UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2021

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	**93-0572810**
(State or other jurisdiction of incorporation or organization)	(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
Class A 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 X 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 X 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
X	☐	☐	☐	☐

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 X

As of April 29, 2021, there were 26,650,854 shares of the registrant's Class A common stock outstanding and no shares of the registrant's Class B common stock outstanding.

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

(In millions; Unaudited)	March 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 170.3	$ 160.2
Accounts receivable, net of allowance for doubtful accounts of $8.4 and $5.9	740.7	614.0
Inventories, net	2,329.7	2,492.9
Other current assets	48.2	70.5
Total current assets	3,288.9	3,337.6
Property and equipment, net of accumulated depreciation of $355.6 and $338.0	2,221.0	2,197.5
Operating lease right-of-use assets	258.7	264.0
Goodwill	617.5	593.0
Franchise value	368.0	350.2
Other non-current assets	1,497.5	1,159.8
Total assets	$ 8,251.6	$ 7,902.1
Liabilities and stockholders' equity		
Current liabilities:		
Floor plan notes payable	$ 341.5	$ 234.2
Floor plan notes payable: non-trade	1,480.7	1,563.0
Current maturities of long-term debt	60.3	66.0
Trade payables	199.4	158.2
Accrued liabilities	529.0	458.3
Total current liabilities	2,610.9	2,479.7
Long-term debt, less current maturities	2,124.0	2,064.7
Deferred revenue	162.2	155.7
Deferred income taxes	157.4	146.3
Non-current operating lease liabilities	241.6	246.7
Other long-term liabilities	147.9	147.5
Total liabilities	5,444.0	5,240.6
Stockholders' equity:		
Preferred stock - no par value; authorized 15.0 shares; none outstanding	—	—
Class A common stock - no par value; authorized 100.0 shares; issued and outstanding 26.6 and 26.3	789.9	788.2
Class B common stock - no par value; authorized 25.0 shares; issued and outstanding none and 0.2	—	—
Additional paid-in capital	36.0	41.4
Accumulated other comprehensive loss	(4.5)	(6.3)
Retained earnings	1,986.2	1,838.2
Total stockholders' equity	2,807.6	2,661.5
Total liabilities and stockholders' equity	$ 8,251.6	$ 7,902.1

See accompanying condensed notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share amounts; Unaudited)	Three Months Ended March 31, 2021	2020
Revenues:		
New vehicle retail	$ 2,193.2	$ 1,373.5
Used vehicle retail	1,352.2	874.4
Used vehicle wholesale	135.2	66.7
Finance and insurance	198.4	121.9
Service, body and parts	404.0	329.9
Fleet and other	60.0	37.4
Total revenues	4,343.0	2,803.8
Cost of sales:		
New vehicle retail	2,036.5	1,295.3
Used vehicle retail	1,216.0	784.4
Used vehicle wholesale	130.6	66.1
Service, body and parts	185.8	161.8
Fleet and other	58.6	35.3
Total cost of sales	3,627.5	2,342.9
Gross profit	715.5	460.9
Selling, general and administrative	450.4	346.0
Depreciation and amortization	26.8	22.0
Operating income	238.3	92.9
Floor plan interest expense	(6.8)	(14.0)
Other interest expense, net	(23.5)	(17.0)
Other income, net	3.4	2.3
Income before income taxes	211.4	64.2
Income tax provision	(55.2)	(18.0)
Net income	$ 156.2	$ 46.2
Basic net income per share	$ 5.86	$ 1.99
Shares used in basic per share calculations	26.6	23.3
Diluted net income per share	$ 5.81	$ 1.97
Shares used in diluted per share calculations	26.9	23.5
Cash dividends paid per Class A and Class B share	$ 0.31	$ 0.30

See accompanying condensed notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions; Unaudited)	Three Months Ended March 31, 2021	2020
Net income	$ 156.2	$ 46.2
Other comprehensive income (loss), net of tax:		
Gain (loss) on cash flow hedges, net of tax (expense) benefit of ($0.6) and $1.8, respectively	1.8	(5.1)
Comprehensive income	$ 158.0	$ 41.1

See accompanying condensed notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In millions; Unaudited)	Three Months Ended March 31, 2021	2020
Total stockholders' equity, beginning balances	$ 2,661.5	$ 1,467.7
Class A common stock:		
Beginning balances	788.2	20.5
Compensation for stock and stock option issuances and excess tax benefits from option exercises	13.4	8.9
Issuance of stock in connection with employee stock plans	4.2	2.6
Class B common stock converted to class A common stock	—	—
Repurchase of class A common stock	(15.9)	(32.0)
Ending balances	789.9	—
Class B common stock:		
Beginning balances	—	0.1
Class B common stock converted to class A common stock	—	—
Ending balances	—	0.1
Additional paid-in capital:		
Beginning balances	41.4	46.0
Compensation for stock and stock option issuances and excess tax benefits from option exercises	(5.4)	(3.8)
Repurchase of class A common stock	—	(16.2)
Ending balances	36.0	26.0
Accumulated other comprehensive loss:		
Beginning balances	(6.3)	(0.7)
Gain (loss) on cash flow hedges, net of tax (expense) benefit of ($0.6) and $1.8	1.8	(5.1)
Ending balances	(4.5)	(5.8)
Retained earnings:		
Beginning balances	1,838.2	1,401.8
Adjustment to adopt ASC 326	—	(4.8)
Net income	156.2	46.2
Dividends paid	(8.2)	(7.0)
Ending balances	1,986.2	1,436.2
Total stockholders' equity, ending balances	$ 2,807.6	$ 1,456.5

