

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2022  
OR

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

Commission file number: 001-14733



**Lithia Motors, Inc.**

(Exact name of registrant as specified in its charter)

**Oregon**

(State or other jurisdiction of incorporation or organization)

**93-0572810**

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

**150 N. Bartlett Street**

**Medford,**

**Oregon**

**97501**

(Address of principal executive offices)

(Zip Code)

**(541) 776-6401**

Registrant's telephone number, including area code

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 without par value | LAD               | The 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

☒

Non-accelerated filer

☐

Accelerated filer

☐

Smaller reporting company

☐

Emerging growth company

☐

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 July 28, 2022, there were 27,526,861 shares of the registrant's common stock outstanding.

**LITHIA MOTORS, INC.**  
**FORM 10-Q QUARTERLY REPORT**  
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## CONSOLIDATED BALANCE SHEETS

(In millions; Unaudited)

|  | June 30, 2022 | December 31, 2021 |
|--|---------------|-------------------|
| <b>Assets</b>  |               |                   |
| Current assets:  |               |                   |
| Cash, restricted cash, and cash equivalents  | \$ 113.2      | \$ 174.8          |
| Accounts receivable, net of allowance for doubtful accounts of \$22.0 and \$17.3           | 978.4         | 910.0             |
| Inventories, net   | 2,985.0       | 2,385.5           |
| Other current assets   | 85.2          | 63.0              |
| Total current assets   | 4,161.8       | 3,533.3           |
| Property and equipment, net of accumulated depreciation of \$470.6 and \$422.6             | 3,390.9       | 3,052.6           |
| Operating lease right-of-use assets  | 385.9         | 395.9             |
| Goodwill   | 1,237.6       | 977.3             |
| Franchise value  | 1,443.8       | 799.1             |
| Other non-current assets   | 2,387.7       | 2,388.7           |
| Total assets   | \$ 13,007.7   | \$ 11,146.9       |
| <b>Liabilities and equity</b>  |               |                   |
| Current liabilities:   |               |                   |
| Floor plan notes payable   | \$ 410.8      | \$ 354.2          |
| Floor plan notes payable: non-trade  | 1,060.2       | 835.9             |
| Current maturities of long-term debt   | 120.3         | 223.7             |
| Trade payables   | 266.5         | 235.4             |
| Accrued liabilities  | 756.6         | 753.6             |
| Total current liabilities  | 2,614.4       | 2,402.8           |
| Long-term debt, less current maturities  | 4,721.7       | 3,185.7           |
| Deferred revenue   | 210.3         | 191.2             |
| Deferred income taxes  | 207.6         | 191.0             |
| Non-current operating lease liabilities  | 350.0         | 361.7             |
| Other long-term liabilities  | 165.9         | 151.3             |
| Total liabilities  | 8,269.9       | 6,483.7           |
| Redeemable non-controlling interest  | 39.8          | 34.0              |
| Equity:  |               |                   |
| Preferred stock - no par value; authorized 15.0 shares; none outstanding                   | —             | —                 |
| Common stock - no par value; authorized 125.0 shares; issued and outstanding 27.5 and 29.5 | 1,124.0       | 1,711.6           |
| Additional paid-in capital   | 62.2          | 58.3              |
| Accumulated other comprehensive income (loss)  | (5.1)         | (3.0)             |
| Retained earnings  | 3,510.8       | 2,859.5           |
| Total stockholders' equity - Lithia Motors, Inc.   | 4,691.9       | 4,626.4           |
| Non-controlling interest   | 6.1           | 2.8               |
| Total equity   | 4,698.0       | 4,629.2           |
| Total liabilities, redeemable non-controlling interest and equity                          | \$ 13,007.7   | \$ 11,146.9       |

See accompanying condensed notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF OPERATIONS

| (In millions, except per share amounts; Unaudited)             | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|--|-----------------------------|------------|---------------------------|------------|
|  | 2022                        | 2021       | 2022                      | 2021       |
| Revenues:  |                             |            |                           |            |
| New vehicle retail   | \$ 3,250.7                  | \$ 3,146.2 | \$ 6,312.4                | \$ 5,339.5 |
| Used vehicle retail  | 2,496.7                     | 1,804.9    | 4,731.2                   | 3,157.0    |
| Used vehicle wholesale   | 382.4                       | 217.4      | 768.3                     | 352.6      |
| Finance and insurance  | 330.4                       | 269.6      | 643.7                     | 467.9      |
| Service, body and parts  | 682.6                       | 521.0      | 1,310.4                   | 925.0      |
| Fleet and other  | 97.3                        | 50.3       | 179.5                     | 110.4      |
| Total revenues   | 7,240.1                     | 6,009.4    | 13,945.4                  | 10,352.4   |
| Cost of sales:   |                             |            |                           |            |
| New vehicle retail   | 2,840.3                     | 2,832.5    | 5,500.7                   | 4,869.0    |
| Used vehicle retail  | 2,258.4                     | 1,572.3    | 4,269.0                   | 2,788.3    |
| Used vehicle wholesale   | 378.6                       | 201.0      | 756.7                     | 331.6      |
| Service, body and parts  | 319.1                       | 242.9      | 617.9                     | 428.6      |
| Fleet and other  | 93.0                        | 50.1       | 172.1                     | 108.8      |
| Total cost of sales  | 5,889.4                     | 4,898.8    | 11,316.5                  | 8,526.3    |
| Gross profit   | 1,350.7                     | 1,110.6    | 2,628.9                   | 1,826.1    |
| Selling, general and administrative                            | 781.5                       | 634.0      | 1,507.6                   | 1,084.2    |
| Depreciation and amortization                                  | 40.9                        | 30.3       | 80.2                      | 57.2       |
| Operating income   | 528.3                       | 446.3      | 1,041.1                   | 684.7      |
| Floor plan interest expense                                    | (3.8)                       | (6.4)      | (8.7)                     | (13.3)     |
| Other interest expense, net                                    | (34.4)                      | (28.1)     | (64.5)                    | (51.6)     |
| Other income (expense), net                                    | (21.9)                      | 7.6        | (29.9)                    | 11.1       |
| Income before income taxes                                     | 468.2                       | 419.4      | 938.0                     | 630.9      |
| Income tax provision   | (130.6)                     | (114.5)    | (256.7)                   | (169.8)    |
| Net income   | 337.6                       | 304.9      | 681.3                     | 461.1      |
| Net income attributable to non-controlling interest            | (3.8)                       | —          | (4.4)                     | —          |
| Net income attributable to redeemable non-controlling interest | (2.5)                       | —          | (3.4)                     | —          |
| Net income attributable to Lithia Motors, Inc.                 | \$ 331.3                    | \$ 304.9   | \$ 673.5                  | \$ 461.1   |
| Basic earnings per share attributable to Lithia Motors, Inc.   | \$ 11.67                    | \$ 10.83   | \$ 23.25                  | \$ 16.83   |
| Shares used in basic per share calculations                    | 28.4                        | 28.1       | 29.0                      | 27.4       |
| Diluted earnings per share attributable to Lithia Motors, Inc. | \$ 11.60                    | \$ 10.75   | \$ 23.15                  | \$ 16.69   |
| Shares used in diluted per share calculations                  | 28.6                        | 28.4       | 29.1                      | 27.6       |
| Cash dividends paid per share                                  | \$ 0.42                     | \$ 0.35    | \$ 0.77                   | \$ 0.66    |

See accompanying condensed notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (In millions; Unaudited)   | Three Months Ended June 30, |                 | Six Months Ended June 30, |                 |
|--|-----------------------------|-----------------|---------------------------|-----------------|
|  | 2022                        | 2021            | 2022                      | 2021            |
| Net income   | \$ 337.6                    | \$ 304.9        | \$ 681.3                  | \$ 461.1        |
| Other comprehensive income (loss), net of tax:   |                             |                 |                           |                 |
| Foreign currency translation adjustment  | (8.0)                       | —               | (4.0)                     | —               |
| Gain (loss) on cash flow hedges, net of tax benefit (expense) of \$0.7, (\$0.1), (\$0.7), and (\$0.7) respectively | (2.0)                       | 0.2             | 1.8                       | 2.0             |
| Total other comprehensive income (loss), net of tax  | (10.0)                      | 0.2             | (2.1)                     | 2.0             |
| Comprehensive income   | 327.6                       | 305.1           | 679.1                     | 463.1           |
| Comprehensive income attributable to non-controlling interest  | (3.8)                       | —               | (4.4)                     | —               |
| Comprehensive income attributable to redeemable non-controlling interest   | (2.5)                       | —               | (3.4)                     | —               |
| Comprehensive income attributable to Lithia Motors, Inc.   | <u>\$ 321.3</u>             | <u>\$ 305.1</u> | <u>\$ 671.3</u>           | <u>\$ 463.1</u> |

See accompanying condensed notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF EQUITY AND REDEEMABLE NON-CONTROLLING INTEREST

(In millions; Unaudited)

|   | Three Months Ended June 30, |                   | Six Months Ended June 30, |                   |
|---|-----------------------------|-------------------|---------------------------|-------------------|
|   | 2022                        | 2021              | 2022                      | 2021              |
| <b>Total equity, beginning balances</b>   | \$ 4,907.9                  | \$ 2,807.6        | \$ 4,629.2                | \$ 2,661.5        |
| <b>Common stock<sup>1</sup>, beginning balances</b>   | 1,656.3                     | 789.9             | 1,711.6                   | 788.2             |
| Compensation for stock and stock option issuances and excess tax benefits from option exercises                     | 2.2                         | 1.2               | 19.2                      | 14.6              |
| Issuance of stock in connection with employee stock plans   | 11.0                        | 5.5               | 18.8                      | 9.7               |
| Repurchase of common stock  | (545.5)                     | —                 | (625.6)                   | (15.9)            |
| Equity issuances, net of issuance costs   | —                           | 1,110.3           | —                         | 1,110.3           |
| <b>Common stock<sup>1</sup>, ending balances</b>  | 1,124.0                     | 1,906.9           | 1,124.0                   | 1,906.9           |
| <b>Class B common stock<sup>1</sup>, beginning balances</b>   | —                           | —                 | —                         | —                 |
| Class B common stock converted to class A common stock <sup>1</sup>   | —                           | —                 | —                         | —                 |
| <b>Class B common stock<sup>1</sup>, ending balances</b>  | —                           | —                 | —                         | —                 |
| <b>Additional paid-in capital, beginning balances</b>   | 51.8                        | 36.0              | 58.3                      | 41.4              |
| Compensation for stock and stock option issuances and excess tax benefits from option exercises                     | 10.4                        | 8.0               | 3.9                       | 2.6               |
| <b>Additional paid-in capital, ending balances</b>  | 62.2                        | 44.0              | 62.2                      | 44.0              |
| <b>Accumulated other comprehensive income (loss), beginning balances</b>  | 4.9                         | (4.5)             | (3.0)                     | (6.3)             |
| Foreign currency translation adjustment   | (8.0)                       | —                 | (4.0)                     | —                 |
| Gain (loss) on cash flow hedges, net of tax benefit (expense) of \$0.7, (\$0.1), (\$0.7), and (\$0.7), respectively | (2.0)                       | 0.2               | 1.8                       | 2.0               |
| <b>Accumulated other comprehensive income (loss), ending balances</b>   | (5.1)                       | (4.3)             | (5.1)                     | (4.3)             |
| <b>Retained earnings, beginning balances</b>  | 3,191.4                     | 1,986.2           | 2,859.5                   | 1,838.2           |
| Net income attributable to Lithia Motors, Inc.  | 331.3                       | 304.9             | 673.5                     | 461.1             |
| Dividends paid  | (11.9)                      | (9.3)             | (22.2)                    | (17.5)            |
| <b>Retained earnings, ending balances</b>   | 3,510.8                     | 2,281.8           | 3,510.8                   | 2,281.8           |
| <b>Non-controlling interest, beginning balances</b>   | 3.3                         | —                 | 2.8                       | —                 |
| Distribution of non-controlling interest  | (1.0)                       | —                 | (1.1)                     | —                 |
| Net income attributable to non-controlling interest   | 3.8                         | —                 | 4.4                       | —                 |
| <b>Non-controlling interest, ending balances</b>  | 6.1                         | —                 | 6.1                       | —                 |
| <b>Total equity, ending balances</b>  | <u>\$ 4,698.0</u>           | <u>\$ 4,228.4</u> | <u>\$ 4,698.0</u>         | <u>\$ 4,228.4</u> |
| <b>Redeemable non-controlling interest, beginning balances</b>  | \$ 34.9                     | \$ —              | \$ 34.0                   | \$ —              |
| Acquired redeemable non-controlling interest  | 2.4                         | —                 | 2.4                       | —                 |
| Net income attributable to redeemable non-controlling interest  | 2.5                         | —                 | 3.4                       | —                 |
| <b>Redeemable non-controlling interest, ending balances</b>   | <u>\$ 39.8</u>              | <u>\$ —</u>       | <u>\$ 39.8</u>            | <u>\$ —</u>       |

<sup>1</sup> Prior to June 7, 2021, common stock was classified as Class A common stock. The Class A common stock reclassification as common stock occurred in connection with the elimination of our classified common stock structure following the conversion of all Class B common stock to Class A common stock.

See accompanying condensed notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF CASH FLOWS

| (In millions; Unaudited)   | Six Months Ended June 30, |                  |
|--|---------------------------|------------------|
|  | 2022                      | 2021             |
| <b>Cash flows from operating activities:</b>                                   |                           |                  |
| Net income   | \$ 681.3                  | \$ 461.1         |
| Adjustments to reconcile net income to net cash used for operating activities: |                           |                  |
| Depreciation and amortization  | 80.2                      | 57.1             |
| Stock-based compensation   | 23.1                      | 17.2             |
| (Gain) loss on disposal of other assets  | (0.6)                     | 0.1              |
| (Gain) loss on disposal of franchise   | (13.1)                    | 5.2              |
| Unrealized investment loss (gain)  | 33.0                      | (0.9)            |
| Deferred income taxes  | 16.6                      | 31.8             |
| Amortization of operating lease right-of-use assets                            | 19.3                      | 16.5             |
| (Increase) decrease (net of acquisitions and dispositions):                    |                           |                  |
| Accounts receivable, net   | (76.4)                    | (185.0)          |
| Inventories  | (507.0)                   | 663.1            |
| Other assets   | (628.3)                   | (95.5)           |
| Increase (decrease) (net of acquisitions and dispositions):                    |                           |                  |
| Floor plan notes payable   | 56.9                      | 47.0             |
| Trade payables   | 32.6                      | 97.4             |
| Accrued liabilities  | (16.8)                    | 144.3            |
| Other long-term liabilities and deferred revenue                               | 36.1                      | 11.6             |
| <b>Net cash provided by (used in) operating activities</b>                     | <b>(263.1)</b>            | <b>1,271.0</b>   |
| <b>Cash flows from investing activities:</b>                                   |                           |                  |
| Capital expenditures   | (136.6)                   | (113.0)          |
| Proceeds from sales of assets  | 16.5                      | —                |
| Cash paid for other investments  | (9.3)                     | (9.9)            |
| Cash paid for acquisitions, net of cash acquired                               | (706.0)                   | (1,741.9)        |
| Proceeds from sales of stores  | 52.7                      | 43.7             |
| <b>Net cash used in investing activities</b>                                   | <b>(782.7)</b>            | <b>(1,821.1)</b> |
| <b>Cash flows from financing activities:</b>                                   |                           |                  |
| Borrowings (repayments) on floor plan notes payable, net: non-trade            | 243.5                     | (571.6)          |
| Borrowings on lines of credit  | 6,047.8                   | 1,454.9          |
| Repayments on lines of credit  | (4,543.9)                 | (1,519.5)        |
| Principal payments on long-term debt and finance lease liabilities, scheduled  | (96.0)                    | (12.6)           |
| Principal payments on long-term debt and finance lease liabilities, other      | (60.3)                    | (65.0)           |
| Proceeds from issuance of long-term debt                                       | 26.7                      | 817.5            |
| Payment of debt issuance costs   | (1.5)                     | (10.6)           |
| Proceeds from issuance of common stock   | 18.7                      | 1,120.0          |
| Repurchase of common stock   | (623.4)                   | (15.9)           |
| Dividends paid   | (22.2)                    | (17.5)           |
| Payment of contingent consideration related to acquisitions                    | (3.7)                     | (1.4)            |
| Other financing activity   | (1.1)                     | —                |
| <b>Net cash provided by financing activities</b>                               | <b>984.6</b>              | <b>1,178.3</b>   |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>            | <b>(0.4)</b>              | <b>—</b>         |
| <b>Increase (decrease) in cash, restricted cash, and cash equivalents</b>      | <b>(61.6)</b>             | <b>628.3</b>     |
| <b>Cash, restricted cash, and cash equivalents at beginning of year</b>        | <b>178.5</b>              | <b>162.4</b>     |
| <b>Cash, restricted cash, and cash equivalents at end of period</b>            | <b>\$ 116.9</b>           | <b>\$ 790.7</b>  |

See accompanying condensed notes to consolidated financial statements.



## SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

| (In millions)  | Six Months Ended June 30, |                 |
|--|---------------------------|-----------------|
|  | 2022                      | 2021            |
| <b>Reconciliation of cash, restricted cash, and cash equivalents to the consolidated balance sheets</b>        |                           |                 |
| Cash and cash equivalents  | \$ 64.4                   | \$ 780.9        |
| Restricted cash from collections on auto loans receivable and customer deposits                                | 48.8                      | 9.8             |
| Cash, restricted cash, and cash equivalents  | 113.2                     | 790.7           |
| Restricted cash on deposit in reserve accounts, included in other non-current assets                           | 3.7                       | —               |
| <b>Total cash, restricted cash, and cash equivalents reported in the Consolidated Statements of Cash Flows</b> | <b>\$ 116.9</b>           | <b>\$ 790.7</b> |
| <b>Supplemental cash flow information:</b>   |                           |                 |
| Cash paid during the period for interest   | \$ 71.9                   | \$ 57.2         |
| Cash paid during the period for income taxes, net  | 259.2                     | 129.3           |
| Floor plan debt paid in connection with store disposals  | —                         | 8.7             |
| <b>Non-cash activities:</b>  |                           |                 |
| Debt issued in connection with acquisitions  | \$ —                      | \$ 225.6        |
| Debt assumed in connection with acquisitions   | —                         | 4.0             |
| Acquisition of finance leases in connection with acquisitions  | 59.0                      | —               |
| Right-of-use assets obtained in exchange for lease liabilities   | 16.5                      | 8.1             |
| Unsettled repurchases of common stock  | 2.2                       | —               |

See accompanying condensed notes to consolidated financial statements.





# CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1. INTERIM FINANCIAL STATEMENTS

### Basis of Presentation

These condensed Consolidated Financial Statements contain unaudited information as of June 30, 2022, and for the three and six months ended June 30, 2022 and 2021. The unaudited interim financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain disclosures required by accounting principles generally accepted in the United States of America for annual financial statements are not included herein. In management's opinion, these unaudited financial statements reflect all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the information when read in conjunction with our 2021 audited Consolidated Financial Statements and the related notes thereto. The financial information as of December 31, 2021, is derived from our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 18, 2022. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

### Reclassifications

Certain immaterial reclassifications of amounts previously reported have been made to the accompanying condensed Consolidated Financial Statements to maintain consistency and comparability between periods presented.

