Section 1: 10-K (10-K)

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2016

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

For the transition period from to

Commission file number 1-12297

Penske Automotive Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**22-3086739** *(I.R.S. Employer Identification No.)*
2555 Telegraph Road **Bloomfield Hills, Michigan** *(Address of principal executive offices)*	**48302-0954** *(Zip Code)*

Registrant's telephone number, including area code (248) 648-2500

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

Title of Each Class	Name of Each Exchange on Which Registered
Voting Common Stock, par value $0.0001 per share	New York Stock Exchange

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

The aggregate market value of the voting common stock held by non-affiliates as of June 30, 2016 was $1,184,017,046. As of February 22, 2017, there were 85,478,121 shares of voting common stock outstanding.

Documents Incorporated by Reference

Certain portions, as expressly described in this report, of the registrant's proxy statement for the 2017 Annual Meeting of the Stockholders to be held May 10, 2017 are incorporated by reference into Part III, Items 10-14.

TABLE OF CONTENTS

PART I

Item 1. *Business*

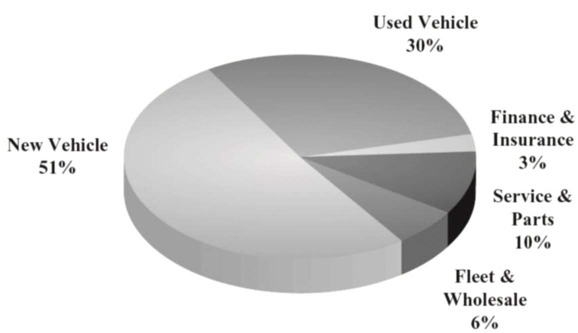
We are an international transportation services company that operates automotive and commercial truck dealerships principally in the United States, Canada and Western Europe, and distributes commercial vehicles, diesel engines, gas engines, power systems and related parts and services principally in Australia and New Zealand. We employ more than 24,000 people worldwide.

In 2016, our business generated $20.1 billion in total revenue, which is comprised of $18.7 billion from retail automotive dealerships, $1.0 billion from retail commercial truck dealerships and $0.4 billion from commercial vehicle distribution and other operations.

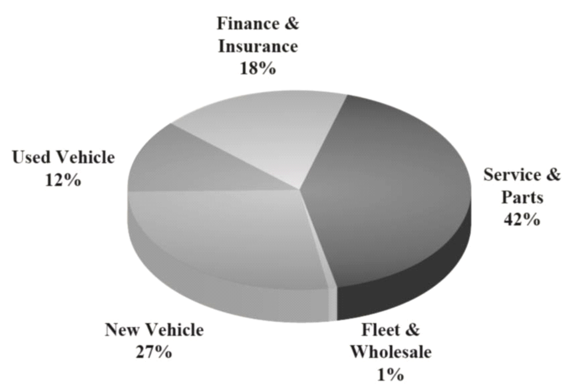
Retail Automotive Dealership. We believe we are the second largest automotive retailer headquartered in the U.S. as measured by the $18.7 billion in total retail automotive dealership revenue we generated in 2016. As of December 31, 2016, we operated 355 retail automotive franchises, of which 164 franchises are located in the U.S. and 191 franchises are located outside of the U.S. The franchises outside the U.S. are located primarily in the U.K. In 2016, we retailed and wholesaled more than 556,000 vehicles. We are diversified geographically, with 59% of our total automotive dealership revenues in 2016 generated in the U.S. and Puerto Rico and 41% generated outside the U.S. We offer over 40 vehicle brands, with 72% of our retail automotive dealership revenue in 2016 generated from premium brands, such as Audi, BMW, Mercedes-Benz and Porsche. Each of our dealerships offer a wide selection of new and used vehicles for sale. In addition to selling new and used vehicles, we generate higher-margin revenue at each of our dealerships through maintenance and repair services and the sale and placement of third-party finance and insurance products, third-party extended service and maintenance contracts, and replacement and aftermarket automotive products. Retail automotive dealerships represented 92.8% of our total revenues and 91.2% of our total gross profit in 2016.

We believe our diversified income streams help to mitigate the historical cyclicality found in some elements of the automotive sector. Revenues from higher margin service and parts sales include warranty work, customer paid work, collision repair services, and wholesale parts sales. Service and parts sales are typically less cyclical than retail vehicle sales and generate the largest part of our retail automotive gross profit. The following graphic shows the percentage of our total retail automotive dealership revenues by product area and their respective contribution to our retail automotive gross profit:

Revenue Mix



Gross Profit Mix



Retail Commercial Truck Dealership. In November 2014, we acquired a controlling interest in a heavy and medium duty truck dealership group located primarily in Texas and Oklahoma, which we renamed Premier Truck Group ("PTG"). Prior to the 2014 transaction, we held a 32% interest in PTG and accounted for this investment under the equity method. In 2015, we acquired an additional 5% of PTG, bringing our ownership interest to 96%. In April 2016, we acquired the remaining ownership interests of PTG, bringing our total ownership interest to 100%.

As of December 31, 2016, PTG operated twenty locations in the U.S. and Canada, including fourteen full-service dealerships offering primarily Freightliner and Western Star branded trucks. Two of these locations, Chattanooga and Knoxville, were acquired in February 2015. Four of these locations were acquired in April 2016 and represent Freightliner and Western Star in the greater Toronto, Canada market area. We acquired two additional retail commercial truck dealerships that also represent Freightliner in December 2016 in the Niagara Falls, Canada market area. PTG also offers a full range of used trucks available for sale as well as service and parts departments, many of which are open 24 hours a day, seven days a week.

This business represented 5.0% of our total revenues and 4.8% of our total gross profit in 2016.

Commercial Vehicle Distribution. We are the exclusive importer and distributor of Western Star heavy-duty trucks (a Daimler brand), MAN heavy and medium duty trucks and buses (a VW Group brand), and Dennis Eagle refuse collection vehicles, together with associated parts, across Australia, New Zealand and portions of the Pacific. This business, known as Penske Commercial Vehicles Australia ("PCV Australia"), distributes commercial vehicles and parts to a network of more than 70 dealership locations, including six company-owned retail commercial vehicle dealerships.

We are also a leading distributor of diesel and gas engines and power systems, principally representing MTU, Detroit Diesel, Mercedes-Benz Industrial, Allison Transmission and MTU Onsite Energy. This business, known as Penske Power Systems ("PPS"), offers products across the on- and off-highway markets in Australia, New Zealand and portions of the Pacific and supports full parts and aftersales service through a network of branches, field locations and dealers across the region. The on-highway portion of this business complements our existing PCV Australia distribution business.

These businesses represented 2.1% of our total revenues and 3.9% of our total gross profit in 2016.

Penske Truck Leasing. We currently hold a 23.4% ownership interest in Penske Truck Leasing Co., L.P. ("PTL"), a leading provider of transportation services and supply chain management. PTL is capable of meeting customers' needs across the supply chain with a broad product offering that includes full-service truck leasing, truck rental and contract maintenance, along with logistic services such as dedicated contract carriage, distribution center management, transportation management and lead logistics provider. On July 27, 2016, we acquired an additional 14.4% ownership interest in PTL from subsidiaries of GE Capital Global Holdings, LLC (collectively, "GE Capital") for approximately $498.5 million in cash to bring our total ownership interest to 23.4%. Prior to this acquisition, we held a 9.0% ownership interest in PTL. PTL is currently owned 41.1% by Penske Corporation, 23.4% by us, 20.0% by affiliates of Mitsui & Co., Ltd. ("Mitsui"), and 15.5% by GE Capital. We account for our investment in PTL under the equity method, and we therefore record our share of PTL's earnings on our statements of income under the caption "Equity in earnings of affiliates," which also includes the results of our other equity method investments.

2016 & 2017 Key Developments

Retail Automotive Dealership Acquisitions and Dispositions. In 2016, we acquired or were granted open points (new franchises awarded from the automotive manufacturer) representing twenty-seven automotive franchises, which represented approximately $700.0 million in annualized revenue. Twelve of the acquired franchises were acquired in July and represent our acquisition of a dealer group in the U.K., and seven of the acquired franchises were acquired in October in the Bologna, Italy market. To fund the Italian acquisitions, we invested additional capital into our Italian joint venture and now own 84% of that venture. In March 2016, we acquired an additional 8% interest in the Jacobs Group, one of our German automotive dealership joint ventures, and now own 68% of that joint venture. In 2016, we disposed of ten retail automotive franchises, which represented approximately $150.0 million in annualized revenue, and transitioned seventeen franchises which represented the Scion brand to our existing Toyota franchises.

Retail Commercial Truck Dealership Acquisitions. In April 2016, we acquired the remaining ownership interests of PTG, bringing our total ownership interest from 96% to 100%. Also in April 2016, we acquired five retail commercial truck dealerships, four of which we retained, that represent Freightliner and Western Star in the greater Toronto, Canada market area. In December 2016, we acquired two additional retail commercial truck dealerships that also represent Freightliner in the Niagara Falls, Canada market area. The dealerships acquired in Canada in 2016 represented approximately $170.0 million in annualized revenue.

Japan Investment. In January 2016, we acquired a 49% interest in the Nicole Group, a luxury dealership group with operations in the greater Tokyo area. The Nicole Group operates four BMW and two MINI dealerships, a Rolls-Royce dealership, a Ferrari dealership, and is the exclusive importer and distributor of ALPINA and also operates two ALPINA dealerships. This investment is accounted for under the equity method.

Investment in PTL. In July 2016, we acquired an additional 14.4% ownership interest in PTL, a leading provider of transportation services and supply chain management, from GE Capital for approximately $498.5 million in cash. Prior to this acquisition, we held a 9.0% ownership interest in PTL. PTL is currently owned 41.1% by Penske Corporation, 23.4% by us, 20.0% by Mitsui, and 15.5% by GE Capital. We account for our investment in PTL under the equity method.

Acquisition of CarSense. In January 2017, we acquired CarSense, a stand-alone specialty retailer of used vehicles in the United States dedicated to reconditioning and retailing high quality, late model used vehicles at no haggle prices through a friendly, comfortable and transparent buying experience. This acquisition is expected to generate approximately $350.0 million in annualized revenue. CarSense has five locations operating in the Philadelphia and Pittsburgh, Pennsylvania market areas, including southern New Jersey.

Acquisition of CarShop. In February 2017, we acquired CarShop, one of the U.K.'s leading retailers of used vehicles. CarShop retails high quality used vehicles at fixed retail prices as part of a transparent customer buying experience. The acquisition is expected to generate approximately $340.0 million in annualized revenue. CarShop has five large-scale retail locations operating in Cardiff, Swindon, Northampton, Norwich and Doncaster, as well as a vehicle preparation center in Leighton Buzzard.

Issuance of 5.50% Senior Subordinated Notes. In May 2016, we issued $500.0 million of 5.50% senior subordinated notes due 2026. We used the proceeds of the 5.50% notes to repay amounts outstanding under our U.S. credit agreement and floor plan credit agreements, leaving us with additional flexibility to continue our acquisition strategy.

Shareholder Dividends and Stock Repurchases. We increased our quarterly stock dividend each quarter in 2016. Our latest declared dividend is $0.30 per share payable March 1, 2017, which represents a dividend yield of 2.2% using our January 31, 2017 closing stock price. We repurchased 4,512,325 shares of our common stock in 2016 for $167.9 million, which, together with the quarterly dividends, represents a return to shareholders of approximately $263.0 million.

Named "Best Dealerships To Work For". Thirteen of our dealerships in the U.S. were named by Automotive News as among the 100 "Best Dealerships to Work For" in 2016. In addition, our U.K. dealerships, collectively known as the Sytner Group, were ranked as one of the "Best Big Companies to Work For" in the U.K. by the London Sunday Times. We believe these awards reflect our ongoing commitment to our valuable dealership employees, which enhances customer satisfaction and may result in improved sales over time.

