

AUTONATION, INC.

Form 10-Q

October 30, 2018

0.001250.0340.012false--12-31Q320180000350698falseLarge Accelerated FilerAUTONATION, INC.falseAN120000000013000000000.010.01150000000015000000001025621491025621490.055500000030.010.0150000000 income represents income for each of our reportable segments and is defined as operating income less floorplan interest expense.?Corporate and other? is comprised of our other businesses, including collision centers, AutoNation USA stand-alone used vehicle sales and service centers, and automotive auctions.Represents revenue recognized during the period for automotive repair and maintenance services.Earnings per share amounts are calculated discretely and therefore may not add up to the total due to rounding. 0000350698 2018-01-01 2018-09-30 0000350698 2018-10-26 0000350698 2018-09-30 0000350698 2017-12-31 0000350698 an:TradeMember 2018-09-30 0000350698 an:NonTradeMember 2018-09-30 0000350698 an:NonTradeMember 2017-12-31 0000350698 an:TradeMember 2017-12-31 0000350698 an:UsedVehicleMember 2018-07-01 2018-09-30 0000350698 2017-01-01 2017-09-30 0000350698 2017-07-01 2017-09-30 0000350698 2018-07-01 2018-09-30 0000350698 an:NewVehicleMember 2017-01-01 2017-09-30 0000350698 us-gaap:ProductAndServiceOtherMember 2017-01-01 2017-09-30 0000350698 an:PartsAndServiceMember 2017-07-01 2017-09-30 0000350698 an:FinanceAndInsuranceNetMember 2017-01-01 2017-09-30 0000350698 an:PartsAndServiceMember 2018-01-01 2018-09-30 0000350698 us-gaap:ProductAndServiceOtherMember 2018-01-01 2018-09-30 0000350698 us-gaap:ProductAndServiceOtherMember 2017-07-01 2017-09-30 0000350698 us-gaap:ProductAndServiceOtherMember 2018-07-01 2018-09-30 0000350698 an:PartsAndServiceMember 2017-01-01 2017-09-30 0000350698 an:UsedVehicleMember 2017-07-01 2017-09-30 0000350698 an:UsedVehicleMember 2018-01-01 2018-09-30 0000350698 an:PartsAndServiceMember 2018-07-01 2018-09-30 0000350698 an:FinanceAndInsuranceNetMember 2018-07-01 2018-09-30 0000350698 an:UsedVehicleMember 2017-01-01 2017-09-30 0000350698 2017-09-30 0000350698 an:FinanceAndInsuranceNetMember 2018-01-01 2018-09-30 0000350698 an:NewVehicleMember 2017-07-01 2017-09-30 0000350698 an:FinanceAndInsuranceNetMember 2017-07-01 2017-09-30 0000350698 an:NewVehicleMember 2018-07-01 2018-09-30 0000350698 an:NewVehicleMember 2018-01-01 2018-09-30 0000350698 us-gaap:TreasuryStockMember 2018-09-30 0000350698 us-gaap:AdditionalPaidInCapitalMember 2018-01-01 2018-09-30 0000350698 us-gaap:RetainedEarningsMember 2017-12-31 0000350698 us-gaap:CommonStockMember 2017-12-31 0000350698 us-gaap:AdditionalPaidInCapitalMember 2017-12-31 0000350698 us-gaap:TreasuryStockMember 2018-01-01 2018-09-30 0000350698 us-gaap:TreasuryStockMember 2017-12-31 0000350698 us-gaap:RetainedEarningsMember 2018-01-01 2018-09-30 0000350698 us-gaap:AdditionalPaidInCapitalMember 2018-09-30 0000350698 us-gaap:RetainedEarningsMember 2018-09-30 0000350698 us-gaap:CommonStockMember 2018-09-30 0000350698 2016-12-31 0000350698 srt:MaximumMember us-gaap:AccountingStandardsUpdate201602Member 2018-09-30 0000350698 an:CollisionCentersMember 2018-09-30 0000350698 srt:MinimumMember us-gaap:AccountingStandardsUpdate201602Member 2018-09-30 0000350698 us-gaap:AccountingStandardsUpdate201409Member 2018-01-01 2018-09-30 0000350698 an:DealershipsMember 2018-09-30 0000350698 us-gaap:AccountingStandardsUpdate201409Member us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-09-30 0000350698 us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-09-30 0000350698 us-gaap:AccountingStandardsUpdate201409Member us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-01-01 2018-09-30 0000350698 us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-01-01 2018-09-30 0000350698 an:FinanceAndInsuranceNetMember us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-07-01 2018-09-30 0000350698 us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-07-01 2018-09-30 0000350698 an:PartsAndServiceMember us-gaap:AccountingStandardsUpdate201409Member us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-01-01 2018-09-30 0000350698 an:PartsAndServiceMember us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-01-01 2018-09-30 0000350698 us-gaap:AccountingStandardsUpdate201409Member us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-07-01 2018-09-30

Edgar Filing: AUTONATION, INC. - Form 10-Q

0000350698 an:PartsAndServiceMember us-gaap:AccountingStandardsUpdate201409Member
us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-07-01 2018-09-30
0000350698 an:PartsAndServiceMember us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member
2018-07-01 2018-09-30 0000350698 an:FinanceAndInsuranceNetMember
us-gaap:AccountingStandardsUpdate201409Member
us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-01-01 2018-09-30
0000350698 an:FinanceAndInsuranceNetMember
us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-01-01 2018-09-30 0000350698
an:FinanceAndInsuranceNetMember us-gaap:AccountingStandardsUpdate201409Member
us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-07-01 2018-09-30
0000350698 an:FinanceAndInsuranceNetMember us-gaap:CorporateAndOtherMember 2018-01-01 2018-09-30
0000350698 an:PartsAndServiceMember an:ANReportableSegmentImportMember 2018-01-01 2018-09-30
0000350698 an:ANReportableSegmentPremiumLuxuryMember us-gaap:TransferredOverTimeMember 2018-01-01
2018-09-30 0000350698 an:PartsAndServiceMember an:ANReportableSegmentPremiumLuxuryMember 2018-01-01
2018-09-30 0000350698 an:UsedVehicleMember an:ANReportableSegmentImportMember 2018-01-01 2018-09-30
0000350698 an:PartsAndServiceMember us-gaap:CorporateAndOtherMember 2018-01-01 2018-09-30 0000350698
an:NewVehicleMember an:ANReportableSegmentDomesticMember 2018-01-01 2018-09-30 0000350698
an:FinanceAndInsuranceNetMember an:ANReportableSegmentDomesticMember 2018-01-01 2018-09-30
0000350698 us-gaap:ProductAndServiceOtherMember an:ANReportableSegmentImportMember 2018-01-01
2018-09-30 0000350698 an:ANReportableSegmentImportMember us-gaap:TransferredAtPointInTimeMember
2018-01-01 2018-09-30 0000350698 an:UsedVehicleMember an:ANReportableSegmentDomesticMember
2018-01-01 2018-09-30 0000350698 us-gaap:ProductAndServiceOtherMember us-gaap:CorporateAndOtherMember
2018-01-01 2018-09-30 0000350698 an:FinanceAndInsuranceNetMember
an:ANReportableSegmentPremiumLuxuryMember 2018-01-01 2018-09-30 0000350698
us-gaap:TransferredAtPointInTimeMember 2018-01-01 2018-09-30 0000350698 an:UsedVehicleMember
us-gaap:CorporateAndOtherMember 2018-01-01 2018-09-30 0000350698 an:NewVehicleMember
an:ANReportableSegmentPremiumLuxuryMember 2018-01-01 2018-09-30 0000350698
an:ANReportableSegmentDomesticMember us-gaap:TransferredAtPointInTimeMember 2018-01-01 2018-09-30
0000350698 an:FinanceAndInsuranceNetMember an:ANReportableSegmentImportMember 2018-01-01 2018-09-30
0000350698 us-gaap:TransferredOverTimeMember 2018-01-01 2018-09-30 0000350698
an:ANReportableSegmentPremiumLuxuryMember 2018-01-01 2018-09-30 0000350698 an:NewVehicleMember
an:ANReportableSegmentImportMember 2018-01-01 2018-09-30 0000350698 us-gaap:CorporateAndOtherMember
2018-01-01 2018-09-30 0000350698 us-gaap:CorporateAndOtherMember us-gaap:TransferredOverTimeMember
2018-01-01 2018-09-30 0000350698 an:ANReportableSegmentImportMember 2018-01-01 2018-09-30 0000350698
us-gaap:ProductAndServiceOtherMember an:ANReportableSegmentDomesticMember 2018-01-01 2018-09-30
0000350698 us-gaap:ProductAndServiceOtherMember an:ANReportableSegmentPremiumLuxuryMember
2018-01-01 2018-09-30 0000350698 an:NewVehicleMember us-gaap:CorporateAndOtherMember 2018-01-01
2018-09-30 0000350698 an:ANReportableSegmentImportMember us-gaap:TransferredOverTimeMember
2018-01-01 2018-09-30 0000350698 an:PartsAndServiceMember an:ANReportableSegmentDomesticMember
2018-01-01 2018-09-30 0000350698 an:ANReportableSegmentDomesticMember 2018-01-01 2018-09-30
0000350698 us-gaap:CorporateAndOtherMember us-gaap:TransferredAtPointInTimeMember 2018-01-01
2018-09-30 0000350698 an:ANReportableSegmentDomesticMember us-gaap:TransferredOverTimeMember
2018-01-01 2018-09-30 0000350698 an:ANReportableSegmentPremiumLuxuryMember
us-gaap:TransferredAtPointInTimeMember 2018-01-01 2018-09-30 0000350698 an:UsedVehicleMember
an:ANReportableSegmentPremiumLuxuryMember 2018-01-01 2018-09-30 0000350698 2018-01-01 0000350698
us-gaap:CorporateAndOtherMember us-gaap:TransferredOverTimeMember 2018-07-01 2018-09-30 0000350698
an:FinanceAndInsuranceNetMember an:ANReportableSegmentImportMember 2018-07-01 2018-09-30 0000350698
us-gaap:CorporateAndOtherMember 2018-07-01 2018-09-30 0000350698 us-gaap:ProductAndServiceOtherMember
us-gaap:CorporateAndOtherMember 2018-07-01 2018-09-30 0000350698 an:PartsAndServiceMember
an:ANReportableSegmentDomesticMember 2018-07-01 2018-09-30 0000350698
an:ANReportableSegmentImportMember us-gaap:TransferredAtPointInTimeMember 2018-07-01 2018-09-30

Edgar Filing: AUTONATION, INC. - Form 10-Q

0000350698 an:ANReportableSegmentDomesticMember us-gaap:TransferredOverTimeMember 2018-07-01
2018-09-30 0000350698 an:UsedVehicleMember an:ANReportableSegmentImportMember 2018-07-01 2018-09-30
0000350698 an:UsedVehicleMember an:ANReportableSegmentPremiumLuxuryMember 2018-07-01 2018-09-30
0000350698 an:UsedVehicleMember an:ANReportableSegmentDomesticMember 2018-07-01 2018-09-30
0000350698 an:ANReportableSegmentPremiumLuxuryMember 2018-07-01 2018-09-30 0000350698
us-gaap:CorporateAndOtherMember us-gaap:TransferredAtPointInTimeMember 2018-07-01 2018-09-30
0000350698 an:ANReportableSegmentImportMember 2018-07-01 2018-09-30 0000350698 an:NewVehicleMember
an:ANReportableSegmentPremiumLuxuryMember 2018-07-01 2018-09-30 0000350698
an:ANReportableSegmentDomesticMember 2018-07-01 2018-09-30 0000350698
an:ANReportableSegmentPremiumLuxuryMember us-gaap:TransferredAtPointInTimeMember 2018-07-01
2018-09-30 0000350698 an:PartsAndServiceMember us-gaap:CorporateAndOtherMember 2018-07-01 2018-09-30
0000350698 an:ANReportableSegmentDomesticMember us-gaap:TransferredAtPointInTimeMember 2018-07-01
2018-09-30 0000350698 an:PartsAndServiceMember an:ANReportableSegmentPremiumLuxuryMember 2018-07-01
2018-09-30 0000350698 an:FinanceAndInsuranceNetMember an:ANReportableSegmentDomesticMember
2018-07-01 2018-09-30 0000350698 an:ANReportableSegmentPremiumLuxuryMember
us-gaap:TransferredOverTimeMember 2018-07-01 2018-09-30 0000350698 an:NewVehicleMember
us-gaap:CorporateAndOtherMember 2018-07-01 2018-09-30 0000350698 us-gaap:ProductAndServiceOtherMember
an:ANReportableSegmentDomesticMember 2018-07-01 2018-09-30 0000350698
us-gaap:ProductAndServiceOtherMember an:ANReportableSegmentPremiumLuxuryMember 2018-07-01 2018-09-30
0000350698 an:FinanceAndInsuranceNetMember an:ANReportableSegmentPremiumLuxuryMember 2018-07-01
2018-09-30 0000350698 an:NewVehicleMember an:ANReportableSegmentImportMember 2018-07-01 2018-09-30
0000350698 an:ANReportableSegmentImportMember us-gaap:TransferredOverTimeMember 2018-07-01
2018-09-30 0000350698 us-gaap:TransferredOverTimeMember 2018-07-01 2018-09-30 0000350698
us-gaap:TransferredAtPointInTimeMember 2018-07-01 2018-09-30 0000350698 an:UsedVehicleMember
us-gaap:CorporateAndOtherMember 2018-07-01 2018-09-30 0000350698 an:FinanceAndInsuranceNetMember
us-gaap:CorporateAndOtherMember 2018-07-01 2018-09-30 0000350698 an:NewVehicleMember
an:ANReportableSegmentDomesticMember 2018-07-01 2018-09-30 0000350698 an:PartsAndServiceMember
an:ANReportableSegmentImportMember 2018-07-01 2018-09-30 0000350698
us-gaap:ProductAndServiceOtherMember an:ANReportableSegmentImportMember 2018-07-01 2018-09-30
0000350698 2018-10-01 2018-09-30 0000350698 2021-10-01 2018-09-30 0000350698 2019-10-01 2018-09-30
0000350698 2018-09-30 0000350698 an:NewVehicleFloorplanFacilitiesMember 2018-09-30 0000350698
an:UsedVehicleFloorplanFacilitiesMember 2017-01-01 2017-09-30 0000350698
an:UsedVehicleFloorplanFacilitiesMember 2018-01-01 2018-09-30 0000350698
an:NewVehicleFloorplanFacilitiesMember 2018-01-01 2018-09-30 0000350698
an:NewVehicleFloorplanFacilitiesMember 2017-01-01 2017-09-30 0000350698
an:UsedVehicleFloorplanFacilitiesMember 2018-09-30 0000350698 an:PartsAndServiceMember 2017-12-31
0000350698 an:NewVehicleMember 2018-09-30 0000350698 an:UsedVehicleMember 2018-09-30 0000350698
an:NewVehicleMember 2017-12-31 0000350698 an:UsedVehicleMember 2017-12-31 0000350698
an:PartsAndServiceMember 2018-09-30 0000350698 an:RevolvingCreditFacilityDue2022Member 2017-12-31
0000350698 an:SeniorNotesatThreePointEightPercentDue2027Member us-gaap:SeniorNotesMember 2017-12-31
0000350698 an:CapitalLeasesAndOtherDebtMember 2017-12-31 0000350698
an:RevolvingCreditFacilityDue2022Member 2018-09-30 0000350698
an:SeniorNotesatThreePointEightPercentDue2027Member us-gaap:SeniorNotesMember 2018-01-01 2018-09-30
0000350698 an:SeniorNotesatSixPointSevenFivePercentdue2018Member us-gaap:SeniorNotesMember 2018-01-01
2018-09-30 0000350698 an:RevolvingCreditFacilityDue2022Member us-gaap:LineOfCreditMember 2018-01-01
2018-09-30 0000350698 an:SeniorNotesatThreePointFivePercentDue2024Member us-gaap:SeniorNotesMember
2017-12-31 0000350698 an:SeniorNotesatSixPointSevenFivePercentdue2018Member us-gaap:SeniorNotesMember
2017-12-31 0000350698 an:SeniorNotesatFivePointFivePercentDue2020Member us-gaap:SeniorNotesMember
2018-09-30 0000350698 an:CapitalLeasesAndOtherDebtMember 2018-09-30 0000350698
an:SeniorNotesatThreePointEightPercentDue2027Member us-gaap:SeniorNotesMember 2018-09-30 0000350698
an:SeniorNotesatFourPointFivePercentDue2025Member us-gaap:SeniorNotesMember 2018-01-01 2018-09-30

Edgar Filing: AUTONATION, INC. - Form 10-Q

0000350698 an:SeniorNotesatFivePointFivePercentDue2020Member us-gaap:SeniorNotesMember 2018-01-01 2018-09-30 0000350698 an:SeniorNotesatThreePointThreeFivePercentDue2021Member us-gaap:SeniorNotesMember 2017-12-31 0000350698 an:SeniorNotesatFivePointFivePercentDue2020Member us-gaap:SeniorNotesMember 2017-12-31 0000350698 an:SeniorNotesatThreePointThreeFivePercentDue2021Member us-gaap:SeniorNotesMember 2018-01-01 2018-09-30 0000350698 an:SeniorNotesatFourPointFivePercentDue2025Member us-gaap:SeniorNotesMember 2017-12-31 0000350698 an:SeniorNotesatThreePointFivePercentDue2024Member us-gaap:SeniorNotesMember 2018-09-30 0000350698 an:SeniorNotesatSixPointSevenFivePercentdue2018Member us-gaap:SeniorNotesMember 2018-09-30 0000350698 an:SeniorNotesatThreePointThreeFivePercentDue2021Member us-gaap:SeniorNotesMember 2018-09-30 0000350698 an:SeniorNotesatThreePointFivePercentDue2024Member us-gaap:SeniorNotesMember 2018-01-01 2018-09-30 0000350698 an:SeniorNotesatFourPointFivePercentDue2025Member us-gaap:SeniorNotesMember 2018-09-30 0000350698 us-gaap:CommercialPaperMember 2017-12-31 0000350698 srt:MaximumMember an:RevolvingCreditFacilityDue2022Member 2018-01-01 2018-09-30 0000350698 an:SeniorNotesatSixPointSevenFivePercentdue2018Member us-gaap:SeniorNotesMember 2018-04-01 2018-04-30 0000350698 srt:MinimumMember an:RevolvingCreditFacilityDue2022Member us-gaap:LineOfCreditMember us-gaap:BaseRateMember 2018-01-01 2018-09-30 0000350698 srt:MinimumMember an:RevolvingCreditFacilityDue2022Member us-gaap:LineOfCreditMember us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-09-30 0000350698 srt:WeightedAverageMember us-gaap:CommercialPaperMember 2018-01-01 2018-09-30 0000350698 srt:MaximumMember an:RevolvingCreditFacilityDue2022Member us-gaap:LineOfCreditMember us-gaap:BaseRateMember 2018-01-01 2018-09-30 0000350698 srt:MaximumMember an:RevolvingCreditFacilityDue2022Member us-gaap:LineOfCreditMember us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-09-30 0000350698 srt:MinimumMember an:RevolvingCreditFacilityDue2022Member 2018-01-01 2018-09-30 0000350698 srt:WeightedAverageMember us-gaap:CommercialPaperMember 2017-01-01 2017-12-31 0000350698 us-gaap:CommercialPaperMember 2018-09-30 0000350698 srt:MaximumMember us-gaap:CommercialPaperMember 2018-01-01 2018-09-30 0000350698 2017-01-01 2017-12-31 0000350698 an:StockRepurchaseProgramBoardAuthorizedRepurchasesMember 2018-09-30 0000350698 an:StockRepurchaseProgramBoardAuthorizedRepurchasesMember 2017-07-01 2017-09-30 0000350698 an:StockRepurchaseProgramBoardAuthorizedRepurchasesMember 2018-01-01 2018-09-30 0000350698 an:StockRepurchaseProgramBoardAuthorizedRepurchasesMember 2018-07-01 2018-09-30 0000350698 an:StockRepurchaseProgramBoardAuthorizedRepurchasesMember 2017-01-01 2017-09-30 0000350698 an:RestrictedStockAndRestrictedStockUnitsMember 2017-07-01 2017-09-30 0000350698 an:RestrictedStockAndRestrictedStockUnitsMember 2018-01-01 2018-09-30 0000350698 an:RestrictedStockAndRestrictedStockUnitsMember 2017-01-01 2017-09-30 0000350698 an:RestrictedStockAndRestrictedStockUnitsMember 2018-07-01 2018-09-30 0000350698 an:PremiumLuxuryStoresDivestedMember 2018-01-01 2018-03-31 0000350698 an:PremiumLuxuryStoresDivestedMember 2018-07-01 2018-09-30 0000350698 an:DomesticStoresDivestedMember 2018-01-01 2018-03-31 0000350698 an:ImportStoresDivestedMember 2018-04-01 2018-06-30 0000350698 an:DomesticStoresDivestedMember 2017-07-01 2017-09-30 0000350698 2017-01-01 2017-03-31 0000350698 an:ImportStoresDivestedMember 2017-07-01 2017-09-30 0000350698 an:CollisionCentersDivestedMember 2018-01-01 2018-03-31 0000350698 an:ImportStoresDivestedMember 2018-07-01 2018-09-30 0000350698 an:ImportStoresDivestedMember 2018-01-01 2018-03-31 0000350698 2017-04-01 2017-06-30 0000350698 an:DomesticStoresDivestedMember 2018-04-01 2018-06-30 0000350698 2018-04-01 2018-06-30 0000350698 an:ImportStoresDivestedMember 2017-04-01 2017-06-30 0000350698 an:ImportStoresDivestedMember 2017-01-01 2017-03-31 0000350698 2018-01-01 2018-03-31 0000350698 stpr:CA an:PremiumLuxuryDealershipMember 2018-01-01 2018-09-30 0000350698 an:PremiumLuxuryDealershipMember 2017-01-01 2017-09-30 0000350698 stpr:MD an:CollisionCentersMember 2018-01-01 2018-09-30 0000350698 an:CollisionCentersMember 2017-01-01 2017-09-30 0000350698 stpr:TX an:CollisionCentersMember 2018-01-01 2018-09-30 0000350698 us-gaap:IntersegmentEliminationMember an:ANReportableSegmentPremiumLuxuryMember 2018-01-01 2018-09-30 0000350698 an:ANReportableSegmentDomesticMember 2017-01-01 2017-09-30 0000350698 us-gaap:IntersegmentEliminationMember an:ANReportableSegmentDomesticMember 2017-01-01 2017-09-30

