

## **Lithia Reports Record Fourth Quarter and Full Year 2016 Results**

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Declares Dividend of \$0.25 per Share for Fourth Quarter

MEDFORD, OR--(Marketwired - Feb 15, 2017) - Lithia Motors, Inc. (NYSE: LAD) today reported the highest fourth quarter and full year revenue and earnings per share in company history.

Fourth quarter 2016 net income per diluted share increased 13% to \$2.03 from \$1.80 for 2015. Adjusted net income per diluted share increased 7% to \$1.86 from \$1.74 for 2015. Fourth quarter 2016 net income increased 8% to \$51.3 million from \$47.7 million for 2015. Adjusted net income increased 2% to \$46.9 million from \$46.1 million for 2015.

As shown in the attached non-GAAP reconciliation tables, the fourth quarter 2016 adjusted results exclude a \$0.17 non-core benefit related to an equity investment, an indemnified legal reserve and a tax attribute. The fourth quarter 2015 adjusted results exclude a \$0.06 net non-core benefit related to an equity investment offset by an asset impairment.

Fourth quarter 2016 revenue increased 15% to \$2.3 billion from \$2.0 billion in 2015.

### **Fourth Quarter-over-Quarter Operating Highlights:**

- Total same store sales increased 5%
- New vehicle same store sales increased 4%
- Used vehicle retail same store sales increased 11%
- Service, body and parts same store sales increased 7%
- Same store F&I per unit increased \$108 to \$1,295
- Adjusted SG&A expense as a percentage of gross profit was 70.1%

2016 net income per diluted share increased 12% to \$7.72 from \$6.91 for 2015. Adjusted net income per diluted share increased 6% to \$7.42 from \$7.02 for 2015. 2016 net income increased 8% to \$197.1 million from \$183.0 million for 2015. 2016 adjusted net income increased 2% to \$189.5 million from \$186.0 million for 2015.

As shown in the attached non-GAAP reconciliation tables, the 2016 adjusted results exclude a \$0.30 net non-core benefit related to an equity investment, a disposal gain and a tax attribute offset by an indemnified legal reserve. The 2015 adjusted results exclude a \$0.11 net non-core charge from an asset impairment and a transition agreement offset by an equity investment and a disposal gain.

Full year 2016 revenue increased 10% to \$8.7 billion from \$7.9 billion in 2015.

### **Full Year-over-Year Operating Highlights:**

- Total same store sales increased 5%
- New vehicle same store sales increased 3%
- Used vehicle retail same store sales increased 11%
- Service, body and parts same store sales increased 9%
- Same store F&I per unit increased \$94 to \$1,291
- Adjusted SG&A expense as a percentage of gross profit was 68.9%

Bryan DeBoer, President and CEO, said, "We increased same store sales in all core business lines, including double digit growth in used vehicle sales and record performance in F&I. Our store leaders remain focused on capturing incremental used vehicle sales and driving additional service work. 60 locations attained record profitability in 2016, while significant opportunities remain in the roughly 90 stores that did not achieve record performance this year. We will continue to target gaining market share and controlling costs to improve store performance in 2017 and beyond."

### **Corporate Development**

In 2016, we completed the acquisition of 15 stores: a Ford store in Honolulu, Hawaii; the Carbone Auto Group, a nine store platform based in New York and Vermont; a Subaru store in Riverside, California; a Toyota store in Milford, Massachusetts; a Ford store in Thousand Oaks, California; a Ford store in Casper, Wyoming and an Audi store in Calabasas, California. We also opened a Volkswagen store in Freehold, New Jersey. These stores are expected to add over \$1.1 billion in annual revenues.

Commenting on the acquired stores, Bryan DeBoer said, "Our entrepreneurial culture allows our team to rapidly grow our store base through accretive acquisitions. Since 2010, when we completed our first acquisitions after the great recession, we have increased our store count from 85 locations to 154, and grown our revenue nearly four hundred percent, from \$1.8 billion to \$8.7 billion. During this time, we have diversified our brand mix, added metropolitan locations

from coast to coast, and maintained our sector low leverage ratio. We remain optimistic that significant acquisition opportunities remain across the United States, and will continue to seek accretive purchases."

### **Balance Sheet Update**

We ended the fourth quarter with approximately \$50 million in cash and \$138 million in availability under our credit facilities. Additionally, approximately \$225 million of our operating real estate is currently unfinanced, which we estimate could provide \$168 million in capital, for total potential liquidity of \$356 million.

### **Dividend Payment and Share Repurchase**

Our Board of Directors has approved a dividend of \$0.25 per share related to fourth quarter 2016 financial results. We expect to pay the dividend on March 24, 2017 to shareholders of record on March 10, 2017.

