

Lithia Reports Adjusted EPS of \$1.55 for First Quarter 2016

4/21/2016 6:59:00 AM

Lithia Increases Dividend to \$0.25 per Share for First Quarter

MEDFORD, OR--(Marketwired - Apr 21, 2016) - Lithia Motors, Inc. (NYSE: LAD) reported the highest first quarter adjusted net income in company history and increased adjusted net income 9% for the first quarter 2016 over the prior year period. 2016 first quarter adjusted net income was \$40.4 million, or \$1.55 per diluted share, compared to 2015 first quarter adjusted net income of \$36.9 million, or \$1.39 per diluted share.

Unadjusted net income for the first quarter 2016 was \$40.3 million, or \$1.55 per diluted share, compared to \$40.7 million, or \$1.53 per diluted share, for the first quarter of 2015. As shown in the attached non-GAAP reconciliation tables, the 2016 first quarter adjusted results exclude a non-core benefit related to an equity investment and the gain on the sale of a store offset by a legal reserve adjustment. These non-core items result in no change to earnings per share. The 2015 first quarter adjusted results exclude a \$0.14 non-core net benefit from an equity investment and the gain on the sale of a store.

First quarter 2016 revenue increased \$193.7 million, or 11%, to \$2.0 billion from \$1.8 billion for the first quarter 2015.

First Quarter-over-Quarter Operating Highlights:

- Total same store sales increased 8%
- New vehicle same store sales increased 6%
- Used vehicle retail same store sales increased 12%
- Service, body and parts same store sales increased 10%
- Same store F&I per unit increased \$111 to \$1,292
- Adjusted SG&A expense as a percentage of gross profit was 71.1%

"Our performance in the first quarter was solid," said Bryan DeBoer, President and CEO. "We grew adjusted earnings per share 12%, drove double digit increases in both used retail vehicle and service, body and parts sales and set a record in F&I per unit. We also continued to increase revenue and profitability in our DCH stores. While national new vehicle sales growth is moderating, we have significant opportunity to drive earnings growth through focus on growing vehicle market share and retaining service customers longer, improving store performance and targeting strategic acquisitions."

Chris Holzshu, SVP and CFO, said, "Adjusted SG&A as a percentage of gross profit was 71.1% in the first quarter of 2016, an improvement of 20 basis points over the first quarter of 2015. In the first quarter, incremental throughput, or the percentage of additional same store gross profit dollars that we retain after deducting incremental selling costs on a same store basis, was estimated at 37%. Our stores generated strong increases in gross profit and will continue to focus on controlling advertising and personnel cost to improve operating leverage."

Balance Sheet Update

We ended the first quarter with \$22 million in cash and \$149 million in availability under our credit facilities. Additionally, approximately \$200 million of our operating real estate is currently unfinanced, which we estimate could provide an additional \$150 million in available liquidity, for total potential liquidity of \$321 million.

Dividend Payment and Share Repurchase

Our Board of Directors has approved a 25% increase in our quarterly dividend to \$0.25 per share related to first quarter 2016 financial results. We expect to pay the dividend May 27, 2016 to shareholders of record on May 13, 2016.

Since March 31, 2016 we have repurchased approximately 157,500 shares at a weighted average price of \$80.90 per share. Year to date, we have repurchased approximately 759,000 shares at a weighted average price of \$79.80. Under our existing \$250 million share repurchase authorization, approximately \$236 million remains available.

2016 Outlook

We project 2016 second quarter earnings of \$1.86 to \$1.90 per diluted share and 2016 full year earnings of \$7.30 to \$7.50 per diluted share. Both projections are based on the following annual assumptions:

- Total revenues of \$8.5 to \$8.6 billion
- New vehicle sales increasing 4.5%
- New vehicle gross margin of 5.8% to 6.0%
- Used vehicle sales increasing 9.5%
- Used vehicle gross margin of 11.8% to 12.0%

- Service body and parts sales increasing 7.5%
- Service body and parts gross margin of 48.8% to 49.0%
- Finance and insurance gross profit of \$1,270 to \$1,290 per unit
- Tax rate of 39.5%
- Average diluted shares outstanding of 25.9 million

These projections exclude the impact of future acquisitions, dispositions and non-core items. Actual results may be affected by items described under Forward-Looking Statements below.