Outlook

Retail Automotive Dealership. In 2016, U.S. light vehicle sales grew 0.3% to 17.5 million units, with passenger car sales declining 8.9% while sales of trucks and sport utility vehicles increased 7.4%. We believe the current market for new light vehicle sales in the U.S. will remain near current levels for 2017, as low levels of unemployment, low interest rates, strong credit availability, the age of vehicles on the road, shortened product development timelines and vehicle innovation, strong consumer leasing, and lower consumer fuel costs are expected to continue to positively impact vehicle sales, although actual sales may differ materially. In addition to the new vehicle market, we expect to see strength across the used vehicle market, as the number of lease returns increases, providing our business with an additional supply of late model, low mileage vehicles.

In 2016, U.K. new vehicle registrations increased 2.3% from 2015 to 2.7 million registrations and are at record levels. During 2016, we experienced a 7.4% increase in same-store new units in the U.K. While we believe the overall market in the U.K. is being positively impacted by generally strong economic conditions, including low levels of unemployment, access to credit and attractive financing offers, the June 2016 referendum whereby a majority voted to exit the European Union ("Brexit") may impact the future economic environment and new vehicle registrations. Since no country has previously left the European Union, the outcome of any future negotiations between the U.K. and the European Union is uncertain and may impact the terms of trade and the level of new vehicle registrations in those markets.

Retail Commercial Truck Dealership. In 2016, North American sales of Class 5-8 medium and heavy-duty trucks, the principal vehicles for our PTG business, were approximately 484,100 units, a decrease of 9.9% from 2015. The Class 5-7 medium-duty truck market increased 3.2% to 234,200 units from 227,000 units in the same period in 2015. The largest market, Class 8 heavy-duty trucks, decreased 19.4% to approximately 249,900 units from approximately 310,200 units in 2015, as softer freight demand and excess fleet capacity impacted the marketplace. The sale of new Class 8 heavy-duty truck sales are anticipated to decline again in 2017. Additionally, softer used truck demand and pricing is being driven by a larger supply of late model used trucks, as de-fleeting from the excess fleet capacity impacts volume and prices; however, the service business of our PTG commercial truck dealerships is expected to remain strong, as end users retain existing equipment longer than previously anticipated.

Commercial Vehicle Distribution. Our PCV Australia distribution business and the on-highway portion of our PPS business each operate principally in the Australian and New Zealand heavy and medium duty truck markets. In 2016, the Australian heavy-duty truck market reported sales of 9,880 units, representing a decrease of 0.2% from 2015. The New Zealand market reported sales of 2,679 units in 2016, representing a decrease of 10.8% from 2015. The brands we represent in Australia hold a 5.9% market share in the Australian heavy-duty truck market, and a 5.2% market share in New Zealand. We expect the Australian commercial vehicle market to lag behind historical sales levels partly due to difficult macroeconomic conditions and the relative weak price of commodities in these markets. We expect the parts distribution portion of this business will continue to be resilient due to the delayed vehicle replacement cycle resulting from the difficult macroeconomic conditions. We also expect continued new order growth from the off-highway engine distribution business.

Penske Truck Leasing. We expect PTL to benefit from continued strong demand for its full-service truck leasing, contract maintenance, and logistics services resulting from continued positive economic conditions in the United States and customers' desire to increase efficiency and lower costs by outsourcing non-core responsibilities such as fleet ownership. As a global logistics services provider, we also expect PTL to experience increased demand for its logistics supply chain solutions based primarily on optimizing the use of drivers, trucks, warehouses, and other services within the supply chain. The trucking industry has experienced steady freight growth since 2009, which we believe is an indication of the ongoing post-recession recovery and the health of the overall economy, which has a strong correlation to PTL's business. The rate of growth slowed in late 2015 and 2016 as freight demand did not match projected levels and a decade-high sales year for Class 8 trucks in 2015 led to excess capacity in the market and a reduction in utilization rates. As a result, fleets right-sized their capacity to meet freight demand in the marketplace and new and used truck sales were impacted, resulting in a decline in the North American Class 8 new and used heavy-duty truck market. However, beginning in 2017, we have seen improved conditions within PTL's commercial truck rental business that indicate the supply and demand balance may be improving.

As discussed in "Item 1A. Risk Factors," there are a number of factors that could cause actual results to differ materially from our expectations. For a detailed discussion of our financial and operating results, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Long-Term Business Strategy

Our long-term business strategy focuses on several key areas in an effort to foster long-term relationships with our customers. The key areas of our long-term strategy follow:

- Attract, develop, and empower associates to grow our business;
- Maintain diversification;
- Offer outstanding brands in premium facilities and superior customer service;
- Expand revenues at existing locations and increase higher-margin businesses;
- Grow through strategic acquisitions;
- Enhance customer satisfaction;
- Leverage scale and implement “best practices”; and
- Leverage digital marketing.

Attract, Develop, and Empower Associates to Grow our Business

We view our local managers and associates as one of our most important assets. We operate in a decentralized manner that fosters an entrepreneurial spirit where each dealership or business unit has independent operational and financial management responsible for day-to-day operations. We believe experienced local managers are better qualified to make day-to-day decisions concerning the successful operation of a business unit and can be more responsive to our customers’ needs. We seek local management that not only has relevant industry experience, but is also familiar with the local market. We also have regional management that oversees operations and supports the local unit operationally and administratively. We invest for future growth and offer outstanding brands and facilities which we believe attract outstanding talent. We believe attracting the best talent and allowing our associates to make business decisions at the local level helps to foster long-term growth through increased repeat and referral business.

Maintain Diversification

Our business benefits from our diversified revenue mix, including the multiple revenue streams in a traditional dealership (new vehicles, used vehicles, finance and insurance, and service and parts operations), revenues from our retail commercial truck dealership operations, our commercial vehicle distribution operations, and returns relating to our joint venture investments, which we believe helps to mitigate the cyclicality that has historically impacted some elements of the automotive sector. We are further diversified within our retail automotive operations due to our brand mix, where we represent more than 40 brands, and geographically, where we operate across more than 15 states. One of the unique attributes of our operations versus our peers is our diversification outside the U.S., with operations across nine countries.

The following table shows our revenues by country, and by state in the U.S., as a percentage of our total revenue:

Country	% of Total 2016 Revenue	
United States		60 %
United States Revenue by State		
Arizona	6 %	
Arkansas	3 %	
California	11 %	
Connecticut	3 %	
Florida	3 %	
Georgia	4 %	
Indiana	1 %	
Maryland	1 %	
Minnesota	1 %	
New Jersey	8 %	
New York	1 %	
Ohio	2 %	
Oklahoma	1 %	
Puerto Rico	2 %	
Rhode Island	2 %	
Tennessee	1 %	
Texas	6 %	
Virginia	3 %	
Wisconsin	1 %	
United Kingdom		32 %
Germany/Italy		5 %
Canada		1 %
Australia/New Zealand/Pacific		2 %

The U.K. is the second largest automotive retail market in Western Europe as measured by new units sold. We generated 94% of our revenue in the U.K. through the sale and service of premium brands in 2016. We believe we are among the largest Audi, Bentley, BMW, Ferrari, Jaguar/Land Rover, Lexus, Maserati, Mercedes-Benz, MINI, and Porsche dealers in the U.K. based on new unit sales. Additionally, we operate a number of dealerships in Germany, Western Europe’s largest automotive retail market, including through joint ventures with experienced local partners, which sell and service Audi, Lexus, Porsche, Toyota, Volkswagen and other brands. We also operate BMW, MINI, Maserati, Porsche, Audi, Land Rover and Volvo dealerships in Northern Italy, as well as BMW and MINI dealerships in Spain, through joint ventures with local partners.

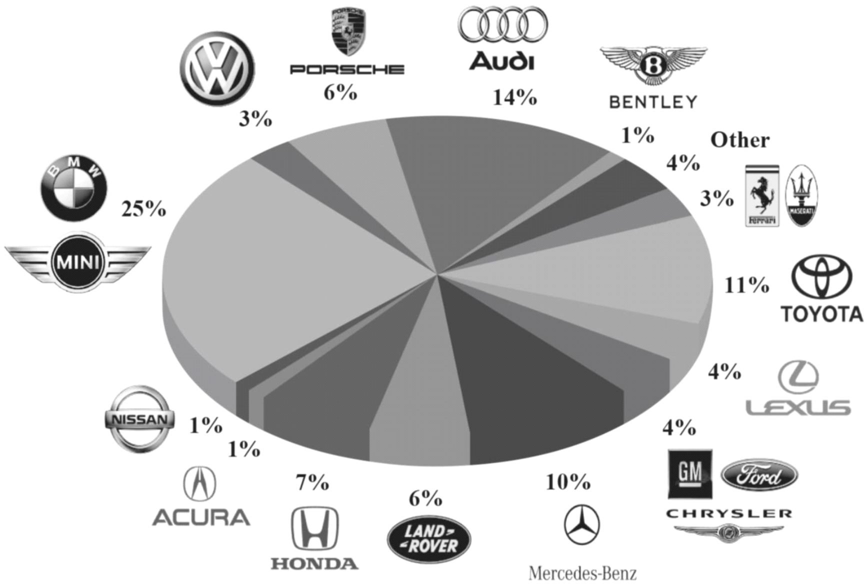
Diversification Through Retail Commercial Truck Dealership. Our PTG business provides more diversification to our overall business model and allows us to bring our automotive dealership expertise to the retail commercial truck market. The six dealerships acquired in Canada in 2016 further diversify our revenue stream.

Diversification Through Penske Truck Leasing. We currently hold a 23.4% ownership interest in PTL, a leading provider of transportation services and supply chain management, which further diversifies our total results of operations. In July 2016, we increased our ownership interest in PTL from 9.0% to 23.4% as a result of our acquisition of an additional 14.4% ownership interest, as discussed previously, which further diversifies our earnings potential.

Offer Outstanding Brands in Premium Facilities and Superior Customer Service

We offer outstanding brands in premium facilities and believe offering our customers a superior customer service experience will generate repeat and referral business and will help to foster a loyal and dedicated customer base. Customer satisfaction is measured at each of our automotive dealerships on a monthly, quarterly, and/or yearly basis by the manufacturers we represent, and we compensate our employees, in part, based on their performance in such rankings.

We sell over 40 brands in our markets and our automotive dealership revenue mix consists of 72% related to premium brands, 24% related to volume non-U.S. brands, and 4% related to brands of U.S. based manufacturers. We believe our largely premium and non-U.S. brand mix will continue to offer us the opportunity to generate same-store growth, including higher margin service and parts sales. The following chart reflects our percentage of total retail automotive dealership revenue by brand:



We sell and service outstanding automotive brands in our premium facilities, in attractive geographic markets. Where advantageous, we aggregate our automotive dealerships in a campus setting in order to build a destination location for our customers, which we believe helps to drive increased customer traffic to each of the brands at the location. This strategy also creates an opportunity to reduce personnel expenses, consolidate advertising and administrative expenses and leverage operating expenses over a larger base of dealerships.

Expand Revenues at Existing Locations and Increase Higher-Margin Businesses

Increase Same-Store Sales. We believe our emphasis on superior customer service and premium facilities will contribute to increases in same-store sales over time. We have added a significant number of incremental service bays in recent years in order to better accommodate our customers and further enhance our higher-margin service and parts revenues.

Grow Finance, Insurance, and Other Aftermarket Revenues. Each sale of a vehicle provides us the opportunity to assist in arranging financing for the sale of a vehicle, to sell the customer an extended service contract or other insurance product, and to sell aftermarket products, such as security systems and protective coatings. Where possible, we attempt to vertically integrate with the captive finance companies of the manufacturers we represent and to supplement these offerings with preferred lenders as necessary. In order to improve our finance and insurance business, we focus on enhancing training programs and implementing process improvements which we believe will improve our overall revenues.

