

GROUP 1 AUTOMOTIVE INC

Form 10-Q

May 04, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018

or

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

For the transition period from _____ to _____

Commission File Number: 1-13461

Group 1 Automotive, Inc.

(Exact name of registrant as specified in its charter)

Delaware 76-0506313

(State or other (I.R.S.

jurisdiction of Employer

incorporation or Identification

organization) No.)

800 Gessner, Suite

500

Houston, Texas

77024

(Address of

principal executive

offices) (Zip code)

(713) 647-5700

(Registrant's

telephone number,

including area

code)

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

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

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

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Large accelerated filer ☒

☐ Accelerated filer

Non-accelerated filer ☐ (Do not check if a smaller reporting company) ☐ Smaller reporting company

☐ Emerging growth company

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

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

Yes ☐ No ☒

As of April 26, 2018, the registrant had 20,928,957 shares of common stock, par value \$0.01, outstanding.

Table of Contents

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. <u>Financial Statements</u>	<u>3</u>
<u>Cautionary Statement about Forward-Looking Statements</u>	<u>36</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>38</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>63</u>
Item 4. <u>Controls and Procedures</u>	<u>65</u>

PART II. OTHER INFORMATION

Item 1. <u>Legal Proceedings</u>	<u>66</u>
Item 1A. <u>Risk Factors</u>	<u>66</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>66</u>
Item 6. <u>Exhibits</u>	<u>66</u>
<u>SIGNATURE</u>	<u>68</u>

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2018	December 31, 2017
	(Unaudited)	
	(In thousands, except per share amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$33,090	\$28,787
Contracts-in-transit and vehicle receivables, net	297,885	306,433
Accounts and notes receivable, net	200,159	188,611
Inventories, net	1,804,176	1,763,293
Prepaid expenses and other current assets	77,888	42,062
Total current assets	2,413,198	2,329,186
PROPERTY AND EQUIPMENT, net	1,357,870	1,318,959
GOODWILL	960,110	913,034
INTANGIBLE FRANCHISE RIGHTS	295,626	285,632
OTHER ASSETS	31,674	24,254
Total assets	\$5,058,478	\$4,871,065
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Floorplan notes payable - credit facility and other	\$1,199,741	\$1,240,695
Offset account related to floorplan notes payable - credit facility	(74,359)	(86,547)
Floorplan notes payable - manufacturer affiliates	420,315	397,183
Offset account related to floorplan notes payable - manufacturer affiliates	(24,000)	(22,500)
Current maturities of long-term debt and short-term financing	58,195	77,609
Current liabilities from interest rate risk management activities	1,177	1,996
Accounts payable	491,841	412,981
Accrued expenses	194,248	177,070
Total current liabilities	2,267,158	2,198,487
LONG-TERM DEBT, net of current maturities	1,376,770	1,318,184
DEFERRED INCOME TAXES	134,800	124,404
LIABILITIES FROM INTEREST RATE RISK MANAGEMENT ACTIVITIES	3,512	8,583
OTHER LIABILITIES	98,159	97,125
STOCKHOLDERS' EQUITY:		
Common stock, \$0.01 par value, 50,000 shares authorized; 25,527 and 25,515 issued, respectively	255	255
Additional paid-in capital	286,244	291,461
Retained earnings	1,288,052	1,246,323
Accumulated other comprehensive loss	(105,950)	(123,226)
Treasury stock, at cost; 4,597 and 4,617 shares, respectively	(290,522)	(290,531)
Total stockholders' equity	1,178,079	1,124,282
Total liabilities and stockholders' equity	\$5,058,478	\$4,871,065

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

3

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

	Three Months Ended March 31,	
	2018	2017
	(Unaudited, in thousands, except per share amounts)	
REVENUES:		
New vehicle retail sales	\$1,513,590	\$1,337,213
Used vehicle retail sales	780,570	660,927
Used vehicle wholesale sales	104,029	104,157
Parts and service sales	349,515	319,698
Finance, insurance and other, net	112,322	96,834
Total revenues	2,860,026	2,518,829
COST OF SALES:		
New vehicle retail sales	1,438,163	1,267,986
Used vehicle retail sales	737,075	615,922
Used vehicle wholesale sales	102,374	104,057
Parts and service sales	162,651	147,342
Total cost of sales	2,440,263	2,135,307
GROSS PROFIT	419,763	383,522
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	324,347	289,779
DEPRECIATION AND AMORTIZATION EXPENSE	16,342	13,606
INCOME FROM OPERATIONS	79,074	80,137
OTHER EXPENSE:		
Floorplan interest expense	(14,087)	(11,942)
Other interest expense, net	(18,820)	(16,999)
INCOME BEFORE INCOME TAXES	46,167	51,196
PROVISION FOR INCOME TAXES	(10,353)	(17,257)
NET INCOME	\$35,814	\$33,939
BASIC EARNINGS PER SHARE	\$1.70	\$1.58
Weighted average common shares outstanding	20,298	20,692
DILUTED EARNINGS PER SHARE	\$1.70	\$1.58
Weighted average common shares outstanding	20,307	20,698
CASH DIVIDENDS PER COMMON SHARE	\$0.26	\$0.24

