

GROUP 1 AUTOMOTIVE INC  
Form 10-K  
February 19, 2019

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 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 jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

800 Gessner, Suite 500 (713) 647-5700  
Houston, Texas 77024 (Registrant's telephone  
(Address of principal executive number, including area code)  
offices, including zip code)

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

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

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Non-accelerated filer  Smaller reporting company

Emerging growth company

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

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

The aggregate market value of common stock held by non-affiliates of the registrant was approximately \$1.2 billion based on the reported last sale price of common stock on June 30, 2018, which was the last business day of the registrant's most recently completed second quarter.

As of February 1, 2019, there were 18,340,482 shares of our common stock, par value \$0.01 per share, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for its 2019 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days of December 31, 2018, are incorporated by reference into Part III of this Form 10-K.

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### CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (“Form 10-K”) includes certain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (“Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (“Exchange Act”). This information includes statements regarding our strategy, plans, goals or current expectations with respect to, among other things:

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

Although we believe that the expectations reflected in these forward-looking statements are reasonable when and as made, we cannot assure you that these expectations will prove to be correct or that future developments affecting us will be those that we anticipate. When used in this Form 10-K, the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may” and similar expressions, as they relate to our company and management, are intended to identify forward-looking statements, which are generally not historical in nature. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Known material factors that could cause our actual results to differ from those in the forward-looking statements are those described in Part I, “Item 1A. Risk Factors.”

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no responsibility to publicly release the result of any revision of our forward-looking statements after the date they are made, except as required by law.

## PART I

### Item 1. Business

#### General

Group 1 Automotive, Inc., a Delaware corporation organized in 1995, is a leading operator in the automotive retail industry. As of December 31, 2018, we owned and operated 238 franchises, representing 30 brands of automobiles, at 183 dealership locations and 47 collision centers worldwide. We own 152 franchises at 118 dealership locations and 29 collision centers in the United States of America (“U.S.”), 63 franchises at 47 dealership locations and 11 collision centers in the United Kingdom (“U.K.”) and 23 franchises at 18 dealership locations and seven collision centers in Brazil. Through our dealerships, we sell new and used cars and light trucks; arrange related vehicle financing; sell service and insurance contracts; provide automotive maintenance and repair services; and sell vehicle parts. Our operations are primarily located in major metropolitan areas in Alabama, California, Florida, Georgia, Kansas, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New Mexico, Oklahoma, South Carolina, and Texas in the U.S., in 32 towns in the U.K., and in key metropolitan markets in the states of Sao Paulo, Parana, Mato Grosso do Sul and Santa Catarina in Brazil.

As discussed in more detail in Note 2, “Summary of Significant Accounting Policies and Estimates”, within our Notes to Consolidated Financial Statements, all of our operating subsidiaries are aligned into one of three operating segments (or regions): the U.S., the U.K. and Brazil. 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. The operations of the Company's two international regions are structured similar to the U.S. region. Our financial information, including our revenues from external customers, a measure of profit or loss, and total assets, is segregated into our three operating segments and included in our Consolidated Financial Statements and related notes beginning on page F-1.

#### Business Strategy

Our business strategy primarily focuses on the performance of our existing dealerships to achieve growth, capture market share, and maximize the investment return to our stockholders. We are constantly evaluating opportunities to improve the overall profitability of our dealerships. For 2019, our priorities will be on three key areas as we continue to become a best-in-class automotive retailer. These areas are:

sustained growth of our higher margin parts and service business. Our focus on growth in our parts and service operations continues to hinge on the retention and expansion of our service professionals, targeted marketing efforts, strategic selling and operational efficiencies, as well as capital investments designed to support our growth targets; promotion of the customer experience and customer satisfaction, in all areas of our business; and improvement of operating efficiencies, through further development of our operating model that promotes commonality of processes, systems and training, to further leverage our cost base. We made significant changes in our operating model during the last five years, which were designed to reduce variable and fixed expenses. And, we continue our efforts to fully leverage our scale, reduce costs, enhance internal controls, and enable further growth. As our business grows in 2019 and beyond, we intend to manage our costs carefully and to look for additional opportunities to improve our processes and disseminate best practices. We believe that our management structure supports more rapid decision making and facilitates an efficient and effective roll-out of new processes.

A key to the execution of our business strategy is the leverage of what we believe to be one of our key strengths — the talent of our people. We believe that we have developed a distinguished management team with substantial industry expertise. With our management structure and level of executive talent, we plan to continue empowering the operators of our dealerships to make appropriate decisions to grow their respective dealership operations and to control fixed and variable costs. We believe this approach allows us to provide the best possible service to our customers, as well as attract and retain talented employees.

We will continue to focus on opportunities to enhance our current dealership portfolio by strategic acquisitions and improving or disposing any underperforming dealerships. We believe that substantial opportunities for growth through acquisitions remain in our industry in the U.S., the U.K. and Brazil. An absolute acquisition target has not been established for 2019, but we expect to acquire dealerships that provide attractive returns on investment. We believe that as of December 31, 2018, we have sufficient financial resources to support additional acquisitions. We plan to focus our future growth in geographically diverse areas with positive economic outlooks over the longer-term.

Further, we intend to critically evaluate our return on invested capital in our current dealership portfolio for disposition opportunities. In 2018, we completed the acquisition of five U.K. dealerships, inclusive of eight franchises, added one franchise and opened one additional dealership for one awarded franchise in the U.K., with expected aggregate annualized revenues of \$315.0 million, as estimated at the time of the

acquisitions. The Company acquired four dealerships in the U.S., inclusive of four franchises, and opened one additional dealership, representing one franchise with expected aggregate annualized revenues of \$230.0 million. Further, the Company acquired one dealership in Brazil, representing one franchise, and opened one additional dealership, representing one franchise, with expected aggregate annualized revenues of \$70.0 million. For more information on our acquisitions and dispositions, including those occurring in 2018, see “Acquisition and Divestiture Program” for further details.

#### Dealership Operations

Our operations are located in geographically diverse markets that extend domestically across 15 states aggregated into one U.S. region, and internationally in the U.K. and Brazil, representing our three reportable segments: U.S., U.K. and Brazil. See Note 21, “Segment Information” within the Notes to Consolidated Financial Statements for further financial information on our three reportable segments. For a discussion of the risks associated with our operations in the U.S., U.K. and Brazil, please see Part I, “Item 1A. Risk Factors.” The following table sets forth the regions and geographic markets in which we operate, the percentage of new vehicle retail units sold in each region in 2018 and the number of dealerships and franchises in each region:

Region	Geographic Market	Percentage of Our New Vehicle Retail Units Sold During the Year Ended December 31, 2018	As of December 31, 2018	
			Number of Dealerships	Number of Franchises
United States	Texas	36.4 %	56	74
	Oklahoma	6.3	13	20
	California	6.2	5	9
	Massachusetts	4.9	5	5
	Georgia	4.5	7	9
	Florida	2.7	4	4
	Louisiana	2.1	5	7
	New Hampshire	1.8	3	3
	South Carolina	1.6	3	3
	New Jersey	1.6	4	4
	Kansas	1.4	4	4
	Mississippi	1.2	3	3
	Alabama	0.7	2	2
	Maryland	0.5	2	2
	New Mexico	0.2	2	3
		72.1	118	152
International	United Kingdom	22.7	47	63
	Brazil	5.2	18	23
Total		100.0 %	183	238

Each of our local operations has a management structure designed to promote and reward entrepreneurial spirit and the achievement of team goals. The general manager of each dealership, with assistance from the managers of new vehicle sales, used vehicle sales, parts, service, collision and finance and insurance departments, is ultimately responsible for the operation, personnel and financial performance of the dealership. Our dealerships are operated as distinct profit centers, and our general managers have a reasonable degree of empowerment within our organization.

#### New Vehicle Retail Sales

In 2018, we sold 170,517 new vehicles in retail transactions at our dealerships, representing 32 brands. Our retail sales of new vehicles accounted for 18.0% of our gross profit in 2018. In addition to the profit related to the transactions, a typical new vehicle retail sale or lease may create the following additional profit opportunities for our dealerships:

- manufacturer dealer incentives;
- the resale of any used vehicle trade-in purchased by the dealership;

arrangement of third-party financing in connection with the retail sale;  
the sale of vehicle service and insurance contracts;  
the sale of vehicle parts, accessories or other after-market products; and

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the service and repair of the vehicle both during and after the warranty period.

We consider brand diversity to be one of our strengths. The following table sets forth our consolidated new vehicle sales revenue by brand and number of new vehicle retail units sold in the year ended, as well as the number of franchises we owned as of December 31, 2018:

	New Vehicle Revenues	New Vehicle Unit Sales	% of Total Units Sold	Franchises Owned
	(In thousands)			
Toyota	\$ 1,104,381	36,687	21.5 %	19
BMW	744,436	15,881	9.3 %	27
Ford	693,030	18,361	10.8 %	18
Audi	599,885	15,402	9.0 %	14
Mercedes-Benz	418,784	7,692	4.5 %	12
Honda	382,597	13,796	8.1 %	13
Nissan	327,929	11,085	6.5 %	9
Lexus	317,914	6,345	3.7 %	4
Chevrolet	254,984	6,376	3.7 %	6
Volkswagen	146,640	5,572	3.3 %	12
Land Rover	137,619	2,146	1.3 %	8
MINI	124,866	4,653	2.7 %	18
Jeep	113,189	3,132	1.8 %	6
Acura	108,713	2,673	1.6 %	5
GMC	108,498	2,168	1.3 %	5
RAM	98,520	2,095	1.2 %	6
Kia	85,318	3,468	2.0 %	5
Hyundai	79,982	3,118	1.8 %	5
Cadillac	67,291	1,175	0.7 %	2
Subaru	66,774	2,231	1.3 %	3
Jaguar	52,473	1,003	0.6 %	7
Dodge	41,836	1,143	0.7 %	6
Buick	21,725	624	0.4 %	5
Sprinter	18,150	393	0.2 %	5
Chrysler	16,955	396	0.2 %	6
SEAT	12,485	1,631	1.0 %	1
Lincoln	11,153	197	0.1 %	3
Mazda	10,830	378	0.2 %	1
SKODA	7,039	300	0.2 %	2
Vauxhall	3,968	209	0.1 %	—
Smart	2,246	162	0.1 %	5
Volvo	1,161	25	— %	—
Total	\$ 6,181,371	170,517	100.0 %	238

Our diversity by manufacturer, based on new vehicle unit sales for the years ended December 31, 2018, 2017, and 2016, is set forth below:

	For the Years Ended December 31,					
	2018	% of Total	2017	% of Total	2016	% of Total
Toyota/Lexus	43,032	25.2 %	43,557	25.3 %	42,922	24.9 %
Volkswagen/Audi/Porsche/SEAT/SKODA	22,905	13.4	23,686	13.8	20,219	11.8
BMW/MINI	20,534	12.0	21,903	12.7	23,305	13.5
Ford/Lincoln	18,558	10.9	19,733	11.5	18,925	11.0
Honda/Acura	16,469	9.7	15,882	9.2	17,031	9.9
Nissan	11,085	6.5	12,729	7.4	12,256	7.1
Chevrolet/GMC/Buick/Cadillac	10,343	6.1	10,713	6.2	12,811	7.4
Mercedes-Benz/Smart/Sprinter	8,247	4.8	6,809	4.0	7,349	4.3
Chrysler/Dodge/Jeep/RAM	6,766	4.0	6,692	3.9	6,801	4.0
Hyundai/Kia	6,586	3.9	6,799	3.9	7,256	4.2
Jaguar/Land Rover	3,149	1.9	1,692	0.9	798	0.5
Other	2,843	1.6	2,005	1.2	2,380	1.4
Total	170,517	100.0 %	172,200	100.0 %	172,053	100.0 %

Our new vehicle unit sales mix was affected by, among other things, our acquisitions and dispositions during 2018, 2017 and 2016.

Some new vehicles we sell are purchased by customers under lease or lease-type financing arrangements with third-party lenders. New vehicle leases generally have shorter terms, bringing the customer back to the vehicle market, and our dealerships specifically, sooner than if the vehicle purchase was debt financed. In addition, lease or lease-type customer financing arrangements provide our dealerships with a steady supply of late-model, off-lease vehicles to be sold as used vehicles. Generally, leased vehicles remain under factory warranty, allowing the opportunity for our dealerships to provide maintenance and repair services for the contract term. However, the penetration rate for other finance and insurance product sales on leases and lease-type customer financing arrangements tends to be less than in other financing arrangements (such as debt financed vehicles). We do not guarantee residual values on lease transactions. Lease vehicle unit sales represented 14.6%, 14.6% and 16.7% of our total new vehicle retail unit sales for the years ended December 31, 2018, 2017 and 2016, respectively.

#### Used Vehicle Sales, Retail and Wholesale

We sell used vehicles at each of our franchised dealerships. In 2018, we sold 147,999 used vehicles at our dealerships, and sold 53,887 used vehicles in wholesale markets. Our retail sales of used vehicles accounted for 10.9% of our gross profit in 2018. Used vehicles sold at retail typically generate higher gross margins on a percentage basis than new vehicles primarily because of their relatively limited comparability, which is dependent on a vehicle's age, mileage and condition, among other things.

Valuations of used vehicles vary based on supply and demand factors, the level of new vehicle incentives, and the availability of retail financing and general economic conditions. Profit from the sale of used vehicles depends primarily on a dealership's ability to obtain a high-quality supply of used vehicles at reasonable prices and to effectively manage that inventory. Our new vehicle operations generally provide our used vehicle operations with a large supply of high-quality trade-ins and off-lease vehicles, and are the best source of high-quality used vehicles. Our dealerships supplement their used vehicle inventory with purchases at auctions, including manufacturer-sponsored auctions available only to franchised dealers. We continue to utilize used vehicle management software tools with the goal to enhance the management of used vehicle inventory, focusing on the more profitable retail used vehicle business and reducing our wholesale used vehicle business. This internet-based software tool is an integral part of our used vehicle process, enabling our managers to make used vehicle inventory decisions based on real time market valuation data. It also allows us to leverage our size and local market presence by expanding the pool from which used vehicles can be sold within a given market or region within the U.S., effectively broadening the demand for our used vehicle inventory. Further, this software supports increased oversight of our assets in inventory, allowing us to better

control our exposure to declines in used vehicle market valuations, the values of which typically decrease over time. In addition to active management of the quality and age of our used vehicle inventory, we are focused on increasing the total lifecycle profitability of our used vehicle operations by participating in manufacturer certification programs where

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available. Manufacturer certified pre-owned (“CPO”) vehicles offer customers the opportunity to purchase a used vehicle that has passed a rigorous array of manufacturer-defined tests, and are eligible for manufacturer support, such as subsidized finance rates, the extension of manufacturer’s service warranty and other benefits. With the extended service warranty, the sale of CPO vehicles tends to generate better ongoing customer loyalty for maintenance and repair services at the selling dealership. CPO vehicles typically cost more to recondition, but sell at a premium compared to other used vehicles and are available only from franchised new vehicle dealerships. Our CPO vehicle sales represented 40.2% of total used retail sales in 2018.

In the first quarter of 2018 in the U.S., we launched a new sales program called “Val-U-Line®,” a strategic used vehicle initiative that targets a growing customer niche and enables the Company to retail lower cost, higher mileage units that would have otherwise been sent to the auction. Val-U-Line® leverages our operational discipline and existing assets to create standardized used vehicle policies, merchandising, and pricing options. Given our scale, internal on-line buying center, revamped internal auction capability, and new transportation infrastructure, the Val-U-Line® segment has provided incremental retail volume and represents approximately 10.3% of our U.S. retail used car business. As part of this initiative, the Company has revamped its compensation structure for used vehicle commissions, and has added a used car director and functional support team at the corporate level. We continue to believe that concentrating on the sale of used vehicles at our existing dealerships and utilizing state-of-the-art on-line digital marketing methods to enhance the sale of used cars is a better capital investment as opposed to the costs associated with opening free-standing used car facilities unrelated to a new car dealership location.

#### Parts and Service Sales

We sell replacement parts and provide both warranty and non-warranty (i.e., customer-pay) maintenance and repair services at each of our franchised dealerships, as well as provide collision repair services at the 47 collision centers that we operate. We also sell parts to wholesale customers. Our parts and service business accounted for 44.0% of our gross profit in 2018. Customer-pay maintenance and repair services, warranty maintenance and repair services, wholesale parts sales and collision repair services accounted for 45.6%, 20.7%, 20.6% and 13.1%, respectively, of the revenues from our parts and service business in 2018. Our parts and service departments also perform used vehicle reconditioning and new vehicle enhancement services in support of our new and used retail vehicle operations for which they realize a profit. However, the revenue for that internal work is eliminated from our parts and service revenue in the consolidation of our financial statements.

The automotive maintenance and repair industry is highly fragmented, with a significant number of independent maintenance and repair facilities in addition to those of the franchised dealerships. We believe, however, that the increasing complexity of new vehicles, especially in the area of electronics and technological advancements, is making it difficult for many independent repair shops to retain the expertise necessary to perform major or technical repairs. We have made investments in recruiting, training, and retaining qualified technicians and advisors to work in our service and repair facilities. And, we have made investments in state of the art diagnostic and repair equipment to be utilized by these technicians.

Vehicle manufacturers only permit warranty and recall work to be performed at franchised dealerships. Currently, a trend exists in the automobile industry towards longer new vehicle warranty periods and more diligence with manufacturer recalls. As a result, we believe that over time an increasing percentage of all repair work will be performed at franchised dealerships that have the sophisticated equipment and skilled personnel necessary to perform repairs and warranty work on today’s complex vehicles.

Our strategy to capture an increasing share of the available parts and service business and enhance profitability includes the following elements:

**Invest in the Recruiting, Training and Retaining of Qualified Service Professionals.** We are developing and implementing programs designed to more effectively identify and recruit service professionals, onboard and train these service professionals and improve our retention of these service professionals. We believe such efforts will improve customer satisfaction, reduce costs and allow us to grow our parts and service business.

**Focus on Customer Relationships; Emphasize Preventative Maintenance.** Our dealerships seek to retain customers of our new and used vehicles as ongoing clients of our parts and service departments. To accomplish this goal, we use computer systems that track the vehicle owners’ maintenance records and provide advance notice to them when their

vehicles are due for periodic service. Our use of computer-based customer relationship management tools increases the reach and effectiveness of our marketing efforts, allowing us to target our promotional offerings to areas in which service capacity is under-utilized or profit margins are greatest. We continue to train our service professionals to establish relationships with their service clients to promote a long-term business relationship. And, we are focused on enhancing access to our service facilities by providing patrons with readily-accessible means to schedule service appointments. We believe our parts and service activities are an integral part of the customer service experience, allowing us to maintain ongoing relationships with our dealerships' clients and, thereby, deepening customer loyalty to the dealership as a whole.

**Sell Vehicle Service Contracts in Conjunction with Vehicle Sales.** Our finance and insurance sales departments attempt to connect new and used vehicle customers with vehicle service contracts, and thereby enhance repeat customer business for our parts and service departments.

**Efficient Management of Parts Inventory.** Our dealerships' parts departments support their vehicle sales and service departments, selling factory-approved parts for the respective vehicle makes and models. Parts are either used in repairs made in the service department, sold at retail to customers, or sold at wholesale to independent repair shops and other franchised dealerships. Our dealerships also frequently share parts with each other. Our dealerships employ parts managers who oversee parts inventories and sales. Software programs are used to monitor parts inventory, maximize sales, avoid obsolete and unused parts, and make the best use of manufacturer return procedures.

**Expansion of Collision Center Operations.** We plan to continue to grow our collision center operations. Expansion in this segment of the business is not restricted by franchise agreements or manufacturer relationships. We believe that our concentration of dealership operations in certain of the markets in which we currently operate significantly enhances the profit model opportunities for our collision center operations.

