

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

(Mark One)

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

For the quarterly period ended March 31, 2020

or

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

For the transition period from _____ to _____

Commission File Number: 1-13107

AutoNation, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

73-1105145

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

200 SW 1st Avenue

Fort Lauderdale , Florida

(Address of principal executive offices)

33301

(Zip Code)

(954)769-6000

(Registrant's telephone number, including area code)

N/A

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

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|-------------------|---|
| Common stock, par value \$0.01 per share | AN | New York Stock Exchange |

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

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

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

| | | | |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

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

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

As of May 8, 2020, the registrant had 87,215,132 shares of common stock outstanding.

AUTONATION, INC.
FORM 10-Q
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AUTONATION, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share and per share data)

| | March 31, 2020 | December 31, 2019 |
|--|--------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 411.0 | \$ 42.0 |
| Receivables, net | 512.9 | 916.7 |
| Inventory | 3,677.0 | 3,305.8 |
| Other current assets | 147.7 | 146.6 |
| Total Current Assets | 4,748.6 | 4,411.1 |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$1.5 billion and \$1.5 billion, respectively | 3,164.9 | 3,174.6 |
| OPERATING LEASE ASSETS | 333.5 | 333.1 |
| GOODWILL | 1,183.6 | 1,501.9 |
| OTHER INTANGIBLE ASSETS, NET | 522.3 | 581.6 |
| OTHER ASSETS | 599.5 | 541.0 |
| Total Assets | \$ 10,552.4 | \$ 10,543.3 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Vehicle floorplan payable - trade | \$ 2,197.2 | \$ 2,120.6 |
| Vehicle floorplan payable - non-trade | 1,485.3 | 1,455.2 |
| Accounts payable | 225.5 | 290.3 |
| Commercial paper | 140.0 | 170.0 |
| Current maturities of long-term debt | 305.6 | 355.6 |
| Other current liabilities | 642.2 | 708.5 |
| Total Current Liabilities | 4,995.8 | 5,100.2 |
| LONG-TERM DEBT, NET OF CURRENT MATURITIES | 2,076.4 | 1,578.5 |
| NONCURRENT OPERATING LEASE LIABILITIES | 306.7 | 305.0 |
| DEFERRED INCOME TAXES | 66.5 | 135.1 |
| OTHER LIABILITIES | 260.1 | 262.4 |
| COMMITMENTS AND CONTINGENCIES (Note 12) | | |
| SHAREHOLDERS' EQUITY: | | |
| Preferred stock, par value \$0.01 per share; 5,000,000 shares authorized; none issued | — | — |
| Common stock, par value \$0.01 per share; 1,500,000,000 shares authorized; 102,562,149 shares issued at March 31, 2020, and December 31, 2019, including shares held in treasury | 1.0 | 1.0 |
| Additional paid-in capital | 18.7 | 35.9 |
| Retained earnings | 3,455.5 | 3,688.3 |
| Treasury stock, at cost; 15,352,097 and 13,212,974 shares held, respectively | (628.3) | (563.1) |
| Total Shareholders' Equity | 2,846.9 | 3,162.1 |
| Total Liabilities and Shareholders' Equity | \$ 10,552.4 | \$ 10,543.3 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

AUTONATION, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)

| | Three Months Ended | |
|--|--------------------|----------------|
| | March 31, | |
| | 2020 | 2019 |
| Revenue: | | |
| New vehicle | \$ 2,281.9 | \$ 2,496.7 |
| Used vehicle | 1,248.7 | 1,339.6 |
| Parts and service | 876.3 | 876.7 |
| Finance and insurance, net | 235.8 | 236.5 |
| Other | 24.3 | 32.3 |
| TOTAL REVENUE | 4,667.0 | 4,981.8 |
| Cost of sales: | | |
| New vehicle | 2,185.5 | 2,374.8 |
| Used vehicle | 1,157.7 | 1,249.1 |
| Parts and service | 487.5 | 477.8 |
| Other | 23.1 | 30.9 |
| TOTAL COST OF SALES (excluding depreciation shown below) | 3,853.8 | 4,132.6 |
| Gross profit: | | |
| New vehicle | 96.4 | 121.9 |
| Used vehicle | 91.0 | 90.5 |
| Parts and service | 388.8 | 398.9 |
| Finance and insurance | 235.8 | 236.5 |
| Other | 1.2 | 1.4 |
| TOTAL GROSS PROFIT | 813.2 | 849.2 |
| Selling, general, and administrative expenses | 600.7 | 623.0 |
| Depreciation and amortization | 48.1 | 44.1 |
| Goodwill impairment | 318.3 | — |
| Franchise rights impairment | 57.5 | — |
| Other (income) expense, net | 7.9 | (8.7) |
| OPERATING INCOME (LOSS) | (219.3) | 190.8 |
| Non-operating income (expense) items: | | |
| Floorplan interest expense | (25.5) | (39.0) |
| Other interest expense | (23.5) | (27.8) |
| Interest income | 0.1 | 0.2 |
| Other income (loss), net | (3.0) | 1.9 |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | (271.2) | 126.1 |
| Income tax provision (benefit) | (39.0) | 34.0 |
| NET INCOME (LOSS) FROM CONTINUING OPERATIONS | (232.2) | 92.1 |
| Loss from discontinued operations, net of income taxes | (0.1) | (0.1) |
| NET INCOME (LOSS) | \$ (232.3) | \$ 92.0 |
| BASIC EARNINGS (LOSS) PER SHARE: | | |
| Continuing operations | \$ (2.58) | \$ 1.02 |
| Discontinued operations | \$ — | \$ — |
| Net income (loss) | \$ (2.58) | \$ 1.02 |
| Weighted average common shares outstanding | 90.0 | 90.5 |
| DILUTED EARNINGS (LOSS) PER SHARE: | | |
| Continuing operations | \$ (2.58) | \$ 1.02 |
| Discontinued operations | \$ — | \$ — |
| Net income (loss) | \$ (2.58) | \$ 1.01 |
| Weighted average common shares outstanding | 90.0 | 90.7 |
| COMMON SHARES OUTSTANDING, net of treasury stock, at period end | 87.2 | 89.2 |

AUTONATION, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In millions, except share data)

| | Three Months Ended March 31, 2020 | | | | | |
|---|-----------------------------------|---------------|----------------------------------|----------------------|-------------------|-------------------|
| | Common Stock | | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Total |
| | Shares | Amount | | | | |
| BALANCE AT DECEMBER 31, 2019 | 102,562,149 | \$ 1.0 | \$ 35.9 | \$ 3,688.3 | \$ (563.1) | \$ 3,162.1 |
| Net loss | — | — | — | (232.3) | — | (232.3) |
| Repurchases of common stock | — | — | — | — | (80.0) | (80.0) |
| Stock-based compensation expense | — | — | 4.5 | — | — | 4.5 |
| Shares awarded under stock-based compensation plans, net of shares withheld for taxes | — | — | (21.7) | — | 14.8 | (6.9) |
| Cumulative effect of change in accounting principle - current expected credit losses | — | — | — | (0.5) | — | (0.5) |
| BALANCE AT MARCH 31, 2020 | 102,562,149 | \$ 1.0 | \$ 18.7 | \$ 3,455.5 | \$ (628.3) | \$ 2,846.9 |

| | Three Months Ended March 31, 2019 | | | | | |
|---|-----------------------------------|---------------|----------------------------------|----------------------|-------------------|-------------------|
| | Common Stock | | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Total |
| | Shares | Amount | | | | |
| BALANCE AT DECEMBER 31, 2018 | 102,562,149 | \$ 1.0 | \$ 20.8 | \$ 3,238.3 | \$ (544.1) | \$ 2,716.0 |
| Net income | — | — | — | 92.0 | — | 92.0 |
| Repurchases of common stock | — | — | — | — | (33.5) | (33.5) |
| Stock-based compensation expense | — | — | 13.7 | — | — | 13.7 |
| Shares awarded under stock-based compensation plans, net of shares withheld for taxes | — | — | (9.8) | — | 7.4 | (2.4) |
| BALANCE AT MARCH 31, 2019 | 102,562,149 | \$ 1.0 | \$ 24.7 | \$ 3,330.3 | \$ (570.2) | \$ 2,785.8 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

AUTONATION, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

| | Three Months Ended | |
|--|---------------------------|-------------|
| | March 31, | |
| | 2020 | 2019 |
| CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ (232.3) | \$ 92.0 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Loss from discontinued operations | 0.1 | 0.1 |
| Depreciation and amortization | 48.1 | 44.1 |
| Amortization of debt issuance costs and accretion of debt discounts | 1.2 | 1.3 |
| Stock-based compensation expense | 4.5 | 13.7 |
| Deferred income tax provision (benefit) | (68.6) | 0.8 |
| Net gain related to business/property dispositions | — | (8.3) |
| Goodwill impairment | 318.3 | — |
| Franchise rights impairment | 57.5 | — |
| Non-cash impairment charges | 8.5 | 0.2 |
| Other | 3.6 | (2.0) |
| (Increase) decrease, net of effects from business acquisitions and divestitures: | | |
| Receivables | 403.4 | 193.3 |
| Inventory | (371.3) | (141.4) |
| Other assets | (3.5) | 33.2 |
| Increase (decrease), net of effects from business acquisitions and divestitures: | | |
| Vehicle floorplan payable - trade, net | 76.6 | 65.7 |
| Accounts payable | (64.1) | (35.2) |
| Other liabilities | (68.3) | 2.2 |
| Net cash provided by continuing operations | 113.7 | 259.7 |
| Net cash provided by discontinued operations | — | — |
| Net cash provided by operating activities | 113.7 | 259.7 |
| CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (42.2) | (60.0) |
| Insurance recoveries on property and equipment | 1.2 | 0.3 |
| Cash received from business divestitures, net of cash relinquished | — | 17.4 |
| Cash used in business acquisitions, net of cash acquired | (0.4) | (4.3) |
| Investment in equity security | (50.0) | — |
| Other | (0.8) | (2.0) |
| Net cash used in continuing operations | (92.2) | (48.6) |
| Net cash used in discontinued operations | — | — |
| Net cash used in investing activities | (92.2) | (48.6) |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

| | Three Months Ended | |
|---|---------------------------|----------------|
| | March 31, | |
| | 2020 | 2019 |
| CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES: | | |
| Repurchases of common stock | (78.9) | (33.4) |
| Payment of 5.5% Senior Notes due 2020 | (350.0) | — |
| Proceeds from revolving credit facility | 790.0 | — |
| Net payments of commercial paper | (30.0) | (160.0) |
| Payment of debt issuance costs | (6.1) | — |
| Net proceeds from (payments of) vehicle floorplan payable - non-trade | 30.1 | (12.5) |
| Payments of other debt obligations | (1.1) | (2.6) |
| Proceeds from the exercise of stock options | 1.0 | 0.3 |
| Payments of tax withholdings for stock-based awards | (7.9) | (2.7) |
| Net cash received from (used in) continuing operations | 347.1 | (210.9) |
| Net cash used in discontinued operations | — | — |
| Net cash received from (used in) financing activities | 347.1 | (210.9) |
| INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH | 368.6 | 0.2 |
| CASH, CASH EQUIVALENTS, AND RESTRICTED CASH at beginning of period | 42.5 | 49.4 |
| CASH, CASH EQUIVALENTS, AND RESTRICTED CASH at end of period | \$ 411.1 | \$ 49.6 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

AUTONATION, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In millions, except per share data)

1. INTERIM FINANCIAL STATEMENTS

Business and Basis of Presentation

AutoNation, Inc., through its subsidiaries, is the largest automotive retailer in the United States. As of March 31, 2020, we owned and operated 317 new vehicle franchises from 231 stores located in the United States, predominantly in major metropolitan markets in the Sunbelt region. Our stores, which we believe include some of the most recognizable and well-known in our key markets, sell 32 different new vehicle brands. The core brands of new vehicles that we sell, representing approximately 89% of the new vehicles that we sold during the three months ended March 31, 2020, are manufactured by Toyota (including Lexus), Honda, General Motors, Ford, FCA US, Mercedes-Benz, BMW, and Volkswagen (including Audi and Porsche). As of March 31, 2020, we also owned and operated 81 AutoNation-branded collision centers, 5 AutoNation USA stores, 4 automotive auction operations, and 16 parts distribution centers.

We offer a diversified range of automotive products and services, including new vehicles, used vehicles, “parts and service,” which includes automotive repair and maintenance services as well as wholesale parts and collision businesses, and automotive “finance and insurance” products, which include vehicle service and other protection products, as well as the arranging of financing for vehicle purchases through third-party finance sources. For convenience, the terms “AutoNation,” “Company,” and “we” are used to refer collectively to AutoNation, Inc. and its subsidiaries, unless otherwise required by the context. Our dealership operations are conducted by our subsidiaries.

The accompanying Unaudited Condensed Consolidated Financial Statements include the accounts of AutoNation, Inc. and its subsidiaries; intercompany accounts and transactions have been eliminated. The accompanying Unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Additionally, operating results for interim periods are not necessarily indicative of the results that can be expected for a full year. The Unaudited Condensed Consolidated Financial Statements herein should be read in conjunction with our audited Consolidated Financial Statements and notes thereto included within our most recent Annual Report on Form 10-K. These Unaudited Condensed Consolidated Financial Statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to fairly state, in all material respects, our financial position and results of operations for the periods presented.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ materially from these estimates. We periodically evaluate estimates and assumptions used in the preparation of the financial statements and make changes on a prospective basis when adjustments are necessary. Such estimates and assumptions affect, among other things, our goodwill, long-lived asset, and indefinite-lived intangible asset valuation; inventory valuation; equity investment valuation; assets held for sale; accruals for chargebacks against revenue recognized from the sale of finance and insurance products; accruals related to self-insurance programs; certain legal proceedings; assessment of the annual effective tax rate; valuation of deferred income taxes and income tax contingencies; the allowance for expected credit losses; and measurement of performance-based compensation costs.