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

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31, 2018 2017 (Unaudited, in thousands)	
NET INCOME	\$35,814	\$33,939
Other comprehensive income, net of taxes:		
Foreign currency translation adjustment	7,871	4,137
Net unrealized gain on interest rate risk management activities:		
Unrealized gain arising during the period, net of tax provision of \$2,492 and \$234, respectively	7,892	390
Reclassification adjustment for loss included in interest expense, net of tax provision of \$478, and \$1,361, respectively	1,513	2,268
Unrealized gain on interest rate risk management activities, net of tax	9,405	2,658
OTHER COMPREHENSIVE INCOME, NET OF TAXES	17,276	6,795
COMPREHENSIVE INCOME	\$53,090	\$40,734

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

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

	Common Stock		Additional	Retained	Accumulated	Treasury	Total
	Shares	Amount	Paid-in Capital	Earnings	Other Comprehensive Loss	Stock	
	(Unaudited, in thousands)						
BALANCE, December 31, 2017	25,515	\$ 255	\$ 291,461	\$ 1,246,323	\$ (123,226)	\$ (290,531)	\$ 1,124,282
Net income	—	—	—	35,814	—	—	35,814
Other comprehensive income, net	—	—	—	—	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
Cash dividends, net of estimated forfeitures relative to participating securities	—	—	—	(5,482)	—	—	(5,482)
Impact of ASC 606 cumulative adjustment	—	—	—	11,397	—	—	11,397
BALANCE, March 31, 2018	25,527	\$ 255	\$ 286,244	\$ 1,288,052	\$ (105,950)	\$ (290,522)	\$ 1,178,079

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

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

	Three Months Ended March 31, 2018 2017 (Unaudited, in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$35,814	\$33,939
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,342	13,606
Deferred income taxes	2,675	5,503
Stock-based compensation	5,642	6,074
Amortization of debt discount and issue costs	650	912
Gain on disposition of assets	(516)	(280)
Other	(6)	(871)
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts payable and accrued expenses	65,200	9,164
Accounts and notes receivable	12,727	21,508
Inventories	7,153	(74,254)
Contracts-in-transit and vehicle receivables	11,237	56,140
Prepaid expenses and other assets	(12,548)	1,066
Floorplan notes payable - manufacturer affiliates	5,067	(3,126)
Deferred revenues	(655)	(164)
Net cash provided by operating activities	148,782	69,217
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid in acquisitions, net of cash received	(71,499)	(95)
Proceeds from disposition of franchises, property and equipment	2,940	2,207
Purchases of property and equipment, including real estate	(47,948)	(46,451)
Other	140	2,459
Net cash used in investing activities	(116,367)	(41,880)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on credit facility - floorplan line and other	1,656,192	1,594,371
Repayments on credit facility - floorplan line and other	(1,702,447)	(1,598,291)
Borrowings on credit facility - acquisition line	66,945	15,000
Repayments on credit facility - acquisition line	(66,444)	(15,000)
Borrowings on other debt	65,614	—
Principal payments on other debt	(40,078)	(232)
Borrowings on debt related to real estate, net of debt issue costs	46,835	—
Principal payments on debt related to real estate	(37,819)	(6,831)
Employee stock purchase plan purchases, net of employee tax withholdings	(1,638)	(1,030)
Repurchases of common stock, amounts based on settlement date	(9,199)	—
Dividends paid	(5,495)	(5,150)
Net cash used in financing activities	(27,534)	(17,163)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	47	260
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	4,928	10,434
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of period	29,631	24,246
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of period	\$34,559	\$34,680
SUPPLEMENTAL CASH FLOW INFORMATION:		

Purchases of property and equipment, including real estate, accrued in accounts payable	\$6,066	\$ 7,287
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The accompanying notes are an integral part of these consolidated financial statements.

7

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. INTERIM FINANCIAL INFORMATION

Business and Organization

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

The Company, through its regions, sells new and used cars and light trucks; arranges related vehicle financing; sells service and insurance contracts; provides automotive maintenance and repair services; and sells vehicle parts. As of March 31, 2018, the Company's U.S. retail network consisted of 117 dealerships within the following states: Alabama, California, Florida, Georgia, Kansas, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New Mexico, Oklahoma, South Carolina, and Texas. The President of U.S. Operations reports directly to the Company's Chief Executive Officer and is responsible for the overall performance of the U.S. region, as well as for overseeing the market directors and dealership general managers. In addition, as of March 31, 2018, the Company had two international regions: (a) the U.K., which consisted of 47 dealerships and (b) Brazil, which consisted of 16 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, seasonal weather events and changes in currency exchange rates may exaggerate seasonal or cause counter-seasonal fluctuations in the Company's revenues and operating income. Due to seasonality and other factors, the results of operations for the interim period are not necessarily indicative of the results that will be realized for any other interim period or for the entire fiscal year.

Basis of Presentation

The accompanying unaudited condensed Consolidated Financial Statements 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. In the opinion of management, all adjustments of a normal and recurring nature considered necessary for a fair presentation have been included in the accompanying unaudited condensed Consolidated Financial Statements. All business acquisitions completed during the periods presented have been accounted for by applying the acquisition method of accounting, and their results of operations are included from the effective dates of the closings of the acquisitions. The allocations of purchase price to the assets acquired and liabilities assumed are assigned and recorded based on estimates of fair value and are subject to change within the purchase price allocation period (generally one year from the respective acquisition date). All intercompany balances and transactions have been eliminated in consolidation.

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

Business Segment Information

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

Executive Officer. See Note 15, "Segment Information", for additional details regarding the Company's reportable segments.