#### Finance and Insurance Sales

Revenues from our finance and insurance operations consist primarily of fees for arranging financing and selling vehicle service and insurance contracts in connection with the retail purchase of a new or used vehicle. Our finance and insurance business accounted for 27.1% of our gross profit in 2018. We offer a wide variety of third-party finance, vehicle service and insurance products in a convenient manner and at competitive prices. To increase transparency to our customers, we offer all of our products on menus that display pricing and other information, allowing customers to choose the products that suit their needs.

**Financing.** We arrange third-party purchase and lease financing for our customers. In return, we receive a fee from the third-party finance company upon completion of the financing. These third-party finance companies include manufacturers' captive finance subsidiaries, selected commercial banks and a variety of other third-parties, including credit unions and regional auto finance companies. Generally, we do not retain substantial credit risk after a customer has received financing. The fees we receive from the third-party finance companies are subject to chargeback, or repayment, to the finance company in full or in part, if a customer defaults or prepays the financing contract, typically during some limited time period at the beginning of the contract term. We have negotiated incentive programs with some finance companies pursuant to which we receive additional fees upon reaching a certain volume of business.

**Extended Warranty, Vehicle Service and Insurance Products.** We offer our customers a variety of vehicle warranty and extended protection products in connection with purchases of new and used vehicles, including:

• extended warranties;

• maintenance, or vehicle service, products and programs;

• guaranteed asset protection insurance, which covers the shortfall between a customer's contract balance and insurance payoff in the event of a total vehicle loss; and

• lease "wear and tear" insurance.

The products our dealerships offer are generally underwritten and administered by independent third parties, including the vehicle manufacturers' captive finance subsidiaries. Under our arrangements with the providers of these products, we either sell these products on a straight commission basis, or we sell the product, recognize commission and participate in future underwriting profit, if any, pursuant to a retrospective commission arrangement. We do not retain the risk of loss for claims made under these contracts. However, the commissions that we earn may be subject to chargeback, in full or in part, if the contract is terminated prior to its scheduled maturity.

Our strategy to improve the customer experience and enhance profitability of our finance and insurance operations includes the following elements:

Continue to enhance our product offerings. We are constantly evaluating the mix of insurance products that we offer our customers to ensure that their needs are met. In addition, we regularly work with our current and prospective insurance product providers to assess new product offerings and match them with changing markets and customer demand. Further, we routinely consider our relationships with finance company and insurance product providers, as well as our marketing and other strategies to expand the accessibility and affordability of our product offerings to more of our clients.

Improve our processes within the dealership. We routinely consider software and other technological improvements that can make the process by which a customer finances a vehicle purchase and/or purchases an insurance product

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more efficient. Further, we maintain a focus on compliance with our standard policies and procedures, as well as applicable laws and regulations, in order to optimize the customer experience and overall profitability of each transaction.

#### New and Used Vehicle Inventory Financing

See Note 12, "Credit Facilities" within our Notes to Consolidated Financial Statements, for a detailed description of our new and used vehicle inventory financing arrangements.

#### Acquisition and Divestiture Program

We pursue an acquisition and divestiture program focused on delivering an attractive return on investment.

**Acquisition Strategy.** We seek to acquire large, profitable, well-established dealerships and franchises that are leaders in their markets to:

- enhance brand and geographic diversity with primary focus on import and luxury brands;
  - expand into geographic areas we currently do not serve;
  - expand our brand, product, and service offerings in our existing markets;
- and/or

capitalize on economies of scale and cost savings opportunities in our existing markets in areas such as used vehicle sourcing, advertising, purchasing, data processing, personnel utilization, and the cost of floorplan financing, thereby, increasing operating efficiency.

We typically pursue dealerships with superior operational management, whom we seek to retain. By retaining existing personnel who have experience and in-depth knowledge of their local market, we believe that we can mitigate the risks involved with employing and training new and untested personnel. In addition, our acquisition strategy targets the purchase of the related real estate to provide maximum operating flexibility.

We focus on the acquisition of dealerships or groups of dealerships that we believe offer opportunities for higher returns, and particularly on brands which provide growth opportunities for our parts and service operations and strengthen our operations in geographic regions in which we currently operate with attractive long-term economic prospects.

**Recent Acquisitions.** In 2018, we acquired 5 dealerships in the U.K., inclusive of 8 franchises, added one franchise and opened one additional dealership for one awarded franchise. The Company also acquired four dealerships in the U.S., inclusive of four franchises and opened one additional dealership, representing one additional franchise. In addition, the Company acquired one dealership in Brazil, inclusive of one franchise, and opened one dealership, inclusive of one franchise. The expected aggregate annualized revenues, estimated at the time of acquisition, for these acquisitions, were \$615.0 million.

**Divestiture Strategy.** We continually review the investments in our dealership portfolio for disposition opportunities, based upon a number of criteria, including:

- the rate of return on our capital investment over a period of time;
- location of the dealership in relation to existing markets and our ability to leverage our cost structure;
- potential future capital investment requirements;
- the brand; and
- existing real estate obligations, coupled with our ability to exit those obligations or identify an alternate use for real estate.

While it is our desire to only acquire profitable, well-established dealerships, we have, at times, acquired dealerships that do not fit our acquisition strategy in connection with the acquisition of a larger dealership group. We acquire such dealerships with the understanding that we may need to divest some or all of them at some future time. The costs associated with such potential divestitures are included in our analysis of whether we acquire all dealerships in the same acquisition. Additionally, we may acquire a dealership whose profitability is marginal, but which we believe can be increased through various factors, such as: (a) change in management, (b) expansion or improvement in facility operations, (c) relocation of facility based on demographic changes, (d) reduction in costs, and/or (e) sales training. If, after a period of time, a dealership's profitability does not positively respond, we will seek to sell the dealership to a third party, or, in a rare case, surrender the franchise back to the manufacturer. In conjunction with the disposition of certain of our dealerships, we may also dispose of the associated real estate. Management constantly monitors the



performance of all of our dealerships, and routinely assesses the need for divestiture. In connection with divestitures, we are sometimes required to incur additional charges associated with lease

terminations or the impairment of long-lived and/or intangible, indefinite-lived assets. We continue to rationalize our dealership portfolio and focus on increasing the overall profitability of our operations.

Recent Dispositions. During 2018, we disposed of two dealerships in the U.S., representing three franchises, terminated one additional franchise in the U.S., disposed of one dealership in the U.K., representing one franchise, and terminated one additional franchise in the U.K. These dispositions represented aggregate annual revenues of approximately \$195.0 million.

#### Competition

We operate in a highly competitive industry. In each of our markets, consumers have a number of choices when deciding where to purchase a new or used vehicle and how the purchase will be financed. Consumers also have options for the purchase of related parts and accessories, as well as the maintenance and repair of vehicles. In the U.S., according to the National Automobile Dealers Association, there were approximately 16,802 franchised automobile dealerships as of January 1, 2018, which was up from 16,708 as of January 1, 2017. In the U.K., according to the National Franchised Dealers Association, there were approximately 4,240 franchised dealerships as of January 1, 2018, which was up from 4,184 as of January 1, 2017. In Brazil, according to The National Association of Automobile Manufacturers, there were approximately 4,287 franchised automobile dealerships as of January 1, 2018, which was down from 4,393 as of January 1, 2017.

Our competitive success depends, in part, on national and regional automobile-buying trends, local and regional economic factors, and other regional competitive pressures. Conditions and competitive pressures affecting the markets in which we operate, or in any new markets we enter, could adversely affect us, although the retail automobile industry as a whole might not be affected. Some of our competitors may have greater financial, marketing and personnel resources, and lower overhead and sales costs than we do. We cannot guarantee that our operating performance and our acquisition or disposition strategies will be more effective than the strategies of our competitors. New and Used Vehicles. We believe the principal competitive factors in the automotive retailing business are location, suitability of the facility, on-site management, the acceptance of a franchise to the market in which it is located, concentration of same franchises in the surrounding markets, service, price, and selection. In the new vehicle market, our dealerships compete with other franchised dealerships in their market areas, as well as auto brokers, leasing companies, and internet companies that provide referrals to, or broker vehicle sales with, other dealerships or customers. We are subject to competition from dealers that sell the same brands of new vehicles that we sell and from dealers that sell other brands of new vehicles that we do not sell in a particular market. Our new vehicle dealer competitors also have franchise agreements with the various vehicle manufacturers and, as such, generally have access to new vehicles on the same terms as we do. We do not have any cost advantage in purchasing new vehicles from vehicle manufacturers, and our franchise agreements do not grant us the exclusive right to sell a manufacturer's product within a given geographic area.

In the used vehicle market, our dealerships compete both in their local market and nationally, including over the internet, with other franchised dealers, large multi-location used vehicle retailers, local independent used vehicle dealers, automobile rental agencies, and private parties for the supply and resale of used vehicles.

Parts, Service and Collision Businesses. We believe the principal competitive factors in the parts and service business are the quality of customer service, the use of factory-approved replacement parts, familiarity with a manufacturer's brands and models, accessibility and convenience for potential customers, access to and use of technology required for certain repairs and services (e.g., software patches, diagnostic equipment, etc.), location, price, the competence of technicians, and the availability of training programs to enhance such expertise. In the parts and service market, our dealerships compete with other franchised dealers to perform warranty maintenance and repairs, conduct manufacturer recall services and sell factory replacement parts. Our dealerships also compete with other automobile dealers, franchised and independent service center chains, and independent repair shops for non-warranty repair and maintenance business. In addition, our dealerships sell replacement and aftermarket parts both locally and nationally over the internet in competition with franchised and independent retail and wholesale parts outlets. A number of regional or national chains offer selected parts and services at prices that may be lower than ours. Our collision centers compete with other large, multi-location companies, as well as local, independent, collision service operations.

Finance and Insurance. We believe the principal competitive factors in the finance and insurance business are convenience, interest rates, product availability and affordability, product knowledge and flexibility in contract length. We face competition in arranging financing for our customers' vehicle purchases from a broad range of financial institutions. Many financial institutions now offer finance and insurance products over the internet, which may reduce our profits from the sale of these products.

Acquisitions. We compete with other national dealer groups and individual investors for acquisitions. Increased competition, especially for certain luxury and import brands, may raise the cost of acquisitions. In the future, we cannot guarantee that there will be opportunities to complete acquisitions, nor are we able to guarantee that we will be able to complete acquisitions on terms acceptable to us.

### Relationships and Agreements with our Manufacturers

Each of our U.S. dealerships operates under one or more franchise agreements with vehicle manufacturers (or authorized distributors). The franchise agreements grant the franchised automobile dealership a non-exclusive right to sell the manufacturer's or distributor's brand of vehicles and offer related parts and service within a specified market area. These franchise agreements also grant franchised dealerships the right to use the manufacturer's or distributor's trademarks in connection with their operations, and impose numerous operational requirements and restrictions relating to, among other things:

- inventory levels;
- working capital levels;
- the sales process;
- minimum sales performance requirements;
- customer satisfaction standards;
- marketing and branding;
- facility standards and signage;
- personnel;
- changes in management;
- change in control; and
- monthly financial reporting.

Our dealerships' franchise agreements are for various terms, ranging from one year to indefinite. Each of our franchise agreements may be terminated or not renewed by the manufacturer for a variety of reasons, including unapproved changes of ownership or management and performance deficiencies in such areas as sales volume, sales effectiveness, and customer satisfaction. In most cases, manufacturers have renewed the franchises upon expiration so long as the dealership is in compliance with the terms of the agreement. From time to time, certain manufacturers may assert sales and customer satisfaction performance requirements under the terms of our framework or franchise agreements. We work with these manufacturers to address any performance issues. Failure to meet such requirements could limit our ability to acquire future dealerships of such manufacturers.

In general, the U.S. jurisdictions in which we operate have automotive dealership franchise laws, providing that, notwithstanding the terms of any franchise agreement, it is unlawful for a manufacturer to terminate or not renew a franchise unless "good cause" exists. It generally is difficult for a manufacturer to terminate, or not renew, a franchise under these laws, which were designed to protect dealers. Though unsuccessful to date, manufacturers' lobbying efforts may lead to the repeal or revision of dealer laws. If dealer laws are repealed in the states in which we operate in the U.S., manufacturers may be able to terminate our franchises without providing advance notice, an opportunity to cure or showing of good cause. Without the protection of dealer laws, it may also be more difficult for our dealers to renew their franchise agreements upon expiration. Further, U.S. federal law, including any federal bankruptcy law, may preempt U.S. state law and allow manufacturers greater freedom to terminate or not renew franchises.

The U.K. generally does not have automotive dealership franchise laws and, as a result, our U.K. dealerships operate without these types of specific protections. However, similar protections may be available as a matter of general U.K. contractual law. In addition, our U.K. dealerships are subject to European Union ("EU") and U.K. antitrust rules prohibiting certain restrictions on the sale of new vehicles and spare parts and on the provision of repairs and maintenance across the EU. For example, authorized dealers are generally able to, subject to manufacturer facility requirements, relocate or add additional facilities throughout the EU, offer multiple brands in the same facility, allow the operation of service facilities independent of new car sales facilities and ease restrictions on cross supplies (including on transfers of dealerships) between existing authorized dealers within the EU. However, certain restrictions on dealerships may be permissible, provided the conditions set out in the relevant EU Block Exemption Regulations are met. On June 23, 2016, the British citizens voted on a referendum in favor of exiting the EU (commonly referred to as "Brexit"). Currently, representatives of both the U.K. and the EU are negotiating an agreement to set both the terms and conditions for the U.K.'s departure from the EU. Any such agreement must be approved by the British Parliament. To date, the British Parliament has not approved an agreement for the U.K. to exit from the EU. The inability of the U.K. and EU to reach such agreement, has created uncertainty in the regulatory environment

in the U.K. There has been no clear indication of how and when Brexit will occur or how it will ultimately impact our business operations.

The sale of vehicles in Brazil is regulated by federal law, commonly referred to in Brazil as the Ferrari Law. Such law sets forth the terms and conditions of distribution agreements executed among manufacturers and dealerships, specifically with regard to the distribution of cars, trucks, buses, tractors, motorbikes and similar vehicles. In addition, the Ferrari Law establishes the geographical area of a dealership, termination of distribution agreements and their consequences, among other things. Any contractual provision that conflicts with the Ferrari Law is considered void in Brazil. The distribution agreements contemplate the commercialization of vehicles and components fabricated by the manufacturer, the rendering of technical assistance relating to such products and the usage by the dealerships of the manufacturers' brand. According to the Ferrari Law, distribution agreements may be executed for either a determined or an undetermined term. In the case of a distribution agreement executed for a determined term, its initial term may not be less than 5 years. At the end of this initial 5 year term, such distribution agreement will be automatically converted into an undetermined term distribution agreement, unless any of the parties thereto expressly waives such right with 180 days prior notice. In the case of an early termination of a distribution agreement other than as a result of a persistent breach or force majeure, the Ferrari law entitles the non-breaching party to, among other things, certain termination payments.

The U.S. economic recession, that began in 2008, caused domestic manufacturers to critically evaluate their respective dealer networks and terminate certain brands, and, as a result, the respective franchises. For example, General Motors chose to discontinue the Pontiac brand and, as a result, both of our Pontiac franchises were terminated. In addition, Ford chose to discontinue the Mercury brand and, as a result, all four of our Mercury franchises were terminated. In each of these cases, state law required the manufacturer to repurchase new car inventory, parts and accessories, and certain tools and signage, but the dealership would still incur costs associated with such termination. Subject to similar future economic factors and material changes to the regulations discussed above, we generally expect our franchise agreements to survive for the foreseeable future and, when the agreements do not have indefinite terms, anticipate routine renewals of the agreements without substantial cost or modification.

Our dealership service departments perform vehicle repairs and service for customers under manufacturer warranties. We are reimbursed for the repairs and service directly from the manufacturer. Some manufacturers offer rebates to new vehicle customers that we are required, under specific program rules, to adequately document, support, and typically collect. In addition, some manufacturers provide us with incentives to order and/or sell certain models and/or volumes of inventory over designated periods of time. Under the terms of our dealership franchise agreements, the respective manufacturers are able to perform warranty, incentive, and rebate audits and charge us back for unsupported or non-qualifying warranty repairs, rebates or incentives.

In addition to the individual dealership franchise agreements discussed above, we have entered into framework agreements in the U.S. with most major vehicle manufacturers and distributors. These agreements impose a number of restrictions on our operations, including our ability to make acquisitions and obtain financing, and on our management. These agreements also impose change of control provisions related to the ownership of our common stock. For a discussion of these restrictions and the risks related to our relationships with vehicle manufacturers, please read "Item 1A. Risk Factors."

The following table sets forth the percentage of our new vehicle retail unit sales attributable to our top five manufacturers in terms of percent of new vehicle retail units sold:

Manufacturer Percentage of New Vehicle Retail Units Sold during the Year Ended December 31, 2018

Toyota	25.2%
Volkswagen	13.4%
BMW	12.0%
Ford	10.9%
Honda	9.7%

#### Governmental Regulations

##### Automotive and Other Laws and Regulations

We operate in a highly regulated industry. A number of U.S. state and federal laws and regulations affect our business and the business of our manufacturers. Similar laws and regulations affect our business operations in the U.K. and Brazil, including EU Block Exemption Regulations in the U.K. and the Ferrari Law in Brazil. In every state in which

we operate in the U.S., we must obtain various licenses in order to conduct our businesses, including dealer sales, finance and insurance licenses issued by state regulatory authorities. Numerous laws and regulations govern our conduct of business, including those relating to our sales, operations, financing, insurance, advertising and employment practices. These laws and regulations include franchise

laws and regulations, consumer protection laws, and other extensive laws and regulations applicable to new and used motor vehicle dealers, as well as a variety of other laws and regulations. These laws also include U.S. federal and state wage-hour, anti-discrimination and other employment practices laws.

Our financing activities with customers are subject to U.S. federal truth-in-lending, consumer leasing, and equal credit opportunity laws and regulations, as well as state and local motor vehicle finance laws, installment finance laws, usury laws, and other installment sales laws and regulations. Some states in the U.S. regulate finance fees and charges that may be paid as a result of vehicle sales. Claims arising out of actual or alleged violations of law may be asserted against us, or our dealerships, by individuals or governmental entities and may expose us to significant damages or other penalties, including revocation or suspension of our licenses to conduct dealership operations and fines.

Our U.S. operations are subject to the National Traffic and Motor Vehicle Safety Act, Federal Motor Vehicle Safety Standards promulgated by the United States Department of Transportation and the rules and regulations of various state motor vehicle regulatory agencies. The imported automobiles that we purchase in the U.S. are subject to U.S. customs duties, and in the ordinary course of our business, we may, from time to time, be subject to claims for duties, penalties, liquidated damages or other charges.

Our U.S. operations are subject to consumer protection laws known as Lemon Laws. These laws typically require a manufacturer or dealer to replace a new vehicle or accept it for a full refund within one year after initial purchase, if the vehicle does not conform to the manufacturer's express warranties and the dealer or manufacturer, after a reasonable number of attempts, is unable to correct or repair the defect. U.S. federal laws require various written disclosures to be provided on new vehicles, including mileage and pricing information. We are aware that several states in the U.S. are considering enacting consumer "bill-of-rights" statutes to provide further protection to the consumer which could affect our profitability in such states.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") established the Consumer Financial Protection Bureau (the "CFPB") with broad regulatory powers. Although automotive dealers are generally excluded from the CFPB's regulatory authority, we are required to comply with regulations applicable to privacy notices, and the CFPB acted to regulate automotive financing activities through its regulation of automotive finance companies and other financial institutions that service the automotive industry. Refer to "We are subject to substantial regulations, which may adversely affect our business and results of operations" of Item 1A. Risk Factors for further discussion of the Dodd-Frank Act and its potential impact on us.