AUTONATION, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. REVENUE RECOGNITION
Disaggregation of Revenue

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

| Three Months Ended March 31, 2020 | | | | | |
|--|-------------------|-------------------|---------------------------|--|-------------------|
| | Domestic | Import | Premium Luxury | Corporate and other⁽¹⁾ | Total |
| <u>Major Goods/Service Lines</u> | | | | | |
| New vehicle | \$ 738.9 | \$ 733.9 | \$ 809.1 | \$ — | \$ 2,281.9 |
| Used vehicle | 404.6 | 334.5 | 467.3 | 42.3 | 1,248.7 |
| Parts and service | 235.6 | 207.5 | 277.4 | 155.8 | 876.3 |
| Finance and insurance, net | 83.1 | 84.0 | 63.0 | 5.7 | 235.8 |
| Other | 21.3 | 2.2 | — | 0.8 | 24.3 |
| | <u>\$ 1,483.5</u> | <u>\$ 1,362.1</u> | <u>\$ 1,616.8</u> | <u>\$ 204.6</u> | <u>\$ 4,667.0</u> |

| | | | | | |
|---|-------------------|-------------------|-------------------|-----------------|-------------------|
| <u>Timing of Revenue Recognition</u> | | | | | |
| Goods and services transferred at a point in time | \$ 1,311.4 | \$ 1,200.5 | \$ 1,380.2 | \$ 109.4 | \$ 4,001.5 |
| Goods and services transferred over time ⁽²⁾ | 172.1 | 161.6 | 236.6 | 95.2 | 665.5 |
| | <u>\$ 1,483.5</u> | <u>\$ 1,362.1</u> | <u>\$ 1,616.8</u> | <u>\$ 204.6</u> | <u>\$ 4,667.0</u> |

| Three Months Ended March 31, 2019 | | | | | |
|--|-------------------|-------------------|---------------------------|--|-------------------|
| | Domestic | Import | Premium Luxury | Corporate and other⁽¹⁾ | Total |
| <u>Major Goods/Service Lines</u> | | | | | |
| New vehicle | \$ 781.0 | \$ 820.2 | \$ 895.5 | \$ — | \$ 2,496.7 |
| Used vehicle | 443.4 | 369.5 | 496.7 | 30.0 | 1,339.6 |
| Parts and service | 236.3 | 220.2 | 278.2 | 142.0 | 876.7 |
| Finance and insurance, net | 80.4 | 84.5 | 61.6 | 10.0 | 236.5 |
| Other | 27.7 | 1.7 | 2.1 | 0.8 | 32.3 |
| | <u>\$ 1,568.8</u> | <u>\$ 1,496.1</u> | <u>\$ 1,734.1</u> | <u>\$ 182.8</u> | <u>\$ 4,981.8</u> |

| | | | | | |
|---|-------------------|-------------------|-------------------|-----------------|-------------------|
| <u>Timing of Revenue Recognition</u> | | | | | |
| Goods and services transferred at a point in time | \$ 1,398.1 | \$ 1,324.8 | \$ 1,497.2 | \$ 92.7 | \$ 4,312.8 |
| Goods and services transferred over time ⁽²⁾ | 170.7 | 171.3 | 236.9 | 90.1 | 669.0 |
| | <u>\$ 1,568.8</u> | <u>\$ 1,496.1</u> | <u>\$ 1,734.1</u> | <u>\$ 182.8</u> | <u>\$ 4,981.8</u> |

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

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

Transaction Price Allocated to Remaining Performance Obligations

We sell a vehicle maintenance program (the AutoNation Vehicle Care Program or “VCP”) under which a customer purchases a specific number of maintenance services to be redeemed at an AutoNation location over a five-year term from the

AUTONATION, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

date of purchase. We satisfy our performance obligations related to this program and recognize revenue as the maintenance services are rendered, since the customer benefits when we have completed the maintenance service. The following table includes estimated revenue expected to be recognized in the future related to VCP performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period:

| | Revenue Expected to Be Recognized by Period | | | |
|--|--|--------------------|--------------------|--------------------|
| | Total | Less Than 1 | | |
| | | Year | 1 - 3 Years | 3 - 5 Years |
| Revenue expected to be recognized on VCP contracts sold as of period end | \$ 89.4 | \$ 29.6 | \$ 44.5 | \$ 15.3 |

As a practical expedient, since automotive repair and maintenance services are performed within one year or less, we do not disclose estimated revenue expected to be recognized in the future for automotive repair and maintenance performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period or when we expect to recognize such revenue.

Contract Assets and Liabilities

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

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

The following table provides the balances of our receivables from contracts with customers and our current and long-term contract assets and contract liabilities:

| | March 31, 2020 | December 31, 2019 |
|--|-----------------------|--------------------------|
| Receivables from contracts with customers, net | \$ 324.5 | \$ 662.0 |
| Contract Asset (Current) | \$ 21.7 | \$ 26.7 |
| Contract Asset (Long-Term) | \$ 7.2 | \$ 7.0 |
| Contract Liability (Current) | \$ 32.8 | \$ 32.6 |
| Contract Liability (Long-Term) | \$ 57.3 | \$ 57.7 |

The change in the balances of our contract assets and contract liabilities primarily result from the timing differences between our performance and the customer's payment, as well as changes in the estimated transaction price related to variable consideration that was constrained for performance obligations satisfied in previous periods. The following table presents revenue recognized during the period from amounts included in the contract liability balance at the beginning of the period and performance obligations satisfied in previous periods:

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------|
| | 2020 | 2019 |
| Amounts included in contract liability at the beginning of the period | \$ 8.5 | \$ 13.0 |
| Performance obligations satisfied in previous periods | \$ — | \$ 4.6 |

AUTONATION, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Other significant changes include contract assets reclassified to receivables of \$14.5 million for the three months ended March 31, 2020, and \$24.4 million for the three months ended March 31, 2019.

3. EARNINGS (LOSS) PER SHARE

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are to be included in the computation of earnings (loss) per share under the two-class method. Our restricted stock awards are considered participating securities because they contain non-forfeitable rights to dividends. As the number of shares granted under such awards that have not yet vested is immaterial, all earnings (loss) per share amounts reflect such shares as if they were fully vested shares and the disclosures associated with the two-class method are not presented. Restricted stock unit ("RSU") awards are not considered participating securities as they do not contain non-forfeitable rights to dividends.

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period, including outstanding unvested restricted stock awards and vested RSU awards. Diluted earnings per share is computed by dividing net income by the weighted average number of shares outstanding, noted above, adjusted for the dilutive effect of stock options and unvested RSU awards. For the three months ended March 31, 2020, stock options and unvested RSU awards were not included in the computation of diluted loss per share because we reported a net loss from continuing operations for this period, and the effect of their inclusion would be anti-dilutive.

The following table presents the calculation of basic and diluted earnings (loss) per share:

| | Three Months Ended | |
|---|---------------------------|----------------|
| | March 31, | |
| | 2020 | 2019 |
| Net income (loss) from continuing operations | \$ (232.2) | \$ 92.1 |
| Loss from discontinued operations, net of income taxes | (0.1) | (0.1) |
| Net income (loss) | <u>\$ (232.3)</u> | <u>\$ 92.0</u> |
| Basic weighted average common shares outstanding | 90.0 | 90.5 |
| Dilutive effect of stock options and unvested RSUs | — | 0.2 |
| Diluted weighted average common shares outstanding | <u>90.0</u> | <u>90.7</u> |
| Basic earnings (loss) per share amounts⁽¹⁾: | | |
| Continuing operations | \$ (2.58) | \$ 1.02 |
| Discontinued operations | \$ — | \$ — |
| Net income (loss) | <u>\$ (2.58)</u> | <u>\$ 1.02</u> |
| Diluted earnings (loss) per share amounts⁽¹⁾: | | |
| Continuing operations | \$ (2.58) | \$ 1.02 |
| Discontinued operations | \$ — | \$ — |
| Net income (loss) | <u>\$ (2.58)</u> | <u>\$ 1.01</u> |

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

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

| | Three Months Ended | |
|---|---------------------------|-------------|
| | March 31, | |
| | 2020 | 2019 |
| Anti-dilutive equity instruments excluded from the computation of diluted earnings (loss) per share | 3.0 | 2.8 |

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4. RECEIVABLES, NET

The components of receivables, net of allowances for credit losses, are as follows:

| | March 31, 2020 | December 31, 2019 |
|--|---------------------------|------------------------------|
| Contracts-in-transit and vehicle receivables | \$ 189.0 | \$ 506.0 |
| Trade receivables | 117.0 | 136.4 |
| Manufacturer receivables | 172.3 | 234.5 |
| Income taxes receivable (see Note 8) | — | 1.5 |
| Other | 35.3 | 38.8 |
| | <u>513.6</u> | <u>917.2</u> |
| Less: allowances for credit losses | (0.7) | (0.5) |
| Receivables, net | <u>\$ 512.9</u> | <u>\$ 916.7</u> |

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

5. INVENTORY AND VEHICLE FLOORPLAN PAYABLE

The components of inventory are as follows:

| | March 31, 2020 | December 31, 2019 |
|-------------------------------|---------------------------|------------------------------|
| New vehicles | \$ 2,840.9 | \$ 2,490.8 |
| Used vehicles | 600.2 | 570.0 |
| Parts, accessories, and other | 235.9 | 245.0 |
| Inventory | <u>\$ 3,677.0</u> | <u>\$ 3,305.8</u> |

The components of vehicle floorplan payable are as follows:

| | March 31, 2020 | December 31, 2019 |
|---------------------------------------|---------------------------|------------------------------|
| Vehicle floorplan payable - trade | \$ 2,197.2 | \$ 2,120.6 |
| Vehicle floorplan payable - non-trade | 1,485.3 | 1,455.2 |
| Vehicle floorplan payable | <u>\$ 3,682.5</u> | <u>\$ 3,575.8</u> |

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

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

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Vehicle floorplan facilities are due on demand, but in the case of new vehicle inventories, are generally paid within several business days after the related vehicles are sold. Vehicle floorplan facilities are primarily collateralized by vehicle inventories and related receivables.

Our new vehicle floorplan facilities utilize LIBOR-based interest rates, which averaged 2.8% for the three months ended March 31, 2020, and 4.0% for the three months ended March 31, 2019. At March 31, 2020, the aggregate capacity under our new vehicle floorplan facilities to finance our new vehicle inventory was approximately \$4.7 billion, of which \$3.3 billion had been borrowed.

Our used vehicle floorplan facilities utilize LIBOR-based interest rates, which averaged 3.1% for the three months ended March 31, 2020, and 3.9% for the three months ended March 31, 2019. At March 31, 2020, the aggregate capacity under our used vehicle floorplan facilities with various lenders to finance a portion of our used vehicle inventory was \$482.0 million, of which \$383.7 million had been borrowed. The remaining borrowing capacity of \$98.3 million was limited to \$0.6 million based on the eligible used vehicle inventory that could have been pledged as collateral.

6. GOODWILL AND INTANGIBLE ASSETS, NET

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

| | March 31, 2020 | December 31, 2019 |
|-------------------------------------|---------------------------|------------------------------|
| Goodwill | \$ 1,183.6 | \$ 1,501.9 |
| Franchise rights - indefinite-lived | \$ 509.0 | \$ 566.5 |
| Other intangibles | 21.2 | 23.4 |
| | <u>530.2</u> | <u>589.9</u> |
| Less: accumulated amortization | (7.9) | (8.3) |
| Other intangible assets, net | <u>\$ 522.3</u> | <u>\$ 581.6</u> |

Goodwill for our reporting units and our franchise rights are tested for impairment annually as of April 30 or more frequently when events or changes in circumstances indicate that impairment may have occurred.

On March 11, 2020, the World Health Organization declared the current novel coronavirus disease 2019 (“COVID-19”) outbreak to be a global pandemic. As a result of the impacts of the COVID-19 pandemic, we had significant declines in new and used vehicle unit sales during the last two weeks of March 2020, and our parts and service business was operating below full capacity. In addition, our stock price, along with the U.S. stock market in general, was adversely impacted by the COVID-19 pandemic. As a result, our market capitalization as of March 31, 2020, decreased significantly compared to our market capitalization as of the date of our last annual impairment test.

In light of the uncertainty surrounding the COVID-19 pandemic and the decrease in our market capitalization as of March 31, 2020, we concluded that a triggering event had occurred potentially indicating that the fair values of our reporting units were less than their carrying values as of March 31, 2020. Therefore, we performed quantitative goodwill impairment tests for each of our reporting units as of March 31, 2020. As a result of these impairment tests, during the three months ended March 31, 2020, we recorded non-cash goodwill impairment charges totaling \$318.3 million, of which \$257.4 million related to our Premium Luxury reporting unit, \$41.6 million related to our Collision Centers reporting unit, and \$19.3 million related to our Parts Center reporting unit. The non-cash impairment charges are reflected as Goodwill Impairment in the accompanying Unaudited Condensed Consolidated Statements of Operations. See Note 11 of the Notes to Unaudited Condensed Consolidated Financial Statements for information about our quantitative goodwill impairment test.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Goodwill allocated to our reporting units and changes in the carrying amount of goodwill for the three months ended March 31, 2020, were as follows:

| | Domestic | Import | Premium Luxury | Collision Centers | Parts Centers | Consolidated |
|---|-----------------|-----------------|-------------------|----------------------|---------------|-------------------|
| Goodwill at January 1, 2020 ⁽¹⁾ | \$ 227.3 | \$ 498.9 | \$ 714.9 | \$ 41.7 | \$ 19.1 | \$ 1,501.9 |
| Acquisitions, dispositions, and other adjustments, net ⁽²⁾ | — | (0.1) | — | (0.1) | 0.2 | — |
| Impairment | — | — | (257.4) | (41.6) | (19.3) | (318.3) |
| Goodwill at March 31, 2020 ⁽¹⁾⁽³⁾ | <u>\$ 227.3</u> | <u>\$ 498.8</u> | <u>\$ 457.5</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 1,183.6</u> |

⁽¹⁾ Net of accumulated impairment losses of \$1.47 billion associated with our single reporting unit (prior to September 30, 2008, our reporting unit structure was comprised of a single reporting unit) and \$140.0 million associated with our Domestic reporting unit, both of which were recorded during the year ended December 31, 2008.

⁽²⁾ Includes amounts reclassified to held for sale and related adjustments, which are presented in Other Current Assets in our Consolidated Balance Sheet as of period end.

⁽³⁾ Net of accumulated impairment losses of \$257.4 million associated with our Premium Luxury reporting unit, \$41.6 million associated with our Collision Centers reporting unit, and \$19.3 million associated with our Parts Centers reporting unit, each of which were recorded during the three months ended March 31, 2020.

We also concluded that, as a result of the impacts from the COVID-19 pandemic, a triggering event had occurred that indicated the fair values of our franchise rights may have been less than their carrying values as of March 31, 2020. We performed quantitative impairment tests as of March 31, 2020, and as a result, we identified eight stores with franchise rights carrying values that exceeded their fair values, and we recorded non-cash franchise rights impairment charges of \$57.5 million. The non-cash impairment charges are reflected as Franchise Rights Impairment in the accompanying Unaudited Condensed Consolidated Statements of Operations. See Note 11 of the Notes to Unaudited Condensed Consolidated Financial Statements for information about our quantitative franchise rights impairment test.

We are scheduled to perform our annual goodwill and franchise rights impairment tests as of April 30, 2020, during the second quarter of 2020.

7. LONG-TERM DEBT AND COMMERCIAL PAPER

Long-term debt consists of the following:

| Debt Description | Maturity Date | Interest Payable | March 31, 2020 | December 31, 2019 |
|--|----------------------------|-------------------------|-------------------|----------------------|
| 5.5% Senior Notes | February 1, 2020 | February 1 and August 1 | \$ — | \$ 350.0 |
| 3.35% Senior Notes | January 15, 2021 | January 15 and July 15 | 300.0 | 300.0 |
| 3.5% Senior Notes | November 15, 2024 | May 15 and November 15 | 450.0 | 450.0 |
| 4.5% Senior Notes | October 1, 2025 | April 1 and October 1 | 450.0 | 450.0 |
| 3.8% Senior Notes | November 15, 2027 | May 15 and November 15 | 300.0 | 300.0 |
| Revolving credit facility | March 26, 2025 | Monthly | 790.0 | — |
| Finance leases and other debt | Various dates through 2039 | Monthly | 101.2 | 93.9 |
| | | | <u>2,391.2</u> | <u>1,943.9</u> |
| Less: unamortized debt discounts and debt issuance costs | | | (9.2) | (9.8) |
| Less: current maturities | | | (305.6) | (355.6) |
| Long-term debt, net of current maturities | | | <u>\$ 2,076.4</u> | <u>\$ 1,578.5</u> |

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Debt Refinancing Transaction

On March 26, 2020, we amended and restated our existing unsecured credit agreement to, among other things, (1) provide for lower commitment fees and loan margins as set forth in the amended and restated credit agreement, (2) extend the maturity date to March 26, 2025, and (3) provide for customary LIBOR replacement provisions.

Senior Unsecured Notes and Credit Agreement

In February 2020, we repaid the outstanding \$350.0 million of 5.5% Senior Notes due 2020. Our 3.35% Senior Notes due 2021 will mature on January 15, 2021, and were therefore reclassified to current maturities during the first quarter of 2020.

The interest rates payable on the 3.35% Senior Notes, 3.5% Senior Notes, 4.5% Senior Notes, and 3.8% Senior Notes are subject to adjustment upon the occurrence of certain credit rating events as provided in the indentures for these senior unsecured notes.