Expand Service and Parts and Collision Repair Revenues. Today’s vehicles are increasingly complex and require sophisticated equipment and specially trained technicians to perform certain services. Additionally, many manufacturers today are offering maintenance programs packaged with the vehicle sale. These programs require customers to have the service work performed at a factory-authorized dealership. Unlike independent service shops, our dealerships are authorized to perform this work under warranties provided by manufacturers. Additionally, we offer maintenance programs for sale through our dealerships. We believe that our brand mix and the complexity of today's vehicles, combined with our investment in expanded service facilities, including the addition of a significant number of incremental service bays in recent years, and our focus on customer service, will contribute to increases in our service and parts revenue. We also operate 37 automotive collision repair centers which are integrated with local automotive dealership operations. We offer rapid repair services such as paint-less dent repair, headlight reconditioning, wheel repairs, tire sales, seat sales for our retail commercial truck operations, and windshield replacement at most of our facilities in order to offer our customers the convenience of one-stop shopping for all of their vehicle requirements.

Grow Through Strategic Acquisitions

We believe that attractive retail automotive acquisition opportunities exist for well-capitalized dealership groups with experience in identifying, acquiring and integrating dealerships. The fragmented automotive retail market provides us with significant growth opportunities in our markets. We generally seek to acquire dealerships with high-growth automotive brands in highly concentrated or growing demographic areas that will benefit from our management expertise, manufacturer relations and scale of operations, as well as smaller, single location dealerships that can be effectively integrated into our existing operations. Over time, we have also been awarded new franchises from various manufacturers. In 2016, we acquired or were granted open points representing twenty-seven franchises, which generated approximately $700.0 million in annualized revenue.

We believe there are attractive retail commercial truck acquisition opportunities. We see continued growth in the brands we represent at our existing retail commercial truck dealerships and believe there are opportunities for us to continue to make strategic acquisitions over time. In 2016, we acquired seven retail commercial truck dealerships, six of which we retained, which generated approximately $170.0 million in annualized revenue.

Enhance Customer Satisfaction

We strive for superior customer satisfaction. By offering outstanding brands in premium facilities, "one-stop" shopping convenience in our aggregated facilities, and a well-trained and knowledgeable sales staff, we aim to forge lasting relationships with our customers, enhance our reputation in the community, and create the opportunity for significant repeat and referral business. We monitor customer satisfaction data accumulated by manufacturers to track the performance of operations, and incent our personnel to provide exceptional customer service, thereby driving increased customer loyalty. In addition, we monitor online reputation management sites, such as Google and Yelp reviews, to proactively assess customer comments to ensure we are offering a superior customer satisfaction experience in our dealerships.

Leverage Scale and Implement "Best Practices"

We seek to build scale in many of the markets where we have operations. Our desire is to reduce or eliminate redundant administrative costs such as accounting, payroll, information technology systems and other general administrative costs. In addition, we seek to leverage our industry knowledge and experience to foster communication and cooperation between like brand dealerships throughout our organization. Corporate management and local management meet regularly to review operating performance, examine industry trends, and implement operating improvements. Key financial information is discussed and compared across all markets. This frequent interaction facilitates implementation of successful strategies throughout the organization.

Leverage Digital Marketing

As consumers have continued to shift towards digital platforms for their buying process, our marketing strategy places a strong emphasis on all forms of digital marketing; however, where appropriate, we continue to utilize traditional marketing avenues in select markets, including targeted newspaper, direct mail, television, and radio advertising.

In order to attract customers and enhance our customer service, each of our dealerships maintains its own website platform. All of our dealership websites employ consistent functionality and design formats while ensuring standards and requirements are met for each manufacturer. This allows us to minimize costs and benefit from consistent processes across our dealerships.

In addition to the individual websites, we advertise our U.S. and U.K. automotive retail new and pre-owned vehicle inventory online through PenskeCars.com and Sytner.co.uk, respectively. These websites are designed to make it easy for consumers, employees and partners to view and compare on average over 50,000 new, certified and pre-owned vehicles. These sites, together with our dealership websites, provide consumers a simple method to schedule maintenance and repair services at their local Penske Automotive Group dealership and view extensive vehicle information, including photos, prices, promotions, videos and third party vehicle history reports for pre-owned vehicles. Customers may also download our PenskeCars.com app to access our vehicle inventory, contact dealers, explore payments, or get instant trade offers at their convenience. The manufacturers' websites, in addition to our corporate websites, serve as lead generating tools to our dealerships. In the U.K., manufacturers also provide a website for the dealership. We also supplement the advertisement of our vehicles with the use of selected third party independent websites.

We constantly strive to build and optimize our online presence across multiple platforms in order to drive organic and high quality traffic to our business. By focusing on social media, search engine management, video, reputation management and online chat, we proactively optimize all avenues of digital customer engagement. As an example, each of our dealerships maintains a Facebook property to build dealership awareness, focus on community involvement and enhance repeat and referral business. We also leverage our corporate social media efforts and partners to benefit our dealerships and create a strong sense of community. Most importantly, once our clients have reached us, the content that we serve our customers is tailored to their method of engagement with us, the device they are using, and their specific requests, where applicable.

To further our digital strategy, and to respond to changing consumer preferences, we created a Preferred Purchase program available for many of our U.S. dealerships that incorporates new online functionality to streamline the sales process in our traditional business model. Preferred Purchase allows customers to value trade-in vehicles, review pricing, leasing and financing options, manufacturer incentive programs, and pre-qualify for credit, all online without visiting the dealership. This functionality is integrated and automated on a single platform that resides on both our individual dealership sites as well as our corporate sites. Preferred Purchase promotes transparency and is intended to speed up customer transaction times and give our customers the flexibility to choose the path or sales process most comfortable to them.

Retail Automotive Dealership Operations

Retail Automotive Franchises. We routinely acquire and dispose of retail automotive franchises. Our financial statements include the results of operations of acquired dealerships from the date of acquisition. We expect to continue to pursue acquisitions and selected dispositions in the future. The following table exhibits our retail automotive franchises by location and manufacturer as of December 31, 2016:

Location	Franchises
Arizona	23
Arkansas	11
California	29
Connecticut	10
Florida	6
Georgia	3
Indiana	2
Maryland	2
Minnesota	2
New Jersey	24
Ohio	8
Puerto Rico	13
Rhode Island	12
Tennessee	1
Texas	9
Virginia	7
Wisconsin	2
Total U.S.	164
U.K.	146
Germany	28
Italy	17
Total Non-U.S.	191
Total Worldwide	355

Franchises	U.S.	Non-U.S.	Total
BMW/MINI	21	45	66
Toyota/Lexus	24	3	27
Mercedes-Benz/Sprinter/smart	20	25	45
Audi/Volkswagen/Bentley	18	50	68
Chrysler/Jeep/Dodge/Fiat/Alfa Romeo	16	—	16
Honda/Acura	22	—	22
Ferrari/Maserati	4	12	16
Porsche	8	11	19
Jaguar/Land Rover	8	20	28
Lamborghini	1	4	5
Nissan/Infiniti	6	1	7
Cadillac/Chevrolet	5	—	5
Others	11	20	31
Total	164	191	355

New Vehicle Retail Sales. In 2016, we retailed 249,695 new vehicles which generated 51.1% of our retail automotive dealership revenue and 27.1% of our retail automotive dealership gross profit. New vehicles are typically acquired by dealerships directly from the manufacturer. We strive to maintain outstanding relationships with the automotive manufacturers, based in part on our long-term presence in the retail automotive market, our commitment to providing premium facilities, our commitment to drive customer satisfaction, the reputation of our management team and the consistent sales volume at our dealerships. Our dealerships finance the purchase of most new vehicles from the manufacturers through floor plan financing provided primarily by various manufacturers' captive finance companies.

Used Vehicle Retail Sales. In 2016, we retailed 207,556 used vehicles, which generated 30.3% of our retail automotive dealership revenue and 12.2% of our retail automotive dealership gross profit. We acquire used vehicles from various sources including auctions open only to authorized new vehicle dealers, public auctions, trade-ins from consumers in connection with their purchase of a new vehicle from us and lease expirations or terminations. To improve customer confidence in our used vehicle inventory, we provide vehicle history reports for all used vehicles and each of our new vehicle dealerships participate in manufacturer certification processes for used vehicles. If certification is obtained, the used vehicle owner is typically provided benefits and warranties similar to those offered to new vehicle owners by the applicable manufacturer. Most of our dealerships have implemented software tools which assist in procuring and selling used vehicles. In the U.K., we offer used vehicles to wholesalers and other dealers via online auction.

Vehicle Finance, Extended Service and Insurance Sales. Finance, extended service and insurance sales represented 2.7% of our retail automotive dealership revenue and 18.3% of our retail automotive dealership gross profit in 2016. At our customers' option, our dealerships can arrange third-party financing or leasing in connection with vehicle purchases.

We typically receive a portion of the cost of the financing or leasing paid by the customer for each transaction as a fee. While these services are generally non-recourse to us, we are subject to chargebacks in certain circumstances, such as default under a financing arrangement or prepayment. These chargebacks vary by finance product but typically are limited to the fee we receive. As further discussed in “Item 1A. Risk Factors,” the Consumer Finance Protection Bureau has instituted regulatory proceedings which may change the way we are compensated for assisting our customers in obtaining financing, which could result in lower related revenues.

We also offer our customers various vehicle warranty and extended protection products, including 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 total loss), lease “wear and tear” insurance and theft protection products. The extended service contracts and other products that our dealerships currently offer to customers are underwritten by independent third parties, including the vehicle manufacturers’ captive finance companies. Similar to finance transactions, we are subject to chargebacks relating to fees earned in connection with the sale of certain extended protection products. We also offer for sale other aftermarket products, including security systems and protective coatings.

We offer finance and insurance products using a “menu” process, which is designed to ensure that we offer our customers a complete range of finance, insurance, protection, and other aftermarket products in a transparent manner. We provide training to our finance and insurance personnel to help ensure compliance with internal policies and procedures, as well as applicable state regulations.

Service and Parts Sales. Service and parts sales represented 10.4% of our retail automotive dealership revenue and 41.8% of our retail automotive dealership gross profit in 2016. We generate service and parts sales in connection with warranty and non-warranty work performed at each of our dealerships. We believe our service and parts revenues benefit from the increasingly complex technology used in vehicles that makes it difficult for independent repair facilities to maintain and repair today’s automobiles.

A goal of each of our dealerships is to make each vehicle purchaser a customer of our service and parts department. Our dealerships keep detailed records of our customers’ maintenance and service histories, and many dealerships send reminders to customers when vehicles are due for periodic maintenance or service. Many of our dealerships have extended evening and weekend service hours for the convenience of our customers. We also offer rapid repair services such as paint-less dent repair, headlight reconditioning, wheel repairs, tire sales and windshield replacement at most of our facilities in order to offer our customers the convenience of one-stop shopping for all of their automotive requirements. We also operate 37 automotive collision repair centers, each of which is operated as an integral part of our dealership operations.

Fleet and Wholesale Sales. Fleet and wholesale sales represented 5.5% of our retail automotive dealership revenue and 0.6% of our retail automotive dealership gross profit in 2016. Fleet activities represent the sale of new units to customers that are deemed to not be retail customers such as cities, municipalities or rental car companies and are generally sold at contracted amounts. Wholesale activities relate to the sale of used vehicles generally to other dealers and occur at auction. Vehicles sold through this channel generally include units acquired by trade-in that do not meet certain standards or aged units.