#### Environmental and Occupational Health and Safety Laws and Regulations

Our operations in the United States as well as the United Kingdom and Brazil involve the use, handling and storage of materials such as motor oil and filters, transmission fluids, antifreeze, refrigerants, paints, thinners, batteries, cleaning products, lubricants, degreasing agents, tires, and fuel. We contract for recycling and/or disposal of used fluids, filters and other waste materials generated by our operations. In the United States, our business is subject to numerous laws and regulations governing management and disposal of materials and wastes, protection of the environment and occupational health and safety. These laws and regulations affect many aspects of our operations, such as requiring the acquisition of permits or other governmental approvals to conduct regulated activities, restricting the manner in which we handle, recycle and dispose of our wastes, requiring capital and operating expenditures to construct, maintain and upgrade pollution control and containment equipment and facilities, imposing specific health and safety criteria addressing worker protection, and imposing substantial liabilities for pollution caused by our operations or attributable to former operations. Failure to comply with these laws and regulations may result in the assessment of sanctions, including administrative, civil and criminal penalties, imposition of investigatory, remedial and corrective action obligations or incurrence of capital expenditures, restrictions, delays or cancellations in permitting or in the performance of projects, and issuance of injunctions delaying, restricting or prohibiting some or all of our operations in affected areas. We may not be able to recover some or any of these costs from insurance.

Most of our dealerships utilize above-ground storage tanks, primarily for storing and dispensing petroleum-based products, and above-ground lifts used to raise vehicles. To a lesser extent, our dealerships use underground storage tanks and in-ground lifts. Storage tanks in the United States are subject to testing, containment, upgrading and removal requirements under the federal Resource Conservation and Recovery Act, or RCRA, and its state law counterparts. Similarly, below ground lifts may contain fluid reservoirs that may leak. RCRA imposes requirements



relating to the handling and disposal of hazardous and non-hazardous wastes and requires us to comply with stringent and costly requirements in connection with our storage and recycling or disposal of the various used fluids, paints, batteries, tires, and fuels generated by our operations. Clean-up or other remedial action may be necessary in the event of leaks or other unauthorized discharges from storage tanks or other equipment operated by us. In addition, water quality protection programs under the Federal Water Pollution Control Act (commonly known as the Clean Water Act) and comparable state and local programs in the United States govern certain wastewater and storm water discharges from our operations, which discharges may require permitting. Similarly, certain sources of air emissions from our operations including, for example, paint booths, may be subject to permitting, monitoring and reporting

requirements, pursuant to the federal Clean Air Act and related state and local laws. Certain health and safety standards imposed under the federal Occupational Safety and Health Act or otherwise promulgated by the Occupational Safety and Health Administration of the U.S. Department of Labor and related state agencies are also applicable to protection of the health and safety of our employees.

We generally conduct environmental studies on dealerships to be acquired regardless of whether we are leasing or acquiring the underlying real property, and as necessary, implement environmental management practices or remedial or corrective actions to reduce the risk of noncompliance with environmental laws and regulations. We currently own or lease, and in connection with our acquisition program anticipate in the future owning or leasing, properties that in some instances have been used for auto retailing and servicing for many years. Laws regarding the prevention of pollution or remediation of environmental contamination generally apply regardless of whether we lease or purchase the land and facilities. Although we, or our predecessors, may have utilized operating and disposal practices that were standard in the industry at the time, a risk exists that petroleum products and wastes such as new and used motor oil, transmission fluids, antifreeze, lubricants, solvents and motor fuels could have been spilled or released on, under or from the properties owned or leased by us or on, or under or from other locations where such materials were taken for recycling or disposal. Further, we believe that structures found on some of these properties may contain asbestos-containing materials, although in an undisturbed condition that requires management in place but does not require removal or other corrective action under applicable regulations. In addition, many of these properties have been operated by third parties whose use, handling and disposal of such petroleum products or wastes were not under our control. In the United States, these properties and the materials transported and disposed from, or released on, them may be subject to the federal Comprehensive Environmental Response, Compensation, and Liability Act (“CERCLA,” also known as the Superfund law), RCRA and analogous state laws in the U.S., pursuant to which we could be required to remove or remediate previously disposed wastes or property contamination or to perform remedial activities to prevent future contamination.

Vehicle manufacturers in the United States are subject to regulations adopted in 2012 by the U.S. Environmental Protection Agency (“EPA”) and the National Highway Traffic Safety Administration (“NHTSA”) that establish greenhouse gas (“GHG”) emissions and corporate average fuel economy (“CAFE”) standards applicable to light-duty vehicles for model years 2017 through 2021. In August 2018, the Department of Transportation (“DOT”) and EPA under the Trump administration proposed the Safer Affordable Fuel-Efficient (“SAFE”) Vehicles Rule. SAFE, if enacted into law, would amend existing CAFE and tailpipe carbon dioxide emissions standards for passenger cars and light-duty trucks and establish new standards covering model years 2021 through 2026. The proposal would retain the model year 2020 standards for both programs through model year 2026.

Legal controls similar to those used in the United States and relating to the management and disposal of materials and wastes, as well as protection of the environment exist in the United Kingdom and Brazil, where we also conduct operations. These legal controls as implemented and enforced in the United Kingdom and Brazil also affect many aspects of our operations in those countries. For example, with regards to the Paris Agreement, the United Kingdom and Brazil each signed that agreement in April 2016. We may incur significant capital expenditures, operational costs and risks of liability and sanction as we seek to comply with those foreign-country environmental legal requirements. In 2018, our supply of some brands of new vehicles in the U.K. experienced significant shortages caused by the introduction of the new Worldwide Harmonised Light Vehicle Test Procedure (“WLTP”) legislation. The WLTP is a global harmonized standard for determining the levels of pollutants and CO<sub>2</sub> emissions, fuel or energy consumption, and electric range from light-duty vehicles (passenger cars and light commercial vans). The tests have been developed by the United Nations Economic Commission for Europe (“UN-ECE”) Working Party on Pollution and Energy (“GRPE”). The WLTP replaces the New European Driving Cycle (“NEDC”) procedure for type approval testing of light-duty vehicles.

For further discussion, please see “Item 1A. Risk Factors”.

#### U.S. Federal Tax Laws

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). 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 percent to 21 percent, creating a territorial tax

system that generally eliminates U.S. federal income taxes on dividends from foreign subsidiaries, and requiring companies to pay a one-time transition tax on unrepatriated earnings of their foreign subsidiaries.

For further discussion, please see Note 8, "Income Taxes" within our Notes to Consolidated Financial Statements.

#### Insurance and Bonding

Our operations expose us to the risk of various liabilities, including:

claims by employees, customers or other third parties for personal injury or property damage resulting from our operations;  
weather events, such as hail, tornadoes and hurricanes; and  
potential fines and civil and criminal penalties resulting from alleged violations of federal and state laws or regulatory requirements.

The automotive retailing business is also subject to substantial risk of real and personal property loss as a result of the significant concentration of real and personal property values at dealership locations. Under self-insurance programs, we retain various levels of risk associated with aggregate loss limits, per claim deductibles and claims handling expenses, including property and casualty, automobile physical damage, and employee medical benefits. In certain cases, we insure costs in excess of our retained risk under various contracts with third-party insurance carriers. Risk retention levels may change in the future as a result of changes in the insurance market or other factors affecting the economics of our insurance programs. Although we believe our insurance coverage is adequate, we cannot assure that we will not be exposed to uninsured losses that could have a material adverse effect on our business, results of operations and financial condition.

We make provisions for retained losses and deductibles by reflecting charges to expense based upon periodic evaluations of the estimated ultimate liabilities on reported and unreported claims. Actuarial estimates for the portion of claims not covered by insurance are based on historical claims experience, adjusted for current trends and changes in claims-handling procedures. The insurance companies that underwrite our insurance require that we secure certain of our obligations for self-insured exposures with collateral. Our collateral requirements are set by the insurance companies and, to date, have been satisfied by posting surety bonds, letters of credit and/or cash deposits. Our collateral requirements may change from time to time based on, among other things, our total insured exposure and the related self-insured retention assumed under the policies. We are subject to potential premium cost fluctuations with the annual renewal of these programs.

#### Employees

We believe our relationship with our employees is favorable. As of December 31, 2018, we employed 14,570 (full-time, part-time and temporary) people in the U.S., U.K. and Brazil, of whom:

- 1,796 were employed in managerial positions;
- 3,658 were employed in non-managerial vehicle sales department positions;
- 6,848 were employed in non-managerial parts and service department positions; and
- 2,268 were employed in administrative support positions.

In Brazil, all employees are represented by a local union.

Because of our dependence on vehicle manufacturers, we may be affected by labor strikes, work slowdowns and walkouts at vehicle manufacturing facilities and/or their suppliers. Additionally, labor strikes, work slowdowns and walkouts at businesses participating in the distribution of manufacturers' products may also affect us.

For further discussion, please read "Item 1A. Risk Factors."

#### Seasonality

We generally experience higher volumes of vehicle sales and service in the second and third calendar quarters of each year in the U.S., in the first and third quarters in the U.K. and during the third and fourth quarters in Brazil. This seasonality is generally attributable to consumer buying trends and the timing of manufacturer new vehicle model introductions. The first quarter is generally the weakest in Brazil, driven by heavy consumer vacations and activities associated with Carnival. In addition, in some regions of the U.S., vehicle purchases decline during the winter months due to inclement weather. For the U.K., the first and third calendar quarters tend to be stronger, driven by plate change months of March and September. As a result of all these factors, our consolidated revenues and operating income are typically lower in the first and fourth quarters and higher in the second and third quarters. Other factors unrelated to seasonality, such as changes in economic conditions, inventory availability, manufacturer incentive programs, severe weather events, changes in currency exchange rates or shifts in governmental taxes or regulations may exaggerate seasonal or cause counter-seasonal fluctuations in our revenues and operating income.

For further discussion, please read "Item 1A. Risk Factors".

Internet Website and Availability of Public Filings

Our internet address is [www.group1auto.com](http://www.group1auto.com). We make the following information available free of charge on our internet website:

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- Annual Report on Form 10-K;
- Quarterly Reports on Form 10-Q;
- Current Reports on Form 8-K;
- Amendments to the reports filed or furnished electronically with the Securities and Exchange Commission (“SEC”) pursuant to Section 13(a) or 15(d) of the Exchange Act;
- Our Corporate Governance Guidelines;
- The charters for our Audit, Compensation, Finance/Risk Management and Nominating/Governance Committees;
- Our Code of Conduct for Directors, Officers and Employees (“Code of Conduct”); and
- Our Code of Ethics for our Chief Executive Officer, Chief Financial Officer and Controller (“Code of Ethics”).

Within the time period required by the SEC and the NYSE, as applicable, we will post on our website any modifications to the Code of Conduct and Code of Ethics and any waivers applicable to senior officers as defined in the Code of Conduct or Code of Ethics, as applicable, as required by the Sarbanes-Oxley Act of 2002. We make our filings with the SEC available on our website as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the SEC. The SEC also maintains an internet website at <http://sec.gov> that contains reports, proxy and information statements, and other information regarding our company that we file and furnish electronically with the SEC.

#### Item 1A. Risk Factors

Demand for and pricing of our products and services is subject to economic conditions and other factors, which have had and, in the future, could have a material adverse effect on our business and results of operations.

The automotive retail industry, and especially new vehicle unit sales, is influenced by general economic conditions, particularly consumer confidence, the level of personal discretionary spending, interest rates, fuel prices, technology and business model changes, supply conditions, consumer transportation preferences, unemployment rates and credit availability. During economic downturns, retail new vehicle sales typically experience periods of decline characterized by oversupply and weak demand. In addition, periods of economic uncertainty, as well as volatility in consumer preference around fuel-efficient vehicles in response to volatile fuel prices, and concern about manufacturer viability, may adversely impact future consumer spending and result in a difficult business environment. Any tightening of the credit markets and credit conditions may decrease the availability of automotive loans and leases and adversely impact our new and used vehicle sales and margins. In particular, if sub-prime finance companies apply higher credit standards or if there is a decline in the overall availability of credit in the sub-prime lending market, the ability of consumers to purchase vehicles could be limited, which could have a material adverse effect on our business and results of operations.

Volatile fuel prices may also continue to affect consumer preferences in connection with the purchase of our vehicles. Rising fuel prices may make consumers less likely to purchase larger, more expensive vehicles, such as sports utility vehicles or luxury automobiles, and more likely to purchase smaller, less expensive and more fuel efficient vehicles. Conversely, lower fuel prices could have the opposite effect. Sudden changes in customer preferences make maintenance of an optimal mix of large and small vehicle inventory a challenge. Further increases or sharp declines in fuel prices could have a material adverse effect on our business and results of operations.

In addition, local economic, competitive and other conditions affect the performance of our dealerships. Our results of operations depend substantially on general economic conditions and spending habits in those regions of the U.S. where we maintain most of our operations. Since a large concentration of our new vehicle sales are in the states of Texas and Oklahoma for the year ended December 31, 2018 which are dependent upon the oil and gas industry, declines in commodity prices have had and future declines could have an adverse effect on our business and results of operations in those regions.

We are subject to a concentration of risk in the event of financial distress, merger, sale or bankruptcy, including potential liquidation of, or other adverse economic impacts on, certain major vehicle manufacturers.

Toyota, Nissan, Honda, Ford, BMW, Volkswagen, Hyundai, Daimler, FCA US (formerly Chrysler), Jaguar/Land Rover, and General Motors dealerships represented approximately 100.0% of our total new vehicle retail units sold in 2018. In particular, sales of Toyota/Lexus new vehicles represented 25.2% of our new vehicle unit sales in 2018. The

success of our dealerships is dependent on vehicle manufacturers in several key respects. First, we rely exclusively on the various vehicle manufacturers for our new vehicle inventory. Our ability to sell new vehicles is dependent on a vehicle manufacturer's ability to produce and allocate to our dealerships an attractive, high quality, and desirable product mix at the right time in order to satisfy customer demand. Second, manufacturers generally support their franchisees by providing direct financial assistance in various areas, including, among others, incentives, floorplan assistance and advertising assistance. A discontinuation or

change in our manufacturers' warranty and incentive programs could adversely affect our business. Third, manufacturers provide product warranties and, in some cases, service contracts to customers. Our dealerships perform warranty and service contract work for vehicles under manufacturer product warranties and service contracts and we bill the manufacturer directly as opposed to invoicing the customer. In addition, we rely on manufacturers to varying extents for original equipment manufactured replacement parts, training, product brochures and point of sale materials, and other items for our dealerships. Fourth, manufacturers generally offer various financing programs and incentives for our new and used vehicle customers.

Vehicle manufacturers may be adversely impacted by economic downturns or recessions, significant declines in the sales of their new vehicles, increases in interest rates, adverse fluctuations in currency exchange rates, declines in their credit ratings, reductions in access to capital or credit, labor strikes or similar disruptions (including within their major suppliers), supply shortages, rising raw material costs, rising employee benefit costs, adverse publicity that may reduce consumer demand for their products (including due to bankruptcy), product defects, litigation, ability to keep up with technology and business model changes, poor product mix or unappealing vehicle design, governmental laws and regulations, natural disasters, or other adverse events. These and other risks could materially adversely affect the financial condition of any manufacturer and impact its ability to profitably design, market, produce or distribute new vehicles, which in turn could have a material adverse effect on our business, results of operations and financial condition.

We are dependent on our relationships with manufacturers and if we are unable to enter into new franchise agreements in connection with dealership acquisitions or maintain or renew our existing franchise agreements on favorable terms, our operations may be significantly impaired.

We are dependent on our relationships with manufacturers, which exercise a great degree of influence over our operations through the franchise agreements. For example, delays in obtaining, or failing to obtain, manufacturer approvals and franchise agreements for dealership acquisitions could adversely affect our acquisition program. In determining whether to approve an acquisition, manufacturers may consider many factors, including the moral character and business experience of the dealership principals, the financial condition, and ownership structure, as well as Customer Satisfaction Index scores, sales efficiency, and other performance measures of our other dealerships. Manufacturers may use these performance indicators, as well as sales performance numbers, as conditions for certain payments and as factors in evaluating applications for additional acquisitions. In unusual cases where performance indicators, such as the ones described above, are not met to the satisfaction of the manufacturer, certain manufacturers may either limit our ability to acquire additional dealerships or require the disposal of existing dealerships or both. From time to time, we have not met all of the manufacturers' requirements to make acquisitions and have received requests to dispose of certain of our dealerships. In the event one or more of our manufacturers sought to prohibit future acquisitions, or imposed requirements to dispose of one or more of our dealerships, our acquisition and growth strategy could be adversely affected.

A manufacturer may also limit the number of its dealerships that we may own or the number that we may own in a particular geographic area. For example, in the U.S., we may acquire only six primary Lexus dealerships or six outlets nationally. As of December 31, 2018, we owned three primary Lexus dealerships.

In addition, each of our franchise agreements may be terminated or not renewed by the manufacturer for a variety of reasons, including any unapproved changes of ownership or management, sales and customer satisfaction performance deficiencies and other material breaches of the franchise agreements. Manufacturers may also have a right of first refusal if we seek to sell dealerships. We cannot guarantee all of our franchise agreements will be renewed or that the terms of the renewals will be as favorable to us as our current agreements. In addition, we cannot guarantee that our manufacturers will not attempt to terminate our franchise agreements if they perceive that performance deficiencies exist. If such an instance occurs, although we are generally protected by automotive dealership franchise laws requiring "good cause" be shown for such termination, we cannot guarantee that the termination of the franchise will not be successful. Actions taken by manufacturers to exploit their bargaining position in negotiating the terms of renewals of franchise agreements could also have a material adverse effect on our results of operations. Further, the terms of certain of our real estate-related indebtedness require the repayment of all amounts outstanding in the event that the associated franchise is terminated. Our results of operations may be materially and adversely affected to the extent that our franchise rights become compromised or our operations restricted due to the terms of our franchise agreements or



if we lose substantial franchises.

Finally, our franchise agreements do not give us the exclusive right to sell a manufacturer's product within a given geographic area. Subject to state laws in the U.S. that are generally designed to protect dealers, a manufacturer may grant another dealer a franchise to start a new dealership near one of our locations, or an existing dealership may move its dealership to a location that would more directly compete against us. The location of new dealerships near our existing dealerships could have a material and adverse effect on our operations and reduce the profitability of our existing dealerships.

Our inability to acquire new dealerships and successfully integrate those dealerships into our business could adversely affect the growth of our revenues and earnings.

Growth in our revenues and earnings partially depends on our ability to acquire new dealerships and successfully integrate those dealerships into our existing operations. We cannot guarantee that we will be able to identify and acquire dealerships in the future. In addition, we cannot guarantee that any acquisitions will be successful or on terms and conditions consistent with past acquisitions. Restrictions by our manufacturers, as well as covenants contained in our debt instruments, may directly or indirectly limit our ability to acquire additional dealerships. In addition, increased competition for acquisitions may develop, which could result in fewer acquisition opportunities available to us and/or higher acquisition prices. And, some of our competitors may have greater financial resources than us. We will continue to need substantial capital in order to acquire additional automobile dealerships. We currently intend to finance future acquisitions by using cash generated from operations, borrowings under our Acquisition Line, proceeds from debt and/or equity offerings and/or issuing shares of our common stock as partial consideration for acquired dealerships. Access to funding through the debt or equity capital markets could become challenging in the future. Also, in the future, the cost of obtaining money from the credit markets could increase if lenders and institutional investors increase interest rates, enact tighter lending standards, refuse to refinance existing debt at maturity on terms similar to current debt or at all, and reduce or, in some cases, cease to provide funding to borrowers. Accordingly, our ability to complete acquisitions could be adversely affected if the price of our common stock is depressed or if our access to capital is limited.