Under our amended and restated credit agreement, we have a \$1.8 billion revolving credit facility that matures on March 26, 2025. The credit agreement also contains an accordion feature that allows us, subject to credit availability and certain other conditions, to increase the amount of the revolving credit facility, together with any added term loans, by up to \$500.0 million in the aggregate. As of March 31, 2020, we had \$790.0 million in borrowings outstanding under our revolving credit facility. We have a \$200.0 million letter of credit sublimit as part of our revolving credit facility. The amount available to be borrowed under the revolving credit facility is reduced on a dollar-for-dollar basis by the cumulative amount of any outstanding letters of credit, which was \$39.7 million at March 31, 2020, leaving a borrowing capacity under the revolving credit facility of \$970.3 million at March 31, 2020. As of March 31, 2020, this borrowing capacity was limited under the applicable maximum consolidated leverage ratio contained in our credit agreement to \$822.4 million.

Our revolving credit facility under the amended credit agreement provides for a commitment fee on undrawn amounts ranging from 0.125% to 0.20% and interest on borrowings at LIBOR or the base rate, in each case plus an applicable margin. The applicable margin ranges from 1.125% to 1.50% for LIBOR borrowings and 0.125% to 0.50% for base rate borrowings. The interest rate charged for our revolving credit facility is affected by our leverage ratio. For instance, an increase in our leverage ratio from greater than or equal to 2.0x but less than 3.25x to greater than or equal to 3.25x would result in a 12.5 basis point increase in the applicable margin.

Within the meaning of Regulation S-X, Rule 3-10, AutoNation, Inc. (the parent company) has no independent assets or operations. If the guarantees of our subsidiaries were to be issued under the our existing registration statement, we expect that such guarantees would be full and unconditional and joint and several, and any subsidiaries other than the guarantor subsidiaries would be minor.

Other Long-Term Debt

At March 31, 2020, we had finance leases and other debt obligations of \$101.2 million, which are due at various dates through 2039.

Commercial Paper

We have a commercial paper program pursuant to which we may issue short-term, unsecured commercial paper notes on a private placement basis up to a maximum aggregate amount outstanding at any time of \$1.0 billion. The interest rate for the commercial paper notes varies based on duration and market conditions. The maturities of the commercial paper notes may vary, but may not exceed 397 days from the date of issuance. Proceeds from the issuance of commercial paper notes are used to repay borrowings under the revolving credit facility, to finance acquisitions and for working capital, capital expenditures, share repurchases, and/or other general corporate purposes. We plan to use the revolving credit facility under our credit agreement as a liquidity backstop for borrowings under the commercial paper program. A downgrade in our credit ratings could negatively impact our ability to issue, or the interest rates for, commercial paper notes.

At March 31, 2020, we had \$140.0 million of commercial paper notes outstanding with a weighted-average annual interest rate of 3.30% and a weighted-average remaining term of 1 day. At December 31, 2019, we had \$170.0 million of commercial paper notes outstanding with a weighted-average annual interest rate of 2.13% and a weighted-average remaining term of 12 days.

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8. INCOME TAXES

Income taxes payable included in Other Current Liabilities totaled \$27.3 million at March 31, 2020. Income taxes receivable included in Receivables, net totaled \$1.5 million at December 31, 2019.

We file income tax returns in the U.S. federal jurisdiction and various states. As a matter of course, various taxing authorities, including the IRS, regularly audit us. Currently, no tax years are under examination by the IRS, and tax years from 2014 to 2017 are under examination by certain U.S. state jurisdictions. These audits may result in proposed assessments where the ultimate resolution may result in our owing additional taxes.

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

9. SHAREHOLDERS' EQUITY

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

| | Three Months Ended | |
|----------------------------------|---------------------------|-------------|
| | March 31, | |
| | 2020 | 2019 |
| Shares repurchased | 2.5 | 1.0 |
| Aggregate purchase price | \$ 80.0 | \$ 33.5 |
| Average purchase price per share | \$ 31.95 | \$ 34.34 |

As of March 31, 2020, \$139.0 million remained available for share repurchases under the program.

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

| | Three Months Ended | |
|---|---------------------------|-------------|
| | March 31, | |
| | 2020 | 2019 |
| Shares issued (in actual number of shares) | 55,000 | 11,227 |
| Proceeds from the exercise of stock options | \$ 1.0 | \$ 0.3 |
| Average exercise price per share | \$ 18.12 | \$ 25.93 |

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

| | Three Months Ended | |
|---|---------------------------|-------------|
| | March 31, | |
| | 2020 | 2019 |
| Shares issued | 0.5 | 0.2 |
| Shares surrendered to AutoNation to satisfy tax withholding obligations | 0.2 | 0.1 |

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

The total amounts presented on our statements of cash flows include cash, cash equivalents, and restricted cash. The following table provides a reconciliation of cash and cash equivalents reported on our Unaudited Condensed Consolidated Balance Sheets to the total amounts reported on our Unaudited Condensed Consolidated Statements of Cash Flows:

| | March 31, 2020 | December 31, 2019 |
|--|---------------------------|------------------------------|
| Cash and cash equivalents | \$ 411.0 | \$ 42.0 |
| Restricted cash included in Current Assets | 0.1 | 0.5 |
| Total cash, cash equivalents, and restricted cash | \$ 411.1 | \$ 42.5 |

Non-Cash Investing and Financing Activities

We had accrued purchases of property and equipment of \$17.2 million at March 31, 2020, and \$21.7 million at March 31, 2019. We had non-cash investing and financing activities related to increases in property and equipment acquired under financing arrangements of \$0.4 million during the three months ended March 31, 2020, and \$0.7 million during the three months ended March 31, 2019.

| | Three Months Ended March 31, | |
|--|-------------------------------------|-------------|
| | 2020 | 2019 |
| Supplemental noncash information on adjustments to right-of-use assets including right-of-use assets obtained in exchange for new: | | |
| Operating lease liabilities | \$ 11.3 | \$ 9.6 |
| Finance lease liabilities | \$ 15.7 | \$ 11.9 |

Interest and Income Taxes Paid

We made interest payments, net of amounts capitalized and including interest on vehicle inventory financing, of \$47.6 million during the three months ended March 31, 2020, and \$60.7 million during the three months ended March 31, 2019. We made income tax payments, net of income tax refunds, of \$0.5 million during the three months ended March 31, 2020, and \$1.2 million during the three months ended March 31, 2019.

11. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The fair value of a financial instrument represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Fair value estimates are made at a specific point in time based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of judgment, and therefore cannot be determined with precision.

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

| | |
|---------|---|
| Level 1 | Quoted prices in active markets for identical assets or liabilities |
| Level 2 | Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted market prices in markets that are not active; or model-derived valuations or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities |
| Level 3 | Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities |

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

- *Cash and cash equivalents, receivables, other current assets, vehicle floorplan payable, accounts payable, other current liabilities, commercial paper, and variable rate debt:* The amounts reported in the accompanying Unaudited Condensed Consolidated Balance Sheets approximate fair value due to their short-term nature or the existence of variable interest rates that approximate prevailing market rates.
- *Investments in Securities:* Our investments in securities consist of equity securities that do not have readily determinable fair values. We elected to measure these investments using a measurement alternative as permitted by accounting standards and recorded the equity interests at cost to be subsequently adjusted for observable price changes. As of March 31, 2020, the carrying amount of our investments totaled \$125.7 million. The equity interests are reported in Other Assets in the accompanying Unaudited Condensed Consolidated Balance Sheets. We have not recorded any impairments or downward adjustments to the carrying amounts of our investments in securities subsequent to our initial investments. We did not record any upward adjustments to the carrying amounts of our investments during the three months ended March 31, 2020. The cumulative amount of upward adjustments we have recognized related to our investments in securities is \$25.7 million.
- *Fixed rate long-term debt:* Our fixed rate long-term debt primarily consists of amounts outstanding under our senior unsecured notes. We estimate the fair value of our senior unsecured notes using quoted prices for the identical liability (Level 1). A summary of the aggregate carrying values and fair values of our fixed rate long-term debt is as follows:

| | March 31, 2020 | December 31, 2019 |
|----------------|-------------------|----------------------|
| Carrying value | \$ 1,592.0 | \$ 1,934.1 |
| Fair value | \$ 1,527.4 | \$ 2,001.8 |

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

The following table presents nonfinancial assets measured and recorded at fair value on a nonrecurring basis during the three months ended March 31, 2020 and 2019:

| Description | 2020 | | 2019 | |
|---------------------------------|---|-------------|---|-------------|
| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | Gain/(Loss) | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | Gain/(Loss) |
| Goodwill | \$ 457.5 | \$ (318.3) | \$ — | \$ — |
| Franchise rights and other | \$ 26.2 | \$ (59.9) | \$ — | \$ — |
| Right-of-use assets | \$ 1.4 | \$ (0.4) | \$ 0.1 | \$ (0.2) |
| Long-lived assets held and used | \$ 1.8 | \$ (5.7) | \$ — | \$ — |

Goodwill and Other Intangible Assets

Goodwill for our reporting units is tested for impairment annually as of April 30 or more frequently when events or changes in circumstances indicate that the carrying value of a reporting unit more likely than not exceeds its fair value. In light of the uncertainty surrounding the COVID-19 pandemic and the decrease in our market capitalization as of March 31, 2020, we concluded that a triggering event had occurred potentially indicating that the fair values of our reporting units were less than their carrying values as of March 31, 2020. Therefore, we performed quantitative goodwill impairment tests for each of our

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reporting units as of March 31, 2020. As a result of these impairment tests, during the three months ended March 31, 2020, we recorded non-cash goodwill impairment charges totaling \$318.3 million, of which \$257.4 million related to our Premium Luxury reporting unit, \$41.6 million related to our Collision Centers reporting unit, and \$19.3 million related to our Parts Center reporting unit. The non-cash impairment charges are reflected as Goodwill Impairment in the accompanying Unaudited Condensed Consolidated Statements of Operations and are reported in the “Corporate and other” category of our segment information.

The quantitative goodwill impairment test requires a determination of whether the fair value of a reporting unit is less than its carrying value. We estimate the fair value of our reporting units using an “income” valuation approach, which discounts projected free cash flows of the reporting unit at a computed weighted average cost of capital as the discount rate. The income valuation approach requires the use of significant estimates and assumptions, which include revenue growth rates and future operating margins used to calculate projected future cash flows, weighted average costs of capital, and future economic and market conditions. In connection with this process, we also reconcile the estimated aggregate fair values of our reporting units to our market capitalization, including consideration of a control premium, based upon our stock price and/or average stock price over a reasonable period as of the measurement date. We base our cash flow forecasts on our knowledge of the automotive industry, our recent performance, our expectations of our future performance, and other assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. We also make certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for each of our reporting units.

Our principal identifiable intangible assets are individual store rights under franchise agreements with vehicle manufacturers, which have indefinite lives and are tested for impairment annually as of April 30 or more frequently when events or changes in circumstances indicate that impairment may have occurred. We also concluded that, as a result of the impacts from the COVID-19 pandemic, a triggering event had occurred that indicated the fair values of our franchise rights may have been less than their carrying values as of March 31, 2020. Therefore, we performed quantitative franchise rights impairment tests as of March 31, 2020. The quantitative impairment test for franchise rights requires the comparison of the franchise rights’ estimated fair value to carrying value by store. Fair values of rights under franchise agreements are estimated using Level 3 inputs by discounting expected future cash flows of the store. The forecasted cash flows contain inherent uncertainties, including significant estimates and assumptions related to growth rates, margins, working capital requirements, capital expenditures, and cost of capital, for which we utilize certain market participant-based assumptions, using third-party industry projections, economic projections, and other marketplace data we believe to be reasonable.

As a result of the quantitative impairment tests, we identified eight stores with franchise rights carrying values that exceeded their fair values, and we recorded non-cash franchise rights impairment charges of \$57.5 million. The non-cash impairment charges are reflected as Franchise Rights Impairment in the accompanying Unaudited Condensed Consolidated Statements of Operations and are reported in the “Corporate and other” category of our segment information. We also recorded non-cash impairment charges of \$2.4 million to reduce the carrying value of certain finite-lived intangible assets to fair value during the three months ended March 31, 2020, which are included in Other Income (Expense), Net in our Unaudited Condensed Consolidated Statements of Operations and are reported in the “Corporate and other” category of our segment information.

We are scheduled to complete our annual goodwill and franchise rights impairment tests as of April 30, 2020, during the second quarter of 2020.

Long-Lived Assets and Right-of-Use Assets

Fair value measurements for our long-lived assets and right-of-use assets are based on Level 3 inputs. Changes in fair value measurements are reviewed and assessed each quarter for properties classified as held for sale, or when an indicator of impairment exists for properties classified as held and used or for right-of-use assets. The valuation process is generally based on a combination of the market and replacement cost approaches.

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

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To validate the fair values determined under the valuation process noted above, we also obtain independent third-party appraisals for our properties and/or third-party brokers' opinions of value, which are generally developed using the same valuation approaches described above, and we evaluate any recent negotiations or discussions with third-party real estate brokers related to a specific long-lived asset or market.

During the three months ended March 31, 2020, we recorded non-cash impairment charges of \$5.7 million related to our long-lived assets held and used in continuing operations and \$0.4 million related to our right-of-use assets. During the three months ended March 31, 2019, we recorded non-cash impairment charges of \$0.2 million related to our right-of-use assets. The non-cash impairment charges are included in Other Income (Expense), Net in our Unaudited Condensed Consolidated Statements of Operations and are reported in the "Corporate and other" category of our segment information.

We had assets held for sale in continuing operations of \$36.7 million as of March 31, 2020, and \$40.6 million as of December 31, 2019, primarily related to property held for sale, as well as inventory, goodwill, and property of a disposal group held for sale. We had assets held for sale in discontinued operations of \$8.0 million as of March 31, 2020, and \$8.0 million as of December 31, 2019, primarily related to property held for sale. Assets held for sale are included in Other Current Assets in our Unaudited Condensed Consolidated Balance Sheets.

Quantitative Information about Level 3 Fair Value Measurements

| | Fair Value at March 31, 2020 | Valuation Technique | Unobservable Input | Range (Average) |
|------------------|---------------------------------|----------------------|----------------------------------|-----------------------|
| Franchise rights | \$ 24.6 | Discounted cash flow | Weighted average cost of capital | 7.7% - 8.6% (8.4%) |
| | | | Discount rate | 11.1% - 14.3% (12.1%) |
| | | | Long-term revenue growth rate | 2.0% |
| | | | Long-term pretax income margin | 0.6% - 2.8% (1.4%) |
| | | | Contributory asset charges | 4.2% - 12.1% (6.2%) |

12. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

We are involved, and will continue to be involved, in numerous legal proceedings arising out of the conduct of our business, including litigation with customers, wage and hour and other employment-related lawsuits, and actions brought by governmental authorities. Some of these lawsuits purport or may be determined to be class or collective actions and seek substantial damages or injunctive relief, or both, and some may remain unresolved for several years. We establish accruals for specific legal proceedings when it is considered probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Our accruals for loss contingencies are reviewed quarterly and adjusted as additional information becomes available. We disclose the amount accrued if material or if such disclosure is necessary for our financial statements to not be misleading. If a loss is not both probable and reasonably estimable, or if an exposure to loss exists in excess of the amount accrued, we assess whether there is at least a reasonable possibility that a loss, or additional loss, may have been incurred. If there is a reasonable possibility that a loss, or additional loss, may have been incurred, we disclose the estimate of the possible loss or range of loss if it is material or a statement that such an estimate cannot be made. Our evaluation of whether a loss is reasonably possible or probable is based on our assessment and consultation with legal counsel regarding the ultimate outcome of the matter.

As of March 31, 2020 and 2019, we have accrued for the potential impact of loss contingencies that are probable and reasonably estimable, and there was no indication of a reasonable possibility that a material loss, or additional material loss, may have been incurred. We do not believe that the ultimate resolution of these matters will have a material adverse effect on our results of operations, financial condition, or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on our results of operations, financial condition, or cash flows.