Retail Commercial Truck Dealership Operations

In November 2014, we acquired a controlling interest in a heavy and medium duty truck dealership group located primarily in Texas and Oklahoma, which we renamed Premier Truck Group (“PTG”). In 2015, we acquired an additional 5% of PTG, bringing our ownership interest to 96%. In April 2016, we acquired the remaining ownership interests of PTG, bringing our total ownership interest to 100%. This business generated $1.0 billion of revenue in 2016.

As of December 31, 2016, PTG operated twenty locations in the U.S. and Canada, including fourteen full-service dealerships offering primarily Freightliner and Western Star branded trucks. Two of these locations, Chattanooga and Knoxville, were acquired in February 2015. Four of these locations were acquired in April 2016 and represent Freightliner and Western Star in the greater Toronto, Canada market area. We acquired two additional retail commercial truck dealerships that also represent Freightliner in December 2016 in the Niagara Falls, Canada market area. PTG also offers a full range of used trucks available for sale as well as service and parts departments, many of which are open 24 hours a day, seven days a week.

PTG dealerships provide a similar suite of services as our automotive dealerships, offering new trucks and a large selection of used trucks for sale, a full range of parts, maintenance and repair services, and finance and insurance options for its customers by facilitating truck and trailer financing and leasing, extended maintenance plans, physical damage insurance, GAP insurance, roadside relief and other programs.

The necessity of repairing trucks for our customers is a key area of differentiation for our commercial truck dealerships and we provide around-the-clock service in certain locations to get our customers' commercial trucks back on the road so they can complete their routes. Some of the service and parts departments are conveniently open 24 hours every day and 7 days a week to better serve our customers. PTG also carries an extensive inventory of parts for the new and used trucks they sell and service, including Thomas Built Buses, and other makes of medium and heavy-duty trucks.

Similar to our retail automotive business, PTG is committed to providing outstanding brands and superior customer service in premium facilities. For example, our Dallas Freightliner location offers a state-of-the-art facility of climate controlled office space, service shops, customer amenities, parts inventory storage, and a parts showroom. This facility is equipped with 80 full-service truck bays, open 7 days a week, with a full suite of on-hand parts inventory. Guests of Dallas Freightliner enjoy a television lounge with HDTV theater seating, a large comfortable customer lounge with lockers, laundry and shower facilities, on-site trailer parking, and free recreational vehicle electrical hook-up.

Commercial Vehicle Distribution Operations

Penske Commercial Vehicles Australia. We are the exclusive importer and distributor of Western Star heavy-duty trucks (a Daimler brand), MAN heavy and medium duty trucks and buses (a VW Group brand), and Dennis Eagle refuse collection vehicles, together with associated parts, across Australia, New Zealand and portions of the Pacific. This business, known as Penske Commercial Vehicles Australia ("PCV Australia"), distributes commercial vehicles and parts to a network of more than 70 dealership locations, including six company-owned retail commercial vehicle dealerships. This business generated $220.5 million of revenue in 2016.

Our local headquarters is located in Brisbane, Australia, which is the country's third largest city. Our headquarters includes administrative facilities as well as a parts distribution center and a production center. We also have a parts distribution center in Auckland, New Zealand.

Western Star trucks are manufactured by Daimler Trucks North America in Portland, Oregon. These technologically advanced, custom-built vehicles are ordered by customers to meet their particular needs for hauling, mining, logging and other heavy-duty applications. We are also the exclusive importer of MAN trucks and buses. MAN Truck and Bus, a VW Group company, is a leading producer of medium and heavy-duty trucks as well as city and coach buses. These cab-forward, fuel efficient vehicles are principally produced in several sites in Germany. Dennis Eagle refuse collection vehicles are manufactured by Ros Roca in Warwick, England. Together these brands represented 5.9% of heavy-duty truck units sold in Australia and 5.2% in New Zealand during 2016.

Our commercial vehicle distribution operations include six retail commercial vehicle distribution points. The Brisbane Truck Centre in Brisbane, Australia is the largest retailer of Western Star Trucks in Australia by volume. We finance our purchases of these vehicles under a floor plan agreement with a local Daimler affiliate with terms similar to our other floor plan agreements.

Penske Power Systems. We are also a leading distributor of diesel and gas engines and power systems, principally representing MTU, Detroit Diesel, Mercedes-Benz Industrial, Allison Transmission and MTU Onsite Energy. This business, known as Penske Power Systems ("PPS"), offers products across the on- and off-highway markets in Australia, New Zealand and portions of the Pacific, including trucking, mining, power generation, construction, industrial, rail, marine, agriculture, oil & gas and defense and supports full parts and aftersales service through a network of branches, remote field service locations and dealers across the region. This business generated $208.3 million of revenue in 2016.

Penske Power Systems' principal headquarters is located at its Melbourne workshop/office facility. In addition to sales, distribution and full product repair capability, this facility includes the offices for national sales, engineering and marketing, a regional training facility and a regional engineering center. In addition, PPS operates a corporate office based at its Sydney (Chipping Norton) branch which is dedicated to corporate activities and distribution and product repair capability. PPS operates additional branch facilities across Australia and in Auckland, New Zealand.

Penske Power Systems' 84 dealers are strategically located throughout Australia, New Zealand and the Pacific. Most of the dealers (73) represent the Detroit Diesel brand, with the majority aligned to Western Star and/or Freightliner truck manufacturers. The remaining dealers represent the MTU (1) and Allison Transmission (10) brands. The "off-highway" business of PPS principally includes the sale of power systems by PPS directly to customers in the commercial, defense and maritime sectors, and to several dealers. PPS conducts business through its 14 branch locations and utilizes mobile remote field service units travelling directly to customer premises.

Penske Truck Leasing

We currently hold a 23.4% ownership interest in PTL, a leading provider of transportation services and supply chain management. PTL is capable of meeting customers' needs across the supply chain with a broad product offering that includes full-service truck leasing, truck rental and contract maintenance, along with logistics services such as dedicated contract carriage, distribution center management, transportation management and lead logistics provider. PTL has a highly diversified customer base that includes multi-national corporations across industries such as food and beverage, transportation, manufacturing, automotive, retail and healthcare, with which they have long-term contracts, as well as individual consumers renting a single truck on a daily basis.

PTL operates one of the leading full-service truck leasing, truck rental and contract maintenance businesses in the United States and Canada and a logistics business in North America, South America, Europe and Asia. PTL has also expanded its truck leasing and truck rental business into Australia, through a joint venture with us, and has expanded its logistics business into India.

Full-service truck leasing, truck rental and contract maintenance. Full-service truck leasing, truck rental and contract maintenance of commercial trucks and tractors is PTL's largest business. PTL manages a fleet of more than 240,000 trucks, tractors and trailers, consisting of approximately 170,000 vehicles owned by PTL and leased to customers under full-service lease or rental agreements and approximately 70,000 customer-owned and -operated vehicles for which they provided contract maintenance services. Terms under its full-service leases generally range from four to seven years for tractors and trucks and six to ten years for trailers. Its commercial and consumer rental fleet as of December 31, 2016 consisted of approximately 60,500 vehicles for use by its full-service truck leasing, small business and consumer customers for periods generally ranging from less than a day to 12 months. Most of its leased vehicles are configured according to customer specifications, including custom painting and lettering, while its rental trucks bear Penske branding.

Commercial customers often outsource to PTL in order to reduce the complexity, cost and total capital associated with vehicle ownership. Under a full-service lease, PTL provides and fully maintains the vehicle, which is generally specifically configured for the customer. The services provided under full-service lease and contract maintenance agreements generally include preventive and regular maintenance, advanced diagnostics, emergency road service, fleet services, safety programs, and nationwide fuel services through its network of company-operated facilities and a nationwide network of independent truck stops.

In addition, PTL makes available to its full-service leasing and contract maintenance customers additional vehicles on a rental basis. This short-term availability of tractors, trucks and trailers typically accommodates seasonal, emergency and other temporary needs. A significant portion of these rentals are to existing full-service leasing and contract maintenance customers who are seeking flexibility in their fleet management. PTL has established a network of approximately 680 locations to provide full-service truck leasing, truck rental and contract maintenance services to customers. This network enables PTL to meet multi-location customer requirements. PTL's commercial rental business generated 20% of its operating revenue for 2016 and its full-service lease and contract maintenance business generated 50% of its operating revenue in 2016.

For consumer customers, PTL provides short-term rental of light and medium duty vehicles on a one-way and local basis, typically to transport household goods. Customers typically include local small businesses and individuals seeking a do-it-yourself solution to their moving needs. PTL's fleet consists of late model vehicles ranging in size from small vans to 26-foot trucks, and its consumer rentals are conducted through approximately 1,870 independent rental agents and approximately 350 of its company-operated leasing and rental facilities. PTL's consumer business generated 7% of its operating revenue for 2016.

Logistics. PTL's logistics business offers a broad variety of services, such as dedicated contract carriage, distribution center management, transportation management, freight brokerage and lead logistics provider. PTL coordinates and provides services for its customers across the supply chain, including: inbound material flow, handling and packaging, inventory management, distribution and technologies, and sourcing of third-party carriers. These offerings are available individually or on a combined basis and often involve its associates performing services at the customer's location. By offering a scalable series of services to its customers, PTL can manage the customer's entire supply chain or any stand-alone service. PTL also utilizes specialized software that enables real-time fleet visibility and provides reporting metrics, giving customers detailed information on fuel economy and other critical supply chain costs. PTL's logistics business generated 23% of its operating revenue for 2016.

Industry Information

Retail Automotive Dealership. Approximately 59% of our retail automotive dealership revenues are generated in the U.S., which in 2016 was the world's second largest automotive retail market as measured by units sold. In 2016, sales of new cars and light trucks were approximately 17.5 million units, an increase of 0.3% from 2015, and were generated at approximately 18,000 franchised new-car dealerships. According to the latest available data from the National Automobile Dealers Association, dealership revenue is derived as follows: 58% from new vehicle sales, 31% from used vehicle sales and 11% from service and parts sales. Dealerships also offer a wide range of higher-margin products and services, including extended service contracts, financing arrangements and credit insurance. The National Automobile Dealers Association figures noted above include finance and insurance revenues within either new or used vehicle sales, as sales of these products are usually incremental to the sale of a vehicle.

In the U.S., the franchised automotive dealer industry is the largest retail business by revenue, with virtually all new cars and light trucks bought in the U.S. through franchised dealers in a market in excess of $1.0 trillion. Publicly held automotive retail groups account for less than 10% of total industry revenue. Although significant consolidation has already taken place, the industry remains highly fragmented, with more than 90% of the U.S. industry's market share remaining in the hands of smaller regional and independent players. Our other markets are similarly fragmented. We believe that further consolidation in these markets is probable due to the significant capital requirements of maintaining manufacturer facility standards and the limited number of viable alternative exit strategies for dealership owners.

Our European markets consist of Germany, the U.K., Italy, and Spain, which represented the first, second, fourth, and fifth largest automotive retail markets, respectively, in Western Europe in 2016, and accounted for approximately 65% of the total vehicle sales in Western Europe. Unit sales of automobiles in Western Europe were approximately 14.0 million in 2016, a 5.8% increase compared to 2015. In Germany, the U.K., Italy, and Spain, new car sales were approximately 3.4 million, 2.7 million, 1.8 million and 1.1 million units, respectively, in 2016.

We also own a 49% interest in a Japanese joint venture. Unit sales in Japan were 4.8 million in 2016, a decrease of 3.1% from 2015, though sales in the luxury segment remained strong.

As noted above, in January 2017, we acquired CarSense, a used vehicle retailer operating five locations in Pennsylvania and New Jersey. Used vehicle sales in 2016 in the U.S. were approximately 40 million units in 2016. Used vehicle sales are even more fragmented than new vehicle sales and are generated by new car dealerships, used vehicle "superstores," individual small lot sellers, as well as individual to individual sales.