In the fourth quarter 2016, we repurchased 47,250 shares at a weighted average price of \$91.68 per share. In 2016, we deployed \$113 million to repurchase 6% of our outstanding float or 1.4 million shares at a weighted average price of \$80.24. Approximately \$193 million remains available under our existing repurchase authorization.

### **2017 Earnings Guidance**

We project 2017 full year earnings of \$8.00 to \$8.30 per diluted share. This projection is based on the following annual assumptions:

- Total revenue of \$9.2 to \$9.4 billion
- New vehicle same store sales increasing 1.5%
- New vehicle gross margin of 5.5% to 5.7%
- Used vehicle same store sales increasing 5.5%
- Used vehicle gross margin of 11.5% to 11.7%
- Service body and parts same store sales increasing 5.0%
- Service body and parts gross margin of 48.2% to 48.4%
- Finance and insurance gross profit of \$1,270 to \$1,295 per unit
- Tax rate of 39.5%
- Average diluted shares outstanding of 25.3 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.

### **Fourth Quarter Earnings Conference Call and Updated Presentation**

The fourth quarter conference call may be accessed at 10:00 a.m. ET today by telephone at 877-407-8029. An updated presentation highlighting the fourth quarter results has been added to our investor relations website.

To listen live on our website or for replay, visit [www.lithiainvestorrelations.com](http://www.lithiainvestorrelations.com) and click on webcasts.

### **About Lithia**

Lithia Motors, Inc. is one of the largest automotive retailers in the United States and is among the fastest growing companies in the Fortune 500. Lithia sells 30 brands of new vehicles and all brands of used vehicles at 154 stores in 17 states. Lithia also arranges finance, warranty, and credit insurance contracts. In addition, Lithia provides vehicle parts, maintenance and repair services at all of its locations.

### **Sites**

[www.lithiamotors.com](http://www.lithiamotors.com)

[www.lithiainvestorrelations.com](http://www.lithiainvestorrelations.com)

[www.lithiacareers.com](http://www.lithiacareers.com)

Lithia Motors on Facebook

[www.facebook.com/LithiaMotors](https://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 2017 full year earnings of \$8.00 to \$8.30 per diluted share and all projections set forth under the headings "2017 Earnings Guidance";
- Our ability to improve store performance;
- Anticipated acquisition opportunities and additions of dealership locations to our portfolio in the future, and our ability to achieve returns on investments;
- Anticipated revenues from acquired stores; 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 revenue 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		Increase (Decrease)	% Increase (Decrease)
	December 31,			
	2016	2015		
<b>Revenues:</b>				
New vehicle retail	\$ 1,335,833	\$ 1,167,893	\$ 167,940	14.4 %
Used vehicle retail	559,693	469,399	90,294	19.2
Used vehicle wholesale	69,485	63,054	6,431	10.2
Finance and insurance	84,532	69,318	15,214	21.9
Service, body and parts	228,417	193,024	35,393	18.3
Fleet and other	14,030	30,594	(16,564)	(54.1)
<b>Total revenues</b>	<b>2,291,990</b>	<b>1,993,282</b>	<b>298,708</b>	<b>15.0 %</b>
<b>Cost of sales:</b>				

New vehicle retail	1,261,892	1,095,796	166,096	15.2
Used vehicle retail	496,320	412,572	83,748	20.3
Used vehicle wholesale	69,406	62,744	6,662	10.6
Service, body and parts	117,194	98,241	18,953	19.3
Fleet and other	12,342	30,506	(18,164)	(59.5)
Total cost of sales	1,957,154	1,699,859	257,295	15.1
<b>Gross profit</b>	<b>334,836</b>	<b>293,423</b>	<b>41,413</b>	<b>14.1 %</b>
Asset impairments	3,498	5,733	(2,235)	(39.0)
SG&A expense	236,824	200,219	36,605	18.3
Depreciation and amortization	12,997	11,056	1,941	17.6
<b>Income from operations</b>	<b>81,517</b>	<b>76,415</b>	<b>5,102</b>	<b>6.7 %</b>
Floor plan interest expense	(7,227)	(5,279)	1,948	36.9
Other interest expense	(6,599)	(4,791)	1,808	37.7
Other (expense) income, net	(1,569)	25	1,594	NM
<b>Income before income taxes</b>	<b>66,122</b>	<b>66,370</b>	<b>(248)</b>	<b>(0.4)%</b>
Income tax expense	(14,803)	(18,638)	(3,835)	(20.6)
Income tax rate	22.4 %	28.1 %		
<b>Net income</b>	<b>\$ 51,319</b>	<b>\$ 47,732</b>	<b>\$ 3,587</b>	<b>7.5 %</b>

