

PENSKE AUTOMOTIVE GROUP, INC.

Form 10-Q

July 31, 2014

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2014

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 1-12297

Penske Automotive Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

22-3086739
(I.R.S. Employer

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incorporation or organization)

Identification No.)

**2555 Telegraph Road,
Bloomfield Hills, Michigan**
(Address of principal executive offices)

48302-0954
(Zip Code)

Registrant's telephone number, including area code:

(248) 648-2500

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of July 22, 2014, there were 90,227,127 shares of voting common stock outstanding.

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PENSKE AUTOMOTIVE GROUP, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS

	June 30, 2014	December 31, 2013
	(Unaudited)	
	(In millions, except share amounts)	
ASSETS		
Cash and cash equivalents	\$ 61.4	\$ 49.8
Accounts receivable, net of allowance for doubtful accounts of \$4.3 and \$2.4	641.2	600.8
Inventories	2,615.9	2,518.3
Other current assets	111.4	88.4
Assets held for sale	52.4	107.3
Total current assets	3,482.3	3,364.6
Property and equipment, net	1,367.8	1,232.2
Goodwill	1,217.9	1,144.5
Franchise value	300.5	295.4
Equity method investments	354.7	346.9
Other long-term assets	19.1	31.9
Total assets	\$ 6,742.3	\$ 6,415.5
LIABILITIES AND EQUITY		
Floor plan notes payable	\$ 1,717.3	\$ 1,685.1
Floor plan notes payable non-trade	934.0	901.6
Accounts payable	435.1	373.3
Accrued expenses	314.4	262.6
Current portion of long-term debt	81.6	50.0
Liabilities held for sale	41.1	59.7
Total current liabilities	3,523.5	3,332.3
Long-term debt	1,006.8	1,033.2
Deferred tax liabilities	372.8	361.4
Other long-term liabilities	192.5	166.5
Total liabilities	5,095.6	4,893.4
Commitments and contingent liabilities (Note 9)		
Equity		
Penske Automotive Group stockholders' equity:		
Preferred Stock, \$0.0001 par value; 100,000 shares authorized; none issued and outstanding		
Common Stock, \$0.0001 par value, 240,000,000 shares authorized; 90,228,977 shares issued and outstanding at June 30, 2014; 90,243,731 shares issued and outstanding at December 31, 2013		
Non-voting Common Stock, \$0.0001 par value, 7,125,000 shares authorized; none issued and outstanding		
Class C Common Stock, \$0.0001 par value, 20,000,000 shares authorized; none issued and outstanding		
Additional paid-in-capital	685.8	693.6
Retained earnings	906.1	799.2
Accumulated other comprehensive income (loss)	36.9	11.6
Total Penske Automotive Group stockholders' equity	1,628.8	1,504.4
Non-controlling interest	17.9	17.7
Total equity	1,646.7	1,522.1
Total liabilities and equity	\$ 6,742.3	\$ 6,415.5

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****CONSOLIDATED CONDENSED STATEMENTS OF INCOME**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Unaudited)			
	(In millions, except per share amounts)			
Revenue:				
New vehicle	\$ 2,238.1	\$ 1,894.0	\$ 4,264.4	\$ 3,610.8
Used vehicle	1,273.3	1,061.7	2,474.9	2,049.9
Finance and insurance, net	112.3	94.7	217.2	180.6
Service and parts	435.7	384.9	853.2	764.6
Fleet and wholesale	216.8	180.3	404.7	352.2
Commercial vehicles, car rental and other	130.5	15.0	240.3	21.8
Total revenues	\$ 4,406.7	\$ 3,630.6	\$ 8,454.7	\$ 6,979.9
Cost of sales:				
New vehicle	2,065.2	1,752.3	3,934.8	3,335.4
Used vehicle	1,183.0	982.0	2,297.6	1,892.9
Service and parts	175.6	153.7	345.9	312.2
Fleet and wholesale	213.7	177.7	397.2	345.4
Commercial vehicles, car rental and other	102.3	5.4	188.3	7.9
Total cost of sales	3,739.8	3,071.1	7,163.8	5,893.8
Gross profit	666.9	559.5	1,290.9	1,086.1
Selling, general and administrative expenses	513.2	432.7	1,001.0	839.8
Depreciation	17.5	14.7	34.0	29.0
Operating income	136.2	112.1	255.9	217.3
Floor plan interest expense	(11.6)	(10.7)	(22.7)	(20.8)
Other interest expense	(13.1)	(11.9)	(26.2)	(23.4)
Equity in earnings of affiliates	10.9	8.9	16.0	11.2
Income from continuing operations before income taxes	122.4	98.4	223.0	184.3
Income taxes	(41.1)	(34.9)	(75.2)	(63.2)
Income from continuing operations	81.3	63.5	147.8	121.1
Loss from discontinued operations, net of tax	(7.4)	(1.0)	(6.0)	(0.6)
Net income	73.9	62.5	141.8	120.5
Less: Income attributable to non-controlling interests	1.0	0.5	1.4	0.8
Net income attributable to Penske Automotive Group common stockholders	\$ 72.9	\$ 62.0	\$ 140.4	\$ 119.7
Basic earnings per share attributable to Penske Automotive Group common stockholders:				
Continuing operations	\$ 0.89	\$ 0.70	\$ 1.62	\$ 1.33
Discontinued operations	(0.08)	(0.01)	(0.07)	(0.01)
Net income attributable to Penske Automotive Group common stockholders	\$ 0.81	\$ 0.69	\$ 1.55	\$ 1.32
Shares used in determining basic earnings per share (Note 6)	90.4	90.3	90.4	90.3
Diluted earnings per share attributable to Penske Automotive Group common stockholders:				
Continuing operations	\$ 0.89	\$ 0.70	\$ 1.62	\$ 1.33
Discontinued operations	(0.08)	(0.01)	(0.07)	(0.01)
Net income attributable to Penske Automotive Group common stockholders	\$ 0.81	\$ 0.69	\$ 1.55	\$ 1.32
	90.4	90.3	90.4	90.4