## NOTE 2. CONTRACT LIABILITIES AND ASSETS

### Contract Liabilities

We are the obligor on our lifetime oil contracts. Revenue is allocated to these performance obligations and is recognized over time as services are provided to the customer. The amount of revenue recognized is calculated, net of cancellations, using an input method, which most closely depicts performance of the contracts. Our contract liability balances were \$263.0 million and \$239.0 million as of June 30, 2022, and December 31, 2021, respectively; and we recognized \$11.0 million and \$22.1 million of revenue in the three and six months ended June 30, 2022 related to our contract liability balance at December 31, 2021. Our contract liability balance is included in accrued liabilities and deferred revenue.

### Contract Assets

Revenue from finance and insurance sales is recognized, net of estimated charge-backs, at the time of the sale of the related vehicle. We act as an agent in the sale of these contracts as the pricing is set by the third-party provider, and our commission is preset. A portion of the transaction price related to sales of finance and insurance contracts is considered variable consideration and is estimated and recognized upon the sale of the contract. Our contract asset balances associated with future estimated variable consideration were \$10.3 million and \$9.6 million as of June 30, 2022 and December 31, 2021, respectively; and are included in trade receivables and other non-current assets.

## NOTE 3. ACCOUNTS RECEIVABLE AND OTHER NON-CURRENT ASSETS

Accounts receivable consisted of the following:

| (in millions)  | June 30, 2022   | December 31, 2021 |
|--|-----------------|-------------------|
| Contracts in transit   | \$ 391.8        | \$ 304.9          |
| Trade receivables  | 109.9           | 125.5             |
| Vehicle receivables  | 121.4           | 106.6             |
| Manufacturer receivables   | 131.4           | 120.5             |
| Auto loan and lease receivables                                  | 1,412.2         | 829.2             |
| Other receivables  | 20.8            | 43.2              |
|  | <u>2,187.5</u>  | <u>1,529.9</u>    |
| Less: Allowance for doubtful accounts                            | (22.0)          | (17.3)            |
| Less: Long-term portion of accounts receivable, net <sup>1</sup> | (1,187.1)       | (602.6)           |
| Total accounts receivable, net                                   | <u>\$ 978.4</u> | <u>\$ 910.0</u>   |

<sup>1</sup>The long-term portions of accounts receivable and allowance for doubtful accounts were included as a component of other non-current assets in the Consolidated Balance Sheets.

Accounts receivable classifications include the following:

- Contracts in transit are receivables from various lenders for the financing of vehicles that we have arranged on behalf of the customer and are typically received approximately ten days after selling a vehicle.
- Trade receivables are comprised of amounts due from customers for open charge accounts, lenders for the commissions earned on financing and others for commissions earned on service contracts and insurance products.
- Vehicle receivables represent receivables for the portion of the vehicle sales price paid directly by the customer.
- Manufacturer receivables represent amounts due from manufacturers, including holdbacks, rebates, incentives and warranty claims.
- Auto loan receivables include amounts due from customers related to vehicle sales financed through Driveway Finance Corporation.
- Lease receivables include amounts related to vehicles leased to customers through Pfaff Leasing.

Interest income on auto loan receivables is recognized based on the contractual terms of each loan and is accrued until repayment, reaching non-accrual status, charge-off, or repossession. Direct costs associated with loan originations are capitalized and expensed as an offset to interest income when recognized on the loans. All other receivables are recorded at invoice and do not bear interest until they are 60 days past due.

The balances of auto loan and lease receivables are made up of loans secured by the related vehicles. More than 99% of the portfolio is aged less than 60 days past due with less than 1% on non-accrual status.

| (Dollars in millions)                     | June 30, 2022     | December 31, 2021 |
|---|-------------------|-------------------|
| Total Auto loan and lease receivables     | \$ 1,412.2        | \$ 829.2          |
| Less: Allowance for loan and lease losses | (37.4)            | (25.0)            |
| Auto loan and lease receivables, net      | <u>\$ 1,374.8</u> | <u>\$ 804.2</u>   |

Below is a breakdown of the current and long term portions of our auto loan and lease receivables:

(Dollars in millions)

|   | June 30, 2022     | December 31, 2021 |
|---|-------------------|-------------------|
| Current portion of auto loan and lease receivables, net of allowance of \$18.8 and \$13.6   | \$ 216.1          | \$ 224.5          |
| Long term portion of auto loan and lease receivables, net of allowance of \$18.6 and \$11.4 | 1,158.7           | 579.7             |
| Auto loan and lease receivables, net  | <u>\$ 1,374.8</u> | <u>\$ 804.2</u>   |

Our allowance for loan and lease losses represents the net credit losses expected over the remaining contractual life of our managed receivables. The allowances for credit losses related to auto loan and lease receivables consisted of the following changes during the period:

|  | Six Months Ended June 30, |                |
|--|---------------------------|----------------|
| (Dollars in millions)  | 2022                      | 2021           |
| Allowance for loan losses at beginning of period                   | \$ 22.5                   | \$ 13.9        |
| Charge-offs  | (20.1)                    | (5.5)          |
| Recoveries   | 8.1                       | 3.7            |
| Provision expense  | 23.0                      | 1.2            |
| Allowance for loan losses at end of period                         | <u>33.5</u>               | <u>13.3</u>    |
| Allowance for lease losses   | 3.9                       | —              |
| Total allowance for loan and lease losses balance at end of period | <u>\$ 37.4</u>            | <u>\$ 13.3</u> |

Ending auto loan receivables (principal balances) by FICO score:

(Dollars in millions)

|                                       | June 30, 2022     | December 31, 2021 |
|---------------------------------------|-------------------|-------------------|
| <599 <sup>1</sup>                     | \$ 89.6           | \$ 83.2           |
| 600-699                               | 676.3             | 437.6             |
| 700-774                               | 379.3             | 166.8             |
| 775+                                  | 149.2             | 37.4              |
| Total auto loan receivables           | <u>1,294.4</u>    | <u>725.0</u>      |
| Lease portfolio and accrued interest  | 117.8             | 104.2             |
| Total auto loan and lease receivables | <u>\$ 1,412.2</u> | <u>\$ 829.2</u>   |

<sup>1</sup>Includes loans that are originated with no FICO score available.

In accordance with Topic 326, the allowance for loan and lease losses is estimated based on our historical write-off experience, current conditions and forecasts, as well as the value of any underlying assets securing these loans. Consideration is given to recent delinquency trends and recovery rates. Account balances are charged against the allowance upon reaching 120 days past due status. The annual activity for charges and subsequent recoveries is immaterial. The remainder of our receivables are due primarily from manufacturer partners and various third-party lenders. The historical losses related to these balances are immaterial.

The long-term portion of auto loan and lease receivables was included as a component of other non-current assets in the Consolidated Balance Sheets as follows:

(Dollars in millions)

|   | June 30, 2022     | December 31, 2021 |
|---|-------------------|-------------------|
| Long term portion of auto loan and lease receivables, net of allowance of \$18.6 and \$11.4 | \$ 1,158.7        | \$ 579.7          |
| Unallocated acquisition purchase price  | 970.3             | 1,554.6           |
| Other   | 258.7             | 254.4             |
| Other non-current assets  | <u>\$ 2,387.7</u> | <u>\$ 2,388.7</u> |

## NOTE 4. INVENTORIES

The components of inventories, net, consisted of the following:

| (in millions)         | June 30, 2022     | December 31, 2021 |
|-----------------------|-------------------|-------------------|
| New vehicles          | \$ 1,059.2        | \$ 812.9          |
| Used vehicles         | 1,745.5           | 1,418.3           |
| Parts and accessories | 180.3             | 154.3             |
| Total inventories     | <u>\$ 2,985.0</u> | <u>\$ 2,385.5</u> |

## NOTE 5. GOODWILL AND FRANCHISE VALUE

The changes in the carrying amounts of goodwill are as follows:

| (in millions)                                | Domestic        | Import          | Luxury          | Corporate and Other | Consolidated      |
|--|-----------------|-----------------|-----------------|---------------------|-------------------|
| Balance as of December 31, 2020 <sup>1</sup> | \$ 204.5        | \$ 287.9        | \$ 100.6        | \$ —                | \$ 593.0          |
| Additions through acquisitions <sup>2</sup>  | 101.0           | 188.7           | 105.8           | —                   | 395.5             |
| Reductions through divestitures              | (1.5)           | (8.4)           | (1.3)           | —                   | (11.2)            |
| Balance as of December 31, 2021 <sup>1</sup> | 304.0           | 468.2           | 205.1           | —                   | 977.3             |
| Additions through acquisitions <sup>3</sup>  | 75.9            | 130.1           | 59.4            | 0.7                 | 266.1             |
| Reductions through divestitures              | (4.1)           | (1.7)           | —               | —                   | (5.8)             |
| Balance as of June 30, 2022 <sup>1</sup>     | <u>\$ 375.8</u> | <u>\$ 596.6</u> | <u>\$ 264.5</u> | <u>\$ 0.7</u>       | <u>\$ 1,237.6</u> |

<sup>1</sup> Net of accumulated impairment losses of \$299.3 million recorded during the year ended December 31, 2008.

<sup>2</sup> Our purchase price allocation for the 2020 acquisitions were finalized in 2021. As a result, we added \$395.5 million of goodwill.

<sup>3</sup> Our purchase price allocation for a portion of the 2021 acquisitions was finalized in 2022. As a result, we added \$266.1 million of goodwill. Our purchase price allocation for the remaining 2021 and 2022 acquisitions are preliminary and goodwill is not yet allocated to our reporting units. These amounts are included in other non-current assets until we finalize our purchase accounting. See Note 13 – Acquisitions.

The changes in the carrying amounts of franchise value are as follows:

| (in millions)                               | Franchise Value   |
|---|-------------------|
| Balance as of December 31, 2020             | \$ 350.2          |
| Additions through acquisitions <sup>1</sup> | 459.7             |
| Reductions through divestitures             | (8.9)             |
| Reductions from impairments                 | (1.9)             |
| Balance as of December 31, 2021             | 799.1             |
| Additions through acquisitions <sup>2</sup> | 646.7             |
| Reductions through divestitures             | (2.0)             |
| Balance as of June 30, 2022                 | <u>\$ 1,443.8</u> |

<sup>1</sup> Our purchase price allocation for the 2020 acquisitions were finalized in 2021. As a result, we added \$459.7 million of franchise value.

<sup>2</sup> Our purchase price allocation for a portion of the 2021 acquisitions was finalized in 2022. As a result, we added \$646.7 million of franchise value. Our purchase price allocation for the remaining 2021 and 2022 acquisitions are preliminary and franchise value is not yet allocated to our reporting units. These amounts are included in other non-current assets until we finalize our purchase accounting. See Note 13 – Acquisitions.

## NOTE 6. CREDIT FACILITIES AND LONG-TERM DEBT

### US Bank Credit Facility

On June 2, 2022, we entered into a Second Amendment to our Fourth Amended and Restated Loan Agreement with U.S. Bank National Association as agent for the lenders, and each of the lenders party to the loan agreement, as lenders. The credit facility continues to provide for a total financing commitment of \$3.75 billion, which may be further expanded under the Second Amendment, subject to lender approval and the satisfaction of other conditions, up to a total of \$4.5 billion. Among other changes, the Second Amendment:

- Incorporates the adoption of the Secured Overnight Financing Rate (SOFR) as a replacement of the London Interbank Offered Rate (LIBOR).
- Modifies the initial allocation of the financing commitment to up to \$1.0 billion in used vehicle inventory floorplan financing, up to \$1.5 billion in revolving financing for general corporate purposes, including acquisitions and working capital, up to \$1.2 billion in new vehicle inventory floorplan financing, and up to \$50 million in service loaner vehicle floorplan financing.
- Modifies our option to reallocate the commitments under the Credit Facility, such that the new and used vehicle floor plan commitments may have unlimited allocation and the aggregate revolving loan commitment may not be more than the 40% of the amount of the aggregate commitment, and the aggregate service loaner vehicle floorplan commitment may not be more than the 3% of the amount of the aggregate commitment.
- Modifies the conditions for including real property in the Revolving Loan Borrowing Base to better facilitate borrowing against real estate and modifies the overall cap to \$1.0 billion.

All borrowings from, and repayments to, our lending group are presented in the Consolidated Statements of Cash Flows as financing activities.

The interest rate on the credit facility varies based on the type of debt, with the rate One-month Term SOFR plus 1.20% for new vehicle floor plan financing, Daily Simple SOFR plus 1.50% for used vehicle floor plan financing, 1.30% for service loaner floor plan financing and 1.10% for our working capital revolver. The annual interest rates associated with our floor plan commitments are as follows:

| Commitment                | Annual Interest Rate at June 30, 2022 |
|---------------------------|---------------------------------------|
| New vehicle floor plan    | 2.93%                                 |
| Used vehicle floor plan   | 3.00%                                 |
| Service loaner floor plan | 2.80%                                 |
| Revolving line of credit  | 2.60%                                 |

#### Other Credit Facilities and Lines of Credit

On June 3, 2022, we entered into a credit agreement with The Bank of Nova Scotia (BNS), Royal Bank of Canada, Bank of Montreal, The Toronto-Dominion Bank, VW Credit Canada, Inc. and BMW Group Financial Services, as lenders, and BNS, as administrative agent for the lenders. Pursuant to the credit agreement, the lenders assumed all of the indebtedness under our original commitment letter, dated August 30, 2021, between us and BNS, including the letters of credit issued thereunder, and agreed to certain new and amended terms. Among other things, the credit agreement establishes a total financing commitment of approximately \$1.125 billion CAD, including (i) up to \$100.0 million CAD to finance our working capital and for general corporate purposes; (ii) up to \$500.0 million CAD to finance the purchase of new motor vehicles (Wholesale Flooring Facility); (iii) up to \$100.0 million CAD to finance the purchase of used motor vehicles for sale in Canada and for export to the United States; (iv) up to \$400.0 million CAD for the wholesale lease financing of leased units and finance contracts, and (v) up to \$25.0 million CAD to finance certain motor vehicle leases. The credit agreement also establishes sublimits for swingline commitments and/or letter of credit commitments under certain of the Canadian facilities and incorporates an accordion feature to increase maximum potential borrowings under the Wholesale Flooring Facility by up to \$200.0 million CAD and under the other Canadian facilities by up to \$200.0 million CAD in aggregate. Borrowings under the credit agreement accrue interest at rates equal to the greater of BNS' prime lending rate or the Canadian Dollar Offered Rate plus, in each case, a spread, with the spreads ranging from 0.25% per annum to 1.30% per annum. All Canadian Facilities other than the Wholesale Flooring Facility, which is a demand facility, mature on June 3, 2025.

## NOTE 7. EQUITY AND REDEEMABLE NON-CONTROLLING INTERESTS

#### Repurchases of Common Stock

Repurchases of our common stock occurred under a repurchase authorization granted by our Board of Directors and related to shares withheld as part of the vesting of restricted stock units (RSUs). On November 30, 2021, our Board of Directors approved an additional \$750 million repurchase authorization of our common stock, increasing our total repurchase authorization to \$1.25 billion when combined with the amount previously authorized by the Board for repurchase. Share repurchases under this authorization were as follows:

|                                | Repurchases Occurring in 2022 |               | Cumulative Repurchases as of June 30, 2022 |               |
|--------------------------------|-------------------------------|---------------|--|---------------|
|                                | Shares                        | Average Price | Shares                                     | Average Price |
| Share Repurchase Authorization | 2,138,878                     | \$ 284.58     | 6,614,809                                  | \$ 171.73     |

As of June 30, 2022, we had \$114.1 million available for repurchases pursuant to our share repurchase authorization.

In addition, during 2022, we repurchased 56,823 shares at an average price of \$296.96 per share, for a total of \$16.9 million, related to tax withholding associated with the vesting of RSUs. The repurchase of shares related to tax withholding associated with stock awards does not reduce the number of shares available for repurchase as approved by our Board of Directors.

### ATM Equity Offering

On July 24, 2020, we entered into an ATM Equity Offering Sales Agreement, which allows us to offer and sell, from time to time, shares of our common stock, no par value, having an aggregate gross sales price of up to \$400 million. The shares will be issued pursuant to a registration statement on Form S-3 (File No. 333-239969), which became effective upon its filing on July 21, 2020. Under this agreement, we may enter into forward share purchase transactions. As of June 30, 2022, no amounts have been issued in relation to the ATM Equity Offering Sales Agreement.

### Redeemable Non-Controlling Interest

On August 30, 2021, we expanded into Canada through a partnership with Toronto-based Pfaff Automotive Partners. As part of the acquisition, we were granted the right to purchase (Call Option), and granted Pfaff Automotive a right to sell (Put Option), the remaining interest after a three-year period, with a purchase price based on Pfaff's pro rata share of assets at the date of exercise of the Call or Put Option, as applicable. As a result of this redemption feature, we recorded redeemable non-controlling interest, at its preliminary estimate of acquisition-date fair value, that is classified as mezzanine equity in the accompanying Consolidated Balance Sheets. The non-controlling interest is adjusted each reporting period for income (loss) attributable to the non-controlling interest and adjustments in fair value.

## NOTE 8. FAIR VALUE MEASUREMENTS

Factors used in determining the fair value of our financial assets and liabilities are summarized into three broad categories:

- Level 1 - quoted prices in active markets for identical securities;
- Level 2 - other significant observable inputs, including quoted prices for similar securities, interest rates, prepayment spreads, credit risk; and
- Level 3 - significant unobservable inputs, including our own assumptions in determining fair value.

We determined that the carrying value of cash equivalents, accounts receivable, trade payables, accrued liabilities and short-term borrowings approximate their fair values because of the nature of their terms and current market rates of these instruments. We believe the carrying value of our variable rate debt approximates fair value.

We have investments primarily consisting of our investment in Shift Technologies, Inc. (Shift), a San Francisco-based digital retail company. Shift has a readily determinable fair value following Shift going public in a reverse-merger deal with Insurance Acquisition, a special purpose acquisition company, in the fourth quarter of 2020. We calculated the fair value of this investment using quoted prices for the identical security (Level 1) and recorded the fair value as part of other non-current assets. An additional component of our investment in Shift consists of shares in escrow subject to release upon certain market conditions being met. The fair value of this component of our investment in Shift is measured using observable Level 2 market expectations at each measurement date and is recorded as part of other non-current assets. For the three and six months ended June 30, 2022, we recognized a \$18.1 million and \$33.0 million unrealized investment loss related to Shift, respectively. For the three and six months ended June 30, 2021, we recognized a \$1.2 million and \$0.9 million unrealized investment gain related to Shift, respectively. These amounts were recorded as a component of Other income (expense), net.

We have fixed rate debt primarily consisting of amounts outstanding under our senior notes and real estate mortgages. We calculated the estimated fair value of the senior notes using quoted prices for the identical liability (Level 1) and calculated the estimated fair value of the fixed rate real estate mortgages using a discounted cash flow methodology with estimated current interest rates based on a similar risk profile and duration (Level 2). The fixed cash flows are discounted and summed to compute the fair value of the debt. As of June 30, 2022, our real estate mortgages and other debt, which includes capital leases, had maturity dates between August 1, 2022, and July 1, 2038.

We have derivative instruments consisting of interest rate caps and have had an interest rate collar in prior periods. The fair value of derivative assets and liabilities are measured using observable Level 2 market expectations at each measurement date and is recorded as current liabilities and other long-term liabilities in the Consolidated Balance Sheets. See Note 12 – Derivative Financial Instruments for more details regarding our derivative contracts.