First Quarter Earnings Conference Call and Updated Presentation

The first quarter conference call may be accessed at 10:00 a.m. ET today by telephone at 877-407-8029. An updated presentation highlighting the first quarter results has been added to www.lithiainvestorrelations.com.

To listen live on our website or for replay, visit www.lithiainvestorrelations.com and click on webcasts.

About Lithia

Lithia Motors, Inc. is one of the largest automotive retailers in the United States. Lithia sells 31 brands of new vehicles and all brands of used vehicles at 138 stores in 15 states. Lithia also arranges finance, warranty, and credit insurance contracts; and provides vehicle parts, maintenance, and repair services at all of its locations.

Sites

www.lithia.com

www.lithiainvestorrelations.com

www.lithiacareers.com

Lithia Motors on Facebook

www.facebook.com/LithiaMotors

Lithia Motors on Twitter

<http://twitter.com/lithiamotors>

Forward-Looking Statements

This press release includes "forward-looking statements" within the meaning of the "Safe-Harbor" provisions of the Private Securities Litigation Reform Act of 1995. Forward looking statements include statements regarding our goals, plans, projections and guidance regarding our financial position, results of operations, market position, pending and potential future acquisitions and business strategy, and often contain words such as "project," "outlook," "expect," "anticipate," "intend," "plan," "believe," "estimate," "may," "seek," "would," "should," "likely," "goal," "strategy," "future," "maintain," "continue," "remain," "target" or "will" and similar references to future periods. Examples of forward-looking statements in this press release include, among others, statements regarding:

- Expected operating results, such as improved store efficiency and performance; generating 2016 second quarter earnings per share of \$1.86 to \$1.90 per diluted share and 2016 full year earnings of \$7.30 to \$7.50 per diluted share and all projections set forth under the headings "2016 Outlook";
- Anticipated ability to improve store performance;
- Anticipated additions of dealership locations to our portfolio in the future; and
- Anticipated availability of liquidity from our credit facility and unfinanced operating real estate.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events that depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance, and our actual results of operations, financial condition and liquidity and development of the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements in this press release. The risks and uncertainties that could cause actual results to differ materially from estimated or projected results include, without limitation, future economic and financial conditions (both nationally and locally), changes in customer demand, our relationship with, and the financial and operational stability of, vehicle manufacturers and other suppliers, risks associated with our indebtedness (including available borrowing capacity, compliance with financial covenants and ability to refinance or repay indebtedness on favorable terms), government regulations, legislation and others set forth throughout Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and in Part I, Item 1A. Risk Factors of our most recent Annual Report on Form 10-K, and from time to time in our other filings with the SEC. We urge you to carefully consider this information and not place undue reliance on forward-looking statements. We undertake no duty to update our forward-looking statements, including our earnings outlook, which are made as of the date of this release.

Non-GAAP Financial Measures

This press release and the attached financial tables contain non-GAAP financial measures such as adjusted net income and diluted earnings per share, adjusted SG&A as a percentage of revenues and gross profit, adjusted operating margin, adjusted operating profit as a percentage of gross profit, and adjusted pre-tax margin. Non-GAAP measures do not have definitions under GAAP and may be defined differently by and not comparable to similarly titled measures used by other companies. As a result, we review any non-GAAP financial measures in connection with a review of the most directly comparable measures calculated in accordance with GAAP. We caution you not to place undue reliance on such non-GAAP measures, but also to consider them with the most directly comparable GAAP measures. We present cash flows from operations in the attached tables, adjusted to include the change in non-trade floor plan debt to improve the visibility of cash flows related to vehicle financing. As required by SEC rules, we have reconciled these measures to the most directly comparable GAAP measures in the attachments to this release. We believe the non-GAAP financial measures we present improve the transparency of our disclosures; provide a meaningful presentation of our results from core business operations, because they exclude items not related to core business operations and other non-cash items; and improve the period-to-period comparability of our results from core business operations. These presentations should not be considered an alternative to GAAP measures.

Lithia Motors, Inc.