In addition, managing and integrating additional dealerships into our existing mix of dealerships may result in substantial costs, diversion of our management's attention, delays, or other operational or financial problems.

Acquisitions involve a number of special risks, including, among other things:

- incurring significantly higher capital expenditures and operating expenses;
- failing to integrate the operations and personnel of the acquired dealerships;
- entering new markets with which we are not familiar;
- incurring undiscovered liabilities at acquired dealerships, generally, in the case of stock acquisitions;
- disrupting our ongoing business;
- failing to retain key personnel of the acquired dealerships;
- impairing relationships with employees, manufacturers and customers; and
- incorrectly valuing acquired entities.

These risks could have a material adverse effect on our business, results of operations and financial condition.

Although we conduct what we believe to be a prudent level of investigation regarding the operating condition of the businesses we purchase, in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual operating condition of these acquired businesses.

We are subject to substantial regulations, which may adversely affect our business and results of operations.

A number of U.S. state and federal laws and regulations applicable to automotive companies affect our business. Similar laws and regulations affect our business operations in the U.K. and Brazil. We are also subject to laws and regulations relating to business corporations generally. Any failure to comply with these laws and regulations may result in the assessment of administrative, civil, or criminal penalties, the imposition of investigatory remedial obligations or the issuance of injunctions limiting or prohibiting our operations. In every jurisdiction in which we operate, we must obtain various licenses in order to operate our businesses, including dealer, sales, finance and insurance-related licenses issued by government authorities. These laws also regulate our conduct of business, including our advertising, operating, financing, employment and sales practices. Other laws and regulations include state franchise laws and regulations in the U.S., anti-trust laws and other extensive laws and regulations applicable to new and used motor vehicle dealers, as well as U.S. federal and state wage-hour, anti-discrimination and other employment practices laws. Though unsuccessful to date, manufacturers' lobbying efforts may lead to the repeal or revision of U.S. franchise laws. If U.S. franchise laws are repealed in the states in which we operate, manufacturers may be able to terminate our franchises without providing advance notice, an opportunity to cure or showing of good cause. Without the protection of U.S. franchise laws, it may also be more difficult for us to renew our franchise agreements upon expiration. Further, U.S. federal law, including any federal bankruptcy law, may preempt state law in the U.S. and allow manufacturers greater freedom to terminate or not renew franchises. Furthermore, some states have initiated consumer "bill of rights" statutes which involve increases in our costs associated with the sale of vehicles, or decreases in some of our profit centers.

A substantial amount of our business is related to the real estate we own or lease to conduct our various automotive operations. Often times, the success of such automotive operations is dependent upon our ability to locate, and purchase or lease suitable real estate on favorable terms. We are highly dependent upon the availability of real estate in each of our automotive markets. Additionally, real estate we are interested in acquiring will be subject to local municipal laws of county,

township, parish and other local municipalities that often times will govern what type of real estate we can purchase for our various automotive operations. Local ordinances, deed restrictions, zoning and other land use restrictions may prohibit the type of business permitted on a given leased or purchased property which can add to the challenge of locating appropriate real estate. The costs and length of time associated with changing the permitted use of a leased or purchased property may affect our ability to enter a market or expand our operations in an existing market. Our inability to locate, and lease or purchase additional suitable properties to meet the needs of our various automotive operations in multiple markets would adversely affect our business, results of operations and financial condition. Our financing activities with customers are subject to U.S. federal truth-in-lending, consumer leasing and equal credit opportunity laws and regulations, as well as state and local motor vehicle finance laws, installment finance laws, insurance laws, usury laws and other installment sales laws and regulations. Some states in the U.S. regulate finance fees and charges that may be paid as a result of vehicle sales. Claims arising out of actual or alleged violations of law may be asserted against us or our dealerships by individuals or governmental entities and may expose us to significant damages or other penalties, including revocation or suspension of our licenses to conduct dealership operations and fines.

Our operations are also subject to the National Traffic and Motor Vehicle Safety Act, the Magnusson-Moss Warranty Act, Federal Motor Vehicle Safety Standards promulgated by the United States Department of Transportation and various state motor vehicle regulatory agencies. The imported automobiles we purchase are subject to U.S. customs duties and, in the ordinary course of our business, we may, from time to time, be subject to claims for duties, penalties, liquidated damages, or other charges.

Our U.S. operations are subject to consumer protection laws known as Lemon Laws. These laws typically require a manufacturer or dealer to replace a new vehicle or accept it for a full refund within one year after initial purchase if the vehicle does not conform to the manufacturer's express warranties and the dealer or manufacturer, after a reasonable number of attempts, is unable to correct or repair the defect. Federal laws require various written disclosures to be provided on new vehicles, including mileage and pricing information.

In July 2010, the Dodd-Frank Act was signed into law and established the CFPB with broad regulatory powers in the U.S. Although automotive dealers are generally excluded from the CFPB's regulatory authority, we are required to comply with regulations applicable to privacy notices, and the CFPB acted to regulate automotive financing activities through its regulation of automotive finance companies and other financial institutions that service the automotive industry. The CFPB has issued regulatory guidance instructing financial institutions to monitor dealer loans for potential discrimination resulting from the system used to compensate dealers for assisting in the customer financing transaction. The CFPB has instructed lenders that, if discrimination is found, the lender would be required to change dealer compensation practices. If this initiative substantially restricts our ability to generate revenue from arranging financing for our customers for the purchase of vehicles, the result could have an adverse effect on our business and results of operations.

In addition, the Dodd-Frank Act established federal oversight and regulation of derivative markets and entities, such as us, that participate in those markets. The Dodd-Frank Act requires the Commodity Futures Trading Commission ("CFTC") and the SEC to promulgate rules and regulations implementing the Dodd-Frank Act. Although the CFTC has finalized certain regulations, others remain to be finalized or implemented and it is not possible at this time to predict when this will be accomplished.

Pursuant to the Dodd-Frank Act, the CFTC has designated certain interest rate swaps and credit default swaps for mandatory clearing and exchange trading. To the extent we engage in such transactions that are or become subject to such rules in the future, we will be required to comply or to take steps to qualify for an exemption to such requirements. In addition, the Dodd-Frank Act, the CFTC and banking regulators established margin rules for uncleared swaps. Although we believe that we qualify for the end-user exceptions to the mandatory clearing and margin requirements with respect to swaps entered to hedge our commercial risks, the application of such requirements to other market participants, such as swap dealers, may change the cost and availability of the swaps that we use for hedging. If any of our swaps do not qualify for the commercial end-user exception, clearing our transactions or posting of initial or variation margin could impact our liquidity and reduce cash available for capital expenditures, therefore reducing our ability to execute hedges to reduce risk and protect cash flows. In addition, the European Union and other non-U.S. jurisdictions are implementing regulations with respect to the derivatives market.

To the extent we transact with counterparties in foreign jurisdictions, we may become subject to such regulations. At this time, the impact of such regulations is not clear.

The full impact of the Dodd-Frank Act and related regulatory requirements upon our business will not be known until the regulations are implemented and the market for derivative contracts has adjusted. The Dodd-Frank Act and any new regulations could significantly increase the cost of derivative contracts, materially alter the terms of derivative contracts, or reduce our ability to monetize or restructure our existing derivative contracts. If we reduce our use of derivatives as a result of the Dodd-Frank Act and regulations, our results of operations may become more volatile and our cash flows may be less predictable, which could adversely affect our ability to plan for and fund capital expenditures. Any of these consequences

could have a material adverse effect on our financial condition, results of operations and cash available for distributions to our shareholders.

Currently, representatives of both the U.K. and the EU are negotiating an agreement to set forth the terms and conditions for the U.K.'s departure from the EU, following the U.K.'s June 23, 2016 majority vote in favor of Brexit. Any such agreement must be approved by the British Parliament. To date, the British Parliament has not approved an agreement for the U.K. to exit from the EU. The inability of the U.K. and EU to reach such agreement has created uncertainty in the regulatory environment in the U.K. There has been no clear indication of how and when Brexit will occur or how it will ultimately affect the regulatory environment, tariffs, imports, foreign trade, the U.K. economy and, ultimately, our U.K. business operations. But, if legislation related to Brexit results in a material reduction of sales in our U.K. dealerships, such events could have a material adverse effect on our revenues and business operations.

On April 14, 2016, the EU Parliament approved the General Data Protection Regulation (“GDPR”), which organizations were required to comply with by May 25, 2018. GDPR regulations replaced the UK Data Protection Act of 1998 for organizations doing business in the UK. The GDPR applies in all EU member states from May 25, 2018. The GDPR was designed to align data privacy laws across Europe, protect all EU citizens’ data by restricting third parties uses of such data without such individual’s permission, and change the way organizations approach the protection of data and preserving citizen’s privacy. Unlike previous EU data privacy regulations, the GDPR applies to all organizations storing or processing the data of EU citizens, regardless of the location of the company. It provides for strict rules and requirements for EU and non-EU organizations, including requiring organizations to report data breaches within 72 hours and to conduct impact assessments to identify vulnerabilities. Moreover, the GDPR applies a tiered penalty approach, which provides for heavy fines. If an organization seriously infringes the GDPR, the organization can be fined up to 4% of annual global turnover or 20 million euros, whichever is greater. Any future failure by us to comply with the GDPR could have a material adverse effect on our business, results of operations or financial condition. Our U.K. finance operations also arrange for the sale of various contracts for products and services in connection with the sale of new and used vehicles. Those activities in the U.K. are regulated by the Financial Conduct Authority (“FCA”). The FCA is an independent watchdog that regulates financial services of our dealerships. The FCA was created in the wake of the financial crisis as a result of passage of the Financial Services Act of 2012 (the “FSA Act”). The FSA Act sets out a system for regulating financial services in order to protect and improve the U.K.’s economy. Its purpose was to make sure markets work well by confirming that financial services maintain and ensure the integrity of the markets, regulate financial services firms so that they give consumers a fair deal and ensure the financial services market is competitive.

The Patient Protection and Affordable Care Act, signed into law in the U.S. on March 23, 2010, has and may continue to increase our annual employee health care costs that we fund. We cannot predict the extent of the effect that this statute, or any future state or federal healthcare legislation or regulation, will have on us. However, any additional expansion in government’s role in the U.S. healthcare industry could result in significant long-term costs to us, which could in turn adversely affect our business, results of operations and financial condition.

Possible penalties for violation of any of these laws or regulations include revocation or suspension of our licenses and/or civil or criminal fines and penalties. In addition, many laws may give customers a private cause of action. Violation of these laws, the cost of compliance with these laws, or changes in these laws could have a material adverse effect on our business and results of operations.

See also discussion of tariffs, import product restrictions, and foreign trade risks that may impair our ability to sell foreign vehicles profitably under the section subtitled Tariff and Trade Risks below.

Our operations are subject to environmental laws and regulations that may expose us to significant costs and liabilities.

In the course of our operations in the United States, United Kingdom and Brazil, we generate, handle, store and recycle or dispose of various used products and wastes. These business activities are subject to stringent federal, regional, state and local laws, regulations and other controls governing the release of materials into the environment or otherwise relating to environmental protection. These laws, regulations and controls may impose numerous obligations upon our operations including the acquisition of permits to conduct regulated activities, the imposition of restrictions on where or how to manage or dispose of used products and wastes, the incurrence of capital expenditures

to limit or prevent releases of such material, and the imposition of substantial liabilities for pollution resulting from our operations. Failure to comply with these laws, regulations, and permits may result in the assessment of sanctions, including administrative, civil, and criminal penalties, the imposition of investigatory remedial and corrective action obligations or increase of capital expenditures, restrictions, delays and cancellations in permitting or in the performance of projects and the issuance of injunctions limiting or preventing some or all of our operations in affected areas.

There is a risk of incurring significant environmental costs and liabilities in the operations of our automotive dealerships due to our handling of regulated used products and wastes, because of releases arising in the course of our

operations, including from storage tanks and in-ground lifts, and due to contamination arising from historical operations and waste disposal practices, including by predecessor operators or owners over whom we had no control or supervision. We could be subject to joint and several, strict liability for the removal or remediation of previously released materials or property contamination regardless of whether we were responsible for the release or contamination or if the operations were in compliance with all applicable laws at the time those actions were taken. The trend in environmental regulation is to place more restrictions and limitations on activities that may affect the environment, and thus any changes in environmental laws and regulations that result in more stringent and costly requirements with respect to pollution control equipment, waste management and disposal activities, or increased fuel economy and reduced vehicle emissions for light-duty vehicles could have a material adverse effect on our business, results of operation and financial condition. For instance, in the United States pursuant to a 2012 rulemaking, vehicle manufacturers are subject to federal regulations requiring GHG reduction and CAFE standards for light-duty vehicles for model years 2017 through 2025. Comparable laws and regulations apply in the U.K. and Brazil.

Under these regulations in the U.S., most manufacturers are required to modify their vehicle platforms and powertrains to achieve a fleet-wide average fuel efficiency equivalent of 44.7 miles per gallon by model year 2021. However, pursuant to the 2012 joint final rulemaking by the EPA and NHTSA, the EPA was obligated to conduct a mid-term evaluation by no later than April 1, 2018 to determine whether GHG emission standards established for the model years 2017-2025 light-duty vehicles remained appropriate. In January 2017, the EPA Administrator under the Obama Administration signed a final determination that the standards remained appropriate and no changes were necessary. After the inauguration of President Trump, the EPA announced in April 2018 its decision to withdraw the January 2017 midterm evaluation and, in August 2018, the EPA and NHTSA announced a proposed rule that would amend existing GHG and CAFE program standards for passenger cars and light trucks covering model years 2021 through 2026. More specifically, under the proposed rule, the NHTSA is proposing new CAFE standards for model years 2022 through 2026 and amending its 2021 model year CAFE standards, and the EPA is proposing to amend its carbon dioxide emissions standards for model years 2021 through 2025 in addition to establishing new standards for model year 2026. Under the proposed rule, the preferred option of the agencies is to retain the model year 2020 standards for both programs during model years 2021 through 2026, but that option was subject to public comment. Whether the proposed rule will be finalized as initially proposed or with changes to the proposed model year 2021 through 2026 standards, is uncertain at this time. Additionally, the Trump Administration has proposed to preempt the state of California's authority to enforce more stringent vehicle GHG rules, and it remains unclear whether the Administration will continue to pursue this course of action and be successful in its efforts. The existence of uncertainty as to what GHG and CAFE program standards will be authorized for model years 2021 through 2026 as well as whether California or other states may be granted waivers under the Clean Air Act to promote more stringent requirements, which more stringent requirements may or may not be consistent with national standards imposed by the EPA and NHTSA for model years 2021 through 2026, may delay or otherwise adversely affect the ability of vehicle manufacturers to manufacture and make timely delivery of vehicles to operators in the automotive retail industry, such as ourselves, which developments could have a material adverse effect on our business, results of operations and financial condition.

Whereas the CAFE standards are designed to improve vehicle fuel economy in the United States, the GHG standards are based on determinations made by the EPA that emissions of GHGs present an endangerment to public health and the environment because emissions of such gases are, according to the EPA, contributing to warming of the Earth's atmosphere and other climatic changes. Congress and numerous states have from time to time considered and — in the case of some states, adopted — legislation and implementing regulations to restrict GHG emissions. These laws and regulations generally take the form of cap and trade programs, requiring large sources of GHG emissions to purchase allowances or take steps to reduce emissions to comply with the cap. Climate-change legal requirements are also being considered on an international level. For example, in December 2015, the United States joined other countries of the United Nations, at that time, in preparing an agreement requiring member countries to review and establish goals for limiting GHG emissions. This Paris Agreement was signed by the United States, the United Kingdom and Brazil in April 2016 and the agreement entered into force in November 2016. However, this agreement did not create any binding obligations for nations to limit their GHG emissions but, rather includes pledges to voluntarily limit or reduce future emissions. However, in August 2017, the U.S. State Department informed the United Nations of the



intent of the United States to withdraw from the Paris Agreement. The Paris Agreement provides for a four-year exit process beginning when it took effect in November 2016, which would result in an effective exit date of November 2020. The United States' adherence to the exit process and/or the terms on which the United States may re-enter the Paris Agreement or a separately negotiated agreement are unclear at this time. As another example, the U.K. government announced in July 2017 that it would ban the sale of new petrol- and diesel-powered vehicles beginning in 2040. In addition, beginning 2020, new pollution taxes will be levied on diesel drivers who use certain congested highways. The adoption of any laws or regulations requiring significant increases in fuel economy requirements or new federal or state restrictions on emissions of the GHGs on vehicles and automotive fuels in the U.S., the U.K. or Brazil could adversely affect prices of and demand for the vehicles we sell, which could adversely affect our revenues and earnings. The trend in environmental regulation is to often place more restrictions and limitations on activities that may affect the

environment, and thus any changes in environmental laws and regulations that result in more stringent and costly requirements with respect to pollution control equipment, waste management and disposal activities, or increased fuel economy and reduced vehicle emissions for light-duty vehicles could have a material adverse effect on our business, results of operation and financial condition.

Please see “Item 1. Business — Governmental Regulations — Environmental and Occupational Health and Safety Laws and Regulations” for more information.

Final Regulations relating to and interpretations of the Tax Act may vary from our current interpretation of such legislation and could adversely affect our financial position, results of operations and cash flows.

The Tax Act is highly complex and subject to interpretation. The presentation of our financial position and results of operations is based upon our current interpretation of the provisions contained in the Tax Act and available guidance. The U.S. Treasury Department and the Internal Revenue Service are expected to issue final regulations and additional interpretive guidance with respect to the Tax Act. Any significant variance of our current interpretation of such provisions from any future interpretive guidance could adversely affect our financial position, results of operations and cash flows.

If we lose key personnel or are unable to attract additional qualified personnel, our business could be adversely affected because we rely on the industry knowledge and relationships of our key personnel.

We believe our success depends to a significant extent upon the efforts and abilities of our executive officers, senior management and key employees, including our regional vice presidents. The unexpected or unanticipated loss of the services of one or more members of our senior management team could have an adverse effect on our business and impair the efficiency and productivity of our operations. We do not have key man insurance for any of our executive officers or key personnel. In addition, the market for qualified employees in the industry and in the regions in which we operate, particularly for general managers and sales and service personnel, is highly competitive and may subject us to increased labor costs during periods of low unemployment. We do not have employment agreements with our dealership general managers and other key dealership personnel. Accordingly, the inability to retain key employees or the failure to attract qualified personnel could have an adverse effect on our business and may impact the ability of our dealerships to conduct their operations in accordance with our standards.

Substantial competition in automotive sales and services may materially and adversely affect our results of operations due to our need to lower prices to sustain sales.

The automotive retail industry is highly competitive. Depending on the geographic market, we compete with: franchised automotive dealerships in our markets that sell the same or similar makes of new and used vehicles that we offer, occasionally at lower prices than we do;

- other national or regional affiliated groups of franchised dealerships and/or of used vehicle dealerships;
- private market buyers and sellers of used vehicles;
- internet-based vehicle brokers that sell vehicles obtained from franchised dealers directly to consumers;
- auto parts retailers;
- local, regional and national collision centers;
- service center chain stores; and
- independent service and repair shops.

We do not have any cost advantage in purchasing new vehicles from vehicle manufacturers and typically rely on advertising, merchandising, sales expertise, service reputation, product demand and dealership location in order to sell new vehicles. Our franchise agreements do not grant us the exclusive right to sell a manufacturer’s product within a given geographic area. If competing dealerships expand their market share or are awarded additional franchises by manufacturers it could have a material and adverse effect on our business and results of operations.