See accompanying condensed notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions; Unaudited)	Three Months Ended March 31, 2021	2020
Cash flows from operating activities:		
Net income	$ 156.2	$ 46.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	26.8	22.0
Stock-based compensation	8.0	5.1
Loss on disposal of other assets	0.3	0.1
Gain (loss) on disposal of franchise	0.7	(0.1)
Unrealized investment loss	0.3	—
Deferred income taxes	10.4	8.2
Amortization of operating lease right-of-use assets	8.2	6.9
(Increase) decrease (net of acquisitions and dispositions):		
Accounts receivable, net	(126.7)	202.1
Inventories	244.6	(69.8)
Other assets	(62.1)	(8.6)
Increase (decrease) (net of acquisitions and dispositions):		
Floor plan notes payable	107.3	(32.7)
Trade payables	47.8	(14.6)
Accrued liabilities	76.7	(47.1)
Other long-term liabilities and deferred revenue	(2.1)	4.0
Net cash provided by operating activities	496.4	121.7
Cash flows from investing activities:		
Capital expenditures	(50.0)	(41.6)
Proceeds from sales of assets	—	0.2
Cash paid for other investments	(9.6)	(9.3)
Cash paid for acquisitions, net of cash acquired	(383.5)	(72.3)
Proceeds from sales of stores	0.3	4.7
Net cash used in investing activities	(442.8)	(118.3)
Cash flows from financing activities:		
Repayments on floor plan notes payable, net: non-trade	(74.8)	(43.5)
Borrowings on lines of credit	79.3	430.0
Repayments on lines of credit	(18.3)	(375.0)
Principal payments on long-term debt and finance lease liabilities, scheduled	(8.3)	(6.5)
Proceeds from issuance of long-term debt	—	17.2
Payment of debt issuance costs	(0.1)	(0.4)
Proceeds from issuance of common stock	4.2	2.6
Repurchase of common stock	(15.9)	(48.2)
Dividends paid	(8.2)	(7.0)
Payment of contingent consideration related to acquisitions	(1.4)	—
Net cash used in financing activities	(43.5)	(30.8)
Increase (decrease) in cash and cash equivalents	10.1	(27.4)
Cash and cash equivalents at beginning of period	160.2	84.0
Cash and cash equivalents at end of period	$ 170.3	$ 56.6
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 30.0	$ 31.5
Cash paid during the period for income taxes, net	2.5	1.3
Floor plan debt paid in connection with store disposals	1.4	—
Supplemental schedule of non-cash activities:		
Right-of-use assets obtained in exchange for lease liabilities	$ 3.4	$ 1.8

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 March 31, 2021, and for the three months ended March 31, 2021 and 2020. 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 2020 audited Consolidated Financial Statements and the related notes thereto. The financial information as of December 31, 2020, is derived from our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 19, 2021. 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 $202.3 million and $194.1 million as of March 31, 2021, and December 31, 2020, respectively; and we recognized $9.4 million of revenue in the three months ended March 31, 2021, related to our contract liability balance at December 31, 2020. 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 $8.2 million and $8.2 million as of March 31, 2021 and December 31, 2020, respectively; and are included in trade receivables and other non-current assets.

Note 3. Accounts Receivable and Contract Assets

Accounts receivable consisted of the following:

(in millions)	March 31, 2021	December 31, 2020
Contracts in transit	$ 375.3	$ 286.8
Trade receivables	71.0	67.0
Vehicle receivables	88.0	61.8
Manufacturer receivables	119.4	118.1
Auto loan receivables	256.0	175.6
Other receivables	11.6	11.6
	921.3	720.9
Less: Allowance for doubtful accounts	(8.4)	(5.9)
Less: Long-term portion of accounts receivable, net	(172.2)	(101.0)
Total accounts receivable, net	$ 740.7	$ 614.0

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 retail sales of vehicles and certain finance and insurance products.

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 balance of auto loan receivables is made up of loans secured by the related vehicle. More than 99% of the portfolio is aged less than 60 days past due with less than 1% on non-accrual status. As of March 31, 2021, the allowance for credit losses related to auto loan receivables was $12.4 million and included in allowance for doubtful accounts and other non-current assets. In accordance with Topic 326, the allowance for loan 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 and is reviewed monthly. 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 accounts receivable was included as a component of other non-current assets in the Consolidated Balance Sheets.