Consolidated Statements of Operations (Unaudited)

(In thousands except per share data)

	Three months ended March 31,		Increase (Decrease)	% Increase (Decrease)
	2016	2015		
Revenues:				
New vehicle retail	\$ 1,096,055	\$ 1,007,816	\$ 88,239	8.8 %
Used vehicle retail	532,726	462,931	69,795	15.1
Used vehicle wholesale	65,146	62,208	2,938	4.7
Finance and insurance	77,638	64,604	13,034	20.2
Service, body and parts	196,675	173,475	23,200	13.4
Fleet and other	14,621	18,144	(3,523)	(19.4)
Total revenues	1,982,861	1,789,178	193,683	10.8
Cost of sales:				
New vehicle retail	1,029,289	946,042	83,247	8.8
Used vehicle retail	468,449	403,489	64,960	16.1
Used vehicle wholesale	63,316	60,047	3,269	5.4
Service, body and parts	100,556	89,036	11,520	12.9
Fleet and other	14,069	17,189	(3,120)	(18.2)
Total cost of sales	1,675,679	1,515,803	159,876	10.5
Gross profit	307,182	273,375	33,807	12.4
Asset impairments	3,498	4,130	(632)	NM
SG&A expense	219,106	191,618	27,488	14.3
Depreciation and amortization	11,663	9,726	1,937	19.9
Income from operations	72,915	67,901	5,014	7.4
Floor plan interest expense	(5,909)	(4,649)	1,260	27.1
Other interest expense	(5,459)	(4,828)	631	13.1
Other expense, net	(1,526)	(368)	1,158	NM
Income before income taxes	60,021	58,056	1,965	3.4
Income tax expense	(19,751)	(17,403)	2,348	13.5
Income tax rate	32.9 %	30.0 %		
Net income	\$ 40,270	\$ 40,653	\$ (383)	(0.9)%

Diluted net income per share:

Net income per share	\$	1.55	\$	1.53	\$	0.02	1.3 %
Diluted shares outstanding		25,973		26,519		(546)	(2.1)%

NM - not meaningful

Lithia Motors, Inc.**Key Performance Metrics (Unaudited)**

	Three months ended		Increase (Decrease)	% Increase (Decrease)
	2016	2015		
<u>Gross margin</u>				
New vehicle retail	6.1 %	6.1 %	-- bps	
Used vehicle retail	12.1	12.8	(70)	
Used vehicle wholesale	2.8	3.5	(70)	
Finance and insurance	100.0	100.0	--	
Service, body and parts	48.9	48.7	20	
Fleet and other	3.8	5.3	(150)	
Gross profit margin	15.5	15.3	20	
<u>Unit sales</u>				
New vehicle retail	32,749	30,623	2,126	6.9 %
Used vehicle retail	27,431	24,204	3,227	13.3
Total retail units sold	60,180	54,827	5,353	9.8
Used vehicle wholesale	9,513	9,144	369	4.0
<u>Average selling price</u>				
New vehicle retail	\$ 33,468	\$ 32,910	\$ 558	1.7 %
Used vehicle retail	19,421	19,126	295	1.5
Used vehicle wholesale	6,848	6,803	45	0.7
<u>Average gross profit per unit</u>				
New vehicle retail	\$ 2,039	\$ 2,017	\$ 22	1.1 %
Used vehicle retail	2,343	2,456	(113)	(4.6)
Used vehicle wholesale	192	236	(44)	(18.6)
Finance and insurance	1,290	1,178	112	9.5
Total vehicle ⁽¹⁾	3,498	3,429	69	2.0
<u>Revenue mix</u>				
New vehicle retail	55.3 %	56.3 %		
Used vehicle retail	26.9	25.9		
Used vehicle wholesale	3.3	3.5		
Finance and insurance, net	3.9	3.6		
Service, body and parts	9.9	9.7		
Fleet and other	0.7	1.0		

Other metrics	Adjusted		As reported	
	Three Months Ended March 31,		Three months ended March 31,	
	2016	2015	2016	2015
SG&A as a % of revenue	11.0 %	10.9 %	11.0	10.7 %
SG&A as a % of gross profit	71.1	71.3	71.3	70.1
Operating profit as a % of revenue	3.9	3.8	3.7	3.8
Operating profit as a % of gross profit	25.1	25.1	23.7	24.8
Pretax margin	3.3	3.4	3.0	3.2
Net profit margin	2.0	2.1	2.0	2.3

(1) - includes the sales and gross profit related to new, used retail, used wholesale and finance and insurance and unit sales for new and used retail

Lithia Motors, Inc.