Other Matters

AutoNation, acting through its subsidiaries, is the lessee under many real estate leases that provide for the use by our subsidiaries of their respective store premises. Pursuant to these leases, our subsidiaries generally agree to indemnify the lessor

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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and other related parties from certain liabilities arising as a result of the use of the leased premises, including environmental liabilities, or a breach of the lease by the lessee. Additionally, from time to time, we enter into agreements with third parties in connection with the sale of assets or businesses in which we agree to indemnify the purchaser or related parties from certain liabilities or costs arising in connection with the assets or business. Also, in the ordinary course of business in connection with purchases or sales of goods and services, we enter into agreements that may contain indemnification provisions. In the event that an indemnification claim is asserted, our liability would be limited by the terms of the applicable agreement.

From time to time, primarily in connection with dispositions of automotive stores, our subsidiaries assign or sublet to the store purchaser the subsidiaries' interests in any real property leases associated with such stores. In general, our subsidiaries retain responsibility for the performance of certain obligations under such leases to the extent that the assignee or sublessee does not perform, whether such performance is required prior to or following the assignment or subletting of the lease. Additionally, AutoNation and its subsidiaries generally remain subject to the terms of any guarantees made by us and our subsidiaries in connection with such leases. Although we generally have indemnification rights against the assignee or sublessee in the event of non-performance under these leases, as well as certain defenses, we estimate that lessee rental payment obligations during the remaining terms of these leases with expirations ranging from 2022 to 2034 are approximately \$13 million at March 31, 2020. We do not have any material known commitments that we or our subsidiaries will be called on to perform under any such assigned leases or subleases at March 31, 2020. There can be no assurance that any performance by AutoNation or its subsidiaries required under these leases would not have a material adverse effect on our business, financial condition, and cash flows.

At March 31, 2020, surety bonds, letters of credit, and cash deposits totaled \$107.8 million, of which \$39.7 million were letters of credit. In the ordinary course of business, we are required to post performance and surety bonds, letters of credit, and/or cash deposits as financial guarantees of our performance. We do not currently provide cash collateral for outstanding letters of credit.

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

13. BUSINESS AND CREDIT CONCENTRATIONS

We own and operate franchised automotive stores in the United States pursuant to franchise agreements with vehicle manufacturers. During the three months ended March 31, 2020, approximately 63% of our total retail new vehicle unit sales was generated by our stores in Florida, Texas, and California. We are subject to a concentration of risk in the event of financial distress of or other adverse event related to a major vehicle manufacturer or related lender or supplier. The core brands of vehicles that we sell, representing approximately 89% of the new vehicles sold during the three months ended March 31, 2020, are manufactured by Toyota (including Lexus), Honda, General Motors, Ford, FCA US, Mercedes-Benz, BMW, and Volkswagen (including Audi and Porsche). Our business could be materially adversely impacted by a bankruptcy of or other adverse event related to a major vehicle manufacturer or related lender or supplier.

We had receivables from manufacturers or distributors of \$172.3 million at March 31, 2020, and \$234.5 million at December 31, 2019. Additionally, a large portion of our contracts-in-transit included in Receivables, net, in the accompanying Unaudited Condensed Consolidated Balance Sheets, are due from automotive manufacturers' captive finance subsidiaries, which provide financing directly to our new and used vehicle customers. Concentrations of credit risk with respect to non-manufacturer trade receivables are limited due to the wide variety of customers and markets in which our products are sold as well as their dispersion across many different geographic areas in the United States. Consequently, at March 31, 2020, we do not consider AutoNation to have any significant non-manufacturer concentrations of credit risk.

14. SEGMENT INFORMATION

At March 31, 2020 and 2019, we had three reportable segments: (1) Domestic, (2) Import, and (3) Premium Luxury. Our Domestic segment is comprised of retail automotive franchises that sell new vehicles manufactured by Ford, General Motors, and FCA US. Our Import segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Toyota, Honda, Subaru, and Nissan. Our Premium Luxury segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Mercedes-Benz, BMW, Audi, Lexus, and Jaguar Land Rover. The franchises in each

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segment also sell used vehicles, parts and automotive repair and maintenance services, and automotive finance and insurance products.

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

The reportable segments identified above are the business activities of the Company for which discrete financial information is available and for which operating results are regularly reviewed by our chief operating decision maker to allocate resources and assess performance. Our chief operating decision maker is our Chief Executive Officer.

The following table provides information on revenues from external customers and segment income of our reportable segments.

| | Three Months Ended March 31, 2020 | | | Three Months Ended March 31, 2019 | | |
|----------------------------------|--------------------------------------|------------|-------------------|--------------------------------------|------------|-------------------|
| | Domestic | Import | Premium Luxury | Domestic | Import | Premium Luxury |
| Revenues from external customers | \$ 1,483.5 | \$ 1,362.1 | \$ 1,616.8 | \$ 1,568.8 | \$ 1,496.1 | \$ 1,734.1 |
| Segment income ⁽¹⁾ | \$ 54.1 | \$ 65.9 | \$ 80.2 | \$ 56.2 | \$ 72.6 | \$ 84.3 |

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

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

| | Three Months Ended March 31, | |
|--|---------------------------------|----------|
| | 2020 | 2019 |
| Total segment income for reportable segments | \$ 200.2 | \$ 213.1 |
| Corporate and other | (445.0) | (61.3) |
| Other interest expense | (23.5) | (27.8) |
| Interest income | 0.1 | 0.2 |
| Other income (loss), net | (3.0) | 1.9 |
| Income (loss) from continuing operations before income taxes | \$ (271.2) | \$ 126.1 |

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

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

Overview

AutoNation, Inc., through its subsidiaries, is the largest automotive retailer in the United States. As of March 31, 2020, we owned and operated 317 new vehicle franchises from 231 stores located in the United States, predominantly in major metropolitan markets in the Sunbelt region. Our stores, which we believe include some of the most recognizable and well known in our key markets, sell 32 different new vehicle brands. The core brands of new vehicles that we sell, representing approximately 89% of the new vehicles that we sold during the three months ended March 31, 2020, are manufactured by Toyota (including Lexus), Honda, General Motors, Ford, FCA US, Mercedes-Benz, BMW, and Volkswagen (including Audi and Porsche). As of March 31, 2020, we also owned and operated 81 AutoNation-branded collision centers, 5 AutoNation USA stores, 4 automotive auction operations, and 16 parts distribution centers.

We offer a diversified range of automotive products and services, including new vehicles, used vehicles, "parts and service," which includes automotive repair and maintenance services as well as wholesale parts and collision businesses, and automotive "finance and insurance" products, which include vehicle service and other protection products, as well as the arranging of financing for vehicle purchases through third-party finance sources. We believe that the significant scale of our operations and the quality of our managerial talent allow us to achieve efficiencies in our key markets by, among other things, leveraging the AutoNation retail brand and advertising, implementing standardized processes, and increasing productivity across all of our stores.

At March 31, 2020, we had three reportable segments: (1) Domestic, (2) Import, and (3) Premium Luxury. Our Domestic segment is comprised of retail automotive franchises that sell new vehicles manufactured by Ford, General Motors, and FCA US. Our Import segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Toyota, Honda, Subaru, and Nissan. Our Premium Luxury segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Mercedes-Benz, BMW, Audi, Lexus, and Jaguar Land Rover. The franchises in each segment also sell used vehicles, parts and automotive repair and maintenance services, and automotive finance and insurance products.

For the three months ended March 31, 2020, new vehicle sales accounted for approximately 49% of our total revenue and approximately 12% of our total gross profit. Used vehicle sales accounted for approximately 27% of our total revenue and approximately 11% of our total gross profit. Our parts and service and finance and insurance operations, while comprising approximately 24% of our total revenue for the three months ended March 31, 2020, contributed approximately 77% of our total gross profit for the same period.

Impact of the COVID-19 Pandemic on Our Business

In the first quarter of 2020, U.S. industry retail new vehicle unit sales decreased 12% as compared to the first quarter of 2019. On March 11, 2020, the World Health Organization declared the current novel coronavirus disease 2019 ("COVID-19") outbreak to be a global pandemic. The COVID-19 pandemic has adversely impacted, and is expected to continue to adversely impact, our operations in the near-term. By early April 2020, states from which we derive nearly all of our total revenue were under extensive "shelter in place" or "stay at home" orders from federal, state, and local governments, many of which are currently still in place. These orders significantly restrict our business operations, in particular our sales activities. As a result, we had significant declines in new and used vehicle unit sales, including a year-over-year decline of approximately 50% during the last two weeks of March 2020, and our parts and service business was operating below full capacity. In addition, our stock price, along with the U.S. stock market in general, was adversely impacted by the COVID-19 pandemic.

We have taken various actions in an attempt to mitigate the financial impact of the COVID-19 pandemic. Effective in April 2020, we placed approximately 7,000 employees on unpaid leave, implemented temporary base pay reductions for our executive officers and associates, and froze corporate new hiring. We also took actions to reduce our advertising expenses by approximately 50% for the second quarter of 2020, significantly reduced our discretionary spending, and postponed over \$50 million of capital expenditures through the second quarter of 2020. The majority of our corporate staff are currently under remote work arrangements, which have not affected our ability to maintain support operations, including financial reporting systems, internal control over financial reporting, and disclosure controls and procedures.

In light of the uncertainty surrounding the COVID-19 pandemic and the impact that it had on our stock price and results of operations, we performed quantitative goodwill and franchise rights impairment tests as of March 31, 2020. As a result of these impairment tests, during the three months ended March 31, 2020, we recorded non-cash goodwill and franchise rights impairment charges totaling \$375.8 million. See “Critical Accounting Estimates” below for more information.

In the current environment, we have a strong focus on preserving liquidity. Our primary liquidity sources are cash and cash equivalents, funds generated through operations, and amounts available under our revolving credit facility, commercial paper program, and secured used vehicle floorplan facilities. We have senior unsecured notes totaling \$1.5 billion, with \$300.0 million of such notes maturing in January 2021, and the remainder maturing between 2024 and 2027. Although we have experienced a decrease in our cash flow from operations as a result of the impact of the COVID-19 pandemic, as of March 31, 2020, our available liquidity totaled approximately \$1.2 billion, primarily comprised of borrowing capacity under our revolving credit facility of \$822.4 million (as limited under the applicable maximum consolidated leverage ratio contained in our credit agreement) and cash of \$411.0 million. Depending on market conditions, we may from time to time issue debt, including in private or public offerings, to augment our liquidity, to reduce our cost of capital, or for general corporate purposes. See “Liquidity and Capital Resources - Available Liquidity Resources” below for more information.

We are unable to predict when and how quickly we will be able to resume normal levels of operations. While we are not able to estimate the ultimate impact of the COVID-19 pandemic on our financial condition and future results of operations, we expect that this situation will have a significant adverse effect on our reported results for the second quarter of 2020 and possibly beyond, and depending on the magnitude and duration of the COVID-19 pandemic, such impact may be material.

Results of Operations

During the three months ended March 31, 2020, we had a net loss from continuing operations of \$232.2 million and a diluted loss per share of \$2.58, as compared to net income from continuing operations of \$92.1 million and diluted earnings per share of \$1.02 during the same period in 2019.

Our total gross profit decreased 4% during the first quarter of 2020 compared to the first quarter of 2019, primarily due to a decrease in vehicle unit volume, which was down 9% as compared to the first quarter of 2019. Vehicle unit volume was significantly adversely impacted the last two weeks of March 2020 due to the impact of the COVID-19 pandemic, discussed above. The decrease in vehicle unit volume was partially offset by increases in used vehicle and finance and insurance gross profit per vehicle retailed (“PVR”), which were up 8% and 10%, respectively. Additionally, SG&A expenses decreased in the first quarter of 2020, as compared to the same period in 2019, as a result of the COVID-19 pandemic impacts, including performance-driven decreases in compensation expense resulting from lower sales volumes, and changes in expectations of pay-out levels of performance-based compensation.

Net loss from continuing operations during the three months ended March 31, 2020, was adversely impacted by non-cash after-tax goodwill and franchise rights impairment charges totaling \$308.4 million and non-cash after-tax other asset impairment charges of \$6.2 million. Net income from continuing operations during the three months ended March 31, 2019, benefited from net after-tax gains related to store/property divestitures, net of asset impairments, of \$6.3 million.

Chief Executive Officer and President Transition

On April 12, 2020, our Board of Directors granted the request of Cheryl Miller, Chief Executive Officer and President of the Company, for a leave of absence for health reasons, and appointed Mike Jackson, Executive Chairman of the Board, to serve in the additional positions of Chief Executive Officer and President. On April 21, 2020, our Board of Directors promoted James R. Bender from his position as the Company’s Executive Vice President and Chief Operating Officer to the position of President and Chief Operating Officer of the Company, effective as of April 22, 2020.

Strategic Initiatives

We continue to build upon our comprehensive, customer-focused brand extension strategy, which includes AutoNation-branded parts and accessories, AutoNation-branded Customer Financial Services products (including extended service and maintenance contracts and other vehicle protection products), AutoNation-branded collision centers, AutoNation-branded automotive auctions, AutoNation USA stand-alone used vehicle sales and service centers, and our parts distribution network. In March 2020, we invested \$50 million in Waymo, the self-driving technology company of Alphabet Inc., which currently represents an equivalent ownership stake of less than 1%.

Inventory Management

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

We have typically not experienced significant losses on the sale of new vehicle inventory, in part due to incentives provided by manufacturers to promote sales of new vehicles and our inventory management practices. We monitor our new vehicle inventory values as compared to net realizable values, and had no new vehicle inventory write-downs at March 31, 2020, or at December 31, 2019. We are actively managing inventory levels in response to impacts from the COVID-19 pandemic.

We recondition the majority of used vehicles acquired for retail sale in our parts and service departments and capitalize the related costs to the used vehicle inventory. We monitor our used vehicle inventory values as compared to net realizable values. Typically, used vehicles that are not sold on a retail basis are sold at wholesale auctions. Our used vehicle inventory balance was net of cumulative write-downs of \$3.5 million at March 31, 2020, and \$3.2 million at December 31, 2019.

Parts, accessories, and other inventory are carried at the lower of cost or net realizable value. We estimate the amount of potentially damaged and/or excess and obsolete inventory based upon historical experience, manufacturer return policies, and industry trends. Our parts, accessories, and other inventory balance was net of cumulative write-downs of \$15.0 million at March 31, 2020, and \$11.1 million at December 31, 2019.

Critical Accounting Estimates

We prepare our Unaudited Condensed Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles (“GAAP”), which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. We evaluate our estimates on an ongoing basis, and we base our estimates on historical experience and various other assumptions we believe to be reasonable. Actual outcomes could differ materially from those estimates in a manner that could have a material effect on our Unaudited Condensed Consolidated Financial Statements. For additional discussion of our critical accounting estimates, please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our most recent Annual Report on Form 10-K.

Goodwill

Goodwill for our reporting units is tested for impairment annually as of April 30 or more frequently when events or changes in circumstances indicate that the carrying value of a reporting unit more likely than not exceeds its fair value.

In light of the uncertainty surrounding the COVID-19 pandemic and the decrease in our market capitalization as of March 31, 2020, we concluded that a triggering event had occurred potentially indicating that the fair values of our reporting units were less than their carrying values as of March 31, 2020. Therefore, we performed quantitative goodwill impairment tests for each of our reporting units as of March 31, 2020. As a result of these impairment tests, during the three months ended March 31, 2020, we recorded non-cash goodwill impairment charges totaling \$318.3 million, of which \$257.4 million related to our Premium Luxury reporting unit, \$41.6 million related to our Collision Centers reporting unit, and \$19.3 million related to our Parts Center reporting unit. The non-cash impairment charges are reflected as Goodwill Impairment in the accompanying Unaudited Condensed Consolidated Statements of Operations. The quantitative goodwill impairment test is dependent on many variables used to determine the fair value of our reporting units. See Note 11 of the Notes to Unaudited Condensed Consolidated Financial Statements for additional information on how the fair values and carrying values of our reporting units are derived for the quantitative goodwill impairment test. This process also requires that we reconcile the estimated aggregate fair values of our reporting units to our market capitalization, including consideration of a control premium, based upon our stock price and/or average stock price over a reasonable period as of the measurement date.