0000350698 us-gaap:IntersegmentEliminationMember an:ANReportableSegmentPremiumLuxuryMember
2018-07-01 2018-09-30 0000350698 an:ANReportableSegmentImportMember 2017-07-01 2017-09-30 0000350698
us-gaap:IntersegmentEliminationMember an:ANReportableSegmentDomesticMember 2017-07-01 2017-09-30
0000350698 an:ANReportableSegmentPremiumLuxuryMember 2017-07-01 2017-09-30 0000350698
us-gaap:IntersegmentEliminationMember an:ANReportableSegmentPremiumLuxuryMember 2017-07-01 2017-09-30
0000350698 an:ANReportableSegmentDomesticMember 2017-07-01 2017-09-30 0000350698
us-gaap:IntersegmentEliminationMember an:ANReportableSegmentImportMember 2018-01-01 2018-09-30
0000350698 us-gaap:IntersegmentEliminationMember an:ANReportableSegmentImportMember 2017-01-01
2017-09-30 0000350698 us-gaap:IntersegmentEliminationMember
an:ANReportableSegmentPremiumLuxuryMember 2017-01-01 2017-09-30 0000350698
an:ANReportableSegmentPremiumLuxuryMember 2017-01-01 2017-09-30 0000350698
us-gaap:IntersegmentEliminationMember an:ANReportableSegmentDomesticMember 2018-01-01 2018-09-30
0000350698 us-gaap:IntersegmentEliminationMember an:ANReportableSegmentImportMember 2018-07-01
2018-09-30 0000350698 an:ANReportableSegmentImportMember 2017-01-01 2017-09-30 0000350698
us-gaap:IntersegmentEliminationMember an:ANReportableSegmentDomesticMember 2018-07-01 2018-09-30
0000350698 us-gaap:IntersegmentEliminationMember an:ANReportableSegmentImportMember 2017-07-01
2017-09-30 0000350698 an:FixedRateDebtMember us-gaap:CarryingReportedAmountFairValueDisclosureMember
2018-09-30 0000350698 an:FixedRateDebtMember us-gaap:CarryingReportedAmountFairValueDisclosureMember
2017-12-31 0000350698 an:FixedRateDebtMember us-gaap:EstimateOffFairValueFairValueDisclosureMember
2018-09-30 0000350698 an:FixedRateDebtMember us-gaap:EstimateOffFairValueFairValueDisclosureMember
2017-12-31 0000350698 us-gaap:CarryingReportedAmountFairValueDisclosureMember
us-gaap:SegmentDiscontinuedOperationsMember 2017-12-31 0000350698
us-gaap:CarryingReportedAmountFairValueDisclosureMember us-gaap:SegmentDiscontinuedOperationsMember
2018-09-30 0000350698 us-gaap:FairValueMeasurementsNonrecurringMember us-gaap:FranchiseRightsMember
2018-01-01 2018-09-30 0000350698 us-gaap:FairValueMeasurementsNonrecurringMember
us-gaap:FranchiseRightsMember 2017-01-01 2017-09-30 0000350698
us-gaap:CarryingReportedAmountFairValueDisclosureMember us-gaap:SegmentContinuingOperationsMember
2017-12-31 0000350698 us-gaap:CarryingReportedAmountFairValueDisclosureMember
us-gaap:SegmentContinuingOperationsMember 2018-09-30 0000350698
us-gaap:FairValueMeasurementsNonrecurringMember us-gaap:SegmentContinuingOperationsMember 2018-01-01
2018-09-30 0000350698 us-gaap:FairValueMeasurementsNonrecurringMember
us-gaap:SegmentContinuingOperationsMember 2017-01-01 2017-09-30 0000350698
us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsNonrecurringMember
us-gaap:SegmentContinuingOperationsMember 2017-09-30 0000350698 us-gaap:FairValueInputsLevel3Member
us-gaap:FairValueMeasurementsNonrecurringMember us-gaap:FranchiseRightsMember 2017-09-30 0000350698
us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsNonrecurringMember
us-gaap:SegmentContinuingOperationsMember 2018-09-30 0000350698 us-gaap:FairValueInputsLevel3Member
us-gaap:FairValueMeasurementsNonrecurringMember us-gaap:FranchiseRightsMember 2018-09-30 an:brand
xbrli:shares iso4217:USD xbrli:shares an:store an:franchises xbrli:pure iso4217:USD an:segments

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

(Mark One)

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

For the quarterly period ended September 30, 2018

or

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

For the transition period from _____ to _____

Commission File Number: 1-13107

AutoNation, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

73-1105145

(I.R.S. Employer Identification No.)

200 SW 1st Avenue, Fort Lauderdale, Florida

(Address of principal executive offices)

33301

(Zip Code)

(954) 769-6000

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

Yes No

As of October 26, 2018, the registrant had 89,925,190 shares of common stock outstanding.

AUTONATION, INC.
FORM 10-Q
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

	Page
Item 1. <u>Financial Statements</u>	
<u>Unaudited Condensed Consolidated Balance Sheets as of</u> <u>September 30, 2018 and December 31, 2017</u>	<u>1</u>
<u>Unaudited Condensed Consolidated Statements of Income for the</u> <u>Three and Nine Months Ended September 30, 2018 and 2017</u>	<u>2</u>
<u>Unaudited Condensed Consolidated Statement of Shareholders'</u> <u>Equity for the Nine Months Ended September 30, 2018</u>	<u>3</u>
<u>Unaudited Condensed Consolidated Statements of Cash Flows</u> <u>for the Nine Months Ended September 30, 2018 and 2017</u>	<u>4</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>6</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>50</u>
Item 4. <u>Controls and Procedures</u>	<u>50</u>
<u>PART II. OTHER INFORMATION</u>	
Item 1A. <u>Risk Factors</u>	<u>51</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>52</u>
Item 6. <u>Exhibits</u>	<u>52</u>

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****AUTONATION, INC.****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS****(In millions, except share and per share data)**

	September 30,	December 31,
	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 52.6	\$ 69.2
Receivables, net	800.5	1,111.0
Inventory	3,381.3	3,365.6
Other current assets	203.4	251.7
Total Current Assets	4,437.8	4,797.5
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$1.3 billion and \$1.2 billion, respectively	3,085.5	2,962.7
GOODWILL	1,516.1	1,515.0
OTHER INTANGIBLE ASSETS, NET	595.7	586.8
OTHER ASSETS	484.7	409.5
Total Assets	\$ 10,119.8	\$ 10,271.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Vehicle floorplan payable - trade	\$ 2,107.6	\$ 2,179.1
Vehicle floorplan payable - non-trade	1,495.7	1,627.8
Accounts payable	274.4	309.8
Commercial paper	600.0	330.0
Current maturities of long-term debt	5.3	414.5
Other current liabilities	688.1	774.5
Total Current Liabilities	5,171.1	5,635.7
LONG-TERM DEBT, NET OF CURRENT MATURITIES	1,962.1	1,959.2
DEFERRED INCOME TAXES	87.5	71.9
OTHER LIABILITIES	281.1	235.4
COMMITMENTS AND CONTINGENCIES (Note 12)		
SHAREHOLDERS' EQUITY:		
Preferred stock, par value \$0.01 per share; 5,000,000 shares authorized; none issued	—	—
Common stock, par value \$0.01 per share; 1,500,000,000 shares authorized; 102,562,149 shares issued at September 30, 2018, and December 31, 2017, including shares held in treasury	1.0	1.0
Additional paid-in capital	19.7	4.0
Retained earnings	3,145.6	2,832.2
Treasury stock, at cost; 12,636,903 and 11,002,298 shares held, respectively	(548.3) (467.9)
Total Shareholders' Equity	2,618.0	2,369.3
Total Liabilities and Shareholders' Equity	\$ 10,119.8	\$ 10,271.5

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**AUTONATION, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(In millions, except per share data)**

	Three Months Ended		Nine Months Ended	
	September 30, 2018	2017	September 30, 2018	2017
Revenue:				
New vehicle	\$2,933.1	\$3,108.4	\$8,685.0	\$8,835.5
Used vehicle	1,281.7	1,228.3	3,910.9	3,670.3
Parts and service	864.0	841.6	2,579.6	2,544.2
Finance and insurance, net	247.4	241.6	736.0	692.0
Other	23.0	12.5	89.6	109.1
TOTAL REVENUE	5,349.2	5,432.4	16,001.1	15,851.1
Cost of sales:				
New vehicle	2,807.7	2,963.6	8,305.1	8,408.2
Used vehicle	1,190.7	1,142.6	3,642.9	3,433.1
Parts and service	473.4	474.2	1,416.2	1,428.2
Other	22.1	6.1	87.5	89.8
TOTAL COST OF SALES (excluding depreciation shown below)	4,493.9	4,586.5	13,451.7	13,359.3
Gross profit:				
New vehicle	125.4	144.8	379.9	427.3
Used vehicle	91.0	85.7	268.0	237.2
Parts and service	390.6	367.4	1,163.4	1,116.0
Finance and insurance	247.4	241.6	736.0	692.0
Other	0.9	6.4	2.1	19.3
TOTAL GROSS PROFIT	855.3	845.9	2,549.4	2,491.8
Selling, general, and administrative expenses	626.2	607.5	1,878.3	1,814.1
Depreciation and amortization	42.9	41.4	124.0	118.0
Franchise rights impairment	—	—	8.1	—
Other income, net	(17.4)	(14.2)	(41.6)	(54.4)
OPERATING INCOME	203.6	211.2	580.6	614.1
Non-operating income (expense) items:				
Floorplan interest expense	(32.7)	(25.1)	(93.4)	(70.7)
Other interest expense	(28.4)	(30.0)	(90.4)	(88.0)
Interest income	0.3	0.2	0.8	0.8
Other income, net	2.3	1.6	3.3	6.4
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	145.1	157.9	400.9	462.6
Income tax provision	32.8	60.3	97.9	179.1
NET INCOME FROM CONTINUING OPERATIONS	112.3	97.6	303.0	283.5
Income (loss) from discontinued operations, net of income taxes	(0.3)	(0.1)	0.3	(0.2)
NET INCOME	\$112.0	\$97.5	\$303.3	\$283.3
BASIC EARNINGS (LOSS) PER SHARE:				
Continuing operations	\$1.24	\$1.00	\$3.33	\$2.84
Discontinued operations	\$—	\$—	\$—	\$—
Net income	\$1.24	\$1.00	\$3.33	\$2.84
Weighted average common shares outstanding	90.4	97.3	91.1	99.9
DILUTED EARNINGS (LOSS) PER SHARE:				
Continuing operations	\$1.24	\$1.00	\$3.31	\$2.83

Edgar Filing: AUTONATION, INC. - Form 10-Q

Discontinued operations	\$—	\$—	\$—	\$—
Net income	\$1.23	\$1.00	\$3.31	\$2.82
Weighted average common shares outstanding	90.8	97.7	91.6	100.3
COMMON SHARES OUTSTANDING, net of treasury stock, at period end	89.9	91.2	89.9	91.2

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

2

Table of Contents**AUTONATION, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY****(In millions, except share data)**

	Common Stock		Additional	Retained	Treasury	Total
	Shares	Amount	Paid-In Capital	Earnings	Stock	
BALANCE AT DECEMBER 31, 2017	102,562,149	\$ 1.0	\$ 4.0	\$ 2,832.2	\$ (467.9)	\$ 2,369.3
Net income	—	—	—	303.3	—	303.3
Repurchases of common stock	—	—	—	—	(100.0)	(100.0)
Stock-based compensation expense	—	—	22.0	—	—	22.0
Shares awarded under stock-based compensation plans, net of shares withheld for taxes	—	—	(6.3)	—	19.6	13.3
Cumulative effect of change in accounting principle - revenue recognition	—	—	—	10.1	—	10.1
BALANCE AT SEPTEMBER 30, 2018	102,562,149	\$ 1.0	\$ 19.7	\$ 3,145.6	\$ (548.3)	\$ 2,618.0

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**AUTONATION, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In millions)**

	Nine Months Ended September 30, 2018 2017	
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net income	\$303.3	\$283.3
Adjustments to reconcile net income to net cash provided by operating activities:		
(Income) loss from discontinued operations	(0.3)	0.2
Depreciation and amortization	124.0	118.0
Amortization of debt issuance costs and accretion of debt discounts	4.2	4.2
Stock-based compensation expense	22.0	18.1
Deferred income tax provision	12.4	7.7
Net gain related to business/property dispositions	(38.5)	(43.8)
Franchise rights impairment	8.1	—
Non-cash impairment charges and valuation adjustments	2.2	—
Other	(2.5)	(5.2)
(Increase) decrease, net of effects from business combinations and divestitures:		
Receivables	309.4	143.6
Inventory	(44.9)	94.1
Other assets	(101.3)	(21.2)
Increase (decrease), net of effects from business combinations and divestitures:		
Vehicle floorplan payable - trade, net	(42.5)	(212.7)
Accounts payable	(28.1)	(25.6)
Other liabilities	7.0	96.6
Net cash provided by continuing operations	534.5	457.3
Net cash provided by (used in) discontinued operations	0.6	(0.3)
Net cash provided by operating activities	535.1	457.0
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchases of property and equipment	(283.2)	(227.6)
Property operating lease buy-outs	—	(3.3)
Proceeds from the sale of property and equipment	24.0	2.6
Proceeds from assets held for sale	10.2	34.7
Insurance recoveries on property and equipment	1.1	1.2
Cash received from business divestitures, net of cash relinquished	144.2	47.8
Cash used in business acquisitions, net of cash acquired	(67.9)	(56.9)
Other	(0.6)	(2.0)
Net cash used in continuing operations	(172.2)	(203.5)
Net cash used in discontinued operations	—	—
Net cash used in investing activities	(172.2)	(203.5)

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**AUTONATION, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In millions)****(Continued)**

	Nine Months Ended September 30, 2018 2017	
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Repurchases of common stock	(100.0)	(425.2)
Payment of 6.75% Senior Notes due 2018	(400.0)	—
Proceeds from revolving credit facility	—	907.0
Payments of revolving credit facility	—	(825.0)
Net proceeds from commercial paper	270.0	53.0
Net proceeds from (payments of) vehicle floorplan payable - non-trade	(147.6)	15.4
Payments of mortgage facility	—	(7.6)
Payments of capital leases and other debt obligations	(13.9)	(3.5)
Proceeds from the exercise of stock options	16.0	24.7
Payments of tax withholdings for stock-based awards	(2.7)	(1.1)
Other	(2.5)	—
Net cash used in continuing operations	(380.7)	(262.3)
Net cash used in discontinued operations	—	—
Net cash used in financing activities	(380.7)	(262.3)
DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(17.8)	(8.8)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH at beginning of period	71.1	65.4
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH at end of period	\$53.3	\$56.6

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**AUTONATION, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(In millions, except per share data)****1. INTERIM FINANCIAL STATEMENTS****Business and Basis of Presentation**

AutoNation, Inc., through its subsidiaries, is the largest automotive retailer in the United States. As of September 30, 2018, we owned and operated 329 new vehicle franchises from 242 stores located in the United States, predominantly in major metropolitan markets in the Sunbelt region. Our stores sell 33 different new vehicle brands. The core brands of new vehicles that we sell, representing approximately 93% of the new vehicles that we sold during the nine months ended September 30, 2018, are manufactured by Toyota (including Lexus), Honda, Ford, General Motors, FCA US, Mercedes-Benz, Nissan, BMW, and Volkswagen (including Audi and Porsche). As of September 30, 2018, we also owned and operated 82 AutoNation-branded collision centers, and together with our vehicle dealerships, our AutoNation USA stores, and our automotive auctions, we owned and operated over 325 locations coast to coast. We offer a diversified range of automotive products and services, including new vehicles, used vehicles, “parts and service,” which includes automotive repair and maintenance services as well as wholesale parts and collision businesses, and automotive “finance and insurance” products, which include vehicle service and other protection products, as well as the arranging of financing for vehicle purchases through third-party finance sources. For convenience, the terms “AutoNation,” “Company,” and “we” are used to refer collectively to AutoNation, Inc. and its subsidiaries, unless otherwise required by the context. Our dealership operations are conducted by our subsidiaries. The accompanying Unaudited Condensed Consolidated Financial Statements include the accounts of AutoNation, Inc. and its subsidiaries; intercompany accounts and transactions have been eliminated. The accompanying Unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Additionally, operating results for interim periods are not necessarily indicative of the results that can be expected for a full year. The Unaudited Condensed Consolidated Financial Statements herein should be read in conjunction with our audited Consolidated Financial Statements and notes thereto included within our most recent Annual Report on Form 10-K. These Unaudited Condensed Consolidated Financial Statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to fairly state, in all material respects, our financial position and results of operations for the periods presented.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ materially from these estimates. We periodically evaluate estimates and assumptions used in the preparation of the financial statements and make changes on a prospective basis when adjustments are necessary. The critical accounting estimates made in the accompanying Unaudited Condensed Consolidated Financial Statements include certain assumptions related to goodwill, other intangible assets, and accruals for chargebacks against revenue recognized from the sale of finance and insurance products. Other significant accounting estimates include certain assumptions related to long-lived assets, assets held for sale, accruals related to self-insurance programs, certain legal proceedings, and estimated tax liabilities.

Recent Accounting Pronouncements***Revenue Recognition***

In May 2014, the Financial Accounting Standards Board (“FASB”) issued a new accounting standard (ASC Topic 606) that amends the accounting guidance on revenue recognition. The new accounting standard is intended to provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices, and improve disclosure requirements. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. The principles in the standard should be applied using a five-step model that includes 1) identifying the contract(s)

Table of Contents

AUTONATION, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

with a customer, 2) identifying the performance obligations in the contract, 3) determining the transaction price, 4) allocating the transaction price to the performance obligations in the contract, and 5) recognizing revenue when (or as) the performance obligations are satisfied. The standard also requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In addition, the standard amends the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (for example, sales of real estate) to be consistent with the standard's guidance on recognition and measurement (including the constraint on revenue). The FASB also subsequently issued several amendments to the standard, including clarification on principal versus agent guidance, identifying performance obligations, and immaterial goods and services in a contract.

The new accounting standard update must be applied using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a modified retrospective approach with the cumulative effect of initially adopting the standard recognized at the date of adoption (which requires additional footnote disclosures).

The new accounting standard is effective for reporting periods beginning after December 15, 2017. We adopted the accounting standard effective January 1, 2018, using the modified retrospective approach applied only to contracts not completed as of the date of adoption, with no restatement of comparative periods. Therefore, the comparative information has not been adjusted and continues to be reported under ASC Topic 605. We recognized a net after-tax cumulative effect adjustment to retained earnings of \$10.1 million as of the date of adoption. The details and quantitative impacts of the significant changes are described below.

Finance and Insurance

We participate in future profit pursuant to retrospective commission arrangements with the issuers of certain finance and insurance products, payment of which is contingent upon the annual performance of the portfolio of contracts. We previously recognized this revenue by the amount that would be due at each reporting date based on the performance of the portfolio at such date and recorded amounts due to us as receivables. Under ASC Topic 606, revenue associated with this portion of the transaction price is accelerated as it is considered variable consideration for which we must estimate the amount to which we will be entitled over the contract term, and amounts are reflected as a contract asset until the right to such consideration becomes unconditional, at which time amounts due are reclassified to receivables. Additionally, we previously deferred revenue by the net amount of consideration that we retained for the sale of a contract under our Vehicle Care Program ("VCP"), a vehicle maintenance program that provides a specific number of maintenance services to be redeemed at an AutoNation location over a five-year term. Under ASC Topic 606, we have determined that we act as the principal in this arrangement since we have the primary responsibility to provide the specified services to the customer under the VCP contract. Therefore, we defer the gross revenue on sales of VCP contracts and record such amounts as a contract liability, and reflect the amount due from the third-party administrator for customer claims in Other Current Assets and Other Assets.

Parts and Service

We previously recognized revenue for an automotive repair and maintenance service when the service was completed and recorded amounts due to us as receivables. Under ASC Topic 606, performance obligations associated with automotive repair and maintenance services are satisfied over time, which results in the acceleration of revenue recognition, and amounts due to us are reflected as a contract asset until the right to such consideration becomes unconditional, at which time amounts due to us are reclassified to receivables. Additionally, the timing of revenue recognition associated with customer loyalty points offered for parts and services for select franchises in certain of our stores is now deferred. We previously accrued the incremental cost of loyalty points awarded. Under the new standard,

a customer loyalty program that provides a customer with a material right is accounted for as a separate performance obligation with revenue recognized when the loyalty points are redeemed.

7

Table of Contents**AUTONATION, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)***Impacts on Consolidated Financial Statements*

The following tables summarize the impacts to each financial statement line item affected by the adoption of ASC Topic 606 as of and for the three and nine months ended September 30, 2018.