Retail Commercial Truck Dealership. In 2016, North America sales of Class 5-8 medium and heavy-duty trucks, the principal vehicles for our PTG business, were approximately 484,100 units, a decrease of 9.9% from 2015. The Class 5-7 medium-duty truck market increased 3.2% to 234,200 units from 227,000 units in the same period in 2015. The largest market, Class 8 heavy-duty trucks, decreased 19.4% to approximately 249,900 units from approximately 310,000 units in 2015, as softer freight demand has created excess fleet capacity within the marketplace. In this market, our principal brands, Freightliner and Western Star, represent approximately 39.9% of that market.

Penske Truck Leasing. PTL participates broadly in the global supply chain, estimated at $8.7 trillion annually, and particularly in the U.S. supply chain, estimated at $1.5 trillion annually. Only 11% of the total U.S. supply chain function is outsourced to third parties, such as PTL. We estimate, based on R. L. Polk registration data, that there are approximately 8.0 million commercial trucks operating in the United States, of which up to 3.8 million could be potential opportunities for PTL's full-service leasing and contract maintenance offerings.

Commercial Vehicle Distribution. Our commercial vehicle distribution business operates principally in Australia and New Zealand. In 2016, heavy-duty truck sales in Australia and New Zealand combined were 12,559 units, representing a decrease of 2.6% from 2015. The brands we represent in Australia hold a 5.9% market share in the Australian heavy-duty truck market, and a 5.2% market share in New Zealand.

Generally, new vehicle unit sales are cyclical and, historically, fluctuations have been influenced by factors such as manufacturer incentives, interest rates, fuel prices, unemployment, inflation, weather, the level of personal discretionary spending, credit availability, consumer confidence and other general economic factors. However, from a profitability perspective, automotive and truck retailers have historically been less vulnerable than manufacturers and parts suppliers to declines in new vehicle sales. We believe this is due to the retailers' more flexible expense structure (a significant portion of the retail industry's costs are variable) and their diversified revenue streams such as used vehicle sales and service and parts sales. In addition, manufacturers may offer various dealer incentives when sales are slow, which further increases the volatility in profitability for manufacturers and may help to decrease volatility for automotive retailers.

Business Description

Information Technology and Customer Privacy

We consolidate financial, accounting and operational data received from our local operations through private data communications networks. Local operating data is gathered and processed through individual systems utilizing common centralized management systems predominately licensed from, and in many cases operated by, third-parties. Our local systems follow our standardized accounting procedures and are compliant with any guidelines established by our vehicle manufacturers. Our database technology allows us to extract and aggregate data from the systems in a consistent format to generate consolidated financial and operational analysis. These systems also allow us to access detailed information for each individual location, as a group, or on a consolidated basis. Information we can access includes, among other things, inventory, cash, unit sales, the mix of new and used vehicle sales and sales of aftermarket products and services. Our ability to access this data allows us to continually analyze our local results of operations and financial position so as to identify areas for improvement.

We utilize common customer relationship management systems that assist us in identifying customer opportunities and responding to customer inquiries. We utilize compliance systems that assist us with our regulatory obligations and assist us in maintaining the privacy of the information we receive from customers that we collect, process, and retain in the normal course of our business. We have adopted rigorous customer information safeguard programs and "red flag" policies to assist us in maintaining customer privacy.

As part of our business model, we receive personal information regarding customers, associates and vendors, from various online and offline channels. Our internal and third-party systems are under a moderate level of risk from hackers or other individuals with malicious intent to gain unauthorized access to our systems. Cyber-attacks are growing in number and sophistication thus presenting an ongoing threat to systems, whether internal or external, used to operate the business on a day to day basis. We perform periodic control testing and audits on our systems. Despite these measures, our facilities and systems, and those of our third-party service providers, could be vulnerable to security breaches, computer viruses, or other events. Any security breach or event resulting in the unauthorized disclosure of confidential information, or degradation of services provided by critical business systems, whether by us directly or our third-party service providers, could adversely affect our business operations, sales, reputation with current and potential customers, associates or vendors, as well as other operational and financial impacts derived from investigations, litigation, imposition of penalties, or other means.

Marketing

Our marketing strategy takes a two-pronged approach that focuses strongly on our individual businesses to capitalize on our local branding, as well as corporate programs and web presence that allows us to leverage our scale and parent brands. We align ourselves with the marketing implemented by our OEM partners for their respective brands and integrate those initiatives and resources across our businesses.

The central core of our strategy revolves around a data driven approach that combines key metrics and trends from industry and consumer studies, our customer relations management systems and performance data from our businesses. This approach emphasizes objectivity and transparency in our marketing efforts and allows us to produce return on investment metrics to gauge our success.

Our dealerships have strong local brand and name recognition and are respected in their local communities. As such, we focus our efforts on our individual businesses to capitalize on their strong local reputation utilizing advanced digital marketing practices and traditional media in select markets. To supplement local marketing, we also implement corporate initiatives that link our local businesses to leverage our scale and parent brand recognition.

Parallel to our initiatives, manufacturers supplement our efforts through advertising and financing campaigns that promote their respective brands. We leverage manufacturer efforts by focusing on common marketing metrics and aligning our initiatives with the manufacturer to create a strong and consistent message for our customers.

We leverage our scale by using consistent performance metrics across the group to identify best practices and opportunities and negotiate enterprise arrangements for key marketing partners. We utilize a single, unified, customer relationship management tool for our new vehicle dealerships in the U.S. in order to enhance and streamline customer communication, provide visibility into our sales pipeline and measure return on investment for lead sources across the organization.

Consistent with our data-driven approach, as consumers have continued to shift towards digital platforms for their buying process, our marketing strategy places a strong emphasis on all forms of digital marketing; however, where appropriate, we continue to utilize traditional marketing avenues in select markets, including targeted newspaper, direct mail, television, and radio advertising.

In order to attract customers and enhance our customer service, each of our dealerships maintains its own website platform. All of our dealership websites employ consistent functionality and design formats while ensuring standards and requirements are met for each manufacturer. This allows us to minimize costs and benefit from consistent processes across our dealerships.

In addition to the individual websites, we advertise most of our U.S. and U.K. automotive retail new and pre-owned vehicle inventory online through PenskeCars.com and Sytner.co.uk, respectively. These websites are designed to make it easy for consumers, employees and partners to view and compare on average over 50,000 new, certified and pre-owned vehicles. These sites, together with our dealership websites, provide consumers a simple method to schedule maintenance and repair services at their local Penske Automotive Group dealership and view extensive vehicle information, including photos, prices, promotions, videos and third party vehicle history reports for pre-owned vehicles. Customers may also download our PenskeCars.com app to access our vehicle inventory, contact dealers, explore payments, or get instant trade offers at their convenience. The manufacturers' websites, in addition to our corporate websites, serve as lead generating tools to our dealerships. In the U.K., manufacturers also provide a website for the dealership. We also supplement the advertisement of our vehicles with the use of selected third party independent websites.

We constantly strive to build and optimize our online presence across multiple platforms in order to drive organic and high quality traffic to our business. By focusing on social media, search engine management, video, reputation management and online chat, we proactively optimize all avenues of digital customer engagement. As an example, each of our dealerships maintains a Facebook property to build dealership awareness, focus on community involvement and enhance repeat and referral business. We also leverage our corporate social media efforts and partners to benefit our dealerships and create a strong sense of community. Most importantly, once our clients have reached us, the content that we serve our customers is tailored to their method of engagement with us, the device they are using and their specific requests where applicable.

In Australia and New Zealand, we market our commercial vehicles and other products principally through our network of dealership and service locations, supported by corporate level marketing efforts. We separate our marketing by brand in Australia. We market to customers at various trade shows and other industry events in Australia and New Zealand, which presents the opportunity to approach fleet managers with new products and offerings. We also employ racing and other local sponsorships to generate brand awareness in our markets. Our Internet marketing leverages manufacturer websites supplemented by our brand specific websites to promote our brands. Furthermore, in Australia, we and our dealers advertise available pre-owned commercial vehicle inventory online through pensketrucks.com.au. This website is designed to make it easy for customers to view and compare on average 150 certified and pre-owned commercial vehicles and make contact with the relevant dealership. It provides another point of contact for customers to engage with the Penske brands in Australia. We also rely on our dealerships and service locations to market to local customers, though we typically assign a regional sales manager to oversee local dealer marketing efforts.

Agreements with Vehicle Manufacturers

We operate our new vehicle dealerships under separate agreements with the manufacturers or distributors of each brand of vehicle sold at that dealership. These agreements are typical throughout the industry and may contain provisions and standards governing almost every aspect of the dealership, including ownership, management, personnel, training, maintenance of a minimum of working capital, net worth requirements, maintenance of minimum lines of credit, advertising and marketing activities, facilities, signs, products and services, maintenance of minimum amounts of insurance, achievement of minimum customer service standards and monthly financial reporting. In addition, the General Manager and/or the owner of a dealership typically cannot be changed without the manufacturer’s consent. In exchange for complying with these provisions and standards, we are granted the non-exclusive right to sell the manufacturer’s or distributor’s brand of vehicles and related parts and warranty services at our dealerships. The agreements also grant us a non-exclusive license to use each manufacturer’s trademarks, service marks and designs in connection with our sales and service of its brand at our dealership.

Some of our agreements, including those with BMW, Honda, Mercedes-Benz and Toyota, expire after a specified period of time, ranging from one to six years. Manufacturers have generally not terminated our franchise agreements, and our franchise agreements with fixed terms have typically been renewed without substantial cost. We currently expect the manufacturers to renew all of our franchise agreements as they expire. In addition, certain agreements with the manufacturers limit the total number of dealerships of that brand that we may own in a particular geographic area and, in some cases, limit the total number of their vehicles that we may sell as a percentage of a particular manufacturer’s overall sales. Manufacturers may also limit the ownership of stores in contiguous markets. We have reached certain geographical limitations with certain manufacturers in the U.S. and U.K. Where these limits are reached, we cannot acquire additional franchises of those brands in the relevant market unless we can negotiate modifications to the agreements. We may not be able to negotiate any such modifications.

Many of these agreements also grant the manufacturer or distributor a security interest in the vehicles and/or parts sold by them to the dealership, as well as other dealership assets, and permit them to terminate or not renew the agreement for a variety of causes, including failure to adequately operate the dealership, insolvency or bankruptcy, impairment of the dealer’s reputation or financial standing, changes in the dealership’s management, owners or location without consent, sales of the dealership’s assets without consent, failure to maintain adequate working capital or floor plan financing, changes in the dealership’s financial or other condition, failure to submit required information to them on a timely basis, failure to have any permit or license necessary to operate the dealership, and material breaches of other provisions of the agreement. In the U.S., these termination rights are subject to state franchise laws that limit a manufacturer’s right to terminate a franchise. In the U.K., we operate without such local franchise law protection (see “Regulation” below).

Our agreements with manufacturers or distributors usually give them the right, in some circumstances (including upon a merger, sale, or change of control of the company, or in some cases a material change in our business or capital structure), to acquire the dealerships from us at fair market value. For example, our agreement with General Motors provides that, upon a proposed purchase of 20% or more of our voting stock by any new person or entity or another manufacturer (subject to certain exceptions), an extraordinary corporate transaction (such as a merger, reorganization or sale of a material amount of assets) or a change of control of our board of directors, General Motors has the right to acquire all assets, properties and business of any General Motors dealership owned by us for fair value. Some of our agreements with other major manufacturers, including Honda and Toyota, contain provisions similar to the General Motors provisions.