As a result of the quantitative goodwill impairment tests, the fair values of our Domestic and Import reporting units substantially exceeded their carrying values, goodwill associated with our Premium Luxury reporting unit was partially impaired, and goodwill associated with our Collision Center and Parts Center reporting units was fully impaired. Therefore, the most significant impact of a change in the assumptions used in determining our goodwill impairment as of March 31, 2020, would have related to our Premium Luxury reporting unit. As noted above, the goodwill impairment testing process requires the estimated aggregate fair values of our reporting units to be reconciled with our market capitalization, including consideration of a control premium, based upon our stock price and/or average stock price over a reasonable period as of the measurement date. The COVID-19 pandemic had a significant adverse impact on the U.S. stock market during the first quarter of 2020, and our closing stock price declined more than 40% to \$28.06 as of March 31, 2020, compared to our closing stock price of \$48.65 as

recently as February 21, 2020. As a result, as of March 31, 2020, our market capitalization and, therefore, the estimated fair values of our reporting units, significantly decreased. As a measure of sensitivity, a 50 basis point increase in the discount rate, would have resulted in an increase to the goodwill impairment charge of approximately \$100 million. This result and discussion is not intended to address all potential outcomes that could have resulted if different assumptions had been used in determining our goodwill impairment given the number of assumptions used in determining the impairment and the degree of sensitivity to changes in such assumptions in the determination of the fair value of the Company and its assets and liabilities. We would have been in compliance with the financial covenants in our debt agreements even if we had impaired all of the goodwill associated with all of our reporting units as such charges do not factor into the calculations for those covenants.

As of March 31, 2020, we have \$227.3 million of goodwill related to the Domestic reporting unit, \$498.8 million related to the Import reporting unit, and \$457.5 million related to the Premium Luxury reporting unit. Goodwill for our Collision Center and Parts Center reporting units was fully impaired as of March 31, 2020.

Other Intangible Assets

Our principal identifiable intangible assets are individual store rights under franchise agreements with vehicle manufacturers, which have indefinite lives and are tested for impairment annually as of April 30 or more frequently when events or changes in circumstances indicate that impairment may have occurred. We also concluded that, as a result of the impacts from the COVID-19 pandemic, a triggering event had occurred that indicated the fair values of our franchise rights may have been less than their carrying values as of March 31, 2020. We performed quantitative impairment tests as of March 31, 2020, and as a result, we identified eight stores with franchise rights carrying values that exceeded their fair values, and we recorded non-cash franchise rights impairment charges of \$57.5 million. The non-cash impairment charges are reflected as Franchise Rights Impairment in the accompanying Unaudited Condensed Consolidated Statements of Operations. We identified eight additional stores that, while they each had franchise rights fair value in excess of carrying value, had lower relative performance compared to our total store population. We will continue to monitor these stores, as well as all stores, for events or changes in circumstances that may indicate potential impairment. The remainder of our stores had franchise rights with calculated fair values that substantially exceeded their carrying values. As of March 31, 2020, after the impairment charges, we had 56 stores with franchise rights totaling \$509.0 million.

The quantitative franchise rights impairment test is dependent on many variables used to determine the fair value of each store's franchise rights. See Note 11 of the Notes to Unaudited Condensed Consolidated Financial Statements for a description of the valuation method and related estimates and assumptions used in our quantitative impairment testing. If the fair value of each of our franchise rights had been determined to be a hypothetical 10% lower as of the valuation date of March 31, 2020, the resulting incremental charge would have been less than \$3 million. The effect of a hypothetical 10% decrease in fair value estimates is not intended to provide a sensitivity analysis of every potential outcome.

Impact of the COVID-19 Pandemic on Goodwill and Other Intangible Assets

While we cannot predict the duration or scope of the COVID-19 pandemic, the negative financial impact on our financial results and performance could be material in future periods. A change in the conditions, circumstances, or strategy, which influence determinations of fair value, including negative or declining cash flows or a decline in actual or planned revenues for our stores for a prolonged period, and, as it relates to goodwill, a significant decrease in our market capitalization, may result in a need to recognize additional goodwill and/or franchise rights impairment charges in the future. We are scheduled to complete our annual goodwill and franchise rights impairment tests as of April 30, 2020, during the second quarter of 2020.

Reported Operating Data

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

| (\$ in millions, except per vehicle data) | Three Months Ended March 31, | | | |
|--|------------------------------|------------|------------------------------------|------------|
| | 2020 | 2019 | Variance Favorable / (Unfavorable) | % Variance |
| Revenue: | | | | |
| New vehicle | \$ 2,281.9 | \$ 2,496.7 | \$ (214.8) | (8.6) |
| Retail used vehicle | 1,162.0 | 1,261.8 | (99.8) | (7.9) |
| Wholesale | 86.7 | 77.8 | 8.9 | 11.4 |
| Used vehicle | 1,248.7 | 1,339.6 | (90.9) | (6.8) |
| Finance and insurance, net | 235.8 | 236.5 | (0.7) | (0.3) |
| Total variable operations ⁽¹⁾ | 3,766.4 | 4,072.8 | (306.4) | (7.5) |
| Parts and service | 876.3 | 876.7 | (0.4) | — |
| Other | 24.3 | 32.3 | (8.0) | |
| Total revenue | \$ 4,667.0 | \$ 4,981.8 | \$ (314.8) | (6.3) |
| Gross profit: | | | | |
| New vehicle | \$ 96.4 | \$ 121.9 | \$ (25.5) | (20.9) |
| Retail used vehicle | 83.5 | 84.3 | (0.8) | (0.9) |
| Wholesale | 7.5 | 6.2 | 1.3 | |
| Used vehicle | 91.0 | 90.5 | 0.5 | 0.6 |
| Finance and insurance | 235.8 | 236.5 | (0.7) | (0.3) |
| Total variable operations ⁽¹⁾ | 423.2 | 448.9 | (25.7) | (5.7) |
| Parts and service | 388.8 | 398.9 | (10.1) | (2.5) |
| Other | 1.2 | 1.4 | (0.2) | |
| Total gross profit | 813.2 | 849.2 | (36.0) | (4.2) |
| Selling, general, and administrative expenses | 600.7 | 623.0 | 22.3 | 3.6 |
| Depreciation and amortization | 48.1 | 44.1 | (4.0) | |
| Goodwill impairment | 318.3 | — | (318.3) | |
| Franchise rights impairment | 57.5 | — | (57.5) | |
| Other (income) expense, net | 7.9 | (8.7) | (16.6) | |
| Operating income (loss) | (219.3) | 190.8 | (410.1) | |
| Non-operating income (expense) items: | | | | |
| Floorplan interest expense | (25.5) | (39.0) | 13.5 | |
| Other interest expense | (23.5) | (27.8) | 4.3 | |
| Interest income | 0.1 | 0.2 | (0.1) | |
| Other income (loss), net | (3.0) | 1.9 | (4.9) | |
| Income (loss) from continuing operations before income taxes | \$ (271.2) | \$ 126.1 | \$ (397.3) | |
| Retail vehicle unit sales: | | | | |
| New vehicle | 56,739 | 63,513 | (6,774) | (10.7) |
| Used vehicle | 56,149 | 61,171 | (5,022) | (8.2) |
| | 112,888 | 124,684 | (11,796) | (9.5) |
| Revenue per vehicle retailed: | | | | |
| New vehicle | \$ 40,217 | \$ 39,310 | \$ 907 | 2.3 |
| Used vehicle | \$ 20,695 | \$ 20,627 | \$ 68 | 0.3 |
| Gross profit per vehicle retailed: | | | | |
| New vehicle | \$ 1,699 | \$ 1,919 | \$ (220) | (11.5) |
| Used vehicle | \$ 1,487 | \$ 1,378 | \$ 109 | 7.9 |
| Finance and insurance | \$ 2,089 | \$ 1,897 | \$ 192 | 10.1 |
| Total variable operations ⁽²⁾ | \$ 3,682 | \$ 3,551 | \$ 131 | 3.7 |

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

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

| | Three Months Ended | |
|---|---------------------------|-----------------|
| | March 31, | |
| | 2020 (%) | 2019 (%) |
| Revenue mix percentages: | | |
| New vehicle | 48.9 | 50.1 |
| Used vehicle | 26.8 | 26.9 |
| Parts and service | 18.8 | 17.6 |
| Finance and insurance, net | 5.1 | 4.7 |
| Other | 0.4 | 0.7 |
| Total | 100.0 | 100.0 |
| Gross profit mix percentages: | | |
| New vehicle | 11.9 | 14.4 |
| Used vehicle | 11.2 | 10.7 |
| Parts and service | 47.8 | 47.0 |
| Finance and insurance | 29.0 | 27.8 |
| Other | 0.1 | 0.1 |
| Total | 100.0 | 100.0 |
| Operating items as a percentage of revenue: | | |
| Gross profit: | | |
| New vehicle | 4.2 | 4.9 |
| Used vehicle - retail | 7.2 | 6.7 |
| Parts and service | 44.4 | 45.5 |
| Total | 17.4 | 17.0 |
| Selling, general, and administrative expenses | 12.9 | 12.5 |
| Operating income (loss) | NM | 3.8 |
| Other operating items as a percentage of total gross profit: | | |
| Selling, general, and administrative expenses | 73.9 | 73.4 |
| Operating income (loss) | NM | 22.5 |

NM - Not Meaningful

| | March 31, | |
|---|------------------|-------------|
| | 2020 | 2019 |
| Inventory days supply: | | |
| New vehicle (industry standard of selling days) | 98 days | 77 days |
| Used vehicle (trailing calendar month days) | 48 days | 30 days |

Same Store Operating Data

We have presented below our operating results on a same store basis, which reflect the results of our stores for the identical months in each period presented in the comparison, commencing with the first full month in which the store was owned by us. Results from divested stores are excluded from both current and prior periods. Therefore, the amounts presented in the 2019 columns may differ from the same store amounts presented for 2019 in the prior year.

| (\$ in millions, except per vehicle data) | Three Months Ended March 31, | | | |
|---|------------------------------|------------|------------------------------------|------------|
| | 2020 | 2019 | Variance Favorable / (Unfavorable) | % Variance |
| Revenue: | | | | |
| New vehicle | \$ 2,277.9 | \$ 2,455.7 | \$ (177.8) | (7.2) |
| Retail used vehicle | 1,160.1 | 1,239.7 | (79.6) | (6.4) |
| Wholesale | 86.6 | 76.7 | 9.9 | 12.9 |
| Used vehicle | 1,246.7 | 1,316.4 | (69.7) | (5.3) |
| Finance and insurance, net | 235.6 | 233.0 | 2.6 | 1.1 |
| Total variable operations ⁽¹⁾ | 3,760.2 | 4,005.1 | (244.9) | (6.1) |
| Parts and service | 875.3 | 860.6 | 14.7 | 1.7 |
| Other | 24.1 | 32.2 | (8.1) | |
| Total revenue | \$ 4,659.6 | \$ 4,897.9 | \$ (238.3) | (4.9) |
| Gross profit: | | | | |
| New vehicle | \$ 96.0 | \$ 121.1 | \$ (25.1) | (20.7) |
| Retail used vehicle | 83.4 | 83.4 | — | — |
| Wholesale | 7.6 | 6.4 | 1.2 | |
| Used vehicle | 91.0 | 89.8 | 1.2 | 1.3 |
| Finance and insurance | 235.6 | 233.0 | 2.6 | 1.1 |
| Total variable operations ⁽¹⁾ | 422.6 | 443.9 | (21.3) | (4.8) |
| Parts and service | 388.9 | 391.8 | (2.9) | (0.7) |
| Other | 0.9 | 1.4 | (0.5) | |
| Total gross profit | \$ 812.4 | \$ 837.1 | \$ (24.7) | (3.0) |
| Retail vehicle unit sales: | | | | |
| New vehicle | 56,692 | 62,185 | (5,493) | (8.8) |
| Used vehicle | 56,093 | 59,787 | (3,694) | (6.2) |
| | 112,785 | 121,972 | (9,187) | (7.5) |
| Revenue per vehicle retailed: | | | | |
| New vehicle | \$ 40,180 | \$ 39,490 | \$ 690 | 1.7 |
| Used vehicle | \$ 20,682 | \$ 20,735 | \$ (53) | (0.3) |
| Gross profit per vehicle retailed: | | | | |
| New vehicle | \$ 1,693 | \$ 1,947 | \$ (254) | (13.0) |
| Used vehicle | \$ 1,487 | \$ 1,395 | \$ 92 | 6.6 |
| Finance and insurance | \$ 2,089 | \$ 1,910 | \$ 179 | 9.4 |
| Total variable operations ⁽²⁾ | \$ 3,680 | \$ 3,587 | \$ 93 | 2.6 |

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

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

| | Three Months Ended | |
|---|--------------------|----------|
| | March 31, | |
| | 2020 (%) | 2019 (%) |
| Revenue mix percentages: | | |
| New vehicle | 48.9 | 50.1 |
| Used vehicle | 26.8 | 26.9 |
| Parts and service | 18.8 | 17.6 |
| Finance and insurance, net | 5.1 | 4.8 |
| Other | 0.4 | 0.6 |
| Total | 100.0 | 100.0 |
| Gross profit mix percentages: | | |
| New vehicle | 11.8 | 14.5 |
| Used vehicle | 11.2 | 10.7 |
| Parts and service | 47.9 | 46.8 |
| Finance and insurance | 29.0 | 27.8 |
| Other | 0.1 | 0.2 |
| Total | 100.0 | 100.0 |
| Operating items as a percentage of revenue: | | |
| Gross profit: | | |
| New vehicle | 4.2 | 4.9 |
| Used vehicle - retail | 7.2 | 6.7 |
| Parts and service | 44.4 | 45.5 |
| Total | 17.4 | 17.1 |

New Vehicle

| (\$ in millions, except per vehicle data) | Three Months Ended March 31, | | | |
|---|------------------------------|------------|------------------------------------|------------|
| | 2020 | 2019 | Variance Favorable / (Unfavorable) | % Variance |
| Reported: | | | | |
| Revenue | \$ 2,281.9 | \$ 2,496.7 | \$ (214.8) | (8.6) |
| Gross profit | \$ 96.4 | \$ 121.9 | \$ (25.5) | (20.9) |
| Retail vehicle unit sales | 56,739 | 63,513 | (6,774) | (10.7) |
| Revenue per vehicle retailed | \$ 40,217 | \$ 39,310 | \$ 907 | 2.3 |
| Gross profit per vehicle retailed | \$ 1,699 | \$ 1,919 | \$ (220) | (11.5) |
| Gross profit as a percentage of revenue | 4.2% | 4.9% | | |
| Inventory days supply (industry standard of selling days) | 98 days | 77 days | | |

| | Three Months Ended March 31, | | | |
|---|------------------------------|------------|------------------------------------|------------|
| | 2020 | 2019 | Variance Favorable / (Unfavorable) | % Variance |
| Same Store: | | | | |
| Revenue | \$ 2,277.9 | \$ 2,455.7 | \$ (177.8) | (7.2) |
| Gross profit | \$ 96.0 | \$ 121.1 | \$ (25.1) | (20.7) |
| Retail vehicle unit sales | 56,692 | 62,185 | (5,493) | (8.8) |
| Revenue per vehicle retailed | \$ 40,180 | \$ 39,490 | \$ 690 | 1.7 |
| Gross profit per vehicle retailed | \$ 1,693 | \$ 1,947 | \$ (254) | (13.0) |
| Gross profit as a percentage of revenue | 4.2% | 4.9% | | |

The following discussion of new vehicle results is on a same store basis. The difference between reported amounts and same store amounts in the above tables of \$4.0 million and \$41.0 million in new vehicle revenue and \$0.4 million and \$0.8 million in new vehicle gross profit for the three months ended March 31, 2020 and 2019, respectively, is related to divestiture activity and the opening of a new add-point.