Consolidated Balance Sheet Line Items

Impact of changes in accounting policies	September 30, 2018		
	As reported	Balances without adoption of ASC Topic 606	Impact of adoption Higher/(Lower)
Receivables, net	\$ 800.5	\$ 816.1	\$ (15.6)
Inventory	\$ 3,381.3	\$ 3,386.2	\$ (4.9)
Other current assets	\$ 203.4	\$ 147.4	\$ 56.0
Other assets	\$ 484.7	\$ 424.3	\$ 60.4
Other current liabilities	\$ 688.1	\$ 656.6	\$ 31.5
Deferred income taxes	\$ 87.5	\$ 83.3	\$ 4.2
Other liabilities	\$ 281.1	\$ 234.0	\$ 47.1
Retained earnings	\$ 3,145.6	\$ 3,132.5	\$ 13.1

Consolidated Statement of Income Line Items

Impact of changes in accounting policies	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	As reported	Balances without adoption of ASC Topic 606	Impact of adoption Higher/(Lower)	As reported	Balances without adoption of ASC Topic 606	Impact of adoption Higher/(Lower)
Revenue:						
Parts and service	\$ 864.0	\$ 863.1	\$ 0.9	\$ 2,579.6	\$ 2,579.7	\$ (0.1)
Finance and insurance	\$ 247.4	\$ 245.9	\$ 1.5	\$ 736.0	\$ 732.1	\$ 3.9
Cost of sales:						
Parts and service	\$ 473.4	\$ 473.0	\$ 0.4	\$ 1,416.2	\$ 1,416.4	\$ (0.2)
Gross profit:						
Parts and service	\$ 390.6	\$ 390.1	\$ 0.5	\$ 1,163.4	\$ 1,163.3	\$ 0.1
Finance and insurance	\$ 247.4	\$ 245.9	\$ 1.5	\$ 736.0	\$ 732.1	\$ 3.9
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	\$ 145.1	\$ 143.1	\$ 2.0	\$ 400.9	\$ 396.9	\$ 4.0
Income tax provision	\$ 32.8	\$ 32.3	\$ 0.5	\$ 97.9	\$ 96.9	\$ 1.0
NET INCOME FROM CONTINUING OPERATIONS	\$ 112.3	\$ 110.8	\$ 1.5	\$ 303.0	\$ 300.0	\$ 3.0
NET INCOME	\$ 112.0	\$ 110.5	\$ 1.5	\$ 303.3	\$ 300.3	\$ 3.0

Consolidated Statement of Cash Flows Line Items

Impact of changes in accounting policies	Nine Months Ended September 30, 2018		
	As reported	Balances without adoption of ASC Topic 606	Impact of adoption Higher/(Lower)
Net income	\$ 303.3	\$ 300.3	\$ 3.0
Deferred income tax provision	\$ 12.4	\$ 11.4	\$ 1.0

Edgar Filing: AUTONATION, INC. - Form 10-Q

(Increase) decrease, net of effects from business combinations and divestitures:

Receivables	\$309.4	\$ 293.8	\$ 15.6
Inventory	\$(44.9)	\$(45.1)	\$ 0.2
Other assets	\$(101.3)	\$(2.9)	\$ (98.4)
Increase (decrease), net of effects from business combinations and divestitures:			
Other liabilities	\$7.0	\$(71.6)	\$ 78.6

Table of Contents

AUTONATION, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued an accounting standard update that provides classification guidance on eight specific cash flow issues, for which guidance previously did not exist or was unclear. The amendments in this accounting standard update are effective for periods beginning after December 15, 2017. We adopted this accounting standard update effective January 1, 2018. The activity on our consolidated statement of cash flows was previously classified in accordance with the provisions of the new standard. Therefore, the provisions of the accounting standard update did not impact our consolidated statements of cash flows.

Restricted Cash

In November 2016, the FASB issued an accounting standard update that requires the statement of cash flows explain the change during the period in the total of cash and cash equivalents, as well as restricted cash and restricted cash equivalents. Therefore, restricted cash should be included in the beginning-of-period and end-of-period total amounts presented on the statement of cash flows. The amendments in this accounting standard update are effective for periods beginning after December 15, 2017, and should be applied using a retrospective transition method to each period presented. We adopted this accounting standard update effective January 1, 2018, and made the relevant changes, which were not material, to each period presented in our consolidated statements of cash flows.

Accounting for Leases

In February 2016, the FASB issued an accounting standard update (ASC Topic 842) that amends the accounting guidance on leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The FASB also subsequently issued amendments to the standard, including providing an additional and optional transition method to adopt the new standard, described below, as well as certain practical expedients related to land easements and lessor accounting. The amendments in this accounting standard update are effective for us on January 1, 2019, with early adoption permitted. We will adopt this accounting standard update effective January 1, 2019.

The accounting standard update originally required the use of a modified retrospective approach reflecting the application of the standard to leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements with the option to elect certain practical expedients. A subsequent amendment to the standard provides an additional and optional transition method that allows entities to initially apply the new leases standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current GAAP (ASC Topic 840) if the optional transition method is elected. While we are still evaluating the method of adoption, we currently anticipate adopting the standard using the optional transition method with no restatement of comparative periods and a cumulative effect adjustment, if any, recognized as of the date of adoption.

We expect that this standard will have a material effect on our financial statements due to the recognition of new ROU assets and lease liabilities on our consolidated balance sheet for real estate and equipment operating leases. As part of our implementation process, we have assessed our lease arrangements, evaluated practical expedient and accounting policy elections, and implemented software to meet the reporting requirements of this standard. We are also currently evaluating the changes in controls and processes that are necessary to implement the new standard, but do not expect material changes. We expect that our leasing activity will continue between now and the adoption date. We expect to elect most of the standard's available practical expedients on adoption. Consequently, on adoption, we expect to recognize additional operating liabilities ranging from \$325 million to \$425 million, with corresponding ROU assets of approximately the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases. We have a significant number of real estate leases, including for land and buildings. The majority of our leases for land are classified as operating leases under current lease

accounting guidance. For new leases entered into after adoption, the new lease standard may affect the pattern of expense recognition related to the land component of a new real estate lease, since those land leases may be classified as finance leases under the new standard.

Table of Contents**AUTONATION, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)****2. REVENUE RECOGNITION*****Disaggregation of Revenue***

The significant majority of our revenue is from contracts with customers. Taxes assessed by governmental authorities that are directly imposed on revenue transactions are excluded from revenue. In the following table, revenue is disaggregated by major lines of goods and services and timing of transfer of goods and services. We have determined that these categories depict how the nature, amount, timing, and uncertainty of our revenue and cash flows are affected by economic factors. The table below also includes a reconciliation of the disaggregated revenue with our reportable segments.

Three Months Ended September 30, 2018

	Domestic Import	Premium Luxury	Corporate and other⁽¹⁾	Total	
<u>Major Goods/Service Lines</u>					
New vehicle	\$988.5	\$1,070.3	\$874.3	\$ —	\$2,933.1
Used vehicle	424.4	365.3	463.6	28.4	1,281.7
Parts and service	271.6	235.8	269.4	87.2	864.0
Finance and insurance, net	88.6	94.4	60.0	4.4	247.4
Other	16.6	4.8	1.5	0.1	23.0
	\$1,789.7	\$1,770.6	\$1,668.8	\$ 120.1	\$5,349.2

Timing of Revenue Recognition

Goods and services transferred at a point in time	\$1,613.5	\$1,591.6	\$1,441.5	\$ 35.0	\$4,681.6
Goods and services transferred over time ⁽²⁾	176.2	179.0	227.3	85.1	667.6
	\$1,789.7	\$1,770.6	\$1,668.8	\$ 120.1	\$5,349.2

Nine Months Ended September 30, 2018

	Domestic Import	Premium Luxury	Corporate and other⁽¹⁾	Total	
<u>Major Goods/Service Lines</u>					
New vehicle	\$2,913.7	\$3,045.0	\$2,726.3	\$ —	\$8,685.0
Used vehicle	1,334.4	1,092.3	1,405.9	78.3	3,910.9
Parts and service	810.8	707.1	804.1	257.6	2,579.6
Finance and insurance, net	263.2	275.8	178.6	18.4	736.0
Other	67.4	20.0	1.9	0.3	89.6
	\$5,389.5	\$5,140.2	\$5,116.8	\$ 354.6	\$16,001.1

Timing of Revenue Recognition

Goods and services transferred at a point in time	\$4,870.0	\$4,603.3	\$4,440.5	\$ 100.2	\$14,014.0
Goods and services transferred over time ⁽²⁾	519.5	536.9	676.3	254.4	1,987.1
	\$5,389.5	\$5,140.2	\$5,116.8	\$ 354.6	\$16,001.1

(1) “Corporate and other” is comprised of our other businesses, including collision centers, AutoNation USA stand-alone used vehicle sales and service centers, and automotive auctions.

(2) Represents revenue recognized during the period for automotive repair and maintenance services.

Table of Contents**AUTONATION, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)*****Contract Assets and Liabilities***

When the timing of our provision of goods or services is different from the timing of the payments made by our customers, we recognize either a contract asset (performance precedes contractual due date) or a contract liability (customer payment precedes performance). Contract assets primarily relate to our right to consideration for work in process not yet billed at the reporting date associated with automotive repair and maintenance services, as well as our estimate of variable consideration that has been included in the transaction price for certain finance and insurance products (retrospective commissions). These contract assets are reclassified to receivables when the right to consideration becomes unconditional. Contract liabilities primarily relate to upfront payments received from customers for the sale of certain finance and insurance products for which our performance obligations are satisfied, and revenue is recognized, as each underlying service of the multi-year contract is completed during the contract term.

Our receivables from contracts with customers are included in Receivables, net, our current contract asset is included with Other Current Assets, our long-term contract asset is included with Other Assets, our current contract liability is included with Other Current Liabilities, and our long-term contract liability is included with Other Long-Term Liabilities in our consolidated balance sheet.

The opening and closing balances of our receivables from contracts with customers and our current and long-term contract assets and contract liabilities are as follows:

	September 30, 2018	January 1, 2018
Receivables from contracts with customers, net	\$ 569.7	\$ 854.3
Contract Asset (Current)	\$ 24.8	\$ 18.4
Contract Asset (Long-Term)	\$ 13.3	\$ 1.4
Contract Liability (Current)	\$ 31.9	\$ 26.7
Contract Liability (Long-Term)	\$ 64.4	\$ 63.8

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Revenue recognized in the period from:		
Amounts included in contract liability at the beginning of the period	\$ 6.8	\$ 21.7
Performance obligations satisfied in previous periods	\$ 4.1	\$ 16.0

The differences between the opening and closing balances of our contract assets and contract liabilities primarily result from the timing differences between our performance and the customer's payment, as well as changes in the estimated transaction price related to variable consideration that was constrained for performance obligations satisfied in previous periods. Other significant changes include contract assets of \$8.3 million reclassified to receivables.

Performance Obligations and Significant Judgments and Estimates Related to Revenue RecognitionNew and Used Vehicle

We sell new vehicles at our franchised dealerships and used vehicles at our franchised dealerships and AutoNation USA stores. The transaction price for a vehicle sale is determined with the customer at the time of sale. Customers often trade in their own vehicle to apply toward the purchase of a retail new or used vehicle. The "trade-in" vehicle is a

type of noncash consideration measured at fair value, based on external and internal market data for the specific vehicle, and applied as payment to the contract price for the purchased vehicle.

When we sell a new or used vehicle, we typically transfer control at a point in time upon delivery of the vehicle to the customer, which is generally at time of sale, as the customer is able to direct the use of, and obtain substantially all of the benefits from, the vehicle at such time. We do not directly finance our customers' vehicle purchases or leases. In many cases, we arrange third-party financing for the retail sale or lease of vehicles to our customers in exchange for a fee paid to us by the

Table of Contents

AUTONATION, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

third-party financial institution. We receive payment directly from the customer at the time of sale or from the third-party financial institution (referred to as contracts-in-transit or vehicle receivables, which are part of our receivables from contracts with customers) within a short period of time following the sale. We establish provisions, which are not significant, for estimated returns and warranties on the basis of both historical information and current trends.

We also offer auction services at our AutoNation-branded automotive auctions, revenue from which is included within Used Vehicle wholesale revenue. The transaction price for auction services is based on an established pricing schedule and determined with the customer at the time of sale, and payment is due upon completion of service. We satisfy our performance obligations related to auction services at the point in time that control transfers to the customer, which is when the service is completed.

Parts and Service

We sell parts and automotive services related to customer-paid repairs and maintenance, repairs and maintenance under manufacturer warranties and extended service contracts, and collision-related repairs. We also sell parts through our wholesale and retail counter channels.

Each automotive repair and maintenance service is a single performance obligation that includes both the parts and labor associated with the service. Payment for automotive service work is typically due upon completion of the service, which is generally completed within a short period of time from contract inception. The transaction price for automotive repair and maintenance services is based on the parts used, the number of labor hours applied, and standardized hourly labor rates. We satisfy our performance obligations, transfer control, and recognize revenue over time for automotive repair and maintenance services because we are creating an asset with no alternative use and we have an enforceable right to payment for performance completed to date. We use an input method to recognize revenue and measure progress based on labor hours expended relative to the total labor hours expected to be expended to satisfy the performance obligation. We have determined labor hours expended to be the relevant measure of work performed to complete the automotive repair or maintenance service for the customer. As a practical expedient, since automotive repair and maintenance service contracts have an original duration of one year or less, we do not consider the time value of money, and we do not disclose estimated revenue expected to be recognized in the future for performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period or when we expect to recognize such revenue.

The transaction price for wholesale and retail counter parts sales is determined at the time of sale based on the quantity and price of each product purchased. Payment is typically due at time of sale, or within a short period of time following the sale. We establish provisions, which are not significant, for estimated parts returns based on historical information and current trends. Delivery methods of wholesale and retail counter parts vary; however, we generally consider control of wholesale and retail counter parts to transfer when the products are shipped, which typically occurs the same day as or within a few days of the sale. We also offer customer loyalty points for parts and service for select franchises in a relative few of our stores and we satisfy our performance obligation and recognize revenue when the loyalty points are redeemed. Amounts deferred related to the customer loyalty programs are insignificant.

Finance and Insurance

We sell and receive a commission on the following types of finance and insurance products: extended service contracts, maintenance programs, guaranteed auto protection (known as “GAP,” this protection covers the shortfall between a customer’s loan balance and insurance payoff in the event of a casualty), “tire and wheel” protection, and theft protection products, among others. We offer products that are sold and administered by independent third parties, including the vehicle manufacturers’ captive finance subsidiaries.

Pursuant to our arrangements with these third-party providers, we primarily sell the products on a straight commission basis; however, in other cases, we sell the product, recognize an upfront commission, and participate in future profit pursuant to retrospective commission arrangements with the issuers of those contracts through the life of the related contracts. For retrospective commission arrangements, we are paid annually based on the annual performance of the issuers' product portfolio. For the majority of finance and insurance product sales, our performance obligation is to arrange for the provision of goods or services by another party. Our performance obligation is satisfied when this arrangement is made, which is when the finance and insurance product is delivered to the end-customer, generally at the time of the vehicle sale. As agent, we recognize revenue in the amount of any fee or commission to which we expect to be entitled, which is the net amount of consideration that we

Table of Contents**AUTONATION, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)**

retain after paying the third-party provider the consideration received in exchange for the goods or services to be fulfilled by that party.

The retrospective commission we earn on each product sold is a form of variable consideration that is constrained due to it being highly susceptible to factors outside our influence and control. Our agreements with the third-party administrators generally provide for an annual retrospective commission payout based on the product portfolio performance for that year. We estimate variable consideration related to retrospective commissions and perform a constraint analysis using the expected value method based on the historical performance of the product portfolios and current trends to estimate the amount of retrospective commissions to which we expect we will be entitled. At each reporting period, we reassess our expectations about the amount of retrospective commission variable consideration to which we expect to be entitled and recognize revenue when we no longer believe a significant revenue reversal is probable. Additionally, we may be charged back for commissions related to finance and insurance products in the event of early termination, default, or prepayment of the contracts by end-customers (“chargebacks”). An estimated refund liability for chargebacks against the revenue recognized from sales of finance and insurance products is recorded in the period in which the related revenue is recognized and is based primarily on our historical chargeback experience. We update our measurement of the chargeback liability at each reporting date for changes in expectations about the amount of chargebacks.

We also sell a vehicle maintenance program (the Vehicle Care Program or “VCP”) where we act as the principal in the sale since we have the primary responsibility to provide the specified services to the customer under the VCP contract. When a VCP product is sold in conjunction with the sale of a vehicle to the same customer, the stand-alone selling prices of each product are based on observable selling prices. Under a VCP contract, a customer purchases a specific number of maintenance services to be redeemed at an AutoNation location over a five-year term from the date of purchase. We satisfy our performance obligations and recognize revenue as maintenance services are rendered, since the customer benefits when we have completed the maintenance service. Although payment is due from the customer at the time of sale and services are rendered at points in time during a five-year contract term, these contracts do not contain a significant financing component. The following table includes estimated revenue expected to be recognized in the future related to VCP performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period.

	Revenue Expected to Be Recognized by Period			
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years
Revenue expected to be recognized on VCP contracts sold as of period end	\$ 95.5	\$ 31.1	\$ 47.4	\$ 17.0

We also recognize revenue, net of estimated chargebacks, for commissions earned by us for the transfer of financial assets when we arrange installment loans and leases with third-party lenders in connection with customer vehicle purchases.

Other Revenue

The majority of our other revenue is generated from the sale of vehicles to fleet/rental car companies that are specifically ordered for such companies (“fleet” sales). Revenue recognition for fleet sales is very similar to the

recognition of revenue for new vehicles, described above.

Contract Costs

For sales commissions incurred related to sales of vehicles and sales of finance and insurance products for which we act as agent, we have elected as a practical expedient to not capitalize the incremental costs to obtain those contracts since they are point-of-sale transactions and the amortization period would be immediate.

We have determined that the sales commissions and third-party administrator fees incurred related to sales of VCP products qualify for capitalization since these payments are directly related to sales achieved during a time period and would not have been incurred if the contract had not been obtained. Since the capitalized costs are related to services that are transferred during a five-year contract term, we amortize the assets over the contract term of five years consistent with the pattern of transfer of the service to which the assets relate. As of September 30, 2018, we had \$9.5 million of capitalized costs incurred to obtain or fulfill a VCP contract with a customer. We amortized \$0.8 million and \$2.3 million of these capitalized costs during the three and nine months ended September 30, 2018, respectively.

Table of Contents**AUTONATION, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)****3. RECEIVABLES, NET**

The components of receivables, net of allowance for doubtful accounts, are as follows:

	September 30, December 31,	
	2018	2017
Trade receivables	\$ 126.3	\$ 162.6
Manufacturer receivables	201.5	253.3
Other	32.5	44.9
	360.3	460.8
Less: allowances for doubtful accounts	(4.0)	(5.5)
	356.3	455.3
Contracts-in-transit and vehicle receivables	431.5	655.7
Income taxes receivable (see Note 7)	12.7	—
Receivables, net	\$ 800.5	\$ 1,111.0

Trade receivables represent amounts due for parts and services that have been delivered or sold, excluding amounts due from manufacturers, as well as receivables from finance organizations for commissions on the sale of finance and insurance products. Manufacturer receivables represent amounts due from manufacturers for holdbacks, rebates, incentives, floorplan assistance, and warranty claims. Contracts-in-transit and vehicle receivables primarily represent receivables from financial institutions for the portion of the vehicle sales price financed by our customers. We evaluate our receivables for collectability based on the age of receivables and past collection experience.

4. INVENTORY AND VEHICLE FLOORPLAN PAYABLE

The components of inventory are as follows:

	September 30, December 31,	
	2018	2017
New vehicles	\$ 2,651.0	\$ 2,577.9
Used vehicles	517.7	576.5
Parts, accessories, and other	212.6	211.2
Inventory	\$ 3,381.3	\$ 3,365.6

The components of vehicle floorplan payable are as follows:

	September 30, December 31,	
	2018	2017
Vehicle floorplan payable - trade	\$ 2,107.6	\$ 2,179.1
Vehicle floorplan payable - non-trade	1,495.7	1,627.8
Vehicle floorplan payable	\$ 3,603.3	\$ 3,806.9

Vehicle floorplan payable-trade reflects amounts borrowed to finance the purchase of specific new and, to a lesser extent, used vehicle inventories with the corresponding manufacturers' captive finance subsidiaries ("trade lenders"). Vehicle floorplan payable-non-trade represents amounts borrowed to finance the purchase of specific new and, to a lesser extent, used vehicle inventories with non-trade lenders, as well as amounts borrowed under our secured used vehicle floorplan facilities. Changes in vehicle floorplan payable-trade are reported as operating cash flows and changes in vehicle floorplan payable-non-trade are reported as financing cash flows in the accompanying Unaudited Condensed Consolidated Statements of Cash Flows.

Our inventory costs are generally reduced by manufacturer holdbacks, incentives, floorplan assistance, and non-reimbursement-based manufacturer advertising rebates, while the related vehicle floorplan payables are reflective of the gross cost of the vehicle. The vehicle floorplan payables, as shown in the above table, will generally also be higher than the inventory cost due to the timing of the sale of a vehicle and payment of the related liability.

Table of Contents**AUTONATION, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)**

Vehicle floorplan facilities are due on demand, but in the case of new vehicle inventories, are generally paid within several business days after the related vehicles are sold. Our manufacturer agreements generally allow the manufacturer to draft against new vehicle floorplan facilities so the lender funds the manufacturer directly for the purchase of new vehicle inventory. Vehicle floorplan facilities are primarily collateralized by vehicle inventories and related receivables.

Our new vehicle floorplan facilities utilize LIBOR-based interest rates, which averaged 3.4% for the nine months ended September 30, 2018, and 2.7% for the nine months ended September 30, 2017. At September 30, 2018, the aggregate capacity under our new vehicle floorplan facilities to finance our new vehicle inventory was approximately \$4.8 billion, of which \$3.2 billion had been borrowed.

Our used vehicle floorplan facilities utilize LIBOR-based interest rates, which averaged 3.4% for the nine months ended September 30, 2018, and 2.7% for the nine months ended September 30, 2017. At September 30, 2018, the aggregate capacity under our used vehicle floorplan facilities with various lenders to finance a portion of our used vehicle inventory was \$500.0 million, of which \$367.0 million had been borrowed. The remaining borrowing capacity of \$133.0 million was limited to \$0.5 million based on the eligible used vehicle inventory that could have been pledged as collateral.