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Statements of Cash Flows

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 to the Company from 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. 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) 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 (as defined in Note 9, "Credit Facilities") (including the cash flows from or to manufacturer affiliated lenders participating in the facility), as well as borrowing 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 \$20.3 million and \$17.6 million for the three months ended March 31, 2018 and 2017, respectively. The Company received a net refund from taxes of \$0.4 million for the three months ended March 31, 2018. Cash paid for taxes, net of refunds, was \$0.3 million for the three months ended March 31, 2017.

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.

	March 31, 2018	December 31, 2017
(In thousands)		
Cash and cash equivalents	\$33,090	\$ 28,787
Restricted cash, included in other assets	1,469	844
Total cash, cash equivalents, and restricted cash	\$34,559	\$ 29,631

Recently Adopted Accounting Pronouncements

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

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

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

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. The amendments in this update provide clarity and reduce both diversity in practice and cost and complexity when applying the guidance of Topic 718 to a change to the terms or conditions of a share-based payment award. Under the new guidance, an entity will not apply modification accounting to a share-based payment award if all of the following are the same immediately before and after the change: 1) the award's fair value (or calculated value or intrinsic value, if those measurement methods are used), 2) the award's vesting conditions, and 3) the award's classification as an equity or liability instrument. The Company adopted ASU 2017-09 during the first quarter of 2018. The adoption of this ASU did not impact its consolidated financial statements or results of operations.

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

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

Balance Sheet	January 1, 2018		
	Balance at December 31, 2017	Adjustment due to ASC 2016-09 606	Balance at January 1, 2018
(In thousands)			
Assets			
Accounts and notes receivable, net ⁽¹⁾	\$ 188,611	\$ 20,306	\$ 208,917
Inventories, net	1,763,293	(3,660)	1,759,633
Liabilities			
Accounts payable	\$412,981	\$ 1,756	\$414,737
Deferred income taxes	124,404	3,493	127,897

Stockholders' equity			
Retained earnings	1,246,323	11,397	1,257,720

⁽¹⁾ Contract assets, representing a conditional right to payment, of \$8.7 million are included in Accounts and notes receivables, net in the Consolidated Balance Sheet as of January 1, 2018.

The impact of applying Topic 606 for the three months ended March 31, 2018 was as follows (in thousands):

	March 31, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher / (Lower)
(In thousands)			
Income Statement			
Revenues			
Parts and service sales	\$349,515	\$350,992	\$(1,477)
Finance, insurance and other, net	112,322	112,122	200
Cost of sales			
Parts and service sales	\$162,651	\$163,116	\$(465)
Selling, general and administrative expenses	324,347	324,543	(196)
Provision for income taxes	10,353	10,504	(151)
Net income	35,814	36,279	(465)
Balance Sheet			
Assets			
Accounts and notes receivable, net ⁽¹⁾	\$200,159	\$181,131	\$19,028
Inventories, net	1,804,176	1,807,371	(3,195)
Liabilities			
Accounts payable	\$491,841	\$490,281	\$1,560
Deferred income taxes	134,800	131,459	3,341

Stockholders' equity

Retained earnings \$1,288,052 \$1,277,120 \$10,932

⁽¹⁾ Contract assets, representing a conditional right to payment, of \$8.9 million are included in Accounts and notes receivables, net in the Consolidated Balance Sheet as of March 31, 2018.

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

11

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The amendments in this ASU relate to the accounting for leasing transactions. This standard requires a lessee to record on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than 12 months. In addition, this standard requires both lessees and lessors to disclose certain key information about lease transactions. This standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is in the process of evaluating the impact that adoption will have on its consolidated balance sheet and statement of income. However, the Company expects that the adoption of the provisions of the ASU will have a significant impact on its consolidated balance sheet, as currently approximately half of its real estate is rented, not owned, via operating leases. Adoption of this ASU is required to be done using a modified retrospective approach.

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

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The amendment 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. The amendments in this update should be applied prospectively and are 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 is currently evaluating the impact that the adoption of the provisions of the ASU will have on its consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 715): Targeted Improvements to Accounting for Hedging Activities. The amendments in this update better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also eases the administrative burden of hedge documentation requirements and assessing hedge effectiveness. The amendments to cash flow and net investment hedge relationships should be applied using a modified retrospective approach while the presentation and disclosure requirements are applied prospectively, effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact that the adoption of the provisions of the ASU will have on its consolidated financial statements.

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

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

2. REVENUE

As discussed in Note 1, "Interim Financial Information", the Company's material revenue streams are the sale of new and used vehicles; arrangement of associated vehicle financing and the sale of service and other insurance contracts; the performance of vehicle maintenance and repair services; and the sale of vehicle parts. The following table presents the Company's revenues disaggregated by revenue source (in thousands):

	Three Months Ended	
	March 31, 2018	2017 ⁽¹⁾
	(In thousands)	
REVENUES:		
New vehicle retail sales	\$1,513,590	\$1,337,213
Used vehicle retail sales	780,570	660,927
Used vehicle wholesale sales	104,029	104,157
Total new and used vehicle sales	2,398,189	2,102,297
Vehicle parts sales	85,196	74,665
Maintenance and repair sales	264,319	245,033
Total parts and service sales	349,515	319,698
Finance, insurance and other, net	112,322	96,834
Total revenues	\$2,860,026	\$2,518,829

⁽¹⁾ As noted above, prior period amounts have not been adjusted under the modified retrospective approach.