Same Store Operating Highlights (Unaudited)

	Three months ended March 31,		Increase (Decrease)	% Increase (Decrease)
	2016	2015		
<u>Revenues</u>				
New vehicle retail	\$ 1,062,335	\$ 1,000,768	\$ 61,567	6.2 %
Used vehicle retail	516,277	459,192	57,085	12.4
Used vehicle wholesale	63,805	61,949	1,856	3.0
Finance and insurance	75,365	64,206	11,159	17.4
Service, body and parts	189,968	172,116	17,852	10.4
Fleet and other	14,583	18,145	(3,562)	(19.6)
Total revenues	\$ 1,922,333	\$ 1,776,376	\$ 145,957	8.2
<u>Gross profit</u>				
New vehicle retail	\$ 64,818	\$ 61,278	\$ 3,540	5.8 %
Used vehicle retail	62,543	59,026	3,517	6.0
Used vehicle wholesale	1,755	2,222	(467)	(21.0)
Finance and insurance	75,365	64,206	11,159	17.4
Service, body and parts	92,956	83,749	9,207	11.0
Fleet and other	544	956	(412)	(43.1)
Total gross profit	\$ 297,981	\$ 271,437	\$ 26,544	9.8
<u>Gross margin</u>				
New vehicle retail	6.1 %	6.1 %	-- bps	
Used vehicle retail	12.1	12.9	(80)	
Used vehicle wholesale	2.8	3.6	(80)	
Finance and insurance	100.0	100.0	--	
Service, body and parts	48.9	48.7	20	
Fleet and other	3.7	5.3	(160)	
Total gross profit	15.5	15.3	20	
<u>Unit sales</u>				

New vehicle retail	31,779	30,391	1,388	4.6 %
Used vehicle retail	26,531	23,972	2,559	10.7
Total retail units sold	58,310	54,363	3,947	7.3
Used vehicle wholesale	9,255	9,063	192	2.1

Average selling price

New vehicle retail	\$ 33,429	\$ 32,930	\$ 499	1.5 %
Used vehicle retail	19,459	19,155	304	1.6
Used vehicle wholesale	6,894	6,835	59	0.9

Average gross profit per unit

New vehicle retail	\$ 2,040	\$ 2,016	\$ 24	1.2 %
Used vehicle retail	2,357	2,462	(105)	(4.3)
Used vehicle wholesale	190	245	(55)	(22.4)
Finance and insurance	1,292	1,181	111	9.4
Total vehicle ⁽¹⁾	3,507	3,435	72	2.1

(1) - includes the sales and gross profit related to new, used retail, used wholesale and finance and insurance and unit sales for new and used retail

Lithia Motors, Inc.

Segment Operating Highlights (Unaudited)

	Three months ended		Increase	%
	March 31,			
	2016	2015	(Decrease)	(Decrease)
<u>Revenues</u>				
Domestic	\$ 768,902	\$ 690,682	\$ 78,220	11.3 %
Import	865,743	760,080	105,663	13.9
Luxury	346,813	336,993	9,820	2.9
Total segment revenues	1,981,458	1,787,755	193,703	10.8
Corporate and other	1,403	1,423	(20)	(1.4)
Total revenues	\$ 1,982,861	\$ 1,789,178	\$ 193,683	10.8
<u>Segment Income(1)</u>				
Domestic	\$ 21,730	\$ 27,294	\$ (5,564)	(20.4) %
Import	22,633	17,063	5,570	32.6
Luxury	4,235	6,645	(2,410)	(36.3)
Total segment income	48,598	51,002	(2,404)	(4.7)
Corporate and other	30,071	21,976	8,095	36.8
Depreciation and amortization	(11,663)	(9,726)	(1,937)	19.9
Other interest expense	(5,459)	(4,828)	(631)	13.1
Other expense, net	(1,526)	(368)	(1,158)	NM
Income before income taxes	\$ 60,021	\$ 58,056	\$ 1,965	3.4

(1) Segment income for each of the segments is defined as Income before income taxes, less Depreciation and amortization, Other interest expense and Other expense, net.