5. **GOODWILL AND INTANGIBLE ASSETS, NET**

Goodwill and intangible assets, net, consist of the following:

	September 30,	December 31,
	2018	2017
Goodwill	\$ 1,516.1	\$ 1,515.0
Franchise rights - indefinite-lived	\$ 580.1	\$ 572.2
Other intangibles	25.5	23.3
	605.6	595.5
Less: accumulated amortization	(9.9) (8.7
Other intangible assets, net	\$ 595.7	\$ 586.8

See Note 15 of the Notes to Unaudited Condensed Consolidated Financial Statements for information about our annual impairment tests of goodwill and franchise rights.

6. **LONG-TERM DEBT AND COMMERCIAL PAPER**

Long-term debt consists of the following:

Debt Description	Maturity Date	Interest Payable	September 30,	December 31,
			2018	2017
6.75% Senior Notes	April 15, 2018	April 15 and October 15	\$ —	\$ 400.0
5.5% Senior Notes	February 1, 2020	February 1 and August 1	350.0	350.0
3.35% Senior Notes	January 15, 2021	January 15 and July 15	300.0	300.0
3.5% Senior Notes	November 15, 2024	May 15 and November 15	450.0	450.0
4.5% Senior Notes	October 1, 2025	April 1 and October 1	450.0	450.0
3.8% Senior Notes	November 15, 2027	May 15 and November 15	300.0	300.0
Revolving credit facility	October 19, 2022	Monthly	—	—
Capital leases and other debt	Various dates through 2038	Monthly	130.6	139.4
			1,980.6	2,389.4

Edgar Filing: AUTONATION, INC. - Form 10-Q

Less: unamortized debt discounts and debt issuance costs	(13.2)	(15.7)
Less: current maturities	(5.3)	(414.5)
Long-term debt, net of current maturities	\$ 1,962.1		\$ 1,959.2	

15

Table of Contents**AUTONATION, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)*****Senior Unsecured Notes and Credit Agreement***

The interest rates payable on the 3.35% Senior Notes, 3.5% Senior Notes, 4.5% Senior Notes, and 3.8% Senior Notes are subject to adjustment upon the occurrence of certain credit rating events as provided in the indentures for these senior unsecured notes. In April 2018, we repaid the outstanding \$400.0 million of 6.75% Senior Notes.

Under our credit agreement, we have a \$1.8 billion revolving credit facility that matures on October 19, 2022. The credit agreement also contains an accordion feature that allows us, subject to credit availability and certain other conditions, to increase the amount of the revolving credit facility, together with any added term loans, by up to \$500.0 million in the aggregate. As of September 30, 2018, we had no borrowings outstanding under our revolving credit facility. We have a \$200.0 million letter of credit sublimit as part of our revolving credit facility. The amount available to be borrowed under the revolving credit facility is reduced on a dollar-for-dollar basis by the cumulative amount of any outstanding letters of credit, which was \$47.5 million at September 30, 2018, leaving a borrowing capacity under the revolving credit facility of \$1.8 billion at September 30, 2018. As of September 30, 2018, this borrowing capacity was limited under the applicable maximum consolidated leverage ratio contained in our credit agreement to \$1.1 billion.

Our revolving credit facility under the amended credit agreement provides for a commitment fee on undrawn amounts ranging from 0.150% to 0.25% and interest on borrowings at LIBOR or the base rate, in each case plus an applicable margin. The applicable margin ranges from 1.25% to 1.625% for LIBOR borrowings and 0.25% to 0.625% for base rate borrowings. The interest rate charged for our revolving credit facility is affected by our leverage ratio. For instance, an increase in our leverage ratio from greater than or equal to 2.0x but less than 3.25x to greater than or equal to 3.25x would result in a 12.5 basis point increase in the applicable margin.

Our senior unsecured notes and borrowings under our credit agreement are guaranteed by substantially all of our subsidiaries. Within the meaning of Regulation S-X, Rule 3-10, AutoNation, Inc. (the parent company) has no independent assets or operations, the guarantees of its subsidiaries are full and unconditional and joint and several, and any subsidiaries other than the guarantor subsidiaries are minor.

Other Long-Term Debt

At September 30, 2018, we had capital lease and other debt obligations of \$130.6 million, which are due at various dates through 2038.

Commercial Paper

We have a commercial paper program pursuant to which we may issue short-term, unsecured commercial paper notes on a private placement basis up to a maximum aggregate amount outstanding at any time of \$1.0 billion. The interest rate for the commercial paper notes varies based on duration and market conditions. The maturities of the commercial paper notes may vary, but may not exceed 397 days from the date of issuance. The commercial paper notes are guaranteed by substantially all of our subsidiaries. Proceeds from the issuance of commercial paper notes are used to repay borrowings under the revolving credit facility, to finance acquisitions and for working capital, capital expenditures, share repurchases, and/or other general corporate purposes. We plan to use the revolving credit facility under our credit agreement as a liquidity backstop for borrowings under the commercial paper program. A downgrade in our credit ratings could negatively impact our ability to issue, or the interest rates for, commercial paper notes. At September 30, 2018, we had \$600.0 million of commercial paper notes outstanding with a weighted-average annual interest rate of 2.77% and a weighted-average remaining term of 8 days. At December 31, 2017, we had \$330.0 million of commercial paper notes outstanding with a weighted-average annual interest rate of 1.97% and a weighted-average remaining term of 24 days.

7. INCOME TAXES

Income taxes receivable included in Receivables, net totaled \$12.7 million at September 30, 2018, and income taxes payable included in Other Current Liabilities totaled \$81.1 million at December 31, 2017.

We file income tax returns in the U.S. federal jurisdiction and various states. As a matter of course, various taxing authorities, including the IRS, regularly audit us. Currently, no tax years are under examination by the IRS, and tax years from 2014 to 2016 are under examination by certain U.S. state jurisdictions. These audits may result in proposed assessments where the ultimate resolution may result in our owing additional taxes.

Table of Contents**AUTONATION, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)**

It is our policy to account for interest and penalties associated with income tax obligations as a component of Income Tax Provision in the accompanying Unaudited Condensed Consolidated Financial Statements.

Tax Reform

On December 22, 2017, H.R.1 formerly known as the “Tax Cuts and Jobs Act,” was enacted into law. This new tax legislation, among other things, reduced the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. We have not completed our accounting for the tax effects of enactment of the Act; however, we made a reasonable estimate of the effects on our deferred tax balances as of December 31, 2017. Additionally, for the three and nine months ended September 30, 2018, and in conjunction with the filing of our federal tax return, we recorded a \$5.0 million reduction to income tax expense related to our provisional estimate recorded as of December 31, 2017, due to the revaluation of our deferred tax assets and liabilities. The reduction had a 340 basis point and a 120 basis point impact on our effective income tax rate for the three and nine months ended September 30, 2018, respectively. As of September 30, 2018, we are still analyzing the impact of certain aspects of the new legislation and refining our calculations primarily related to state taxes, which could affect the measurement of our deferred tax balances or give rise to new deferred tax amounts. The provisional amounts remain subject to adjustment during a measurement period of up to one year from the date of enactment.

8.SHAREHOLDERS’ EQUITY

A summary of shares repurchased under our stock repurchase program authorized by our Board of Directors follows:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018 2017	
Shares repurchased	—9.2	2.1	10.1
Aggregate purchase price	\$—\$400.0	\$100.0	\$434.9
Average purchase price per share	\$—\$43.28	\$47.58	\$42.99

As of September 30, 2018, \$263.7 million remained available for share repurchases under the program.

A summary of shares of common stock issued in connection with the exercise of stock options follows:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018 2017	
Shares issued	0.1	0.1	0.4	0.7
Proceeds from the exercise of stock options	\$1.8	\$1.9	\$16.0	\$24.7
Average exercise price per share	\$16.67	\$35.27	\$39.20	\$33.77

The following table presents a summary of shares of common stock issued in connection with grants of restricted stock and settlement of restricted stock units (“RSUs”), as well as shares surrendered to AutoNation to satisfy tax withholding obligations in connection with the vesting of restricted stock and settlement of RSUs:

Three Months Ended	Nine Months Ended
-----------------------------------	------------------------------

(In actual number of shares)	September 30, 2017	September 30, 2018	2017
Shares issued	—	122,661	20,000
Shares surrendered to AutoNation to satisfy tax withholding obligations	—141	55,420	26,061

9. EARNINGS PER SHARE

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are to be included in the computation of earnings per share (“EPS”) under the two-class method. Our restricted stock awards are considered participating securities because they contain non-forfeitable rights

Table of Contents**AUTONATION, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)**

to dividends. As the number of shares granted under such awards that have not yet vested is immaterial, all earnings per share amounts reflect such shares as if they were fully vested shares and the disclosures associated with the two-class method are not presented. RSU awards are not considered participating securities as they do not contain non-forfeitable rights to dividends.

Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding for the period, including outstanding unvested restricted stock awards and vested RSU awards. Diluted EPS is computed by dividing net income by the weighted average number of shares outstanding, noted above, adjusted for the dilutive effect of stock options and unvested RSU awards.

The following table presents the calculation of basic and diluted EPS:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Net income from continuing operations	\$112.3	\$97.6	\$303.0	\$283.5
Income (loss) from discontinued operations, net of income taxes	(0.3)	(0.1)	0.3	(0.2)
Net income	\$112.0	\$97.5	\$303.3	\$283.3
Weighted average common shares outstanding used in calculating basic EPS	90.4	97.3	91.1	99.9
Effect of dilutive stock options and unvested RSUs	0.4	0.4	0.5	0.4
Weighted average common shares outstanding used in calculating diluted EPS	90.8	97.7	91.6	100.3
Basic EPS amounts⁽¹⁾:				
Continuing operations	\$1.24	\$1.00	\$3.33	\$2.84
Discontinued operations	\$—	\$—	\$—	\$—
Net income	\$1.24	\$1.00	\$3.33	\$2.84
Diluted EPS amounts⁽¹⁾:				
Continuing operations	\$1.24	\$1.00	\$3.31	\$2.83
Discontinued operations	\$—	\$—	\$—	\$—
Net income	\$1.23	\$1.00	\$3.31	\$2.82

⁽¹⁾ Earnings per share amounts are calculated discretely and therefore may not add up to the total due to rounding.

A summary of anti-dilutive equity instruments excluded from the computation of diluted earnings per share is as follows:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Anti-dilutive equity instruments excluded from the computation of diluted earnings per share	2.4	3.2	2.0	3.3

10. STORE DIVESTITURES

During the third quarter of 2018, we divested one Import store and one Premium Luxury store, and recorded a net gain of \$18.1 million. During the second quarter of 2018, we divested one Domestic store and two Import stores, and

recorded a net gain of \$1.6 million. During the first quarter of 2018, we divested seven Domestic stores, two Import stores, one Premium Luxury store, and one collision center, and recorded a net gain of \$6.5 million. Write-downs associated with certain business divestitures that closed during the first and second quarters of 2018 were previously recorded during the fourth quarter of 2017.

Table of Contents

AUTONATION, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

During the third quarter of 2017, we divested one Domestic store and one Import store, and recorded a net gain of \$9.3 million. During the second quarter of 2017, we divested one Import store and recorded a gain of \$14.8 million. During the first quarter of 2017, we divested one Import store and recorded a gain of \$4.3 million.

Gains on divestitures are included in Other Income, Net (within Operating Income) in our Unaudited Condensed Consolidated Statements of Income. The financial condition and results of operations of these businesses were not material to our consolidated financial statements.

11. ACQUISITIONS

During the nine months ended September 30, 2018, we purchased one Premium Luxury store located in California, one collision center located in Maryland, and one collision center located in Texas. Acquisitions are included in the Unaudited Condensed Consolidated Financial Statements from the date of acquisition. The purchase price allocations for these business combinations are preliminary and subject to final adjustment. During the nine months ended September 30, 2017, we purchased one Premium Luxury store and four collision centers.

The acquisitions that occurred during the nine months ended September 30, 2018, were not material to our financial condition or results of operations. Additionally, on a pro forma basis as if the results of these acquisitions had been included in our consolidated results for the entire nine month periods ended September 30, 2018 and 2017, revenue and net income would not have been materially different from our reported revenue and net income for these periods.

12. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

We are involved, and will continue to be involved, in numerous legal proceedings arising out of the conduct of our business, including litigation with customers, wage and hour and other employment-related lawsuits, and actions brought by governmental authorities. Some of these lawsuits purport or may be determined to be class or collective actions and seek substantial damages or injunctive relief, or both, and some may remain unresolved for several years. We establish accruals for specific legal proceedings when it is considered probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Our accruals for loss contingencies are reviewed quarterly and adjusted as additional information becomes available. We disclose the amount accrued if material or if such disclosure is necessary for our financial statements to not be misleading. If a loss is not both probable and reasonably estimable, or if an exposure to loss exists in excess of the amount accrued, we assess whether there is at least a reasonable possibility that a loss, or additional loss, may have been incurred. If there is a reasonable possibility that a loss, or additional loss, may have been incurred, we disclose the estimate of the possible loss or range of loss if it is material or a statement that such an estimate cannot be made. Our evaluation of whether a loss is reasonably possible or probable is based on our assessment and consultation with legal counsel regarding the ultimate outcome of the matter. As of September 30, 2018 and 2017, we have accrued for the potential impact of loss contingencies that are probable and reasonably estimable, and there was no indication of a reasonable possibility that a material loss, or additional material loss, may have been incurred. We do not believe that the ultimate resolution of these matters will 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, financial condition, or cash flows.

Other Matters

AutoNation, acting through its subsidiaries, is the lessee under many real estate leases that provide for the use by our subsidiaries of their respective store premises. Pursuant to these leases, our subsidiaries generally agree to indemnify the lessor and other related parties from certain liabilities arising as a result of the use of the leased premises, including environmental liabilities, or a breach of the lease by the lessee. Additionally, from time to time, we enter into agreements with third parties in connection with the sale of assets or businesses in which we agree to indemnify the purchaser or related parties from certain liabilities or costs arising in connection with the assets or business. Also,

in the ordinary course of business in connection with purchases or sales of goods and services, we enter into agreements that may contain indemnification provisions. In the event that an indemnification claim is asserted, our liability would be limited by the terms of the applicable agreement.

Table of Contents

AUTONATION, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

From time to time, primarily in connection with dispositions of automotive stores, our subsidiaries assign or sublet to the store purchaser the subsidiaries' interests in any real property leases associated with such stores. In general, our subsidiaries retain responsibility for the performance of certain obligations under such leases to the extent that the assignee or sublessee does not perform, whether such performance is required prior to or following the assignment or subletting of the lease. Additionally, AutoNation and its subsidiaries generally remain subject to the terms of any guarantees made by us and our subsidiaries in connection with such leases. Although we generally have indemnification rights against the assignee or sublessee in the event of non-performance under these leases, as well as certain defenses, we estimate that lessee rental payment obligations during the remaining terms of these leases with expirations ranging from 2019 to 2034 are approximately \$18 million at September 30, 2018. We do not have any material known commitments that we or our subsidiaries will be called on to perform under any such assigned leases or subleases at September 30, 2018. There can be no assurance that any performance by AutoNation or its subsidiaries required under these leases would not have a material adverse effect on our business, financial condition, and cash flows.

At September 30, 2018, surety bonds, letters of credit, and cash deposits totaled \$110.6 million, of which \$47.5 million were letters of credit. In the ordinary course of business, we are required to post performance and surety bonds, letters of credit, and/or cash deposits as financial guarantees of our performance. We do not currently provide cash collateral for outstanding letters of credit.

In the ordinary course of business, we are subject to numerous laws and regulations, including automotive, environmental, health and safety, and other laws and regulations. We do not anticipate that the costs of such compliance will have a material adverse effect on our business, results of operations, cash flows, or financial condition, although such outcome is possible given the nature of our operations and the extensive legal and regulatory framework applicable to our business. We do not have any material known environmental commitments or contingencies.

13. SEGMENT INFORMATION

At September 30, 2018 and 2017, we had three reportable segments: (1) Domestic, (2) Import, and (3) Premium Luxury. Our Domestic segment is comprised of retail automotive franchises that sell new vehicles manufactured by Ford, General Motors, and FCA US. Our Import segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Toyota, Honda, and Nissan. Our Premium Luxury segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Mercedes-Benz, BMW, Audi, Lexus, and Jaguar Land Rover. The franchises in each segment also sell used vehicles, parts and automotive repair and maintenance services, and automotive finance and insurance products.

“Corporate and other” is comprised of our other businesses, including collision centers, AutoNation USA stand-alone used vehicle sales and service centers, and automotive auctions, all of which generate revenues but do not meet the quantitative thresholds for determining reportable segments, as well as unallocated corporate overhead expenses and retrospective commissions for certain finance and insurance transactions that we arrange under agreements with third parties.

The reportable segments identified above are the business activities of the Company for which discrete financial information is available and for which operating results are regularly reviewed by our chief operating decision maker to allocate resources and assess performance. Our chief operating decision maker is our Chief Executive Officer. The following table provides information on revenues from external customers, intercompany revenues, and segment income of our reportable segments. Intercompany sales, which are eliminated in consolidation, may be based on current market prices, current fair values, or cost plus margin depending on the product type and the markets in which the products are sold.

Table of Contents**AUTONATION, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)**

	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017		
	Domestic Import	Premium Luxury		Domestic Import	Premium Luxury	
Revenues from external customers	\$1,789.7	\$1,770.6	\$1,668.8	\$1,912.4	\$1,789.7	\$1,634.3
Intercompany revenues	\$121.4	\$89.5	\$110.9	\$139.2	\$88.2	\$109.9
Segment income ⁽¹⁾	\$67.2	\$85.3	\$76.9	\$69.0	\$81.0	\$78.8

	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
	Domestic Import	Premium Luxury		Domestic Import	Premium Luxury	
Revenues from external customers	\$5,389.5	\$5,140.2	\$5,116.8	\$5,557.7	\$5,123.5	\$4,894.9
Intercompany revenues	\$395.6	\$257.0	\$328.3	\$417.9	\$278.2	\$345.6
Segment income ⁽¹⁾	\$194.6	\$236.2	\$249.5	\$190.5	\$227.9	\$243.3

⁽¹⁾ Segment income represents income for each of our reportable segments and is defined as operating income less floorplan interest expense.

The following is a reconciliation of total segment income for reportable segments to our consolidated income from continuing operations before income taxes.

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Total segment income for reportable segments	\$229.4	\$228.8	\$680.3	\$661.7
Corporate and other	(58.5)	(42.7)	(193.1)	(118.3)
Other interest expense	(28.4)	(30.0)	(90.4)	(88.0)
Interest income	0.3	0.2	0.8	0.8
Other income, net	2.3	1.6	3.3	6.4
Income from continuing operations before income taxes	\$145.1	\$157.9	\$400.9	\$462.6

14. BUSINESS AND CREDIT CONCENTRATIONS

We own and operate franchised automotive stores in the United States pursuant to franchise agreements with vehicle manufacturers. During the nine months ended September 30, 2018, approximately 62% of our total retail new vehicle unit sales was generated by our stores in Florida, Texas, and California. We are subject to a concentration of risk in the event of financial distress of or other adverse event related to a major vehicle manufacturer or related lender or supplier. The core brands of vehicles that we sell, representing approximately 93% of the new vehicles sold during the nine months ended September 30, 2018, are manufactured by Toyota (including Lexus), Honda, Ford, General Motors, FCA US, Mercedes-Benz, Nissan, BMW, and Volkswagen (including Audi and Porsche). Our business could be materially adversely impacted by a bankruptcy of or other adverse event related to a major vehicle manufacturer or related lender or supplier.

We had receivables from manufacturers or distributors of \$201.5 million at September 30, 2018, and \$253.3 million at December 31, 2017. Additionally, a large portion of our contracts-in-transit included in Receivables, net, in the accompanying Unaudited Condensed Consolidated Balance Sheets, are due from automotive manufacturers' captive

finance subsidiaries, which provide financing directly to our new and used vehicle customers. Concentrations of credit risk with respect to non-manufacturer trade receivables are limited due to the wide variety of customers and markets in which our products are sold as well as their dispersion across many different geographic areas in the United States. Consequently, at September 30, 2018, we do not consider AutoNation to have any significant non-manufacturer concentrations of credit risk.

15. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The fair value of a financial instrument represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Fair value estimates are made at a specific point in

Table of Contents**AUTONATION, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)**

time based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of judgment, and therefore cannot be determined with precision.

Accounting standards define fair value as the price that would be received from selling an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Accounting standards establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value and also establishes the following three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted

Level 2 market prices in markets that are not active; or model-derived valuations or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The following methods and assumptions were used by us in estimating fair value disclosures for financial instruments:

Cash and cash equivalents, receivables, other current assets, vehicle floorplan payable, accounts payable, other current liabilities, commercial paper, and variable rate debt: The amounts reported in the accompanying Unaudited Condensed Consolidated Balance Sheets approximate fair value due to their short-term nature or the existence of variable interest rates that approximate prevailing market rates.

Fixed rate long-term debt: Our fixed rate long-term debt primarily consists of amounts outstanding under our senior unsecured notes. We estimate the fair value of our senior unsecured notes using quoted prices for the identical liability (Level 1). A summary of the aggregate carrying values and fair values of our fixed rate long-term debt is as follows:

	September 30, December 31,	
	2018	2017
Carrying value \$	1,967.4	\$ 2,373.7
Fair value	\$ 1,944.0	\$ 2,442.1

Nonfinancial assets such as goodwill, other intangible assets, and long-lived assets held and used are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized or for a business combination. The fair values less costs to sell of long-lived assets held for sale are assessed each reporting period they remain classified as held for sale. Subsequent changes in the held for sale long-lived asset's fair value less cost to sell (increase or decrease) is reported as an adjustment to its carrying amount, except that the adjusted carrying amount cannot exceed the carrying amount of the long-lived asset at the time it was initially classified as held for sale. The following table presents nonfinancial assets measured and recorded at fair value on a nonrecurring basis during the nine months ended September 30, 2018 and 2017:

Description	2018		2017	
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Gain/(Loss)		Gain/(Loss)	
Franchise rights	\$ 31.7	\$ (8.1)	\$ —	\$ —

Edgar Filing: AUTONATION, INC. - Form 10-Q

Long-lived assets held and used	\$ —	\$ (1.6)	\$ —	\$ (0.2)
Long-lived assets held for sale in continuing operations	\$ 7.4	\$ (0.6)	\$ 2.9	\$ 0.2

Table of Contents

AUTONATION, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Goodwill and Other Intangible Assets

Goodwill for our reporting units is tested for impairment annually as of April 30 or more frequently when events or changes in circumstances indicate that the carrying value of a reporting unit more likely than not exceeds its fair value. Under accounting standards, we chose to make a qualitative evaluation about the likelihood of goodwill impairment as of April 30, 2018, and determined that it was not more likely than not that the fair values of our reporting units were less than their carrying amounts.

