at the time the Performance Share Units are settled as described in Sections 4(c) or 6, as applicable, and will be subject to forfeiture at the same times and to the same extent as the Performance Share Units; provided, however, in the event of your Planned Retirement the Dividend Equivalents will be paid to you within thirty (30) days following the end of the Performance Period provided you have complied with the Post-Retirement Obligations continuously from the date of your Planned Retirement through the date of such payment. Your rights with respect to the Performance Share Units and the Dividend Equivalents shall remain forfeitable at all times prior to the date on which the rights become vested and earned as set forth in Sections 3, 4(b) or 4(c), as applicable.

7. Adjustment in Number of Performance Share Units. The number of Performance Share Units subject to this Agreement shall be adjusted to reflect stock splits or other changes in the capital structure of the Company, all in accordance with the Plan. In the event that the outstanding shares of the Company are exchanged for a different number or kind of shares or other securities, or if additional, new or different shares are distributed with respect to the shares through merger, consolidation, or sale of all or substantially all of the assets of the Company, there shall be substituted for the shares under the Performance Share Units subject to this Agreement the appropriate number and kind of shares of new or replacement securities as determined in the sole discretion of the Committee, subject to the terms and provisions of the Plan.

8. Compliance with Securities Law. Notwithstanding any provision of this Agreement to the contrary, the issuance of shares will be subject to compliance with all applicable requirements of federal, state, or foreign law with respect to such securities and with the requirements of any stock exchange or market system upon which the shares may then be listed. No shares will be issued hereunder if such issuance would constitute a violation of any applicable federal, state, or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the shares may then be listed. In addition, shares will not be issued hereunder unless (a) a registration statement under the Securities Act, is at the time of issuance in effect with respect to the shares issued or (b) in the opinion of legal counsel to the Company, the shares issued may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company’s legal counsel to be necessary to the lawful issuance and sale of any shares subject to the Award will relieve the Company of any liability in respect of the failure to issue such shares as to which such requisite authority has not been obtained. As a condition to any issuance hereunder, the Company may require you to satisfy any qualifications that may be necessary or appropriate to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect to such compliance as may be requested by the Company. From time to time, the Board and appropriate officers of the Company are authorized to take the actions necessary and appropriate to file required documents with governmental authorities, stock exchanges, and other appropriate Persons to make shares available for issuance.

9. Payment of Taxes. The Company may require you to pay to the Company an amount the Company deems necessary to satisfy its current or future withholding with respect to federal, state or local income or other taxes that you incur as a result of the Award. With respect to any tax withholding and to the extent permissible pursuant to Rule 16b-3 under the Exchange Act, you may (a) direct the Company to withhold from the shares to be issued to you under this Agreement the number of shares necessary to satisfy the Company’s withholding of such taxes, which determination will be based on the shares’ Fair Market Value at the time such determination is made; (b) deliver to the Company shares sufficient to satisfy the Company’s tax withholding, based on the shares’ Fair Market Value at the time such determination is made; or (c) deliver cash to the Company sufficient to satisfy its tax withholding obligations. If you desire to elect to use the stock withholding option described in subparagraph (a), you must make the election at the time and in the manner the Company prescribes and the maximum number of shares that may be so withheld or

surrendered shall be a number of shares that have an aggregate Fair Market Value on the date of withholding or repurchase of up to the aggregate amount of such tax liabilities determined based on the greatest withholding rates for federal, state, foreign and/or local tax purposes, including payroll taxes, that may be utilized without creating adverse accounting treatment with respect to the Award. The Company, in its discretion, may deny your request to satisfy its tax withholding obligations using a method described under subparagraph (a) or (b). In the event the Company determines that the aggregate Fair Market Value of the shares withheld as payment of any tax withholding obligation is insufficient to discharge that tax withholding obligation, then you must pay to the Company, in cash, the amount of that deficiency immediately upon the Company's request.

10. Right of the Company to Terminate Services. Nothing in this Agreement confers upon you the right to continue in the employ of or performing services for the Company, or interfere in any way with the rights of the Company to terminate your employment or service relationship at any time.

11. Furnish Information. You agree to furnish to the Company all information requested by the Company to enable it to comply with any reporting or other requirements imposed upon the Company by or under any applicable statute or regulation.