We estimate the value of other long-lived assets that are recorded at fair value on a non-recurring basis on a market valuation approach. We use prices and other relevant information generated primarily by recent market transactions involving similar or comparable assets, as well as our historical experience in divestitures, acquisitions and real estate transactions. Additionally, we may use a cost valuation approach to value long-lived assets when a market valuation approach is unavailable. Under this approach, we determine the cost to replace the service capacity of an asset, adjusted for physical and economic obsolescence. When available, we use valuation inputs from independent valuation experts, such as real estate appraisers and brokers, to corroborate our estimates of fair value. Real estate appraisers' and brokers' valuations are typically developed using one or more valuation techniques including market, income and replacement cost approaches. Because these valuations contain unobservable inputs, we classified the measurement of fair value of long-lived assets as Level 3.

There were no changes to our valuation techniques during the six-month period ended June 30, 2022.

Below are our investments that are measured at fair value (in millions):

| <b>Fair Value at June 30, 2022</b>     | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
|--|----------------|----------------|----------------|
| <b>Measured on a recurring basis:</b>  |                |                |                |
| Investments                            | \$ 8.0         | \$ —           | \$ —           |
| <b>Fair Value at December 31, 2021</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| <b>Measured on a recurring basis:</b>  |                |                |                |
| Investments                            | \$ 40.4        | \$ 0.5         | \$ —           |

Below are our derivative assets and liabilities that are measured at fair value (in millions):

| <b>Fair Value at June 30, 2022</b>     | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
|--|----------------|----------------|----------------|
| <b>Measured on a recurring basis:</b>  |                |                |                |
| Derivative asset                       | \$ —           | \$ 18.4        | \$ —           |
| Derivative liability                   | —              | 18.4           | —              |
| <b>Fair Value at December 31, 2021</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| <b>Measured on a recurring basis:</b>  |                |                |                |
| Derivative asset                       | \$ —           | \$ 6.4         | \$ —           |
| Derivative liability                   | —              | 8.9            | —              |

A summary of the aggregate carrying values, excluding unamortized debt issuance cost, and fair values of our long-term fixed interest rate debt is as follows:

| (in millions)                        | June 30, 2022     | December 31, 2021 |
|--------------------------------------|-------------------|-------------------|
| <b>Carrying value</b>                |                   |                   |
| 4.625% Senior notes due 2027         | \$ 400.0          | \$ 400.0          |
| 4.375% Senior notes due 2031         | 550.0             | 550.0             |
| 3.875% Senior notes due 2029         | 800.0             | 800.0             |
| Non-recourse notes payable           | 237.4             | 317.6             |
| Real estate mortgages and other debt | 492.5             | 477.6             |
|                                      | <u>\$ 2,479.9</u> | <u>\$ 2,545.2</u> |
| <b>Fair value</b>                    |                   |                   |
| 4.625% Senior notes due 2027         | \$ 364.0          | \$ 420.0          |
| 4.375% Senior notes due 2031         | 470.3             | 583.0             |
| 3.875% Senior notes due 2029         | 728.0             | 815.0             |
| Non-recourse notes payable           | 230.2             | 316.8             |
| Real estate mortgages and other debt | 434.6             | 488.7             |
|                                      | <u>\$ 2,227.1</u> | <u>\$ 2,623.5</u> |

## NOTE 9. NET INCOME PER SHARE

We compute net income per share using the two-class method. Under this method, basic net income per share is computed using the weighted average number of common shares outstanding during the period excluding common shares underlying equity awards that are unvested or subject to forfeiture. Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the common shares issuable upon the net exercise of stock options and unvested RSUs and is reflected in diluted earnings per share by application of the treasury stock method. The computation of the diluted net income per share of Class A common stock assumes the conversion of Class B common stock, while the diluted net income per share of Class B common stock does not assume the conversion of those shares.

Prior to June 7, 2021, our common stock was classified as Class A common stock. The Class A common stock reclassification as common stock occurred pursuant to an amendment and restatement of our Articles of Incorporation in connection with the elimination of the Company's classified common stock structure following the conversion of all Class B common stock to Class A common stock. Prior to the reclassification, except with respect to voting and transfer rights, the rights of the holders of our Class A and Class B common stock were identical. Under our Articles of Incorporation, the Class A and Class B common stock shared equally in any dividends, liquidation proceeds or other distribution with respect to our common stock and the Articles of Incorporation can only be amended by a vote of the shareholders. Additionally, Oregon law provides that amendments to our Articles of Incorporation that would adversely alter the rights, powers or preferences of a given class of stock, must be approved by the class of stock adversely affected by the proposed amendment. As a result, the undistributed earnings for each year are allocated based on the contractual participation rights of the Class A and Class B common shares as if the earnings for the year had been distributed. Because the liquidation and dividend rights were identical, the undistributed earnings are allocated on a proportionate basis.

The following is a reconciliation of net income and weighted average shares used for our basic earnings per share (EPS) and diluted EPS:





| Three Months Ended June 30,<br>(in millions, except per share amounts)                         | 2022         | 2021     |         |
|--|--------------|----------|---------|
|  | Common Stock | Class A  | Class B |
| Net income attributable to Lithia Motors, Inc. and applicable to common stockholders - basic   | \$ 331.4     | \$ 304.9 | \$ —    |
| Reallocation of net income due to conversion of Class B to Class A common shares outstanding   | —            | —        | —       |
| Conversion of Class B common shares into Class A common shares                                 | —            | —        | —       |
| Net income attributable to Lithia Motors, Inc. and applicable to common stockholders - diluted | \$ 331.4     | \$ 304.9 | \$ —    |
| Weighted average common shares outstanding – basic   | 28.4         | 28.1     | —       |
| Conversion of Class B common shares into Class A common shares                                 | —            | —        | —       |
| Effect of dilutive stock options on weighted average common shares                             | 0.2          | 0.3      | —       |
| Weighted average common shares outstanding – diluted   | 28.6         | 28.4     | —       |
| Basic earnings per share attributable to Lithia Motors, Inc.                                   | \$ 11.67     | \$ 10.83 | \$ —    |
| Diluted earnings per share attributable to Lithia Motors, Inc.                                 | \$ 11.60     | \$ 10.75 | \$ —    |

The effect of antidilutive securities on Class A and Class B common stock was evaluated for the three-month periods ended June 30, 2022, and 2021 and was determined to be immaterial.

| Six Months Ended June 30,<br>(in millions, except per share amounts)                            | 2022         | 2021     |          |
|---|--------------|----------|----------|
|   | Common Stock | Class A  | Class B  |
| Net income attributable to Lithia Motors, Inc. and applicable to common stockholders - basic    | \$ 673.6     | \$ 460.5 | \$ 0.6   |
| Conversion of class B common shares into class A common shares                                  | —            | 0.6      | —        |
| Net income attributable to Lithia Motors, Inc. and applicable to common stockholders - diluted  | \$ 673.6     | \$ 461.1 | \$ 0.6   |
| Weighted average common shares outstanding – basic  | 29.0         | 27.4     | —        |
| Conversion of class B common shares into class A common shares                                  | —            | —        | —        |
| Effect of employee stock purchases and restricted stock units on weighted average common shares | 0.1          | 0.2      | —        |
| Weighted average common shares outstanding – diluted  | 29.1         | 27.6     | —        |
| Basic earnings per share attributable to Lithia Motors, Inc.                                    | \$ 23.25     | \$ 16.83 | \$ 16.83 |
| Diluted earnings per share attributable to Lithia Motors, Inc.                                  | \$ 23.15     | \$ 16.69 | \$ 16.69 |

The effect of antidilutive securities on Class A and Class B common stock was evaluated for the six-month periods ended June 30, 2022, and 2021 and was determined to be immaterial.

## NOTE 10. SEGMENTS

While we have determined that each individual store is a reporting unit, we have aggregated our reporting units into three reportable segments based on their economic similarities: Domestic, Import and Luxury.

Our Domestic segment is comprised of retail automotive franchises that sell new vehicles manufactured by Stellantis, General Motors and Ford. Our Import segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Toyota, Honda, Hyundai, Subaru, Nissan and Volkswagen. Our Luxury segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by BMW, Mercedes and Lexus. The franchises in each segment also sell used vehicles, parts and automotive services, as well as automotive finance and insurance products.

Corporate and other revenue and income includes the results of operations of our stand-alone body shops offset by unallocated corporate overhead expenses, such as corporate personnel costs, and certain unallocated reserve and

elimination adjustments. Additionally, certain internal corporate expense allocations increase income for Corporate and other while decreasing segment income for the reportable segments. These internal corporate expense allocations are used to increase comparability of our dealerships and reflect the capital burden a stand-alone dealership would experience. Examples of these internal allocations include internal rent expense, internal floor plan financing charges, and internal fees charged to offset employees within our corporate headquarters who perform certain dealership functions.

We define our chief operating decision maker (CODM) to be certain members of our executive management group. Historical and forecasted operational performance is evaluated on a store-by-store basis and on a consolidated basis by the CODM. We derive the operating results of the segments directly from our internal management reporting system. The accounting policies used to derive segment results are substantially the same as those used to determine our consolidated results, excepted for the internal allocation within Corporate and other discussed above. Our CODM does not regularly review capital expenditures on a reporting unit level. Performance measurement of each reportable segment by the CODM are based on several metrics, including earnings from operations. The CODM uses these results, in part, to evaluate the performance of and to allocate resources, mainly associated with expected inventory and working capital requirements, to each of the reportable segments.

Certain financial information on a segment basis is as follows:

| (in millions)                                | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |             |
|--|--------------------------------|------------|------------------------------|-------------|
|  | 2022                           | 2021       | 2022                         | 2021        |
| <b>Revenues:</b>                             |                                |            |                              |             |
| Domestic                                     |                                |            |                              |             |
| New vehicle retail                           | \$ 1,069.2                     | \$ 924.6   | \$ 2,004.8                   | \$ 1,539.2  |
| Used vehicle retail                          | 839.4                          | 641.7      | 1,585.8                      | 1,103.9     |
| Used vehicle wholesale                       | 132.7                          | 63.8       | 260.8                        | 100.0       |
| Finance and insurance                        | 96.4                           | 78.6       | 185.7                        | 137.2       |
| Service, body and parts                      | 203.3                          | 159.1      | 390.9                        | 279.8       |
| Fleet and other                              | 58.2                           | 21.6       | 112.3                        | 39.2        |
|  | 2,399.2                        | 1,889.4    | 4,540.3                      | 3,199.3     |
| Import                                       |                                |            |                              |             |
| New vehicle retail                           | 1,345.5                        | 1,385.7    | 2,633.9                      | 2,353.8     |
| Used vehicle retail                          | 1,009.4                        | 717.8      | 1,905.3                      | 1,280.0     |
| Used vehicle wholesale                       | 116.8                          | 90.0       | 248.6                        | 148.3       |
| Finance and insurance                        | 183.0                          | 140.5      | 353.4                        | 246.0       |
| Service, body and parts                      | 267.3                          | 204.8      | 510.4                        | 361.5       |
| Fleet and other                              | 4.8                            | 18.6       | 14.9                         | 32.6        |
|  | 2,926.8                        | 2,557.4    | 5,666.5                      | 4,422.2     |
| Luxury                                       |                                |            |                              |             |
| New vehicle retail                           | 836.4                          | 839.2      | 1,672.9                      | 1,453.3     |
| Used vehicle retail                          | 647.1                          | 448.4      | 1,243.7                      | 779.6       |
| Used vehicle wholesale                       | 101.3                          | 59.3       | 208.4                        | 99.0        |
| Finance and insurance                        | 63.6                           | 52.6       | 126.0                        | 89.5        |
| Service, body and parts                      | 196.9                          | 150.1      | 380.0                        | 271.8       |
| Fleet and other                              | 33.2                           | 9.6        | 50.5                         | 37.4        |
|  | 1,878.5                        | 1,559.2    | 3,681.5                      | 2,730.6     |
|  | 7,204.5                        | 6,006.0    | 13,888.3                     | 10,352.1    |
| Corporate and other                          | 35.6                           | 3.4        | 57.1                         | 0.3         |
|  | \$ 7,240.1                     | \$ 6,009.4 | \$ 13,945.4                  | \$ 10,352.4 |
| <b>Segment income<sup>1</sup>:</b>           |                                |            |                              |             |
| Domestic                                     | \$ 141.6                       | \$ 138.1   | \$ 272.1                     | \$ 212.0    |
| Import                                       | 275.5                          | 216.3      | 521.3                        | 317.8       |
| Luxury                                       | 126.7                          | 97.2       | 257.1                        | 141.3       |
| Total segment income for reportable segments | \$ 543.8                       | \$ 451.6   | \$ 1,050.5                   | \$ 671.1    |

<sup>1</sup>Segment income for each of the segments is a Non-GAAP measure defined as Income from operations before income taxes, depreciation and amortization, other interest expense and other income, net.

Reconciliation of total segment income for reportable segments to our consolidated income before income taxes:

| (in millions)                                | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|--|--------------------------------|----------|------------------------------|----------|
|  | 2022                           | 2021     | 2022                         | 2021     |
| Total segment income for reportable segments | \$ 543.8                       | \$ 451.6 | \$ 1,050.5                   | \$ 671.1 |
| Corporate and other                          | 21.6                           | 18.6     | 62.1                         | 57.4     |
| Depreciation and amortization                | (40.9)                         | (30.3)   | (80.2)                       | (57.1)   |
| Other interest expense                       | (34.4)                         | (28.1)   | (64.5)                       | (51.6)   |
| Other income (expense), net                  | (21.9)                         | 7.6      | (29.9)                       | 11.1     |
| Income before income taxes                   | \$ 468.2                       | \$ 419.4 | \$ 938.0                     | \$ 630.9 |

Total assets by reportable segments is as follows:

| (in millions)        | June 30, 2022      | December 31, 2021  |
|----------------------|--------------------|--------------------|
| <b>Total assets:</b> |                    |                    |
| Domestic             | \$ 2,215.4         | \$ 1,574.7         |
| Import               | 2,488.5            | 1,858.1            |
| Luxury               | 1,681.2            | 1,407.1            |
| Corporate and other  | 6,622.6            | 6,307.0            |
|                      | <u>\$ 13,007.7</u> | <u>\$ 11,146.9</u> |

## NOTE 11. LEASES

We lease certain dealerships, office space, land and equipment. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term. We have elected not to bifurcate lease and non-lease components related to leases of real property.

Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to 25 years or more. The exercise of lease renewal options is at our sole discretion. Certain leases also include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

Certain of our lease agreements include rental payments based on a percentage of retail sales over contractual levels and others include rental payments adjusted periodically for inflation. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Our finance lease liabilities are included in long-term debt, with the current portion included in current maturities of long-term debt. The related assets are included in property, plant and equipment, net of accumulated amortization. These amounts are included in other non-current assets until we finalize our purchase accounting.

We rent or sublease certain real estate to third parties.

## NOTE 12. DERIVATIVE FINANCIAL INSTRUMENTS

We account for derivative financial instruments by recording the fair value as either an asset or liability in our Consolidated Balance Sheets and recognize the resulting gains or losses as adjustments to accumulated other comprehensive income (loss). We do not hold or issue derivative financial instruments for trading or speculative purposes. For derivative instruments that hedge the exposure to variability in expected future cash flows that are designated and qualify as cash flow hedges, the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income (AOCI) in equity and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. To receive hedge accounting treatment, cash flow hedges must be highly effective in offsetting changes to expected future cash flows on hedged transactions.

In 2019, to hedge the business exposure to rising interest rates on a portion of our variable rate debt, we entered into a five-year, zero-cost interest rate collar, with an aggregate notional amount of \$300 million, effective June 1, 2019. This instrument hedged interest rate risk related to a portion of our \$1.1 billion of non-trade floor plan notes payable.

The table below presents the liabilities related to the zero-cost interest rate collar:

| (Dollars in millions)  | Accrued Liabilities | Other Long-Term Liabilities | Other Non-Current Assets | Total    |
|--|---------------------|-----------------------------|--------------------------|----------|
| <b>Balance as of December 31, 2020</b>                       | \$ (2.6)            | \$ (6.0)                    | \$ —                     | \$ (8.6) |
| Amounts reclassified from AOCI to floorplan interest expense | 0.7                 | —                           | —                        | 0.7      |
| Loss recorded from interest rate collar                      | (0.6)               | 2.4                         | —                        | 1.8      |
| <b>Balance as of March 31, 2021</b>                          | (2.5)               | (3.6)                       | —                        | (6.1)    |
| Amounts reclassified from AOCI to floorplan interest expense | 0.7                 | —                           | —                        | 0.7      |
| Loss recorded from interest rate collar                      | (0.7)               | 0.2                         | —                        | (0.5)    |
| <b>Balance as of June 30, 2021</b>                           | (2.5)               | (3.4)                       | —                        | (5.9)    |
| Amounts reclassified from AOCI to floorplan interest expense | 0.7                 | —                           | —                        | 0.7      |
| (Loss) gain recorded from interest rate collar               | (0.7)               | 0.7                         | —                        | —        |
| <b>Balance as of September 30, 2021</b>                      | (2.5)               | (2.7)                       | —                        | (5.2)    |
| Amounts reclassified from AOCI to floorplan interest expense | 0.7                 | —                           | —                        | 0.7      |
| (Loss) gain recorded from interest rate collar               | (0.1)               | 2.0                         | —                        | 1.9      |
| <b>Balance as of December 31, 2021</b>                       | (1.9)               | (0.7)                       | —                        | (2.6)    |
| Amounts reclassified from AOCI to floorplan interest expense | 0.7                 | —                           | —                        | 0.7      |
| (Loss) gain recorded from interest rate collar               | 1.2                 | 0.7                         | 2.7                      | 4.6      |
| <b>Balance as of March 31, 2022</b>                          | —                   | —                           | 2.7                      | 2.7      |
| Amounts reclassified from AOCI to floorplan interest expense | —                   | —                           | (2.7)                    | (2.7)    |
| <b>Balance as of June 30, 2022</b>                           | \$ —                | \$ —                        | \$ —                     | \$ —     |

During the three months ended June 30, 2022, we terminated our zero-cost interest rate collar, resulting in a \$2.7 million reclassification from AOCI to floorplan interest expense.

In 2020, we entered into two offsetting derivative arrangements that do not qualify for hedge accounting. These are both related to a securitization facility, effective October 2, 2020. We purchased and sold offsetting interest rate caps, both of which have a five-year term with notional amounts of \$100 million.

In 2021, we entered into two additional offsetting derivative arrangements that do not qualify for hedge accounting. These are both related to a securitization facility, effective June 15, 2021. We purchased and sold offsetting interest rate caps, both of which have a five-year term with notional amounts of \$100 million.

As of June 30, 2022, the balance on all four agreements was an offsetting \$18.4 million and was located in other current assets and accrued liabilities, respectively.

See Note 8 – Fair Value Measurements for information on the fair value of the derivative contracts.

## NOTE 13. ACQUISITIONS

In the first six months of 2022, we completed the following acquisitions:

- In January 2022, John L. Sullivan Chevrolet, John L. Sullivan Chrysler Dodge Jeep Ram, and Roseville Toyota in California.
- In March 2022, Sahara Chrysler Dodge Jeep Ram, Desert 215 Superstore, and Jeep Only in Nevada.
- In May 2022, Sisley Honda in Canada.
- In June 2022, Esserman International Volkswagen & Acura in Florida.
- In June 2022, Henderson Hyundai Superstore in Nevada.
- In June 2022, Lehman Auto Group in Florida.