We elected to perform a quantitative goodwill impairment test as of April 30, 2017, and no goodwill impairment charges resulted from the quantitative impairment test. The quantitative goodwill impairment test requires a determination of whether the fair value of a reporting unit is less than its carrying value. We estimate the fair value of our reporting units using an “income” valuation approach, which discounts projected free cash flows of the reporting unit at a computed weighted average cost of capital as the discount rate. The income valuation approach requires the use of significant estimates and assumptions, which include revenue growth rates and future operating margins used to calculate projected future cash flows, weighted average costs of capital, and future economic and market conditions. In connection with this process, we also reconcile the estimated aggregate fair values of our reporting units to our market capitalization, including consideration of a control premium that represents the estimated amount an investor would pay for our equity securities to obtain a controlling interest. We believe that this reconciliation process is consistent with a market participant perspective. We base our cash flow forecasts on our knowledge of the automotive industry, our recent performance, our expectations of our future performance, and other assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. We also make certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for each of our reporting units.

Our principal identifiable intangible assets are individual store rights under franchise agreements with vehicle manufacturers, which have indefinite lives and are tested for impairment annually as of April 30 or more frequently when events or changes in circumstances indicate that impairment may have occurred. We performed quantitative franchise rights impairment tests as of April 30, 2018. As a result of these tests, we recorded non-cash impairment charges of \$8.1 million to reduce the carrying values of certain franchise rights to their estimated fair values. The non-cash impairment charges are reflected as Franchise Rights Impairment in the accompanying Unaudited Condensed Consolidated Statements of Income and are reported in the “Corporate and other” category of our segment information.

The quantitative impairment test for franchise rights requires the comparison of the franchise rights’ estimated fair value to carrying value by store. Fair values of rights under franchise agreements are estimated using Level 3 inputs by discounting expected future cash flows of the store. The forecasted cash flows contain inherent uncertainties, including significant estimates and assumptions related to growth rates, margins, working capital requirements, capital expenditures, and cost of capital, for which we utilize certain market participant-based assumptions, using third-party industry projections, economic projections, and other marketplace data we believe to be reasonable. The development of the assumptions used in our annual impairment tests are coordinated by our financial planning and analysis group, and the assumptions are reviewed by management.

We elected to perform quantitative franchise rights impairment tests as of April 30, 2017, and no franchise rights impairment charges resulted from the quantitative impairment tests.

Long-Lived Assets

The fair value measurement valuation process for our long-lived assets is established by our corporate real estate services group. Fair value measurements, which are based on Level 3 inputs, and changes in fair value measurements are reviewed and assessed each quarter for properties classified as held for sale, or when an indicator of impairment exists for properties classified as held and used, by the corporate real estate services group. Our corporate real estate services group utilizes its knowledge of the automotive industry and historical experience in real estate markets and transactions in establishing the valuation process, which is generally based on a combination of the market and

replacement cost approaches.

In a market approach, the corporate real estate services group uses transaction prices for comparable properties that have recently been sold. These transaction prices are adjusted for factors related to a specific property. The corporate real estate services group also evaluates changes in local real estate markets, and/or recent market interest or negotiations related to a specific property. In a replacement cost approach, the cost to replace a specific long-lived asset is considered, which is adjusted for depreciation from physical deterioration, as well as functional and economic obsolescence, if present and measurable.

Table of Contents**AUTONATION, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)**

To validate the fair values determined under the valuation process noted above, our corporate real estate services group also obtains independent third-party appraisals for our properties and/or third-party brokers' opinions of value, which are generally developed using the same valuation approaches described above, and evaluates any recent negotiations or discussions with third-party real estate brokers related to a specific long-lived asset or market. We had assets held for sale in continuing operations of \$83.1 million as of September 30, 2018, and \$169.1 million as of December 31, 2017, primarily related to property held for sale, as well as inventory, goodwill, franchise rights, and property of disposal groups held for sale. We had assets held for sale in discontinued operations of \$14.1 million as of September 30, 2018, and \$14.4 million as of December 31, 2017, primarily related to property held for sale. Assets held for sale are included in Other Current Assets in our Unaudited Condensed Consolidated Balance Sheets.

Long-Lived Assets Held and Used

The non-cash impairment charges recorded during the nine months ended September 30, 2018 and 2017, are included in Other Income, Net (within Operating Income) in our Unaudited Condensed Consolidated Statements of Income and are reported in the "Corporate and other" category of our segment information.

Long-Lived Assets Held for Sale in Continuing Operations

The non-cash impairment charges recorded during the nine months ended September 30, 2018, and the net adjustments recorded during the nine months ended September 30, 2017, are included in Other Income, Net (within Operating Income) in our Unaudited Condensed Consolidated Statements of Income and are reported in the "Corporate and other" category of our segment information.

16. CASH FLOW INFORMATION*Cash, Cash Equivalents, and Restricted Cash*

The total amounts presented on our statements of cash flows include cash, cash equivalents, and restricted cash. Restricted cash includes certain deferred purchase price commitments related to certain acquisitions. The following table provides a reconciliation of cash and cash equivalents reported on our Unaudited Condensed Consolidated Balance Sheets to the total amounts reported on our Unaudited Condensed Consolidated Statements of Cash Flows:

	September 30, 2018	December 31, 2017
Cash and cash equivalents	\$ 52.6	\$ 69.2
Restricted cash included in Current Assets	0.7	1.9
Total cash, cash equivalents, and restricted cash	\$ 53.3	\$ 71.1

Non-Cash Investing and Financing Activities

We had non-cash investing and financing activities related to increases in property acquired under capital leases and other financing arrangements of \$5.2 million for the nine months ended September 30, 2018, and \$7.7 million for the nine months ended September 30, 2017. For the nine months ended September 30, 2017, we also had non-cash investing and financing activities of \$3.3 million related to capital leases and deferred purchase price commitments associated with acquisitions. In addition, we had accrued purchases of property and equipment of \$36.9 million at September 30, 2018, and \$22.7 million at September 30, 2017.

Interest and Income Taxes Paid

We made interest payments, net of amounts capitalized and including interest on vehicle inventory financing, of \$179.3 million during the nine months ended September 30, 2018, and \$148.6 million during the nine months ended September 30, 2017. We made income tax payments, net of income tax refunds, of \$182.1 million during the nine months ended September 30, 2018, and \$126.3 million during the nine months ended September 30, 2017.

Table of Contents

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Unaudited Condensed Consolidated Financial Statements and notes thereto included under Part I, Item 1 of this Quarterly Report on Form 10-Q. In addition, reference should be made to our audited Consolidated Financial Statements and notes thereto and related “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our most recent Annual Report on Form 10-K.

Overview

AutoNation, Inc., through its subsidiaries, is the largest automotive retailer in the United States. As of September 30, 2018, we owned and operated 329 new vehicle franchises from 242 stores located in the United States, predominantly in major metropolitan markets in the Sunbelt region. Our stores, which we believe include some of the most recognizable and well known in our key markets, sell 33 different new vehicle brands. The core brands of new vehicles that we sell, representing approximately 93% of the new vehicles that we sold during the nine months ended September 30, 2018, are manufactured by Toyota (including Lexus), Honda, Ford, General Motors, FCA US, Mercedes-Benz, Nissan, BMW, and Volkswagen (including Audi and Porsche). As of September 30, 2018, we also owned and operated 82 AutoNation-branded collision centers, and together with our vehicle dealerships, our AutoNation USA stores, and our automotive auctions, we owned and operated over 325 locations coast to coast. We offer a diversified range of automotive products and services, including new vehicles, used vehicles, “parts and service,” which includes automotive repair and maintenance services as well as wholesale parts and collision businesses, and automotive “finance and insurance” products, which include vehicle service and other protection products, as well as the arranging of financing for vehicle purchases through third-party finance sources. We believe that the significant scale of our operations and the quality of our managerial talent allow us to achieve efficiencies in our key markets by, among other things, leveraging the AutoNation retail brand and advertising, implementing standardized processes, and increasing productivity across all of our stores.

At September 30, 2018, we had three reportable segments: (1) Domestic, (2) Import, and (3) Premium Luxury. Our Domestic segment is comprised of retail automotive franchises that sell new vehicles manufactured by Ford, General Motors, and FCA US. Our Import segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Toyota, Honda, and Nissan. Our Premium Luxury segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Mercedes-Benz, BMW, Audi, Lexus, and Jaguar Land Rover. The franchises in each segment also sell used vehicles, parts and automotive repair and maintenance services, and automotive finance and insurance products.

For the nine months ended September 30, 2018, new vehicle sales accounted for approximately 54% of our total revenue and approximately 15% of our total gross profit. Used vehicle sales accounted for approximately 24% of our total revenue and approximately 11% of our total gross profit. Our parts and service and finance and insurance operations, while comprising approximately 21% of our total revenue for the nine months ended September 30, 2018, contributed approximately 75% of our total gross profit for the same period.

Market Conditions

In the third quarter of 2018, U.S. industry retail new vehicle unit sales were down 4% as compared to the third quarter of 2017. We currently expect that full-year U.S. industry new vehicle unit sales in 2018 will be approximately 17.0 million units. However, actual sales may materially differ. Based on industry data, vehicle leasing and manufacturer incentives remain at historically-high levels. To the extent that vehicle manufacturers reduce their support for these programs, U.S. industry and our new vehicle unit retail sales could be adversely impacted. In addition, an increase in off-lease supply of late-model used vehicles could continue to benefit retail used vehicle unit volume but adversely impact retail new vehicle unit volume.

A rise in interest rates has adversely impacted interest expense on variable rate debt such as vehicle floorplan payables and commercial paper notes. Consumer borrowing rates, which are generally based on the same underlying benchmark interest rates, have increased over the past two years. If interest rates continue to rise, there may be an adverse impact on vehicle sales and vehicle affordability due to the direct relationship between interest rates and

monthly loan payments, a critical factor for many vehicle buyers.

Results of Operations

During the three months ended September 30, 2018, we had net income from continuing operations of \$112.3 million, or \$1.24 per share on a diluted basis, as compared to net income from continuing operations of \$97.6 million, or \$1.00 per share on a diluted basis, during the same period in 2017. During the nine months ended September 30, 2018, we had net income from

Table of Contents

continuing operations of \$303.0 million, or \$3.31 per share on a diluted basis, as compared to net income from continuing operations of \$283.5 million, or \$2.83 per share on a diluted basis, during the same period in 2017. During the third quarter of 2018, used vehicle gross profit increased 6.2%, finance and insurance gross profit increased 2.4%, and parts and service gross profit increased 6.3%, each as compared to the third quarter of 2017, due in part to our brand extension strategy. Improvements to gross profit during the third quarter of 2018 were partially offset by a decrease in new vehicle gross profit. Our new vehicle gross profit on a per vehicle retailed (“PVR”) basis was adversely impacted by competitive market conditions, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles, in a plateauing sales environment. SG&A expenses increased as compared to the prior year period due to investments related to our brand extension strategy. Floorplan interest expense also increased as compared to the prior year period, primarily due to higher average interest rates.

Net income from continuing operations benefited from net after-tax gains of \$13.7 million related to store divestitures during the three months ended September 30, 2018, and \$8.7 million related to store/property divestitures during the three months ended September 30, 2017.

Strategic Initiatives

We continue to implement our comprehensive, customer-focused brand extension strategy, which includes AutoNation-branded parts and accessories, AutoNation-branded Customer Financial Services products (including extended service and maintenance contracts and other vehicle protection products), the expansion of AutoNation-branded collision centers, AutoNation-branded automotive auctions, and AutoNation USA stand-alone used vehicle sales and service centers. During the nine months ended September 30, 2018, we opened five and acquired two collision centers, and we opened one automotive auction and two AutoNation USA stores.

In October 2018, we invested \$50 million in Vroom Inc., one of the largest online car retailers. Our investment represents an ownership stake of approximately 7% and provides a foundation for potential strategic partnership opportunities with experienced and proven e-commerce executives. We also continue to partner with Waymo, the self-driving technology company of Alphabet Inc., in a multi-year agreement to support Waymo’s autonomous vehicle program. We do not expect our agreement with Waymo or our investment in Vroom to have a material effect on our financial results in the foreseeable future.

Inventory Management

Our new and used vehicle inventories are stated at the lower of cost or net realizable value on our consolidated balance sheets. We monitor our vehicle inventory levels based on current economic conditions and seasonal sales trends.

We have typically not experienced significant losses on the sale of new vehicle inventory, in part due to incentives provided by manufacturers to promote sales of new vehicles and our inventory management practices. We monitor our new vehicle inventory values as compared to net realizable values, and as a result, our new vehicle inventory balance was net of cumulative write-downs of \$2.0 million at September 30, 2018, and \$2.2 million at December 31, 2017. We recondition the majority of used vehicles acquired for retail sale in our parts and service departments and capitalize the related costs to the used vehicle inventory. We monitor our used vehicle inventory values as compared to net realizable values. Typically, used vehicles that are not sold on a retail basis are sold at wholesale auctions. Our used vehicle inventory balance was net of cumulative write-downs of \$3.1 million at September 30, 2018, and \$4.1 million at December 31, 2017.

Parts, accessories, and other inventory are carried at the lower of acquisition cost or net realizable value. We estimate the amount of potential obsolete inventory based upon historical experience, manufacturer return policies, and industry trends. Our parts, accessories, and other inventory balance was net of cumulative write-downs of \$6.4 million at September 30, 2018, and \$5.2 million at December 31, 2017.

Critical Accounting Estimates

We prepare our Unaudited Condensed Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and the

reported amounts of revenue and expenses during the reporting period. We evaluate our estimates on an ongoing basis, and we base our estimates on historical experience and various other assumptions we believe to be reasonable. Actual outcomes could differ materially from those estimates in a manner that could have a material effect on our Unaudited Condensed Consolidated Financial Statements. For additional discussion of our critical accounting estimates, please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our most recent Annual Report on Form 10-K.

Table of Contents

Goodwill

Goodwill for our reporting units is tested for impairment annually as of April 30 or more frequently when events or changes in circumstances indicate that the carrying value of a reporting unit more likely than not exceeds its fair value. Under accounting standards, we chose to make a qualitative evaluation about the likelihood of goodwill impairment as of April 30, 2018, and determined that it was not more likely than not that the fair values of our reporting units were less than their carrying amounts.

As of September 30, 2018, we have \$232.5 million of goodwill related to the Domestic reporting unit, \$523.8 million related to the Import reporting unit, \$717.7 million related to the Premium Luxury reporting unit, and \$42.1 million related to "Other."

Other Intangible Assets

Our principal identifiable intangible assets are individual store rights under franchise agreements with vehicle manufacturers, which have indefinite lives and are tested for impairment annually as of April 30 or more frequently when events or changes in circumstances indicate that impairment may have occurred.

Our franchise rights, which related to 66 stores and totaled \$572.2 million at April 30, 2018, are evaluated for impairment on a franchise-by-franchise basis annually. We performed quantitative franchise rights impairment tests as of April 30, 2018. As a result of the quantitative tests, we identified 3 stores with franchise rights carrying values that exceeded their fair values, and we recorded non-cash impairment charges of \$8.1 million. We identified 11 additional stores that, while they each had franchise rights fair value in excess of carrying value, had lower relative performance compared to our total store population. We will continue to monitor these 11 stores, as well as all stores, for events or changes in circumstances that may indicate potential impairment. The remainder of our stores had franchise rights with calculated fair values that substantially exceeded their carrying values. If, hypothetically, the fair value of each of the franchise rights quantitatively tested had been determined to be 10% lower as of the valuation date, the additional aggregate pre-tax non-cash impairment charge would have been approximately \$3 million. The quantitative franchise rights impairment test is dependent on many variables used to determine the fair value of each store's franchise rights. See Note 15 of the Notes to Unaudited Condensed Consolidated Financial Statements for a description of the valuation method and related estimates and assumptions used in our quantitative impairment testing. The effect of a hypothetical 10% decrease in fair value estimates is not intended to provide a sensitivity analysis of every potential outcome.

Chargeback Liability

We estimate our liability for chargebacks on commissions related to financing, vehicle service contracts, or other vehicle protection products on an individual basis using our historical chargeback experience based on internal cancellation data, as well as cancellation data received from third parties that sell and administer these products. Our estimated liability for chargebacks totaled \$128.3 million at September 30, 2018, and \$120.8 million at December 31, 2017.

Table of Contents**Reported Operating Data**

Historical operating results include the results of acquired businesses from the date of acquisition.

(\$ in millions, except per vehicle data)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	Variance Favorable / (Unfavorable)	% Variance	2018	2017	Variance Favorable / (Unfavorable)	% Variance
Revenue:								
New vehicle	\$2,933.1	\$3,108.4	\$ (175.3)	(5.6)	\$8,685.0	\$8,835.5	\$ (150.5)	(1.7)
Retail used vehicle	1,211.6	1,151.5	60.1	5.2	3,666.1	3,438.7	227.4	6.6
Wholesale	70.1	76.8	(6.7)	(8.7)	244.8	231.6	13.2	5.7
Used vehicle	1,281.7	1,228.3	53.4	4.3	3,910.9	3,670.3	240.6	6.6
Finance and insurance, net	247.4	241.6	5.8	2.4	736.0	692.0	44.0	6.4
Total variable operations ⁽¹⁾	4,462.2	4,578.3	(116.1)	(2.5)	13,331.9	13,197.8	134.1	1.0
Parts and service	864.0	841.6	22.4	2.7	2,579.6	2,544.2	35.4	1.4
Other	23.0	12.5	10.5		89.6	109.1	(19.5)	
Total revenue	\$5,349.2	\$5,432.4	\$ (83.2)	(1.5)	\$16,001.1	\$15,851.1	\$ 150.0	0.9
Gross profit:								
New vehicle	\$125.4	\$144.8	\$ (19.4)	(13.4)	\$379.9	\$427.3	\$ (47.4)	(11.1)
Retail used vehicle	87.4	83.9	3.5	4.2	256.4	232.8	23.6	10.1
Wholesale	3.6	1.8	1.8		11.6	4.4	7.2	
Used vehicle	91.0	85.7	5.3	6.2	268.0	237.2	30.8	13.0
Finance and insurance	247.4	241.6	5.8	2.4	736.0	692.0	44.0	6.4
Total variable operations ⁽¹⁾	463.8	472.1	(8.3)	(1.8)	1,383.9	1,356.5	27.4	2.0
Parts and service	390.6	367.4	23.2	6.3	1,163.4	1,116.0	47.4	4.2
Other	0.9	6.4	(5.5)		2.1	19.3	(17.2)	
Total gross profit	855.3	845.9	9.4	1.1	2,549.4	2,491.8	57.6	2.3
Selling, general, and administrative expenses	626.2	607.5	(18.7)	(3.1)	1,878.3	1,814.1	(64.2)	(3.5)
Depreciation and amortization	42.9	41.4	(1.5)		124.0	118.0	(6.0)	
Franchise rights impairment	—	—	—		8.1	—	(8.1)	
Other income, net	(17.4)	(14.2)	3.2		(41.6)	(54.4)	(12.8)	
Operating income	203.6	211.2	(7.6)	(3.6)	580.6	614.1	(33.5)	(5.5)
Non-operating income (expense) items:								
Floorplan interest expense	(32.7)	(25.1)	(7.6)		(93.4)	(70.7)	(22.7)	
Other interest expense	(28.4)	(30.0)	1.6		(90.4)	(88.0)	(2.4)	
Interest income	0.3	0.2	0.1		0.8	0.8	—	
Other income, net	2.3	1.6	0.7		3.3	6.4	(3.1)	
Income from continuing operations before income taxes	\$145.1	\$157.9	\$ (12.8)	(8.1)	\$400.9	\$462.6	\$ (61.7)	(13.3)
Retail vehicle unit sales:								
New vehicle	79,237	86,192	(6,955)	(8.1)	232,469	241,882	(9,413)	(3.9)
Used vehicle	60,446	59,330	1,116	1.9	182,737	178,204	4,533	2.5
	139,683	145,522	(5,839)	(4.0)	415,206	420,086	(4,880)	(1.2)
Revenue per vehicle retailed:								
New vehicle	\$37,017	\$36,064	\$ 953	2.6	\$37,360	\$36,528	\$ 832	2.3
Used vehicle	\$20,044	\$19,408	\$ 636	3.3	\$20,062	\$19,296	\$ 766	4.0
Gross profit per vehicle retailed:								
New vehicle	\$1,583	\$1,680	\$ (97)	(5.8)	\$1,634	\$1,767	\$ (133)	(7.5)
Used vehicle	\$1,446	\$1,414	\$ 32	2.3	\$1,403	\$1,306	\$ 97	7.4
Finance and insurance	\$1,771	\$1,660	\$ 111	6.7	\$1,773	\$1,647	\$ 126	7.7
Total variable operations ⁽²⁾	\$3,295	\$3,232	\$ 63	1.9	\$3,305	\$3,219	\$ 86	2.7

Edgar Filing: AUTONATION, INC. - Form 10-Q

⁽¹⁾ Total variable operations includes new vehicle, used vehicle (retail and wholesale), and finance and insurance results.

⁽²⁾ Total variable operations gross profit per vehicle retailed is calculated by dividing the sum of new vehicle, retail used vehicle, and finance and insurance gross profit by total retail vehicle unit sales.