The following table presents the Company's revenues disaggregated by its geographical segments:

	Three Months Ended March 31, 2018			
	U.S.	U.K.	Brazil	Consolidated
	(In thousands)			
REVENUES:				
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

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Three Months Ended March 31, 2017 ⁽¹⁾			
	U.S.	U.K.	Brazil	Consolidated
	(In thousands)			
REVENUES:				
New vehicle retail sales	\$1,018,249	\$258,640	\$60,324	\$1,337,213
Used vehicle retail sales	521,947	115,369	23,611	660,927
Used vehicle wholesale sales	70,545	30,509	3,103	104,157
Total new and used vehicle sales	1,610,741	404,518	87,038	2,102,297
Vehicle parts sales	66,754	6,280	1,631	74,665
Maintenance and repair sales	204,405	30,501	10,127	245,033
Total parts and service sales	271,159	36,781	11,758	319,698
Finance, insurance and other, net	85,819	9,028	1,987	96,834
Total revenues	\$1,967,719	\$450,327	\$100,783	\$2,518,829

⁽¹⁾ As noted above, prior period amounts have not been adjusted under the modified retrospective approach.

New and Used Vehicle Sales

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

Vehicle Parts Sales

Related to the sale of vehicle parts, the Company has a single performance obligation associated with these contracts - the delivery of the parts to the customer, which is the point at which transfer of control occurs. Revenue from the sale of vehicle parts is recognized upon satisfaction of the performance obligation (i.e., delivery of the parts to the customer). The transaction price for vehicle parts sales (i.e., the amount that the Company has the right to under the terms of the sales contract with the customer) is the stand-alone sales price of each individual part and is generally settled within 30 days of the satisfaction of the performance obligation. Revenue recognized from the sale of vehicle parts is reflected in Parts and service sales in the accompanying Consolidated Statements of Operations. With respect to the cost of freight and shipping to its customer, the Company's policy is to recognize such fulfillment cost in the corresponding Cost of sales category. With respect to taxes assessed by governmental authorities that are imposed upon vehicle parts sales transactions and collected by the Company from its customer, the Company's policy is to exclude such amounts from Revenues.

Maintenance and Repair Services

As it relates to vehicle maintenance and repair services, the Company has a single performance obligation associated with these contracts - the completion of the services. The Company has an enforceable right to payment in certain jurisdictions and, as such, transfers control of vehicle maintenance and repair services to its customer over time.

Therefore, satisfaction of the performance obligation associated with the vehicle maintenance and repair services occurs, and the associated revenue is recognized, over time. The Company uses the input method for the measurement of progress and recognition of revenue, utilizing labor hours and parts applied to the customer vehicle to estimate the services performed for which the Company has an enforceable right to payment. The transaction price for vehicle maintenance and repair services (i.e., the amount that the Company has the right to under the terms of the service contract with the customer) is the sum total of the labor and, if applicable, vehicle parts used in the performance of the service, as well as the margin above cost charged to the customer. The

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

transaction price is typically settled within 30 days of the satisfaction of the performance obligation, which generally occurs within a short period of time from contract inception. Revenue recognized from vehicle maintenance and repair services is reflected in Parts and service sales in the accompanying Consolidated Statements of Operations. With respect to taxes assessed by governmental authorities that are imposed upon vehicle maintenance and repair service transactions and collected by the Company from its customer, the Company's policy is to exclude such amounts from Revenues.

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

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

3. ACQUISITIONS AND DISPOSITIONS

During the three months ended March 31, 2018, the Company acquired 5 dealerships in the U.K., inclusive of 8 franchises, and opened one dealership for one awarded franchise. Additionally, the Company acquired 2 dealerships in the U.S., inclusive of 2 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 have been allocated based upon the consideration paid and the estimated fair values of the assets acquired and liabilities assumed at the acquisition dates. The allocation of the purchase prices are preliminary and based on estimates and assumptions that are subject to change within the purchase price allocation periods (generally one year from the respective acquisition date).

During the three months ended March 31, 2017, the Company opened one dealership for one awarded franchise in the U.K. and added motorcycles to an existing BMW dealership in Brazil. In addition, during the three months ended March 31, 2017, the Company disposed of two dealerships in Brazil representing two franchises.

4. DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES

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

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

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

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

The related gains or losses on these interest rate derivative instruments are deferred in stockholders' equity as a component of accumulated other comprehensive loss. These deferred gains 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 other income or expense. Monthly contractual settlements of these swap positions are recognized as floorplan or other interest expense in the Company's accompanying Consolidated Statements of Operations. All of the Company's interest rate derivative instruments are designated as cash flow hedges. As of March 31, 2018, all of the Company's derivative instruments that were in effect were determined to be effective. The Company had no gains or losses related to ineffectiveness or amounts excluded from effectiveness testing recognized in the Consolidated Statements of Operations for the three months ended March 31, 2018 or 2017, respectively.

The Company held 25 interest rate derivative instruments in effect as of March 31, 2018 of \$822.1 million in notional value that fixed its underlying one-month LIBOR at a weighted average rate of 2.6%. For the three months ended March 31, 2018 and 2017, the impact of the Company's interest rate hedges in effect increased floorplan interest expense by \$1.7 million and \$2.9 million, respectively. Total floorplan interest expense, inclusive of the aforementioned impact of the Company's interest rate hedges, was \$14.1 million and \$11.9 million for the three

months ended March 31, 2018 and 2017, respectively.