**Diluted net income per share:**

Net income per share	\$ 2.03	\$ 1.80	\$ 0.23	12.8 %
Diluted shares outstanding	25,294	26,462	(1,168)	(4.4)%

NM - not meaningful

**Lithia Motors, Inc.**

**Key Performance Metrics (Unaudited)**

	Three months ended		Increase (Decrease)	% Increase (Decrease)
	December 31, 2016	2015		
<b>Gross margin</b>				
New vehicle retail	5.5 %	6.2 %	(70) bps	
Used vehicle retail	11.3	12.1	(80)	
Used vehicle wholesale	0.1	0.5	(40)	
Finance and insurance	100.0	100.0	-	
Service, body and parts	48.7	49.1	(40)	
Fleet and other	12.0	0.3	1,170	
Gross profit margin	14.6	14.7	(10)	
<b>Unit sales</b>				
New vehicle retail	38,547	34,350	4,197	12.2 %
Used vehicle retail	28,715	24,010	4,705	19.6
Total retail units sold	67,262	58,360	8,902	15.3
Used vehicle wholesale	10,475	9,345	1,130	12.1
<b>Average selling price</b>				
New vehicle retail	\$ 34,655	\$ 34,000	\$ 655	1.9 %

Used vehicle retail	19,491	19,550	(59)	(0.3)
Used vehicle wholesale	6,633	6,747	(114)	(1.7)

**Average gross profit per unit**

New vehicle retail	\$ 1,918	\$ 2,099	\$ (181)	(8.6)%
Used vehicle retail	2,207	2,367	(160)	(6.8)
Used vehicle wholesale	8	33	(25)	(75.8)
Finance and insurance	1,257	1,188	69	5.8
Total vehicle <sup>(1)</sup>	3,299	3,402	(103)	(3.0)

**Revenue mix**

New vehicle retail	58.3 %	58.6 %
Used vehicle retail	24.4	23.5
Used vehicle wholesale	3.0	3.2
Finance and insurance, net	3.7	3.5
Service, body and parts	10.0	9.7
Fleet and other	0.6	1.5

<b><u>Other metrics</u></b>	<b><u>Adjusted</u></b>		<b><u>As reported</u></b>	
	<b><u>Three months ended</u></b>		<b><u>Three months ended</u></b>	
	<b><u>December 31,</u></b>		<b><u>December 31,</u></b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
SG&A as a % of revenue	10.2 %	10.0 %	10.3 %	10.0 %
SG&A as a % of gross profit	70.1	68.2	70.7	68.2
Operating profit as a % of revenue	3.8	4.1	3.6	3.8
Operating profit as a % of gross profit	26.0	28.0	24.3	26.0
Pretax margin	3.2	3.7	2.9	3.3
Net profit margin	2.0	2.3	2.2	2.4

(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)**

	<b><u>Three Months Ended</u></b>		<b><u>Increase</u></b>	<b><u>%</u></b>
	<b><u>December 31,</u></b>			
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>(Decrease)</u></b>	<b><u>(Decrease)</u></b>
<b><u>Revenues</u></b>				
New vehicle retail	\$ 1,212,572	\$ 1,164,172	\$ 48,400	4.2 %
Used vehicle retail	519,369	466,604	52,765	11.3
Used vehicle wholesale	60,835	62,828	(1,993)	(3.2)
Finance and insurance	79,169	69,033	10,136	14.7
Service, body and parts	205,110	191,858	13,252	6.9
Fleet and other	9,422	30,591	(21,169)	(69.2)
Total revenues	\$ 2,086,477	\$ 1,985,086	\$ 101,391	5.1

**Gross profit**

New vehicle retail	\$ 67,093	\$ 71,826	\$ (4,733)	(6.6)%
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Used vehicle retail	58,701	56,589	2,112	3.7
Used vehicle wholesale	115	339	(224)	(66.1)
Finance and insurance	79,169	69,033	10,136	14.7
Service, body and parts	101,294	94,243	7,051	7.5
Fleet and other	1,626	86	1,540	1,790.7
Total gross profit	\$ 307,998	\$ 292,116	\$ 15,882	5.4

**Gross margin**

New vehicle retail	5.5 %	6.2 %	(70) bps
Used vehicle retail	11.3	12.1	(80)
Used vehicle wholesale	0.2	0.5	(30)
Finance and insurance	100.0	100.0	-
Service, body and parts	49.4	49.1	30
Fleet and other	17.3	0.3	1,700
Gross profit margin	14.8	14.7	10