With respect to our commercial vehicle distribution operations in Australia and New Zealand, we are party to distributor agreements with each manufacturer of products we distribute pursuant to which we are the distributor of these products in those countries and nearby markets. The agreements govern all aspects of our distribution rights, including sales and service activities, service and warranty terms, use of intellectual property, promotion and advertising provisions, pricing and payment terms, and indemnification requirements. The agreement with Western Star expires in 2025, the agreement with MTU expires in 2024 and the agreement with Detroit Diesel expires in 2025. We also are party to shipping agreements with respect to importing those products. For each of our non-company owned dealers, we have signed a franchise agreement with terms that set forth the dealer's obligations with respect to the sales and servicing of these vehicles.

Competition

Dealership. We believe that the principal factors consumers consider when determining where to purchase a vehicle are the marketing campaigns conducted by manufacturers, the ability of dealerships to offer a wide selection of the most popular vehicles, the location of dealerships and the quality of the customer experience. Other factors include customer preference for particular brands of vehicles, pricing (including manufacturer rebates and other special offers) and warranties. We believe that our dealerships are competitive in all of these areas.

The automotive and truck retail industry is currently served by franchised dealerships, independent used vehicle dealerships and individual consumers who sell used vehicles in private transactions. For new vehicle sales, we compete primarily with other franchised dealers in each of our marketing areas, relying on our premium facilities, superior customer service, advertising and merchandising, management experience, sales expertise, reputation and the location of our dealerships to attract and retain customers. Each of our markets may include a number of well-capitalized competitors, including in certain instances dealerships owned by manufacturers and national and regional retail chains. In our retail commercial truck dealership operations, we compete with other manufacturers and retailers of medium and heavy-duty trucks such as Ford, International Kenworth, Mack, Peterbilt and Volvo. We also compete with dealers that sell the same brands of new vehicles that we sell and with dealers that sell other brands of new vehicles that we do not represent in a particular market. Our new vehicle dealership competitors have franchise agreements which give them access to new vehicles on the same terms as us. Automotive dealers also face competition in the sale of new vehicles from purchasing services and warehouse clubs. With respect to arranging financing for our customers' vehicle purchases, we compete with a broad range of financial institutions such as banks and local credit unions.

For used vehicle sales, we compete in a highly fragmented market which sells approximately 40 million units annually through other franchised dealers, independent used vehicle dealers, automobile rental agencies, purchasing services, private parties and used vehicle "superstores" for the procurement and resale of used vehicles. We compete with other franchised dealers to perform warranty repairs, and with other dealers, franchised and non-franchised service center chains, and independent garages for non-warranty repair and routine maintenance business. We compete with other dealers, franchised and independent aftermarket repair shops, and parts retailers in our parts operations. We believe that the principal factors consumers consider when determining where to purchase vehicle parts and service are price, the use of factory-approved replacement parts, facility location, the familiarity with a manufacturer's brands and the quality of customer service. A number of regional or national chains offer selected parts and services at prices that may be lower than our prices.

We believe the majority of consumers are utilizing the Internet and other digital media in connection with the purchase of new and used vehicles. Accordingly, we face increased competition from online vehicle websites, including those developed by manufacturers and other dealership groups.

Commercial Vehicle Distribution. With respect to our commercial vehicle distribution operations in Australia and New Zealand, we compete with manufacturers, distributors, and retailers of other vehicles and products in our markets.

The brands we represent in Australia hold a 5.9% market share in the Australian heavy-duty truck market, and a 5.2% market share in New Zealand.

PTL. As an alternative to using PTL's full-service truck leasing or contract maintenance services, we believe that most potential customers perform some or all of these services themselves. They may also purchase similar or alternative services from other third-party vendors. Its full-service truck leasing operations compete with companies providing similar services on a national, regional and local level. Many regional and local competitors provide services on a national level through their participation in various cooperative programs. Competitive factors include price, maintenance, service and geographic coverage. PTL competes with finance lessors, truck and trailer manufacturers, and independent dealers, each of which provides full-service lease products, finance leases, extended warranty maintenance, rental, and other transportation services. Its contract maintenance offering competes primarily with truck and trailer manufacturers and independent dealers who provide maintenance services.

Its commercial and consumer rental operations compete with several other nationwide vehicle rental systems, a large number of vehicle leasing and rental companies with multiple branches operating on a regional basis, and many similar companies operating primarily on a local basis. Because a significant portion of its rentals are used for moving and relocation, PTL competes with local and national moving and storage companies, as well as alternatives such as portable container-based transportation and storage. In its rental operations, it competes primarily on the basis of equipment availability, geographic location and customer service.

PTL's logistics business competes with other dedicated logistics providers, transportation management businesses, freight brokers, warehouse providers and truckload carriers on a national, regional and local level, as well as with the internal supply chain functions of prospective customers who rely on their own resources for logistics management. Competitive factors include price, efficient logistical design offerings, equipment, maintenance, service, technology and geographic coverage, and driver and operations expertise. PTL seeks to combine its logistics services with our existing full-service truck leasing and truck rental business to create an integrated transportation solution for its customers.

Employees and Labor Relations

As of December 31, 2016, we employed more than 24,000 people, approximately 710 of whom were covered by collective bargaining agreements with labor unions. We consider our relations with our employees to be satisfactory. Our policy is to motivate our key managers through, among other things, variable compensation programs tied principally to local profitability. Due to our reliance on vehicle manufacturers, we may be adversely affected by labor strikes or work stoppages at the manufacturers' facilities.

Regulation

We operate in a highly regulated industry and a number of regulations affect the marketing, selling, financing, servicing, and distribution of vehicles. Under the laws of the jurisdictions in which we currently operate, we typically must obtain a license in order to establish, operate or relocate a dealership, or operate a repair facility. These laws also regulate our conduct of business, including our advertising, operating, financing, employment, distribution and sales practices. Other laws and regulations include franchise laws and regulations, environmental laws and regulations (see "Environmental Matters" below), laws and regulations applicable to new and used motor vehicle dealers, as well as privacy, identity theft prevention, wage-hour, anti-discrimination and other employment practices laws.

Our financing activities with customers are subject to truth-in-lending, consumer leasing, equal credit opportunity and similar regulations, as well as motor vehicle finance laws, installment finance laws, insurance laws, usury laws and other installment sales laws. Some jurisdictions regulate finance fees that may be paid as a result of vehicle sales. In recent years, private plaintiffs, state attorneys general and federal agencies in the U.S. have increased their scrutiny of advertising, sales, and finance and insurance activities in the sale and leasing of motor vehicles. As further discussed in "Item 1A. Risk Factors," the Consumer Finance Protection Bureau has instituted regulatory proceedings which may change the way we are compensated for assisting our customers in obtaining financing, which could result in lower related revenues.

In the U.S., we benefit from the protection of numerous state franchise laws that generally provide that a manufacturer or distributor may not terminate or refuse to renew a franchise agreement unless it has first provided the dealer with written notice setting forth good cause and stating the grounds for termination or non-renewal. Some state franchise laws allow dealers to file protests or petitions or to attempt to comply with the manufacturer's criteria within the notice period to avoid the termination or non-renewal. Our international locations generally do not have these laws and, as a result, our international operations operate without these types of protections.

Environmental Matters

We are subject to a wide range of environmental laws and regulations, including those governing discharges into the air and water, the operation and removal of aboveground and underground storage tanks, the use, handling, storage and disposal of hazardous substances and other materials and the investigation and remediation of environmental contamination. Our business involves the generation, use, handling and contracting for recycling or disposal of hazardous or toxic substances or wastes, including environmentally sensitive materials such as motor oil, filters, transmission fluid, antifreeze, refrigerant, batteries, solvents, lubricants, and fuel. We have incurred, and will continue to incur, capital and operating expenditures and other costs in complying with such laws and regulations.

Our operations involving the management of hazardous and other environmentally sensitive materials are subject to numerous requirements. Our business also involves the operation of storage tanks containing such materials. Storage tanks are subject to periodic testing, containment, upgrading and removal under applicable law. Furthermore, investigation or remediation may be necessary in the event of leaks or other discharges from current or former underground or aboveground storage tanks. In addition, water quality protection programs govern certain discharges from some of our operations. Similarly, certain air emissions from our operations, such as auto body painting, may be subject to relevant laws. Various health and safety standards also apply to our operations.

We may have liability in connection with materials that are sent to third-party recycling, treatment, and/or disposal facilities under the U.S. Comprehensive Environmental Response, Compensation and Liability Act and comparable statutes. These statutes impose liability for investigation and remediation of contamination without regard to fault or the legality of the conduct that contributed to the contamination. Responsible parties under these statutes may include the owner or operator of the site where the contamination occurred and companies that disposed or arranged for the disposal of the hazardous substances released at these sites.

An expanding trend in environmental regulation is to place more restrictions and limitations on activities that may affect the environment. Vehicle manufacturers are subject to federally mandated corporate average fuel economy standards, which will increase substantially through 2025. Furthermore, in response to concerns that emissions of carbon dioxide and certain other gases, referred to as "greenhouse gases," may be contributing to warming of the Earth's atmosphere, climate change-related legislation and policy changes to restrict greenhouse gas emissions are being considered, or have been implemented, at state and federal levels. Furthermore, numerous states, including California, have adopted or are considering requiring the sale of specified numbers of zero-emission vehicles. Significant increases in fuel economy requirements or new federal and state restrictions on emissions of carbon dioxide on vehicles and automobile fuels in the U.S. could adversely affect prices of and demand for the vehicles that we sell.

We have a proactive strategy related to environmental, health and safety compliance, which includes contracting with third-parties to inspect our facilities periodically. We believe that we do not have any material environmental liabilities and that compliance with environmental laws and regulations will not, individually or in the aggregate, have a material effect on us. However, soil and groundwater contamination is known to exist at certain of our current or former properties. Further, environmental laws and regulations are complex and subject to change. In addition, in connection with our acquisitions, it is possible that we will assume or become subject to new or unforeseen environmental costs or liabilities, some of which may be material. Compliance with current, amended, new or more stringent laws or regulations, stricter interpretations of existing laws or the future discovery of environmental conditions could require additional expenditures by us, and such expenditures could be material.

Insurance

Our business is subject to substantial risk of loss due to significant concentrations of property value, including vehicles and parts at our locations. In addition, we are exposed to liabilities arising out of our operations such as employee claims, customer claims and claims for personal injury or property damage, and potential fines and penalties in connection with alleged violations of regulatory requirements. We attempt to manage such risks through loss control and risk transfer utilizing insurance programs which are subject to specified deductibles and significant retentions. Certain insurers have limited available property coverage in response to the natural catastrophes experienced in recent years. As a result, we are exposed to uninsured and underinsured losses that could have a material adverse effect on us.

Available Information

For selected financial information concerning our various operating and geographic segments, see Note 17 to our consolidated financial statements included in Item 8 of this report. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are available free of charge through our website, www.penskeautomotive.com, under the tab "Investor Relations" as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). You may read or copy any materials we filed with the SEC at the SEC's Public Reference Room at 100F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 800-732-0330. Additionally, the SEC maintains an Internet site that contains reports, proxy and information statements, and other information. The address of the SEC's website is www.sec.gov. We also make available on our website copies of materials regarding our corporate governance policies and practices, including our Corporate Governance Guidelines; our Code of Business Ethics; and the charters relating to the committees of our Board of Directors. You may obtain a printed copy of any of the foregoing materials by sending a written request to: Investor Relations, Penske Automotive Group, Inc., 2555 Telegraph Road, Bloomfield Hills, MI 48302 or by calling toll-free 866-715-5289. The information on or linked to our website is not part of this document. We plan to disclose changes to our Code of Business Ethics, or waivers, if any, for our executive officers or directors, on our website. We are incorporated in the state of Delaware and began dealership operations in October 1992.

Seasonality

Dealership. Our business is modestly seasonal overall. Our U.S. operations generally experience higher volumes of vehicle sales in the second and third quarters of each year due in part to consumer buying trends and the introduction of new vehicle models. Also, vehicle demand, and to a lesser extent demand for service and parts, is generally lower during the winter months than in other seasons, particularly in regions of the U.S. where dealerships may be subject to severe winters. Our U.K. operations generally experience higher volumes of vehicle sales in the first and third quarters of each year, due primarily to vehicle registration practices in the U.K.