Revenue and operating income contributed by the 2022 acquisitions subsequent to the date of acquisition were as follows (in millions):

| Six Months Ended June 30, | 2022     |
|---------------------------|----------|
| Revenue                   | \$ 341.2 |
| Operating income          | 17.6     |



In the first six months of 2021, we completed the following acquisitions:

- In February 2021, Fields Chrysler Jeep Dodge Ram and Land Rover Orlando in Florida.
- In March 2021, Fink Auto Group in Florida.
- In March 2021, Avondale Nissan in Arizona.
- In April 2021, Suburban Collection Auto Group in Michigan.
- In April 2021, Planet Honda in New Jersey.
- In May 2021, Las Vegas Hyundai Superstore Auto Group in Nevada.
- In May 2021, BMW of Sherman Oaks and Acura of Sherman Oaks in California.
- In June 2021, Southwest Kia Group in Arizona.
- In June 2021, Herrin-Gear Toyota in Mississippi.
- In June 2021, Michael's Subaru and Michael's Toyota in Washington.

All acquisitions were accounted for as business combinations under the acquisition method of accounting. The results of operations of the acquired stores are included in our Consolidated Financial Statements from the date of acquisition.

The following tables summarize the consideration paid for the 2022 acquisitions and the preliminary purchase price allocations for identified assets acquired and liabilities assumed as of the acquisition date:

| (in millions)                   |    | Consideration |
|---------------------------------|----|---------------|
| Cash paid, net of cash acquired | \$ | 698.3         |

  

| (in millions)                      |    | Assets Acquired and Liabilities Assumed |
|------------------------------------|----|---|
| Inventories                        | \$ | 131.9                                   |
| Property and equipment             |    | 236.5                                   |
| Other non-current assets           |    | 393.8                                   |
| Debt and finance lease obligations |    | (59.0)                                  |
| Other long-term liabilities        |    | (4.9)                                   |
|                                    | \$ | 698.3                                   |

The purchase price allocations for the acquisitions from the third quarter of 2021 through the second quarter of 2022 are preliminary, and we have not obtained and evaluated all of the detailed information necessary to finalize the opening balance sheet amounts in all respects. We recorded the purchase price allocations based upon information that is currently available. Unallocated items are recorded as a component of other non-current assets in the Consolidated Balance Sheets.

We expect substantially all of the goodwill related to acquisitions completed in 2022 to be deductible for federal income tax purposes.

In the three and six-month periods ended June 30, 2022, we recorded \$1.5 million and \$8.1 million, respectively, in acquisition-related expenses as a component of selling, general and administrative expense. Comparatively, we recorded \$10.4 million and \$11.6 million, respectively, of acquisition-related expenses in the same periods of 2021.

The following unaudited pro forma summary presents consolidated information as if all acquisitions in the three and six-month periods ended June 30, 2022 and 2021 had occurred on January 1, 2021:

| (in millions, except per share amounts)                        | Three Months Ended June 30, |            | Six Months Ended June 30, |             |
|--|-----------------------------|------------|---------------------------|-------------|
|  | 2022                        | 2021       | 2022                      | 2021        |
| Revenue  | \$ 7,562.4                  | \$ 6,579.9 | \$ 14,588.3               | \$ 11,331.5 |
| Net income attributable to Lithia Motors, Inc.                 | 356.2                       | 337.4      | 712.5                     | 510.2       |
| Basic earnings attributable to Lithia Motors, Inc. per share   | 12.54                       | 11.99      | 24.60                     | 18.62       |
| Diluted earnings attributable to Lithia Motors, Inc. per share | 12.46                       | 11.89      | 24.48                     | 18.47       |

These amounts have been calculated by applying our accounting policies and estimates. The results of the acquired

stores have been adjusted to reflect the following: depreciation on a straight-line basis over the expected lives for property and equipment, accounting for inventory on a specific identification method, and recognition of interest expense for real estate financing related to stores where we purchased the facility. No nonrecurring proforma adjustments directly attributable to the acquisitions are included in the reported proforma revenues and earnings.

## NOTE 14. NET INVESTMENT IN OPERATING LEASES

In the third quarter of 2021, we purchased a leasing entity and the sales-type financing and operating leases it manages.

Net investment in operating leases consists primarily of lease contracts for vehicles with individuals and business entities. Assets subject to operating leases are depreciated using the straight-line method over the term of the lease to reduce the asset to its estimated residual value. Estimated residual values are based on assumptions for used vehicle prices at lease termination and the number of vehicles that are expected to be returned.

Net investment in operating leases was as follows:

| (in millions)                         | June 30, 2022 | December 31, 2021 |
|---------------------------------------|---------------|-------------------|
| Vehicles, at cost <sup>1</sup>        | \$ 84.7       | \$ 66.0           |
| Accumulated depreciation <sup>1</sup> | (6.7)         | (0.9)             |
| Net investment in operating leases    | \$ 78.0       | \$ 65.1           |

<sup>1</sup>Vehicles, at cost and accumulated depreciation are recorded in other current assets, on the Consolidated Balance Sheets.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Forward-Looking Statements and Risk Factors

Certain statements under the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" and elsewhere in this Form 10-Q constitute forward-looking statements within the meaning of the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995. Generally, you can identify forward-looking statements by terms such as "project," "outlook," "target," "may," "will," "would," "should," "seek," "expect," "plan," "intend," "forecast," "anticipate," "believe," "estimate," "predict," "potential," "likely," "goal," "strategy," "future," "maintain," and "continue" or the negative of these terms or other comparable terms. Examples of forward-looking statements in this Form 10-Q include, among others, statements we make regarding:

- Future market conditions, including anticipated car and other sales levels and the supply of inventory
- Our business strategy and plans, including our achieving our 2025 Plan (or "50/50" Plan)
- The growth, expansion and success of our network, including our finding accretive acquisitions and acquiring additional stores
- Annualized revenues from acquired stores
- The growth and performance of our Driveway e-commerce home solution and Driveway Finance, their synergies and other impacts on our business and our ability to meet Driveway-related targets
- Our capital allocations and uses and levels of capital expenditures in the future
- Expected operating results, such as improved store performance, continued improvement of selling, general and administrative expenses ("SG&A") as a percentage of gross profit and any projections
- Our anticipated financial condition and liquidity, including from our cash and the future availability of our credit facility, unfinanced real estate and other financing sources
- Our continuing to purchase shares under our share repurchase program
- Impacts from the continued COVID-19 pandemic on the national and local economies in which we operate, our business operations and consumer demand
- Our compliance with financial and restrictive covenants in our credit facility and other debt agreements
- Our programs and initiatives for employee recruitment, training, and retention
- Our strategies for customer retention, growth, market position, financial results and risk management

The forward-looking statements contained in this Form 10-Q involve known and unknown risks, uncertainties and situations that may cause our actual results to materially differ from the results expressed or implied by these statements. Certain important factors that could cause actual results to differ from our expectations are discussed in the Risk Factors section of our 2021 Annual Report on Form 10-K, as supplemented and amended from time to time in Quarterly Reports on Form 10-Q and our other filings with the Securities and Exchange Commission (SEC).

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. You should not place undue reliance on these forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. We assume no obligation to update or revise any forward-looking statement.

### Overview

Lithia & Driveway (LAD) is a growth company focused on profitably consolidating the largest retail sector in North America. We are among the fastest growing companies in the Fortune 500 (#2 on 10-year EPS Growth, #3 on 10-Year TSR and #12 on 10-year Revenue growth in 2021). As of June 30, 2022, we operated 292 locations representing 40 brands in 25 states and 3 Canadian provinces.

We offer a wide array of products and services fulfilling the entire vehicle ownership lifecycle including new and used vehicles, financing, and insurance products and automotive repair and maintenance. We strive for diversification in our products, services, brands and geographic locations to reduce dependence on any one manufacturer, reduce susceptibility to changing consumer preferences, manage market risk and maintain profitability. Our diversification, along with our operating structure, provides a resilient and nimble business model.



Our omni-channel strategy is designed to pragmatically disrupt the industry by leveraging our experienced teams, vast owned inventories, technology, and physical network. We continue to lead the industry's consolidation and, combined with Driveway's e-commerce in-home experiences and Driveway Finance Corporation's growing auto loan portfolio, further accelerate our massive profit and capital engine. Together, these endeavors create a unique and compelling high-growth strategy that provides transportation solutions wherever, whenever and however consumers desire. Our long-term strategy to create value for our customers, employees and shareholders includes the following elements:

#### **Driving operational excellence, innovation and diversification**

LAD builds magnetic brand loyalty in our 292 locations within our Lithia channel and with Driveway, our e-commerce home delivery experience, and GreenCars, our electric vehicle learning resource and marketplace. Operational excellence is achieved by focusing the business on convenient and transparent consumer experiences supported by proprietary data science to improve market share, consumer loyalty, and profitability. By promoting an entrepreneurial model with our in-store experiences, we build strong businesses responsive to each of our local markets. Utilizing performance-based action plans, we develop high-performing teams and foster manufacturer relationships.

In response to evolving consumer preferences, we invest in modernization that supports and expands our core business. These digital strategies combine our experienced, knowledgeable workforce with our owned inventory and physical network of stores, enabling us to be agile and adapt to consumer preferences and market specific conditions. Additionally, we systematically explore transformative adjacencies, which are identified to be synergistic and complementary to our existing business such as Driveway Finance Corporation, our captive auto loan portfolio.

Our investments in modernization are well under way and are taking hold with our teams as they provide digital shopping experiences including finance, contactless test drives and home delivery or curbside pickup for vehicle purchases. Our people and these solutions power our national brands, overlaying our physical footprint in a way that we believe attracts a larger population of digital consumers seeking transparent, empowered, flexible and simple buying and servicing experiences.

Our performance-based culture is geared toward an incentive-based compensation structure for a majority of our personnel. We develop pay plans that are measured based upon various factors such as customer satisfaction, profitability and individual performance metrics. These plans serve to reward team members for creating customer loyalty, achieving store potential, developing high-performing talent, meeting and exceeding manufacturer requirements and living our core values.

We have centralized many administrative functions to drive efficiencies and streamline store-level operations. The reduction of administrative functions at our stores allows our local managers to focus on customer-facing opportunities to increase revenues and gross profit. Our operations are supported by regional and corporate management, as well as dedicated training and personnel development programs which allow us to share best practices across our network and develop management talent.

#### **Growth through network development**

The foundation of our omni-channel plan is the growth and expansion of our physical network to provide consumers convenient access to all of our business lines in-store or through Driveway. Acquiring new vehicle franchises, which operate in markets ranging from mid-sized regional markets to metropolitan markets, provides us a cash generating and profitable model to expand our network of locations. In addition to being financially accretive, these businesses improve our ability to serve customers through wider selection, greater density and convenient access to vehicle repair services, our highest margin offerings. Our physical footprint currently reaches 95% of American consumers within an average radius of 250 miles.

While we target an annual after tax return of more than 15% for our acquisitions, we have averaged over a 25% return by the third year of ownership due to a disciplined approach focusing on accretive, cash flow positive targets at reasonable valuations. Culturally, we have a greater than 95% acquisition employee retention rate, demonstrating the valuable career opportunities we provide to our employees. We regularly optimize and balance our network through strategic divestitures to ensure continued high performance. We believe our disciplined approach provides us with attractive acquisition opportunities and expanded coast-to-coast coverage.



## Thoughtful capital allocation

Our capital deployment strategy targets deployment of 65% of free cash flows generated toward acquisitions, 25% toward capital expenditures, innovation and diversification and 10% in shareholder return in the form of dividends and share repurchases. As we identify acquisition opportunities that further enhance our business, we may consider other potential sources of capital, including financing of real estate and proceeds from debt or equity offerings. This disciplined approach, combined with our ability to successfully integrate newly-acquired locations, drives growth and profitability.

## Key Revenue and Gross Profit Metrics

Key performance metrics for revenue and gross profit were as follows:

| (\$ in millions, except per unit values) | Three Months Ended June 30, |         |      | Change  | Six Months Ended June 30, |    |          | Change |          |         |
|--|-----------------------------|---------|------|---------|---------------------------|----|----------|--------|----------|---------|
|  | 2022                        | 2021    | 2022 |         | 2021                      |    |          |        |          |         |
| Revenues                                 |                             |         |      |         |                           |    |          |        |          |         |
| New vehicle retail                       | \$                          | 3,250.7 | \$   | 3,146.2 | 3.3 %                     | \$ | 6,312.4  | \$     | 5,339.5  | 18.2 %  |
| Used vehicle retail                      |                             | 2,496.7 |      | 1,804.9 | 38.3                      |    | 4,731.2  |        | 3,157.0  | 49.9    |
| Finance and insurance                    |                             | 330.4   |      | 269.6   | 22.6                      |    | 643.7    |        | 467.9    | 37.6    |
| Service, body and parts                  |                             | 682.6   |      | 521.0   | 31.0                      |    | 1,310.4  |        | 925.0    | 41.7    |
| Total Revenues                           |                             | 7,240.1 |      | 6,009.4 | 20.5                      |    | 13,945.4 |        | 10,352.4 | 34.7    |
| Gross profit                             |                             |         |      |         |                           |    |          |        |          |         |
| New vehicle retail                       | \$                          | 410.4   | \$   | 313.7   | 30.8 %                    | \$ | 811.7    | \$     | 470.5    | 72.5 %  |
| Used vehicle retail                      |                             | 238.3   |      | 232.6   | 2.5                       |    | 462.1    |        | 368.7    | 25.3    |
| Finance and insurance                    |                             | 330.4   |      | 269.6   | 22.6                      |    | 643.7    |        | 467.9    | 37.6    |
| Service, body and parts                  |                             | 363.5   |      | 278.2   | 30.7                      |    | 692.5    |        | 496.5    | 39.5    |
| Total Gross Profit                       |                             | 1,350.7 |      | 1,110.6 | 21.6                      |    | 2,628.9  |        | 1,826.1  | 44.0    |
| Gross profit margins                     |                             |         |      |         |                           |    |          |        |          |         |
| New vehicle retail                       |                             | 12.6 %  |      | 10.0 %  | 260 bps                   |    | 12.9 %   |        | 8.8 %    | 410 bps |
| Used vehicle retail                      |                             | 9.5     |      | 12.9    | (340)                     |    | 9.8      |        | 11.7     | (190)   |
| Finance and insurance                    |                             | 100.0   |      | 100.0   | —                         |    | 100.0    |        | 100.0    | —       |
| Service, body and parts                  |                             | 53.3    |      | 53.4    | (10)                      |    | 52.9     |        | 53.7     | (80)    |
| Total Gross Profit Margin                |                             | 18.7    |      | 18.5    | 20                        |    | 18.9     |        | 17.6     | 130     |
| Retail units sold                        |                             |         |      |         |                           |    |          |        |          |         |
| New vehicles                             |                             | 68,752  |      | 75,176  | (8.5) %                   |    | 133,694  |        | 129,040  | 3.6 %   |
| Used vehicles                            |                             | 81,026  |      | 70,254  | 15.3                      |    | 154,715  |        | 129,281  | 19.7    |
| Average selling price per retail unit    |                             |         |      |         |                           |    |          |        |          |         |
| New vehicles                             | \$                          | 47,281  | \$   | 41,852  | 13.0 %                    | \$ | 47,216   | \$     | 41,379   | 14.1 %  |
| Used vehicles                            |                             | 30,814  |      | 25,691  | 19.9                      |    | 30,580   |        | 24,420   | 25.2    |
| Average gross profit per retail unit     |                             |         |      |         |                           |    |          |        |          |         |
| New vehicles                             | \$                          | 5,970   | \$   | 4,173   | 43.1 %                    | \$ | 6,071    | \$     | 3,646    | 66.5 %  |
| Used vehicles                            |                             | 2,942   |      | 3,311   | (11.1)                    |    | 2,987    |        | 2,852    | 4.7     |
| Finance and insurance                    |                             | 2,206   |      | 1,854   | 19.0                      |    | 2,232    |        | 1,811    | 23.2    |
| Total vehicle¹                           |                             | 6,563   |      | 5,723   | 14.7                      |    | 6,689    |        | 5,141    | 30.1    |

<sup>1</sup> 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.

## Same Store Operating Data

We believe that same store comparisons are an important indicator of our financial performance. Same store measures demonstrate our ability to grow revenues in our existing locations. As a result, same store measures have been integrated into the discussion below.

Same store measures reflect results for stores that were operating in each comparison period and only include the months when operations occurred in both periods. For example, a store acquired in May 2021 would be included in same store operating data beginning in June 2022, after its first full complete comparable month of operation. The second quarter operating results for the same store comparisons would include results for that store in only the month of June for both comparable periods.

| (\$ in millions, except per unit values) | Three Months Ended June 30, |         |      | Change  | Six Months Ended June 30, |    |          | Change |         |          |
|--|-----------------------------|---------|------|---------|---------------------------|----|----------|--------|---------|----------|
|  | 2022                        | 2021    | 2022 |         | 2021                      |    |          |        |         |          |
| Revenues                                 |                             |         |      |         |                           |    |          |        |         |          |
| New vehicle retail                       | \$                          | 2,475.1 | \$   | 2,980.2 | (16.9) %                  | \$ | 4,578.0  | \$     | 5,118.4 | (10.6) % |
| Used vehicle retail                      |                             | 2,042.2 |      | 1,737.4 | 17.5                      |    | 3,756.8  |        | 3,050.9 | 23.1     |
| Finance and insurance                    |                             | 255.5   |      | 259.6   | (1.6)                     |    | 481.5    |        | 453.4   | 6.2      |
| Service, body and parts                  |                             | 546.3   |      | 499.4   | 9.4                       |    | 994.4    |        | 895.1   | 11.1     |
| Total Revenues                           |                             | 5,658.8 |      | 5,730.4 | (1.2)                     |    | 10,418.8 |        | 9,961.8 | 4.6      |
| Gross profit                             |                             |         |      |         |                           |    |          |        |         |          |
| New vehicle retail                       | \$                          | 311.6   | \$   | 299.0   | 4.2 %                     | \$ | 591.7    | \$     | 452.3   | 30.8 %   |
| Used vehicle retail                      |                             | 192.6   |      | 223.5   | (13.8)                    |    | 361.7    |        | 356.8   | 1.4      |
| Finance and insurance                    |                             | 255.5   |      | 259.6   | (1.6)                     |    | 481.5    |        | 453.4   | 6.2      |
| Service, body and parts                  |                             | 294.4   |      | 268.5   | 9.6                       |    | 538.4    |        | 482.4   | 11.6     |
| Total Gross Profit                       |                             | 1,057.6 |      | 1,066.5 | (0.8)                     |    | 1,980.9  |        | 1,767.1 | 12.1     |
| Gross profit margins                     |                             |         |      |         |                           |    |          |        |         |          |
| New vehicle retail                       |                             | 12.6 %  |      | 10.0 %  | 260 bps                   |    | 12.9 %   |        | 8.8 %   | 410 bps  |
| Used vehicle retail                      |                             | 9.4     |      | 12.9    | (350)                     |    | 9.6      |        | 11.7    | (210)    |
| Finance and insurance                    |                             | 100.0   |      | 100.0   | —                         |    | 100.0    |        | 100.0   | —        |
| Service, body and parts                  |                             | 53.9    |      | 53.8    | 10                        |    | 54.1     |        | 53.9    | 20       |
| Total Gross Profit Margin                |                             | 18.7    |      | 18.6    | 10                        |    | 19.0     |        | 17.7    | 130      |
| Retail units sold                        |                             |         |      |         |                           |    |          |        |         |          |
| New vehicles                             |                             | 51,822  |      | 71,160  | (27.2) %                  |    | 95,453   |        | 123,571 | (22.8) % |
| Used vehicles                            |                             | 67,201  |      | 67,324  | (0.2)                     |    | 123,753  |        | 124,474 | (0.6)    |
| Average selling price per retail unit    |                             |         |      |         |                           |    |          |        |         |          |
| New vehicles                             | \$                          | 47,762  | \$   | 41,880  | 14.0 %                    | \$ | 47,961   | \$     | 41,421  | 15.8 %   |
| Used vehicles                            |                             | 30,389  |      | 25,806  | 17.8                      |    | 30,357   |        | 24,510  | 23.9     |
| Average gross profit per retail unit     |                             |         |      |         |                           |    |          |        |         |          |
| New vehicles                             | \$                          | 6,013   | \$   | 4,201   | 43.1 %                    | \$ | 6,199    | \$     | 3,660   | 69.4 %   |
| Used vehicles                            |                             | 2,866   |      | 3,319   | (13.6)                    |    | 2,922    |        | 2,867   | 1.9      |
| Finance and insurance                    |                             | 2,146   |      | 1,875   | 14.5                      |    | 2,196    |        | 1,828   | 20.1     |
| Total vehicle <sup>1</sup>               |                             | 6,388   |      | 5,762   | 10.9                      |    | 6,558    |        | 5,173   | 26.8     |

<sup>1</sup> 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.