**Unit sales**

New vehicle retail	34,855	34,259	596	1.7 %
Used vehicle retail	26,288	23,883	2,405	10.1
Total retail units sold	61,143	58,142	3,001	5.2
Used vehicle wholesale	9,134	9,316	(182)	(2.0)

**Average selling price**

New vehicle retail	\$ 34,789	\$ 33,981	\$ 808	2.4 %
Used vehicle retail	19,757	19,537	220	1.1
Used vehicle wholesale	6,660	6,744	(84)	(1.2)

**Average gross profit per unit**

New vehicle retail	\$ 1,925	\$ 2,097	\$ (172)	(8.2) %
Used vehicle retail	2,233	2,369	(136)	(5.7)
Used vehicle wholesale	13	36	(23)	(63.9)
Finance and insurance	1,295	1,187	108	9.1
Total vehicle <sup>(1)</sup>	3,354	3,402	(48)	(1.4)

(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.**

**Consolidated Statements of Operations (Unaudited)**

(In thousands except per share data)

	Twelve months ended		Increase (Decrease)	% Increase (Decrease)
	December 31,			
	2016	2015		
<b>Revenues:</b>				
New vehicle retail	\$ 4,938,436	\$ 4,552,301	\$ 386,135	8.5 %
Used vehicle retail	2,226,951	1,927,016	299,935	15.6
Used vehicle wholesale	276,616	261,530	15,086	5.8
Finance and insurance	330,922	283,018	47,904	16.9
Service, body and parts	844,505	738,990	105,515	14.3

Fleet and other	60,727	101,397	(40,670)	(40.1)
<b>Total revenues</b>	<b>8,678,157</b>	<b>7,864,252</b>	<b>813,905</b>	<b>10.3 %</b>
<b>Cost of sales:</b>				
New vehicle retail	4,649,024	4,271,931	377,093	8.8
Used vehicle retail	1,963,267	1,685,767	277,500	16.5
Used vehicle wholesale	272,303	257,073	15,230	5.9
Service, body and parts	434,222	375,069	59,153	15.8
Fleet and other	58,026	98,778	(40,752)	(41.3)
Total cost of sales	7,376,842	6,688,618	688,224	10.3
<b>Gross profit</b>	<b>1,301,315</b>	<b>1,175,634</b>	<b>125,681</b>	<b>10.7</b>
Asset impairments	13,992	20,124	(6,132)	(30.5)
SG&A expense	899,590	811,175	88,415	10.9
Depreciation and amortization	49,369	41,600	7,769	18.7
<b>Income from operations</b>	<b>338,364</b>	<b>302,735</b>	<b>35,629</b>	<b>11.8</b>
Floor plan interest expense	(25,531)	(19,534)	5,997	30.7
Other interest expense	(23,207)	(19,491)	3,716	19.1
Other expense, net	(6,103)	(1,006)	5,097	NM
<b>Income before income taxes</b>	<b>283,523</b>	<b>262,704</b>	<b>20,819</b>	<b>7.9</b>
Income tax expense	(86,465)	(79,705)	6,760	8.5
Income tax rate	30.5 %	30.3 %		
<b>Net income</b>	<b>\$ 197,058</b>	<b>\$ 182,999</b>	<b>\$ 14,059</b>	<b>7.7 %</b>

**Diluted net income per share:**

Net income per share	\$ 7.72	\$ 6.91	\$ 0.81	11.7 %
Diluted shares outstanding	25,521	26,490	(969)	(3.7) %
NM - not meaningful				

**Lithia Motors, Inc.**

**Key Performance Metrics (Unaudited)**

	Twelve months ended		Increase (Decrease)	% Increase (Decrease)
	2016	2015		
<b>Gross margin</b>				
New vehicle retail	5.9 %	6.2 %	(30) bps	
Used vehicle retail	11.8	12.5	(70)	
Used vehicle wholesale	1.6	1.7	(10)	
Finance and insurance	100.0	100.0	-	
Service, body and parts	48.6	49.2	(60)	
Fleet and other	4.4	2.6	180	
Gross profit margin	15.0	14.9	10	
<b>Unit sales</b>				
New vehicle retail	145,772	137,486	8,286	6.0 %
Used vehicle retail	113,498	99,109	14,389	14.5
Total retail units sold	259,270	236,595	22,675	9.6
Used vehicle wholesale	40,615	38,167	2,448	6.4

**Average selling price**

New vehicle retail	\$	33,878	\$	33,111	\$	767	2.3 %
Used vehicle retail		19,621		19,443		178	0.9
Used vehicle wholesale		6,811		6,852		(41)	(0.6)