Note 4. Inventories

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

(in millions)	March 31, 2021	December 31, 2020
New vehicles	$ 1,432.4	$ 1,556.6
Used vehicles	790.1	835.9
Parts and accessories	107.2	100.4
Total inventories	$ 2,329.7	$ 2,492.9

Note 5. Goodwill and Franchise Value

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

(in millions)	Domestic	Import	Luxury	Consolidated
Balance as of December 31, 2019 [1]	$ 171.8	$ 197.3	$ 85.5	$ 454.6
Additions through acquisitions [2]	33.3	94.3	17.3	144.9
Reductions through divestitures	(0.1)	(0.7)	(2.2)	(3.0)
Reductions from impairments	(0.5)	(3.0)	—	(3.5)
Balance as of December 31, 2020 [1]	204.5	287.9	100.6	593.0
Additions through acquisitions [3]	5.5	10.7	8.3	24.5
Balance as of March 31, 2021	$ 210.0	$ 298.6	$ 108.9	$ 617.5

[1] Net of accumulated impairment losses of $299.3 million recorded during the year ended December 31, 2008.

[2] Our purchase price allocation for the 2019 acquisitions were finalized in 2020. As a result, we added $144.9 million of goodwill.
[3] Our purchase price allocation for a portion of the 2020 acquisitions was finalized in 2021. As a result, we added $24.5 million of goodwill. Our purchase price allocation for the remaining 2020 and 2021 acquisitions are preliminary and goodwill is not yet allocated to our segments. These amounts are included in other non-current assets until we finalize our purchase accounting. See Note 12.

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

(in millions)	**Franchise Value**
Balance as of December 31, 2019	$ 306.7
Additions through acquisitions [1]	51.9
Reductions through divestitures	(4.0)
Reductions from impairments	(4.4)
Balance as of December 31, 2020	350.2
Additions through acquisitions [2]	17.8
Reductions through divestitures	(0.1)
Balance as of March 31, 2021	$ 368.0

[1] Our purchase price allocation for the 2019 acquisitions were finalized in 2020. As a result, we added $51.9 million of franchise value.
[2] Our purchase price allocation for a portion of the 2020 acquisitions was finalized in 2021. As a result, we added $17.8 million of franchise value. Our purchase price allocation for the remaining 2020 and 2021 acquisitions are preliminary and franchise value is not yet allocated to our segments. These amounts are included in other non-current assets until we finalize our purchase accounting. See Note 12.

Note 6. Stockholders' Equity

Repurchases of Class A Common Stock

Repurchases of our Class A 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 October 22, 2018, our Board of Directors approved an additional $250 million repurchase authorization of our Class A common stock, increasing our total share repurchase authorization to $500 million. Share repurchases under this authorization were as follows:

	Repurchases Occurring in 2021		**Cumulative Repurchases as of March 31, 2021**	
	Shares	**Average Price**	**Shares**	**Average Price**
Share Repurchase Authorization	—	$ —	3,719,048	$ 84.02

As of March 31, 2021, we had $187.5 million available for repurchases pursuant to our share repurchase authorization.

In addition, during 2021, we repurchased 54,218 shares at an average price of $292.86 per share, for a total of $15.9 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 Class A 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 March 31, 2021, no amounts have been issued in relation to the ATM Equity Offering Sales Agreement.

Note 7. 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 asset (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 months ended March 31, 2021, we recognized a $0.3 million unrealized investment loss related to Shift, which was recorded as a component of Other income, net. No amounts were recognized for the three months ended March 31, 2020.

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 March 31, 2021, our real estate mortgages and other debt, which includes capital leases, had maturity dates between May 1, 2021, and July 1, 2038.

We have derivative instruments consisting of interest rate collars. The fair value of derivative liabilities is 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 11 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 three-month period ended March 31, 2021.

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

Fair Value at March 31, 2021	Level 1	Level 2	Level 3
Measured on a recurring basis:			
Investments	$ 98.5	$ 8.5	$ —

Fair Value at December 31, 2020	Level 1	Level 2	Level 3
Measured on a recurring basis:			
Investments	$ 97.9	$ 9.4	$ —

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

Fair Value at March 31, 2021	Level 1	Level 2	Level 3
Measured on a recurring basis:			
Derivative asset	$ —	$ 1.2	$ —
Derivative liability	—	7.3	—

Fair Value at December 31, 2020	Level 1	Level 2	Level 3
Measured on a recurring basis:			
Derivative asset	$ —	$ 0.5	$ —
Derivative liability	—	9.0	—

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)	March 31, 2021	December 31, 2020
Carrying value		
5.250% Senior notes due 2025	$ 300.0	$ 300.0
4.625% Senior notes due 2027	400.0	400.0
4.375% Senior notes due 2031	550.0	550.0
Real estate mortgages and other debt	708.3	714.8
	$ 1,958.3	$ 1,964.8
Fair value		
5.250% Senior notes due 2025	$ 311.3	$ 311.6
4.625% Senior notes due 2027	415.5	425.0
4.375% Senior notes due 2031	567.2	589.9
Real estate mortgages and other debt	703.6	713.2
	$ 1,997.6	$ 2,039.7

Note 8. Net Income Per Share of Class A and Class B Common Stock

We compute net income per share of Class A and Class B common stock 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.

