

ASBURY AUTOMOTIVE GROUP INC

Form 10-K

February 23, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2016

or

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

For the transition period from _____ to _____

Commission file number: 001-31262

ASBURY AUTOMOTIVE GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware 01-0609375

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

2905 Premiere Parkway, NW, Suite 300 30097

Duluth, Georgia

(Current address of principal executive offices) (Zip Code)

(770) 418-8200

(Registrant's telephone number, including area code)

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

Title of each class Name of each exchange on which registered

Common Stock, par value \$.01 per share New York Stock Exchange

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

None.

a

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

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

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

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

Indicate by check mark 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 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 (as defined in Rule 12b-2 of the Act).

Large Accelerated Filer ☒ Accelerated filer ☐

Non-Accelerated Filer ☐ Smaller reporting company ☐

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

Based on the closing price of the registrant's common stock as of June 30, 2016, the aggregate market value of the common stock held by non-affiliates of the registrant was \$1,145.6 million (based upon the assumption, solely for purposes of this computation, that all of the officers and directors of the registrant were affiliates of the registrant).

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: The number of shares of common stock outstanding as of February 22, 2017 was 21,146,186.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K into which the document is incorporated:

Portions of the registrant's definitive Proxy Statement for the 2017 Annual Meeting of Stockholders, to be filed within 120 days after the end of the registrant's fiscal year, are incorporated by reference into Part III, Items 10 through 14 of this Annual Report on Form 10-K.

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FOR THE YEAR ENDED
DECEMBER 31, 2016

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PART I.

Forward-Looking Information

Certain of the discussions and information included or incorporated by reference in this report may constitute "forward-looking statements" within the meaning of the federal securities laws. Forward-looking statements are statements that are not historical in nature and may include statements relating to our goals, plans and projections regarding industry and general economic trends, our expected financial position, results of operations or market position and our business strategy. Such statements can generally be identified by words such as "may," "target," "could," "would," "will," "should," "believe," "expect," "anticipate," "plan," "intend," "foresee," and other similar words or phrases. Forward-looking statements may also relate to our expectations and assumptions with respect to, among other things:

- our ability to execute our business strategy;
- the annual rate of new vehicle sales in the U.S.;
- our ability to further improve our operating cash flows, and the availability of capital and liquidity;
- our estimated future capital expenditures;
- general economic conditions and its impact on our revenues and expenses;
- our parts and service revenue due to, among other things, improvements in manufacturing quality;
- the variable nature of significant components of our cost structure;
- our ability to limit our exposure to regional economic downturns due to our geographic diversity and brand mix;
- manufacturers' willingness to continue to use incentive programs to drive demand for their product offerings;
- our ability to leverage our common systems, infrastructure and processes in a cost-efficient manner;
- our capital allocation strategy, including as it relates to acquisitions and divestitures, stock repurchases, dividends and capital expenditures;
- the continued availability of financing, including floor plan financing for inventory;
- the ability of consumers to secure vehicle financing at favorable rates;
- the growth of import and luxury brands over the long-term;
- our ability to mitigate any future negative trends in new vehicle sales; and
- our ability to increase our cash flow and net income as a result of the foregoing and other factors.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual future results, performance or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to:

- changes in general economic and business conditions, including changes in employment levels, consumer demand, preferences and confidence levels, the availability and cost of credit, fuel prices, levels of discretionary personal income and interest rates;
- our ability to execute our balanced automotive retailing and service business strategy;
- adverse conditions affecting the vehicle manufacturers whose brands we sell, and their ability to design, manufacture, deliver, and market their vehicles successfully;
- changes in the mix, and total number, of vehicles we are able to sell;
- our outstanding indebtedness and our continued ability to comply with applicable covenants in our various financing and lease agreements, or to obtain waivers of these covenants as necessary;

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high levels of competition in our industry, which may create pricing and margin pressures on our products and services;

our relationships with manufacturers of the vehicles we sell and our ability to renew, and enter into new framework and dealer agreements with vehicle manufacturers whose brands we sell, on terms acceptable to us;

the availability of manufacturer incentive programs and our ability to earn these incentives;

failure of our management information systems or any security breaches;

changes in laws and regulations governing the operation of automobile franchises, including trade restrictions, consumer protections, accounting standards, taxation requirements, and environmental laws;

adverse results from litigation or other similar proceedings involving us;

our ability to generate sufficient cash flows, maintain our liquidity and obtain any necessary additional funds for working capital, capital expenditures, acquisitions, stock repurchases and/or dividends, debt maturity payments, and other corporate purposes;

any disruptions in the financial markets, which may impact our ability to access capital;

our relationships with, and the financial stability of, our lenders and lessors;

significant disruptions in the production and delivery of vehicles and parts for any reason, including natural disasters, product recalls, work stoppages, import restrictions or limitations, significant property loss or other occurrences that are outside of our control;

our ability to execute our initiatives and other strategies; and

our ability to leverage gains from our dealership portfolio.