During the three months ended June 30, 2022, we had net income attributable to Lithia Motors, Inc. of \$331.3 million, or \$11.60 per share on a diluted basis, compared to \$304.9 million, or \$10.75 per share on a diluted basis, during the same period of 2021. During the six months ended June 30, 2022, we had net income attributable to Lithia Motors, Inc. of \$673.5 million, or \$23.15 per share on a diluted basis, compared to \$461.1 million, or \$16.69 per share on a diluted basis, during the same period of 2021.

## New Vehicles

We believe that our new vehicle sales create incremental profit opportunities through certain manufacturer incentive programs, arranging of third-party financing, vehicle service and insurance contracts, future resale of used vehicles acquired through trade-in, and parts and service work. Same store new vehicle revenue decreased 16.9% and 10.6%, respectively, for the three and six-month periods ended June 30, 2022 compared to the same periods in 2021. This was due to a decrease in unit volume of 27.2%, offset by an increase in average selling prices of 14.0% for the three months ended June 30, 2022, compared to the same period of 2021; and a decrease in unit volume of 22.8%, offset by an increase in average selling prices of 15.8% in the six months ended June 30, 2022, compared to the same period of 2021. Our leaders in each market continue to adapt to changing conditions, respond to customer needs and manage inventory availability and selection.

Consumer demand remained strong through the second quarter of 2022 and there continued to be a shortage of available new vehicles for sale driven largely by component shortages in certain manufacturers' supply chains. This imbalance has resulted in higher than normal average selling prices and gross profits per unit. The reduced levels of new vehicle availability are expected to continue throughout 2022.

Same store new vehicle gross profit per unit increased 43.1% and 69.4%, respectively, increasing new vehicle gross profit margins 260 bps and 410 bps, respectively, in the three and six-month periods ended June 30, 2022 compared to the same periods of 2021.

Total same store new vehicle gross profit per unit, which includes the finance and insurance revenue generated from the sales of new vehicles, increased \$2,106 to \$8,243 and increased \$2,911 to \$8,492 for the three and six-month periods ended June 30, 2022 compared to the same periods of 2021, respectively.

## Used Vehicles

Used vehicle retail sales are a strategic focus for organic growth. We offer three categories of used vehicles: manufacturer certified pre-owned (CPO) vehicles; core vehicles, or late-model vehicles with lower mileage; and value autos, or vehicles with over 80,000 miles. We have established a company-wide target of achieving a per store average of 100 used retail units per month. Strategies to achieve this target include reducing wholesale sales and selling the full spectrum of used units, from late model CPO models to vehicles up to twenty years old. During the three months ended June 30, 2022, our stores sold an average of 91 used vehicles per store per month, compared to 88 used vehicles per store per month for the same period ended June 30, 2021.

Used vehicle demand remains high, due in part to the lower levels of new vehicle inventory available for sale. This demand resulted in higher than normal average selling prices and gross profits per unit for the six-month period ended June 30, 2022.

Used vehicle revenue for the three and six-month periods ended June 30, 2022 increased 38.3% and 49.9%, respectively, compared to the same periods of 2021 due to a combination of strong same store performance and acquisition activity. On a same store basis, used vehicle sales for the three and six-month periods ended June 30, 2022 increased 17.5% and 23.1%, respectively, as compared to the same periods of 2021, driven by increases in our core vehicle category of 23.8% and 29.1%, respectively. Our core vehicle category had growth in unit sales of 3.8% and 3.2%, with improvements in average selling price per vehicle of 19.3% and 25.1% for the three and six-month periods ended June 30, 2022, respectively. Our CPO vehicle unit sales decreased 10.6% and 12.2% for the three and six-month periods ended June 30, 2022, respectively, as compared to the same periods of 2021. We continue to focus on procuring vehicles across the full spectrum of the addressable used vehicle market to provide customers with a wide selection meeting all levels of affordability, driving increased used vehicle unit volumes.

Our used vehicle operations provide an opportunity to generate sales to customers unable or unwilling to purchase a new vehicle, sell brands other than the store's new vehicle franchise(s) and increase sales from finance and insurance and parts and service.

Total same store used vehicle gross profit per unit, which includes the finance and insurance revenue generated from the sales of retail used vehicles, decreased \$182 to \$4,948 and increased \$441 to \$5,043 for the three and six-month periods ended June 30, 2022, as compared to the same periods of 2021, respectively.

## Finance and Insurance

We believe that arranging vehicle financing is an important part of our ability to sell vehicles, and we attempt to arrange financing for every vehicle we sell. We also offer related products such as extended warranties, insurance contracts and vehicle and theft protection which drive continued engagement with the consumer throughout the ownership lifecycle.

Total finance and insurance income increased 22.6% and 37.6%, respectively, in the three and six-month periods ended June 30, 2022 compared to the same periods of 2021. Same store finance and insurance revenues decreased 1.6% and increased 6.2%, respectively, for the three and six-month periods ended June 30, 2022 compared to the same periods of 2021. Revenue increases associated with service contracts were offset by a decline in finance reserve revenues as we increase our penetration rates associated with Driveway Finance Corp and the growth of our captive auto loan portfolio business. On a same store basis, our finance and insurance revenue per retail unit increased \$271 to \$2,146 and \$368 to \$2,196, respectively, in the three and six-month periods ended June 30, 2022 compared to the same periods of 2021.

## Service, body and parts

We provide automotive repair and maintenance services for customers for the new vehicle brands sold by our stores, as well as service and repairs for most other makes and models. These after sales services are an integral part of our customer retention and the largest contributor to our overall profitability. Earnings from after sales continue to prove to be more resilient during economic downturns, when owners tend to repair their existing vehicles rather than buy new vehicles.

Our service, body, and parts revenue increased 31.0% and 41.7%, respectively, in the three and six-month periods ended June 30, 2022 compared to the same periods of 2021, driven by acquisitions, as well as increases in customer pay revenues. We believe the increased number of units in operation will continue to benefit our service, body and parts revenue in the coming years as more late-model vehicles age, necessitating repairs and maintenance.

We focus on retaining customers by offering competitively-priced routine maintenance and through our marketing efforts. In the three and six-month periods ended June 30, 2022, the largest contribution to our service, body and parts revenue was same store customer pay revenue of \$314.5 million and \$575.2 million, respectively.

Same store service, body and parts gross profit increased 9.6% and 11.6%, respectively, in the three and six-month periods ended June 30, 2022 compared to the same periods of 2021. These increases were primarily due to increased volumes of customer pay transactions. Overall same store service, body, and parts gross margins increased 10 and 20 bps, respectively, in the three and six-month periods ended June 30, 2022 compared to the same periods of 2021, primarily as a result of our mix continuing to shift towards customer pay, which has higher margins than other service work. Same store customer pay gross margin increased 90 and 140 bps, respectively, in the three and six-month periods ended June 30, 2022 compared to the same periods of 2021.

## Segments

Certain financial information by segment is as follows:

| (in millions)       | Three Months Ended June 30, |                   | Increase          | % Increase    |
|---------------------|-----------------------------|-------------------|-------------------|---------------|
|                     | 2022                        | 2021              |                   |               |
| <b>Revenues:</b>    |                             |                   |                   |               |
| Domestic            | \$ 2,399.2                  | \$ 1,889.4        | \$ 509.8          | 27.0 %        |
| Import              | 2,926.8                     | 2,557.4           | 369.4             | 14.4          |
| Luxury              | 1,878.5                     | 1,559.2           | 319.3             | 20.5          |
|                     | 7,204.5                     | 6,006.0           | 1,198.5           | 20.0          |
| Corporate and other | 35.6                        | 3.4               | 32.2              | NM            |
|                     | <u>\$ 7,240.1</u>           | <u>\$ 6,009.4</u> | <u>\$ 1,230.7</u> | <u>20.5 %</u> |

NM - not meaningful

| (in millions)       | Six Months Ended<br>June 30, |                    | Increase          | % Increase    |
|---------------------|------------------------------|--------------------|-------------------|---------------|
|                     | 2022                         | 2021               |                   |               |
| <b>Revenues:</b>    |                              |                    |                   |               |
| Domestic            | \$ 4,540.3                   | \$ 3,199.3         | \$ 1,341.0        | 41.9 %        |
| Import              | 5,666.5                      | 4,422.2            | 1,244.3           | 28.1          |
| Luxury              | 3,681.5                      | 2,730.6            | 950.9             | 34.8          |
|                     | 13,888.3                     | 10,352.1           | 3,536.2           | 34.2          |
| Corporate and other | 57.1                         | 0.3                | 56.8              | NM            |
|                     | <u>\$ 13,945.4</u>           | <u>\$ 10,352.4</u> | <u>\$ 3,593.0</u> | <u>34.7 %</u> |

NM - not meaningful

| (in millions)                      | Three Months Ended June 30, |                 | Increase       | % Increase  |
|------------------------------------|-----------------------------|-----------------|----------------|-------------|
|                                    | 2022                        | 2021            |                |             |
| <b>Segment income<sup>1</sup>:</b> |                             |                 |                |             |
| Domestic                           | \$ 141.6                    | \$ 138.1        | \$ 3.5         | 2.5 %       |
| Import                             | 275.5                       | 216.3           | 59.2           | 27.4        |
| Luxury                             | 126.7                       | 97.2            | 29.5           | 30.3        |
|                                    | 543.8                       | 451.6           | 92.2           | 20.4        |
| Corporate and other                | 21.6                        | 18.6            | 3.0            | 16.1        |
|                                    | <u>\$ 565.5</u>             | <u>\$ 470.2</u> | <u>\$ 95.3</u> | <u>20.3</u> |

| (in millions)                      | Six Months Ended<br>June 30, |                 | Increase        | % Increase  |
|------------------------------------|------------------------------|-----------------|-----------------|-------------|
|                                    | 2022                         | 2021            |                 |             |
| <b>Segment income<sup>1</sup>:</b> |                              |                 |                 |             |
| Domestic                           | \$ 272.1                     | \$ 212.0        | \$ 60.1         | 28.3 %      |
| Import                             | 521.3                        | 317.8           | 203.5           | 64.0        |
| Luxury                             | 257.1                        | 141.3           | 115.8           | 82.0        |
|                                    | 1,050.5                      | 671.1           | 379.4           | 56.5        |
| Corporate and other                | 62.1                         | 57.4            | 4.7             | 8.2         |
|                                    | <u>\$ 1,112.6</u>            | <u>\$ 728.5</u> | <u>\$ 384.1</u> | <u>52.7</u> |

<sup>1</sup>Segment income for each of the segments is a Non-GAAP measure defined as Income from operations before income taxes, depreciation and amortization, other interest expense and other income, net. See Note 10 – Segments of the Condensed Notes to the Consolidated Financial Statements for additional information.

|                                       | Three Months Ended June 30, |               | Increase (Decrease) | % Increase (Decrease) |
|---------------------------------------|-----------------------------|---------------|---------------------|-----------------------|
|                                       | 2022                        | 2021          |                     |                       |
| <b>Retail new vehicle unit sales:</b> |                             |               |                     |                       |
| Domestic                              | 20,208                      | 18,991        | 1,217               | 6.4 %                 |
| Import                                | 36,041                      | 42,204        | (6,163)             | (14.6)                |
| Luxury                                | 12,453                      | 14,127        | (1,674)             | (11.8)                |
|                                       | 68,702                      | 75,322        | (6,620)             | (8.8)                 |
| Allocated to management               | 50                          | (146)         | (196)               | NM                    |
|                                       | <u>68,752</u>               | <u>75,176</u> | <u>(6,424)</u>      | <u>(8.5) %</u>        |

NM – Not meaningful

|                                       | Six Months Ended<br>June 30, |         | Increase (Decrease) | % Increase<br>(Decrease) |
|---------------------------------------|------------------------------|---------|---------------------|--------------------------|
|                                       | 2022                         | 2021    |                     |                          |
| <b>Retail new vehicle unit sales:</b> |                              |         |                     |                          |
| Domestic                              | 38,220                       | 32,056  | 6,164               | 19.2 %                   |
| Import                                | 71,094                       | 72,658  | (1,564)             | (2.2)                    |
| Luxury                                | 24,750                       | 24,622  | 128                 | 0.5                      |
|                                       | 134,064                      | 129,336 | 4,728               | 3.7                      |
| Allocated to management               | (370)                        | (296)   | 74                  | NM                       |
|                                       | 133,694                      | 129,040 | 4,654               | 3.6 %                    |

NM – Not meaningful

### Domestic

A summary of financial information for our Domestic segment follows:

| (\$ in millions)              | Three Months Ended<br>June 30, |            | Increase | % Increase |
|-------------------------------|--------------------------------|------------|----------|------------|
|                               | 2022                           | 2021       |          |            |
| <b>Revenue:</b>               |                                |            |          |            |
| New vehicle retail            | \$ 1,069.2                     | \$ 924.6   | \$ 144.6 | 15.6 %     |
| Used vehicle retail           | 839.4                          | 641.7      | 197.7    | 30.8       |
| Used vehicle wholesale        | 132.7                          | 63.8       | 68.9     | 108.0      |
| Finance and insurance         | 96.4                           | 78.6       | 17.8     | 22.6       |
| Service, body and parts       | 203.3                          | 159.1      | 44.2     | 27.8       |
| Fleet and other               | 58.2                           | 21.6       | 36.6     | NM         |
|                               | \$ 2,399.2                     | \$ 1,889.4 | \$ 509.8 | 27.0       |
| Segment income                | \$ 141.6                       | \$ 138.1   | \$ 3.5   | 2.5        |
| Retail new vehicle unit sales | 20,208                         | 18,991     | 1,217    | 6.4 %      |

NM - not meaningful

| (\$ in millions)              | Six Months Ended<br>June 30, |            | Increase   | % Increase |
|-------------------------------|------------------------------|------------|------------|------------|
|                               | 2022                         | 2021       |            |            |
| <b>Revenue:</b>               |                              |            |            |            |
| New vehicle retail            | \$ 2,004.8                   | \$ 1,539.2 | \$ 465.6   | 30.2 %     |
| Used vehicle retail           | 1,585.8                      | 1,103.9    | 481.9      | 43.7       |
| Used vehicle wholesale        | 260.8                        | 100.0      | 160.8      | 160.8      |
| Finance and insurance         | 185.7                        | 137.2      | 48.5       | 35.3       |
| Service, body and parts       | 390.9                        | 279.8      | 111.1      | 39.7       |
| Fleet and other               | 112.2                        | 39.2       | 73.0       | NM         |
|                               | \$ 4,540.3                   | \$ 3,199.3 | \$ 1,341.0 | 41.9       |
| Segment income                | \$ 272.1                     | \$ 212.0   | \$ 60.1    | 28.3       |
| Retail new vehicle unit sales | 38,220                       | 32,056     | 6,164      | 19.2 %     |

NM - not meaningful

Our Domestic segment revenue increased 27.0% and 41.9%, respectively, in the three and six-month periods ended June 30, 2022 compared to the same periods of 2021, respectively, driven by increases across all business lines. The acquisition of 18 stores in 2021 and seven stores in 2022 was the primary contributor to these increases.

Our Domestic segment income increased 2.5% and 28.3%, respectively, in the three and six-month periods ended June 30, 2022 compared to the same periods of 2021, primarily due to gross profit growth of 13.9% and 32.8%, respectively. Total Domestic SG&A as a percentage of gross profit increased from 57.5% to 60.4% and from 59.8% to 60.6% for the three and six-month periods ended June 30, 2022, compared to the same periods of 2021, respectively. The increases for the three and six-month periods ended June 30, 2022 were primarily driven by increases in all SG&A categories without proportional increases in gross profit. Floor plan interest expense for Domestic stores increased 88.0% and 60.1% for the three and six-month periods ended June 30, 2022 compared to the same periods of 2021, respectively.

## Import

A summary of financial information for our Import segment follows:

| (\$ in millions)              | Three Months Ended<br>June 30, |                   | Increase<br>(Decrease) | % Increase (Decrease) |
|-------------------------------|--------------------------------|-------------------|------------------------|-----------------------|
|                               | 2022                           | 2021              |                        |                       |
| <b>Revenue:</b>               |                                |                   |                        |                       |
| New vehicle retail            | \$ 1,345.5                     | \$ 1,385.7        | \$ (40.2)              | (2.9) %               |
| Used vehicle retail           | 1,009.4                        | 717.8             | 291.6                  | 40.6                  |
| Used vehicle wholesale        | 116.8                          | 90.0              | 26.8                   | 29.8                  |
| Finance and insurance         | 183.0                          | 140.5             | 42.5                   | 30.2                  |
| Service, body and parts       | 267.3                          | 204.8             | 62.5                   | 30.5                  |
| Fleet and other               | 4.8                            | 18.6              | (13.8)                 | NM                    |
|                               | <u>\$ 2,926.8</u>              | <u>\$ 2,557.4</u> | <u>\$ 369.4</u>        | <u>14.4</u>           |
| Segment income                | \$ 275.5                       | \$ 216.3          | \$ 59.2                | 27.4                  |
| Retail new vehicle unit sales | 36,041                         | 42,204            | (6,163)                | (14.6) %              |

NM - not meaningful

| (\$ in millions)              | Six Months Ended<br>June 30, |                   | Increase<br>(Decrease) | % Decrease  |
|-------------------------------|------------------------------|-------------------|------------------------|-------------|
|                               | 2022                         | 2021              |                        |             |
| <b>Revenue:</b>               |                              |                   |                        |             |
| New vehicle retail            | \$ 2,633.9                   | \$ 2,353.8        | \$ 280.1               | 11.9 %      |
| Used vehicle retail           | 1,905.3                      | 1,280.0           | 625.3                  | 48.9        |
| Used vehicle wholesale        | 248.6                        | 148.3             | 100.3                  | 67.6        |
| Finance and insurance         | 353.4                        | 246.0             | 107.4                  | 43.7        |
| Service, body and parts       | 510.4                        | 361.5             | 148.9                  | 41.2        |
| Fleet and other               | 14.9                         | 32.6              | (17.7)                 | NM          |
|                               | <u>\$ 5,666.5</u>            | <u>\$ 4,422.2</u> | <u>\$ 1,244.3</u>      | <u>28.1</u> |
| Segment income                | \$ 521.3                     | \$ 317.8          | \$ 203.5               | 64.0        |
| Retail new vehicle unit sales | 71,094                       | 72,658            | (1,564)                | (2.2) %     |

NM - not meaningful

Our Import segment revenue increased 14.4% and 28.1% in the three and six-month periods ended June 30, 2022 compared to the same periods of 2021, respectively, primarily driven by increases in used vehicle retail sales. The acquisition of 34 stores in 2021 and nine stores in 2022 was the primary contributor to these increases.