15

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

In addition to the \$822.1 million of swaps in effect as of March 31, 2018, the Company held seven additional interest rate derivative instruments with forward start dates between December 2018 and December 2020 and expiration dates between December 2021 and December 2030. The aggregate notional value of these seven forward-starting swaps was \$375.0 million, and the weighted average interest rate was 1.8%. The combination of the interest rate derivative instruments currently in effect and these forward-starting derivative instruments is structured such that the notional value in effect at any given time through December 2030 does not exceed \$918.4 million, which is less than the Company's expectation for variable-rate debt outstanding during such period.

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

	As of March 31, 2018	As of December 31, 2017
	(In thousands)	
Assets from interest rate risk management activities:		
Other long-term assets	\$ 15,987	\$ 9,501
Total	\$ 15,987	\$ 9,501
Liabilities from interest rate risk management activities:		
Current	\$ 1,177	\$ 1,996
Long-term	3,512	8,583
Total	\$ 4,689	\$ 10,579

Included in Accumulated Other Comprehensive Loss at March 31, 2018 and 2017 were accumulated unrealized losses, net of income taxes, totaling \$8.7 million and \$6.7 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.

	Amount of Unrealized Income (Loss), Net of Tax, Recognized in Other Comprehensive Income (Loss)	
	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Derivatives in Cash Flow Hedging Relationship		
Interest rate derivative instruments	\$ 7,892	\$ 390
	Amount of Loss Reclassified from Other Comprehensive Income (Loss) into Statements of Operations	
	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Location of Loss Reclassified from Other Comprehensive Income (Loss) into Statements of Operations		
Floorplan interest expense	\$ (1,737)	\$ (2,948)
Other interest expense	(254)	(681)
The amount of loss expected to be reclassified out of other comprehensive income (loss) into earnings as additional floorplan interest expense or other interest expense in the next twelve months is \$2.7 million.		

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

5. STOCK-BASED COMPENSATION PLANS

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

Long Term Incentive Plan

The Incentive Plan provides for the grant of options (including options qualified as incentive stock options under the Internal Revenue Code of 1986 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, 2018, there were 878,454 shares available for issuance under the Incentive Plan.

Restricted Stock 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. Restricted stock units are considered vested at the time of issuance. However, since they convey no voting rights, they are not considered outstanding when issued. Restricted stock units settle in cash upon the termination of the grantees' employment or directorship. 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 shares, in most cases, will be forfeited to the Company. The Company issues new shares or treasury shares, if available, when restricted stock vests. Compensation expense for restricted stock awards is calculated based on the market price of the Company's common stock at the date of grant and recognized over the requisite service period. Forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. This estimate is adjusted annually based on the extent to which actual or expected forfeitures differ from the previous estimate.

A summary of the restricted stock awards as of March 31, 2018, along with the changes during the three months then ended, is as follows:

	Awards	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2017	702,778	\$ 68.23
Granted	194,421	75.72
Vested	(167,934)	61.63
Forfeited	(14,180)	70.34
Nonvested at March 31, 2018	715,085	\$ 71.78

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 Internal Revenue 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, 2018, there were 1,102,825 shares available for issuance under the Purchase Plan. During the three months ended March 31, 2018 and 2017, the Company issued 36,270 and 30,154 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 \$16.22 and \$18.66 for the three months ended March 31, 2018 and 2017, respectively. The fair value of stock purchase rights is calculated using the grant date stock price, the value of the embedded call option and the value of the embedded put option.

Stock-Based Compensation

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Total stock-based compensation cost was \$5.6 million and \$6.1 million for the three months ended March 31, 2018 and 2017, respectively. Cash received from Purchase Plan purchases was \$2.0 million and \$1.9 million for the three months ended March 31, 2018 and 2017, respectively.

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

6. EARNINGS PER SHARE

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

The following table sets forth the calculation of EPS for the three months ended March 31, 2018 and 2017.

	Three Months Ended March 31, 2018 2017 (In thousands, except per share amounts)	
Weighted average basic common shares outstanding	20,298	20,692
Dilutive effect of employee stock purchases, net of assumed repurchase of treasury stock	9	6
Weighted average dilutive common shares outstanding	20,307	20,698
Basic:		
Net Income	\$35,814	\$33,939
Less: Earnings allocated to participating securities	1,209	1,250
Earnings available to basic common shares	\$34,605	\$32,689
Basic earnings per common share	\$1.70	\$1.58
Diluted:		
Net Income	\$35,814	\$33,939
Less: Earnings allocated to participating securities	1,208	1,250
Earnings available to diluted common shares	\$34,606	\$32,689
Diluted earnings per common share	\$1.70	\$1.58

7. INCOME TAXES

The Tax Act made broad and complex changes to the U.S. tax code, including, but not limited to, reducing the U.S. federal corporate tax rate from 35.0% to 21.0%, creating a territorial tax system that generally eliminates U.S. federal income taxes on dividends from foreign subsidiaries, requiring companies to pay a one-time transition tax on unrepatriated earnings of their foreign subsidiaries, creating a "minimum tax" on certain foreign earnings (i.e. global intangible low-taxed income, or "GILTI"), limiting the deduction for net interest expense incurred by U.S. corporations, and eliminating certain deductions, including deductions for certain compensation arrangements and certain other business expenses.