**Average gross profit per unit**

New vehicle retail	\$	1,985	\$	2,039	\$	(54)	(2.6)%
Used vehicle retail		2,323		2,434		(111)	(4.6)
Used vehicle wholesale		106		117		(11)	(9.4)
Finance and insurance		1,276		1,196		80	6.7
Total vehicle <sup>(1)</sup>		3,426		3,420		6	0.2

**Revenue mix**

New vehicle retail	56.9 %	57.9 %
Used vehicle retail	25.7	24.5
Used vehicle wholesale	3.2	3.3
Finance and insurance, net	3.8	3.6
Service, body and parts	9.7	9.4
Fleet and other	0.7	1.3

	<u>Adjusted</u>		<u>As reported</u>	
	<u>Twelve Months Ended</u>		<u>Twelve months ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
<u>Other metrics</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
SG&A as a % of revenue	10.3 %	10.2 %	10.4 %	10.3 %
SG&A as a % of gross profit	68.9	67.9	69.1	69.0
Operating profit as a % of revenue	4.1	4.3	3.9	3.8
Operating profit as a % of gross profit	27.3	28.5	26.0	25.8
Pretax margin	3.6	3.8	3.3	3.3
Net profit margin	2.2	2.4	2.3	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)**

	<u>Twelve months ended</u>		<u>Increase</u>	<u>%</u>
	<u>December 31,</u>			
	<u>2016</u>	<u>2015</u>	<u>(Decrease)</u>	<u>(Decrease)</u>
<b>Revenues</b>				
New vehicle retail	\$ 4,686,693	\$ 4,534,865	\$ 151,828	3.3 %
Used vehicle retail	2,129,402	1,916,309	213,093	11.1
Used vehicle wholesale	261,957	260,341	1,616	0.6
Finance and insurance	317,780	281,898	35,882	12.7
Service, body and parts	797,397	734,508	62,889	8.6
Fleet and other	52,992	101,396	(48,404)	(47.7)
Total revenues	\$ 8,246,221	\$ 7,829,317	\$ 416,904	5.3



**Gross profit**

New vehicle retail	\$ 274,772	\$ 279,201	\$ (4,429)	(1.6)%
Used vehicle retail	252,554	240,299	12,255	5.1
Used vehicle wholesale	4,184	4,608	(424)	(9.2)
Finance and insurance	317,780	281,898	35,882	12.7
Service, body and parts	389,557	361,692	27,865	7.7
Fleet and other	2,593	2,583	10	0.4
Total gross profit	\$ 1,241,440	\$ 1,170,281	\$ 71,159	6.1

**Gross margin**

New vehicle retail	5.9%	6.2%	(30) bps
Used vehicle retail	11.9	12.5	(60)
Used vehicle wholesale	1.6	1.8	(20)
Finance and insurance	100.0	100.0	-
Service, body and parts	48.9	49.2	(30)
Fleet and other	4.9	2.5	240
Total gross profit	15.1	14.9	20

**Unit sales**

New vehicle retail	138,310	136,993	1,317	1.0%
Used vehicle retail	107,919	98,531	9,388	9.5
Total retail units sold	246,229	235,524	10,705	4.5
Used vehicle wholesale	38,234	37,966	268	0.7

**Average selling price**

New vehicle retail	\$ 33,885	\$ 33,103	\$ 782	2.4%
Used vehicle retail	19,731	19,449	282	1.4
Used vehicle wholesale	6,851	6,857	(6)	(0.1)

**Average gross profit per unit**

New vehicle retail	\$ 1,987	\$ 2,038	\$ (51)	(2.5)%
Used vehicle retail	2,340	2,439	(99)	(4.1)
Used vehicle wholesale	109	121	(12)	(9.9)
Finance and insurance	1,291	1,197	94	7.9
Total vehicle <sup>(1)</sup>	3,449	3,422	27	0.8

(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 (Decrease)	% Increase (Decrease)
	December 31, 2016	December 31, 2015		
<b><u>Revenues</u></b>				
Domestic	\$ 886,247	\$ 763,289	\$ 122,958	16.1%
Import	987,248	823,718	163,530	19.9
Luxury	417,544	406,581	10,963	2.7

Total segment revenues	2,291,039	1,993,588	297,451	14.9
Corporate and other	951	(306)	1,257	(410.8)
Total revenues	\$ 2,291,990	\$ 1,993,282	\$ 298,708	15.0

### **Segment Income<sup>(1)</sup>**

Domestic	\$ 21,790	\$ 23,532	\$ (1,742)	(7.4)%
Import	23,326	21,846	1,480	6.8
Luxury	9,731	10,627	(896)	(8.4)
Total segment income	54,847	56,005	(1,158)	(2.1)
Corporate and other	32,440	26,187	6,253	23.9
Depreciation and amortization	(12,997)	(11,056)	1,941	17.6
Other interest expense	(6,599)	(4,791)	1,808	37.7
Other (expense) income, net	(1,569)	25	1,594	NM
Income before income taxes	\$ 66,122	\$ 66,370	\$ (248)	(0.4)