Our Import segment income increased 27.4% and 64.0% in the three and six-month periods ended June 30, 2022 compared to the same periods of 2021, due to gross profit growth of 26.2% and 48.5%, respectively. Total Import SG&A as a percentage of gross profit decreased from 56.4% to 56.1% and from 60.2% to 56.9% for the three and six-month periods ended June 30, 2022 compared to the same periods of 2021, respectively. The decreases for the three and six-month periods ended June 30, 2022 were primarily driven by increased gross profit without proportional increases in all SG&A costs. Floor plan interest expense for Import stores increased 18.7% and 0.4% in the three and six-month periods ended June 30, 2022 compared to the same periods of 2021, respectively.

## Luxury

A summary of financial information for our Luxury segment follows:

| (\$ in millions)              | Three Months Ended<br>June 30, |                   | Increase<br>(Decrease) | % Increase (Decrease) |
|-------------------------------|--------------------------------|-------------------|------------------------|-----------------------|
|                               | 2022                           | 2021              |                        |                       |
| <b>Revenue:</b>               |                                |                   |                        |                       |
| New vehicle retail            | \$ 836.4                       | \$ 839.2          | \$ (2.8)               | (0.3) %               |
| Used vehicle retail           | 647.1                          | 448.4             | 198.7                  | 44.3                  |
| Used vehicle wholesale        | 101.3                          | 59.3              | 42.0                   | 70.8                  |
| Finance and insurance         | 63.6                           | 52.6              | 11.0                   | 20.9                  |
| Service, body and parts       | 196.9                          | 150.1             | 46.8                   | 31.2                  |
| Fleet and other               | 33.3                           | 9.6               | 23.7                   | NM                    |
|                               | <u>\$ 1,878.5</u>              | <u>\$ 1,559.2</u> | <u>\$ 319.3</u>        | 20.5                  |
| Segment income                | <u>\$ 126.7</u>                | <u>\$ 97.2</u>    | <u>\$ 29.5</u>         | 30.3                  |
| Retail new vehicle unit sales | 12,453                         | 14,127            | (1,674)                | (11.8) %              |

NM - not meaningful

| (\$ in millions)              | Six Months Ended<br>June 30, |                   | Increase        | % Increase |
|-------------------------------|------------------------------|-------------------|-----------------|------------|
|                               | 2022                         | 2021              |                 |            |
| <b>Revenue:</b>               |                              |                   |                 |            |
| New vehicle retail            | \$ 1,672.9                   | \$ 1,453.3        | \$ 219.6        | 15.1 %     |
| Used vehicle retail           | 1,243.7                      | 779.6             | 464.1           | 59.5       |
| Used vehicle wholesale        | 208.4                        | 99.0              | 109.4           | 110.5      |
| Finance and insurance         | 125.9                        | 89.5              | 36.4            | 40.7       |
| Service, body and parts       | 380.0                        | 271.8             | 108.2           | 39.8       |
| Fleet and other               | 50.5                         | 37.4              | 13.1            | NM         |
|                               | <u>\$ 3,681.5</u>            | <u>\$ 2,730.6</u> | <u>\$ 950.9</u> | 34.8       |
| Segment income                | <u>\$ 257.1</u>              | <u>\$ 141.3</u>   | <u>\$ 115.8</u> | 82.0       |
| Retail new vehicle unit sales | 24,750                       | 24,622            | 128             | 0.5 %      |

NM - not meaningful

Our Luxury segment revenue increased 20.5% and 34.8% in the three and six-month periods ended June 30, 2022 compared to the same periods of 2021, respectively, driven by increases in all major business lines. The acquisition of 26 stores in 2021 and three stores in 2022 was the primary contributor to these increases.

Our Luxury segment income increased 30.3% and 82.0% for the three and six-month periods ended June 30, 2022 compared to the same periods of 2021, due to gross profit growth of 28.3% and 54.0%, respectively. Total Luxury SG&A as a percentage of gross profit decreased from 60.4% to 59.6% and from 64.5% to 59.1% for the three and six-month periods ended June 30, 2022 compared to the same periods of 2021, respectively. The decreases for the three and six-month periods ended June 30, 2022 were primarily driven by increased gross profit without proportional increases in all SG&A costs. Floor plan interest expense for Luxury stores increased 43.1% and 20.2% for the three and six-month periods ended June 30, 2022 compared to the same periods of 2021, respectively.

## Corporate and Other

Revenues attributable to Corporate and other include the results of operations of our stand-alone body shops and centralized used vehicle team, offset by certain unallocated reserves and elimination adjustments related to vehicle sales.

| (in millions)  | Three Months Ended<br>June 30, |         | Increase | % Increase |
|----------------|--------------------------------|---------|----------|------------|
|                | 2022                           | 2021    |          |            |
| Revenue, net   | \$ 35.6                        | \$ 3.4  | \$ 32.2  | NM         |
| Segment income | \$ 21.6                        | \$ 18.6 | \$ 3.0   | 16.1 %     |

NM - not meaningful





| (in millions)  | Six Months Ended<br>June 30, |         | Increase | % Increase |
|----------------|------------------------------|---------|----------|------------|
|                | 2022                         | 2021    |          |            |
| Revenue, net   | \$ 57.1                      | \$ 0.3  | \$ 56.8  | NM         |
| Segment income | \$ 62.1                      | \$ 57.4 | \$ 4.7   | 8.2 %      |

NM - not meaningful

The change in Corporate and other revenue in the three and six-month periods ended June 30, 2022 compared to the same periods of 2021 was primarily related to increased used vehicle wholesales associated with our centralized used vehicle team and changes to certain reserves that were not specifically identified with our Domestic, Import or Luxury segment revenue, such as our reserve for revenue reversals associated with unwound vehicle sales.

Income attributable to Corporate and other includes amounts associated with the operating income from our stand-alone body shops, centralized used vehicle team and certain internal corporate expense allocations that reduce reportable segment income but increase Corporate and other income. These internal corporate expense allocations are used to increase comparability of our dealerships and reflect the capital burden a stand-alone dealership would experience. Examples of these internal allocations include internal rent expense, internal floor plan financing charges, and internal fees charged to offset employees within our corporate headquarters who perform certain dealership functions. Income attributable to Corporate and other also includes gains on the divestiture of stores.

Corporate and other income increased \$3.0 million and \$4.7 million for the three and six-month periods ended June 30, 2022, compared to the same periods of 2021, primarily due to increases in internal corporate expense allocations with dealerships, offset by increases in SG&A.

### ***Selling, General and Administrative Expense (SG&A)***

SG&A includes salaries and related personnel expenses, advertising (net of manufacturer cooperative advertising credits), rent, facility costs, and other general corporate expenses.

| (in millions)                 | Three Months Ended June 30, |          | Increase<br>(Decrease) | % Increase |
|-------------------------------|-----------------------------|----------|------------------------|------------|
|                               | 2022                        | 2021     |                        |            |
| Personnel                     | \$ 552.7                    | \$ 452.6 | \$ 100.1               | 22.1 %     |
| Advertising                   | 67.0                        | 38.4     | 28.6                   | 74.5       |
| Rent                          | 17.9                        | 12.3     | 5.6                    | 45.5       |
| Facility costs <sup>1</sup>   | 35.9                        | 27.4     | 8.5                    | 31.0       |
| Loss (gain) on sale of assets | (4.6)                       | 4.4      | (9.0)                  | NM         |
| Other                         | 112.6                       | 98.9     | 13.7                   | 13.9       |
| Total SG&A                    | \$ 781.5                    | \$ 634.0 | \$ 147.5               | 23.3 %     |

<sup>1</sup> Includes variable lease costs related to the reimbursement of actual costs incurred by our lessors for common area maintenance, property taxes and insurance on leased property.

NM - not meaningful

| As a % of gross profit        | Three Months Ended June 30, |        | Increase (Decrease) |
|-------------------------------|-----------------------------|--------|---------------------|
|                               | 2022                        | 2021   |                     |
| Personnel                     | 40.9 %                      | 40.8 % | 10 bps              |
| Advertising                   | 5.0                         | 3.5    | 150                 |
| Rent                          | 1.3                         | 1.1    | 20                  |
| Facility costs                | 2.7                         | 2.5    | 20                  |
| Loss (gain) on sale of assets | (0.3)                       | 0.4    | (70)                |
| Other                         | 8.3                         | 8.8    | (50)                |
| Total SG&A                    | 57.9 %                      | 57.1 % | 80 bps              |

| (in millions)                 | Six Months Ended<br>June 30, |            | Increase<br>(Decrease) | % Increase |
|-------------------------------|------------------------------|------------|------------------------|------------|
|                               | 2022                         | 2021       |                        |            |
| Personnel                     | \$ 1,070.4                   | \$ 766.7   | \$ 303.7               | 39.6 %     |
| Advertising                   | 125.4                        | 67.9       | 57.5                   | 84.7       |
| Rent                          | 35.7                         | 23.6       | 12.1                   | 51.3       |
| Facility costs <sup>1</sup>   | 71.7                         | 51.7       | 20.0                   | 38.7       |
| (Gain) loss on sale of assets | (13.6)                       | 5.4        | (19.0)                 | NM         |
| Other                         | 218.0                        | 168.9      | 49.1                   | 29.1       |
| Total SG&A                    | \$ 1,507.6                   | \$ 1,084.2 | \$ 423.4               | 39.1 %     |

<sup>1</sup> Includes variable lease costs related to the reimbursement of actual costs incurred by our lessors for common area maintenance, property taxes and insurance on leased property.

NM - not meaningful

| As a % of gross profit        | Six Months Ended<br>June 30, |        | Increase (Decrease) |
|-------------------------------|------------------------------|--------|---------------------|
|                               | 2022                         | 2021   |                     |
| Personnel                     | 40.7 %                       | 42.0 % | (130) bps           |
| Advertising                   | 4.8                          | 3.7    | 110                 |
| Rent                          | 1.4                          | 1.3    | 10                  |
| Facility costs                | 2.7                          | 2.8    | (10)                |
| (Gain) loss on sale of assets | (0.5)                        | 0.3    | (80)                |
| Other                         | 8.2                          | 9.3    | (110)               |
| Total SG&A                    | 57.3 %                       | 59.4 % | (210) bps           |

SG&A as a percentage of gross profit was 57.9% and 57.3% for the three and six-month periods ended June 30, 2022 compared to 57.1% and 59.4% for the same periods of 2021, respectively. SG&A expense increased 23.3% and 39.1% in the three and six-month periods ended June 30, 2022 compared to the same periods of 2021, respectively. Overall, SG&A expense increased in all areas, primarily as a result of our network expansion in 2021. However, we did not see the same level of increases in SG&A as a percentage of gross profit as our gross profit growth kept in line or exceeded the increases in SG&A experienced.

On a same store basis and excluding non-core charges, SG&A as a percentage of gross profit was 60.2% and 59.3% for the three and six-month periods ended June 30, 2022 compared to 55.5% and 58.2% for the same periods of 2021, respectively. The increases for the three and six-month periods ended June 30, 2022 were primarily related to increased SG&A costs without proportionate increases in gross profit.

SG&A expense adjusted for non-core charges was as follows:

| (in millions)                   | Three Months Ended<br>June 30, |          | Increase<br>(Decrease) | % Increase |
|---------------------------------|--------------------------------|----------|------------------------|------------|
|                                 | 2022                           | 2021     |                        |            |
| Personnel                       | \$ 552.7                       | \$ 452.6 | \$ 100.1               | 22.1 %     |
| Advertising                     | 67.0                           | 38.4     | 28.6                   | 74.5       |
| Rent                            | 17.9                           | 12.3     | 5.6                    | 45.5       |
| Facility costs <sup>1</sup>     | 35.9                           | 27.4     | 8.5                    | 31.0       |
| Adjusted gain on sale of assets | (1.5)                          | (0.1)    | (1.4)                  | NM         |
| Adjusted other                  | 111.1                          | 87.7     | 23.4                   | 26.7       |
| Adjusted total SG&A             | \$ 783.1                       | \$ 618.3 | \$ 164.8               | 26.7 %     |

<sup>1</sup> Includes variable lease costs related to the reimbursement of actual costs incurred by our lessors for common area maintenance, property taxes and insurance on leased property.

NM - not meaningful

| As a % of gross profit          | Three Months Ended<br>June 30, |        | Increase (Decrease) |
|---------------------------------|--------------------------------|--------|---------------------|
|                                 | 2022                           | 2021   |                     |
| Personnel                       | 40.9 %                         | 40.8 % | 10 bps              |
| Advertising                     | 5.0                            | 3.5    | 150                 |
| Rent                            | 1.3                            | 1.1    | 20                  |
| Facility costs                  | 2.7                            | 2.5    | 20                  |
| Adjusted gain on sale of assets | (0.1)                          | —      | (10)                |
| Adjusted other                  | 8.2                            | 7.8    | 40                  |
| Adjusted total SG&A             | 58.0 %                         | 55.7 % | 230 bps             |

| (in millions)                          | Six Months Ended<br>June 30, |            | Increase<br>(Decrease) | % Increase |
|--|------------------------------|------------|------------------------|------------|
|  | 2022                         | 2021       |                        |            |
| Personnel                              | \$ 1,070.4                   | \$ 766.7   | \$ 303.7               | 39.6 %     |
| Advertising                            | 125.4                        | 67.9       | 57.5                   | 84.7 %     |
| Rent                                   | 35.7                         | 23.6       | 12.1                   | 51.3 %     |
| Facility costs <sup>1</sup>            | 71.7                         | 51.7       | 20.0                   | 38.7 %     |
| Adjusted (gain) loss on sale of assets | (0.6)                        | 0.2        | (0.8)                  | NM         |
| Adjusted other                         | 210.0                        | 155.7      | 54.3                   | 34.9 %     |
| Adjusted total SG&A                    | \$ 1,512.6                   | \$ 1,065.8 | \$ 446.8               | 41.9 %     |

<sup>1</sup> Includes variable lease costs related to the reimbursement of actual costs incurred by our lessors for common area maintenance, property taxes and insurance on leased property.

NM - not meaningful

| As a % of gross profit          | Six Months Ended<br>June 30, |        | Increase (Decrease) |
|---------------------------------|------------------------------|--------|---------------------|
|                                 | 2022                         | 2021   |                     |
| Personnel                       | 40.7 %                       | 42.0 % | (130) bps           |
| Advertising                     | 4.8                          | 3.7    | 110                 |
| Rent                            | 1.4                          | 1.3    | 10                  |
| Facility costs                  | 2.7                          | 2.8    | (10)                |
| Adjusted loss on sale of assets | —                            | —      | —                   |
| Adjusted other                  | 7.9                          | 8.6    | (70)                |
| Adjusted total SG&A             | 57.5 %                       | 58.4 % | (90) bps            |

Adjusted SG&A for three-months ended June 30, 2022 excludes \$1.5 million in acquisition-related expenses and a \$3.1 million net gain on store disposals. For the six-months ended June 30, 2022, adjusted SG&A excludes \$8.1 million in acquisition-related expenses and a \$13.1 million net gain on store disposals.

Adjusted SG&A for the three-months ended June 30, 2021 excludes \$0.8 million in storm insurance reserve charges, \$10.4 million in acquisition-related expenses, and a \$4.5 million net loss on store disposals. For the six-months ended June 30, 2021, adjusted SG&A excludes \$1.6 million in storm insurance reserve charges, \$11.6 million in acquisition-related expenses, and a \$5.2 million net loss on store disposals.

See "Non-GAAP Reconciliations" for more details.

### Depreciation and Amortization

Depreciation and amortization is comprised of depreciation expense related to buildings, significant remodels or improvements, furniture, tools, equipment, signage, and amortization of certain intangible assets, including customer lists.

| (in millions)                 | Three Months Ended June 30, |         | Increase | % Increase |
|-------------------------------|-----------------------------|---------|----------|------------|
|                               | 2022                        | 2021    |          |            |
| Depreciation and amortization | \$ 40.9                     | \$ 30.3 | \$ 10.6  | 35.0 %     |

| (in millions)                 | Six Months Ended<br>June 30, |         | Increase | % Increase |
|-------------------------------|------------------------------|---------|----------|------------|
|                               | 2022                         | 2021    |          |            |
| Depreciation and amortization | \$ 80.2                      | \$ 57.2 | \$ 23.0  | 40.2 %     |

Acquisition activity contributed to the increases in depreciation and amortization in 2022 compared to 2021. We acquired approximately \$287 million of depreciable property as part of our acquisition activity over the last twelve months ended June 30, 2022. For the six-months ended June 30, 2022, we invested \$136.6 million in capital expenditures. These investments increased the amount of depreciation expense in the three and six-month periods ended June 30, 2022. See the discussion under "Liquidity and Capital Resources" for additional information.

### Operating Margin

Operating income as a percentage of revenue, or operating margin, was as follows:

|   | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |       |
|---|--------------------------------|-------|------------------------------|-------|
|   | 2022                           | 2021  | 2022                         | 2021  |
| Operating margin  | 7.3 %                          | 7.4 % | 7.5 %                        | 6.6 % |
| Operating margin adjusted for non-core charges <sup>1</sup> | 7.3 %                          | 7.7 % | 7.4 %                        | 6.8 % |

<sup>1</sup> See "Non-GAAP Reconciliations" for more details.

Operating margins decreased 10 bps and increased 90 bps in the three and six-month periods ended June 30, 2022 compared to the same period in 2021, respectively. The changes in operating margins for the three and six-month periods ended June 30, 2022 were primarily due to increased gross profit of 21.6% and 44.0% with offsetting increases to SG&A of 23.3% and 39.1%, respectively, compared to the same periods in 2021.

### Floor Plan Interest Expense and Floor Plan Assistance

| (in millions)                              | Three Months Ended<br>June 30, |        | % Change | Six Months Ended<br>June 30, |         | % Change |
|--|--------------------------------|--------|----------|------------------------------|---------|----------|
|  | 2022                           | 2021   |          | 2022                         | 2021    |          |
| Floor plan interest expense (new vehicles) | \$ 3.8                         | \$ 6.4 | (40.6)%  | \$ 8.7                       | \$ 13.3 | (34.6)%  |

Floor plan interest expense decreased \$2.6 million and \$4.6 million in the three and six-month periods ended June 30, 2022 compared to the same periods of 2021, respectively. These decreases were primarily due to decreased inventory levels, partially offset by increases from acquisition volume and interest rate fluctuations.

Floor plan assistance is provided by manufacturers to support store financing of new vehicle inventory and is recorded as a component of new vehicle gross profit when the specific vehicle is sold. However, because manufacturers provide this assistance to offset inventory carrying costs, we believe a comparison of floor plan interest expense to floor plan assistance is a useful measure of the efficiency of our new vehicle sales relative to stocking levels.