First Quarter 2020 compared to First Quarter 2019

Same store new vehicle revenue decreased during the three months ended March 31, 2020, as compared to the same period in 2019, due to a decrease in same store unit volume, partially offset by an increase in revenue PVR. The decrease in same store unit volume was due to significant declines in new vehicle unit sales during the last two weeks of March 2020 as a result of the COVID-19 pandemic.

Same store revenue PVR increased during the three months ended March 31, 2020, as compared to the same period in 2019, due in part to a shift in mix toward trucks and sport utility vehicles, which have relatively higher average selling prices. The shift in mix toward trucks and sports utility vehicles is due to a combination of improved vehicle fuel efficiency, relatively low average fuel prices, and changing consumer preference. Average selling prices also increased as a result of increases in the manufacturers' suggested retail prices.

Same store gross profit PVR decreased during the three months ended March 31, 2020, as compared to the same period in 2019, primarily due to decreases in gross profit PVR for Premium Luxury and Domestic vehicles as we focused on balancing gross profit PVRs and unit volume.

New Vehicle Inventory Carrying Benefit (Cost)

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

| (\$ in millions) | Three Months Ended March 31, | | |
|---|------------------------------|-----------|----------|
| | 2020 | 2019 | Variance |
| Floorplan assistance | \$ 24.5 | \$ 25.2 | \$ (0.7) |
| New vehicle floorplan interest expense | (23.1) | (36.4) | 13.3 |
| Net new vehicle inventory carrying benefit (cost) | \$ 1.4 | \$ (11.2) | \$ 12.6 |

First Quarter 2020 compared to First Quarter 2019

We had a net new vehicle inventory carrying benefit for the three months ended March 31, 2020, and a net new vehicle inventory carrying cost for the three months ended March 31, 2019. Floorplan interest expense decreased due to lower average interest rates and lower average floorplan balances. Floorplan interest rates are variable and therefore increase and decrease with changes in the underlying benchmark interest rates. The Federal Reserve cut interest rate three times over the third and fourth quarters of 2019, and in response to the COVID-19 pandemic, the Federal Reserve cut interest rates to near 0% in March 2020. Although lower average interest rates are beneficial to interest expense, this benefit may be partially or fully offset in stores where days supply averages increase due to lower sales volume.

Used Vehicle

| (\$ in millions, except per vehicle data) | Three Months Ended March 31, | | | |
|--|------------------------------|------------|------------------------------------|------------|
| | 2020 | 2019 | Variance Favorable / (Unfavorable) | % Variance |
| Reported: | | | | |
| Retail revenue | \$ 1,162.0 | \$ 1,261.8 | \$ (99.8) | (7.9) |
| Wholesale revenue | 86.7 | 77.8 | 8.9 | 11.4 |
| Total revenue | \$ 1,248.7 | \$ 1,339.6 | \$ (90.9) | (6.8) |
| Retail gross profit | \$ 83.5 | \$ 84.3 | \$ (0.8) | (0.9) |
| Wholesale gross profit | 7.5 | 6.2 | 1.3 | |
| Total gross profit | \$ 91.0 | \$ 90.5 | \$ 0.5 | 0.6 |
| Retail vehicle unit sales | 56,149 | 61,171 | (5,022) | (8.2) |
| Revenue per vehicle retailed | \$ 20,695 | \$ 20,627 | \$ 68 | 0.3 |
| Gross profit per vehicle retailed | \$ 1,487 | \$ 1,378 | \$ 109 | 7.9 |
| Gross profit as a percentage of revenue | 7.2% | 6.7% | | |
| Inventory days supply (trailing calendar month days) | 48 days | 30 days | | |

| | Three Months Ended March 31, | | | |
|---|------------------------------|------------|------------------------------------|------------|
| | 2020 | 2019 | Variance Favorable / (Unfavorable) | % Variance |
| Same Store: | | | | |
| Retail revenue | \$ 1,160.1 | \$ 1,239.7 | \$ (79.6) | (6.4) |
| Wholesale revenue | 86.6 | 76.7 | 9.9 | 12.9 |
| Total revenue | \$ 1,246.7 | \$ 1,316.4 | \$ (69.7) | (5.3) |
| Retail gross profit | \$ 83.4 | \$ 83.4 | \$ — | — |
| Wholesale gross profit | 7.6 | 6.4 | 1.2 | |
| Total gross profit | \$ 91.0 | \$ 89.8 | \$ 1.2 | 1.3 |
| Retail vehicle unit sales | 56,093 | 59,787 | (3,694) | (6.2) |
| Revenue per vehicle retailed | \$ 20,682 | \$ 20,735 | \$ (53) | (0.3) |
| Gross profit per vehicle retailed | \$ 1,487 | \$ 1,395 | \$ 92 | 6.6 |
| Gross profit as a percentage of revenue | 7.2% | 6.7% | | |

The following discussion of used vehicle results is on a same store basis. The difference between reported amounts and same store amounts in the above tables of \$2.0 million and \$23.2 million in total used vehicle revenue for the three months ended March 31, 2020 and 2019 and \$0.7 million in total used vehicle gross profit for the three months ended March 31, 2019, respectively, is related to divestiture activity and the opening of a new add-point.

First Quarter 2020 compared to First Quarter 2019

Same store retail used vehicle revenue decreased during the three months ended March 31, 2020, as compared to the same period in 2019, primarily due to a decrease in same store unit volume. The decrease in same store unit volume was due to significant declines in used retail vehicle unit sales during the last two weeks of March 2020 as a result of the COVID-19 pandemic. These declines were partially offset by an increase in relative market demand for used vehicles as compared to new vehicles, due in part to increased affordability compared to new vehicles and shifting dynamics in the used vehicle market. With the continued elevated levels in off-lease supply of late-model used vehicles, the average age and mileage of used vehicles in the market has decreased, which has provided wider availability of in-demand technology features on used vehicles, resulting in reduced disparity between used vehicles and new vehicles. Our used-to-new vehicle unit sales ratio increased to 98.9% for the three months ended March 31, 2020, as compared to 96.1% for the prior year period.

Same store revenue PVR was relatively flat during the three months ended March 31, 2020, as compared to the same period in 2019.

Same store gross profit PVR increased during the three months ended March 31, 2020, as compared to the same period in 2019, due to increases in gross profit PVR for Premium Luxury and Import vehicles.

Parts and Service

| (\$ in millions) | Three Months Ended March 31, | | | |
|---|------------------------------|----------|------------------------------------|------------|
| | 2020 | 2019 | Variance Favorable / (Unfavorable) | % Variance |
| Reported: | | | | |
| Revenue | \$ 876.3 | \$ 876.7 | \$ (0.4) | — |
| Gross Profit | \$ 388.8 | \$ 398.9 | \$ (10.1) | (2.5) |
| Gross profit as a percentage of revenue | 44.4% | 45.5% | | |
| Same Store: | | | | |
| Revenue | \$ 875.3 | \$ 860.6 | \$ 14.7 | 1.7 |
| Gross Profit | \$ 388.9 | \$ 391.8 | \$ (2.9) | (0.7) |
| Gross profit as a percentage of revenue | 44.4% | 45.5% | | |

Parts and service revenue is primarily derived from vehicle repairs paid directly by customers or via reimbursement from manufacturers and others under warranty programs, as well as from wholesale parts sales and collision services.

The following discussion of parts and service results is on a same store basis. The difference between reported amounts and same store amounts in the above tables of \$1.0 million and \$16.1 million in parts and service revenue and \$0.1 million and \$7.1 million in parts and service gross profit for the three months ended March 31, 2020 and 2019, respectively, is related to acquisition and divestiture activity, as well as the opening of a new add-point.

First Quarter 2020 compared to First Quarter 2019

During the three months ended March 31, 2020, same store parts and service gross profit decreased slightly compared to the same period in 2019, primarily due to decreases in gross profit associated with customer-pay service of \$3.1 million, warranty of \$2.5 million, and wholesale parts of \$2.0 million, which were partially offset by increases in gross profit associated with the preparation of vehicles for sale of \$3.3 million and collision business of \$1.8 million.

Customer-pay service gross profit and warranty gross profit were adversely impacted by a decrease in volume during the last two weeks of March 2020 as a result of the COVID-19 pandemic. The decrease in customer-pay volume was partially offset by higher value repair orders and price increases. The decrease in warranty volume was partially offset by higher value repair orders and improved parts and labor rates negotiated with certain manufacturers. Gross profit associated with our wholesale parts business decreased due to inventory write-downs to net realizable value. Gross profit associated with the preparation of vehicles for sale benefited from higher value internal repair orders, partially offset by lower new and used vehicle unit volume. Collision business gross profit benefited from an increase in volume, higher value repair orders, and an increase in gross profit associated with service work outsourced to third-parties.

Finance and Insurance

| (\$ in millions, except per vehicle data) | Three Months Ended March 31, | | | |
|---|------------------------------|----------|------------------------------------|------------|
| | 2020 | 2019 | Variance Favorable / (Unfavorable) | % Variance |
| Reported: | | | | |
| Revenue and gross profit | \$ 235.8 | \$ 236.5 | \$ (0.7) | (0.3) |
| Gross profit per vehicle retailed | \$ 2,089 | \$ 1,897 | \$ 192 | 10.1 |
| Same Store: | | | | |
| Revenue and gross profit | \$ 235.6 | \$ 233.0 | \$ 2.6 | 1.1 |
| Gross profit per vehicle retailed | \$ 2,089 | \$ 1,910 | \$ 179 | 9.4 |

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

The following discussion of finance and insurance results is on a same store basis. The difference between reported amounts and same store amounts in finance and insurance revenue and gross profit in the above tables of \$0.2 million and \$3.5 million for the three months ended March 31, 2020 and 2019, respectively, is related to divestiture activity, as well as the opening of a new add-point.

First Quarter 2020 compared to First Quarter 2019

Same store finance and insurance revenue and gross profit increased during the three months ended March 31, 2020, as compared to the same period in 2019, primarily due to an increase in finance and insurance gross profit PVR, partially offset by a decrease in vehicle unit volume. The increase in finance and insurance gross profit PVR was primarily due to an increase in product penetration and higher realized margins on vehicle service contracts, including our AutoNation Vehicle Protection Plan product. Finance and insurance gross profit PVR also benefited from higher realized margins on arranged customer financing and amounts financed per transaction. Increases in finance and insurance gross profit PVR were partially offset by a shift in unit volume mix from new vehicles to used vehicles, which have lower average selling prices than new vehicles and therefore typically generate lower gross profit per transaction associated with arranging customer financing. Sales of used vehicles also have lower finance and product penetration as compared to sales of new vehicles. Finance and insurance gross profit PVR was also adversely impacted by a decrease in retrospective commissions due in part to higher claim activity. We expect retrospective commissions to continue to decrease as compared to recent years.

Segment Results

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

| (\$ in millions) | Three Months Ended March 31, | | | |
|--------------------------------------|------------------------------|------------|--|---------------|
| | 2020 | 2019 | Variance Favorable / (Unfavorable) | % Variance |
| Revenue: | | | | |
| Domestic | \$ 1,483.5 | \$ 1,568.8 | \$ (85.3) | (5.4) |
| Import | 1,362.1 | 1,496.1 | (134.0) | (9.0) |
| Premium Luxury | 1,616.8 | 1,734.1 | (117.3) | (6.8) |
| Total | 4,462.4 | 4,799.0 | (336.6) | (7.0) |
| Corporate and other | 204.6 | 182.8 | 21.8 | 11.9 |
| Total consolidated revenue | \$ 4,667.0 | \$ 4,981.8 | \$ (314.8) | (6.3) |
| Segment income⁽¹⁾: | | | | |
| Domestic | \$ 54.1 | \$ 56.2 | \$ (2.1) | (3.7) |
| Import | 65.9 | 72.6 | (6.7) | (9.2) |
| Premium Luxury | 80.2 | 84.3 | (4.1) | (4.9) |
| Total | 200.2 | 213.1 | (12.9) | (6.1) |
| Corporate and other | (445.0) | (61.3) | (383.7) | |
| Floorplan interest expense | 25.5 | 39.0 | 13.5 | |
| Operating income (loss) | \$ (219.3) | \$ 190.8 | \$ (410.1) | |

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

| | | | | |
|---------------------------------------|--------|--------|---------|--------|
| Retail new vehicle unit sales: | | | | |
| Domestic | 18,327 | 20,205 | (1,878) | (9.3) |
| Import | 25,287 | 28,756 | (3,469) | (12.1) |
| Premium Luxury | 13,125 | 14,552 | (1,427) | (9.8) |
| | 56,739 | 63,513 | (6,774) | (10.7) |

Domestic

The Domestic segment operating results included the following:

| (\$ in millions) | Three Months Ended March 31, | | | |
|-------------------------------|------------------------------|------------|--|---------------|
| | 2020 | 2019 | Variance Favorable / (Unfavorable) | % Variance |
| Revenue | \$ 1,483.5 | \$ 1,568.8 | \$ (85.3) | (5.4) |
| Segment income | \$ 54.1 | \$ 56.2 | \$ (2.1) | (3.7) |
| Retail new vehicle unit sales | 18,327 | 20,205 | (1,878) | (9.3) |

First Quarter 2020 compared to First Quarter 2019

Domestic revenue decreased during the three months ended March 31, 2020, as compared to the same period in 2019, primarily due to decreases in new and used vehicle unit volume and parts and service volume during the last two weeks of March 2020 as a result of the COVID-19 pandemic and the divestitures we completed in 2019. These decreases were partially offset by an increase in new vehicle revenue PVR due in part to a shift in mix toward trucks and sport utility vehicles, which have relatively higher average selling prices, as a result of a combination of improved vehicle fuel efficiency, relatively low average fuel prices, and changing consumer preference. New vehicle average selling prices also increased as a result of increases in the manufacturers' suggested retail prices.

Domestic segment income decreased during the three months ended March 31, 2020, as compared to the same period in 2019, primarily due to decreases in new and used vehicle unit volume, parts and service volume, and new vehicle gross profit, which were adversely impacted by the COVID-19 pandemic. Decreases in Domestic segment income were partially offset by an increase in finance and insurance revenue and gross profit PVR, which benefited from higher realized margins on vehicle service contracts and an increase in product penetration, and decreases in floorplan interest and SG&A expenses.

Import

The Import segment operating results included the following:

| (\$ in millions) | Three Months Ended March 31, | | | |
|-------------------------------|------------------------------|------------|--|---------------|
| | 2020 | 2019 | Variance Favorable / (Unfavorable) | % Variance |
| Revenue | \$ 1,362.1 | \$ 1,496.1 | \$ (134.0) | (9.0) |
| Segment income | \$ 65.9 | \$ 72.6 | \$ (6.7) | (9.2) |
| Retail new vehicle unit sales | 25,287 | 28,756 | (3,469) | (12.1) |

First Quarter 2020 compared to First Quarter 2019

Import revenue decreased during the three months ended March 31, 2020, as compared to the same period in 2019, primarily due to decreases in new and used vehicle unit volume and parts and service volume during the last two weeks of March 2020 as a result of the COVID-19 pandemic and the divestitures we completed in 2019.

Import segment income decreased during the three months ended March 31, 2020, as compared to the same period in 2019, primarily due to decreases in parts and service volume and new and used vehicle unit volume, which were adversely impacted by the COVID-19 pandemic. Decreases in Import segment income were partially offset by an increase in finance and insurance revenue and gross profit PVR, which benefited from higher realized margins on vehicle service contracts and an increase in product penetration, and decreases in SG&A and floorplan interest expenses.

Premium Luxury

The Premium Luxury segment operating results included the following:

| (\$ in millions) | Three Months Ended March 31, | | | |
|-------------------------------|------------------------------|------------|--|---------------|
| | 2020 | 2019 | Variance Favorable / (Unfavorable) | % Variance |
| Revenue | \$ 1,616.8 | \$ 1,734.1 | \$ (117.3) | (6.8) |
| Segment income | \$ 80.2 | \$ 84.3 | \$ (4.1) | (4.9) |
| Retail new vehicle unit sales | 13,125 | 14,552 | (1,427) | (9.8) |

First Quarter 2020 compared to First Quarter 2019

Premium Luxury revenue decreased during the three months ended March 31, 2020, as compared to the same period in 2019, primarily due to decreases in new and used vehicle unit volume and parts and service volume during the last two weeks of March 2020 as a result of the COVID-19 pandemic.