Table of Contents

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018 (%)	2017 (%)	2018 (%)	2017 (%)
Revenue mix percentages:				
New vehicle	54.8	57.2	54.3	55.7
Used vehicle	24.0	22.6	24.4	23.2
Parts and service	16.2	15.5	16.1	16.1
Finance and insurance, net	4.6	4.4	4.6	4.4
Other	0.4	0.3	0.6	0.6
Total	100.0	100.0	100.0	100.0
Gross profit mix percentages:				
New vehicle	14.7	17.1	14.9	17.1
Used vehicle	10.6	10.1	10.5	9.5
Parts and service	45.7	43.4	45.6	44.8
Finance and insurance	28.9	28.6	28.9	27.8
Other	0.1	0.8	0.1	0.8
Total	100.0	100.0	100.0	100.0
Operating items as a percentage of revenue:				
Gross profit:				
New vehicle	4.3	4.7	4.4	4.8
Used vehicle - retail	7.2	7.3	7.0	6.8
Parts and service	45.2	43.7	45.1	43.9
Total	16.0	15.6	15.9	15.7
Selling, general, and administrative expenses	11.7	11.2	11.7	11.4
Operating income	3.8	3.9	3.6	3.9
Operating items as a percentage of total gross profit:				
Selling, general, and administrative expenses	73.2	71.8	73.7	72.8
Operating income	23.8	25.0	22.8	24.6
	September 30,			
	2018	2017		
Inventory days supply:				
New vehicle (industry standard of selling days)	63 days	59 days		
Used vehicle (trailing calendar month days)	37 days	38 days		

Table of Contents**Same Store Operating Data**

We have presented below our operating results on a same store basis, which reflect the results of our stores for the identical months in each period presented in the comparison, commencing with the first full month in which the store was owned by us. Results from divested stores are excluded from both current and prior periods. Therefore, the amounts presented in the 2017 columns may differ from the same store amounts presented for 2017 in the prior year.

(\$ in millions, except per vehicle data)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	Variance Favorable / (Unfavorable)	% Variance	2018	2017	Variance Favorable / (Unfavorable)	% Variance
Revenue:								
New vehicle	\$2,884.1	\$3,016.8	\$ (132.7)	(4.4)	\$8,533.5	\$8,548.9	\$ (15.4)	(0.2)
Retail used vehicle	1,176.1	1,111.7	64.4	5.8	3,550.0	3,305.5	244.5	7.4
Wholesale	68.1	74.5	(6.4)	(8.6)	233.9	223.0	10.9	4.9
Used vehicle	1,244.2	1,186.2	58.0	4.9	3,783.9	3,528.5	255.4	7.2
Finance and insurance, net	243.9	235.4	8.5	3.6	724.4	672.9	51.5	7.7
Total variable operations ⁽¹⁾	4,372.2	4,438.4	(66.2)	(1.5)	13,041.8	12,750.3	291.5	2.3
Parts and service	843.3	819.2	24.1	2.9	2,520.5	2,469.7	50.8	2.1
Other	23.0	12.4	10.6		89.6	108.7	(19.1)	
Total revenue	\$5,238.5	\$5,270.0	\$ (31.5)	(0.6)	\$15,651.9	\$15,328.7	\$ 323.2	2.1
Gross profit:								
New vehicle	\$123.0	\$141.0	\$ (18.0)	(12.8)	\$372.8	\$415.6	\$ (42.8)	(10.3)
Retail used vehicle	85.4	81.4	4.0	4.9	250.6	224.7	25.9	11.5
Wholesale	3.0	2.1	0.9		6.2	4.6	1.6	
Used vehicle	88.4	83.5	4.9	5.9	256.8	229.3	27.5	12.0
Finance and insurance	243.9	235.4	8.5	3.6	724.4	672.9	51.5	7.7
Total variable operations ⁽¹⁾	455.3	459.9	(4.6)	(1.0)	1,354.0	1,317.8	36.2	2.7
Parts and service	381.5	358.0	23.5	6.6	1,136.7	1,083.6	53.1	4.9
Other	0.7	6.3	(5.6)		2.1	19.0	(16.9)	
Total gross profit	\$837.5	\$824.2	\$ 13.3	1.6	\$2,492.8	\$2,420.4	\$ 72.4	3.0
Retail vehicle unit sales:								
New vehicle	78,275	83,571	(5,296)	(6.3)	229,251	233,582	(4,331)	(1.9)
Used vehicle	58,666	57,065	1,601	2.8	176,678	170,343	6,335	3.7
	136,941	140,636	(3,695)	(2.6)	405,929	403,925	2,004	0.5
Revenue per vehicle retailed:								
New vehicle	\$36,846	\$36,099	\$ 747	2.1	\$37,223	\$36,599	\$ 624	1.7
Used vehicle	\$20,047	\$19,481	\$ 566	2.9	\$20,093	\$19,405	\$ 688	3.5
Gross profit per vehicle retailed:								
New vehicle	\$1,571	\$1,687	\$ (116)	(6.9)	\$1,626	\$1,779	\$ (153)	(8.6)
Used vehicle	\$1,456	\$1,426	\$ 30	2.1	\$1,418	\$1,319	\$ 99	7.5
Finance and insurance	\$1,781	\$1,674	\$ 107	6.4	\$1,785	\$1,666	\$ 119	7.1
Total variable operations ⁽²⁾	\$3,303	\$3,255	\$ 48	1.5	\$3,320	\$3,251	\$ 69	2.1

⁽¹⁾ Total variable operations includes new vehicle, used vehicle (retail and wholesale), and finance and insurance results.

⁽²⁾ Total variable operations gross profit per vehicle retailed is calculated by dividing the sum of new vehicle, retail used vehicle, and finance and insurance gross profit by total retail vehicle unit sales.

Table of Contents

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018 (%)	2017 (%)	2018 (%)	2017 (%)
Revenue mix percentages:				
New vehicle	55.1	57.2	54.5	55.8
Used vehicle	23.8	22.5	24.2	23.0
Parts and service	16.1	15.5	16.1	16.1
Finance and insurance, net	4.7	4.5	4.6	4.4
Other	0.3	0.3	0.6	0.7
Total	100.0	100.0	100.0	100.0
Gross profit mix percentages:				
New vehicle	14.7	17.1	15.0	17.2
Used vehicle	10.6	10.1	10.3	9.5
Parts and service	45.6	43.4	45.6	44.8
Finance and insurance	29.1	28.6	29.1	27.8
Other	—	0.8	—	0.7
Total	100.0	100.0	100.0	100.0
Operating items as a percentage of revenue:				
Gross profit:				
New vehicle	4.3	4.7	4.4	4.9
Used vehicle - retail	7.3	7.3	7.1	6.8
Parts and service	45.2	43.7	45.1	43.9
Total	16.0	15.6	15.9	15.8

Table of Contents**New Vehicle**

(\$ in millions, except per vehicle data)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	Variance Favorable / (Unfavorable)	% Variance	2018	2017	Variance Favorable / (Unfavorable)	% Variance
Reported:								
Revenue	\$2,933.1	\$3,108.4	\$ (175.3)	(5.6)	\$8,685.0	\$8,835.5	\$ (150.5)	(1.7)
Gross profit	\$125.4	\$144.8	\$ (19.4)	(13.4)	\$379.9	\$427.3	\$ (47.4)	(11.1)
Retail vehicle unit sales	79,237	86,192	(6,955)	(8.1)	232,469	241,882	(9,413)	(3.9)
Revenue per vehicle retailed	\$37,017	\$36,064	\$ 953	2.6	\$37,360	\$36,528	\$ 832	2.3
Gross profit per vehicle retailed	\$1,583	\$1,680	\$ (97)	(5.8)	\$1,634	\$1,767	\$ (133)	(7.5)
Gross profit as a percentage of revenue	4.3	% 4.7	%		4.4	% 4.8	%	
Inventory days supply (industry standard of selling days)	63 days	59 days						

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	Variance Favorable / (Unfavorable)	% Variance	2018	2017	Variance Favorable / (Unfavorable)	% Variance
Same Store:								
Revenue	\$2,884.1	\$3,016.8	\$ (132.7)	(4.4)	\$8,533.5	\$8,548.9	\$ (15.4)	(0.2)
Gross profit	\$123.0	\$141.0	\$ (18.0)	(12.8)	\$372.8	\$415.6	\$ (42.8)	(10.3)
Retail vehicle unit sales	78,275	83,571	(5,296)	(6.3)	229,251	233,582	(4,331)	(1.9)
Revenue per vehicle retailed	\$36,846	\$36,099	\$ 747	2.1	\$37,223	\$36,599	\$ 624	1.7
Gross profit per vehicle retailed	\$1,571	\$1,687	\$ (116)	(6.9)	\$1,626	\$1,779	\$ (153)	(8.6)
Gross profit as a percentage of revenue	4.3	% 4.7	%		4.4	% 4.9	%	

The following discussion of new vehicle results is on a same store basis. The difference between reported amounts and same store amounts in the above tables of \$49.0 million and \$91.6 million in new vehicle revenue and \$2.4 million and \$3.8 million in new vehicle gross profit for the three months ended September 30, 2018 and 2017, respectively, and \$151.5 million and \$286.6 million in new vehicle revenue and \$7.1 million and \$11.7 million in new vehicle gross profit for the nine months ended September 30, 2018 and 2017, respectively, is related to acquisition and divestiture activity, as well as new add-point openings.

Third Quarter 2018 compared to Third Quarter 2017

Same store new vehicle revenue decreased during the three months ended September 30, 2018, as compared to the same period in 2017, due to a decrease in same store unit volume, partially offset by an increase in revenue PVR. The decrease in same store unit volume was primarily due to overall competitive market conditions in a plateauing new vehicle sales environment, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles. Additionally, unit volume in the prior year benefited from strong replacement demand in certain of our Texas markets after Hurricane Harvey last year.

Same store revenue PVR increased during the three months ended September 30, 2018, as compared to the same period in 2017, as a result of increases in the average selling prices for Domestic and Import vehicles, due in part to a shift in mix toward trucks and sport utility vehicles that have relatively higher average selling prices. This shift in mix is due to a combination of improved vehicle fuel efficiency and relatively low average fuel prices. Average selling prices also increased as a result of increases in the manufacturers' suggested retail prices.

Same store gross profit PVR decreased during the three months ended September 30, 2018, as compared to the same period in 2017, primarily due to decreases in gross profit PVR for Premium Luxury and Domestic vehicles resulting from competitive market conditions, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles.

Table of Contents*First Nine Months 2018 compared to First Nine Months 2017*

Same store new vehicle revenue decreased during the nine months ended September 30, 2018, as compared to the same period in 2017, due to a decrease in same store unit volume, partially offset by an increase in revenue PVR. The decrease in same store unit volume was primarily due to overall competitive market conditions in a plateauing new vehicle sales environment, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles.

Same store revenue PVR benefited from an increase in the average selling prices for vehicles in all three segments due in part to a shift in mix toward trucks and sport utility vehicles that have relatively higher average selling prices. This shift in mix is due to a combination of improved vehicle fuel efficiency and relatively low average fuel prices.

Average selling prices also increased as a result of increases in the manufacturers' suggested retail prices.

Same store gross profit PVR decreased during the nine months ended September 30, 2018, as compared to the same period in 2017, for all three segments resulting from competitive market conditions, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles.

Net New Vehicle Inventory Carrying Benefit (Cost)

The following table details net new vehicle inventory carrying benefit (cost), consisting of new vehicle floorplan interest expense, net of floorplan assistance earned (amounts received from manufacturers specifically to support store financing of new vehicle inventory), as reported. Floorplan assistance is accounted for as a component of new vehicle gross profit in accordance with U.S. generally accepted accounting principles.

(In millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Variance	2018	2017	Variance
Floorplan assistance	\$28.9	\$31.1	\$ (2.2)	\$87.1	\$88.7	\$ (1.6)
New vehicle floorplan interest expense	(30.5)	(23.4)	(7.1)	(87.2)	(66.2)	(21.0)
Net new vehicle inventory carrying benefit (cost)	\$(1.6)	\$7.7	\$ (9.3)	\$(0.1)	\$22.5	\$(22.6)

Third Quarter 2018 compared to Third Quarter 2017

During the three months ended September 30, 2018, we had a net new vehicle inventory carrying cost of \$1.6 million compared to a net new vehicle inventory carrying benefit of \$7.7 million in the prior year. Up until the second quarter of 2018, for the past nine years, we have had a net new vehicle inventory carrying benefit. Floorplan interest rates are variable and therefore increase and decrease with changes in the underlying benchmark interest rates. With the increase in interest rates, our floorplan interest expense has increased, resulting in a net new vehicle inventory carrying cost for the three months ended September 30, 2018. In addition, floorplan assistance decreased due to lower new vehicle unit sales. If interest rates continue to increase without a corresponding increase in floorplan assistance or a decrease in average new vehicle inventory levels, we would expect that we will continue to incur a net new vehicle inventory carrying cost.

First Nine Months 2018 compared to First Nine Months 2017

During the nine months ended September 30, 2018, we had a net new vehicle inventory carrying cost of \$0.1 million compared to a net new vehicle inventory carrying benefit of \$22.5 million for the same period in 2017. As noted above, floorplan interest rates are variable and therefore increase and decrease with changes in the underlying benchmark interest rates. With the increase in interest rates, our floorplan interest expense has increased, resulting in a net new vehicle inventory carrying cost for the nine months ended September 30, 2018. If interest rates continue to increase without a corresponding increase in floorplan assistance or a decrease in average new vehicle inventory levels, we would expect that we will incur a net new vehicle inventory carrying cost.

Table of Contents**Used Vehicle**

(\$ in millions, except per vehicle data)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	Variance Favorable / (Unfavorable)	% Variance	2018	2017	Variance Favorable / (Unfavorable)	% Variance
Reported:								
Retail revenue	\$ 1,211.6	\$ 1,151.5	\$ 60.1	5.2	\$ 3,666.1	\$ 3,438.7	\$ 227.4	6.6
Wholesale revenue	70.1	76.8	(6.7)	(8.7)	244.8	231.6	13.2	5.7
Total revenue	\$ 1,281.7	\$ 1,228.3	\$ 53.4	4.3	\$ 3,910.9	\$ 3,670.3	\$ 240.6	6.6
Retail gross profit	\$ 87.4	\$ 83.9	\$ 3.5	4.2	\$ 256.4	\$ 232.8	\$ 23.6	10.1
Wholesale gross profit	3.6	1.8	1.8		11.6	4.4	7.2	
Total gross profit	\$ 91.0	\$ 85.7	\$ 5.3	6.2	\$ 268.0	\$ 237.2	\$ 30.8	13.0
Retail vehicle unit sales	60,446	59,330	1,116	1.9	182,737	178,204	4,533	2.5
Revenue per vehicle retailed	\$ 20,044	\$ 19,408	\$ 636	3.3	\$ 20,062	\$ 19,296	\$ 766	4.0
Gross profit per vehicle retailed	\$ 1,446	\$ 1,414	\$ 32	2.3	\$ 1,403	\$ 1,306	\$ 97	7.4
Gross profit as a percentage of revenue	7.2	% 7.3	%		7.0	% 6.8	%	
Inventory days supply (trailing calendar month days)	37 days	38 days						

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	Variance Favorable / (Unfavorable)	% Variance	2018	2017	Variance Favorable / (Unfavorable)	% Variance
Same Store:								
Retail revenue	\$ 1,176.1	\$ 1,111.7	\$ 64.4	5.8	\$ 3,550.0	\$ 3,305.5	\$ 244.5	7.4
Wholesale revenue	68.1	74.5	(6.4)	(8.6)	233.9	223.0	10.9	4.9
Total revenue	\$ 1,244.2	\$ 1,186.2	\$ 58.0	4.9	\$ 3,783.9	\$ 3,528.5	\$ 255.4	7.2
Retail gross profit	\$ 85.4	\$ 81.4	\$ 4.0	4.9	\$ 250.6	\$ 224.7	\$ 25.9	11.5
Wholesale gross profit	3.0	2.1	0.9		6.2	4.6	1.6	
Total gross profit	\$ 88.4	\$ 83.5	\$ 4.9	5.9	\$ 256.8	\$ 229.3	\$ 27.5	12.0
Retail vehicle unit sales	58,666	57,065	1,601	2.8	176,678	170,343	6,335	3.7
Revenue per vehicle retailed	\$ 20,047	\$ 19,481	\$ 566	2.9	\$ 20,093	\$ 19,405	\$ 688	3.5
Gross profit per vehicle retailed	\$ 1,456	\$ 1,426	\$ 30	2.1	\$ 1,418	\$ 1,319	\$ 99	7.5
Gross profit as a percentage of revenue	7.3	% 7.3	%		7.1	% 6.8	%	

The following discussion of used vehicle results is on a same store basis. The difference between reported amounts and same store amounts in the above tables of \$37.5 million and \$42.1 million in total used vehicle revenue and \$2.6 million and \$2.2 million in total used vehicle gross profit for the three months ended September 30, 2018 and 2017, respectively, and \$127.0 million and \$141.8 million in total used vehicle revenue and \$11.2 million and \$7.9 million in total used vehicle gross profit for the nine months ended September 30, 2018 and 2017 respectively, is related to acquisition and divestiture activity, as well as the opening of new add-points, AutoNation USA stores, and automotive auctions.

Third Quarter 2018 compared to Third Quarter 2017

Same store retail used vehicle revenue increased during the three months ended September 30, 2018, as compared to the same period in 2017, due to increases in revenue PVR and same store retail unit volume. Same store unit volume increased due in part to the continued acceptance of our One Price centralized pricing and appraisal strategy and an increase in off-lease supply of late-model used vehicles. Same store unit volume in the prior year was adversely impacted by declines in our Florida markets, due in part to temporary store closures as a result of Hurricane Irma. Same store revenue PVR increased during the three months ended September 30, 2018, as compared to the same period in 2017, due in part to an increase in off-lease supply of late-model used vehicles and a shift in mix toward Premium Luxury vehicles and trucks and sport utility vehicles, all of which have relatively higher average selling prices. The shift in mix toward trucks and sport utility vehicles is due to a combination of improved vehicle fuel

efficiency and relatively low average fuel prices.

Table of Contents

Same store gross profit PVR increased during the three months ended September 30, 2018, as compared to the same period in 2017, for used vehicles in all three segments due in part to the continued acceptance of our One Price centralized pricing and appraisal strategy. Same store gross profit PVR also benefited from a shift in mix toward Premium Luxury vehicles, which have relatively higher average gross profit PVRs.

First Nine Months 2018 compared to First Nine Months 2017

Same store retail used vehicle revenue increased during the nine months ended September 30, 2018, as compared to the same period in 2017, as a result of increases in same store retail unit volume and revenue PVR. Same store unit volume increased in all three segments, particularly in our Premium Luxury segment, due in part to the continued acceptance of our One Price centralized pricing and appraisal strategy and an increase in off-lease supply of late-model used vehicles. Same store unit volume in the prior year was adversely impacted by declines in our Florida markets, due in part to temporary store closures as a result of Hurricane Irma.

Same store revenue PVR increased during the nine months ended September 30, 2018, as compared to the same period in 2017, due in part to an increase in off-lease supply of late-model used vehicles and a shift in mix toward Premium Luxury vehicles and trucks and sport utility vehicles, all of which have relatively higher average selling prices. The shift in mix toward trucks and sport utility vehicles is due to a combination of improved vehicle fuel efficiency and relatively low average fuel prices.

Same store gross profit PVR increased during the nine months ended September 30, 2018, as compared to the same period in 2017, due in part to the continued acceptance of our One Price centralized pricing and appraisal strategy. In the prior year, gross profit PVR was adversely impacted by implementation challenges with our One Price centralized pricing and appraisal strategy. Same store gross profit PVR also benefited from a shift in mix toward Premium Luxury vehicles, which have relatively higher average gross profit PVRs.

Table of Contents**Parts and Service**

(\$ in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	Variance Favorable / (Unfavorable)	% Variance	2018	2017	Variance Favorable / (Unfavorable)	% Variance
Reported:								
Revenue	\$864.0	\$841.6	\$ 22.4	2.7	\$2,579.6	\$2,544.2	\$ 35.4	1.4
Gross Profit	\$390.6	\$367.4	\$ 23.2	6.3	\$1,163.4	\$1,116.0	\$ 47.4	4.2
Gross profit as a percentage of revenue	45.2	% 43.7	%		45.1	% 43.9	%	
Same Store:								
Revenue	\$843.3	\$819.2	\$ 24.1	2.9	\$2,520.5	\$2,469.7	\$ 50.8	2.1
Gross Profit	\$381.5	\$358.0	\$ 23.5	6.6	\$1,136.7	\$1,083.6	\$ 53.1	4.9
Gross profit as a percentage of revenue	45.2	% 43.7	%		45.1	% 43.9	%	

Parts and service revenue is primarily derived from vehicle repairs paid directly by customers or via reimbursement from manufacturers and others under warranty programs, as well as from wholesale parts sales and collision services. The following discussion of parts and service results is on a same store basis. The difference between reported amounts and same store amounts in the above tables of \$20.7 million and \$22.4 million in parts and service revenue and \$9.1 million and \$9.4 million in parts and service gross profit for the three months ended September 30, 2018 and 2017, respectively, and \$59.1 million and \$74.5 million in parts and service revenue and \$26.7 million and \$32.4 million in parts and service gross profit for the nine months ended September 30, 2018 and 2017, respectively, is related to acquisition and divestiture activity, as well as the opening of new add-points, AutoNation USA stores, and collision centers.

Third Quarter 2018 compared to Third Quarter 2017

During the three months ended September 30, 2018, same store parts and service gross profit increased as compared to the same period in 2017, primarily due to increases in gross profit associated with customer-pay service of \$10.6 million and warranty of \$2.1 million. Parts and service gross profit also benefited from smaller increases in gross profit associated with the preparation of vehicles for sale, wholesale and retail counter parts sales, and collision service.