The following table details the carrying costs for new vehicles and includes new vehicle floor plan interest net of floor plan assistance earned.

| (in millions)  | Three Months Ended June 30, |           | Change   | % Change |
|--|-----------------------------|-----------|----------|----------|
|  | 2022                        | 2021      |          |          |
| Floor plan interest expense (new vehicles)                     | \$ 3.8                      | \$ 6.4    | \$ (2.6) | (40.6)%  |
| Floor plan assistance (included as an offset to cost of sales) | (32.0)                      | (34.8)    | 2.8      | (8.0)    |
| Net new vehicle carrying costs                                 | \$ (28.2)                   | \$ (28.4) | \$ 0.2   | NM       |

NM - not meaningful

| (in millions)  | Six Months Ended<br>June 30, |                  | Change          | %<br>Change |
|--|------------------------------|------------------|-----------------|-------------|
|  | 2022                         | 2021             |                 |             |
| Floor plan interest expense (new vehicles)                     | \$ 8.7                       | \$ 13.3          | \$ (4.6)        | (34.6)%     |
| Floor plan assistance (included as an offset to cost of sales) | (63.3)                       | (59.7)           | (3.6)           | 6.0         |
| Net new vehicle carrying costs                                 | <u>\$ (54.6)</u>             | <u>\$ (46.4)</u> | <u>\$ (8.2)</u> | NM          |

NM - Not meaningful

### Other Interest Expense

Other interest expense includes interest on senior notes, debt incurred related to acquisitions, real estate mortgages, our used and service loaner vehicle inventory financing commitments, and our revolving lines of credit.

| (in millions)                | Three Months Ended June 30, |                | Increase<br>(Decrease) | % Increase (Decrease) |
|------------------------------|-----------------------------|----------------|------------------------|-----------------------|
|                              | 2022                        | 2021           |                        |                       |
| Mortgage interest            | \$ 5.9                      | \$ 6.5         | \$ (0.6)               | (9.2)                 |
| Other interest               | 29.2                        | 22.0           | 7.2                    | 32.7                  |
| Capitalized interest         | (0.6)                       | (0.5)          | 0.1                    | NM                    |
| Total other interest expense | <u>\$ 34.4</u>              | <u>\$ 28.1</u> | <u>\$ 6.3</u>          | 22.4 %                |

NM - not meaningful

| (in millions)                | Six Months Ended<br>June 30, |                | Increase<br>(Decrease) | % Increase (Decrease) |
|------------------------------|------------------------------|----------------|------------------------|-----------------------|
|                              | 2022                         | 2021           |                        |                       |
| Mortgage interest            | \$ 11.5                      | \$ 13.3        | \$ (1.8)               | (13.5) %              |
| Other interest               | 54.3                         | 39.1           | 15.2                   | 38.9                  |
| Capitalized interest         | (1.2)                        | (0.9)          | 0.3                    | NM                    |
| Total other interest expense | <u>\$ 64.5</u>               | <u>\$ 51.6</u> | <u>\$ 12.9</u>         | 25.0 %                |

NM - not meaningful

Other interest expense for the three and six-month periods ended June 30, 2022 increased \$6.3 million and \$12.9 million primarily related to the additional interest expense associated with the senior notes issued in May 2021.

### Other Income (Expense), net

| (Dollars in millions)       | Three Months Ended June 30, |        | Decrease  | % Decrease |
|-----------------------------|-----------------------------|--------|-----------|------------|
|                             | 2022                        | 2021   |           |            |
| Other Income (Expense), net | \$ (21.9)                   | \$ 7.6 | \$ (29.5) | (388.2)%   |

| (Dollars in millions)       | Six Months Ended<br>June 30, |         | Decrease  | % Decrease |
|-----------------------------|------------------------------|---------|-----------|------------|
|                             | 2022                         | 2021    |           |            |
| Other Income (Expense), net | \$ (29.9)                    | \$ 11.1 | \$ (41.0) | (369.4)%   |

Other income (expense), net in the three and six-month periods ended June 30, 2022, was primarily related to an \$18.1 million and a \$33.0 million, respectively, unrealized investment loss associated with the change in fair value of our investment in Shift Technologies, Inc. We also experienced a \$7.2 million and \$3.6 million loss, respectively, due to foreign currency exchange in the three and six-month periods ended June 30, 2022. No loss due to foreign currency exchange was recognized in the three and six-month periods ended June 30, 2021.

## Income Tax Provision

Our effective income tax rate was as follows:

|  | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |        |
|--|--------------------------------|--------|------------------------------|--------|
|  | 2022                           | 2021   | 2022                         | 2021   |
| Effective income tax rate                                | 27.9 %                         | 27.3 % | 27.4 %                       | 26.9 % |
| Effective income tax rate excluding other non-core items | 26.9 %                         | 27.3 % | 26.5 %                       | 26.9 % |

Our effective income tax rate for the six-month period ended June 30, 2022 compared to last year was negatively affected by a valuation allowance established for certain deferred tax assets not expected to be realized. The increase in tax rate was offset by stock awards vesting in the current period. Excluding the valuation allowance and other non-core charges, we estimate our annual effective income tax rate to be 27.0%.

## Non-GAAP Reconciliations

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 believe each of the non-GAAP financial measures below improves the transparency of our disclosures, provides a meaningful presentation of our results from the core business operations because they exclude items not related to our ongoing core business operations and other non-cash items, and improves the period-to-period comparability of our results from the core business operations. We use these measures in conjunction with GAAP financial measures to assess our business, including our compliance with covenants in our credit facility and in communications with our Board of Directors concerning financial performance. These measures should not be considered an alternative to GAAP measures.

The following tables reconcile certain reported non-GAAP measures, which we refer to as "adjusted," to the most comparable GAAP measure from our Consolidated Statements of Operations.

| (in millions, except per share amounts)                               | Three Months Ended June 30, 2022 |   |                 |                         |          |
|---|----------------------------------|---|-----------------|-------------------------|----------|
|   | As reported                      | Net disposal<br>gain on sale of<br>stores | Investment loss | Acquisition<br>expenses | Adjusted |
| Selling, general and administrative                                   | \$ 781.5                         | \$ 3.1                                    | \$ —            | \$ (1.5)                | \$ 783.1 |
| Operating income (loss)   | 528.3                            | (3.1)                                     | —               | 1.5                     | 526.7    |
| Other income (expense)  | (21.9)                           | —   | 18.1            | —                       | (3.8)    |
| Income before income taxes  | \$ 468.2                         | \$ (3.1)                                  | \$ 18.1         | 1.5                     | \$ 484.7 |
| Income tax (provision) benefit  | (130.6)                          | 0.9                                       | —               | (0.5)                   | (130.2)  |
| Net income (loss)   | 337.6                            | (2.2)                                     | 18.1            | 1.0                     | 354.5    |
| Net income attributable to non-controlling interest                   | (3.8)                            | —   | —               | —                       | (3.8)    |
| Net income attributable to redeemable non-controlling interest        | (2.5)                            | —   | —               | —                       | (2.5)    |
| Net income (loss) attributable to Lithia Motors, Inc.                 | \$ 331.3                         | \$ (2.2)                                  | \$ 18.1         | \$ 1.0                  | \$ 348.2 |
| Diluted earnings (loss) per share attributable to Lithia Motors, Inc. | \$ 11.60                         | \$ (0.08)                                 | \$ 0.63         | \$ 0.03                 | \$ 12.18 |
| Diluted share count   | 28.6                             |   |                 |                         |          |

Three Months Ended June 30, 2021

| (in millions, except per share amounts)                               | As reported     | Net disposal<br>loss on sale of<br>stores | Investment gain | Insurance<br>reserves | Acquisition<br>expenses | Adjusted        |
|---|-----------------|---|-----------------|-----------------------|-------------------------|-----------------|
| Selling, general and administrative                                   | \$ 634.0        | \$ (4.5)                                  | \$ —            | \$ (0.8)              | \$ (10.4)               | \$ 618.3        |
| Operating income  | 446.3           | 4.5                                       | —               | 0.8                   | 10.4                    | 462.0           |
| Other income (expense)  | 7.6             | —   | (1.2)           | —                     | —                       | 6.4             |
| Income (loss) before income taxes                                     | \$ 419.4        | \$ 4.5                                    | (1.2)           | \$ 0.8                | \$ 10.4                 | \$ 433.9        |
| Income tax (provision) benefit  | (114.5)         | (1.2)                                     | 0.3             | (0.2)                 | (2.8)                   | (118.4)         |
| Net income (loss) attributable to Lithia Motors, Inc.                 | <u>\$ 304.9</u> | <u>\$ 3.3</u>                             | <u>\$ (0.9)</u> | <u>\$ 0.6</u>         | <u>\$ 7.6</u>           | <u>\$ 315.5</u> |
| Diluted earnings (loss) per share attributable to Lithia Motors, Inc. | \$ 10.75        | \$ 0.12                                   | \$ (0.03)       | \$ 0.02               | \$ 0.26                 | \$ 11.12        |
| Diluted share count   | 28.4            |   |                 |                       |                         |                 |

Six Months Ended June 30, 2022

| (in millions, except per share amounts)                               | As reported     | Net disposal<br>gain on sale of<br>stores | Investment loss | Acquisition<br>expenses | Adjusted        |
|---|-----------------|---|-----------------|-------------------------|-----------------|
| Selling, general and administrative                                   | \$ 1,507.6      | \$ 13.1                                   | \$ —            | \$ (8.1)                | \$ 1,512.6      |
| Operating income (loss)   | 1,041.1         | (13.1)                                    | —               | 8.1                     | 1,036.1         |
| Other (expense) income, net   | (29.9)          | —   | 33.0            | —                       | 3.1             |
| Income (loss) before income taxes                                     | \$ 938.0        | \$ (13.1)                                 | \$ 33.0         | \$ 8.1                  | \$ 966.0        |
| Income tax (provision) benefit  | (256.7)         | 3.5                                       | —               | (2.5)                   | (255.7)         |
| Net income (loss)   | 681.3           | (9.6)                                     | 33.0            | 5.6                     | 710.3           |
| Net income attributable to non-controlling interest                   | (4.4)           | —   | —               | —                       | (4.4)           |
| Net income attributable to redeemable non-controlling interest        | (3.4)           | —   | —               | (0.1)                   | (3.5)           |
| Net income (loss) attributable to Lithia Motors, Inc.                 | <u>\$ 673.5</u> | <u>\$ (9.6)</u>                           | <u>\$ 33.0</u>  | <u>\$ 5.5</u>           | <u>\$ 702.4</u> |
| Diluted earnings (loss) per share attributable to Lithia Motors, Inc. | \$ 23.15        | \$ (0.33)                                 | \$ 1.13         | \$ 0.19                 | \$ 24.14        |
| Diluted share count   | 29.1            |   |                 |                         |                 |

Six Months Ended June 30, 2021

| (in millions, except per share amounts)                               | As reported     | Net disposal<br>loss on sale of<br>stores | Investment gain | Insurance<br>reserves | Acquisition<br>expenses | Adjusted        |
|---|-----------------|---|-----------------|-----------------------|-------------------------|-----------------|
| Selling, general and administrative                                   | \$ 1,084.2      | \$ (5.2)                                  | \$ —            | \$ (1.6)              | \$ (11.6)               | \$ 1,065.8      |
| Operating income (loss)   | 684.7           | 5.2                                       | —               | 1.6                   | 11.6                    | 703.1           |
| Other (expense) income, net   | 11.1            | —   | (1.0)           | —                     | —                       | 10.1            |
| Income (loss) before income taxes                                     | \$ 630.9        | \$ 5.2                                    | (1.0)           | \$ 1.6                | \$ 11.6                 | \$ 648.3        |
| Income tax (provision) benefit  | (169.8)         | (1.4)                                     | 0.3             | (0.4)                 | (3.1)                   | (174.4)         |
| Net income (loss) attributable to Lithia Motors, Inc.                 | <u>\$ 461.1</u> | <u>\$ 3.8</u>                             | <u>\$ (0.7)</u> | <u>\$ 1.2</u>         | <u>\$ 8.5</u>           | <u>\$ 473.9</u> |
| Diluted earnings (loss) per share attributable to Lithia Motors, Inc. | \$ 16.69        | \$ 0.14                                   | \$ (0.03)       | \$ 0.04               | \$ 0.31                 | \$ 17.15        |
| Diluted share count   | 27.6            |   |                 |                       |                         |                 |

## Liquidity and Capital Resources

We manage our liquidity and capital resources in the context of our overall business strategy, continually forecasting and managing our cash, working capital balances and capital structure in a way that we believe will meet the short-term and long-term obligations of our business while maintaining liquidity and financial flexibility. Our capital deployment strategy for our free cash flows targets an allocation of 65% investment in acquisitions, 25% internal investments including capital expenditures, Driveway and Driveway Finance and 10% in shareholder return in the form of dividends and share repurchases.

Cash flows from operations and borrowings under our credit facilities are our main sources for liquidity. In addition to the above sources of liquidity, potential sources to fund our business strategy include issuing equity through our \$400 million ATM Equity Offering Agreement, financing of real estate and proceeds from debt or equity offerings. We evaluate all of these options and may select one or more of them depending on overall capital needs and the availability and cost of capital, although no assurances can be provided that these capital sources will be available in sufficient amounts or with terms acceptable to us.

### Available Sources

Below is a summary of our immediately available funds:

| (in millions)                               | June 30, 2022 | December 31, 2021 | Change     | % Change |
|---|---------------|-------------------|------------|----------|
| Cash, restricted cash, and cash equivalents | \$ 113.2      | \$ 174.8          | \$ (61.6)  | (35.2)%  |
| Available credit on credit facilities       | 733.3         | 1,318.4           | (585.1)    | (44.4)   |
| Total current available funds               | \$ 846.5      | \$ 1,493.2        | \$ (646.7) | (43.3)%  |

Information about our cash flows, by category, is presented in our Consolidated Statements of Cash Flows. The following table summarizes our cash flows:

| (in millions)                                       | Six Months Ended June 30, |            | Increase (Decrease) |
|---|---------------------------|------------|---------------------|
|   | 2022                      | 2021       | in Cash Flow        |
| Net cash provided by (used in) operating activities | \$ (263.1)                | \$ 1,271.0 | \$ (1,534.1)        |
| Net cash used in investing activities               | (782.7)                   | (1,821.1)  | 1,038.4             |
| Net cash provided by financing activities           | 984.6                     | 1,178.3    | (193.7)             |

### Operating Activities

Cash provided by operating activities for the six-month period ended June 30, 2022 decreased \$1.5 billion compared to the same period of 2021, primarily related to an increase in inventories and other assets, partially offset by increased net income and collection on trade receivables compared to the same period of 2021.

Borrowings from and repayments to our syndicated credit facility related to our new vehicle inventory floor plan financing are presented as financing activities. To better understand the impact of changes in inventory and the associated financing, we also consider our adjusted net cash provided by operating activities to include borrowings or repayments associated with our new vehicle floor plan commitment.

Adjusted net cash provided by operating activities is presented below:

| (in millions)  | Six Months Ended June 30, |            | Increase (Decrease) |
|--|---------------------------|------------|---------------------|
|  | 2022                      | 2021       | in Cash Flow        |
| Net cash provided by (used in) operating activities – as reported                                      | \$ (263.1)                | \$ 1,271.0 | \$ (1,534.1)        |
| Adjust: Net borrowings (repayments) on floor plan notes payable, non-trade                             | 243.5                     | (571.6)    | 815.1               |
| Less: Borrowings on floor plan notes payable, non-trade associated with acquired new vehicle inventory | (63.1)                    | (271.5)    | 208.4               |
| Net cash provided by (used in) operating activities – adjusted   | \$ (82.7)                 | \$ 427.9   | \$ (510.6)          |

### Investing Activities

Net cash used in investing activities totaled \$0.8 billion and \$1.8 billion, respectively, for the six-month period ended June 30, 2022 and 2021.



Below are highlights of significant activity related to our cash flows from investing activities:

| (in millions)                                    | Six Months Ended June 30, |            | Increase (Decrease)<br>in Cash Flow |
|--|---------------------------|------------|-------------------------------------|
|  | 2022                      | 2021       |                                     |
| Capital expenditures                             | \$ (136.6)                | \$ (113.0) | \$ (23.6)                           |
| Cash paid for acquisitions, net of cash acquired | (706.0)                   | (1,741.9)  | 1,035.9                             |
| Cash paid for other investments                  | (9.3)                     | (9.9)      | 0.6                                 |
| Proceeds from sales of stores                    | 52.7                      | 43.7       | 9.0                                 |

### Capital Expenditures

Below is a summary of our capital expenditure activities:

| (in millions)                                  | Six Months Ended June 30, |          |
|--|---------------------------|----------|
|  | 2022                      | 2021     |
| Post-acquisition capital improvements          | \$ 23.1                   | \$ 5.6   |
| Facilities for open points                     | 0.4                       | 12.3     |
| Purchase of facilities for existing operations | 2.0                       | 22.1     |
| Existing facility improvements                 | 37.1                      | 37.9     |
| Maintenance                                    | 74.0                      | 35.1     |
| Total capital expenditures                     | \$ 136.6                  | \$ 113.0 |

Many manufacturers provide assistance in the form of additional incentives or assistance if facilities meet specified standards and requirements. We expect that certain facility upgrades and remodels will generate additional manufacturer incentive payments. Also, tax laws allowing accelerated deductions for capital expenditures reduce the overall investment needed and encourage accelerated project timeliness.

We expect to use a portion of our future capital expenditures to upgrade facilities that we recently acquired. This additional capital investment is contemplated in our initial evaluation of the investment return metrics applied to each acquisition and is usually associated with manufacturer standards and requirements.

The increase in capital expenditures for the six-month period ended June 30, 2022, compared to the same period of 2021 related primarily to higher maintenance and post-acquisition capital improvements.

If we undertake a significant capital commitment in the future, we expect to pay for the commitment out of existing cash balances, construction financing and borrowings on our credit facility. Upon completion of the projects, we believe we would have the ability to secure long-term financing and general borrowings from third party lenders for 70% to 90% of the amounts expended, although no assurances can be provided that these financings will be available to us in sufficient amounts or on terms acceptable to us.

### Acquisitions

We focus on acquiring stores at attractive purchase prices that meet our return thresholds and strategic objectives. We look for acquisitions that diversify our brand and geographic mix as we continue to evaluate our portfolio to minimize exposure to any one manufacturer and achieve financial returns.

We are able to subsequently floor new vehicle inventory acquired as part of an acquisition; however, the cash generated by this transaction is recorded as borrowings on floor plan notes payable, non-trade.

Adjusted net cash paid for acquisitions, as well as certain other acquisition-related information is presented below:

|  | Six Months Ended June 30, |              |
|--|---------------------------|--------------|
|  | 2022                      | 2021         |
| Number of locations acquired   | 22                        | 55           |
| (in millions)  |                           |              |
| Cash paid for acquisitions, net of cash acquired   | \$ (706.0)                | \$ (1,741.9) |
| Less: Borrowings on floor plan notes payable: non-trade associated with acquired new vehicle inventory | 63.1                      | 271.5        |
| Cash paid for acquisitions, net of cash acquired – adjusted  | \$ (642.9)                | \$ (1,470.4) |

We evaluate potential capital investments primarily based on targeted rates of return on assets and return on our net equity investment.

### Financing Activities

Net cash provided by (used in) financing activities, adjusted for borrowing on floor plan facilities: non-trade was as follows:

| (in millions)  | Six Months Ended June 30, |            | Decrease<br>in Cash Flow |
|--|---------------------------|------------|--------------------------|
|  | 2022                      | 2021       |                          |
| Cash provided by financing activities, as reported                         | \$ 984.6                  | \$ 1,178.3 | \$ (193.7)               |
| Adjust: Net (borrowings) repayments on floor plan notes payable: non-trade | (243.5)                   | 571.6      | (815.1)                  |
| Cash provided by financing activities – adjusted                           | \$ 741.1                  | \$ 1,749.9 | \$ (1,008.8)             |

Below are highlights of significant activity related to our cash flows from financing activities, excluding net borrowings (repayments) on floor plan notes payable: non-trade, which are discussed above:

| (in millions)   | Six Months Ended June 30, |           | Increase (Decrease)<br>in Cash Flow |
|---|---------------------------|-----------|-------------------------------------|
|   | 2022                      | 2021      |                                     |
| Net borrowings on lines of credit   | \$ 1,503.9                | \$ (64.6) | \$ 1,568.5                          |
| Principal payments on long-term debt and finance lease liabilities, other | (60.3)                    | (65.0)    | 4.7                                 |
| Proceeds from issuance of long-term debt                                  | 26.7                      | 817.5     | (790.8)                             |
| Repurchase of common stock  | (623.4)                   | (15.9)    | (607.5)                             |
| Dividends paid  | (22.2)                    | (17.5)    | (4.7)                               |
| Proceeds from issuance of common stock                                    | 18.7                      | 1,120.0   | (1,101.3)                           |

### Equity Transactions

In November 2021, our Board of Directors authorized the repurchase of up to \$750 million of our Common Stock, increasing our total repurchase authorization to \$1.25 billion combined with the amount previously authorized by the Board for repurchase. We repurchased a total of 2,195,701 shares of our Common Stock at an average price of \$284.90 in the first six months of 2022. This included 2,138,878 shares as part of our repurchase authorization at an average price per share of \$284.58 and 56,823 shares related to tax withholding on vesting RSUs at an average price of \$296.96 per share. As of June 30, 2022, we had \$114.1 million remaining available for repurchases and the authorization does not have an expiration date.