Retail New Vehicle Unit Sales

Domestic	10,649	10,012	637	6.4 %
Import	18,114	16,805	1,309	7.8
Luxury	4,063	3,865	198	5.1
Total	32,826	30,682	2,144	7.0
Allocated to management	(77)	(59)	(18)	NM
Total retail new vehicle unit sales	32,749	30,623	2,126	6.9

NM - not meaningful

Lithia Motors, Inc.**Other Highlights (Unaudited)**

	<u>March 31,</u> <u>2016</u>	<u>As of</u> <u>December 31,</u> <u>2015</u>	<u>March 31,</u> <u>2015</u>
<u>Days Supply⁽¹⁾</u>			
New vehicle inventory	78	67	62
Used vehicle inventory	53	55	49

(1) Days supply calculated based on current inventory levels, excluding in-transit vehicles, and a 30-day historical cost of sales level.

Financial covenants

	<u>Requirement</u>	<u>As of March 31, 2016</u>
Current ratio	Not less than 1.10 to 1	1.25 to 1
Fixed charge coverage ratio	Not less than 1.20 to 1	2.87 to 1
Leverage ratio	Not more than 5.00 to 1	1.75 to 1
Funded debt restriction	Not more than \$600 million	\$414.4 million

Lithia Motors, Inc.**Other Highlights (Unaudited)**

	<u>Three months ended</u> <u>March 31,</u>	
	<u>2016</u>	<u>2015</u>
<u>New vehicle unit sales brand mix</u>		
Honda, Acura	23.2 %	22.0 %
Toyota, Lexus	19.7	20.1
Chrysler	18.6	19.1
General Motors	8.8	9.0
Subaru	7.3	7.2
BMW, Mini	5.5	5.8
Ford	5.2	4.6

Nissan	3.8	4.0
Volkswagen, Audi	2.7	2.8
Hyundai	1.9	2.1
Mercedes Benz	1.3	1.6
Kia	1.3	1.3
Other	0.7	0.4

**Three months ended
March 31,**

	<u>2016</u>	<u>2015</u>
<u>Revenue geographic mix</u>		
California	23.0 %	22.2 %
Oregon	16.8	16.8
Texas	14.0	15.7
New Jersey	13.9	13.7
Montana	6.3	5.8
Washington	5.4	5.1
Alaska	4.7	5.1
Nevada	3.2	3.2
New York	3.0	2.7
Idaho	2.8	3.1
Iowa	2.5	2.8
Hawaii	2.0	1.4
North Dakota	1.2	1.5
New Mexico	0.9	0.9
Massachusetts	0.3	--

As of March 31, 2016

	<u># of stores</u>	<u>% of total</u>
<u>Current store count mix</u>		
Chrysler	27	19.6 %
Honda, Acura	21	15.2
Toyota, Lexus	20	14.5
General Motors	16	11.6
BMW, Mini	11	8.0
Subaru	8	5.8
Volkswagen, Audi	8	5.8
Ford	7	5.1
Nissan	6	4.3
Hyundai	4	2.9
Mercedes Benz	4	2.9
Other	6	4.3

Lithia Motors, Inc.

Consolidated Balance Sheets (Unaudited)

(In thousands)

March 31, 2016

December 31,
2015

Cash and cash equivalents	\$	21,559	\$	45,008
Trade receivables, net		286,292		308,462
Inventories, net		1,541,085		1,470,987
Other current assets		50,473		54,408
Total current assets	\$	1,899,409	\$	1,878,865

Property and equipment, net		882,405		876,660
Goodwill		213,934		213,220
Franchise value		161,668		157,699
Other non-current assets		110,202		100,855
Total assets	\$	3,267,618	\$	3,227,299