Commercial Vehicle Distribution. Our commercial vehicle distribution business generally experiences higher sales volumes during the second quarter of the year, which is primarily attributable to commercial vehicle customers completing annual capital expenditures before their fiscal year-end, which is typically June 30 in Australia.

Item 1A. ***Risk Factors***

Our business, financial condition, results of operations, cash flows, prospects, and the prevailing market price and performance of our common stock may be affected by a number of factors, including the matters discussed below. Certain statements and information set forth herein, as well as other written or oral statements made from time to time by us or by our authorized officers on our behalf, constitute "forward-looking statements" within the meaning of the Federal Private Securities Litigation Reform Act of 1995. Words such as "anticipate," "believe," "estimate," "expect," "intend," "may," "goal," "plan," "seek," "project," "continue," "will," "would," and variations of such words and similar expressions are intended to identify such forward-looking statements. We intend for our forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and we set forth this statement in order to comply with such safe harbor provisions. You should note that our forward-looking statements speak only as of the date of this Annual Report on Form 10-K or when made and we undertake no duty or obligation to update or revise our forward-looking statements, whether as a result of new information, future events, or otherwise.

Although we believe that the expectations, plans, intentions, and projections reflected in our forward-looking statements are reasonable, such statements are subject to known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements.

The risks, uncertainties, and other factors that our stockholders and prospective investors should consider include the following:

Macro-economic conditions. Our performance is impacted by general economic conditions overall, and in particular by economic conditions in the markets in which we operate. These economic conditions include: levels of new and used vehicle sales; availability of consumer credit; changes in consumer demand; consumer confidence levels; fuel prices; personal discretionary spending levels; interest rates; and unemployment rates. When the worldwide economy faltered and the worldwide automotive industry experienced significant operational and financial difficulties in 2008 and 2009, we were adversely affected, and we expect a similar relationship between general economic and industry conditions and our performance in the future. The Brexit vote noted below has generated significant macroeconomic challenges for the global economy. We cannot predict the future effect of the Brexit vote on macroeconomic conditions or the automotive industry in particular, although any sustained drop in vehicle sales would adversely affect our operating results.

Vehicle manufacturers exercise significant control over us. Each of our new vehicle dealerships and distributor operations operate under franchise and other agreements with automotive manufacturers, commercial vehicle manufacturers, or related distributors. These agreements govern almost every aspect of the operation of our dealerships, and give manufacturers the discretion to terminate or not renew our franchise agreements for a variety of reasons, including certain events outside our control such as accumulation of our stock by third parties. Without franchise or distributor agreements, we would be unable to sell or distribute new vehicles or perform manufacturer authorized warranty service. If a significant number of our franchise agreements are terminated or are not renewed, or, with respect to our distributor operations, a competing distributor were introduced, we would be materially affected.

Brand reputation. Our businesses, and our commercial vehicle operations in particular as those are more concentrated with a particular manufacturer, are impacted by consumer demand and brand preference, including consumers' perception of the quality of those brands. A decline in the quality and brand reputation of the vehicles or other products we sell or distribute, as a result of events such as manufacturer recalls or legal proceedings, may adversely affect our business. If such events were to occur, the profitability of our business related to those manufacturers could be adversely affected. In September 2015, Volkswagen Group of America, Inc. and Volkswagen AG received notice from the U.S. Environmental Protection Agency, U.S. Department of Justice and the California Air Resources Board informing them that those agencies had determined that certain Volkswagen and Audi diesel vehicles do not comply with applicable emissions regulations. There have been more recent conflicting reports whether similar issues are present in other manufacturers' vehicles. While the Volkswagen and Audi diesel vehicles at issue represent a small portion of our total vehicle sales, should such non-compliance by the automotive manufacturers prove widespread or be present in a substantial number of vehicles we sell, our business could be adversely affected.

Restructuring, bankruptcy or other adverse conditions affecting a significant automotive manufacturer or supplier. Our success depends on the overall success of the automotive industry generally, and in particular on the success of the brands of vehicles that each of our dealerships sell. In 2016, revenue generated at our BMW/MINI, Audi/Volkswagen/Porsche/Bentley, Toyota/Lexus, and Mercedes-Benz/Sprinter/smart dealerships represented 25%, 24%, 15%, and 10%, respectively, of our total automotive dealership revenues. Significant adverse events, such as the earthquake and tsunami that struck Japan in March 2011 and resulted in reduced new vehicle production by Japanese automotive manufacturers in 2011, or other future events that interrupt vehicle or parts supply to our dealerships, would likely have a significant and adverse impact on the industry as a whole, including us, particularly if the events impact any of the manufacturers whose franchises generate a significant percentage of our revenue.

Manufacturer incentive programs. Vehicle manufacturers offer incentive programs intended to promote and support vehicle sales. These incentive programs include but are not limited to customer rebates, dealer incentives on new vehicles, manufacturer floor plan interest and advertising assistance, and warranties on new and used vehicles. A discontinuation of or change to the manufacturers' incentive programs may adversely impact vehicle demand, the value of new and used vehicles, and may materially affect our results of operations.

Our business is very competitive. We generally compete with: other franchised dealerships in our markets; private market buyers and sellers of used vehicles; Internet-based vehicle brokers; national and local service and repair shops and parts retailers; with respect to commercial vehicles, distributors of similar products; and manufacturers in certain markets. Purchase decisions by consumers when shopping for a vehicle are extremely price sensitive. The level of competition in the market generally, coupled with increasing price transparency resulting from increased use of the Internet by consumers, and pricing discounts to customers, can lead to lower selling prices and related profits. If there is a prolonged drop in retail prices, new vehicle sales are allowed to be made over the Internet without the involvement of franchised dealers, or if dealerships are able to effectively use the Internet to sell outside of their markets, our business could be materially adversely affected.

Evolving automotive and trucking industries. The automotive and trucking industries are predicted to experience rapid change. Shared vehicle services such as Uber and Lyft provide consumers with increased choice in their personal mobility options. The effect of these and similar mobility options on the retail automotive industry is uncertain, and may include lower levels of new vehicles sales, but with increasing miles driven, which could require additional demand for vehicle maintenance. In addition, technological advances are facilitating the development of driverless vehicles. The eventual timing of availability of driverless vehicles is uncertain due to regulatory requirements, additional technological requirements, and uncertain consumer acceptance of these vehicles. The effect of driverless vehicles on the automotive retail and trucking industries is uncertain and could include changes in the level of new and used vehicles sales, the price of new vehicles, and the role of franchised dealers, any of which could materially and adversely affect our business.

Property loss, business interruption or other liabilities. Our business is subject to substantial risk of loss due to: the significant concentration of property values, including vehicle and parts inventories, at our operating locations; claims by employees, customers and third parties for personal injury or property damage; and fines and penalties in connection with alleged violations of regulatory requirements. While we have insurance for many of these risks, we retain risk relating to certain of these perils and certain perils are not covered by our insurance. Certain insurers have limited available property coverage in response to the natural catastrophes experienced in recent years. If we experience significant losses that are not covered by our insurance, whether due to adverse weather conditions or otherwise, or we are required to retain a significant portion of a loss, it could have a significant and adverse effect on us.

Leverage. Our significant debt and other commitments expose us to a number of risks, including:

Cash requirements for debt and lease obligations. A significant portion of the cash flow we generate must be used to service the interest and principal payments relating to our various financial commitments, including $3.3 billion of floor plan notes payable, $1.9 billion of non-vehicle long-term debt and $4.5 billion of future lease commitments (including extension periods that are reasonably assured of being exercised and assuming constant consumer price indices). A sustained or significant decrease in our operating cash flows could lead to an inability to meet our debt service or lease requirements or to a failure to meet specified financial and operating covenants included in certain of our agreements. If this were to occur, it may lead to a default under one or more of our commitments and potentially the acceleration of amounts due, which could have a significant and adverse effect on us.

Availability. Because we finance the majority of our operating and strategic initiatives using a variety of commitments, including floor plan notes payable and revolving credit facilities, we are dependent on continued availability of these sources of funds. If these agreements are terminated or we are unable to access them because of a breach of financial or operating covenants or otherwise, we will likely be materially affected.

Interest rate variability. The interest rates we are charged on a substantial portion of our debt, including the floor plan notes payable we issue to purchase the majority of our inventory, are variable, increasing or decreasing based on changes in certain published interest rates. Increases to such interest rates would likely result in significantly higher interest expense for us, which would negatively affect our operating results. Because many of our customers finance their vehicle purchases, increased interest rates may also decrease vehicle sales, which would negatively affect our operating results.

Impairment of our goodwill or other indefinite-lived intangible assets has in the past had, and in the future could have, a material adverse impact on our earnings. We evaluate goodwill and other indefinite-lived intangible assets for impairment annually and upon the occurrence of an indicator of impairment. Our process for impairment testing of these assets is described further under "Impairment Testing" in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates. If we determine that the amount of our goodwill or other indefinite-lived intangible assets are impaired at any point in time, we would be required to reduce the value of these assets on our balance sheet, which would also result in a material non-cash impairment charge that could also have a material adverse effect on our results of operations for the period in which the impairment occurs.

Performance of sublessees. In connection with the sale, relocation and closure of certain of our franchises, we have entered into a number of third-party sublease agreements. The rent paid by our sub-tenants on such properties in 2016 totaled approximately $20.6 million. In the aggregate, we remain ultimately liable for approximately $211.4 million of such lease payments including payments relating to all available renewal periods. We rely on our sub-tenants to pay the rent and maintain the properties covered by these leases. In the event a subtenant does not perform under the terms of their lease with us, we could be required to fulfill such obligations, which could have a significant and adverse effect on us.

Information technology. Our information systems are fully integrated into our operations and we rely on them to operate effectively, including with respect to: electronic communications and data transfer protocols with manufacturers and other vendors; customer relationship management; sales and service scheduling; data storage; and financial and operational reporting. The majority of our systems are licensed from third parties, the most significant of which are provided by a limited number of suppliers in the U.S., U.K. and Australia. The failure of our information systems to perform as designed, the failure to protect the integrity of these systems, or the interruption of these systems due to natural disasters, power loss or other reasons, could disrupt our business operations, impact sales and results of operations, expose us to customer or third-party claims, or result in adverse publicity.

Cyber-security. As part of our business model, we receive personal information regarding customers, associates and vendors, from various online and offline channels. We collect, process, and retain this information in the normal course of our business. Our internal and third-party systems are under a moderate level of risk from hackers or other individuals with malicious intent to gain unauthorized access to our systems. Cyber-attacks are growing in number and sophistication thus presenting an ongoing threat to systems, whether internal or external, used to operate the business on a day to day basis. Despite the security measures we have in place, our facilities and systems, and those of our third-party service providers, could be vulnerable to security breaches, computer viruses, lost or misplaced data, programming errors, human errors, acts of vandalism, or other events. Any security breach or event resulting in the misappropriation, loss, or other unauthorized disclosure of confidential information, or degradation of services provided by critical business systems, whether by us directly or our third-party service providers, could adversely affect our business operations, sales, reputation with current and potential customers, associates or vendors, as well as other operational and financial impacts derived from investigations, litigation, imposition of penalties or other means.

The United Kingdom's potential departure from the European Union could adversely affect us. The United Kingdom held a referendum on June 23, 2016 in which a majority voted to exit the European Union ("Brexit"). Although the vote is non-binding, negotiations are expected to commence at some point in the future to determine the future terms of the United Kingdom's relationship with the European Union, including, among other things, the terms of trade between the United Kingdom and the European Union. The effects of Brexit will depend on any agreements the United Kingdom makes to retain access to European Union markets either during a transitional period or more permanently. Brexit itself and the length of time the United Kingdom and the European Union engage in discussions, which could be over a protracted period of time, could adversely affect European and worldwide economic and market conditions and could contribute to instability in global financial and foreign exchange markets, including volatility in the value of the Sterling and Euro.