Customer-pay service gross profit benefited from improved margin performance primarily from a shift in mix toward higher margin service work, our parts initiatives, including service and maintenance parts and accessories, and price increases. Warranty gross profit benefited from improved margin performance largely due to a shift in mix toward higher margin service work and improved parts and labor rates negotiated with certain manufacturers. Parts and service gross profit in the prior year was adversely impacted by the temporary store closures in Texas and Florida resulting from Hurricanes Harvey and Irma.

First Nine Months 2018 compared to First Nine Months 2017

During the nine months ended September 30, 2018, same store parts and service gross profit increased as compared to the same period in 2017, primarily due to an increase in gross profit associated with customer-pay service of \$30.9 million. Customer-pay service gross profit benefited from improved margin performance primarily from a shift in mix toward higher margin service work, our parts initiatives, including service and maintenance parts and accessories, and price increases. Parts and service gross profit also benefited from smaller increases in gross profit associated with service work outsourced to third parties, collision service, and warranty.

Table of Contents**Finance and Insurance**

(\$ in millions, except per vehicle data)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	Variance Favorable / (Unfavorable)	% Variance	2018	2017	Variance Favorable / (Unfavorable)	% Variance
Reported:								
Revenue and gross profit	\$247.4	\$241.6	\$ 5.8	2.4	\$736.0	\$692.0	\$ 44.0	6.4
Gross profit per vehicle retailed	\$ 1,771	\$ 1,660	\$ 111	6.7	\$ 1,773	\$ 1,647	\$ 126	7.7
Same Store:								
Revenue and gross profit	\$243.9	\$235.4	\$ 8.5	3.6	\$724.4	\$672.9	\$ 51.5	7.7
Gross profit per vehicle retailed	\$ 1,781	\$ 1,674	\$ 107	6.4	\$ 1,785	\$ 1,666	\$ 119	7.1

Revenue on finance and insurance products represents commissions earned by us for the placement of: (i) loans and leases with financial institutions in connection with customer vehicle purchases, (ii) vehicle service contracts with third-party providers, and (iii) other vehicle protection products with third-party providers. We primarily sell these products on a straight commission basis; however, in certain cases, we also participate in the future underwriting profit on certain products pursuant to retrospective commission arrangements with the issuers of those products.

The following discussion of finance and insurance results is on a same store basis. The difference between reported amounts and same store amounts in finance and insurance revenue and gross profit in the above tables of \$3.5 million and \$6.2 million for the three months ended September 30, 2018 and 2017, respectively, and \$11.6 million and \$19.1 million for the nine months ended September 30, 2018 and 2017, respectively, is related to acquisition and divestiture activity, as well as the opening of new add-points and AutoNation USA stores.

Third Quarter 2018 compared to Third Quarter 2017

Same store finance and insurance revenue and gross profit increased during the three months ended September 30, 2018, as compared to the same period in 2017, due to an increase in finance and insurance gross profit PVR, partially offset by a decrease in new vehicle unit volume. The increase in gross profit PVR was primarily due to higher realized margins on vehicle service contracts, including our AutoNation Vehicle Protection Plan product, and an increase in product penetration. Increases in finance and insurance gross profit PVR were partially offset by a shift in unit volume mix from new vehicles to used vehicles, which have lower average selling prices than new vehicles and therefore typically generate lower gross profit per transaction associated with arranging customer financing. Sales of used vehicles also have lower finance and product penetration as compared to sales of new vehicles.

First Nine Months 2018 compared to First Nine Months 2017

Same store finance and insurance revenue and gross profit increased during the nine months ended September 30, 2018, as compared to the same period in 2017, due to an increase in finance and insurance gross profit PVR, partially offset by a decrease in new vehicle unit volume. The increase in gross profit PVR was primarily due to higher realized margins on vehicle service contracts, including our AutoNation Vehicle Protection Plan product, and an increase in product penetration. Increases in finance and insurance gross profit PVR were partially offset by a shift in unit volume mix from new vehicles to used vehicles, which have lower average selling prices than new vehicles and therefore typically generate lower gross profit per transaction associated with arranging customer financing. Sales of used vehicles also have lower finance and product penetration as compared to sales of new vehicles.

Table of Contents**Segment Results**

In the following table, revenue and segment income of our reportable segments are reconciled to consolidated revenue and consolidated operating income, respectively. The following discussions of segment results are on a reported basis.

(\$ in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	Variance Favorable / (Unfavorable)	% Variance	2018	2017	Variance Favorable / (Unfavorable)	% Variance
Revenue:								
Domestic	\$ 1,789.7	\$ 1,912.4	\$ (122.7)	(6.4)	\$ 5,389.5	\$ 5,557.7	\$ (168.2)	(3.0)
Import	1,770.6	1,789.7	(19.1)	(1.1)	5,140.2	5,123.5	16.7	0.3
Premium Luxury	1,668.8	1,634.3	34.5	2.1	5,116.8	4,894.9	221.9	4.5
Total	5,229.1	5,336.4	(107.3)	(2.0)	15,646.5	15,576.1	70.4	0.5
Corporate and other	120.1	96.0	24.1	25.1	354.6	275.0	79.6	28.9
Total consolidated revenue	\$ 5,349.2	\$ 5,432.4	\$ (83.2)	(1.5)	\$ 16,001.1	\$ 15,851.1	\$ 150.0	0.9
Segment income⁽¹⁾:								
Domestic	\$ 67.2	\$ 69.0	\$ (1.8)	(2.6)	\$ 194.6	\$ 190.5	\$ 4.1	2.2
Import	85.3	81.0	4.3	5.3	236.2	227.9	8.3	3.6
Premium Luxury	76.9	78.8	(1.9)	(2.4)	249.5	243.3	6.2	2.5
Total	229.4	228.8	0.6	0.3	680.3	661.7	18.6	2.8
Corporate and other	(58.5)	(42.7)	(15.8)		(193.1)	(118.3)	(74.8)	
Floorplan interest expense	32.7	25.1	(7.6)		93.4	70.7	(22.7)	
Operating income	\$ 203.6	\$ 211.2	\$ (7.6)	(3.6)	\$ 580.6	\$ 614.1	\$ (33.5)	(5.5)

⁽¹⁾ Segment income represents income for each of our reportable segments and is defined as operating income less floorplan interest expense.

Retail new vehicle unit sales:

Domestic	25,966	29,618	(3,652)	(12.3)	76,871	82,765	(5,894)	(7.1)
Import	37,540	40,442	(2,902)	(7.2)	107,776	111,781	(4,005)	(3.6)
Premium Luxury	15,731	16,132	(401)	(2.5)	47,822	47,336	486	1.0
Total	79,237	86,192	(6,955)	(8.1)	232,469	241,882	(9,413)	(3.9)

Table of Contents**Domestic**

The Domestic segment operating results included the following:

(\$ in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	Variance Favorable / (Unfavorable)	% Variance	2018	2017	Variance Favorable / (Unfavorable)	% Variance
Revenue	\$ 1,789.7	\$ 1,912.4	\$ (122.7)	(6.4)	\$ 5,389.5	\$ 5,557.7	\$ (168.2)	(3.0)
Segment income	\$ 67.2	\$ 69.0	\$ (1.8)	(2.6)	\$ 194.6	\$ 190.5	\$ 4.1	2.2
Retail new vehicle unit sales	25,966	29,618	(3,652)	(12.3)	76,871	82,765	(5,894)	(7.1)

Third Quarter 2018 compared to Third Quarter 2017

Domestic revenue decreased during the three months ended September 30, 2018, as compared to the same period in 2017, primarily due to the divestitures we completed subsequent to the third quarter of 2017 and a decrease in new vehicle unit volume, partially offset by an increase in new and used vehicle revenue PVRs. The decrease in new vehicle unit volume was primarily due to overall competitive market conditions in a plateauing new vehicle sales environment, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles. The increase in new and used vehicle revenue PVRs was due in part to a shift in mix toward trucks and sport utility vehicles, which have relatively higher average selling prices, as a result of a combination of improved vehicle fuel efficiency and relatively low average fuel prices. New vehicle average selling prices also increased as a result of increases in the manufacturers' suggested retail prices.

Domestic segment income decreased during the three months ended September 30, 2018, as compared to the same period in 2017, primarily due to decreases in new vehicle gross profit PVR and new vehicle unit volume due to competitive market conditions, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles. Segment income was also adversely impacted by an increase in floorplan interest expense. Decreases in segment income were partially offset by a decrease in SG&A expenses due to the divestitures we completed subsequent to the third quarter of 2017, as well as an increase in parts and service gross profit associated with customer-pay service, due in part to our parts initiatives, and warranty.

First Nine Months 2018 compared to First Nine Months 2017

Domestic revenue decreased during the nine months ended September 30, 2018, as compared to the same period in 2017, primarily due to the divestitures we completed subsequent to the third quarter of 2017 and a decrease in new vehicle unit volume, partially offset by an increase in new and used vehicle revenue PVRs. The decrease in new vehicle unit volume was primarily due to overall competitive market conditions in a plateauing new vehicle sales environment, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles. The increase in new and used vehicle revenue PVRs was due in part to a shift in mix toward trucks and sport utility vehicles, which have relatively higher average selling prices, as a result of a combination of improved vehicle fuel efficiency and relatively low average fuel prices. New vehicle average selling prices also increased as a result of increases in the manufacturers' suggested retail prices. Domestic revenue also benefited from an increase in finance and insurance revenue and gross profit as a result of improved finance and insurance revenue and gross profit PVR, primarily due to higher realized margins on vehicle service contracts, including our AutoNation Vehicle Protection Plan product, and an increase in product penetration.

Domestic segment income increased during the nine months ended September 30, 2018, as compared to the same period in 2017, primarily due to a decrease in SG&A expenses due to the divestitures we completed subsequent to the third quarter of 2017, as well as an increase in parts and service gross profit associated with customer-pay service and collision service, due in part to our parts initiatives, and the increase in finance and insurance revenue and gross profit discussed above. Increases in Domestic segment income were partially offset by decreases in new vehicle gross profit PVR and new vehicle unit volume due to competitive market conditions, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles. Segment income was also adversely impacted by an increase in floorplan interest expense.

Table of Contents**Import**

The Import segment operating results included the following:

(\$ in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	Variance Favorable / (Unfavorable)	% Variance	2018	2017	Variance Favorable / (Unfavorable)	% Variance
Revenue	\$1,770.6	\$1,789.7	\$ (19.1)	(1.1)	\$5,140.2	\$5,123.5	\$ 16.7	0.3
Segment income	\$85.3	\$81.0	\$ 4.3	5.3	\$236.2	\$227.9	\$ 8.3	3.6
Retail new vehicle unit sales	37,540	40,442	(2,902)	(7.2)	107,776	111,781	(4,005)	(3.6)

Third Quarter 2018 compared to Third Quarter 2017

Import revenue decreased during the three months ended September 30, 2018, as compared to the same period in 2017, primarily due to the divestitures we completed subsequent to the third quarter of 2017 and a decrease in new vehicle unit volume, partially offset by increases in new and used vehicle revenue PVRs and used vehicle unit volume. The decrease in new vehicle unit volume was primarily due to overall competitive market conditions in a plateauing new vehicle sales environment, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles. The increase in new and used vehicle revenue PVRs was due in part to a shift in mix toward trucks and sport utility vehicles, which have relatively higher average selling prices, as a result of a combination of improved vehicle fuel efficiency and relatively low average fuel prices. New vehicle average selling prices also increased as a result of increases in the manufacturers' suggested retail prices. Import used vehicle unit volume benefited from the continued acceptance of our One Price centralized pricing and appraisal strategy.

Import segment income increased during the three months ended September 30, 2018, as compared to the same period in 2017, primarily due to an increase in finance and insurance revenue and gross profit PVR due to higher realized margins on vehicle service contracts, including our AutoNation Vehicle Protection Plan product, and an increase in product penetration. Additionally, we were able to recognize certain previously deferred incentives from a manufacturer during the quarter, which favorably impacted Import segment income. Increases in segment income were partially offset by a decrease in new vehicle gross profit resulting from competitive market conditions, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles, and an increase in floorplan interest expense.

First Nine Months 2018 compared to First Nine Months 2017

Import revenue increased during the nine months ended September 30, 2018, as compared to the same period in 2017, primarily due to an increase in new and used vehicle revenue PVRs. New and used vehicle revenue PVRs increased due in part to a shift in mix toward trucks and sport utility vehicles, which have relatively higher average selling prices, as a result of a combination of improved vehicle fuel efficiency and relatively low average fuel prices. New vehicle average selling prices also increased as a result of increases in the manufacturers' suggested retail prices. Import revenue also benefited from the continued acceptance of our One Price centralized pricing and appraisal strategy, as well as an increase in finance and insurance revenue and gross profit. Finance and insurance revenue and gross profit PVR benefited from higher realized margins on vehicle service contracts, including our AutoNation Vehicle Protection Plan product, and an increase in product penetration. Increases in Import revenue were partially offset by decreases in revenue resulting from the divestitures we completed subsequent to the third quarter of 2017, as well as a decrease in new vehicle unit volume due to overall competitive market conditions, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles. Import segment income increased during the nine months ended September 30, 2018, as compared to the same period in 2017, primarily due to the increase in finance and insurance revenue and gross profit discussed above, as well as an increase in used vehicle gross profit PVR. In the prior year, used vehicle gross profit PVR was adversely impacted by implementation challenges with our One Price centralized pricing and appraisal strategy. Increases in Import segment income were partially offset by a decrease in new vehicle gross profit resulting from competitive market conditions, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles, and an increase in floorplan interest expense.

Table of Contents**Premium Luxury**

The Premium Luxury segment operating results included the following:

(\$ in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	Variance Favorable / (Unfavorable)	% Variance	2018	2017	Variance Favorable / (Unfavorable)	% Variance
Revenue	\$ 1,668.8	\$ 1,634.3	\$ 34.5	2.1	\$ 5,116.8	\$ 4,894.9	\$ 221.9	4.5
Segment income	\$ 76.9	\$ 78.8	\$ (1.9)	(2.4)	\$ 249.5	\$ 243.3	\$ 6.2	2.5
Retail new vehicle unit sales	15,731	16,132	(401)	(2.5)	47,822	47,336	486	1.0

Third Quarter 2018 compared to Third Quarter 2017

Premium Luxury revenue increased during the three months ended September 30, 2018, as compared to the same period in 2017, primarily due to an acquisition completed during the third quarter of 2018 and two new add-point openings completed subsequent to the third quarter of 2017. Premium Luxury revenue also benefited from an increase in used vehicle unit volume, due in part to continued acceptance of our One Price centralized pricing and appraisal strategy.

Premium Luxury segment income decreased during the three months ended September 30, 2018, as compared to the same period in 2017, primarily due to increases in SG&A and floorplan interest expenses, due in part to the acquisition and new add-point openings discussed above, and a decrease in new vehicle gross profit resulting from competitive market conditions, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles. Decreases in Premium Luxury segment income were partially offset by an increase in parts and service gross profit associated with customer-pay service and warranty and an increase in finance and insurance revenue and gross profit. Finance and insurance revenue and gross profit PVR benefited from higher realized margins on vehicle service contracts, as well as an increase in product penetration.

First Nine Months 2018 compared to First Nine Months 2017

Premium Luxury revenue increased during the nine months ended September 30, 2018, as compared to the same period in 2017, primarily due to increases in new and used vehicle revenue, resulting from increases in both new and used vehicle revenue PVR and unit volume. New and used vehicle revenue PVR and unit volume benefited from acquisitions and new add-point openings completed during 2017 and 2018. Used vehicle unit volume also benefited from continued acceptance of our One Price centralized pricing and appraisal strategy.

Premium Luxury segment income increased during the nine months ended September 30, 2018, as compared to the same period in 2017, primarily due to an increase in parts and service gross profit associated with customer-pay service and warranty and an increase in finance and insurance revenue and gross profit. Finance and insurance revenue and gross profit PVR benefited from higher realized margins on vehicle service contracts, as well as increases in product penetration. Premium Luxury segment income also benefited from increases in used vehicle unit volume, noted above, and used vehicle gross profit PVR. In the prior year, used vehicle gross profit PVR was adversely impacted by implementation challenges with our One Price centralized pricing and appraisal strategy. Increases in Premium Luxury segment income were partially offset by increases in SG&A and floorplan interest expenses, due in part to the acquisitions and new add-point openings discussed above, and a decrease in new vehicle gross profit resulting from competitive market conditions, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles.

Table of Contents**Selling, General, and Administrative Expenses**

Our Selling, General, and Administrative (“SG&A”) expenses consist primarily of compensation, including store and corporate salaries, commissions, and incentive-based compensation, as well as advertising (net of reimbursement-based manufacturer advertising rebates), and store and corporate overhead expenses, which include occupancy costs, legal, accounting, and professional services, and general corporate expenses. The following table presents the major components of our SG&A expenses.

(\$ in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	Variance Favorable / (Unfavorable)	% Variance	2018	2017	Variance Favorable / (Unfavorable)	% Variance
Reported:								
Compensation	\$389.8	\$382.9	\$ (6.9)	(1.8)	\$1,171.5	\$1,145.0	\$ (26.5)	(2.3)
Advertising	51.7	50.6	(1.1)	(2.2)	148.0	144.3	(3.7)	(2.6)
Store and corporate overhead	184.7	174.0	(10.7)	(6.1)	558.8	524.8	(34.0)	(6.5)
Total	\$626.2	\$607.5	\$ (18.7)	(3.1)	\$1,878.3	\$1,814.1	\$ (64.2)	(3.5)
SG&A as a % of total gross profit:								
Compensation	45.6	45.3	(30)	bps	46.0	46.0	—	bps
Advertising	6.0	6.0	—	bps	5.8	5.8	—	bps
Store and corporate overhead	21.6	20.5	(110)	bps	21.9	21.0	(90)	bps
Total	73.2	71.8	(140)	bps	73.7	72.8	(90)	bps

Third Quarter 2018 compared to Third Quarter 2017

SG&A expenses increased during the three months ended September 30, 2018, as compared to the same period in 2017, primarily due to increases in expenses related to our brand extension strategy, as well as acquisitions and new add-point openings. Increases in SG&A expenses were partially offset by decreases due to divestitures. As a percentage of total gross profit, SG&A expenses increased to 73.2% during the three months ended September 30, 2018, from 71.8% in the same period in 2017, primarily due to lower gross profit in our new vehicle business and investments related to our brand extension strategy.

First Nine Months 2018 compared to First Nine Months 2017

SG&A expenses increased during the nine months ended September 30, 2018, as compared to the same period in 2017, primarily due to increases in expenses related to our brand extension strategy. Additionally, store and corporate overhead expenses increased due to increases in costs associated with our self-insurance programs, including less favorable claims experience and higher premiums, deductibles, and hail-related losses. Increases in SG&A expenses were partially offset by decreases due to divestitures. As a percentage of total gross profit, SG&A expenses increased to 73.7% during the nine months ended September 30, 2018, from 72.8% in the same period in 2017, primarily due to lower gross profit in our new vehicle business and investments related to our brand extension strategy.

Other Income, Net (included in Operating Income)

During the third quarter of 2018, we recognized net gains of \$18.1 million related to store divestitures. During the second quarter of 2018, we recognized net gains of \$8.6 million related to store/property divestitures and gains of \$6.0 million related to certain legal settlements. During the first quarter of 2018, we recognized net gains of \$12.3 million related to store/property divestitures, which were partially offset by asset impairments and other charges of \$2.0 million.

During the third quarter of 2017, we recognized gains of \$9.3 million related to store divestitures and \$4.7 million related to a property divestiture. During the second quarter of 2017, we recognized net gains largely related to store divestitures of \$19.8 million. During the first quarter of 2017, we recognized a gain of \$9.8 million in connection with payments we received from manufacturers related to a legal settlement and for the waiver of certain franchise protest rights, a gain of \$5.6 million related to a property divestiture, and a gain of \$4.3 million related to a store divestiture.

Table of Contents**Franchise Rights Impairment**

During the second quarter of 2018, we recorded non-cash impairment charges of \$8.1 million to reduce the carrying values of certain franchise rights to their estimated fair values. See Note 15 of the Notes to Unaudited Condensed Consolidated Financial Statements for more information.

Non-Operating Income (Expense)***Floorplan Interest Expense******Third Quarter 2018 compared to Third Quarter 2017***

Floorplan interest expense was \$32.7 million for the three months ended September 30, 2018, compared to \$25.1 million for the same period in 2017. The increase in floorplan interest expense of \$7.6 million is primarily due to higher average interest rates. Floorplan interest rates are variable and therefore increase and decrease with changes in the underlying benchmark interest rates.

First Nine Months 2018 compared to First Nine Months 2017

Floorplan interest expense was \$93.4 million for the nine months ended September 30, 2018, compared to \$70.7 million for the same period in 2017. The increase in floorplan interest expense of \$22.7 million is primarily due to higher average interest rates. Floorplan interest rates are variable and therefore increase and decrease with changes in the underlying benchmark interest rates.

Other Interest Expense***Third Quarter 2018 compared to Third Quarter 2017***

Other interest expense of \$28.4 million for the three months ended September 30, 2018, decreased \$1.6 million as compared to \$30.0 million for the same period in 2017, primarily due to lower average debt balances and lower average interest rates as we refinanced higher cost debt with lower-rate senior notes and commercial paper. Interest expense decreased by \$9.0 million resulting from the repayments of the 6.75% Senior Notes due 2018 in the second quarter of 2018 and the mortgage facility in the fourth quarter of 2017. Decreases in interest expense were largely offset by an increase of \$6.8 million resulting from the November 2017 issuance of our 3.5% Senior Notes due 2024 and 3.8% Senior Notes due 2027, and \$1.4 million resulting from higher year-over-year average interest rates on our commercial paper borrowings. The weighted average annual interest rate on our commercial paper borrowings during the third quarter of 2018 was 2.65% compared to 1.77% for the third quarter of 2017.