Except with respect to voting and transfer rights, the rights of the holders of our Class A and Class B common stock are identical. Under our Articles of Incorporation, the Class A and Class B common stock share 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 are 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 March 31,	**2021**		**2020**	
(in millions, except per share amounts)	**Class A**	**Class B**	**Class A**	**Class B**
Net income applicable to common stockholders - basic	$ 155.8	$ 0.4	$ 45.0	$ 1.2
Reallocation of net income due to conversion of class B to class A common shares outstanding	—	—	0.2	—
Conversion of class B common shares into class A common shares	0.4	—	1.0	—
Net income applicable to common stockholders - diluted	$ 156.2	$ 0.4	$ 46.2	$ 1.2
Weighted average common shares outstanding – basic	26.6	0.1	22.7	0.6
Conversion of class B common shares into class A common shares	0.1	—	0.6	—
Effect of employee stock purchases and restricted stock units on weighted average common shares	0.2	—	0.2	—
Weighted average common shares outstanding – diluted	26.9	0.1	23.5	0.6
Net income per common share - basic	$ 5.86	$ 5.86	$ 1.99	$ 1.99
Net income per common share - diluted	$ 5.81	$ 5.81	$ 1.97	$ 1.97

The effect of antidilutive securities on Class A and Class B common stock was evaluated for the three-month periods ended March 31, 2021, and 2020 and was determined to be immaterial.

Note 9. 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 Chrysler, General Motors and Ford. Our Import segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Honda, Toyota, 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 March 31, 2021	Three Months Ended March 31, 2020
Revenues:		
Domestic		
New vehicle retail	$ 614.6	$ 470.6
Used vehicle retail	462.2	327.7
Used vehicle wholesale	36.2	26.1
Finance and insurance	58.6	45.1
Service, body and parts	120.8	117.2
Fleet and other	17.6	13.7
	1,310.0	1,000.4
Import		
New vehicle retail	968.1	600.3
Used vehicle retail	562.1	354.8
Used vehicle wholesale	58.3	26.1
Finance and insurance	105.5	58.1
Service, body and parts	156.7	124.8
Fleet and other	14.1	11.8
	1,864.8	1,175.9
Luxury		
New vehicle retail	614.1	301.0
Used vehicle retail	331.2	191.1
Used vehicle wholesale	39.8	14.2
Finance and insurance	36.9	16.9
Service, body and parts	121.7	83.4
Fleet and other	27.8	11.5
	1,171.5	618.1
	4,346.3	2,794.4
Corporate and other	(3.3)	9.4
	$ 4,343.0	$ 2,803.8
Segment income[1]:		
Domestic	$ 73.9	$ 27.8
Import	101.5	24.7
Luxury	44.1	1.6
Total segment income for reportable segments	$ 219.5	$ 54.1

[1]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 March 31, 2021	Three Months Ended March 31, 2020
Total segment income for reportable segments	$ 219.5	$ 54.1
Corporate and other	38.8	46.8
Depreciation and amortization	(26.8)	(22.0)
Other interest expense	(23.5)	(17.0)
Other income, net	3.4	2.3
Income before income taxes	$ 211.4	$ 64.2

Total assets by reportable segments is as follows:

(in millions)	March 31, 2021	December 31, 2020
Total assets:		
Domestic	$ 1,238.0	$ 1,262.4
Import	1,680.2	1,654.7
Luxury	1,091.7	1,132.4
Corporate and other	4,241.8	3,852.6
	$ 8,251.6	$ 7,902.1

Note 10. 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 24 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. The valuations related to leases entered into as part of certain 2020 acquisitions are still preliminary. 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 11. 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 loss (AOCI) in stockholders' 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 5-year, zero-cost interest rate collar, with an aggregate notional amount of $300 million, effective June 1,

2019. This instrument hedges interest rate risk related to a portion of our $1.5 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	Total
Balance as of December 31, 2019	$ (0.1)	$ (0.9)	$ (1.0)
Loss recorded from interest rate collar	(1.8)	(5.1)	(6.9)
Balance as of March 31, 2020	(1.9)	(6.0)	(7.9)
Amounts reclassified from AOCI to floorplan interest expense	0.4	—	0.4
Loss recorded from interest rate collar	(1.0)	(1.3)	(2.3)
Balance as of June 30, 2020	(2.5)	(7.3)	(9.8)
Amounts reclassified from AOCI to floorplan interest expense	0.7	—	0.7
Loss recorded from interest rate collar	(0.7)	0.6	(0.1)
Balance as of September 30, 2020	(2.5)	(6.7)	(9.2)
Amounts reclassified from AOCI to floorplan interest expense	0.7	—	0.7
Loss recorded from interest rate collar	(0.8)	0.7	(0.1)
Balance as of December 31, 2020	(2.6)	(6.0)	(8.6)
Amounts reclassified from AOCI to floorplan interest expense	0.7	—	0.7
Gain recorded from interest rate collar	(0.6)	2.5	1.9
Balance as of March 31, 2021	$ (2.5)	$ (3.5)	$ (6.0)

As of March 31, 2021, the amount of net losses we expect to reclassify from AOCI into interest expense in earnings within the next twelve months is $2.7 million. However, the actual amount reclassified could vary due to future changes in the fair value of these derivatives.

In 2020, we entered into two other, immaterial and offsetting, derivative arrangements that do not qualify for hedge accounting. These are both related to a securitization facility, effective October 2, 2020. We both purchased and sold offsetting interest rate caps, both of which have a 5-year term with notional amounts of $60 million. As of March 31, 2021, the balance on both agreements was an offsetting $1.2 million. The amounts for these arrangements are located in other current assets and accrued liabilities, respectively.

See Note 7 for information on the fair value of the derivative contracts.