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Shares used in determining diluted earnings per share (Note 6)

Amounts attributable to Penske Automotive Group common stockholders:

Income from continuing operations	\$	81.3	\$	63.5	\$	147.8	\$	121.1
Less: Income attributable to non-controlling interests		1.0		0.5		1.4		0.8
Income from continuing operations, net of tax		80.3		63.0		146.4		120.3
Loss from discontinued operations, net of tax		(7.4)		(1.0)		(6.0)		(0.6)
Net income attributable to Penske Automotive Group common stockholders	\$	72.9	\$	62.0	\$	140.4	\$	119.7

See Notes to Consolidated Condensed Financial Statements

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Unaudited) (In millions)			
Net Income	\$ 73.9	\$ 62.5	\$ 141.8	\$ 120.5
Other Comprehensive Income:				
Foreign currency translation adjustment	16.8	1.5	26.1	(35.1)
Unrealized gain (loss) on interest rate swaps:				
Unrealized gain(loss) arising during the period, net of tax benefits		0.6	(0.2)	0.5
Reclassification adjustment for loss included in floor plan interest expense, net of tax provision of \$0.7, \$0.4, \$1.5, and \$1.1, respectively	1.2	0.6	2.3	1.7
Unrealized gain (loss) on interest rate swaps, net of tax	1.2	1.2	2.1	2.2
Other adjustments to Comprehensive Income, net	0.8	0.3	(3.2)	(1.2)
Other Comprehensive Income(Loss), Net of Taxes	18.8	3.0	25.0	(34.1)
Comprehensive Income	92.7	65.5	166.8	86.4
Less: Comprehensive income attributable to non-controlling interests	0.9	0.4	1.1	1.3
Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 91.8	\$ 65.1	\$ 165.7	\$ 85.1

See Notes to Consolidated Condensed Financial Statements

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

	2014	Six Months Ended June 30, (Unaudited) (In millions)	2013
Operating Activities:			
Net income	\$	141.8	\$ 120.5
Adjustments to reconcile net income to net cash from continuing operating activities:			
Depreciation		34.0	29.0
Earnings of equity method investments		(14.5)	(10.2)
Loss from discontinued operations, net of tax		6.0	0.6
Deferred income taxes		6.5	25.8
Changes in operating assets and liabilities:			
Accounts receivable		(40.1)	5.6
Inventories		(61.9)	(139.9)
Floor plan notes payable		32.2	76.5
Accounts payable and accrued expenses		109.0	58.7
Other		(1.6)	7.4
Net cash provided by continuing operating activities		211.4	174.0
Investing Activities:			
Purchase of equipment and improvements		(72.9)	(70.2)
Purchase of car rental vehicles		(76.3)	(73.2)
Dealership acquisitions net, including repayment of sellers' floor plan notes payable of \$23.0 and \$1.8, respectively		(86.2)	(30.7)
Other		24.9	(9.7)
Net cash used in continuing investing activities		(210.5)	(183.8)
Financing Activities:			
Proceeds from borrowings under U.S. credit agreement revolving credit line		572.6	491.7
Repayments under U.S. credit agreement revolving credit line		(562.6)	(519.7)
Repayments under U.S. credit agreement term loan			(12.0)
Proceeds from borrowings under car rental revolver		73.5	94.3
Repayments of car rental revolver		(39.4)	(12.2)
Net borrowings (repayments) of other long-term debt		(47.2)	(53.3)
Net borrowings (repayments) of floor plan notes payable - non-trade		32.4	37.6
Repurchases of common stock		(15.5)	(15.8)
Dividends		(33.5)	(26.2)
Other		0.3	0.2
Net cash used in continuing financing activities		(19.4)	(15.4)
Discontinued operations:			
Net cash (used in)/provided by discontinued operating activities		(22.3)	16.5
Net cash provided by discontinued investing activities		54.0	2.6
Net cash used in discontinued financing activities		(1.6)	(11.4)
Net cash provided by discontinued operations		30.1	7.7
Net change in cash and cash equivalents		11.6	(17.5)
Cash and cash equivalents, beginning of period		49.8	43.8
Cash and cash equivalents, end of period	\$	61.4	\$ 26.3
Supplemental disclosures of cash flow information:			
Cash paid for:			
Interest	\$	50.5	\$ 47.0

Income taxes

48.3

11.4

See Notes to Consolidated Condensed Financial Statements

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	Common Stock		Additional	Retained	Accumulated	Total	Non-controlling	Total
	Issued	Amount	Paid-in	Earnings	Other	Penske Automotive	Interest	Equity
	Shares		Capital		Comprehensive	Group Stockholders		Equity
					Income (Loss)	Equity		
					(Unaudited)			
					(Dollars in millions)			
Balance, January 1, 2014	90,243,731	\$	\$ 693.6	\$ 799.2	\$ 11.6	\$ 1,504.4	\$ 17.7	\$ 1,522.1
Equity compensation	320,596		7.4			7.4		7.4
Repurchases of common stock	(335,350)		(15.5)			(15.5)		(15.5)
Dividends				(33.5)		(33.5)		(33.5)