In the first six months of 2022, we declared and paid dividends on our Common Stock as follows:

| Dividend paid: | Dividend amount<br>per share |      | Total amount of<br>dividend<br>(in millions) |
|----------------|------------------------------|------|--|
| March 2022     | \$                           | 0.35 | \$ 10.3                                      |
| May 2022       | \$                           | 0.42 | \$ 11.9                                      |

We evaluate performance and make a recommendation to the Board of Directors on dividend payments on a quarterly basis.

### Summary of Outstanding Balances on Credit Facilities and Long-Term Debt

Below is a summary of our outstanding balances on credit facilities and long-term debt:

| (in millions)   | As of June 30, 2022 |         |                     |            |
|---|---------------------|---------|---------------------|------------|
|   | Outstanding         |         | Remaining Available |            |
| Floor plan note payable: non-trade                              | \$                  | 1,060.2 | \$                  | — 1        |
| Floor plan notes payable  |                     | 410.8   |                     | —          |
| Used and service loaner vehicle inventory financing commitments |                     | 1,063.3 |                     | 1.2 2      |
| Revolving lines of credit                                       |                     | 1,158.5 |                     | 702.6 2, 3 |
| Real estate mortgages   |                     | 560.3   |                     | —          |
| Finance lease obligations                                       |                     | 96.1    |                     | —          |
| Non-recourse notes payable                                      |                     | 237.4   |                     | —          |
| 4.625% Senior notes due 2027                                    |                     | 400.0   |                     | —          |
| 4.375% Senior notes due 2031                                    |                     | 550.0   |                     | —          |
| 3.875% Senior notes due 2029                                    |                     | 800.0   |                     | —          |
| Other debt  |                     | 1.6     |                     | —          |
| Unamortized debt issuance costs                                 |                     | (25.2)  |                     | — 4        |
| Total debt  | \$                  | 6,313.0 | \$                  | 703.8      |

<sup>1</sup> As of June 30, 2022, we had a \$1.2 billion new vehicle floor plan commitment as part of our credit facility.

<sup>2</sup> The amount available on the credit facility is limited based on a borrowing base calculation and fluctuates monthly.

<sup>3</sup> Available credit is based on the borrowing base amount effective as of May 31, 2022. This amount is reduced by \$41.5 million for outstanding letters of credit.

<sup>4</sup> Debt issuance costs are presented on the balance sheet as a reduction from the carrying amount of the related debt liability.

### US Bank Credit Facility

On June 2, 2022, we entered into a Second Amendment to our Fourth Amended and Restated Loan Agreement with U.S. Bank National Association as agent for the lenders, and each of the lenders party to the loan agreement, as lenders. The credit facility continues to provide for a total financing commitment of \$3.75 billion, which may be further expanded under the Second Amendment, subject to lender approval and the satisfaction of other conditions, up to a total of \$4.5 billion. Among other changes, the Second Amendment:

- Incorporates the adoption of the Secured Overnight Financing Rate (SOFR) as a replacement of the London Interbank Offered Rate (LIBOR).
- Modifies the initial allocation of the financing commitment to up to \$1.0 billion in used vehicle inventory floorplan financing, up to \$1.5 billion in revolving financing for general corporate purposes, including acquisitions and working capital, up to \$1.2 billion in new vehicle inventory floorplan financing, and up to \$50 million in service loaner vehicle floorplan financing.
- Modifies our option to reallocate the commitments under the Credit Facility, such that the new and used vehicle floor plan commitments may have unlimited allocation and the aggregate revolving loan commitment may not be more than the 40% of the amount of the aggregate commitment, and the aggregate service loaner vehicle floorplan commitment may not be more than the 3% of the amount of the aggregate commitment.
- Modifies the conditions for including real property in the Revolving Loan Borrowing Base to better facilitate borrowing against real estate and modifies the overall cap to \$1.0 billion.

All borrowings from, and repayments to, our lending group are presented in the Consolidated Statements of Cash Flows as financing activities.

Our obligations under our credit facility are secured by a substantial amount of our assets, including our inventory (including new and used vehicles, parts and accessories), equipment, accounts receivable (and other rights to payment) and our equity interests in certain of our subsidiaries. Under our credit facility, our obligations relating to new vehicle floor plan loans are secured only by collateral owned by borrowers of new vehicle floor plan loans under the credit facility.

The interest rate on the credit facility varies based on the type of debt, with the rate One-month Term SOFR plus 1.20% for new vehicle floor plan financing, Daily Simple SOFR plus 1.50% for used vehicle floor plan financing,

1.30% for service loaner floor plan financing and 1.10% for our working capital revolver. The annual interest rates associated with our floor plan commitments are as follows:

| Commitment                | Annual Interest Rate at June 30, 2022 |
|---------------------------|---------------------------------------|
| New vehicle floor plan    | 2.93%                                 |
| Used vehicle floor plan   | 3.00%                                 |
| Service loaner floor plan | 2.80%                                 |
| Revolving line of credit  | 2.60%                                 |

Under the terms of our credit facility we are subject to financial covenants and restrictive covenants that limit or restrict our incurring additional indebtedness, making investments, selling or acquiring assets and granting security interests in our assets.

Under our credit facility, we are required to maintain the ratios detailed in the following table:

| Debt Covenant Ratio         | Requirement             | As of June 30, 2022 |
|-----------------------------|-------------------------|---------------------|
| Fixed charge coverage ratio | Not less than 1.20 to 1 | 2.80 to 1           |
| Leverage ratio              | Not more than 5.75 to 1 | 1.46 to 1           |

As of June 30, 2022, we were in compliance with all covenants. We expect to remain in compliance with the financial and restrictive covenants in our credit facility and other debt agreements. However, no assurances can be provided that we will continue to remain in compliance with the financial and restrictive covenants.

If we do not meet the financial and restrictive covenants and are unable to remediate or cure the condition or obtain a waiver from our lenders, a breach would give rise to remedies under the agreement, the most severe of which are the termination of the agreement, acceleration of the amounts owed and the seizure and sale of our assets comprising the collateral for the loans. A breach would also trigger cross-defaults under other debt agreements.

Although we refer to the lenders' obligations to make loans as "commitments," each lender's obligations to make any loan or other credit accommodations under the credit facility is subject to the satisfaction of the conditions precedent specified in the credit agreement including, for example, that our representations and warranties in the agreement are true and correct in all material respects as of the date of each credit extension. If we are unable to satisfy the applicable conditions precedent, we may not be able to request new loans or other credit accommodations under our credit facility.

#### Floor Plan Notes Payable

We have floor plan agreements with manufacturer-affiliated finance companies for certain new vehicles and vehicles that are designated for use as service loaners. The interest rates on these floor plan notes payable commitments vary by manufacturer and are variable rates. As of June 30, 2022, \$410.8 million was outstanding on these agreements. Borrowings from, and repayments to, manufacturer-affiliated finance companies are classified as operating activities in the Consolidated Statements of Cash Flows.

#### Other Credit Facilities and Lines of Credit

In 2020, we entered into a real-estate backed facility with eight financial institutions, including two manufacturer affiliated finance companies, maturing in July 2025. The real-estate backed credit facility provides a total financing commitment of up to \$226.5 million in working capital financing for general corporate purposes, including acquisitions and working capital, collateralized by real estate and certain other assets owned by us. The interest rate on this credit facility uses one-month LIBOR plus a margin ranging from 2.00% to 2.50% based on our leverage ratio, or a base rate of 0.75% plus a margin. As of June 30, 2022, \$215.0 million was outstanding on the real-estate backed facility.

In 2020, we entered into a securitization facility which provides initial commitments for borrowings of up to \$400 million and matures in June 2023. As of June 30, 2022, we had \$300.0 million drawn on the securitization facility.

In 2021, we entered into a credit agreement with Ally Bank (Ally Capital in Hawaii, Mississippi, Montana and New Jersey), as lender. The credit agreement matures in April 2023 and provides for a revolving line of credit facility of up to \$300.0 million and is secured by real estate owned by us. The credit facility bears interest at a rate per annum equal to the greater of 3.00% or the prime rate designated by Ally Bank, minus 25 basis points. As of June 30, 2022, \$95.0 million was outstanding on the Ally credit facility.

On June 3, 2022, we entered into a credit agreement with The Bank of Nova Scotia (BNS), Royal Bank of Canada, Bank of Montreal, The Toronto-Dominion Bank, VW Credit Canada, Inc. and BMW Group Financial Services, as lenders, and BNS, as administrative agent for the lenders. Pursuant to the credit agreement, the lenders assumed all of the indebtedness under our original commitment letter, dated August 30, 2021, between us and BNS, including the letters of credit issued thereunder, and agreed to certain new and amended terms. Among other things, the credit agreement establishes a total financing commitment of approximately \$1.125 billion CAD, including (i) up to \$100.0 million CAD to finance the our working capital and for general corporate purposes; (ii) up to \$500.0 million CAD to finance the purchase of new motor vehicles (Wholesale Flooring Facility); (iii) up to \$100.0 million CAD to finance the purchase of used motor vehicles for sale in Canada and for export to the United States; (iv) up to \$400.0 million CAD for the wholesale lease financing of leased units and finance contracts, and (v) up to \$25.0 million CAD to finance certain motor vehicle leases. The credit agreement also establishes sublimits for swingline commitments and/or letter of credit commitments under certain of the Canadian facilities and incorporates an accordion feature to increase maximum potential borrowings under the Wholesale Flooring Facility by up to \$200.0 million CAD and under the other Canadian facilities by up to \$200.0 million CAD in aggregate. Borrowings under the credit agreement accrue interest at rates equal to the greater of BNS' prime lending rate or the Canadian Dollar Offered Rate plus, in each case, a spread, with the spreads ranging from 0.25% per annum to 1.30% per annum. All Canadian Facilities other than the Wholesale Flooring Facility, which is a demand facility, mature on June 3, 2025.

These other credit facilities and lines of credit above include financial and restrictive covenants typical of such agreements, lending conditions, and representations and warranties by us. As of June 30, 2022, we were in compliance with all covenants. We expect to remain in compliance with the financial and restrictive covenants in our other credit facilities and lines of credit. However, no assurances can be provided that we will continue to remain in compliance with the financial and restrictive covenants.

### Senior Notes

We have issued senior notes to eligible purchasers in a private placement under Rule 144A and Regulation S of the Securities Act of 1933. Interest accrues on the notes and is payable semiannually. We may redeem the notes in whole or in part, on or after the redemption dates, at the redemption prices set forth in the Indentures. Prior to the redemption dates set forth in the Indentures, we may redeem the notes, in whole or in part, at a price equal to 100% of the principal amount thereof plus make-whole premiums set forth in the Indentures. Upon certain change of control events (as set forth in the Indentures), the holders of the notes may require us to repurchase all or a portion of the notes at a purchase price of 101% of their principal amount plus accrued and unpaid interest, if any, to the date of purchase.

Below is a summary of outstanding senior notes issued:

| Description                  | Maturity Date     | Interest Payment Dates | Principal Amount |
|------------------------------|-------------------|------------------------|------------------|
| 4.625% Senior notes due 2027 | December 15, 2027 | June 15, December 15   | \$400 million    |
| 4.375% Senior notes due 2031 | January 15, 2031  | January 15, July 15    | \$550 million    |
| 3.875% Senior notes due 2029 | June 1, 2029      | June 1, December 1     | \$800 million    |

### Real Estate Mortgages, Finance Lease Obligations, and Other Debt

We have mortgages associated with our owned real estate. Interest rates related to this debt ranged from 2.7% to 5.0% at June 30, 2022. The mortgages are payable in various installments through July 1, 2038. As of June 30, 2022, we had fixed interest rates on 70.5% of our outstanding mortgage debt.

We have finance lease obligations with some of our leased real estate. Interest rates related to this debt ranged from 1.9% to 8.5% at June 30, 2022. The leases have terms extending through August 2037.

Our other debt includes sellers' notes. The interest rates associated with our other debt ranged from 5.0% to 10.0% at June 30, 2022. This debt is due in various installments through April 2027.

### LIBOR Transition

We are working closely and cooperatively with our lending partners to update remaining LIBOR-based agreements. We expect to transition all of our LIBOR-based agreements to appropriate replacement rates well before the June 30, 2023 LIBOR cessation. We do not anticipate this transition to have any material impact on our results of operations or financial position.

## Recent Accounting Pronouncements

None.

## Critical Accounting Policies and Use of Estimates

There have been no material changes in the critical accounting policies and use of estimates described in our 2021 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 18, 2022.

## Seasonality and Quarterly Fluctuations

Historically, our sales have been lower in the first quarter of each year due to consumer purchasing patterns and inclement weather in certain of our markets. As a result, financial performance is expected to be lower during the first quarter than during the second, third and fourth quarters of each fiscal year. We believe that interest rates, levels of consumer debt, consumer confidence and manufacturer sales incentives, as well as general economic conditions, also contribute to fluctuations in sales and operating results.

## Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our reported market risks or risk management policies since the filing of our 2021 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on February 18, 2022.

## Item 4. Controls and Procedures

### *Evaluation of Disclosure Controls and Procedures*

We evaluated, with the participation and under the supervision of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure and that such information is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

### *Changes in Internal Control Over Financial Reporting*

There was no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

We are party to numerous legal proceedings arising in the normal course of our business. Although we do not anticipate that the resolution of legal proceedings arising in the normal course of business will have a material adverse effect on our business, results of operations, financial condition, or cash flows, we cannot predict this with certainty.

### Item 1A. Risk Factors

The information in this Form 10-Q should be read in conjunction with the risk factors and information disclosed in our 2021 Annual Report on Form 10-K, which was filed with the SEC on February 18, 2022. We have described in our 2021 Annual Report on Form 10-K, under "Risk Factors" in Item 1A, the primary risks related to our business and securities.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

We repurchased the following shares of our common stock during the second quarter of 2022:

| For the full calendar month of | Total number of shares purchased <sup>2</sup> | Average price paid per share | Total number of shares purchased as part of publicly announced plans <sup>1</sup> | Maximum dollar value of shares that may yet be purchased under publicly announced plan (in thousands) <sup>1</sup> |
|--------------------------------|---|------------------------------|---|--|
| April                          | 583,702                                       | \$ 289.05                    | 583,702   | \$ 490,819   |
| May                            | 1,003,023                                     | 285.56                       | 1,002,979   | 204,408  |
| June                           | 333,952                                       | 270.52                       | 333,952   | 114,069  |
| Total                          | 1,920,677                                     | \$ 284.01                    | 1,920,633   | \$ 114,069   |

<sup>1</sup> The current share repurchase plan has no expiration date.

<sup>2</sup> Of the shares repurchased in the second quarter of 2022, 44 were related to tax withholding upon the vesting of RSUs.



## Item 6. Exhibits

The following exhibits are filed herewith and this list is intended to constitute the exhibit index.

|                             |  |
|-----------------------------|--|
| <a href="#"><u>3.1</u></a>  | Restated Articles of Incorporation of Lithia Motors, Inc. (incorporated by reference to exhibit 3.1 to the Company's Form 10-Q filed July 28, 2021).   |
| <a href="#"><u>3.2</u></a>  | Second Amended and Restated Bylaws of Lithia Motors, Inc. (incorporated by reference to exhibit 3.2 to the Company's Form 8-K filed April 25, 2019).   |
| <a href="#"><u>10.1</u></a> | Second Amendment to Fourth Amended and Restated Loan Agreement, dated June 2, 2022, among Lithia Motors, Inc., the subsidiaries of Lithia Motors, Inc. listed on the signature pages of the agreement or that thereafter become borrowers thereunder, the lenders party thereto from time to time, and U.S. Bank National Association.* (incorporated by reference to exhibit 10.1 to the 8-K filed June 8, 2022.)                                     |
| <a href="#"><u>10.2</u></a> | Credit Agreement, dated June 3, 2022, among Lithia Master LP Company, LP, the subsidiaries of Lithia Motors, Inc. listed on the signature pages of the agreement or that thereafter become borrowers thereunder, Lithia Master GP Company, Inc. and the other general partners of the Borrowers, the lenders party thereto from time to time, and The Bank of Nova Scotia.* (incorporated by reference to exhibit 10.2 to the 8-K filed June 8, 2022.) |
| <a href="#"><u>31.1</u></a> | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.  |
| <a href="#"><u>31.2</u></a> | Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.  |
| <a href="#"><u>32.1</u></a> | Certification of Chief Executive Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.   |
| <a href="#"><u>32.2</u></a> | Certification of Principal Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.   |
| 101.INS                     | Inline 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                     | Inline XBRL Taxonomy Extension Schema Document.  |
| 101.CAL                     | Inline XBRL Taxonomy Extension Calculation Linkbase Document.  |
| 101.DEF                     | Inline XBRL Taxonomy Extension Definition Linkbase Document.   |
| 101.LAB                     | Inline XBRL Taxonomy Extension Label Linkbase Document.  |
| 101.PRE                     | Inline XBRL Taxonomy Extension Presentation Linkbase Document.   |
| 104                         | Cover page formatted as Inline XBRL and contained in Exhibit 101.  |

\* Certain confidential and immaterial terms redacted pursuant to Item 601(b)(10)(iv) of Regulation S-K.

## 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.

Date: July 28, 2022

LITHIA MOTORS, INC.  
Registrant

By: /s/ Tina Miller  
Tina Miller  
Chief Financial Officer, Senior Vice President, and Principal Accounting Officer



**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO  
RULE 13a-14(a) OR RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Bryan B. DeBoer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lithia Motors, 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 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 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.

Date: July 28, 2022

/s/ Bryan B. DeBoer

Bryan B. DeBoer  
President and Chief Executive Officer  
Lithia Motors, Inc.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO  
RULE 13a-14(a) OR RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Tina Miller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lithia Motors, 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 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 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.

Date: July 28, 2022

/s/ Tina Miller  
Tina Miller  
Senior Vice President and Chief Financial Officer  
Lithia Motors, Inc.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO RULE 13a-14(b) OR RULE 15d-14(b)  
OF THE SECURITIES EXCHANGE ACT OF 1934 AND 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Lithia Motors, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bryan B. DeBoer, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; 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/ Bryan B. DeBoer  
Bryan B. DeBoer  
President and Chief Executive Officer  
Lithia Motors, Inc.  
July 28, 2022

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO RULE 13a-14(b) OR RULE 15d-14(b)  
OF THE SECURITIES EXCHANGE ACT OF 1934 AND 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Lithia Motors, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tina Miller, Senior Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; 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/ Tina Miller  
Tina Miller  
Senior Vice President and Chief Financial Officer  
Lithia Motors, Inc.  
July 28, 2022