Note 12. Acquisitions

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

- In February 2021, Chrysler Jeep Dodge Ram of Sanford and Orlando Land Rover in Florida.
- In March 2021, Fink Auto Group in Florida.
- In March 2021, Avondale Nissan in Arizona.

Revenue and operating income contributed by the 2021 acquisitions subsequent to the date of acquisition were as follows (in millions):

Three Months Ended March 31,	2021
Revenue	$ 71.3
Operating income	3.8

In the first three months of 2020, we completed the following acquisition:

- In February 2020, Sacramento Lexus and Roseville Lexus in California.

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 2021 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	$ 383.5

(in millions)	Assets Acquired and Liabilities Assumed
Inventories, net	$ 88.0
Property and equipment, net	3.0
Other non-current assets	292.8
Other long-term liabilities	(0.3)
	$ 383.5

The purchase price allocations for the acquisitions from the second quarter of 2020 through the first quarter of 2021 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 2021 to be deductible for federal income tax purposes.

In the three-month period ended March 31, 2021, we recorded $1.3 million in acquisition-related expenses as a component of selling, general and administrative expense. Comparatively, we recorded $0.5 million of acquisition-related expenses in 2020.

The following unaudited pro forma summary presents consolidated information as if all acquisitions in the three-month periods ended March 31, 2021 and 2020, had occurred on January 1, 2020:

	Three Months Ended March 31,	
(in millions, except per share amounts)	2021	2020
Revenue	$ 4,463.0	$ 2,948.2
Net income	160.4	49.6
Basic net income per share	6.02	2.13
Diluted net income per share	5.97	2.12

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 13. Recent Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2019-12, "Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes." The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. We adopted the new guidance in the first quarter of 2021. The adoption of the guidance did not have a material impact on our consolidated financial statements.

In October 2020, the FASB issued ASU 2020-10, "Codification Improvements." The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. We adopted the new guidance in the first quarter of 2021. The adoption of the guidance did not have a material impact on our consolidated financial statements.

Note 14. Subsequent Events

Real Estate-Backed Revolving Credit Facility
On April 12, 2021, we entered into a credit agreement (Credit Agreement) with Ally Bank (Ally Capital in Hawaii, Mississippi, Montana and New Jersey), as lender. The Credit Agreement matures in April 2023.

The Credit Agreement provides for a revolving line of credit facility of up to $300.0 million (Real Estate-Backed Credit Facility) and is secured by real estate owned by us.

The Real Estate-Backed Credit Facility will bear interest at a rate per annum equal to (1) the greater of (i) 3.00% or (ii) the prime rate designated by Ally Bank, minus (2) 25 basis points.

The Real Estate-Backed Credit Facility includes financial and restrictive covenants typical of such agreements, lending conditions, and representations and warranties. Financial covenants, including the requirements to maintain minimum current and fixed charge coverage ratios, and a maximum leverage ratio, are the same as the requirements under our existing syndicated credit facility with U.S. Bank National Association. The covenants restrict us from disposing of assets and granting additional security interests.

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 vehicle sales levels;
- Anticipated impacts of the continued COVID-19 pandemic on the U.S and local economies in which we operate, our business operations and consumer demand;
- Continuation of our sales and services, including in-store appointments and home deliveries;
- Expectations regarding our inventory levels and manufacturer and lender incentives;
- Expected growth from our e-commerce home solutions and digital strategies;
- 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 all projections;
- Anticipated integration, success and growth of acquired stores;
- Anticipated ability to capture additional market share;
- Anticipated ability to find accretive acquisitions;
- Expected revenues from acquired stores;
- Anticipated synergies, ability to monetize our investment in digital innovation;
- Anticipated additions of dealership locations to our portfolio in the future;
- Anticipated financial condition and liquidity, including from our cash, availability on our credit facility and unfinanced real estate;
- Anticipated use of proceeds from our financings;
- Anticipated allocations, uses and levels of capital expenditures in the future;
- Expectations regarding compliance with financial and restrictive covenants in our credit facility and other debt agreements;
- Statements regarding furloughed employees and cost reductions;
- Our strategies for customer retention, growth, market position, financial results and risk management; and
- Expectations regarding programs and initiatives for employee recruitment, training and retention.

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 2020 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 Motors & Driveway is a growth company powered by people and innovation with a long-term plan to profitably consolidate the largest retail sector in our country. As a leading provider of personal transportation solutions, reaching 100% of the United States, we are among the fastest growing companies in the Fortune 500 (#6 on 10-year EPS Growth and #4 on 10-Year TSR in 2020). As of March 31, 2021, we operated 216 locations representing 33 brands in 22 states. We strive to achieve operational excellence by focusing the business on convenient and transparent consumer experiences supported by proprietary data science to increase market share and profitability.

We offer a wide array of products and services fulfilling the entire vehicle ownership lifecycle including new and used vehicles, finance 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 will continue to pragmatically disrupt the industry by leveraging our experienced teams, vast selection of owned inventories, technology and nationwide network. We seek to provide customers a seamless experience across online and physical offerings, broad selection and access to specialized expertise and knowledge. Our physical logistics network enables us to provide convenient touch points for customers and provide services throughout the entire ownership life cycle. This unique growth model generates significant cash flows, which fund innovation and the expansion of our nationwide network, creating personal transportation solutions wherever, whenever and however consumers desire.