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

### **Retail New Vehicle Unit Sales**

Domestic	12,531	11,124	1,407	12.6%
Import	21,188	18,381	2,807	15.3
Luxury	4,924	4,906	18	0.4
Total	38,643	34,411	4,232	12.3
Allocated to management	(96)	(61)	(35)	NM
Total retail new vehicle unit sales	38,547	34,350	4,197	12.2

NM - not meaningful

### **Lithia Motors, Inc.**

#### **Segment Operating Highlights (Unaudited)**

	<b>Twelve months ended</b>		<b>Increase</b>	<b>%</b>
	<b>December 31,</b>			
	<b>2016</b>	<b>2015</b>	<b>(Decrease)</b>	<b>(Decrease)</b>
<b><u>Revenues</u></b>				
Domestic	\$ 3,381,715	\$ 3,038,882	\$ 342,833	11.3%
Import	3,764,255	3,330,949	433,306	13.0
Luxury	1,528,760	1,490,632	38,128	2.6
Total segment revenues	8,674,730	7,860,463	814,267	10.4
Corporate and other	3,427	3,789	(362)	(9.6)
Total revenues	\$ 8,678,157	\$ 7,864,252	\$ 813,905	10.3

### **Segment Income<sup>(1)</sup>**

Domestic	\$ 106,210	\$ 115,145	\$ (8,935)	(7.8)%
Import	110,204	98,751	11,453	11.6
Luxury	31,467	36,391	(4,924)	(13.5)
Total segment income	247,881	250,287	(2,406)	(1.0)
Corporate and other	114,321	74,514	39,807	53.4
Depreciation and amortization	(49,369)	(41,600)	7,769	18.7
Other interest expense	(23,207)	(19,491)	3,716	19.1
Other expense, net	(6,103)	(1,006)	5,097	NM

Income before income taxes	\$	283,523	262,704	\$	20,819	7.9
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(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	47,707	45,080	2,627	5.8 %
Import	80,769	75,091	5,678	7.6
Luxury	17,591	17,556	35	0.2
Total	146,067	137,727	8,340	6.1
Allocated to management	(295 )	(241 )	(54 )	NM
Total retail new vehicle unit sales	145,772	137,486	8,286	6.0

NM - not meaningful

**Lithia Motors, Inc.**

**Other Highlights** (Unaudited)

	As of		
	December 31, 2016	December 31, 2015	December 31, 2014

**Days Supply**<sup>(1)</sup>

New vehicle inventory	68	67	62
Used vehicle inventory	56	55	53

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

**Financial covenants**

	Requirement	As of December 31, 2016
Current ratio	Not less than 1.10 to 1	1.26 to 1
Fixed charge coverage ratio	Not less than 1.20 to 1	2.63 to 1
Leverage ratio	Not more than 5.00 to 1	2.18 to 1
Funded debt restriction	Not more than \$900 million	\$ 485.2 million

**Lithia Motors, Inc.**

**Other Highlights** (Unaudited)

	Three months ended December 31,		Twelve months ended December 31,	
	2016	2015	2016	2015

**New vehicle unit sales brand mix**

Honda, Acura	21.5 %	22.1 %	22.7 %	22.4 %
Toyota, Lexus	19.0	19.6	19.5	19.9
Chrysler, Fiat	16.9	18.6	18.4	18.9
General Motors	9.3	9.0	9.0	9.2
Subaru	8.5	7.4	7.6	6.9
Ford	6.3	4.9	5.4	4.7
BMW, Mini	5.5	6.9	5.3	5.9
Nissan	4.3	3.5	3.9	3.7

Volkswagen, Audi	4.0	2.9	3.2	3.1
Hyundai	2.1	1.9	2.0	2.1
Mercedes Benz	1.3	1.6	1.3	1.5
Kia	1.1	1.2	1.3	1.3
Other	0.2	0.4	0.4	0.4

	<b>Three months ended December 31,</b>		<b>Twelve months ended December 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b><u>Revenue geographic mix</u></b>				
California	22.2 %	22.1 %	22.5 %	21.6 %
Oregon	16.6	16.8	16.7	16.7
New Jersey	13.8	15.1	14.0	14.6
Texas	11.9	13.6	13.1	15.0
Montana	5.4	6.2	6.1	6.0
Washington	5.2	5.5	5.3	5.2
Alaska	4.4	5.4	4.8	5.4
New York	6.7	2.8	4.2	2.9
Nevada	2.8	3.0	3.0	3.0
Idaho	2.5	2.8	2.7	2.9
Iowa	2.4	2.7	2.6	2.8
Hawaii	2.1	1.8	2.0	1.5
North Dakota	1.2	1.4	1.3	1.5
New Mexico	0.7	0.8	0.8	0.9
Massachusetts	0.7	-	0.5	-
Vermont	0.9	-	0.3	-
Wyoming	0.5	-	0.1	-