In accordance with SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Job Act ("SAB 118"), the Company made a reasonable estimate of the Tax Act's impact and provisionally recorded this estimate in its results for the period ended December 31, 2017. As of March 31, 2018, the Company has not completed its accounting for the aspects of the Tax Act recorded provisionally: the re-measurement of deferred taxes based on the reduced tax rate, and the Company's provisional determination that the Company does not have a transition tax liability for previously untaxed accumulated and current earnings and profits of foreign subsidiaries. The Company will continue to gather data and evaluate the impact of the Tax Act after the Company has considered additional guidance issued by the U.S. Treasury Department, the IRS, state tax authorities and other standard-setting bodies. This analysis may result in adjustments to the provisional amounts, which would impact the Company's provision for income taxes and effective tax rate for the period in which the adjustments are made. The Company expects to complete its accounting for the Tax Act in 2018.

The Company recognizes the tax on GILTI as a period expense in the period the tax is incurred. Under this policy, the Company has not provided deferred taxes related to temporary differences that upon their reversal will affect the amount of income subject to GILTI in the period. As of March 31, 2018, the Company estimated that the 2018 GILTI tax will not be material.

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 22.4% for the three months ended March 31, 2018 was more than the U.S. federal statutory rate of 21.0%, due primarily to: (1) the taxes provided for in U.S. state jurisdictions; (2) valuation allowances provided for net operating losses and other deferred tax assets in certain U.S. states and in Brazil; and (3) unrecognized tax benefits with respect to uncertain tax positions, partially offset by: (1) income generated in the U.K., which is taxed at a 19.0% statutory rate; and (2) excess tax deductions for restricted stock awards. Compared to the effective tax rate for three months ended March 31, 2017 of 33.7%, the Company's effective tax rate decreased primarily due to the impact of the reduction of the federal corporate tax rate as a result of the Tax Act.

As of March 31, 2018, the Company's unrecognized tax benefits totaled \$1.3 million, including related interest and penalty. To the extent that any such tax benefits are recognized in the future, such recognition would impact the tax liability in that period by approximately \$1.0 million. Consistent with prior treatment of tax related assessments, the Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

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

8. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS

Accounts and notes receivable consisted of the following:

	March 31, 2018	December 31, 2017
	(unaudited)	
	(In thousands)	
Amounts due from manufacturers	\$107,521	\$109,599
Parts and service receivables ⁽¹⁾	52,013	39,343
Finance and insurance receivables ⁽¹⁾	31,180	25,293
Other	12,666	17,514
Total accounts and notes receivable	203,380	191,749
Less allowance for doubtful accounts	3,221	3,138
Accounts and notes receivable, net ⁽¹⁾	\$200,159	\$188,611

Inventories consisted of the following:

	March 31, 2018	December 31, 2017
	(unaudited)	
	(In thousands)	
New vehicles	\$1,237,012	\$1,194,632
Used vehicles	359,725	350,760
Rental vehicles	136,809	144,213
Parts, accessories and other ⁽¹⁾	80,632	82,755
Total inventories	1,814,178	1,772,360
Less lower of cost or net realizable value allowance	10,002	9,067
Inventories, net ⁽¹⁾	\$1,804,176	\$1,763,293

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

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.

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

Property and equipment consisted of the following:

	Estimated Useful Lives in Years (unaudited)	March 31, 2018	December 31, 2017
		(in thousands)	
Land	—	\$485,938	\$482,600
Buildings	25 to 50	721,033	700,257
Leasehold improvements	varies	177,869	172,071
Machinery and equipment	7 to 20	120,626	117,781
Furniture and fixtures	3 to 10	105,632	100,881
Company vehicles	3 to 5	12,157	11,933
Construction in progress	—	55,837	41,824
Total		1,679,092	1,627,347
Less accumulated depreciation		321,222	308,388
Property and equipment, net		\$1,357,870	\$1,318,959

During the three months ended March 31, 2018, the Company incurred \$33.0 million of capital expenditures for the construction of new or expanded facilities and the purchase of equipment and other fixed assets in the maintenance of the Company's dealerships and facilities, excluding \$8.8 million of capital expenditures accrued as of December 31, 2017. As of March 31, 2018, the Company had accrued \$6.1 million of capital expenditures. In addition, the Company purchased real estate (including land and buildings) during the three months ended March 31, 2018 associated with existing dealership operations totaling \$12.2 million. In conjunction with the acquisition of dealerships and franchises in the three months ended March 31, 2018, the Company acquired \$8.9 million of real estate and other property and equipment.

9. CREDIT FACILITIES

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

Revolving Credit Facility

After considering the outstanding balance of \$1,087.0 million at March 31, 2018, the Company had \$353.0 million of available floorplan borrowing capacity under the Floorplan Line. Included in the \$353.0 million available borrowings under the Floorplan Line was \$74.4 million of immediately available funds. The weighted average interest rate on the Floorplan Line was 3.0% and 2.7% as of March 31, 2018 and December 31, 2017, respectively, excluding the impact

of the Company's interest rate derivative instruments. With regards to the Acquisition Line, there were \$28.0 million borrowings outstanding as of March 31, 2018 and \$27.0 million borrowings outstanding as of December 31, 2017, both of which consisted entirely of borrowings in British pound sterling. The interest rate on the Acquisition Line was 2.25% as of March 31, 2018, representing the applicable rate for borrowings in British pound sterling. After considering \$25.0 million of outstanding letters of credit and other factors

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

included in the Company's available borrowing base calculation, there was \$307.5 million of available borrowing capacity under the Acquisition Line as of March 31, 2018. The amount of available borrowing capacity under the Acquisition Line is limited from time to time based upon certain debt covenants.