Our long-term strategy and value creation for our customers, employees and shareholders remains consistent with the following elements:

Driving operational excellence, innovation and diversification
We remain focused on improving performance through increasing market share and profitability at each of our locations. By promoting an entrepreneurial model, we build strong businesses responsive to each of our local markets. Utilizing performance-based action plans, we strive to increase market share, drive operational performance, 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. Our investments in modernization are well under way and are taking hold with our teams as they provide digital shopping experiences, contactless test drives and home delivery or curbside pickup for vehicle purchases. Our people and these engines will be powering our future national brands overlaying our physical footprint to attract 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 acquisition and network optimization
Our disciplined approach focuses on acquiring new vehicle franchises, which operate in markets ranging from mid-sized regional markets to metropolitan markets. Acquisition of these businesses increases our proximity to the consumer throughout the United States. 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. In addition to being financially accretive, our acquisitions aim to drive network growth that improves our ability to serve customers through wider selection, greater density and access to customers and ability to leverage national branding and advertising. 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 of our free cash flows generated continues to target a 65% investment in acquisitions, 25% investment in capital expenditures, modernization 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 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:

	Three Months Ended March 31,		
($ in millions)	**2021**	**2020**	**Change**
Revenues			
New vehicle retail	$ 2,193.2	$ 1,373.5	59.7 %
Used vehicle retail	1,352.2	874.4	54.6
Finance and insurance	198.4	121.9	62.8
Service, body and parts	404.0	329.9	22.5
Total Revenues	4,343.0	2,803.8	54.9
Gross profit			
New vehicle retail	$ 156.7	$ 78.2	100.4 %
Used vehicle retail	136.2	90.0	51.3
Finance and insurance	198.4	121.9	62.8
Service, body and parts	218.2	168.1	29.8
Total Gross Profit	715.5	460.9	55.2
Gross profit margins			
New vehicle retail	7.1 %	5.7 %	140 bps
Used vehicle retail	10.1	10.3	(20)
Finance and insurance	100.0	100.0	—
Service, body and parts	54.0	51.0	300
Total Gross Profit Margin	16.5	16.4	10
Retail units sold			
New vehicles	53,864	35,907	50.0 %
Used vehicles	59,027	42,631	38.5
Average selling price per retail unit			
New vehicles	$ 40,718	$ 38,252	6.4 %
Used vehicles	22,907	20,510	11.7
Average gross profit per retail unit			
New vehicles	$ 2,910	$ 2,178	33.6 %
Used vehicles	2,307	2,110	9.3
Finance and insurance	1,757	1,552	13.2
Total vehicle[1]	4,392	3,701	18.7

[1] Includes the sales and gross profit related to new, used retail, used wholesale and finance and insurance and unit sales for new and used retail

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 February 2020 would be included in same store operating data beginning in March 2021, after its first full complete comparable month of operation. The first quarter operating results for the same store comparisons would include results for that store in only the month of March for both comparable periods.

	Three Months Ended March 31,		
($ in millions)	**2021**	**2020**	**Change**
Revenues			
New vehicle retail	$ 1,735.2	$ 1,341.2	29.4 %
Used vehicle retail	1,128.0	854.6	32.0
Finance and insurance	155.0	119.5	29.7
Service, body and parts	317.3	320.5	(1.0)
Total Revenues	3,492.3	2,737.4	27.6
Gross profit			
New vehicle retail	$ 127.5	$ 76.8	66.0 %
Used vehicle retail	120.7	88.8	35.9
Finance and insurance	155.0	119.5	29.7
Service, body and parts	169.5	163.3	3.8
Total Gross Profit	577.3	451.4	27.9
Gross profit margins			
New vehicle retail	7.4 %	5.7 %	170 bps
Used vehicle retail	10.7	10.4	30
Finance and insurance	100.0	100.0	—
Service, body and parts	53.4	51.0	240
Total Gross Profit Margin	16.5	16.5	—
Retail units sold			
New vehicles	42,816	35,098	22.0 %
Used vehicles	49,764	41,676	19.4
Average selling price per retail unit			
New vehicles	$ 40,527	$ 38,214	6.1 %
Used vehicles	22,666	20,505	10.5
Average gross profit per retail unit			
New vehicles	$ 2,979	$ 2,188	36.2 %
Used vehicles	2,426	2,131	13.8
Finance and insurance	1,674	1,557	7.5
Total vehicle[1]	4,388	3,724	17.8

[1] Includes the sales and gross profit related to new, used retail, used wholesale and finance and insurance and unit sales for new and used retail

During the three months ended March 31, 2021, we had net income of $156.2 million, or $5.81 per share on a diluted basis, compared to net income of $46.2 million, or $1.97 per share on a diluted basis, during the same period of 2020.

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 increased 29.4% for the three-month period ended March 31, 2021 compared to the same period in 2020. This was due to an increase in unit volume of 22.0% and an increase in average selling prices of 6.1%, in the three-month period ended March 31, 2021 compared to the same period of 2020. Our leaders in each market continue to adapt to changing conditions, respond to customer needs and manage inventory availability and selection.