	<b>As of February 15, 2017</b>	
	<b># of stores</b>	<b>% of total</b>
<b><u>Current store count mix</u></b>		
Chrysler, Fiat	30	19.5 %
Honda, Acura	22	14.3
Toyota, Lexus	21	13.6
General Motors	18	11.7
Ford	12	7.8
BMW, Mini	11	7.1
Volkswagen, Audi	10	6.5
Subaru	9	5.8
Nissan	7	4.5
Hyundai	5	3.2
Mercedes Benz	4	2.6
Kia	3	1.9
Other	2	1.5

**Lithia Motors, Inc.**

**Consolidated Balance Sheets (Unaudited)**

(In thousands)

**December 31, 2016**    **December 31, 2015**

Cash and cash equivalents	\$	50,282	\$	45,008
Trade receivables, net		417,714		308,462
Inventories, net		1,772,587		1,470,987
Other current assets		46,611		54,022
<b>Total current assets</b>	<b>\$</b>	<b>2,287,194</b>	<b>\$</b>	<b>1,878,479</b>
Property and equipment, net		1,006,130		876,660
Goodwill		259,399		213,220
Franchise value		184,268		157,699
Other non-current assets		107,159		99,072
<b>Total assets</b>	<b>\$</b>	<b>3,844,150</b>	<b>\$</b>	<b>3,225,130</b>
Floor plan notes payable	\$	94,602	\$	48,083
Floor plan notes payable: non trade		1,506,895		1,265,872
Current maturities of long-term debt		20,965		38,506
Trade payables		88,423		70,871
Accrued liabilities		211,109		167,107
<b>Total current liabilities</b>	<b>\$</b>	<b>1,921,994</b>	<b>\$</b>	<b>1,590,439</b>
Long-term debt		769,916		604,680
Deferred revenue		81,929		66,734
Deferred income taxes		59,075		53,129
Other long-term liabilities		100,460		81,984
<b>Total liabilities</b>	<b>\$</b>	<b>2,933,374</b>	<b>\$</b>	<b>2,396,966</b>
Class A common stock		165,512		258,410
Class B common stock		219		316
Additional paid-in capital		41,225		38,822
Accumulated other comprehensive loss		-		(277)
Retained earnings		703,820		530,893
<b>Total liabilities &amp; stockholders' equity</b>	<b>\$</b>	<b>3,844,150</b>	<b>\$</b>	<b>3,225,130</b>

**Lithia Motors, Inc.**

**Summarized Cash Flow from Operations** (Unaudited)

(In thousands)

	<b>Twelve Months Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Net income	\$ 197,058	\$ 182,999
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Asset impairments	13,992	20,124
Depreciation and amortization	49,369	41,600
Stock-based compensation	11,047	11,871
(Gain) loss on disposal of assets	(4,343)	203
Gain on sale of franchise	(1,102)	(5,919)
Deferred income taxes	10,138	12,341
Excess tax benefit from share-based payment arrangements	(4,389)	(5,012)
<i>(Increase) decrease:</i>		

Trade receivables, net	(105,961)	(13,047)
Inventories	(168,847)	(197,079)
Other assets	(13,305)	(31,290)
<i>Increase (decrease):</i>		
Floor plan notes payable, net	16,385	7,035
Trade payables	16,449	674
Accrued liabilities	42,853	16,273
Other long-term liabilities and deferred revenue	27,173	33,766
Net cash provided by operating activities	<u>\$ 86,517</u>	<u>\$ 74,539</u>

**Lithia Motors, Inc.**

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

(In thousands)

	<b>Twelve Months Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<u>Net cash provided by operating activities</u>		
As reported	\$ 86,517	\$ 74,539
Floor plan notes payable, non-trade, net	252,893	136,201
Less: Borrowings on floor plan notes payable, non-trade associated with acquired new vehicle inventory	(94,550)	(25,642)
Adjusted	<u>\$ 244,860</u>	<u>\$ 185,098</u>

**Lithia Motors, Inc.**

**Reconciliation of Certain Non-GAAP Financial Measures** (Unaudited)

(In thousands, except for per share data)