Many of these factors are beyond our ability to control or predict, and their ultimate impact could be material. Moreover, the factors set forth under "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" below and other cautionary statements made in this report should be read and considered as forward-looking statements subject to such uncertainties. We urge you to carefully consider those factors.

Forward-looking statements speak only as of the date of this report. We expressly disclaim any obligation to update any forward-looking statement contained herein.

Additional Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to such reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are made available free of charge on our website at <http://www.asburyauto.com> as soon as practical after such reports are filed with the U.S. Securities and Exchange Commission (the "Commission"). In addition, the proxy statement that will be delivered to our stockholders in connection with our 2017 Annual Meeting of Stockholders, when filed, will also be available on our website, and at the URL stated in such proxy statement. We also make available on our website copies of our certificate of incorporation, bylaws, and other materials that outline our corporate governance policies and practices, including:

the respective charters of our audit committee, governance and nominating committee, compensation and human resources committee, and risk management committee;

our criteria for independence of the members of our board of directors, audit committee, and compensation and human resources committee;

our Corporate Governance Guidelines; and

our Code of Business Conduct and Ethics for Directors, Officers, and Employees.

We intend to provide any information required by Item 5.05 of Form 8-K (relating to amendments or waivers of our Code of Business Conduct and Ethics for Directors, Officers, and Employees) by disclosure on our website.

You may also obtain a printed copy of the foregoing materials by sending a written request to: Investor Relations Department, Asbury Automotive Group, Inc., 2905 Premiere Parkway, NW, Suite 300, Duluth, Georgia 30097. In

addition, the Commission makes available on its website, free of charge, reports, proxy and information statements, and other information

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regarding issuers, such as us, that file electronically with the Commission. The Commission's website is <http://www.sec.gov>. Unless otherwise specified, information contained on our website, available by hyperlink from our website or on the Commission's website, is not incorporated into this report or other documents we file with, or furnish to, the Commission.

Except as the context otherwise requires, "we," "our," "us," "Asbury," and "the Company" refer to Asbury Automotive Group, Inc. and its subsidiaries.

Item 1. BUSINESS

Asbury Automotive Group, Inc., a Delaware corporation organized in 2002, is one of the largest automotive retailers in the United States. Our store operations are conducted by our subsidiaries.

As of December 31, 2016, we owned and operated 93 new vehicle franchises, representing 28 brands of automobiles at 77 dealership locations, and 23 collision centers in the United States. In addition, we owned and operated two stand-alone used vehicle stores in Florida. Our stores offer an extensive range of automotive products and services, including new and used vehicles; parts and service, including vehicle repair and maintenance services, replacement parts, and collision repair services; and finance and insurance products, including arranging vehicle financing through third parties and aftermarket products, such as extended service contracts, guaranteed asset protection ("GAP") insurance, prepaid maintenance, and credit life and disability insurance.

Our operations provide a diverse revenue base that we believe mitigates the impact of fluctuations in new vehicle sales volumes and gross profit margins. In addition, our geographic footprint decreases our exposure to regional economic downturns and our brand diversification decreases our exposure to manufacturer-specific risks, such as brand perception or production disruptions. Approximately 82% of our gross profit is derived from used vehicles, parts and service, and finance and insurance which historically have been more stable throughout economic cycles. The following charts present the contribution to total revenue and gross profit by each line of business for the year ended December 31, 2016:

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Our new vehicle franchise retail network is made up of dealerships located in 16 metropolitan markets in 8 states operating primarily under seven locally-branded dealership groups. The following chart provides a detailed breakdown of our markets, brand names, and franchises as of December 31, 2016:

Dealership Group	Market	Franchise Brand Name
Coggin Automotive Group	Fort Pierce, FL	Acura, BMW, Honda, Mercedes-Benz
	Jacksonville, FL	Buick, Chevrolet, Ford, GMC, Honda(a), Nissan(a), Toyota
	Orlando, FL	Ford, Honda(a), Hyundai, Lincoln
Courtesy Autogroup	Tampa, FL	Chrysler, Dodge, Honda, Hyundai, Infiniti, Jeep, Kia, Mercedes-Benz, Nissan, smart, Sprinter, Toyota
Crown Automotive Company	Charlottesville, VA	BMW
	Durham, NC	Honda
	Fayetteville, NC	Dodge, Ford
	Greensboro, NC	Acura, BMW, Chrysler, Dodge, Honda, Jeep, Nissan, Volvo
	Greenville, SC	Jaguar, Land Rover, Lexus, Nissan, Porsche, Toyota, Volvo
	Richmond, VA	Acura, BMW(a), MINI
David McDavid Auto Group	Austin, TX	Acura
	Dallas/Fort Worth, TX	Acura, Ford, Honda(a), Lincoln
	Houston, TX	Nissan
Gray-Daniels Auto Family	Jackson, MS	Chevrolet, Ford, Lincoln, Nissan(a), Toyota
Nalley Automotive Group	Atlanta, GA	Acura, Audi, Bentley, BMW, Ford, Honda, Hyundai, Infiniti(a), Kia, Lexus(a), Nissan, Toyota(a), Volkswagen
Plaza Motor Company	St. Louis, MO	