At the end of the first quarter of 2020, sales were significantly impacted by shelter in place policies and restrictions enacted by various states, counties and local governments in response to the COVID-19 pandemic. In particular, we experienced declines, on average, of approximately 50% in new and used vehicle sales beginning mid-March 2020. For the three-month period ended March 31, 2020, same store new vehicle revenue decreased 10.3% compared to the same period in 2019.

Same store new vehicle gross profit per unit increased 36.2%, increasing new vehicle gross profit margins 170 bps in the three-month period ended March 31, 2021 compared to the same period of 2020.

Total same store new vehicle gross profit per unit, which includes the finance and insurance revenue generated from the sales of new vehicles, increased $897 to $4,778 for the three-month period ended March 31, 2021 compared to the same period of 2020.

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 over ten years old. During the three months ended March 31, 2021, our stores sold an average of 83 used vehicles per store per month, compared to 78 used vehicles per store per month for the same period of 2020.

Used vehicle revenue for the three-month period ended March 31, 2021 increased 54.6% compared to the same period of 2020. On a same store basis, used vehicle sales for the three-month period ended March 31, 2021 increased 32.0% as compared to the same period of 2020, driven by an increase in our core vehicle category of 37.7%. Our core vehicle category had growth in unit sales of 26.3%, with improvements in average selling price per vehicle of 9.0%. Our CPO and value auto vehicle categories also had increases in unit sales of 13.9% and 7.5%, respectively, for the three-month period ended March 31, 2021, as compared to the same period of 2020. We continue to focus on procuring vehicles across the full spectrum of the addressable used vehicle market to provide customers with a wider selection, driving increased used vehicle unit volumes.

Similar to new vehicles, volumes for the last 15 days of the first quarter of 2020 were impacted by the shelter in place policies and restrictions enacted at that time, resulting in an increase in same store used vehicle revenue of 3.4% for the three-months ended March 31, 2020, compared to the same period in 2019.

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, increased $421 to $3,994 for the three-month period ended March 31, 2021, as compared to the same period of 2020.

Finance and Insurance

We believe that arranging timely 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.

The 62.8% increase in finance and insurance revenue for the three-month period ended March 31, 2021, compared to the same period of 2020, overcame the 0.4% decrease experienced in the same period of 2020 compared to 2019. Same store finance and insurance revenues increased 29.7% for the three-month period ended March 31, 2021 compared to the same period of 2020. On a same store basis, our finance and insurance revenue per retail unit increased $117 to $1,674 in the three-month period ended March 31, 2021 compared to the same period of 2020, primarily due to an increase in service contract revenue per unit.

Service, body and parts

We provide service, body and parts for the new vehicle brands sold by our stores, as well as service and repairs for most other makes and models. Our parts and service operations are an integral part of our customer retention and the largest contributor to our overall profitability. Earnings from service, body and parts 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 22.5% in the three-month period ended March 31, 2021, compared to the same period of 2020. The increase was driven by increases in customer pay revenues, offset by decreases in warrant, parts wholesale, and body shop 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-month period ended March 31, 2021, the largest contribution to our service, body and parts revenue was same store customer pay revenue of $182.8 million.

Same store service, body and parts gross profit increased 3.8% in the three-month period ended March 31, 2021 compared to the same period of 2020. The increase was primarily due to increased volume of customer pay transactions and increased gross margin in all areas. Overall same store service, body, and parts gross margins increased 240 bps in the three-month period ended March 31, 2021 compared to the same period of 2020, 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 230 bps in the three-month period ended March 31, 2021 compared to the same period of 2020.

Segments

Certain financial information by segment is as follows:

(in millions)	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Increase (Decrease)	% Increase
Revenues:				
Domestic	$ 1,310.0	$ 1,000.4	$ 309.6	30.9 %
Import	1,864.8	1,175.9	688.9	58.6
Luxury	1,171.5	618.1	553.4	89.5
	4,346.3	2,794.4	1,551.9	55.5
Corporate and other	(3.3)	9.4	(12.7)	NM
	$ 4,343.0	$ 2,803.8	$ 1,539.2	54.9 %

NM - not meaningful

(in millions)	Three Months Ended March 31, 2021	2020	Increase (Decrease)	% Increase (Decrease)
Segment income[1]**:**				
Domestic	$ 73.9	$ 27.8	$ 46.1	165.8 %
Import	101.5	24.7	76.8	310.9
Luxury	44.1	1.6	42.5	2,656.3
	219.5	54.1	165.4	305.7
Corporate and other	38.8	46.8	(8.0)	(17.1)
	$ 258.3	$ 100.9	$ 157.4	156.0

[1]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 9 of the Condensed Notes to the Consolidated Financial Statements for additional information.