First Nine Months 2018 compared to First Nine Months 2017

Other interest expense of \$90.4 million for the nine months ended September 30, 2018, increased \$2.4 million as compared to \$88.0 million for the same period in 2017, primarily due to an increase in interest expense of \$20.7 million resulting from the November 2017 issuance of our 3.5% Senior Notes due 2024 and 3.8% Senior Notes due 2027, largely offset by a decrease in interest expense of \$19.0 million resulting from the repayments of the 6.75% Senior Notes due 2018 in the second quarter of 2018 and the mortgage facility in the fourth quarter of 2017.

Provision for Income Taxes

Income taxes are based upon our anticipated underlying annual blended federal and state income tax rates adjusted, as necessary, for any discrete tax matters occurring during the period. As we operate in various states, our effective tax rate is also impacted by our geographic income mix.

On December 22, 2017, H.R.1, formally known as the “Tax Cuts and Jobs Act,” was enacted into law. This new tax legislation, among other things, reduced the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018. During the third quarter of 2018, and in connection with the finalization of our December 31, 2017 federal tax return, we adjusted our deferred tax assets and liabilities for the income tax rate change associated with tax reform, resulting in a 340 basis point and a 120 basis point impact on the effective income tax rate for the three and nine months ended September 30, 2018, respectively.

Our effective income tax rate was 22.6% for the three months ended September 30, 2018, and 38.2% for the three months ended September 30, 2017. Our effective income tax rate was 24.4% for the nine months ended September 30, 2018, and 38.7% for the nine months ended September 30, 2017.

Table of Contents**Discontinued Operations**

Discontinued operations are related to stores that were sold or terminated prior to January 1, 2014. Results from discontinued operations, net of income taxes, were primarily related to carrying costs for real estate we have not yet sold associated with stores that were closed prior to January 1, 2014, and other adjustments related to disposed operations.

Liquidity and Capital Resources

We manage our liquidity to ensure access to sufficient funding at acceptable costs to fund our ongoing operating requirements and future capital expenditures while continuing to meet our financial obligations. We believe that our cash and cash equivalents, funds generated through future operations, and amounts available under our revolving credit facility, commercial paper program, and secured used vehicle floorplan facilities will be sufficient to fund our working capital requirements, service our debt, pay our tax obligations and commitments and contingencies, and meet any seasonal operating requirements for the foreseeable future.

Available Liquidity Resources

We had the following sources of liquidity available:

(In millions)	September 30, 2018	December 31, 2017
Cash and cash equivalents	\$ 52.6	\$ 69.2
Revolving credit facility ⁽¹⁾	\$ 1,125.1	⁽²⁾ \$ 1,378.6
Secured used vehicle floorplan facilities ⁽³⁾	\$ 0.5	\$ 0.4

⁽¹⁾ As limited by the maximum consolidated leverage ratio contained in our credit agreement.

At September 30, 2018, we had \$47.5 million of letters of credit outstanding. In addition, we use the revolving credit facility under our credit agreement as a liquidity backstop for borrowings under our commercial paper program. We had \$600.0 million of commercial paper notes outstanding at September 30, 2018. See Note 6 of the Notes to Unaudited Condensed Consolidated Financial Statements for more information.

⁽³⁾ Based on the eligible used vehicle inventory that could have been pledged as collateral. See Note 4 of the Notes to Unaudited Condensed Consolidated Financial Statements for more information.

In the ordinary course of business, we are required to post performance and surety bonds, letters of credit, and/or cash deposits as financial guarantees of our performance relating to insurance matters. At September 30, 2018, surety bonds, letters of credit, and cash deposits totaled \$110.6 million, of which \$47.5 million were letters of credit. We do not currently provide cash collateral for outstanding letters of credit.

In February 2016, we filed an automatic shelf registration statement with the SEC that enables us to offer for sale, from time to time and as the capital markets permit, an unspecified amount of common stock, preferred stock, debt securities, warrants, subscription rights, depositary shares, stock purchase contracts, units, and guarantees of debt securities.

Capital Allocation

Our capital allocation strategy is focused on maximizing stockholder returns. We invest capital in our business to maintain and upgrade our existing facilities and to build new facilities for existing franchises, as well as for other strategic and technology initiatives, including our brand extension strategy discussed above under “Strategic Initiatives.” We also deploy capital opportunistically to repurchase our common stock and/or debt, to complete dealership, collision center, or other automotive business-related acquisitions or investments, and/or build facilities for newly awarded franchises or newly opened collision centers. Our capital allocation decisions will be based on factors such as the expected rate of return on our investment, the market price of our common stock versus our view of its intrinsic value, the market price of our debt, the potential impact on our capital structure, our ability to complete acquisitions that meet our market and vehicle brand criteria and return on investment threshold, and limitations set forth in our debt agreements.

Table of Contents*Share Repurchases*

Our Board of Directors from time to time authorizes the repurchase of shares of our common stock up to a certain monetary limit. A summary of shares repurchased under our stock repurchase program authorized by our Board of Directors follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(In millions, except per share data)	2018	2017	2018	2017
Shares repurchased	—	9.2	2.1	10.1
Aggregate purchase price	\$ —	\$ 400.0	\$ 100.0	\$ 434.9
Average purchase price per share	\$ —	\$ 43.28	\$ 47.58	\$ 42.99

The decision to repurchase shares at any given point in time is based on factors such as the market price of our common stock versus our view of its intrinsic value, the potential impact on our capital structure (including compliance with our maximum leverage ratio and other financial covenants in our debt agreements as well as our available liquidity), and the expected return on competing uses of capital such as dealership, collision center, and other automotive business-related acquisitions or investments, capital investments in our current businesses, or repurchases of our debt.

As of September 30, 2018, \$263.7 million remained available for share repurchases under the program.

Capital Expenditures

The following table sets forth information regarding our capital expenditures:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(In millions)	2018	2017	2018	2017
Purchases of property and equipment, including operating lease buy-outs ⁽¹⁾	\$ 88.9	\$ 55.9	\$ 271.6	\$ 224.6

⁽¹⁾ Includes accrued construction in progress and excludes property associated with capital leases entered into during the year.

Acquisitions and Divestitures

The following table sets forth information regarding cash used in business acquisitions, net of cash acquired, and cash received from business divestitures, net of cash relinquished:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(In millions)	2018	2017	2018	2017
Cash received from (used in) business acquisitions, net ⁽¹⁾	\$ (65.2)	\$ (4.0)	\$ (67.9)	\$ (56.9)
Cash received from (used in) business divestitures, net	\$ 47.4	\$ 13.2	\$ 144.2	\$ 47.8

⁽¹⁾ Excludes capital leases and deferred purchase price commitments.

We purchased one Premium Luxury store in the Southern California market, a collision center in the Baltimore, Maryland market, and a collision center in the Dallas, Texas market during the nine months ended September 30, 2018. We purchased one Premium Luxury store in Florida and four collision centers located in Texas, Florida, Washington, and California during the nine months ended September 30, 2017.

During the nine months ended September 30, 2018, we divested eight Domestic stores, five Import stores, two Premium Luxury stores, and one collision center. During the nine months ended September 30, 2017, we divested three Import stores and one Domestic store.

We regularly review our store portfolio and may divest stores opportunistically. We have utilized proceeds related to asset sales, including business and real estate divestitures, and expect to utilize proceeds from future asset sales, to fund our capital investments and strategic initiatives or for other general corporate purposes.

Table of Contents*Cash Dividends*

We have not declared or paid any cash dividends on our common stock during our two most recent fiscal years. We do not currently anticipate paying cash dividends for the foreseeable future.

Long-Term Debt and Commercial Paper

The following table sets forth our non-vehicle long-term debt, net of debt issuance costs, as of September 30, 2018, and December 31, 2017.

Debt Description	Maturity Date	Interest Payable	(in millions)	
			September 30, 2018	December 31, 2017
6.75% Senior Notes	April 15, 2018	April 15 and October 15	\$—	\$ 400.0
5.5% Senior Notes	February 1, 2020	February 1 and August 1	350.0	350.0
3.35% Senior Notes	January 15, 2021	January 15 and July 15	300.0	300.0
3.5% Senior Notes	November 15, 2024	May 15 and November 15	450.0	450.0
4.5% Senior Notes	October 1, 2025	April 1 and October 1	450.0	450.0
3.8% Senior Notes	November 15, 2027	May 15 and November 15	300.0	300.0
Revolving credit facility	October 19, 2022	Monthly	—	—
Capital leases and other debt	Various dates through 2038	Monthly	130.6	139.4
			1,980.6	2,389.4
Less: unamortized debt discounts and debt issuance costs			(13.2)	(15.7)
Less: current maturities			(5.3)	(414.5)
Long-term debt, net of current maturities			\$1,962.1	\$ 1,959.2

In April 2018, we repaid the outstanding \$400.0 million of 6.75% Senior Notes through the utilization of our commercial paper program.

At September 30, 2018, we had \$600.0 million of commercial paper notes outstanding with a weighted-average annual interest rate of 2.77% and a weighted-average remaining term of 8 days. At December 31, 2017, we had \$330.0 million of commercial paper notes outstanding with a weighted-average annual interest rate of 1.97% and a weighted-average remaining term of 24 days.

See Note 6 of the Notes to Unaudited Condensed Consolidated Financial Statements for more information on our long-term debt and commercial paper.

Restrictions and Covenants

Our credit agreement, the indentures for our senior unsecured notes, and our vehicle floorplan facilities contain numerous customary financial and operating covenants that place significant restrictions on us, including our ability to incur additional indebtedness or prepay existing indebtedness, to create liens or other encumbrances, to sell (or otherwise dispose of) assets, and to merge or consolidate with other entities.

Under our credit agreement, we are required to remain in compliance with a maximum leverage ratio and maximum capitalization ratio. The leverage ratio is a contractually defined amount principally reflecting non-vehicle debt divided by a contractually defined measure of earnings with certain adjustments. The capitalization ratio is a contractually defined amount principally reflecting vehicle floorplan payable and non-vehicle debt divided by our total capitalization including vehicle floorplan payable. The specific terms of these covenants can be found in our credit agreement, which we filed with our Current Report on Form 8-K on October 24, 2017.

The indentures for our senior unsecured notes contain certain limited covenants, including limitations on liens and sale and leaseback transactions.

Our failure to comply with the covenants contained in our debt agreements could result in the acceleration of all of our indebtedness. Our debt agreements have cross-default provisions that trigger a default in the event of an uncured default under other material indebtedness of AutoNation.

Table of Contents

As of September 30, 2018, we were in compliance with the requirements of the financial covenants under our debt agreements. Under the terms of our credit agreement, at September 30, 2018, our leverage ratio and capitalization ratio were as follows:

	September 30, 2018	
	Requirement	Actual
Leverage ratio (subject to step-downs to 3.75x by December 31, 2018)	≤ 4.00x	2.79x
Capitalization ratio	≤ 70.0%	59.6%

Vehicle Floorplan Payable

The components of vehicle floorplan payable are as follows:

(In millions)	September 30, December 31,	
	2018	2017
Vehicle floorplan payable - trade	\$ 2,107.6	\$ 2,179.1
Vehicle floorplan payable - non-trade	1,495.7	1,627.8
Vehicle floorplan payable	\$ 3,603.3	\$ 3,806.9

See Note 4 of the Notes to Unaudited Condensed Consolidated Financial Statements for more information on our vehicle floorplan payable.

Cash Flows

The following table summarizes the changes in our cash provided by (used in) operating, investing, and financing activities:

(In millions)	Nine Months	
	Ended	
	September 30,	
	2018	2017
Net cash provided by operating activities	\$535.1	\$457.0
Net cash used in investing activities	\$(172.2)	\$(203.5)
Net cash used in financing activities	\$(380.7)	\$(262.3)

Cash Flows from Operating Activities

Our primary sources of operating cash flows result from the sale of vehicles and finance and insurance products, collections from customers for the sale of parts and services, and proceeds from vehicle floorplan payable-trade. Our primary uses of cash from operating activities are repayments of vehicle floorplan payable-trade, purchases of inventory, personnel-related expenditures, and payments related to taxes and leased properties.

Net cash provided by operating activities increased during the nine months ended September 30, 2018, as compared to the same period in 2017, due to an increase in earnings and a decrease in working capital requirements.

Cash Flows from Investing Activities

Net cash flows from investing activities consist primarily of cash used in capital additions and activity from business acquisitions, business divestitures, property dispositions, and other transactions.

Net cash used in investing activities decreased during the nine months ended September 30, 2018, as compared to the same period in 2017, primarily due to an increase in cash received from business divestitures, net of cash relinquished, and an increase in proceeds from the sale of property and equipment, partially offset by an increase in purchases of property and equipment, a decrease in proceeds from assets held for sale, and an increase in cash used in business acquisitions, net of cash acquired.

Cash Flows from Financing Activities

Net cash flows from financing activities primarily include repurchases of common stock, debt activity, and changes in vehicle floorplan payable-non-trade.

Table of Contents

During the nine months ended September 30, 2018, we repaid the outstanding \$400.0 million of 6.75% Senior Notes. Cash flows from financing activities include changes in commercial paper notes outstanding totaling net proceeds of \$270.0 million during the nine months ended September 30, 2018, and net proceeds of \$53.0 million during the nine months ended September 30, 2017, as well as changes in vehicle floorplan payable-non-trade totaling net payments of \$147.6 million for the nine months ended September 30, 2018, and net proceeds of \$15.4 million for the nine months ended September 30, 2017.

During the nine months ended September 30, 2018, we repurchased 2.1 million shares of common stock for an aggregate purchase price of \$100.0 million (average purchase price per share of \$47.58). During the nine months ended September 30, 2017, we repurchased 10.1 million shares of common stock for an aggregate purchase price of \$434.9 million (average purchase price per share of \$42.99).

During the nine months ended September 30, 2018, we had no borrowings or repayments under our revolving credit facility. During the nine months ended September 30, 2017, we borrowed \$907.0 million and repaid \$825.0 million under our revolving credit facility, for net borrowings of \$82.0 million.

Recent Accounting Pronouncements

See Note 1 of the Notes to Unaudited Condensed Consolidated Financial Statements.

Forward-Looking Statements

Our business, financial condition, results of operations, cash flows, and prospects, and the prevailing market price and performance of our common stock may be adversely affected by a number of factors, including the matters discussed below. Certain statements and information set forth in this Quarterly Report on Form 10-Q, including without limitation statements regarding our brand extension strategy, strategic initiatives, partnerships, or investments, the impact of tax reform in the United States on our financial results, pending or planned acquisitions, expected future investments in our business, and our expectations for the future performance of our business (including with respect to sales of used vehicles and parts and accessories) and the automotive retail industry, as well as other written or oral statements made from time to time by us or by our authorized executive officers on our behalf, constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact, including statements that describe our objectives, plans or goals are, or may be deemed to be, forward-looking statements. Words such as “anticipate,” “expect,” “intend,” “goal,” “plan,” “believe,” “continue,” “may,” “will,” “could,” and such words and similar expressions are intended to identify such forward-looking statements. Our forward-looking statements reflect our current expectations concerning future results and events, and they involve known and unknown risks, uncertainties and other factors that are difficult to predict and may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by these statements. The risks, uncertainties, and other factors that our stockholders and prospective investors should consider include, but are not limited to, the following:

The automotive retail industry is sensitive to changing economic conditions and various other factors, including fuel prices, interest rates, and tariffs. Our business and results of operations are substantially dependent on new vehicle sales levels in the United States and in our particular geographic markets, as well as the gross profit margins that we can achieve on our sales of vehicles, all of which are very difficult to predict.

Our new vehicle sales are impacted by incentive, marketing, and other programs of vehicle manufacturers.

We are dependent upon the success and continued financial viability of the vehicle manufacturers and distributors with which we hold franchises.

If we are not able to maintain and enhance our retail brands and reputation or to attract consumers to our own digital channels, or if events occur that damage our retail brands, reputation, or sales channels, our business and financial results may be harmed. We are investing significantly in our brand extension strategy, and if our strategic initiatives are not successful, we will have incurred significant expenses without the benefit of improved financial results.

New laws, regulations, or governmental policies regarding fuel economy and greenhouse gas emission standards, or changes to existing standards, may affect vehicle manufacturers’ ability to produce cost-effective vehicles or vehicles that consumers demand, which could adversely impact our business, results of operations, financial condition, cash flow, and prospects.

Table of Contents

• Natural disasters and adverse weather events can disrupt our business.

We are subject to restrictions imposed by, and significant influence from, vehicle manufacturers that may adversely impact our business, financial condition, results of operations, cash flows, and prospects, including our ability to acquire additional stores.

• We are subject to numerous legal and administrative proceedings, which, if the outcomes are adverse to us, could materially adversely affect our business, results of operations, financial condition, cash flows, and prospects.

Our operations are subject to extensive governmental laws and regulations. If we are found to be in purported violation of or subject to liabilities under any of these laws or regulations, or if new laws or regulations are enacted that adversely affect our operations, our business, operating results, and prospects could suffer.

• A failure of our information systems or any security breach or unauthorized disclosure of confidential information could have a material adverse effect on our business.

Our debt agreements contain certain financial ratios and other restrictions on our ability to conduct our business, and our substantial indebtedness could adversely affect our financial condition and operations and prevent us from fulfilling our debt service obligations.

• We are subject to interest rate risk in connection with our vehicle floorplan payables, revolving credit facility, and commercial paper program that could have a material adverse effect on our profitability.

Goodwill and other intangible assets comprise a significant portion of our total assets. We must test our goodwill and other intangible assets for impairment at least annually, which could result in a material, non-cash write-down of goodwill or franchise rights and could have a material adverse impact on our results of operations and shareholders' equity.

Our largest stockholders, as a result of their ownership stakes in us, may have the ability to exert substantial influence over actions to be taken or approved by our stockholders or Board of Directors. In addition, future share repurchases and fluctuations in the levels of ownership of our largest stockholders could impact the volume of trading, liquidity, and market price of our common stock.

Please refer to our most recent Annual Report on Form 10-K for additional discussion of the foregoing risks. These forward-looking statements speak only as of the date of this report, and we undertake no obligation to update any forward-looking statements to reflect subsequent events or circumstances.

Additional Information

Investors and others should note that we announce material financial information using our company website (www.autonation.com), our investor relations website (investors.autonation.com), SEC filings, press releases, public conference calls, and webcasts. Information about AutoNation, its business, and its results of operations may also be announced by posts on the following social media channels:

• AutoNation's Twitter feed (www.twitter.com/autonation)

• Mike Jackson's Twitter feed (www.twitter.com/CEOMikeJackson)

• AutoNation's Facebook page (www.facebook.com/autonation)

• Mike Jackson's Facebook page (www.facebook.com/CEOMikeJackson)

The information that we post on these social media channels could be deemed to be material information. As a result, we encourage investors, the media, and others interested in AutoNation to review the information that we post on these social media channels. These channels may be updated from time to time on AutoNation's investor relations website. The information on or accessible through our websites and social media channels is not incorporated by reference in this Quarterly Report on Form 10-Q.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our primary market risk exposure is changing LIBOR-based interest rates. Interest rate derivatives may be used to hedge a portion of our variable rate debt, when appropriate, based on market conditions.

We had \$3.6 billion of variable rate vehicle floorplan payable at September 30, 2018, and \$3.8 billion at December 31, 2017. Based on these amounts, a 100 basis point change in interest rates would result in an approximate change to our annual floorplan interest expense of \$36.0 million at September 30, 2018, and \$38.1 million at December 31, 2017. Our exposure to changes in interest rates with respect to total vehicle floorplan payable is partially mitigated by manufacturers' floorplan assistance, which in some cases is based on variable interest rates. We had \$600.0 million of commercial paper notes outstanding at September 30, 2018, and \$330.0 million at December 31, 2017. Based on the amounts outstanding, a 100 basis point change in interest rates would result in an approximate change to annual interest expense of \$6.0 million at September 30, 2018 and \$3.3 million at December 31, 2017.

Our fixed rate long-term debt, consisting of amounts outstanding under our senior unsecured notes and capital lease and other debt obligations, totaled \$2.0 billion and had a fair value of \$1.9 billion as of September 30, 2018, and totaled \$2.4 billion and had a fair value of \$2.4 billion as of December 31, 2017.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control over Financial Reporting

In connection with our adoption of the new revenue recognition accounting standard (ASC Topic 606) effective January 1, 2018, we implemented internal controls to ensure we adequately evaluated our contracts with customers and properly assessed the impact of the new accounting standard related to revenue recognition on our consolidated financial statements. There were no significant changes to our internal control over financial reporting due to the adoption of the new standard. Additionally, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 under the Exchange Act that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

In addition to the information set forth in this Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A of our most recent Annual Report on Form 10-K, which could materially affect our business, financial condition, or future results.

51

Table of Contents**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The table below sets forth information with respect to shares of common stock repurchased by AutoNation, Inc. during the three months ended September 30, 2018.

Period	Total Number of Shares Purchased ⁽¹⁾	Avg. 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 Programs (in millions) ⁽¹⁾
July 1, 2018 - July 31, 2018	—	\$	—	\$ 263.7
August 1, 2018 - August 31, 2018	—	\$	—	\$ 263.7
September 1, 2018 - September 30, 2018	—	\$	—	\$ 263.7
Total	—		—	

Our Board of Directors from time to time authorizes the repurchase of shares of our common stock up to a certain ⁽¹⁾ monetary limit. As of September 30, 2018, \$263.7 million remained available under our stock repurchase authorization limit. The Board's authorization has no expiration date.

ITEM 6. EXHIBITS**Exhibit No.** **Description**

10.1	<u>Amended and Restated Employment Agreement, dated as of September 17, 2018, by and between AutoNation, Inc. and Michael J. Jackson (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 19, 2018).</u>
31.1	<u>Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Exchange Act.</u>
31.2	<u>Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Exchange Act.</u>
32.1	<u>Certification of Chief Executive Officer Pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350.</u>
32.2	<u>Certification of Chief Financial Officer Pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350.</u>
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Table of Contents

SIGNATURE

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

AUTONATION, INC.

Date: October 30, 2018 By: /s/ Christopher Cade

Christopher Cade

Senior Vice President and Chief Accounting Officer

(Duly Authorized Officer and Principal Accounting Officer)