

SONIC AUTOMOTIVE INC
Form 10-Q
July 27, 2016

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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 June 30, 2016

OR

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

For the transition period from _____ to _____

Commission File Number: 1-13395

SONIC AUTOMOTIVE, INC.

(Exact name of registrant as specified in its charter)

Delaware 56-2010790
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

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4401 Colwick Road

Charlotte, North Carolina 28211
(Address of principal executive offices) (Zip Code)

(704) 566-2400

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of July 19, 2016, there were 33,418,455 shares of Class A common stock and 12,029,375 shares of Class B common stock outstanding.

Uncertainty of Forward-Looking Statements and Information

This Quarterly Report on Form 10-Q contains, and written or oral statements made from time to time by us or by our authorized officers may contain, “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements address our future objectives, plans and goals, as well as our intent, beliefs and current expectations regarding future operating performance, results and events, and can generally be identified by words such as “may,” “will,” “should,” “believe,” “expect,” “estimate,” “anticipate,” “intend,” “plan,” “foresee” or similar words or phrases.

These forward-looking statements are based on our current estimates and assumptions and involve various risks and uncertainties. As a result, you are cautioned that these forward-looking statements are not guarantees of future performance, and that actual results could differ materially from those projected in these forward-looking statements. Factors which may cause actual results to differ materially from our projections include those risks described in “Item 1A: Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015 and elsewhere in this report, as well as:

- the number of new and used vehicles sold in the United States as compared to our expectations and the expectations of the market;
- our ability to generate sufficient cash flows or obtain additional financing to fund our EchoPark® expansion, our One Sonic-One Experience initiative, capital expenditures, our share repurchase program, dividends on our common stock, acquisitions and general operating activities;
- our business and growth strategies, including, but not limited to, our EchoPark® initiative and our One Sonic-One Experience initiative;
- the reputation and financial condition of vehicle manufacturers whose brands we represent, the financial incentives vehicle manufacturers offer and their ability to design, manufacture, deliver and market their vehicles successfully;
- our relationships with manufacturers, which may affect our ability to obtain desirable new vehicle models in inventory or complete additional acquisitions;
- adverse resolution of one or more significant legal proceedings against us or our dealerships or EchoPark® stores;
- changes in laws and regulations governing the operation of automobile franchises, accounting standards, taxation requirements and environmental laws;
- general economic conditions in the markets in which we operate, including fluctuations in interest rates, employment levels, the level of consumer spending and consumer credit availability;
- high competition in the automotive retailing industry, which not only creates pricing pressures on the products and services we offer, but also on businesses we may seek to acquire;
- our ability to successfully integrate potential future acquisitions; and
- the rate and timing of overall economic recovery or decline.

These forward-looking statements speak only as of the date of this report or when made, and we undertake no obligation to revise or update these statements to reflect subsequent events or circumstances, except as required under the federal securities laws and the rules and regulations of the Securities and Exchange Commission.

SONIC AUTOMOTIVE, INC.

FORM 10-Q

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

SONIC AUTOMOTIVE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Dollars and shares in thousands, except per share amounts)			
Revenues:				
New vehicles	\$1,286,464	\$1,295,288	\$2,451,034	\$2,497,610
Used vehicles	622,186	658,794	1,220,540	1,252,536
Wholesale vehicles	38,245	41,131	82,620	82,789
Total vehicles	1,946,895	1,995,213	3,754,194	3,832,935
Parts, service and collision repair	351,329	346,164	697,384	669,358
Finance, insurance and other, net	84,088	82,363	165,361	156,963
Total revenues	2,382,312	2,423,740	4,616,939	4,659,256
Cost of Sales:				
New vehicles	(1,220,598)	(1,230,352)	(2,326,744)	(2,369,325)
Used vehicles	(585,217)	(618,098)	(1,143,041)	(1,170,996)
Wholesale vehicles	(40,084)	(43,807)	(85,537)	(85,673)
Total vehicles	(1,845,899)	(1,892,257)	(3,555,322)	(3,625,994)
Parts, service and collision repair	(183,108)	(175,929)	(363,162)	(342,749)
Total cost of sales	(2,029,007)	(2,068,186)	(3,918,484)	(3,968,743)
Gross profit	353,305	355,554	698,455	690,513
Selling, general and administrative expenses	(277,204)	(284,661)	(561,580)	(555,523)
Impairment charges	(151)	(10,469)	(151)	(16,661)
Depreciation and amortization	(18,905)	(17,294)	(37,374)	(33,703)
Operating income (loss)	57,045	43,130	99,350	84,626
Other income (expense):				
Interest expense, floor plan	(6,690)	(5,345)	(13,126)	(10,123)
Interest expense, other, net	(12,205)	(13,054)	(24,544)	(26,274)
Other income (expense), net	6	10	110	100
Total other income (expense)	(18,889)	(18,389)	(37,560)	(36,297)
Income (loss) from continuing operations before taxes	38,156	24,741	61,790	48,329
Provision for income taxes for continuing operations - benefit (expense)	(15,113)	(9,649)	(24,283)	(18,848)
Income (loss) from continuing operations	23,043	15,092	37,507	29,481

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Discontinued operations:

Income (loss) from discontinued operations before taxes	(362)	(509)	(100)	(1,200)
Provision for income taxes for discontinued operations - benefit (expense)	141	198	39	468
Income (loss) from discontinued operations	(221)	(311)	(61)	(732)
Net income (loss)	\$22,822	\$14,781	\$37,446	\$28,749

Basic earnings (loss) per common share:

Earnings (loss) per share from continuing operations	\$0.50	\$0.30	\$0.81	\$0.58
Earnings (loss) per share from discontinued operations	-	(0.01)	-	(0.01)
Earnings (loss) per common share	\$0.50	\$0.29	\$0.81	\$0.57
Weighted average common shares outstanding	45,731	50,784	46,340	50,819

Diluted earnings (loss) per common share:

Earnings (loss) per share from continuing operations	\$0.50	\$0.30	\$0.81	\$0.57
Earnings (loss) per share from discontinued operations	-	(0.01)	(0.01)	