Premium Luxury segment income decreased during the three months ended March 31, 2020, as compared to the same period in 2019, primarily due to decreases in new vehicle gross profit PVR, new vehicle unit volume, and parts and service volume, which were adversely impacted by the COVID-19 pandemic. Decreases in Premium Luxury segment income were partially offset by an increase in used vehicle gross profit PVR and finance and insurance revenue and gross profit PVR, which benefited from higher realized margins on vehicle service contracts and an increase in product penetration, and a decrease in floorplan interest expense.

Corporate and other

Corporate and other results included the following:

| (\$ in millions) | Three months ending March 31, | | | |
|------------------|-------------------------------|-----------|--|---------------|
| | 2020 | 2019 | Variance Favorable / (Unfavorable) | % Variance |
| Revenue | \$ 204.6 | \$ 182.8 | \$ 21.8 | 11.9 |
| Income (loss) | \$ (445.0) | \$ (61.3) | \$ (383.7) | |

“Corporate and other” is comprised of our other businesses, including collision centers, auction operations, AutoNation USA stand-alone used vehicle sales and service centers, and parts distribution centers, all of which generate revenues but do not meet the quantitative thresholds for determining reportable segments, as well as unallocated corporate overhead expenses and other income items.

As of March 31, 2020, we had 81 AutoNation-branded collision centers, 4 AutoNation-branded auction operations, and 5 AutoNation USA stand-alone used vehicle sales and service centers. We also had 6 parts distribution centers that service our wholesale parts sales markets for the sale of original equipment manufacturer parts. Additionally, we directly source and distribute retail and wholesale parts for sale to our customers and other dealerships and collision centers through our 10 operational AutoNation aftermarket collision parts distribution centers.

Our aftermarket collision parts business was established in 2018 and is still in its development and expansion phase. As of March 31, 2020, our aftermarket collision parts distribution centers as a group were not yet profitable and had approximately \$31 million of parts inventory. We have invested approximately \$16 million in our aftermarket parts distribution centers for equipment, information systems, and other intangible assets. Several of our aftermarket parts distribution centers are operated under a multi-year logistics agreement with a third party. This agreement is subject to a declining early termination penalty, which is estimated to be approximately \$14 million as of March 31, 2020. We also lease facilities for certain of the aftermarket collision parts distribution centers with right-of-use assets of approximately \$6 million and remaining lease payments through the various lease terms of approximately \$8 million as of March 31, 2020. Although we believe our aftermarket collision parts business will be profitable over time, we can make no such assurance. We expect to continue to focus on our parts distribution network to support our national wholesale footprint and create more opportunities to offer both original manufacturer and AutoNation aftermarket collision parts to our customers.

During the three months ended March 31, 2020, we recorded non-cash goodwill impairment charges totaling \$318.3 million, of which \$257.4 million related to our Premium Luxury reporting unit, \$41.6 million related to our Collision Centers reporting unit, and \$19.3 million related to our Parts Center reporting unit. We also recorded non-cash franchise rights impairment charges of \$57.5 million. The non-cash goodwill impairments and franchise rights impairments are reflected as Goodwill Impairment and Franchise Rights Impairment, respectively, in the accompanying Unaudited Condensed Consolidated Statements of Operations, and are reported in the “Corporate and other” category of our segment information. During the three months ended March 31, 2020, we recorded non-cash long-lived asset impairment charges associated with our aftermarket collision parts business of \$5.8 million, and non-cash intangible asset impairment charges associated with our collision centers and aftermarket collision parts business of \$2.4 million, both of which are reported in the “Corporate and other” category of our segment information. Our parts inventory balance for our aftermarket collision parts business was net of cumulative write-downs of \$8.2 million at March 31, 2020, and \$5.2 million at December 31, 2019.

Selling, General, and Administrative Expenses

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

| (\$ in millions) | Three Months Ended March 31, | | | |
|---|------------------------------|----------|------------------------------------|------------|
| | 2020 | 2019 | Variance Favorable / (Unfavorable) | % Variance |
| Reported: | | | | |
| Compensation | \$ 374.1 | \$ 399.0 | \$ 24.9 | 6.2 |
| Advertising | 46.3 | 44.2 | (2.1) | (4.8) |
| Store and corporate overhead | 180.3 | 179.8 | (0.5) | (0.3) |
| Total | \$ 600.7 | \$ 623.0 | \$ 22.3 | 3.6 |
| SG&A as a % of total gross profit: | | | | |
| Compensation | 46.0 | 47.0 | 100 | bps |
| Advertising | 5.7 | 5.2 | (50) | bps |
| Store and corporate overhead | 22.2 | 21.2 | (100) | bps |
| Total | 73.9 | 73.4 | (50) | bps |

First Quarter 2020 compared to First Quarter 2019

SG&A expenses decreased during the three months ended March 31, 2020, as compared to the same period in 2019, primarily due to a decrease in compensation expense, which was driven in part by the impact of the COVID-19 pandemic. As a result of “shelter in place” or “stay at home” orders from federal, state, and local governments and other restrictive orders that were put into place in March 2020, we had significant declines in new and used vehicle unit sales, including a year-over-year decline of approximately 50% during the last two weeks of March 2020, which negatively impacted compensation for our sales associates. Additionally, performance-based compensation expense decreased \$14.2 million, as compared to the first quarter of 2019, primarily due to changes in expectations of pay-out levels as a result of the COVID-19 pandemic impact. As a percentage of total gross profit, SG&A expenses increased to 73.9% during the three months ended March 31, 2020, from 73.4% in the same period in 2019, primarily due to gross profit pressure as a result of the COVID-19 pandemic impact.

Effective in April 2020, we placed approximately 7,000 employees on unpaid leave, implemented temporary base pay reductions for our executive officers and associates, and froze corporate new hiring. We also took actions to reduce our advertising expenses by approximately 50% for the second quarter of 2020 and significantly reduced our discretionary spending.

Goodwill Impairment

During the three months ended March 31, 2020, we recorded \$318.3 million of non-cash goodwill impairment charges primarily due to the impacts to our business as well as a decrease in our stock price and market capitalization as a result of the COVID-19 pandemic. See Note 6 of the Notes to Unaudited Condensed Consolidated Financial Statements for more information.

Franchise Rights Impairment

During the three months ended March 31, 2020, we recorded \$57.5 million of non-cash franchise right impairment charges to reduce the carrying values of certain franchise rights to their estimated fair values. See Note 6 of the Notes to Unaudited Condensed Consolidated Financial Statements for more information.

Other Income (Expense), Net (Operating)

During the first quarter of 2020, we recognized asset impairment charges of \$8.5 million. During the first quarter of 2019, we recognized net gains of \$8.5 million related to store divestitures.

Non-Operating Income (Expense)

Floorplan Interest Expense

First Quarter 2020 compared to First Quarter 2019

Floorplan interest expense was \$25.5 million for the three months ended March 31, 2020, compared to \$39.0 million for the same period in 2019. The decrease in floorplan interest expense of \$13.5 million was the result of lower average interest rates and lower average vehicle floorplan balances. Floorplan interest rates are variable and therefore increase and decrease with changes in the underlying benchmark interest rates.

Other Interest Expense

First Quarter 2020 compared to First Quarter 2019

Other interest expense of \$23.5 million for the three months ended March 31, 2020, decreased \$4.3 million as compared to \$27.8 million for the same period in 2019, driven by lower average debt balances and lower average interest rates primarily due to the repayment of the 5.5% Senior Notes due 2020. We also recorded a loss on debt extinguishment of \$1.1 million during the three months ended March 31, 2020, resulting from our credit facility debt refinancing in March 2020.

Income Tax Provision (Benefit)

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

Our effective income tax rate was 14.4% for the three months ended March 31, 2020, and 27.0% for the three months ended March 31, 2019. The tax rate for the three months ended March 31, 2020, reflects the fact that a significant portion of the goodwill impairment charges taken in the first quarter of 2020 was not deductible for income tax purposes.

Discontinued Operations

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

Liquidity and Capital Resources

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

We also believe that our liquidity resources will allow us to manage the impact of the COVID-19 pandemic on our business operations for the foreseeable future. The challenges posed by the COVID-19 pandemic on our business are evolving rapidly. Consequently, we will continue to evaluate our financial and liquidity position in light of future developments relating to the COVID-19 pandemic. Depending on market conditions, we may from time to time issue debt, including in private or public offerings, to augment our liquidity, to reduce our cost of capital, or for general corporate purposes.

Debt Refinancing Transaction

On March 26, 2020, we amended and restated our existing unsecured credit agreement to, among other things, (1) provide for lower commitment fees and loan margins as set forth in the amended and restated credit agreement, (2) extend the maturity date to March 26, 2025, and (3) provide for customary LIBOR replacement provisions.

Available Liquidity Resources

We had the following sources of liquidity available:

| (In millions) | March 31, 2020 | December 31, 2019 |
|--|-------------------------|----------------------|
| Cash and cash equivalents | \$ 411.0 | \$ 42.0 |
| Revolving credit facility ⁽¹⁾ | \$ 822.4 ⁽²⁾ | \$ 1,421.1 |
| Secured used vehicle floorplan facilities ⁽³⁾ | \$ 0.6 | \$ 0.6 |

- (1) As limited by the maximum consolidated leverage ratio contained in our credit agreement. The credit agreement also contains an accordion feature that allows us, subject to credit availability and certain other conditions, to increase the amount of the revolving credit facility, together with any added term loans, by up to \$500.0 million in the aggregate.
- (2) At March 31, 2020, we had \$39.7 million of letters of credit outstanding. In addition, we use the revolving credit facility under our credit agreement as a liquidity backstop for borrowings under our commercial paper program. We had \$140.0 million of commercial paper notes outstanding at March 31, 2020. See Note 7 of the Notes to Unaudited Condensed Consolidated Financial Statements for more information.
- (3) Based on the eligible used vehicle inventory that could have been pledged as collateral. See Note 5 of the Notes to Unaudited Condensed Consolidated Financial Statements for more information.

In the ordinary course of business, we are required to post performance and surety bonds, letters of credit, and/or cash deposits as financial guarantees of our performance relating to insurance matters. At March 31, 2020, surety bonds, letters of credit, and cash deposits totaled \$107.8 million, of which \$39.7 million were letters of credit. We do not currently provide cash collateral for outstanding letters of credit.

In February 2019, we filed an automatic shelf registration statement with the SEC that enables us to offer for sale, from time to time and as the capital markets permit, an unspecified amount of common stock, preferred stock, debt securities, warrants, subscription rights, depositary shares, stock purchase contracts, units, and guarantees of debt securities.

Capital Allocation

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

Share Repurchases

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

| (In millions, except per share data) | Three Months Ended March 31, | |
|--------------------------------------|---------------------------------|----------|
| | 2020 | 2019 |
| Shares repurchased | 2.5 | 1.0 |
| Aggregate purchase price | \$ 80.0 | \$ 33.5 |
| Average purchase price per share | \$ 31.95 | \$ 34.34 |

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

As of March 31, 2020, \$139.0 million remained available under our stock repurchase program most recently authorized by our Board of Directors. We temporarily suspended our share repurchase program at the end of the first quarter of 2020 in light of the COVID-19 pandemic. This suspension does not impact our remaining Board authorization, and we may in the future resume the program when appropriate.

Capital Expenditures

The following table sets forth information regarding our capital expenditures:

| (In millions) | Three Months Ended March 31, | |
|--|---------------------------------|---------|
| | 2020 | 2019 |
| Purchases of property and equipment, including operating lease buy-outs ⁽¹⁾ | \$ 30.0 | \$ 40.4 |

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

At March 31, 2020, we owned approximately 80% of our new vehicle franchise store locations with a net book value of \$2.1 billion, as well as other properties associated with our collision centers, auction operations, AutoNation USA stand-alone used vehicle sales and service centers, parts distribution centers, and other excess properties with a net book value of \$468.4 million. None of these properties are mortgaged or encumbered. We have taken various actions in an attempt to mitigate the financial impact of the COVID-19 pandemic, including the postponement of approximately \$50 million of capital expenditures through the second quarter of 2020. Planned expenditures beyond the second quarter of 2020 will be evaluated over the next several months.

Acquisitions and Divestitures

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

| (In millions) | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2020 | 2019 |
| Cash received from (used in) business acquisitions, net | \$ (0.4) | \$ (4.3) |
| Cash received from (used in) business divestitures, net | \$ — | \$ 17.4 |

We did not purchase or divest stores during the three months ended March 31, 2020. We purchased two parts distribution centers and divested two Import stores during the three months ended March 31, 2019.

Long-Term Debt and Commercial Paper

The following table sets forth our non-vehicle long-term debt, net of debt issuance costs, as of March 31, 2020, and December 31, 2019.

| Debt Description | Maturity Date | Interest Payable | (in millions) | |
|--|----------------------------|-------------------------|-------------------|----------------------|
| | | | March 31, 2020 | December 31, 2019 |
| 5.5% Senior Notes | February 1, 2020 | February 1 and August 1 | \$ — | \$ 350.0 |
| 3.35% Senior Notes | January 15, 2021 | January 15 and July 15 | 300.0 | 300.0 |
| 3.5% Senior Notes | November 15, 2024 | May 15 and November 15 | 450.0 | 450.0 |
| 4.5% Senior Notes | October 1, 2025 | April 1 and October 1 | 450.0 | 450.0 |
| 3.8% Senior Notes | November 15, 2027 | May 15 and November 15 | 300.0 | 300.0 |
| Revolving credit facility | March 26, 2025 | Monthly | 790.0 | — |
| Finance leases and other debt | Various dates through 2039 | Monthly | 101.2 | 93.9 |
| | | | 2,391.2 | 1,943.9 |
| Less: unamortized debt discounts and debt issuance costs | | | (9.2) | (9.8) |
| Less: current maturities | | | (305.6) | (355.6) |
| Long-term debt, net of current maturities | | | \$ 2,076.4 | \$ 1,578.5 |

In February 2020, we repaid the outstanding \$350.0 million of 5.5% Senior Notes. Our 3.35% Senior Notes due 2021 will mature on January 15, 2021, and were therefore reclassified to current maturities during the first quarter of 2020.

At March 31, 2020, we had \$140.0 million of commercial paper notes outstanding with a weighted-average annual interest rate of 3.30% and a weighted-average remaining term of 1 day. At December 31, 2019, we had \$170.0 million of commercial paper notes outstanding with a weighted-average annual interest rate of 2.13% and a weighted-average remaining term of 12 days.

See Note 7 of the Notes to Unaudited Condensed Consolidated Financial Statements for more information on our long-term debt and commercial paper.

Restrictions and Covenants

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

Under our credit agreement, we are required to remain in compliance with a maximum leverage ratio and maximum capitalization ratio. The leverage ratio is a contractually defined amount principally reflecting non-vehicle debt divided by a contractually defined measure of earnings with certain adjustments. The capitalization ratio is a contractually defined amount principally reflecting vehicle floorplan payable and non-vehicle debt divided by our total capitalization including vehicle floorplan payable. The specific terms of these covenants can be found in our credit agreement, which we filed with our Current Report on Form 8-K on March 26, 2020.

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

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

During the three months ended March 31, 2020, we recorded non-cash goodwill and franchise rights impairment charges of \$375.8 million. See Note 6 of the Notes to Unaudited Condensed Consolidated Financial Statements. As of March 31, 2020, we were in compliance with the requirements of the financial covenants under our debt agreements as such non-cash impairment charges do not factor into the calculations for those covenants. Under the terms of our credit agreement, at March 31, 2020, our leverage ratio and capitalization ratio were as follows:

| | March 31, 2020 | |
|----------------------|-----------------------|---------------|
| | Requirement | Actual |
| Leverage ratio | ≤ 3.75x | 2.83x |
| Capitalization ratio | ≤ 70.0% | 56.7% |

After considering the impacts of the COVID-19 pandemic, the actions we have taken, and the other options available to us, we expect to remain in compliance with the requirements of the financial covenants under our debt agreements. To the extent that in the future we believe that we would be unable to comply with the covenants contained in our credit agreement, we would seek an amendment or waiver of our credit agreement, which could increase the cost of our debt.