The Revolving Credit Facility contains a number of significant covenants that, among other things, restrict the Company's ability to make disbursements outside of the ordinary course of business, dispose of assets, incur additional indebtedness, create liens on assets, make investments and engage in mergers or consolidations. The Company is also required to comply with specified financial tests and ratios defined in the Revolving Credit Facility, such as the fixed charge coverage and total adjusted leverage ratios. Further, the Revolving Credit Facility restricts the Company's ability to make certain payments, such as dividends or other distributions of assets, properties, cash, rights, obligations or securities ("Restricted Payments"). The Restricted Payments cannot exceed the sum of \$208.5 million plus (or minus if negative) (a) one-half of the aggregate consolidated net income for the period beginning on April 1, 2014 and ending on the date of determination and (b) the amount of net cash proceeds received from the sale of capital stock after June 2, 2014 and ending on the date of determination less (c) cash dividends and share repurchases after June 2, 2014 ("Credit Facility Restricted Payment Basket"). For purposes of the calculation of the Credit Facility Restricted Payment Basket, net income represents such amounts per the Consolidated Financial Statements adjusted to exclude the Company's foreign operations, non-cash interest expense, non-cash asset impairment charges, and non-cash stock-based compensation. As of March 31, 2018, the Credit Facility Restricted Payment Basket totaled \$186.6 million. The Company was in compliance with all applicable covenants and ratios under the Revolving Credit Facility as of March 31, 2018. All of the U.S. dealership-owning subsidiaries are co-borrowers under the Revolving Credit Facility. The Company's obligations under the Revolving Credit Facility are secured by essentially all of the Company's U.S. personal property (other than equity interests in dealership-owning subsidiaries), including all motor vehicle inventory and proceeds from the disposition of dealership-owning subsidiaries, excluding inventory financed directly with manufacturer-affiliates and other third-party financial institutions.

Ford Motor Credit Company Facility

As of March 31, 2018, the Company had an outstanding balance of \$146.3 million under the FMCC Facility with an available floorplan borrowing capacity of \$153.7 million. Included in the \$153.7 million available borrowings under the FMCC Facility was \$24.0 million of immediately available funds. This facility bears interest at a rate of Prime plus 150 basis points minus certain incentives. The interest rate on the FMCC Facility was 6.25% before considering the applicable incentives as of March 31, 2018.

Other Credit Facilities

The Company has credit facilities with financial institutions in the U.K., most of which are affiliated with the manufacturers, for financing new, used and rental vehicle inventories related to its U.K. operations. As of March 31, 2018, borrowings outstanding under these facilities totaled \$149.6 million. Annual interest rates charged on borrowings outstanding under these facilities, after the grace period of zero to 30 days, ranged from 1.25% to 3.95%. 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, 2018, borrowings outstanding under these facilities totaled \$22.8 million. Annual interest rates charged on borrowings outstanding under these facilities, after the grace period of zero to 90 days, ranged from 10.92% to 16.77%.

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, 2018, borrowings outstanding under these rental vehicle facilities totaled \$116.0 million, with interest rates that vary up to 6.25%.

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

10. LONG-TERM DEBT

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

	March 31, 2018	December 31, 2017
	(in thousands)	
5.00% Senior Notes (aggregate principal of \$550,000 at March 31, 2018 and December 31, 2017)	\$ 542,474	\$ 542,063
5.25% Senior Notes (aggregate principal of \$300,000 at March 31, 2018 and December 31, 2017)	296,295	296,151
Acquisition Line	28,035	26,988
Real Estate Related and Other Long-Term Debt	500,716	440,845
Capital lease obligations related to real estate, maturing in varying amounts through December 2037 with a weighted average interest rate of 8.7% and 10.4%, respectively	67,445	51,665
	1,434,965	1,357,712
Less current maturities of long-term debt	58,195	39,528
	\$ 1,376,770	\$ 1,318,184

Included in current maturities of long-term debt and short-term financing in the Company's Consolidated Balance Sheets, as of December 31, 2017, were two short-term revolving working capital loan agreements with third-party financial institutions in the U.K. that totaled \$13.4 million and an unsecured loan agreement with a third-party financial institution in the U.S. that totaled \$24.7 million. During the three months ended March 31, 2018, the Company repaid the entire balance under all of the short-term financing arrangements.

Real Estate Related and Other Long-Term Debt

The mortgage loans in the U.S. consist of 60 term loans for an aggregate principal amount of \$442.9 million. As of March 31, 2018, borrowings outstanding under these notes totaled \$379.7 million, with \$41.4 million classified as a current maturity of long-term debt. For the three months ended March 31, 2018, the Company made additional net borrowings and principal payments of \$34.8 million and \$5.1 million, respectively.

The Company has entered into 18 separate term mortgage loans in the U.K. with other third-party financial institutions which are secured by the Company's U.K. properties. These mortgage loans (collectively, "U.K. Notes") are denominated in British pound sterling and are being repaid in monthly installments that will mature by September 2034. As of March 31, 2018, borrowings under the U.K. mortgage loans totaled \$87.6 million, with \$8.4 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets. For the three months ended March 31, 2018, the Company made additional borrowings and principal payments of \$12.1 million and \$6.6 million, respectively, associated with the U.K. Notes. Additionally, during the three months ended March 31, 2018, the Company entered into an unsecured loan agreement in the U.K. with a third-party financial institution that matures in March 2028. As of March 31, 2018, borrowings under the agreement totaled \$22.0 million, with \$2.2 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets.