In addition to competition for vehicle sales, our dealerships compete with franchised dealerships to perform warranty maintenance and repair services and with other automotive dealers, franchised and independent service center chains and independent garages for non-warranty repair and routine maintenance business. Our parts operations compete with other automotive dealers, service stores and auto parts retailers. We believe the principal competitive factors in the parts and service business are the quality of customer service, the use of factory-approved replacement parts, familiarity with a manufacturer’s brands and models, convenience, access to and use of technology required for certain repairs and services, location, price, the competence of technicians and the availability of training programs to

enhance such expertise. A number

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of regional or national chains offer selected parts and services at prices that may be lower than our dealerships' prices. We also compete with a broad range of financial institutions in arranging financing for our customers' vehicle purchases.

The internet has also become a significant part of the advertising and sales process in our industry. Customers are using the internet as part of the sales process to compare pricing for cars and related finance and insurance services, which may reduce gross profit margins for new and used cars and profits for related finance and insurance services. Some retailers offer vehicles for sale over internet websites without the benefit of having a dealership franchise, although they must currently source their vehicles from a franchised dealer. One or more companies are currently manufacturing electric vehicles for sale solely through the internet without using the traditional dealer-network, and circumventing the state franchise laws of several states in the United States. If more states where we do business eliminate or lessen their laws prohibiting retail sales by non-dealer companies, and if those companies are successful in selling their vehicles without the requirements of establishing a dealer-network, they may be able to have a competitive advantage over the traditional dealers, which could adversely affect our sales in those states. If internet new vehicle sales are allowed to be conducted without the involvement of franchised dealers, or if dealerships are able to effectively use the internet to sell outside of their markets, our business could be materially adversely affected. Our business would also be materially adversely affected to the extent that internet companies acquire dealerships or align themselves with our competitors' dealerships.

Please see "Item 1. Business — Competition" for more discussion of competition in our industry.

A cybersecurity breach, including a breach of personally identifiable information ("PII") about our customers or employees, could negatively affect operations and result in high costs.

There has been a substantial increase in attempts by third parties with bad intentions to steal data from numerous businesses world-wide, including our dealerships, by highly sophisticated means. If a third party is successful in obtaining such confidential information of our dealerships or our customers or disrupting our operations through high-tech security breaches and hacking methods, we could have substantial liability in connection with such security breaches. While we attempt to implement state of the art technological defenses to thwart such activities, there is no guarantee that we will be able to keep up with the ever evolving sophisticated methods of breaching security systems and continue to combat such attempts to breach our own data systems. Failure to do so could ultimately have a material adverse effect on our business operations.

The protection of customer, employee, and our data is critical to our business. The regulatory environment surrounding information security and privacy is increasingly demanding, with the frequent imposition of new and constantly changing requirements across business units. In addition, customers have a high expectation that we will adequately protect their PII from cyber-attack or other security breaches. A significant breach of customer, employee, or our data could attract a substantial amount of media attention, damage our customer relationships and reputation, and result in lost sales, fines, or lawsuits.

In the ordinary course of business, we and our business affiliates receive significant PII about our customers in order to complete the sale or service of a vehicle and related products. We also receive PII from our employees. Numerous state and federal regulations in the U.S., as well as payment card industry and other vendor standards, govern the collection and maintenance of PII from consumers and other individuals. Although many companies across many industries are affected by malicious efforts to obtain access to PII, news reports suggest that the automotive dealership industry is a particular target of identity thieves. Moreover, there are numerous opportunities for a data security breach, including cyber-security breaches, burglary, lost or misplaced data, scams, or misappropriation of data by employees, vendors or unaffiliated third parties. We have spent to date, and will continue to spend, significant resources to combat and protect against cyber-attacks and other forms of security breaches. Despite the security measures we have in place and any additional measures we may implement or adopt in the future, our facilities and systems, and those of our third-party service providers, could be vulnerable to security breaches, computer viruses, lost or misplaced data, programming errors, scams, burglary, human errors, acts of vandalism, or other events. Alleged or actual data security breaches can increase costs of doing business, negatively affect customer satisfaction and loyalty, expose us to negative publicity, individual claims or consumer class actions, administrative, civil or criminal investigations or actions, and infringe on proprietary information, any of which could have a material adverse effect on our business, results of operations or financial condition.

Our business is sensitive to manufacturer recalls, and the effects such recalls have on the reputation of our manufacturers.

Our business is highly dependent on consumer demand and brand preferences of our manufacturer's products. Manufacturer recall campaigns are a common occurrence that have accelerated in frequency and scope over the last several years. Manufacturer recall campaigns could adversely affect our new and used vehicle sales or customer residual trade-in valuations, could cause us to temporarily remove vehicles from our inventory available for sale, could force us to incur increased costs and could expose us to litigation and adverse publicity related to the sale of recalled vehicles, which could have a material adverse effect on our business, sales and results of operations.

The impairment of our goodwill, indefinite-lived intangibles and other long-lived assets has had, and could in the future have, a material adverse effect on our results of operations.

We assess goodwill and other indefinite-lived intangibles for impairment on an annual basis, or more frequently when events or circumstances indicate that an impairment may have occurred. We assess the carrying value of our long-lived assets when events or circumstances indicate that an impairment may have occurred.

Based on the organization and management of our business, we determined that each of our regions represents a reporting unit for the purpose of assessing goodwill for impairment. In evaluating goodwill, we compare the carrying value of our reporting units to their respective fair values. To determine the fair value of our reporting units we use a combination of the discounted cash flow and market approaches. In addition, we evaluate the carrying value of our indefinite-lived, intangible franchise rights at a dealership level using a discounted cash flow based approach. Both these analyses are based upon a series of assumptions. See Part II, "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Accounting Estimates — Goodwill" and "Intangible Franchise Rights" for additional information regarding the assumptions that underlie our analysis.

Performance issues at individual dealerships, as well as broader economic and retail automotive industry trends can result in changes to the assumptions in our fair value estimates. In addition, until the full effect of our business practices, scale leverage and other cost savings initiatives can be realized, the carrying value of goodwill and other intangibles associated with an acquisition are generally more subject to impairment in the years immediately following the acquisition. For example, the decline in the Brazilian economy and retail auto industry since our acquisition of the initial Brazil dealerships in March 2013 adversely impacted the results of the impairment test performed in the fourth quarter of 2015. As a result, in our fourth quarter 2015 impairment analysis, we determined that there had been material changes to the previous assumptions underlying the amount of goodwill and/or intangible assets associated with our Brazilian dealerships, and we wrote down the value of those assets, which resulted in a material non-cash impairment charge.

On June 23, 2016, the British Citizens voted on a referendum in favor of exiting the EU. The majority vote in favor of Brexit has created uncertainty in the global markets and in the regulatory environment, tariffs, imports and foreign trade in the U.K., as well as the overall EU. As of January 31, 2019, the British parliament had not yet approved legislation on the terms of the U.K.'s withdrawal from the European Union. The impact on the U.K. economy and our financial results and operations may not be known for some time, but could be adverse. In addition, automotive dealers in the U.K. rely on the legislative doctrine of "Block Exemption" to govern market representation activities of competing dealers and dealer groups. To date, there continues to be no clear indication of how such legislation may be affected by Brexit, but a change to such legislation could be adverse. If, as a result of the clarification of any of these uncertainties, the estimates, assumptions and inputs utilized in our annual impairment test for goodwill and intangible franchise rights change or fail to materialize, the resulting decline in the estimated fair market value of such assets could result in a material non-cash impairment charge. While we are not aware of any changes in circumstances that have resulted in a decline in fair value of these assets at this time, we continue to closely monitor the situation.

We are required to evaluate the carrying value of our long-lived assets at the lowest level of identifiable cash flows. To test the carrying value of assets to be sold, we generally use independent, third-party appraisals or pending transactions as an estimate of fair value. In the event of an adverse change in the real estate market, the resulting decline in our estimated fair value could result in a material non-cash impairment charge to the associated long-lived assets.

Changes in interest rates could adversely impact our results of operations.

Borrowings under our credit facilities and various other notes payable bear interest based on a floating rate. Therefore, our interest expense would increase with any rise in interest rates. A rise in interest rates may also have the effect of depressing demand in the interest rate sensitive aspects of our business, particularly new and used vehicle sales, because many of our customers finance their vehicle purchases. As a result, a rise in interest rates may have the effect of simultaneously increasing our costs and reducing our revenues. To mitigate the impact, we have entered into derivative transactions to convert a portion of our variable-rate debt to fixed rates to partially mitigate this risk. In addition, we receive interest assistance from certain automobile manufacturers, which is reflected as a reduction in cost of sales on our statements of operations. Please see Part II, "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" for a discussion regarding our interest rate sensitivity.

Natural disasters and adverse weather events can disrupt our business.

Some of our dealerships are concentrated in states and regions in the U.S., U.K. and Brazil in which actual or threatened natural disasters and severe weather events (such as hurricanes, earthquakes, snow storms, flooding, and hail storms) have in the past, and may in the future, disrupt our dealership operations. A disruption in our operations may adversely impact our business, results of operations, financial condition and cash flows. In addition to business interruption, the automotive retailing business is subject to substantial risk of property loss due to the significant concentration of property

value at dealership locations. Natural disasters and severe weather events have in the past and may in the future impair the value of our dealership property. Although we have, subject to certain limitations and exclusions, substantial insurance, including business interruption insurance, we may be exposed to uninsured losses that could have a material adverse effect on our business, results of operations and financial condition.

Our insurance does not fully cover all of our operational risks, and changes in the cost of insurance or the availability of insurance could materially increase our insurance costs or result in a decrease in our insurance coverage.

The operation of automobile dealerships is subject to compliance with a wide range of laws and regulations and is subject to a broad variety of risks. While we have insurance on our real property, comprehensive coverage for our vehicle inventory, general liability insurance, workers' compensation insurance, employee dishonesty coverage, employment practices liability insurance, pollution coverage and errors and omissions insurance in connection with vehicle sales and financing activities, we are self-insured for a portion of our potential liabilities. We purchase insurance policies for worker's compensation, liability, auto physical damage, property, pollution, employee medical benefits and other risks consisting of large deductibles and/or self-insured retentions.

In certain instances, our insurance may not fully cover an insured loss depending on the magnitude and nature of the claim. Additionally, changes in the cost of insurance or the availability of insurance in the future could substantially increase our costs to maintain our current level of coverage or could cause us to reduce our insurance coverage and increase the portion of our risks that we self-insure.

Vehicle technology advancements and ownership model changes.

With the advancement in the technology of semi and fully autonomous electric-powered vehicles, several new business models are in early stage development to create high mileage, self-driving and/or co-ownership vehicle opportunities. These autonomous-electric vehicles may be manufactured by existing automotive manufacturers or other companies who do not presently manufacture hydrocarbon or alternative fuel source vehicles. Even with the current highway and road infrastructure challenges and the large number of existing internal combustion engines currently in service and to be in service for many years to come, which will create obstacles to the wide-spread implementation of such autonomous-electric vehicles in the immediate future, many in the automotive industry believe that it will only be a matter of time until such vehicles will be available to the automotive consumer at low usage costs. Such industry participants believe projected low usage costs of autonomous-electric vehicles may entice many vehicle owners, particularly in larger, highly populated areas, to abandon individual car ownership in favor of multiple co-ownership ride-sharing opportunities. If such autonomous-electric vehicles can be mass produced at a reasonable production and operating cost and sold by companies not required to conduct their business in accordance with state franchise laws and thereby circumvent the current dealer-network, and/or if the ride-sharing subscription business model becomes widely popular, such events could adversely affect industry new and used vehicle sales volumes and the growth of our earnings and revenues.

Additionally, with a potential increase in demand by consumers for electric-powered vehicles, our manufacturers will need to adapt their product plans and production capabilities accordingly to meet these demands. As more electric vehicles potentially enter the market, and more combustible engine vehicle production is reduced, our ability to adapt to such changes, particularly in regard to our ability to sell and service these units effectively, will be necessary to meet the consumer demands and support the profitability of our dealerships. Furthermore, while in the short term we do not believe there will be a significant difference in maintenance costs incurred by a vehicle owner of a combustible engine versus maintenance costs of a vehicle owner of a new electric-powered vehicle, that may not be the case as technology advancements are made in the development of electric-powered vehicles. If such maintenance costs by a consumer of an electric-powered vehicle were to substantially decrease, that could have a material adverse effect on our parts and service revenues.

Our indebtedness and the associated covenants could materially adversely affect our ability to obtain additional financing, including for acquisitions and capital expenditures, limit our flexibility to manage our business, prevent us from fulfilling our financial obligations and restrict our use of capital.

Our indebtedness could impact us, in the following ways:

- our ability to obtain additional financing for acquisitions, capital expenditures, working capital or general corporate purposes may be impaired in the future;

-



a portion of our current cash flow from operations must be dedicated to the payment of principal and interest on our indebtedness, thereby reducing the funds available to us for our operations and other corporate purposes; some of our borrowings are and will continue to be at variable rates of interest, which exposes us to the risk of increasing interest rates;

- we may be more leveraged than some of our competitors, which may place us at a relative competitive disadvantage and make us more vulnerable to changing market conditions and regulations; and

during periods of economic downturn, we may be more susceptible to a breach of our debt covenants and default on our indebtedness.

Our debt instruments contain numerous covenants that limit our discretion with respect to business matters, including mergers or acquisitions, paying dividends, repurchasing our common stock, international investments, incurring additional debt or disposing of assets. A breach of any of these covenants could result in a default under the applicable agreement or indenture. In addition, a default under one agreement or indenture could result in a default and acceleration of our repayment obligations under the other agreements or indentures under the cross default provisions in those agreements or indentures. If a default or cross default were to occur, we may be required to renegotiate the terms of our indebtedness, which would likely be on less favorable terms than our current terms and cause us to incur additional fees to process. Alternatively, we may not be able to pay our debts or borrow sufficient funds to refinance them. As a result of this risk, we could be forced to take actions that we otherwise would not take, or not take actions that we otherwise might take, in order to comply with the covenants in these agreements and indentures.

#### Tariff and Trade Risks

Increased tariffs, import product restrictions, and foreign trade risks may impair our ability to sell foreign vehicles profitably. In May 2018, the Trump Administration threatened to add up to 25% tariffs on foreign vehicles or parts and instructed the U.S. Department of Commerce to begin an inquiry to determine if the importation of foreign vehicles or parts adversely impacts U.S. national security. During the third quarter of 2018, the U.S. Department of Commerce announced that the time line for implementation of tariffs on foreign vehicles will be delayed. An agreement has been drafted between Canada, Mexico and the United States to replace the current North America Free Trade Agreement, which is expected to include potential implementation or elimination of trade tariffs by and among those countries. No formalized treaty has been adopted or ratified by any of the countries' respective governments at this time. No further announcements regarding other trade discussions pertaining to tariffs on foreign vehicles imported or exported by the United States have been made as of the date hereof. Should the U.S. Department of Commerce determine that foreign vehicles imported by one or more countries do pose such a threat or create anti-competitive markets in the United States, the Trump Administration may impose up to 25% tariffs on foreign vehicles and parts. There continues to be substantial uncertainty regarding, among other factors: (i) the ultimate outcome of the implementation and effects of trade tariffs, as well as whether "foreign" vehicles include those made by non-U.S. based manufacturers in the U.S. or parts made outside the U.S. but included in U.S. assembled vehicles; and (ii) the retaliatory response by foreign governments to such trade tariffs. The June 23, 2016 majority vote in favor of Brexit has created uncertainty in the regulatory environment in the U.K. To date, there has been no clear indication of how the Brexit vote will ultimately affect tariffs, imports and foreign trade applicable to the U.K. and, consequently, the U.K. economy and our business operations. Should import tariffs be implemented or increased, we expect the price of many new vehicles we sell to increase and foreign trade depressed, which may adversely affect our new vehicle retail sales revenues and related finance, insurance and other revenues.

We are subject to risks associated with our non-U.S. operations that could have a material adverse effect on our business, results of operations and financial condition.

Over the past several years, we have significantly increased our operations outside the U.S. market. Expanding our operations in the U.K. and Brazil are important elements of our growth strategy. Operations outside of the U.S. are subject to various risks which may not be present or as significant for operations within U.S. markets, and our exposure to these risks increases as we expand. Government actions, both in terms of policy-setting, as well as actions directly affecting our operations, and economic uncertainty in some geographic regions in which we operate, such as emerging markets, could result in the disruption of markets and negatively affect our results of operations and cash flows in those areas.

Risks inherent in our international operations include, but are not limited to:

- exposure to local economic conditions;
- wage inflation in emerging markets;
- social plans that prohibit or increase the cost of certain restructuring actions;
- increases in working capital requirements related to long supply chains or regional terms of business;
- currency exchange controls;
- exposure to currency exchange rate fluctuations;

- variations in protection of legal rights;
- import or export licensing requirements;
- the difficulty of enforcing agreements and collecting receivables through certain foreign legal systems;

- restrictions on transfer or repatriation of funds and trade protection matters, including antidumping duties, tariffs, embargoes and other laws and regulations creating tax inefficiencies and prohibitions or restrictions on acquisitions or joint ventures;
- increased risk of corruption;
- changes in laws and regulations, including the laws and policies of the U.S. affecting trade and foreign investment;
- more expansive legal rights of foreign labor unions;
- the potential for nationalization of enterprises;
- exposure to local public health concerns and the resultant impact on economic and political conditions;
- transparency issues in general and, more specifically, the U.S. Foreign Corrupt Practices Act of 1974, as amended (the “FCPA”), the U.K. Bribery Act, and other anti-corruption compliance laws and issues;
- unsettled social and political conditions, in general, and possible terrorist attacks, drug cartel related violence or acts of war, civil unrest, expansion of hostilities and other political risks; and
- lack of franchise protection, which creates greater competition.

The likelihood of these occurrences and their potential effect on us vary from country to country and are unpredictable. These and other factors may have a material adverse effect on our international operations and, therefore, on our business, results of operations and financial condition, which may become more pronounced as we expand our international presence.

Our Consolidated Financial Statements reflect that our results of operations and financial position are reported in local currency and are converted into U.S. dollars at the applicable currency rate. Fluctuations in such currency rates may have a material effect on our results of operations or financial position as reported in U.S. dollars. Management evaluates the Company’s results of operations on both an as reported and a constant currency basis. See Part II, “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” for additional information on constant currency basis. See Part II, “Item 7A. Quantitative and Qualitative Disclosures About Market Risk — Foreign Currency Exchange Rates” for additional information on foreign currency exchange rate sensitivity.

We may be exposed to liabilities under the FCPA and similar anti-corruption laws, and any determination that we violated such laws could have a material adverse effect on our business.

We are subject to the FCPA, Brazil’s clean company and anti-corruption act, the U.K. anti-bribery act and similar anti-bribery and anti-corruption laws that generally prohibit companies and their personnel and intermediaries from offering, authorizing, or making improper payments to government officials for the purpose of obtaining or retaining business, or securing some improper advantage in business or engaging in conduct involving money-laundering. We do business and may do additional business in the future in countries and regions where strict compliance with anti-bribery laws may not be customary. Our personnel and intermediaries may face, directly or indirectly, corrupt demands by government officials, political parties and officials, tribal or insurgent organizations, or private entities in the countries in which we operate or may operate in the future. As a result, we face the risk that an unauthorized payment or offer of payment could be made by one of our employees or intermediaries, even if such parties are not always subject to our control or are not themselves subject to the FCPA or other anti-bribery laws to which we may be subject. Existing compliance safeguards and any future improvements may not prevent all such conduct, and it is possible that our employees and intermediaries may engage in conduct for which we might be investigated by U.S. and other authorities, and held responsible. Violations of the FCPA and other anti-bribery and other anticorruption laws (either due to our acts or our inadvertence) may result in criminal and civil sanctions and could subject us to other liabilities in the U.S. and elsewhere. Even allegations of such violations could disrupt our business and result in a material adverse effect on our business and operations.