Vehicle Floorplan Payable

The components of vehicle floorplan payable are as follows:

| (In millions) | March 31, 2020 | December 31, 2019 |
|---------------------------------------|---------------------------|------------------------------|
| Vehicle floorplan payable - trade | \$ 2,197.2 | \$ 2,120.6 |
| Vehicle floorplan payable - non-trade | 1,485.3 | 1,455.2 |
| Vehicle floorplan payable | <u>\$ 3,682.5</u> | <u>\$ 3,575.8</u> |

Vehicle floorplan facilities are due on demand, but in the case of new vehicle inventories, are generally paid within several business days after the related vehicles are sold. Vehicle floorplan facilities are primarily collateralized by vehicle inventories and related receivables. See Note 5 of the Notes to Unaudited Condensed Consolidated Financial Statements for more information on our vehicle floorplan payable.

Cash Flows

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

| (In millions) | Three Months Ended | |
|---|--------------------|------------|
| | March 31, | |
| | 2020 | 2019 |
| Net cash provided by operating activities | \$ 113.7 | \$ 259.7 |
| Net cash used in investing activities | \$ (92.2) | \$ (48.6) |
| Net cash received from (used in) financing activities | \$ 347.1 | \$ (210.9) |

Cash Flows from Operating Activities

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

Net cash provided by operating activities decreased during the three months ended March 31, 2020, as compared to the same period in 2019, primarily due to an increase in working capital requirements.

Cash Flows from Investing Activities

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

Net cash used in investing activities increased during the three months ended March 31, 2020, as compared to the same period in 2019, primarily due to an investment in an equity security and a decrease in cash received from business divestitures, net of cash relinquished, partially offset by a decrease in purchases of property and equipment.

Cash Flows from Financing Activities

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

During the three months ended March 31, 2020, we borrowed \$790.0 million under our revolving credit facility and had no repayments. During the three months ended March 31, 2019, we had no borrowings or repayments under our revolving credit facility.

Cash flows from financing activities include changes in commercial paper notes outstanding totaling net payments of \$30.0 million during the three months ended March 31, 2020, and net payments of \$160.0 million during the three months ended March 31, 2019, as well as changes in vehicle floorplan payable-non-trade totaling net proceeds of \$30.1 million for the three months ended March 31, 2020, and net payments of \$12.5 million for the three months ended March 31, 2019.

During the three months ended March 31, 2020, we repaid the outstanding \$350.0 million of 5.5% Senior Notes due 2020 through the utilization of our commercial paper program.

During the three months ended March 31, 2020, we amended and restated our existing unsecured credit agreement. Cash flows from financing activities during the three months ended March 31, 2020, reflect cash payments of \$6.1 million for debt issuance costs for this transaction that are being amortized to interest expense over the term of the related debt arrangement.

During the three months ended March 31, 2020, we repurchased 2.5 million shares of common stock for an aggregate purchase price of \$80.0 million (average purchase price per share of \$31.95), including repurchases for which settlement occurred subsequent to March 31, 2020. During the three months ended March 31, 2019, we repurchased 1.0 million shares of

common stock for an aggregate purchase price of \$33.5 million (average purchase price per share of \$34.34), including repurchases for which settlement occurred subsequent to March 31, 2019.

Forward-Looking Statements

Our business, financial condition, results of operations, cash flows, and prospects, and the prevailing market price and performance of our common stock may be adversely affected by a number of factors, including the matters discussed below. Certain statements and information set forth in this Quarterly Report on Form 10-Q, including, without limitation, statements regarding the impact of the COVID-19 pandemic on our business, results of operations, and financial condition, the actions we are taking in response to the COVID-19 pandemic, our strategic initiatives, partnerships, or investments, including our brand extension strategies, and other statements regarding our expectations for the future performance of our business and the automotive retail industry, as well as other written or oral statements made from time to time by us or by our authorized executive officers on our behalf, constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact, including statements that describe our objectives, plans or goals are, or may be deemed to be, forward-looking statements. Words such as “anticipate,” “expect,” “intend,” “goal,” “plan,” “believe,” “continue,” “may,” “will,” “could,” and variations of such words and similar expressions are intended to identify such forward-looking statements. Our forward-looking statements reflect our current expectations concerning future results and events, and they involve known and unknown risks, uncertainties and other factors that are difficult to predict and may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by these statements. These forward-looking statements speak only as of the date of this report, and we undertake no obligation to revise or update these statements to reflect subsequent events or circumstances. The risks, uncertainties, and other factors that our stockholders and prospective investors should consider include, but are not limited to, the following:

- The COVID-19 pandemic has had a significant adverse impact, and could continue to have a significant adverse impact, on our business, results of operations, and financial condition going forward. Future epidemics, pandemics, and other outbreaks could also have a significant adverse impact on our business, results of operations, and financial condition.
- The automotive retail industry is sensitive to changing economic conditions and various other factors, including, but not limited to, fuel prices, interest rates, and tariffs. Our business and results of operations are substantially dependent on new and used vehicle sales levels in the United States and in our particular geographic markets, as well as the gross profit margins that we can achieve on our sales of vehicles, all of which are very difficult to predict.
- Our new vehicle sales are impacted by the incentive, marketing, and other programs of vehicle manufacturers.
- We are dependent upon the success and continued financial viability of the vehicle manufacturers and distributors with which we hold franchises.
- We are investing significantly in our brand extension strategy, and if our strategic initiatives are not successful, we will have incurred significant expenses without the benefit of improved financial results.
- If we are not able to maintain and enhance our retail brands and reputation or to attract consumers to our own digital channels, or if events occur that damage our retail brands, reputation, or sales channels, our business and financial results may be harmed.
- New laws, regulations, or governmental policies regarding fuel economy and greenhouse gas emission standards, or changes to existing standards, may affect vehicle manufacturers’ ability to produce cost-effective vehicles or vehicles that consumers demand, which could adversely impact our business, results of operations, financial condition, cash flow, and prospects.
- Natural disasters and adverse weather events can disrupt our business.
- We are subject to restrictions imposed by, and significant influence from, vehicle manufacturers that may adversely impact our business, financial condition, results of operations, cash flows, and prospects, including our ability to acquire additional stores.
- We are subject to numerous legal and administrative proceedings, which, if the outcomes are adverse to us, could materially adversely affect our business, results of operations, financial condition, cash flows, and prospects.

- Our operations are subject to extensive governmental laws and regulations. If we are found to be in purported violation of or subject to liabilities under any of these laws or regulations, or if new laws or regulations are enacted that adversely affect our operations, our business, operating results, and prospects could suffer.
- A failure of our information systems or any security breach or unauthorized disclosure of confidential information could have a material adverse effect on our business.
- Our debt agreements contain certain financial ratios and other restrictions on our ability to conduct our business, and our substantial indebtedness could adversely affect our financial condition and operations and prevent us from fulfilling our debt service obligations.
- We are subject to interest rate risk in connection with our vehicle floorplan payables, revolving credit facility, and commercial paper program that could have a material adverse effect on our profitability.
- Goodwill and other intangible assets comprise a significant portion of our total assets. We must test our goodwill and other intangible assets for impairment at least annually, which could result in a material, non-cash write-down of goodwill or franchise rights and could have a material adverse impact on our results of operations and shareholders' equity.
- Our minority equity investments do not have readily determinable fair values and their fair values are subject to fluctuations based on observable price changes. These fluctuations could result in downward adjustments or require us to record impairments, both of which could adversely impact our results of operations and financial condition.
- Our largest stockholders, as a result of their ownership stakes in us, may have the ability to exert substantial influence over actions to be taken or approved by our stockholders. In addition, future share repurchases and fluctuations in the levels of ownership of our largest stockholders could impact the volume of trading, liquidity, and market price of our common stock.

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

Additional Information

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

- AutoNation's Twitter feed (www.twitter.com/autonation)
- Mike Jackson's Twitter feed (www.twitter.com/CEOMikeJackson)

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

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

We had \$3.7 billion of variable rate vehicle floorplan payable at March 31, 2020, and \$3.6 billion at December 31, 2019. Based on these amounts, a 100 basis point change in interest rates would result in an approximate change to our annual floorplan interest expense of \$36.8 million at March 31, 2020, and \$35.8 million at December 31, 2019. Our exposure to changes in interest rates with respect to total vehicle floorplan payable is partially mitigated by manufacturers' floorplan assistance, which in some cases is based on variable interest rates.

We had \$140.0 million of commercial paper notes outstanding at March 31, 2020, and \$170.0 million at December 31, 2019. Based on the amounts outstanding, a 100 basis point change in interest rates would result in an approximate change to annual interest expense of \$1.4 million at March 31, 2020 and \$1.7 million at December 31, 2019.

Our fixed rate long-term debt, consisting of amounts outstanding under our senior unsecured notes and finance lease and other debt obligations, totaled \$1.6 billion and had a fair value of \$1.5 billion as of March 31, 2020, and totaled \$1.9 billion and had a fair value of \$2.0 billion as of December 31, 2019.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 under the Exchange Act that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

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

The COVID-19 pandemic has had a significant adverse impact, and could continue to have a significant adverse impact, on our business, results of operations, and financial condition going forward. Future epidemics, pandemics, and other outbreaks could also have a significant adverse impact on our business, results of operations, and financial condition.

The COVID-19 pandemic has led to severe disruptions in general economic activities as businesses and federal, state, and local governments take increasingly broad actions to mitigate the impact of the COVID-19 pandemic on public health, including a number of “shelter in place” or “stay at home” orders in the states and regions in which we operate. Although we remain open and have modified our business practices to conform to government restrictions and best practices, we have seen significant declines in new and used vehicle unit sales and sales of our finance and insurance products. In addition, our parts and service business is currently operating below full capacity in all of our locations. Our operations also depend on the continued health and productivity of our associates, including store, regional, and corporate headquarter teams, throughout this pandemic. The extent to which the COVID-19 pandemic ultimately impacts our business, results of operations, and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including the severity and duration of the COVID-19 pandemic, and further actions that may be taken by federal, state, and local governments and third parties in response to the pandemic. In addition, the success of our stores is dependent on vehicle manufacturers in several key respects, and those manufacturers have also been, and could continue to be, adversely impacted by the COVID-19 pandemic. Vehicle manufacturers may be adversely impacted by a number of factors as a result of the COVID-19 pandemic, including supply chain disruptions, rising raw material costs, delays in shipping, economic downturns, and liquidity concerns.

Further, the measures we have taken in response to the COVID-19 pandemic may not be sufficient, and our liquidity could be negatively impacted if these conditions continue for a significant period of time. As a result, we may be required to pursue additional sources of financing to obtain working capital and meet our financial obligations. Currently, the capital markets and credit markets have been disrupted by the COVID-19 pandemic and our ability to obtain any additional financing on favorable terms, or at all, is not guaranteed and largely dependent upon evolving market conditions and other factors.

Depending on the magnitude and duration of the COVID-19 pandemic, the adverse impact of the COVID-19 pandemic on our business, results of operations, financial condition, and liquidity could be material. The COVID-19 pandemic also may heighten or exacerbate many of the other risks discussed in our most recent Annual Report on Form 10-K and subsequent reports. Even after the COVID-19 pandemic has subsided, we may continue to experience significant adverse effects to our business as a result of its economic impact, including any economic recession or downturn and the impact of such a recession or downturn on unemployment levels, consumer confidence, levels of personal discretionary spending, and credit availability. Future epidemics, pandemics, and other outbreaks could have a similar adverse impact on our business, results of operations, and financial condition.

Our minority equity investments do not have readily determinable fair values and their fair values are subject to fluctuations based on observable price changes. These fluctuations could result in downward adjustments or require us to record impairments, both of which could adversely impact our results of operations and financial condition.

We have minor investments in equity securities that do not have readily determinable fair values. As a result, we have elected to measure these equity investments using a measurement alternative permitted by accounting standards and recorded the equity investments at cost to be subsequently adjusted for observable price changes or impairment, if any. There may be future issuances of identical or similar equity securities of the same issuers of the equity securities in which we have invested that would result in observable price changes that could result in upward or downward adjustments to our equity investments. A downward adjustment to or impairment of our equity investments could adversely impact our results of operations and financial condition.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below sets forth information with respect to shares of common stock repurchased by AutoNation, Inc. during the three months ended March 31, 2020.

| Period | Total Number of Shares Purchased ⁽¹⁾ | Avg. Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares That May Yet Be Purchased Under The Programs (in millions) ⁽¹⁾ |
|--------------------------------------|---|---------------------------|--|--|
| January 1, 2020 - January 31, 2020 | — | \$ — | — | \$ 219.0 |
| February 1, 2020 - February 29, 2020 | 52 | \$ 50.68 | — | \$ 219.0 |
| March 1, 2020 - March 31, 2020 | 2,507,722 | \$ 31.97 | 2,504,559 | \$ 139.0 |
| Total | 2,507,774 | | 2,504,559 | |

⁽¹⁾ Our Board of Directors from time to time authorizes the repurchase of shares of our common stock up to a certain monetary limit. As of March 31, 2020, \$139.0 million remained available under our stock repurchase authorization limit. The Board's authorization has no expiration date. During the first quarter of 2020, all of the shares reflected in the table above were repurchased under the stock repurchase program, except for 3,215 shares surrendered to AutoNation to satisfy tax withholding obligations in connection with the vesting of restricted stock. We temporarily suspended our share repurchase program at the end of the first quarter of 2020 in light of the COVID-19 pandemic. This suspension does not impact our remaining Board authorization, and we may in the future resume the program when appropriate.

ITEM 6. EXHIBITS

| Exhibit No. | Description |
|--------------------|---|
| 10.1 | Amended and Restated Credit Agreement, dated March 26, 2020, by and among the Company, JPMorgan Chase Bank, N.A. as Administrative Agent, and the other parties thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 26, 2020). |
| 10.2 | Form of Amended and Restated Commercial Paper Dealer Agreement, dated March 26, 2020, between AutoNation, Inc., as Issuer, and the Dealer party thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on March 26, 2020). |
| 10.3 | Restricted Stock Unit Award Agreement, dated as of January 13, 2020, by and between AutoNation, Inc. and Joseph T. Lower (incorporated by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K filed with the SEC on February 18, 2020). |
| 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Exchange Act. |
| 31.2 | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Exchange Act. |
| 32.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350. |
| 32.2 | Certification of Chief Financial Officer Pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350. |
| 101.INS | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 104 | Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document. |

SIGNATURE

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

AUTONATION, INC.

Date: May 11, 2020

By: /s/ Christopher Cade

Christopher Cade
Senior Vice President and Chief Accounting Officer

(Duly Authorized Officer and
Principal Accounting Officer)

CERTIFICATION

I, Mike Jackson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AutoNation, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Mike Jackson

Mike Jackson

Chairman and Chief Executive Officer

Date: May 11, 2020

CERTIFICATION

I, Joseph T. Lower, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AutoNation, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Joseph T. Lower

Joseph T. Lower

Executive Vice President and Chief Financial Officer

Date: May 11, 2020

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of AutoNation, Inc. (the "Company") for the quarter ended March 31, 2020, as filed with the U.S. Securities and Exchange Commission (the "Report"), I, Mike Jackson, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mike Jackson

Mike Jackson

Chairman and Chief Executive Officer

Date: May 11, 2020

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of AutoNation, Inc. (the "Company") for the quarter ended March 31, 2020, as filed with the U.S. Securities and Exchange Commission (the "Report"), I, Joseph T. Lower, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Joseph T. Lower

Joseph T. Lower

Executive Vice President and Chief Financial Officer

Date: May 11, 2020