In addition, commentators have suggested the Brexit vote could lead to further referenda as to whether certain of the four countries that comprise the United Kingdom (England, Scotland, Wales and Northern Ireland) will remain a part of the European Union. While the majority of our U.K. operations are in England, we also have operations in Scotland, Wales and Northern Ireland. The same factors noted above apply to any potential exit of these countries from the United Kingdom.

As exchange rates fluctuate, our revenue and results of operations as reported in U.S. Dollars fluctuate. The British Pound has weakened since the Brexit vote, with an average exchange rate of British Pounds to U.S. Dollars of 1.36 for 2016 compared to 1.53 in 2015, a decrease of 11.3%. A weakening British Pound as compared to the U.S. Dollar negatively impacts our U.S. Dollar reported results of operations. Our U.K. business generated 32% of our total revenue for the year ended December 31, 2016. Any of these effects of Brexit, and others we cannot anticipate, could adversely affect our business, consolidated financial position, results of operations, and cash flows.

The success of our commercial vehicle distribution businesses are directly impacted by availability and demand for the vehicles and other products we distribute. We are the exclusive distributor of Western Star commercial trucks, MAN commercial trucks and buses, and Dennis Eagle refuse collection vehicles, together with associated parts, across Australia, New Zealand and portions of the Pacific. We are also the distributor of diesel and gas engines and power systems in these same markets. The profitability of these businesses depends upon the number of vehicles, engines, power systems and parts we distribute, which in turn is impacted by demand for these products. We believe demand is subject to general economic conditions, exchange rate fluctuations, regulatory changes, competitiveness of the products and other factors over which we have limited control. In the event sales of these products are less than we expect, our related results of operations and cash flows for this aspect of our business may be materially adversely affected. The products we distribute are principally manufactured at a limited number of locations. In the event of a supply disruption or if sufficient quantities of the vehicles, engines, power systems and parts are not made available to us, or if we accept these products and are unable to economically distribute them, our cash flows or results of operations may be materially adversely affected.

Australian economic conditions. Our commercial vehicle distribution operations in Australia and New Zealand may be impacted by local economic conditions and in particular, the price of commodities such as copper and iron ore which may impact the desire of our customers to operate their mining operations and replace their vehicle fleets. Adverse pricing concerns of those, and other commodities, may have a material adverse effect on our ability to distribute, and/or retail, commercial vehicles and other products profitably. These same conditions may also negatively impact the value of the Australian dollar versus the U.S. dollar, which negatively impacts our U.S. dollar reported financial results and the pricing of products sold by Penske Commercial Vehicles, which are manufactured in the U.S., U.K., and Germany.

International and foreign currency risk. We have significant operations outside the U.S. that expose us to changes in foreign exchange rates and to the impact of economic and political conditions in the markets where we operate. As exchange rates fluctuate, our results of operations as reported in U.S. Dollars fluctuate. For example, if the U.S. Dollar were to continue to strengthen against the British Pound, our U.K. results of operations would translate into less U.S. Dollar reported results. This occurred in the second quarter of 2016 in large part due to the Brexit vote noted above. The British Pound has weakened since the Brexit vote, with an average exchange rate of British Pounds to U.S. Dollars of 1.36 for 2016 compared to 1.53 in 2015, a decrease of 11.3%. Sustained levels or an increase in the value of the U.S. Dollar, particularly as compared to the British Pound, could result in a significant and adverse effect on our reported results.

Joint ventures. We have significant investments in a variety of joint ventures, including retail automotive operations in Germany, Italy and Spain. We previously had a 9.0% interest in PTL, and as of July 27, 2016, increased our ownership to 23.4%. We expect to receive annual operating distributions from PTL and the other ventures, and in the case of PTL, realize significant cash tax savings. These benefits may not be realized if the joint ventures do not perform as expected, or if changes in tax, financial, or regulatory requirements negatively impact the results of the joint venture operations. Our ability to dispose of these investments may be limited. In addition, the relevant joint venture agreement and other contractual restrictions may limit our access to the cash flows of these joint ventures. For example, PTL's principal debt agreements allow partner distributions only as long as they are not in default under that agreement and the amount they pay does not exceed 50% of its consolidated net income.

Additional risks relating to PTL. PTL's business has additional risks to those in the retail business.

Customers. PTL has a more concentrated customer base than we do and is subject to changes in the financial health of its customers, changes in their asset utilization rates and increased competition for those customers.

Workforce. PTL requires a significant number of qualified drivers and technicians which may be difficult to hire, and is subject to increased compliance costs or work stoppages relating to those employees, particularly in regards to changes in labor laws and time of work rules regarding those employees.

Fleet risk. As one of the largest purchasers of commercial trucks in North America, PTL requires continued availability from truck manufacturers and suppliers of vehicles and parts for its fleet, which may be uncertain, in particular if a significant recall were to occur. In addition, because PTL sells a large number of trucks each year and is subject to residual risk for the vehicles it leases to customers, changes in values of used trucks affects PTL's profitability.

Capital markets risk. PTL relies on banks and the capital markets to fund its operations and capital commitments. PTL had a significant amount of total indebtedness at December 31, 2016, which it uses in part to purchase its vehicle fleet, and therefore is subject to changes in, and continued access to, the capital markets.

Key personnel. We believe that our success depends to a significant extent upon the efforts and abilities of our senior management, and in particular upon Roger Penske who is our Chairman and Chief Executive Officer. To the extent Mr. Penske, or other key personnel, were to depart from our Company unexpectedly, our business could be significantly disrupted.

Regulatory issues. We are subject to a wide variety of regulatory activities, including:

Governmental regulations, claims and legal proceedings. Governmental regulations affect almost every aspect of our business, including the fair treatment of our employees, wage and hour issues, and our financing activities with customers. In California, judicial decisions call into question whether long-standing methods for compensating dealership employees comply with the local wage and hour rules. We could be susceptible to claims or related actions if we fail to operate our business in accordance with applicable laws or it is determined that long-standing compensation methods did not comply with local laws. Claims arising out of actual or alleged violations of law which may be asserted against us or any of our dealers by individuals, through class actions, or by governmental entities in civil or criminal investigations and proceedings, may expose us to substantial monetary damages which may adversely affect us.

The Dodd-Frank Wall Street Reform and Consumer Protection Act established the Consumer Finance Protection Bureau (the "CFPB"), a consumer financial protection agency with broad regulatory powers. Although automotive dealers are generally excluded from the CFPB's regulatory authority, the CFPB influences automotive financing through its regulation of automotive finance companies and other financial institutions. The CFPB has issued regulatory guidance instructing our consumer finance lenders to monitor dealer loans for potential discrimination resulting from the system used to compensate dealers for assisting in the customer financing transaction. The CFPB has instructed lenders that if discrimination is found, and not cured on a timely basis, then the lender must change the way it compensates dealers. Recently several lenders have modified their dealer compensation methodologies. We cannot predict at this time the outcome of this regulatory initiative by the CFPB. In addition, the CFPB has announced its future intention to regulate the sale of other finance and insurance products. A similar agency in the U.K., the Financial Conduct Authority, is also regulating consumer finance and insurance operations. If any of these initiatives restrict our ability to generate revenue from arranging financing for our customers or selling customers additional products, we could be adversely affected.

Recalls. Legislative and regulatory bodies from time to time have considered laws or regulations that would prohibit companies from renting or selling any vehicle that is subject to a recall until the recall service is performed. Whether any such prohibition may be enacted, and its ultimate scope, cannot be determined at this time. If a law or regulation is enacted that prevents the sale of vehicles until recall service has been performed, we could be required to reserve a significant portion of our vehicles from being available for sale for even a minor recall unrelated to vehicle safety. In addition, various manufacturers have issued stop sale notices in relation to certain recalls that require that we retain vehicles until the recall can be performed. For certain airbag recalls, these required parts are currently unavailable. While servicing recall vehicles yields parts and service revenue to us, the inability to sell a significant portion of our vehicles could increase our costs and have an adverse effect on our results of operations if a large number of our vehicles are the subject of simultaneous recalls, or if needed replacement parts are not in adequate supply.

Vehicle requirements. Federal and state governments in our markets have increasingly placed restrictions and limitations on the vehicles sold in the market in an effort to combat perceived negative environmental effects. For example, in the U.S., automotive manufacturers are subject to federally mandated corporate average fuel economy standards which will increase substantially through 2025. Furthermore, numerous states, including California, have adopted or are considering regulations requiring the sale of specified numbers of zero-emission vehicles. Significant increases in fuel economy requirements and new federal or state restrictions on emissions on vehicles and fuels in the U.S. could adversely affect prices of and demand for the new vehicles that we sell. With respect to our retail commercial truck dealerships, stricter fuel consumption and emissions standards have been enacted for model year 2014 through 2018 heavy-duty trucks. Similar tighter standards have been proposed for later years. These and other new standards may adversely affect the prices of and demand for the trucks that we sell.

Franchise laws in the U.S. In the U.S., state law generally provides protections to franchised vehicle dealers from discriminatory practices by manufacturers and from unreasonable termination or non-renewal of their franchise agreements. In a recent forum, the U.S. Federal Trade Commission questioned the efficacy of these laws. If these franchise laws are repealed or amended, manufacturers may have greater flexibility to terminate or not renew our franchises. Franchised automotive dealers in the European Union operate without such protections.

Changes in law. New laws and regulations at the state and federal level may be enacted which could materially adversely impact our business. For example, in 2013, a ballot initiative in California titled the California Car Buyers Protection Act was proposed that would have eliminated our ability to be compensated for assisting in financing customer vehicle purchases, among other matters. In addition, representatives from the federal government have proposed a tax on the value of imported foreign-sourced vehicles. As we sell a large number of such vehicles, if any such proposal ultimately led to higher consumer prices for these vehicles, we would be adversely affected. If these initiatives or other adverse changes in law were to be enacted, it could have a significant and adverse effect on us.

Environmental regulations. We are subject to a wide range of environmental laws and regulations, including those governing: discharges into the air and water; the operation and removal of storage tanks; and the use, storage and disposal of hazardous substances. In the normal course of our operations we use, generate and dispose of materials covered by these laws and regulations. We face potentially significant costs relating to claims, penalties and remediation efforts in the event of non-compliance with existing and future laws and regulations.

Accounting rules and regulations. The Financial Accounting Standards Board is currently evaluating several significant changes to GAAP in the U.S., and has recently issued new guidelines for revenue recognition and lease accounting. Upon adoption and effectiveness, such changes could significantly affect our reported financial position, earnings and cash flows. See the disclosure provided under “Recent Accounting Pronouncements” in Part II, Item 8, Note 1 of the Notes to our Consolidated Financial Statements. In addition, changes to lease accounting could affect PTL customers’ decisions to purchase or lease trucks, which could adversely affect their business if leasing becomes a less favorable option.

Related parties. Our two largest stockholders, Penske Corporation and its affiliates (“Penske Corporation”) and Mitsui & Co. and its affiliates (“Mitsui”), together beneficially own approximately 58% of our outstanding common stock. The presence of such significant shareholders results in several risks, including:

Our principal stockholders have substantial influence. Penske Corporation and Mitsui have entered into a stockholders agreement pursuant to which they have agreed to vote together as to the election of our directors. As a result, Penske Corporation has the ability to control the composition of our Board of Directors, which may allow it to control our affairs and business. This concentration of ownership, coupled with certain provisions contained in

<p style="margin:0pt 0pt 30pt;color:#0563C