Floor plan notes payable	\$	55,836	\$	48,083
Floor plan notes payable: non trade		1,296,751		1,265,872
Current maturities of long-term debt		33,721		38,891
Trade payables		78,250		70,871
Accrued liabilities		179,145		167,108
Total current liabilities	\$	1,643,703	\$	1,590,825

Long-term debt		595,663		606,463
Deferred revenue		70,066		66,734
Deferred income taxes		59,134		53,129
Other long-term liabilities		84,375		81,984
Total liabilities	\$	2,452,941	\$	2,399,135

Class A common stock		213,699		258,410
Class B common stock		219		316
Additional paid-in capital		34,866		38,822
Accumulated other comprehensive loss		(114)		(277)
Retained earnings		566,007		530,893
Total liabilities & stockholders' equity	\$	3,267,618	\$	3,227,299

Lithia Motors, Inc.

Summarized Cash Flow from Operations (Unaudited)

(In thousands)

	Three Months Ended	
	March 31,	
	2016	2015
Net income	\$ 40,270	\$ 40,653
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Asset impairments	3,498	4,130
Depreciation and amortization	11,663	9,726
Stock-based compensation	3,149	2,727
Gain on disposal of assets	(3,391)	8
Gain on sale of franchise	(1,087)	(3,349)
Deferred income taxes	10,261	3,863

Excess tax benefit from share-based payment arrangements	(4,379)	(4,733)
<i>(Increase) decrease:</i>		
Trade receivables, net	25,564	7,569
Inventories	(73,744)	(39,460)
Other assets	(4,705)	(2,078)
<i>Increase (decrease):</i>		
Floor plan notes payable, net	7,753	1,092
Trade payables	920	6,799
Accrued liabilities	13,425	4,444
Other long-term liabilities and deferred revenue	5,396	6,838
Net cash provided by operating activities	<u>\$ 34,593</u>	<u>\$ 38,229</u>

Lithia Motors, Inc.

Reconciliation of Non-GAAP Cash Flow from Operations (Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2016	2015
<u>Net cash provided by operating activities</u>		
As reported	\$ 34,593	\$ 38,229
Floor plan notes payable, non-trade, net	38,626	(21,984)
Adjusted	<u>\$ 73,219</u>	<u>\$ 16,245</u>

Lithia Motors, Inc.

Reconciliation of Certain Non-GAAP Financial Measures (Unaudited)

(In thousands, except for per share data)

	Three Months Ended March 31, 2016				
	As reported	Disposal gain on sale of store	Equity investment fair value adjustment	Legal reserve adjustment	Adjusted
Asset impairments	\$ 3,498	\$ --	\$ (3,498)	\$ --	\$ --
Selling, general and administrative	219,106	1,087	--	(1,906)	218,287
Income from operations	72,916	(1,087)	3,498	1,906	77,233
Other expense, net	(1,526)	--	2,066	--	540
Income before income taxes	\$ 60,021	\$ (1,087)	\$ 5,564	\$ 1,906	\$ 66,404
Income tax expense	(19,751)	426	(5,945)	(747)	(26,017)
Net income	<u>\$ 40,270</u>	<u>\$ (661)</u>	<u>\$ (381)</u>	<u>\$ 1,159</u>	<u>\$ 40,387</u>
Diluted earnings per share	\$ 1.55	\$ (0.03)	\$ (0.01)	\$ 0.04	\$ 1.55

Diluted share count 25,973

Three Months Ended March 31, 2015

	As reported	Disposal gain on sale of store	Equity investment fair value adjustment	Adjusted
Asset impairments	\$ 4,130	--	\$ (4,130)	\$ --
Selling, general and administrative	191,618	3,349	--	194,967
Income from operations	67,901	(3,349)	4,130	68,682
Other expense, net	(368)	--	1,732	1,364
Income before income taxes	\$ 58,056	(3,349)	\$ 5,862	\$ 60,569
Income tax expense	(17,403)	1,004	(7,250)	(23,649)
Net income	<u>\$ 40,653</u>	<u>(2,345)</u>	<u>\$ (1,388)</u>	<u>\$ 36,920</u>
Diluted earnings per share	\$ 1.53	(0.09)	\$ (0.05)	\$ 1.39
Diluted share count	26,519			