As of March 31, 2018, borrowings under the Brazil mortgage totaled \$3.1 million, with \$0.4 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets. For the three months ended March 31, 2018, the Company made no additional borrowings and made principal payments of \$0.1 million associated with the Brazil mortgage.

The Company also has a working capital loan agreement with a third-party financial institution in Brazil. As of March 31, 2018, borrowings under the Brazilian third-party loan totaled \$6.7 million. For the three months ended March 31, 2018, the Company made no additional borrowings or principal payments.

Fair Value of Long-Term Debt

The Company's outstanding 5.00% Notes had a fair value of \$555.7 million and \$567.9 million as of March 31, 2018 and December 31, 2017, respectively. The Company's outstanding 5.25% Notes had a fair value of \$300.0 million and \$310.9 million as of March 31, 2018 and December 31, 2017, respectively. The carrying value of the Company's fixed

interest rate borrowings included in real estate related and other long-term debt totaled \$85.0 million and \$86.8 million as of March 31, 2018 and December 31, 2017, respectively. The fair value of such fixed interest rate borrowings was \$91.0 million and \$92.9 million as of March 31, 2018 and December 31, 2017, respectively. The fair value estimates are based on Level 2 inputs of the fair value hierarchy available as of March 31, 2018 and December 31, 2017. The Company determined the estimated fair value of its long-term debt using available market information and commonly accepted valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, these estimates are not

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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.

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

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

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

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

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	As of March 31, 2018	As of December 31, 2017
	(In thousands)	
Assets:		
Investments	\$1,469	\$ 844
Demand obligations	13	13
Interest rate derivative financial instruments	15,987	9,501
Total	\$17,469	\$ 10,358
Liabilities:		
Interest rate derivative financial instruments	\$4,689	\$ 10,579
Total	\$4,689	\$ 10,579

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

12. COMMITMENTS AND CONTINGENCIES

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

Legal Proceedings

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

Other Matters

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

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

In certain instances, also in connection with dealership dispositions, the Company's subsidiaries assign to the dealership purchaser the subsidiaries' interests in any real property leases associated with such dealerships. The Company's subsidiaries may retain secondary responsibility for the performance of certain obligations under such leases to the extent that the assignee does not perform, if such performance is required following the assignment of the lease. Additionally, the Company and its subsidiaries may remain subject to the terms of a guaranty made by the Company and its subsidiaries in connection with such leases. In these circumstances, the Company generally has indemnification rights against the assignee in the event of non-performance under these leases, as well as certain defenses. 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.

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

13. INTANGIBLE FRANCHISE RIGHTS AND GOODWILL

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

	Intangible Franchise Rights			
	U.S.	U.K.	Brazil	Total
	(In thousands)			
BALANCE, December 31, 2017	\$255,981	\$29,483	\$ 168	\$285,632
Additions through acquisitions	1,301	7,454	—	8,755
Currency translation	—	1,238	1	1,239
BALANCE, March 31, 2018	\$257,282	\$38,175	\$ 169	\$295,626
	Goodwill			
	U.S.	U.K.	Brazil	Total
	(In thousands)			
BALANCE, December 31, 2017	\$835,267	\$65,034	\$12,733	\$913,034 ⁽¹⁾
Additions through acquisitions	14,199	29,930	—	44,129
Purchase price allocation adjustments	18	—	—	18
Currency translation	—	2,901	28	2,929
BALANCE, March 31, 2018	\$849,484	\$97,865	\$12,761	\$960,110 ⁽¹⁾

⁽¹⁾ Net of accumulated impairment of \$97.8 million

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

14. ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in the balances of each component of accumulated other comprehensive loss for the three months ended March 31, 2018 and 2017 were as follows:

	Three Months Ended March 31, 2018		
	Accumulated foreign currency translation loss	Accumulated gain on interest rate swaps	Total
	(In thousands)		
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 to:			
Floorplan interest expense (pre-tax)	—	1,737	1,737
Other interest expense (pre-tax)	—	254	254
Tax effect	—	(478)	(478)
Net current period other comprehensive income	7,871	9,405	17,276
Balance, March 31, 2018	\$(114,681)	\$ 8,731	\$(105,950)
	Three Months Ended March 31, 2017		
	Accumulated foreign currency translation loss	Accumulated loss on interest rate swaps	Total
	(In thousands)		
Balance, December 31, 2016	\$(137,613)	\$ (9,331)	\$(146,944)
Other comprehensive income before reclassifications:			
Pre-tax	4,137	624	4,761
Tax effect	—	(234)	(234)
Amounts reclassified from accumulated other comprehensive income to:			
Floorplan interest expense (pre-tax)	—	2,948	2,948
Other interest expense (pre-tax)	—	681	681
Tax effect	—	(1,361)	(1,361)
Net current period other comprehensive income	4,137	2,658	6,795
Balance, March 31, 2017	\$(133,476)	\$ (6,673)	\$(140,149)

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

15. SEGMENT INFORMATION

As of March 31, 2018, the Company had three reportable segments: (1) the U.S., (2) the U.K., and (3) Brazil. Each of the reportable segments is comprised of retail automotive franchises, which sell new and used cars and light trucks; arranges related vehicle financing; sells service and insurance contracts; provides automotive maintenance and repair services; and sells vehicle parts. The vast majority of the Company's corporate activities are associated with the operations of the U.S. operating segment and therefore the corporate financial results are included within the U.S. reportable segment.

Reportable segment revenue, income (loss) before income taxes, (provision) benefit for income taxes and net income (loss) were as follows for the three months ended March 31, 2018 and 2017:

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