Our growth in emerging markets, such as Brazil, is subject to special risks that could have a material adverse effect on our operations.

In February 2013, we acquired UAB Motors Participações S.A. (“UAB Motors”), which allowed us to enter the Brazilian market. At the time we entered the Brazilian market, it was an emerging growth market. Since then, Brazil experienced a significant economic downturn and has been in the midst of a recession. Since February 2013, Brazil has also experienced significant currency fluctuations. And, while recent data is beginning to show signs of a recovery, there is no assurance that our future growth strategies in Brazil will be successful or that Brazil’s economy will continue its recovery. If the Brazil financial recovery is longer than expected, it could have a material adverse

effect on our business, results of operations and financial condition. See also “We are subject to risks associated with our non-U.S. operations that could have a material adverse effect on our business, results of operations and financial condition.” Further, our growth in emerging markets by acquisition of existing dealerships, such as our acquisition of UAB Motors, is subject to additional risk as

discussed under “Our ability to acquire new dealerships and successfully integrate those dealerships into our business could adversely affect the growth of our revenues and earnings” above.

Certain restrictions relating to our management and ownership of our common stock could deter prospective acquirers from acquiring control of us and adversely affect our ability to engage in equity offerings.

As a condition to granting their consent to our previous acquisitions and our initial public offering, some of our manufacturers have imposed other restrictions on us. These restrictions prohibit, among other things:

- the removal of a non-employee director from office, except for cause;
- any one person or entity, who in the opinion of the manufacturer is unqualified to own its franchised dealership or has interests incompatible with the manufacturer, from acquiring more than a specified percentage of our common stock (ranging from 20% to 50% depending on the particular manufacturer’s restrictions) and this trigger level can fall to as low as 5% if another vehicle manufacturer is the entity acquiring the ownership interest or voting rights;
- certain material changes in our business or extraordinary corporate transactions, such as a merger or sale of a material amount of our assets;
- the removal of a dealership general manager without the consent of the manufacturer; and
- a change in control of our Board of Directors or a change in management.

Our manufacturers may also impose additional similar restrictions on us in the future. Actions by our stockholders or prospective stockholders, which would violate any of the above restrictions, are generally outside our control. If we are unable to comply with or renegotiate these restrictions, we may be forced to terminate or sell one or more franchises, which could have a material adverse effect on our business. These restrictions may prevent or deter prospective acquirers from acquiring control of us and, therefore, may adversely impact the value of our common stock. These restrictions also may impede our ability to acquire dealership groups, to raise required capital or to issue our stock as consideration for future acquisitions.

Our certificate of incorporation, bylaws and franchise agreements contain provisions that make a takeover of us difficult.

Our certificate of incorporation and bylaws could make it more difficult for a third party to acquire control of us, even if such change of control would be beneficial to our stockholders. These include provisions:

- allowing only the Board of Directors to set the number of non-employee directors;
- requiring super-majority or class voting to affect certain amendments to our certificate of incorporation and bylaws;
- limiting the persons who may call special stockholders’ meetings;
- limiting stockholder action by written consent; and
- establishing advance notice requirements for nominations for election to the Board of Directors or for proposing matters that can be acted upon at stockholders’ meetings.

In addition, our certificate of incorporation authorizes us to issue “blank check” preferred stock, the designation, number, voting powers, preferences, and rights of which may be fixed or altered from time to time by our Board of Directors. Accordingly, the Board of Directors has the authority, without stockholder approval, to issue preferred stock with rights that could materially adversely affect the voting power or other rights of the common stockholders or the market value of the common stock and prevent a change of our control.

Finally, certain of our franchise agreements prohibit the acquisition of more than a specified percentage of our common stock without the consent of the relevant manufacturer. These terms of our franchise agreements could also make it more difficult for a third party to acquire control of us.

#### Item 1B. Unresolved Staff Comments

None.

#### Item 2. Properties

We presently lease our corporate headquarters, which is located at 800 Gessner, Suite 500, Houston, Texas, as well as our regional headquarters in Brazil. In addition, as of December 31, 2018, we had 238 franchises situated in 183 dealership locations throughout the U.S., U.K. and Brazil. As of December 31, 2018, we leased 82 of these dealership locations and owned the remainder. We have one location in Massachusetts, one location in Alabama, one location in California, one location in



Texas and two in Brazil where we lease the land, but own the building facilities. These locations are included in the leased column of the table below.

Region	Geographic Location	Dealerships	
		Owned	Leased
United States	Texas	31	26
	Oklahoma	8	5
	Georgia	6	—
	Massachusetts	4	1
	New Jersey	4	—
	Florida	4	—
	Kansas	4	—
	Mississippi	3	—
	South Carolina	3	—
	New Mexico	2	—
	Maryland	2	—
	New Hampshire	2	1
	California	—	5
	Louisiana	3	2
	Alabama	1	1
		77	41
International	United Kingdom	20	27
	Brazil	4	14
Total		101	82

We use a number of facilities to conduct our dealership operations. Each of our dealerships may include facilities for (1) new and used vehicle sales, (2) vehicle service operations, (3) retail and wholesale parts operations, (4) collision business operations, (5) storage and (6) general office use. Prior to 2005, we tried to structure our operations so as to avoid the ownership of real property. Since 2005, we have strategically increased the number of purchased properties particularly in relation to dealership acquisition activity to enhance our flexibility in managing performing and underperforming dealerships and control our costs. As a result, we own 55.2% of our dealership properties as of December 31, 2018, an increase from 53.2% as of December 31, 2017. See Note 19, “Operating Leases”, within the Notes to Consolidated Financial Statements.

Since 2005, Group 1 Realty, Inc., one of our wholly-owned subsidiaries, has typically acquired the property in connection with our U.S. dealership acquisitions and relocations and acts as the landlord for those dealership operations. On a consolidated basis for the year ended December 31, 2018, we acquired \$53.8 million of real estate, of which \$22.4 million was purchased in conjunction with our dealership acquisitions. With these acquisitions, the capitalized value of the real estate used in operations that we own was \$1,141.5 million as of December 31, 2018. Of this capitalized value, \$761.9 million was mortgaged through our real estate related borrowing arrangements. The related mortgage indebtedness outstanding as of December 31, 2018 was \$420.1 million, excluding unamortized debt issuance costs of \$0.6 million.

We do not believe that any single facility is material to our operations and, if necessary, we would obtain a replacement facility.

### Item 3. Legal Proceedings

From time to time, our 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, we may be involved in legal proceedings or suffer losses that could have a material adverse effect on our business. In the normal course of business, we are 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 (“SG&A”) in our Consolidated Statements of Operations. In



addition, the manufacturers of the vehicles that we sell and service have audit rights allowing them to review the validity of amounts claimed for incentive, rebate or warranty-related items and charge us back for amounts determined to be invalid payments under the manufacturers' programs, subject to our

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 our Consolidated Statements of Operations, while such amounts for manufacturer chargebacks of recognized warranty-related items are included as a reduction of revenues in our Consolidated Statements of Operations.

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

Item 4. Mine Safety Disclosures

Not Applicable.

## PART II

Item 5. Market for Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities  
Our common stock is listed on the New York Stock Exchange under the symbol "GPI." There were 46 holders of record of our common stock as of February 1, 2019. A substantially greater number of holders of our common stock are "street name" or beneficial holders, whose shares are held of record by banks, brokers, and other financial institutions.

### Performance Graph

The following performance graph and related information shall not be deemed "soliciting material" or "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act or the Exchange Act except to the extent that we specifically incorporate it by reference into such filing.

The graph compares the performance of our common stock to the S&P 500 Index and to an industry peer group for our last five fiscal years. The members of the peer group are Asbury Automotive Group, Inc., AutoNation, Inc., Lithia Motors, Inc., Penske Automotive Group, Inc. and Sonic Automotive, Inc. The source for the information contained in this table is Zack's Investment Research, Inc.

The returns of each member of the peer group are weighted according to each member's stock market capitalization as of the beginning of each period measured. The graph assumes that the value of the investment in our common stock, the S&P 500 Index and the peer group was \$100 on the last trading day of December 2013, and that all dividends were reinvested. Performance data for Group 1 Automotive, Inc., the S&P 500 Index and for the peer group is provided as of the last trading day of each of our last five fiscal years.

### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURNS

### AMONG GROUP 1 AUTOMOTIVE, INC., S&P 500 INDEX AND A PEER GROUP

## TOTAL RETURN BASED ON \$100 INITIAL INVESTMENT &amp; REINVESTMENT OF DIVIDENDS

Measurement Date	Group 1 Automotive, Inc.	S&P 500	Peer Group
December 2013	\$100.00	\$100.00	\$100.00
December 2014	127.32	113.69	118.87
December 2015	108.61	115.26	114.43
December 2016	113.49	129.05	111.10
December 2017	104.82	157.22	112.72
December 2018	79.08	150.33	87.72

Recent Sales of Unregistered Securities  
None.

## Purchases of Equity Securities by the Issuer

The following table provides information about purchases of equity securities that are registered by us pursuant to Section 12 of the Exchange Act during the three months ended December 31, 2018:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (In thousands, excluding commissions) (1)
October 1 - October 25, 2018 <sup>(2)</sup>	399,872	\$ 62.52	399,872	\$ 18,277
October 26 - October 31, 2018	42,700	\$ 57.53	42,700	\$ 97,543
November 1 - November 30, 2018	580,099	\$ 56.52	580,099	\$ 64,753
December 1 - December 31, 2018	291,115	\$ 51.69	291,115	\$ 49,706
Total	1,313,786	\$ 57.31	1,313,786	

<sup>(1)</sup> In October 2018, the Board of Directors authorized an increase of the previously authorized repurchase amount that was remaining under the plan to \$100.0 million. Under both the previous and updated authorizations, we repurchased 2,849,652 shares during 2018 at an average price of \$63.75 per share, for a total of \$181.7 million, leaving \$49.7 million available for future repurchases. Future repurchases are subject to the discretion of our Board of Directors after considering our results of operations, financial condition, cash flows, capital requirements, existing debt covenants, outlook for our business, general business conditions and other factors. During the three months ended December 31, 2018, 1,313,786 shares were repurchased for a total cost of \$75.3 million.

<sup>(2)</sup> Shares repurchased under the Rule 10b5-1 trading plan that was effective from October 1, 2018 to October 25, 2018.

## Item 6. Selected Financial Data

The following selected historical financial data as of December 31, 2018, 2017, 2016, 2015, and 2014, and for the five years in the period ended December 31, 2018, have been derived from our audited Consolidated Financial Statements. This selected financial data should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Consolidated Financial Statements and related notes included elsewhere in this Annual report on Form 10-K.

We account for all of our dealership acquisitions by applying the acquisition method. As a result, we do not include in our financial statements the results of operations of these dealerships prior to the date we acquired them, which may impact the comparability of the financial information presented. Also, as a result of the effects of our acquisitions, dispositions, and other potential factors in the future, the historical financial information described in the selected financial data is not necessarily indicative of our results of operations and financial position in the future or the results of operations and financial position that would have resulted had such transactions occurred at the beginning of the periods presented in the selected financial data.

	Years Ended December 31,				
	2018 <sup>(4)</sup>	2017	2016	2015	2014
	(In thousands, except per share amounts)				
<b>Income Statement Data:</b>					
Revenues	\$ 11,601,358	\$ 11,123,721	\$ 10,887,612	\$ 10,632,505	\$ 9,937,889
Cost of sales	9,876,265	9,478,212	9,292,543	9,098,533	8,489,951
Gross profit	1,725,093	1,645,509	1,595,069	1,533,972	1,447,938
Selling, general and administrative expenses	1,273,057	1,226,195	1,170,763	1,120,833	1,061,964
Depreciation and amortization expense	67,070	57,936	51,234	47,239	42,344
Asset impairments	43,883	19,506	32,838	87,562	41,520
Income from operations	341,083	341,872	340,234	278,338	302,110
Other expense:					
Floorplan interest expense	(59,882	) (52,372	) (44,927	) (39,264	) (41,614
Other interest expense, net	(75,798	) (70,497	) (67,936	) (56,903	) (49,693
Loss on extinguishment of long-term debt	—	—	—	—	(46,403
Income from continuing operations before income taxes	205,403	219,003	227,371	182,171	164,400
Provision for income taxes	(47,631	) (5,561	) (80,306	) (88,172	) (71,396
Net income	\$ 157,772	\$ 213,442	\$ 147,065	\$ 93,999	\$ 93,004
<b>Earnings per common share:</b>					
<b>Basic:</b>					
Net income	\$ 7.83	\$ 10.08	\$ 6.67	\$ 3.91	\$ 3.82
<b>Diluted:</b>					
Net income	\$ 7.83	\$ 10.08	\$ 6.67	\$ 3.90	\$ 3.60
Dividends per share	\$ 1.04	\$ 0.97	\$ 0.91	\$ 0.83	\$ 0.70
<b>Weighted average common shares outstanding:</b>					
Basic	19,453	20,420	21,161	23,148	23,380
Diluted	19,461	20,425	21,170	23,152	24,885

	As of December 31,					
	2018 <sup>(4)</sup>	2017	2016	2015	2014	
	(Dollars in thousands)					
Balance Sheet Data:						
Working capital	\$ 15,801	\$ 130,699	\$ 97,470	\$ 149,102	\$ 101,958	
Inventories	1,844,059	1,763,293	1,651,815	1,737,751	1,556,705	
Total assets	5,001,075	4,871,065	4,461,903	4,396,716	4,127,198	
Floorplan notes payable — credit facility and other <sup>(1)</sup>	1,258,815	1,154,148	1,077,028	1,154,960	1,103,630	
Floorplan notes payable — manufacturer affiliates <sup>(2)</sup>	417,824	374,683	367,161	363,571	285,156	
Long-term debt, including current portion <sup>(3)</sup>	1,366,167	1,357,712	1,269,027	1,251,555	1,078,235	
Stockholders' equity	\$ 1,095,694	\$ 1,124,282	\$ 930,200	\$ 918,252	\$ 978,010	
Long-term debt to capitalization	55	% 55	% 58	% 58	% 52	%

<sup>(1)</sup> Includes immediately available funds of \$33.6 million, \$86.5 million, \$59.6 million, \$110.8 million, and \$39.6 million as of December 31, 2018, 2017, 2016, 2015 and 2014, respectively, that we temporarily invest as an offset to the gross outstanding borrowings, as well as \$41.1 million, \$20.9 million, \$4.9 million, \$4.1 million, and \$5.5 million as of December 31, 2018, 2017, 2016, 2015, and 2014, respectively, of floorplan borrowings under credit facilities with financial institutions in the U.K. and Brazil.

<sup>(2)</sup> Includes immediately available funds of \$0.1 million, \$22.5 million, \$25.5 million, \$25.5 million, and \$22.5 million as of December 31, 2018, 2017, 2016, 2015, and 2014, respectively, that we temporarily invest as an offset to the gross outstanding borrowings.

<sup>(3)</sup> Includes the 5.00% Notes, 5.25% Notes, 3.00% Notes, 2.25% Notes, Acquisition Line, real estate related and other long-term debt and excludes short-term financing.

<sup>(4)</sup> ASU 2014-09, Revenue from Contracts with Customers (Topic 606), was adopted utilizing the modified retrospective method applied to those contracts that were not completed as of January 1, 2018. 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 historical accounting policies under Topic 605, Revenue Recognition.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with Part I, including the matters set forth in "Item 1A. Risk Factors," and our Consolidated Financial Statements and notes thereto included elsewhere in this Annual Report on Form 10-K.

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

Our results, which are reported in U.S. dollars, are impacted by fluctuations in exchange rates relating to our operations in the U.K. and Brazil. For example, if the British pound sterling were to weaken against the U.S. dollar, our U.K. results of operations would translate into less U.S. dollar reported results. During the twelve months ended December 31, 2018, the British pound sterling strengthened against the U.S. dollar as the average exchange rate increased 3.5% as compared to the same period in 2017 from 0.78 to 0.75. During the twelve months ended December 31, 2018, the Brazilian real weakened against the U.S. dollar as the average exchange rate decreased 14.4% as compared to the same period in 2017 from 3.19 to 3.65. During the twelve months ended December 31, 2017, the British pound sterling weakened against the U.S. dollar as the average rate decreased 4.9%, as compared to the same period in 2016. During the twelve months ended December 31, 2017, the Brazilian real strengthened against the U.S. dollar as compared to the same period in 2016 as the average rate increased 8.5%. As such, management evaluates the Company's results of operations on both an as reported and a constant currency basis. The constant currency presentation, which is a non-GAAP measure, excludes the impact of fluctuations in foreign currency exchange rates. We believe providing constant currency information provides valuable supplemental information regarding our underlying business and results of operations, consistent with how we evaluate our performance. We calculate constant currency percentages by converting our current period reported results for entities reporting in currencies other than U.S. dollars using comparative period exchange rates rather than the actual exchange rates in effect during the respective periods. The constant currency performance measures should not be considered a substitute for, or superior to, the measures of financial performance prepared in accordance with U.S. GAAP.

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

### Overview

We are a leading operator in the automotive retail industry. Through our dealerships, we sell new and used cars and light trucks; arrange related vehicle financing; sell service and other insurance contracts; provide automotive maintenance and repair services; and sell vehicle parts. Our operations are aligned into three geographic regions: the U.S. Region, the U.K. Region, and the Brazil Region. Our President of U.S. Operations reports directly to our Chief Executive Officer and is responsible for the overall performance of the U.S. region, as well as for overseeing the market directors and dealership general managers. The operations of our two international regions are structured similar to the U.S. region. As such, our three reportable segments are the U.S., which includes the activities of our corporate office, the U.K. and Brazil.

As of December 31, 2018, we owned and operated 238 franchises, representing 30 brands of automobiles, at 183 dealership locations and 47 collision centers worldwide. We own 152 franchises at 118 dealerships and 29 collision centers in the U.S., 63 franchises at 47 dealerships and 11 collision centers in the U.K., and 23 franchises at 18 dealerships and seven collision centers in Brazil. Our operations are primarily located in major metropolitan areas in Alabama, California, Florida, Georgia, Kansas, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire,

New Jersey, New Mexico, Oklahoma, South Carolina and Texas in the U.S., in 32 towns of the U.K. and in key metropolitan markets in the states of Sao Paulo, Parana, Mato Grosso do Sul and Santa Catarina in Brazil.

Our typical acquisition strategy is to acquire large, profitable, well-established and well-managed dealerships that are leaders in their respective market areas. From January 1, 2014 through December 31, 2018, we have purchased 72 franchises with expected annual revenues, estimated at the time of acquisition, of \$2.8 billion and granted ten new franchises by our manufacturer partners, with expected annual revenues, estimated at the time of acquisition, of \$175.0 million. In 2018, we acquired five U.K. dealerships, inclusive of eight franchises, added one franchise and opened one additional dealership, for one



awarded franchise in the U.K. The Company also acquired four dealerships in the U.S., inclusive of four franchises and opened one additional dealership, representing one additional franchise. In addition, the Company acquired one dealership in Brazil, inclusive of one franchise, and opened one dealership, inclusive of one franchise. The expected aggregate annualized revenues, estimated at the time of acquisition, for these acquisitions, were \$615.0 million. We make disposition decisions based principally on the rate of return on our capital investment, the location of the dealership, our ability to leverage our cost structure, the brand, future capital investments required and existing real estate obligations. From January 1, 2014 through December 31, 2018, we disposed of or terminated 36 franchises with annual revenues of approximately \$1.0 billion. Specifically, during 2018, the Company disposed of two dealerships in the U.S., representing three franchises, terminated one additional franchise in the U.S., disposed of one dealership in the U.K., representing one franchise, and terminated one additional franchise in the U.K., with aggregate annual revenues of approximately \$195.0 million.