12. Remedies. The Company shall be entitled to recover from you reasonable attorneys' fees incurred in connection with the successful enforcement of the terms and provisions of this Agreement whether by an action to enforce specific performance or for damages for its breach or otherwise.

13. No Liability for Good Faith Determinations. The Company and the members of the Board shall not be liable for any act, omission or determination taken or made in good faith with respect to this Agreement or the Performance Share Units granted hereunder.

14. Execution of Receipts and Releases. Any payment of cash or any issuance or transfer of shares or other property to you, or to your legal representative, heir, legatee or distributee, in accordance with the provisions hereof, will, to the extent thereof, be in full satisfaction of all claims of such Persons hereunder. In addition, the Company may require you or your legal representative, heir, legatee or distributee, as a condition precedent to such payment or issuance, to execute a general release of all claims in favor of the Company, any Affiliate and the employees, officers, stockholders or board members of the foregoing in such form as the Company may determine.

15. Clawback. This Agreement is subject to any written clawback policies that the Company, with the approval of the Board or the Committee, may adopt. Any such policy may subject your Performance Share Units and amounts paid or realized with respect to the Performance Share Units under this Agreement to reduction, cancellation, forfeiture or recoupment if certain specified events or wrongful conduct occur, including but not limited to an accounting restatement due to the Company's material noncompliance with financial reporting regulations or other events or wrongful conduct specified in any such clawback policy adopted to conform to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and rules promulgated thereunder by the SEC and that the Company determines should apply to this Agreement.

16. No Guarantee of Interests. The Board and the Company do not guarantee the shares from loss or depreciation.

17. Company Records. Records of the Company regarding your period of service, termination of service and the reason(s) therefor, leaves of absence, re-employment, and other matters shall be conclusive for all purposes hereunder, unless determined by the Company to be incorrect.

18. Notice. All notices required or permitted under this Agreement must be in writing and personally delivered or sent by mail and shall be deemed to be delivered on the date on which it is actually received by the person to whom it is properly addressed or if earlier the date it is sent via certified United States mail.

19. Waiver of Notice. Any person entitled to notice hereunder may waive such notice in writing.

20. Successors. This Agreement shall be binding upon you, your legal representatives, heirs, legatees and distributees, and upon the Company, its successors and assigns.

21. Severability. If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions hereof, but such provision shall be fully severable and this Agreement shall be construed and enforced as if the illegal or invalid provision had never been included herein.

22. Company Action. Any action required of the Company shall be by resolution of the Board or by a person or entity authorized to act by resolution of the Board.

23. Headings. The titles and headings of Sections are included for convenience of reference only and are not to be considered in construction of the provisions hereof.

24. Controlling Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without regard to conflicts of laws principles thereof.

25. Amendment. This Agreement may be amended the Board or by the Committee at any time (a) if the Board or the Committee determines, in its sole discretion, that amendment is necessary or advisable in light of any addition to or change in any federal or state, tax or securities law or other law or regulation, which change occurs after the Date of Grant and by its terms applies to the Award; or (b) other than in the circumstances described in clause (a) or provided in the Plan, with your consent.

26. Section 409A. It is intended that the Performance Share Units awarded hereunder shall be exempt from the requirements of Section 409A of the Code (and any regulations and guidelines issued thereunder), and this Agreement shall be interpreted on a basis consistent with such intent. Notwithstanding anything in this Agreement to the contrary, if you are a "specified employee" under Section 409A of the Code at the time of separation from service and if payment of any amount under this Agreement is required to be delayed for a period of six months after the separation from service pursuant to Section 409A of the Code, payment of such amount shall be delayed as required by Section 409A of the Code, and the accumulated postponed amount shall be paid in a lump sum payment within 10 days after the end of the six-month period. If you die during the postponement period prior to the payment of postponed amount, the accumulated postponed amount shall be paid to the personal representative of your estate within 60 days after the date of your death.

27. Nontransferability of Agreement. This Agreement and all rights under this Agreement shall not be transferable by you during your life other than by will or pursuant to applicable laws of descent and distribution. Any of your rights and privileges in connection herewith shall not be transferred, assigned, pledged or hypothecated by you or by any other person or persons, in any way, whether by operation of law, or otherwise, and shall not be subject to execution, attachment, garnishment or similar process. In the event of any such occurrence, this Agreement shall automatically be terminated and shall thereafter be null and void. Notwithstanding the foregoing, all or some of the Performance Share Units or rights under this Agreement may be transferred to a spouse pursuant to a domestic relations order issued by a court of competent jurisdiction.