	<b>Three Months Ended December 31, 2016</b>				
	<b>As reported</b>	<b>Equity investment fair value adjustment</b>	<b>Legal Reserve</b>	<b>Tax Attribute</b>	<b>Adjusted</b>
Asset impairments	\$ 3,498	\$ (3,498)	\$ -	\$ -	\$ -
Selling, general and administrative	236,824	-	(2,030)	-	234,794
Income from operations	81,517	3,498	2,030	-	87,045
Other (expense) income, net	(1,569)	2,065	-	-	497
Income before income taxes	\$ 66,122	\$ 5,563	\$ 2,030	\$ -	\$ 73,715
Income tax expense	(14,803)	(8,156)	(2,503)	(1,320)	(26,782)
Net income	<u>\$ 51,319</u>	<u>\$ (2,593)</u>	<u>\$ (473)</u>	<u>\$ (1,320)</u>	<u>\$ 46,933</u>
Diluted earnings per share	\$ 2.03	\$ (0.10)	\$ (0.02)	\$ (0.05)	\$ 1.86
Diluted share count	25,294				

	<b>Three Months Ended December 31, 2015</b>			
	<b>As reported</b>	<b>Asset impairment</b>	<b>Equity investment fair value adjustment</b>	<b>Adjusted</b>
Asset impairments	\$ 5,733	\$ (1,603)	\$ (4,130)	\$ -

Income from operations	76,415	1,603	4,130	82,148
Other (expense) income, net	25	-	1,733	1,758
Income before income taxes	\$ 66,370	\$ 1,603	\$ 5,864	\$ 73,837
Income tax expense	<u>(18,638)</u>	<u>(605)</u>	<u>(8,516)</u>	<u>(27,759)</u>
Net income	<u>\$ 47,732</u>	<u>\$ 998</u>	<u>\$ (2,652)</u>	<u>\$ 46,078</u>
Diluted earnings per share	\$ 1.80	\$ 0.04	\$ (0.10)	\$ 1.74
Diluted share count	26,462			

**Lithia Motors, Inc.**

**Reconciliation of Certain Non-GAAP Financial Measures** (Unaudited)

(In thousands, except for per share data)

**Twelve Months Ended December 31, 2016**

	<u>As reported</u>	<u>Disposal gain on sale of store</u>	<u>Equity investment fair value adjustment</u>	<u>Legal Reserve</u>	<u>Tax Attribute</u>	<u>Adjusted</u>
Asset impairments	\$ 13,992	\$ -	\$ (13,992)	-	\$ -	\$ -
Selling, general and administrative	899,590	1,087	-	(3,936)	-	896,741
Income from operations	338,364	(1,087)	13,992	3,936	-	355,205
Other (expense) income, net	(6,103)	-	8,262	-	-	2,159
Income before income taxes	\$ 283,523	\$ (1,087)	\$ 22,254	3,936	\$ -	\$ 308,626
Income tax expense	<u>(86,465)</u>	<u>426</u>	<u>(28,530)</u>	<u>(3,250)</u>	<u>(1,320)</u>	<u>(119,139)</u>
Net income	<u>\$ 197,058</u>	<u>\$ (661)</u>	<u>\$ (6,276)</u>	<u>686</u>	<u>\$ (1,320)</u>	<u>\$ 189,487</u>
Diluted earnings per share	\$ 7.72	\$ (0.03)	\$ (0.25)	0.03	\$ (0.05)	\$ 7.42
Diluted share count	25,521					

**Twelve Months Ended December 31, 2015**

	<u>As reported</u>	<u>Disposal gain on sale of store</u>	<u>Asset impairment</u>	<u>Equity investment fair value adjustment</u>	<u>Transition Agreement</u>	<u>Adjusted</u>
Asset impairments	\$ 20,124	\$ -	\$ (3,603)	\$ (16,521)		\$ -
Selling, general and administrative	811,175	5,919	-	-	(18,296)	798,798
Income from operations	302,735	(5,919)	3,603	16,521	18,296	335,236
Other (expense) income, net	(1,006)	-	-	6,930		5,924
Income before income taxes	\$ 262,704	\$ (5,919)	\$ 3,603	\$ 23,451	\$ 18,296	\$ 302,135
Income tax expense	<u>(79,705)</u>	<u>2,309</u>	<u>(1,385)</u>	<u>(30,832)</u>	<u>(6,507)</u>	<u>(116,120)</u>
Net income	<u>\$ 182,999</u>	<u>\$ (3,610)</u>	<u>\$ 2,218</u>	<u>\$ (7,381)</u>	<u>\$ 11,789</u>	<u>\$ 186,015</u>
Diluted earnings per share	\$ 6.91	\$ (0.14)	\$ 0.08	\$ (0.28)	\$ 0.45	\$ 7.02
Diluted share count	26,490					