We account for our dealership acquisitions by applying the acquisition method of accounting. As a result, we do not include in our financial statements the results of operations of these dealerships prior to the date we acquired them, which may impact the comparability of the financial information presented. Also, as a result of the effects of our acquisitions, dispositions, and other potential factors in the future, our historical financial information is not necessarily indicative of our results of operations and financial position in the future or the results of operations and financial position that would have resulted had such transactions occurred at the beginning of the periods presented. In the following discussion and analysis, we report certain performance measures of our newly acquired and disposed dealerships separately from those of our existing dealerships.

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

According to U.S. industry experts, the annual new light vehicle unit sales for 2018 increased 0.2%, to 17.3 million units as compared to the same period a year ago. The U.K. economy represents the fifth largest economy in the world. Vehicle registrations in the U.K. decreased 6.8% to 2.4 million during 2018 as compared to the same period in 2017. The U.K. industry's new vehicle sales have experienced more volatility than normal following the Brexit vote in 2016. The announcement of Brexit caused significant exchange rate fluctuations that resulted in the weakening of the British pound sterling, in which we conduct business in the U.K., against the U.S. dollar and other global currencies. The weakening of the British pound sterling since the initial Brexit vote has and may continue to adversely affect our results of operations, as well as have a negative impact on the pricing and affordability of the vehicles in the U.K. Volatility in exchange rates is expected to continue in the short term, at least until there is a clear path forward in response to Brexit.

The Brazilian economy represents the eighth largest economy in the world. The Brazilian economy has been in an extended recession, but is starting to show some early signs of recovery. During 2018, new vehicle registrations in Brazil increased 18.2%, to 2.6 million units as compared to the same period in 2017. We expect macro-economic conditions to continue to improve in Brazil. Longer term, we expect sustained improvements in industry sales volumes and are utilizing a strategy of aligning with growing brands, in order to most effectively capitalize on that industry growth.



## Key Performance Indicators

On a consolidated basis for the year ended December 31, 2018, our total revenues increased 4.3% from 2017 to \$11.6 billion and gross profit improved 4.8% to \$1.7 billion. For the years ended December 31, 2017 and 2016, total revenues were \$11.1 billion and \$10.9 billion, respectively. For the years ended December 31, 2017 and 2016, gross profits were \$1.6 billion and \$1.6 billion, respectively. We generated net income of \$157.8 million, or \$7.83 per diluted common share, for the year ended December 31, 2018, compared to \$213.4 million, or \$10.08 per diluted share, for the year ended December 31, 2017 and \$147.1 million, or \$6.67 per diluted share, for the year ended December 31, 2016. In addition, the following table highlights additional key performance indicators we use to manage our business:

## Consolidated Statistical Data

	For the Years Ended			
	December 31,			
	2018	2017	2016	
Unit Sales				
Retail Sales				
New Vehicle	170,517	172,200	172,053	
Used Vehicle	147,999	129,933	129,131	
Total Retail Sales	318,516	302,133	301,184	
Wholesale Sales	53,887	57,144	57,339	
Total Vehicle Sales	372,403	359,277	358,523	
Gross Margin				
New Vehicle Retail Sales	5.0	% 5.2	% 5.2	%
Total Used Vehicle Sales	5.3	% 5.5	% 5.6	%
Parts and Service Sales	53.6	% 53.8	% 53.9	%
Total Gross Margin	14.9	% 14.8	% 14.7	%
Adjusted Total Gross Margin <sup>(1)</sup>	14.9	% 14.8	% 14.7	%
SG&A as a % of Gross Profit	73.8	% 74.5	% 73.4	%
Adjusted SG&A as a % of Gross Profit <sup>(1)</sup>	74.6	% 73.7	% 73.7	%
Operating Margin	2.9	% 3.1	% 3.1	%
Adjusted Operating Margin <sup>(1)</sup>	3.2	% 3.4	% 3.4	%
Pretax Margin	1.8	% 2.0	% 2.1	%
Adjusted Pretax Margin <sup>(1)</sup>	2.0	% 2.3	% 2.3	%
Finance and Insurance Revenues per Retail Unit Sold	\$1,468	\$1,420	\$1,397	
Adjusted Finance and Insurance Revenues per Retail Unit Sold <sup>(1)</sup>	\$1,464	\$1,442	\$1,397	

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

In addition to the matters described above, the following factors impacted our financial condition and results of operations in 2018, 2017, and 2016:

## Year Ended December 31, 2018:

**Non-cash Asset Impairments:** Due to our determination that the fair value of indefinite-lived intangible franchise rights related to certain of our franchises did not exceed their carrying value, we recorded a \$38.7 million pretax non-cash impairment charge, of which \$38.2 million related to intangible franchise rights in our U.S. reporting unit and \$0.5 million related to intangible franchise rights in our U.K. reporting unit. In addition, primarily in conjunction with dealership disposition activity, an additional \$5.1 million of non-cash asset impairments were recognized, related to real estate and other long-term assets.

**Real Estate and Dealership Transactions:** We disposed of six franchises: four in the U.S. segment and two in the U.K. segment. Primarily as a result of these dispositions, a net pre-tax gain of \$25.2 million was recognized for the year ended December 31, 2018.

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Catastrophic Events: Our results were negatively impacted by several catastrophic events. Insurance deductibles and other related expenses totaling \$5.3 million were recognized as SG&A expenses primarily as a result of vehicle damages from hailstorms in the U.S. during the year.

Settlement: We recognized a net pre-tax loss of \$5.0 million associated with legal settlements in our U.S. and Brazil segments.

Year Ended December 31, 2017:

Non-cash Asset Impairments: Due to our determination that the fair value of indefinite-lived intangible franchise rights related to certain of our franchises did not exceed their carrying value, we recorded a \$19.3 million pretax non-cash impairment charge, of which \$12.6 million related to intangible franchise rights in our U.S. reporting unit and \$6.7 million related to intangible franchise rights in our Brazil reporting unit.

Catastrophic Events: Our results were negatively impacted by several catastrophic events. Most significantly, insurance deductibles and other related expenses totaling \$8.8 million were recognized as SG&A expenses and \$6.6 million of chargeback expense reserves associated with finance and insurance revenues were recognized, as a result of vehicle and property damage suffered from Hurricanes Harvey and Irma in the U.S.

OEM Settlement: We recognized a net pretax gain of \$1.1 million associated with the Audi diesel emissions claims settlement, in connection with our ownership of Audi dealerships in the U.S.

Tax Rate Changes: We recognized a tax benefit of \$73.0 million based upon the re-measurement of net deferred tax liabilities associated with the reduction in the corporate income tax rate enacted by the U.S. government, commonly referred to as the Tax Act.

Year Ended December 31, 2016:

Non-cash Asset Impairments: Due to our determination that the fair value of indefinite-lived intangible franchise rights related to certain of our franchises did not exceed their carrying value, we recorded a \$30.0 million pretax non-cash impairment charge, of which \$19.9 million related to intangible franchise rights in our two U.S. reporting units and \$10.1 million related to intangible franchise rights in our Brazil reporting unit. We also recognized a total of \$2.8 million in pre-tax non-cash asset impairment charges related to impairment of various real estate holdings and other long-lived assets.

Catastrophic Events: Our results were negatively impacted by several catastrophic events. Insurance deductibles and other related expenses totaling \$5.9 million were recognized as SG&A expenses as a result of vehicle damage from hailstorms and flooding in the U.S., during the year.

Real Estate and Dealership Transactions: We disposed of ten franchises: five in the U.S. segment, four in the Brazil segment and one in the U.K. segment. Primarily as a result of these dispositions, a net pre-tax gain of \$2.7 million and net pre-tax losses of \$0.8 million and \$0.3 million, respectively, were recognized for the year ended December 31, 2016.

OEM Settlement: We recognized a net pre-tax gain of \$11.7 million associated with the Volkswagen diesel emissions claims settlement, in connection with our ownership of Volkswagen dealerships in the U.S.

Severance Costs: Negatively impacting our results was \$2.0 million of severance costs paid to employees.

Foreign deferred income tax benefit: We recognized a tax benefit of \$1.7 million associated with a dealership disposition in Brazil.

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

Recent Accounting Pronouncements

Refer to Note 2, "Summary of Significant Accounting Policies and Estimates", within our Notes to Consolidated Financial Statements for a discussion of those most recent pronouncements that impact us.

Critical Accounting Policies and Accounting Estimates

The accounting policies and estimates that we believe to be the most difficult, subjective and complex include those related to: revenue recognition, goodwill, intangible franchise rights, income taxes, fair value of assets acquired and liabilities assumed, derivative financial instruments and self-insured medical, property and casualty reserves. The preparation of our financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions, including those associated with the difficult, subjective and complex areas described above. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the balance sheet date and the amounts of revenues and expenses recognized during the reporting period.

We analyze our estimates based on our historical

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experience and various other assumptions that we believe to be reasonable under the circumstances. However, actual results could differ from such estimates.

For example, if any of our assumptions change, or fail to materialize, in a negative manner, the resulting decline in its estimated fair market value of intangible franchise rights could result in a material non-cash impairment charge. To illustrate, we performed two separate sensitivity analyses on its 2018 annual impairment assessment of goodwill and intangible franchise rights. If our assumptions regarding the risk-free rate and cost of debt differed such that the estimated WACC used in its 2018 assessment increased by 200 basis points, and all other assumptions remained constant, an additional \$25.8 million of non-cash franchise rights impairment charges would have resulted, excluding franchises acquired since the previous annual test. This additional impairment would have consisted of \$23.5 million in the U.S. and \$2.3 million in the U.K. In this sensitivity scenario, all Regions passed the Step One goodwill impairment test. Our second sensitivity analysis represented a recessionary sales environment that assumes the U.S. SAAR dips to levels experienced in 2009, or a SAAR of 10.5 million units, in 2020 from a forecasted SAAR in 2019 of 16.8 million and marginally rebounds to a SAAR of 13.5 million units in 2023. The recessionary case includes similar adjustments to the forecast assumptions relative to the U.K. Region for the periods 2020 through 2022. Relative to Brazil, the recessionary case forecasted sales to be flat in 2020 and 2021 at 2.45 million units, and increase to 2.55 million units in years 2022 and 2.65 million units in 2023. In this second sensitivity analysis, an additional \$42.9 million of non-cash franchise rights impairment charges would have resulted, including \$40.3 million and \$2.6 million for the U.S. and the U.K., respectively. In this scenario, none of the Company's reporting units would have failed the step one impairment test for goodwill.

In addition, we receive commissions from finance and insurance providers, under the terms of its contracts with such providers, for the arrangement of vehicle financing and the sale of service and other insurance products. We 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 our historical chargeback results and the termination provisions of the applicable contracts. While chargeback results vary depending on the type of contract sold, a 10% increase in the historical chargeback experience used in determining estimates of future amounts that might be charged back would have increased the reserve at December 31, 2018 by \$4.6 million.

Further, at least annually, we engage a third-party actuary to conduct a study of the exposures under the self-insured portion of our worker's compensation and general liability insurance programs for all open policy years. In the interim, we review the estimates within the study and monitors actual experience for unusual variances. The appropriate adjustments are made to the accrual, based upon these procedures. Actuarial estimates for the portion of claims not covered by insurance are based on historical claims experience adjusted for loss trending and loss development factors. Changes in the frequency or severity of claims from historical levels could influence our reserve for claims and our financial position, results of operations and cash flows. A 10% increase in the actuarially determined estimate of aggregate future losses would have increased the reserve for these losses at December 31, 2018, by \$1.9 million. See Note 2, "Summary of Significant Accounting Policies and Estimates", within our Notes to Consolidated Financial Statements, for further discussion of these accounting policies and estimates that are of particular importance to the portrayal of our financial position, results of operations and cash flows.

#### Results of Operations

The "Same Store" amounts presented below include the results of dealerships for the identical months in each period presented in the comparison, commencing with the first full month in which the dealership was owned by us and, in the case of dispositions, ending with the last full month it was owned by us. For example, for a dealership acquired in June 2017, the results from this dealership will appear in our Same Store comparison beginning in 2018 for the period July 2018 through December 2018, when comparing to July 2017 through December 2017 results. Depending on the periods being compared, the dealerships included in Same Store will vary. For this reason, the 2017 Same Store results that are compared to 2018 differ from those used in the comparison to 2016. Same Store results also include the activities of our corporate headquarters.

The following table summarizes our combined Same Store results for the year ended December 31, 2018 as compared to 2017 and for the year ended December 31, 2017 compared to 2016.



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Total Same Store Data

(dollars in thousands, except per unit amount)

	For The Years Ended December 31,								
	2018	%	Constant Currency Increase/(Decrease)	2017	2017	%	Constant Currency Increase/(Decrease)	2016	
			Increase/(Decrease)				Increase/(Decrease)		
<b>Revenues</b>									
New vehicle retail	\$5,823,673	(4.4 )%	(4.3 )%	\$6,089,164	\$5,962,549	0.2 %	0.6 %	\$5,951,471	
Used vehicle retail	2,952,738	6.8 %	6.5 %	2,763,994	2,680,878	(1.1 )%	(0.5 )%	2,709,721	
Used vehicle wholesale	334,712	(15.0 )%	(15.6 )%	393,973	374,148	(4.6 )%	(3.3 )%	392,071	
Parts and service	1,359,516	2.8 %	2.8 %	1,322,600	1,302,836	5.1 %	5.3 %	1,239,888	
Finance, insurance and other	446,148	5.3 %	5.3 %	423,801	417,905	0.9 %	1.2 %	414,015	
<b>Total revenues</b>	<b>\$10,916,787</b>	<b>(0.7 )%</b>	<b>(0.8 )%</b>	<b>\$10,993,532</b>	<b>\$10,738,316</b>	<b>0.3 %</b>	<b>0.7 %</b>	<b>\$10,707,166</b>	
<b>Cost of Sales</b>									
New vehicle retail	\$5,528,255	(4.2 )%	(4.2 )%	\$5,770,952	\$5,650,624	0.2 %	0.6 %	\$5,639,370	
Used vehicle retail	2,778,476	7.4 %	7.1 %	2,587,927	2,508,555	(0.8 )%	(0.2 )%	2,529,927	
Used vehicle wholesale	332,282	(16.2 )%	(16.8 )%	396,616	376,593	(4.9 )%	(3.7 )%	395,967	
Parts and service	633,892	3.7 %	3.9 %	610,990	602,720	5.6 %	5.8 %	570,618	
<b>Total cost of sales</b>	<b>9,272,905</b>	<b>(1.0 )%</b>	<b>(1.1 )%</b>	<b>9,366,485</b>	<b>9,138,492</b>	<b>— %</b>	<b>0.5 %</b>	<b>9,135,882</b>	
<b>Gross profit</b>	<b>\$1,643,882</b>	<b>1.0 %</b>	<b>1.1 %</b>	<b>\$1,627,047</b>	<b>\$1,599,824</b>	<b>1.8 %</b>	<b>2.2 %</b>	<b>\$1,571,284</b>	
<b>SG&amp;A</b>	<b>\$1,224,480</b>	<b>1.3 %</b>	<b>1.4 %</b>	<b>\$1,209,171</b>	<b>\$1,179,996</b>	<b>3.0 %</b>	<b>3.3 %</b>	<b>\$1,146,049</b>	
<b>Adjusted SG&amp;A<sup>(1)</sup></b>	<b>\$1,216,215</b>	<b>1.4 %</b>	<b>1.4 %</b>	<b>\$1,199,931</b>	<b>\$1,170,756</b>	<b>2.1 %</b>	<b>2.4 %</b>	<b>\$1,146,770</b>	
<b>Depreciation and amortization expenses</b>	<b>\$63,523</b>	<b>12.0 %</b>	<b>11.9 %</b>	<b>\$56,729</b>	<b>\$55,399</b>	<b>10.8 %</b>	<b>11.2 %</b>	<b>\$50,010</b>	
<b>Floorplan interest expense</b>	<b>\$57,849</b>	<b>11.6 %</b>	<b>11.5 %</b>	<b>\$51,823</b>	<b>\$51,342</b>	<b>15.3 %</b>	<b>15.7 %</b>	<b>\$44,517</b>	
<b>Gross margin</b>									
New vehicle retail	5.1	%		5.2	%	5.2	%	5.2	%
Used vehicle retail	5.4	%		5.5	%	5.6	%	5.7	%
Parts and service	53.4	%		53.8	%	53.7	%	54.0	%

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Total gross margin	15.1	%			14.8	%	14.9	%			14.7	%	
Adjusted Total gross margin <sup>(1)</sup>	15.0%				14.9%		15.0	%			14.7	%	
Adjusted Finance, insurance, and other, net <sup>(1)</sup>	\$445,073	3.4	%	3.4%	\$430,351		\$424,455	2.5	%	2.8	%	\$414,015	
Adjusted Total revenue <sup>(1)</sup>	\$10,915,712	(0.8	)%	(0.8	)%	\$11,000,082		\$10,744,866	0.4	%	0.8	%	\$10,707,166
Adjusted Gross profit <sup>(1)</sup>	\$1,642,807	0.6	%	0.6%	\$1,633,597		\$1,606,374	2.2	%	2.6	%	\$1,571,284	
Adjusted SG&A as a % of gross profit	74.5	%			74.3	%	73.8	%			72.9	%	
Adjusted SG&A as a % of gross profit <sup>(1)</sup>	74.0	%			73.5	%	72.9	%			73.0	%	
Operating margin	2.9	%			3.1	%	3.2	%			3.2	%	

Adjusted operating margin <sup>(1)</sup>	3.3	%		3.4	%	3.5	%		3.5	%		
Finance and insurance revenues per retail unit sold	\$ 1,493	5.3	%	5.3	%	\$ 1,418	\$ 1,443	2.6	%	2.8	%	\$ 1,407
Adjusted Finance and insurance revenues per retail unit sold <sup>(1)</sup>	\$ 1,490	3.5	%	3.5	%	\$ 1,440	\$ 1,465	4.1	%	4.4	%	\$ 1,407

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

The discussion that follows provides explanations for the variances noted above by region (U.S., U.K. and Brazil). In addition, each table presents, by primary income statement line item, comparative financial and non-financial data of our Same Store locations, those locations acquired or disposed of (“Transactions”) during the periods, and the consolidated company for the years ended December 31, 2018, 2017, and 2016.