*[Remainder of Page Intentionally Blank]*

## Appendix A

### **Defined Terms**

For purposes of the Agreement, the following terms shall have the meanings assigned below:

“**Affiliate**” has the meaning provided in Rule 12b-2 under the Exchange Act.

“**Board**” shall mean the Board of Directors of the Company.

“**Code**” shall mean the Internal Revenue Code of 1986, as amended.

“**Committee**” shall mean the committee of the Board that is selected by the Board to administer the Plan as provided in Paragraph IV(a) of the Plan.

“**Compliance Expiration Date**” shall mean the date that is two years following the effective date of the termination of your employment with the Company.

“**Disability**” shall mean you become disabled within the meaning of Section 409A(a)(2)(C) of the Code and applicable administrative authority thereunder.

“**Peer Group**” means [•]. If a member of the Peer Group ceases to be a public company during the Performance Period (whether by merger, consolidation, liquidation or otherwise) or it fails to file financial statements with the SEC in a timely manner, it shall be treated as if it had not been a Peer Group member for the entire Performance Period.

“**[Performance Measure 1]**” means [•].

“**[Performance Measure 2]**” means [•].

“**[Performance Percentage 1]**” means [•].<sup>3</sup>

“**[Performance Percentage 2]**” means [•].<sup>3</sup>

“**Performance Period**” means the period commencing on January 1, 20[•] and ending on December 31, 20[•].

“**Performance Unit Payout Percentage**” means the percentile obtained by dividing the sum of (1) the [Performance Percentage 1] and (2) the [Performance Percentage 2], by two.<sup>4</sup>

“**Person**” has the meaning given in section 3(a)(9) of the Exchange Act as modified and used in sections 13(d) and 14(d) of the Exchange Act.

“**Planned Retirement**” shall mean that the Board of Directors of the Company has accepted the your resignation under terms relating to date and conditions of resignation that are mutually agreeable to you and the Company.

“**Post-Retirement Obligations**” shall mean any of your obligations that apply following the termination of your employment with the Company, including, without limitation, pursuant to any employment agreement, restricted stock award agreement or any other agreement between you and the Company, as such agreements may be amended from time to time, and any such other obligations that apply following the termination of your employment with the Company pursuant to any other agreement that may be entered into by you and the Company from time to time.

“**SEC**” means the Securities and Exchange Commission.



“*Securities Act*” means the Securities Act of 1933, as amended.

“*Vesting Date*” means December 31, 20[•].

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<sup>3</sup> **Note:** Performance achievement may be determined on an absolute or relative basis as determined by the Committee.

<sup>4</sup> **Note:** May be modified by the Committee to reflect a number of performance measures greater than or less than two with respect to awards in future years.

## CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Earl J. Hesterberg, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended March 31, 2019 of Group 1 Automotive, Inc. (“registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Earl J. Hesterberg

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Earl J. Hesterberg

Chief Executive Officer

Date: May 7, 2019

## CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John C. Rickel, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended March 31, 2019 of Group 1 Automotive, Inc. (“registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ John C. Rickel

John C. Rickel

Chief Financial Officer

Date: May 7, 2019

**CERTIFICATION OF  
CHIEF EXECUTIVE OFFICER  
OF GROUP 1 AUTOMOTIVE, INC.  
PURSUANT TO 18 U.S.C. § 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2019 filed with the Securities and Exchange Commission on the date hereof ("Report"), I, Earl J. Hesterberg, Chief Executive Officer of Group 1 Automotive, Inc. ("Company"), hereby certify that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Earl J. Hesterberg

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Earl J. Hesterberg

Chief Executive Officer

Date: May 7, 2019

**CERTIFICATION OF  
CHIEF FINANCIAL OFFICER  
OF GROUP 1 AUTOMOTIVE, INC.  
PURSUANT TO 18 U.S.C. § 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2019 filed with the Securities and Exchange Commission on the date hereof ("Report"), I, John C. Rickel, Chief Financial Officer of Group 1 Automotive, Inc. ("Company"), hereby certify that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John C. Rickel

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John C. Rickel

Chief Financial Officer

Date: May 7, 2019