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New Vehicle Retail Data

(Dollars in thousands, except per unit amounts)

For The Years Ended December 31,

	2018	% Increase/ (Decrease)	Constant Currency % Increase/(Decrease)	2017	2017	% Increase/ (Decrease)	Constant Currency % Increase/(Decrease)	2016
<b>Retail Unit Sales</b>								
<b>Same Stores</b>								
U.S.	120,090	(4.8 )%		126,205	126,247	(1.7 )%		128,441
U.K.	31,777	(11.1 )%		35,751	31,054	1.1 %		30,719
Brazil	8,369	(0.3 )%		8,390	8,198	(6.8 )%		8,798
<b>Total Same Stores</b>	<b>160,236</b>	<b>(5.9 )%</b>		<b>170,346</b>	<b>165,499</b>	<b>(1.5 )%</b>		<b>167,958</b>
Transactions	10,281			1,854	6,701			4,095
<b>Total</b>	<b>170,517</b>	<b>(1.0 )%</b>		<b>172,200</b>	<b>172,200</b>	<b>0.1 %</b>		<b>172,053</b>
<b>Retail Sales Revenues</b>								
<b>Same Stores</b>								
U.S.	\$4,577,539	(3.1 )%	N/A	\$4,722,200	\$4,732,177	0.4 %	N/A	\$4,713,124
U.K.	978,873	(8.8 )%	(11.9 )%	1,073,144	943,182	(2.5 )%	2.2 %	967,424
Brazil	267,261	(9.0 )%	3.6 %	293,820	287,190	6.0 %	(2.2 )%	270,923
<b>Total Same Stores</b>	<b>5,823,673</b>	<b>(4.4 )%</b>	<b>(4.3 )%</b>	<b>6,089,164</b>	<b>5,962,549</b>	<b>0.2 %</b>	<b>0.6 %</b>	<b>5,951,471</b>
Transactions	357,698			68,367	194,982			94,604
<b>Total</b>	<b>\$6,181,371</b>	<b>0.4 %</b>	<b>0.3 %</b>	<b>\$6,157,531</b>	<b>\$6,157,531</b>	<b>1.8 %</b>	<b>2.3 %</b>	<b>\$6,046,075</b>
<b>Gross Profit</b>								
<b>Same Stores</b>								
U.S.	\$223,295	(7.5 )%	N/A	\$241,341	\$242,301	0.7 %	N/A	\$240,528
U.K.	54,607	(8.7 )%	(11.4 )%	59,827	52,962	(5.3 )%	(0.8 )%	55,921
Brazil	17,516	2.8 %	18.0 %	17,044	16,662	6.5 %	(1.7 )%	15,652
<b>Total Same Stores</b>	<b>295,418</b>	<b>(7.2 )%</b>	<b>(6.9 )%</b>	<b>318,212</b>	<b>311,925</b>	<b>(0.1 )%</b>	<b>0.3 %</b>	<b>312,101</b>
Transactions	15,451			3,793	10,080			4,277
<b>Total</b>	<b>\$310,869</b>	<b>(3.5 )%</b>	<b>(3.2 )%</b>	<b>\$322,005</b>	<b>\$322,005</b>	<b>1.8 %</b>	<b>2.2 %</b>	<b>\$316,378</b>
<b>Gross Profit per Retail Unit Sold</b>								
<b>Same Stores</b>								
U.S.	\$1,859	(2.8 )%	N/A	\$1,912	\$1,919	2.5 %	N/A	\$1,873
U.K.	\$1,718	2.7 %	(0.3 )%	\$1,673	\$1,705	(6.3 )%	(1.9 )%	\$1,820
Brazil	\$2,093	3.1 %	18.3 %	\$2,031	\$2,032	14.2 %	5.5 %	\$1,779
<b>Total Same Stores</b>	<b>\$1,844</b>	<b>(1.3 )%</b>	<b>(1.0 )%</b>	<b>\$1,868</b>	<b>\$1,885</b>	<b>1.5 %</b>	<b>1.8 %</b>	<b>\$1,858</b>
Transactions	\$1,503			\$2,046	\$1,504			\$1,044
<b>Total</b>	<b>\$1,823</b>	<b>(2.5 )%</b>	<b>(2.3 )%</b>	<b>\$1,870</b>	<b>\$1,870</b>	<b>1.7 %</b>	<b>2.2 %</b>	<b>\$1,839</b>
<b>Gross Margin Same Stores</b>								

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U.S.	4.9	%	5.1	%	5.1	%	5.1	%
U.K.	5.6	%	5.6	%	5.6	%	5.8	%
Brazil	6.6	%	5.8	%	5.8	%	5.8	%
Total Same Stores	5.1	%	5.2	%	5.2	%	5.2	%
Transactions	4.3	%	5.5	%	5.2	%	4.5	%
Total	5.0	%	5.2	%	5.2	%	5.2	%

The following table sets forth our Same Store retail unit sales volume and the percentage changes from year to year by manufacturer:

## Same Store New Vehicle Unit Sales

	For The Years Ended December 31,					
	2018	% Increase/ (Decrease)	2017	2017	% Increase/ (Decrease)	2016
Toyota/Scion/Lexus <sup>(1)</sup>	41,991	(3.4 )%	43,468	42,949	0.2 %	42,869
BMW/MINI	20,534	(6.3 )	21,903	21,520	(7.1 )	23,160
Volkswagen/Audi/Porsche/SEAT/SKODA	20,494	(11.6 )	23,186	21,157	8.2	19,546
Ford/Lincoln	18,390	(4.9 )	19,329	18,710	(1.1 )	18,925
Honda/Acura	15,527	(2.2 )	15,882	15,882	2.0	15,575
Nissan	10,830	(14.2 )	12,624	12,045	6.6	11,302
Chevrolet/GMC/Buick/Cadillac	10,343	(3.5 )	10,713	10,713	(16.4 )	12,811
Chrysler/Dodge/Jeep/RAM	6,766	1.1	6,692	6,692	(1.6 )	6,801
Hyundai/Kia	6,128	(9.3 )	6,757	6,484	(4.8 )	6,813
Mercedes-Benz/smart/Sprinter	5,277	(16.2 )	6,295	6,809	(7.3 )	7,349
Jaguar/Land Rover	1,985	25.6	1,580	719	(8.2 )	783
Other	1,971	2.8	1,917	1,819	(10.1 )	2,024
Total	160,236	(5.9 )%	170,346	165,499	(1.5 )%	167,958

<sup>(1)</sup> The Scion brand was discontinued by Toyota during the third quarter of 2016.

Our new vehicle business is influenced by general economic conditions, consumer confidence, interest rates, fuel prices, supply conditions, relative attractiveness of our brand portfolio, consumer transportation preferences, unemployment rates and credit availability, as well as the level of manufacturer incentives. The level of retail sales, as well as our own ability to retain or grow market share during any future period, is difficult to predict.

Year Ended December 31, 2018 compared to 2017

In total, our Same Store new vehicle retail unit sales decreased 5.9% for the year ended December 31, 2018, as compared to the same period in 2017. The decrease was driven by decreases of 4.8%, 11.1%, and 0.3% in the U.S., U.K., and Brazil, respectively. Our Same Store U.S. new vehicle unit sales decrease was primarily driven by difficult prior year comparisons in our Houston and Beaumont markets, reflecting strong replacement demand during the tail end of 2017 following Hurricane Harvey, which damaged hundreds of thousands of vehicles in the region. The impacted Houston and Beaumont markets experienced a combined decline of 10.9% versus 2017. Further contributing to the 4.8% decrease in Same Store U.S. new vehicle unit sales was an overall decline in new vehicle retail demand in the industry compared to 2017. Our Same Store U.S. new vehicle retail unit sales, excluding Houston and Beaumont, declined 2.5% against the same prior year period, generally in line with an industry decline in retail unit sales of 2.0% for 2018. Our Same Store U.K. new vehicle unit sales decrease of 11.1% was driven by supply constraints and lingering uncertainties around Brexit. The supply constraints stemmed from delays by various OEM partners in passing the new WLTP emissions standards that became effective on September 1, 2018 that, in conjunction with the impact of Brexit uncertainty on consumer confidence, drove the 6.8% decline in total U.K. industry sales for 2018 as compared to the same period last year. Sales of our brands were disproportionately affected by the inventory constraints resulting from WLTP emissions standards testing, especially our Audi models which declined 25.3% from 2017 levels. In Brazil, as the result of ongoing economic recovery, industry sales increased 13.7%. Our brand mix did not suffer as large of declines during the recession and did not have the same rebound in 2018 as the general market. In addition, we made an operational decision to prioritize margin over volume growth. As a result, we realized a 0.3% decline in our Same Store new vehicle retail unit sales.

Our total Same Store revenues from new vehicle retail sales decreased 4.4% for the year ended December 31, 2018, as compared to the same period in 2017, driven by declines in the U.S., U.K., and Brazil, respectively. The 3.1% decrease in U.S. Same Store new vehicle revenue was primarily due to the decline in new vehicle retail units of 4.8% noted above, but was partially offset by a 1.9% increase in average retail sales price to \$38,118. The increase in our

U.S. Same Store average retail sales price for the year ended December 31, 2018 was primarily a result of the continuing mix shift in sales from cars to trucks. U.S. new vehicle retail truck sales represented 65.5% of total Same Store new vehicle retail units sold for the year ended December 31, 2018, as compared to 61.1% for the same period last year. Our U.K. Same Store new vehicle revenues declined 8.8% for the twelve months ended December 31, 2018 as compared to 2017, primarily explained by the decline of 11.1% in

new vehicle retail unit sales in the U.K., partially offset by an increase in the average new vehicle sales price of 2.6%, which is explained by a change in exchange rates between periods. On a constant currency basis, U.K. average new vehicle sales price declined 0.9%, mostly explained by a temporary brand mix change due to supply constraints affecting relatively higher-value Audi sales. Our Brazil Same Store new vehicle revenues declined 9.0%, which was more than explained by the change in the exchange rate between periods. On a constant currency basis, our Brazil Same Store new vehicle revenues increased 3.6%, as a 3.8% increase in average retail sales price on a constant currency basis, more than offset the 0.3% decline in new vehicle retail units noted above.

Our total Same Store new vehicle gross profit decreased 7.2% for the year ended December 31, 2018, as compared to the same period in 2017, reflecting declines in the U.S. and U.K., that were partially offset by an increase in Brazil. In the U.S., Same Store new vehicle gross profit declined 7.5%, as the 4.8% decline in unit sales was compounded by a 2.8% decrease in gross profit per retail unit (PRU). The decrease in gross profit PRU was primarily driven by the impact on 2017 of temporarily inflated new vehicle gross profit PRU due to replacement demand in the aftermath of Hurricane Harvey at the end of that year. Same Store new vehicle gross profit in the U.K. decreased 8.7%, primarily explained by the decline in new vehicle retail unit sales, partially offset by a 2.7% increase in gross profit PRU. In Brazil, Same Store new vehicle gross profit rose 3.1% for the year ended December 31, 2018 compared to 2017. On a constant currency basis, Brazil same store new vehicle gross profit and gross profit PRU increased 18.0% and 18.3%, respectively, as compared to the same period in 2017, driven by our efforts to prioritize margins. Our total Same Store new vehicle gross margin declined 10 basis points to 5.1% for the year ended December 31, 2018, as compared to 5.2% for the same period in 2017. The decline was driven by the 20 basis point decrease in the U.S. to 4.9% from 5.1% for the same period a year ago.

Year Ended December 31, 2017 compared to 2016

In total, our Same Store new vehicle retail unit sales decreased 1.5% for the year ended December 31, 2017, as compared to the same period in 2016. The decrease was primarily driven by decreases of 1.7% and 6.8% in the U.S. and Brazil, respectively. The decline in our U.S. new vehicle retail unit sales was in line with the overall U.S. industry sales which decreased by 1.9% to 17.2 million units for the year ended December 31, 2017 from 17.5 million units in 2016. Our new vehicle unit sales were depressed by softness in our energy-dependent markets, such as Oklahoma and Texas. This softness was partially offset by replacement demand in our Houston and Beaumont markets following flooding from Hurricane Harvey that damaged hundreds of thousands of vehicles in the region. In addition, our U.S. new vehicle sales volume lagged the prior year as our operating team placed a heightened focus on improving new vehicle margins, resulting in lower unit sales volume. We experienced a 6.8% decline in our Same Store new vehicle retail unit sales in Brazil, which was weaker than the overall industry. This decline reflected our intentional efforts to prioritize margins over volume. Partially offsetting the declines in the U.S. and Brazil was a 1.1% increase in our U.K. Same Store new vehicle retail unit sales for the year ended December 31, 2017 compared to a year ago. This increase was despite a decline in industry sales in the U.K. of 5.7% to 2.5 million units for the year ended December 31, 2017, down from 2.7 million units in 2016. The strong performance in the U.K. compared to 2017 industry results is primarily attributable to our brand portfolio and management team.

Our total Same Store revenues from new vehicle retail sales increased 0.2% for the year ended December 31, 2017, as compared to the same period in 2016, driven by increases in the U.S. and Brazil that were partially offset by a decline in the U.K. The 0.4% increase in U.S. Same Store new vehicle revenue was primarily due to a 2.1% increase in average retail sales price to \$37,483, which was partially offset by the decline in new vehicle retail units of 1.7% noted above. The increase in our U.S. Same Store average retail sales price for the year ended December 31, 2017 was primarily a result of our operating team's focus on improving new vehicle margins noted above and a mix shift in sales from cars to trucks, which was driven by continued relatively low gas prices, as well as an increase in the demand for trucks in the hurricane impacted markets of the U.S. during the second half of 2017. U.S. new vehicle retail truck sales represented 61.0% of total Same Store new vehicle retail units sold for the year ended December 31, 2017, as compared to 56.9% for the same period last year. Our Brazil Same Store new vehicle revenues increased 6.0%, which was more than explained by the change in the exchange rate between periods. On a constant currency basis, our Brazil Same Store new vehicle revenues declined 2.2%, as a 5.0% increase in the average retail sales price was more than offset by the 6.8% decline in new vehicle retail units noted above. The increases in total Same Store new vehicle retail



revenues in the U.S. and Brazil were partially offset by a 2.5% decline in our U.K. Same Store new vehicle revenues for the twelve months ended December 31, 2017 as compared to 2016. The increase of 1.1% in new vehicle retail unit sales in the U.K. was more than offset by the deterioration in the average new vehicle sales price of 3.6%. This decline is more than explained by the change in exchange rates between periods as on a constant currency basis, new vehicle revenue per retail unit increased 1.1% when compared to the same period a year ago.

Our total Same Store new vehicle gross profit decreased 0.1% for the year ended December 31, 2017, as compared to the same period in 2016, reflecting declines in the U.K. that were almost fully offset by increases in the U.S. and Brazil. In the U.S., Same Store new vehicle gross profit increased 0.7%, as the decline in retail units discussed above was more than offset by

a 2.5% increase in gross profit PRU to \$1,919, which was driven by the operating team's initiatives to improve new vehicle margin and the additional demand in our Houston and Beaumont markets as a result of the impact of Hurricane Harvey. As noted above, the U.S. gross profit PRU was further bolstered by increased demand for trucks across the U.S. In Brazil, Same Store new vehicle gross profit rose 6.5% for the year ended December 31, 2017. The increase in gross profit in Brazil is more than explained by a favorable change in exchange rates. On a constant currency basis, Same Store new vehicle gross profit decreased 1.7%, as compared to the same period in 2016, as a 6.8% decrease in Same Store new vehicle retail units outpaced a 5.5% increase in gross profit per retail unit on a constant currency basis. Same Store new vehicle gross profit in the U.K. decreased 5.3%, primarily explained by a decline in gross profit PRU of 6.3% to \$1,705. The decline in gross profit PRU was partially explained by the change in exchange rates between periods and the mix in volume-based manufacturer incentives as compared to last year. Our total Same Store new vehicle gross margin remained unchanged at 5.2% for the year ended December 31, 2017, as compared to the same period in 2016.

Most manufacturers offer interest assistance to offset floorplan interest charges incurred in connection with inventory purchases. This assistance varies by manufacturer, but generally provides for a defined amount, adjusted periodically for changes in market interest rates, regardless of our actual floorplan interest rate or the length of time for which the inventory is financed. We record these incentives as a reduction of new vehicle cost of sales as the vehicles are sold, impacting the gross profit and gross margin detailed above. The total assistance recognized in cost of sales during the twelve-month periods ended December 31, 2018, 2017, and 2016 was \$47.3 million, \$48.9 million, and \$49.2 million, respectively. The amount of interest assistance that we recognize in a given period is primarily a function of: (a) the mix of units being sold, as U.S. domestic brands tend to provide more assistance, (b) the specific terms of the respective manufacturers' interest assistance programs and market interest rates in effect at the time, (c) the average wholesale price of inventory sold, and (d) our rate of inventory turnover. Over the past three years, manufacturers' interest assistance as a percentage of our total consolidated floorplan interest expense has ranged from approximately 77.1% of our quarterly floorplan interest expense in the fourth quarter of 2018 to 116.6% for the third quarter of 2016. In the U.S., manufacturer's interest assistance was 87.8% of floorplan interest expense for the year ended December 31, 2018.

We increased our new vehicle inventory levels by \$84.2 million, or 7.1%, from \$1,194.6 million as of December 31, 2017 to \$1,278.9 million as of December 31, 2018, primarily as a result of a shift to more costly truck and SUV inventory in addition to relatively low inventory levels at the end of 2017 following strong replacement demand in the wake of Hurricane Harvey. Our consolidated days' supply of new vehicle inventory was 66 days as of December 31, 2018, which is up from 61 days on December 31, 2017.

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Used Vehicle Retail Data

(Dollars in thousands, except per unit amounts)

For The Years Ended December 31,

	2018	% Increase/ (Decrease)	Constant Currency % Increase/(Decrease)	2017	2017	% Increase/ (Decrease)	Constant Currency % Increase/(Decrease)	2016
<b>Retail Unit Sales</b>								
<b>Same Stores</b>								
U.S.	109,332	8.8 %		100,475	100,542	(3.7 )%		104,451
U.K.	25,090	4.8 %		23,940	19,632	8.7 %		18,062
Brazil	4,098	0.1 %		4,094	3,974	3.0 %		3,859
Total Same Stores	138,520	7.8 %		128,509	124,148	(1.8 )%		126,372
Transactions	9,479			1,424	5,785			2,759
Total	147,999	13.9 %		129,933	129,933	0.6 %		129,131
<b>Retail Sales Revenues</b>								
<b>Same Stores</b>								
U.S.	\$2,255,446	5.3 %	N/A	\$2,141,315	\$2,146,803	(3.2 )%	N/A	\$2,217,717
U.K.	612,307	15.0 %	11.4 %	532,469	447,777	6.8 %	12.2 %	419,455
Brazil	84,985	(5.8 )%	6.9 %	90,210	86,298	19.0 %	9.6 %	72,549
Total Same Stores	2,952,738	6.8 %	6.5 %	2,763,994	2,680,878	(1.1 )%	(0.5 )%	2,709,721
Transactions	213,332			34,992	118,108			47,992
Total	\$3,166,070	13.1 %	12.6 %	\$2,798,986	\$2,798,986	1.5 %	2.2 %	\$2,757,713
<b>Gross Profit</b>								
<b>Same Stores</b>								
U.S.	\$138,623	(3.3 )%	N/A	\$143,287	\$143,688	(6.6 )%	N/A	\$153,911
U.K.	30,387	16.6 %	12.6 %	26,072	22,147	3.7 %	9.6 %	21,350
Brazil	5,252	(21.7 )%	(11.1 )%	6,708	6,488	43.1 %	34.6 %	4,533
Total Same Stores	174,262	(1.0 )%	(1.2 )%	176,067	172,323	(4.2 )%	(3.7 )%	179,794
Transactions	11,666			1,488	5,232			2,685
Total	\$185,928	4.7 %	4.4 %	\$177,555	\$177,555	(2.7 )%	(2.1 )%	\$182,479
<b>Gross Profit per Retail Unit Sold</b>								
<b>Same Stores</b>								
U.S.	\$1,268	(11.1 )%	N/A	\$1,426	\$1,429	(3.1 )%	N/A	\$1,474
U.K.	\$1,211	11.2 %	7.5 %	\$1,089	\$1,128	(4.6 )%	0.8 %	\$1,182
Brazil	\$1,282	(21.7 )%	(11.2 )%	\$1,638	\$1,633	39.0 %	30.7 %	\$1,175
Total Same Stores	\$1,258	(8.2 )%	(8.3 )%	\$1,370	\$1,388	(2.5 )%	(1.9 )%	\$1,423
Transactions	\$1,231	17.8 %		\$1,045	\$904	(7.1 )%		\$973
Total	\$1,256	(8.1 )%	(8.4 )%	\$1,367	\$1,367	(3.3 )%	(2.7 )%	\$1,413
<b>Gross Margin</b>								
<b>Same Stores</b>								

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U.S.	6.1	%	6.7	%	6.7	%	6.9	%
U.K.	5.0	%	4.9	%	4.9	%	5.1	%
Brazil	6.2	%	7.4	%	7.5	%	6.2	%
Total Same Stores	5.9	%	6.4	%				