	Three Months Ended March 31, 2021	2020	Increase	% Increase
Retail new vehicle unit sales:				
Domestic	13,065	10,626	2,439	23.0 %
Import	30,454	19,842	10,612	53.5
Luxury	10,495	5,491	5,004	91.1
	54,014	35,959	18,055	50.2
Allocated to management	(150)	(52)	98	NM
	53,864	35,907	17,957	50.0 %

NM – Not meaningful

Domestic

A summary of financial information for our Domestic segment follows:

($ in millions)	Three Months Ended March 31, 2021	2020	Increase	% Increase
Revenue:				
New vehicle retail	$ 614.6	$ 470.6	$ 144.0	30.6 %
Used vehicle retail	462.2	327.7	134.5	41.0
Used vehicle wholesale	36.2	26.1	10.1	38.7
Finance and insurance	58.6	45.1	13.5	29.9
Service, body and parts	120.8	117.2	3.6	3.1
Fleet and other	17.6	13.7	3.9	NM
	$ 1,310.0	$ 1,000.4	$ 309.6	30.9 %
Segment income	$ 73.9	$ 27.8	$ 46.1	165.8 %
Retail new vehicle unit sales	13,065	10,626	2,439	23.0 %

NM - not meaningful

Our Domestic segment revenue increased 30.9% in the three-month period ended March 31, 2021 compared to the same period of 2020, driven by increases across all business lines.

Our Domestic segment income increased 165.8% in the three-month period ended March 31, 2021 compared to the same period of 2020, due to gross profit growth of 34.9% and a decrease in floor plan interest expense of 46.4% Total Domestic SG&A as a percentage of gross profit decreased from 75.7% to 63.4% for the three-month period ended March 31, 2021, compared to the same period of 2020. The decrease for the three-month period ended March 31, 2021 was primarily driven by increased gross profit without proportional increases in all SG&A costs. Floor plan interest expense for Domestic stores decreased due to lower interest rates and lower inventory levels for the three-month period ended March 31, 2021, compared to the same period of 2020.

Import

A summary of financial information for our Import segment follows:

($ in millions)	Three Months Ended March 31, 2021		2020		Increase	% Increase
Revenue:						
New vehicle retail	$	968.1	$	600.3	$ 367.8	61.3 %
Used vehicle retail		562.1		354.8	207.3	58.4
Used vehicle wholesale		58.3		26.1	32.2	123.4
Finance and insurance		105.5		58.1	47.4	81.6
Service, body and parts		156.7		124.8	31.9	25.6
Fleet and other		14.1		11.8	2.3	NM
	$	1,864.8	$	1,175.9	$ 688.9	58.6 %
Segment income	$	101.5	$	24.7	$ 76.8	310.9 %
Retail new vehicle unit sales		30,454		19,842	10,612	53.5 %

NM - not meaningful

Our Import segment revenue increased 58.6% in the three-month period ended March 31, 2021 compared to the same period of 2020, driven by increases in all business lines.

Our Import segment income increased 310.9% in the three-month period ended March 31, 2021 compared to the same period of 2020, due to gross profit growth of 62.0% and a decrease in floor plan interest expense of 14.1%. Total Import SG&A as a percentage of gross profit decreased from 82.7% to 66.2% for the three-month period ended March 31, 2021 compared to the same period of 2020. The decrease for the three-month period ended March 31, 2021 was primarily driven by increased gross profit without proportional increases in all SG&A costs. Floor plan interest expense for Import stores decreased due to lower interest rates and lower inventory levels for the three-month period ended March 31, 2021 compared to the same period of 2020.

Luxury

A summary of financial information for our Luxury segment follows:

($ in millions)	Three Months Ended March 31, 2021		2020		Increase	% Increase
Revenue:						
New vehicle retail	$	614.1	$	301.0	$ 313.1	104.0 %
Used vehicle retail		331.2		191.1	140.1	73.3
Used vehicle wholesale		39.8		14.2	25.6	180.3
Finance and insurance		36.9		16.9	20.0	118.3
Service, body and parts		121.7		83.4	38.3	45.9
Fleet and other		27.8		11.5	16.3	NM
	$	1,171.5	$	618.1	$ 553.4	89.5 %
Segment income	$	44.1	$	1.6	$ 42.5	2,656.3 %
Retail new vehicle unit sales		10,495		5,491	5,004	91.1 %

NM - not meaningful

Our Luxury segment revenue increased 89.5% in the three-month period ended March 31, 2021 compared to the same period of 2020, driven by increases in all business lines.

Our Luxury segment income increased 2,656.3% for the three-month period ended March 31, 2021 compared to the same period of 2020, due to gross profit growth of 84.2% and a decrease in floor plan interest expense of 16.7%. Total Luxury SG&A as a percentage of gross profit decreased from 90.5% to 70.7% for the three-month period ended March 31, 2021 compared to the same period of 2020. The decrease for the three-month period ended March 31, 2021 was primarily driven by increased gross profit without proportional increases in all SG&A costs. Floor plan interest expense for Luxury stores decreased due to lower interest rates and lower inventory levels for the three-month period ended March 31, 2021, compared to the same period of 2020.

Corporate and Other

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

(in millions)	Three Months Ended March 31, 2021	2020	Decrease	% Decrease
Revenue, net	$ (3.3)	$ 9.4	$ (12.7)	NM
Segment income	$ 38.8	$ 46.8	$ (8.0)	(17.1) %

NM - not meaningful

The decrease in Corporate and other revenue in the three-month period ended March 31, 2021 compared to the same period of 2020 was primarily related to 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 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 decreased $8.0 million for the three-month period ended March 31, 2021 compared to the same period of 2020, primarily due to decreases in internal floor plan financing charges received from dealerships and increases in internal finance reserve paid to dealerships.

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 March 31, 2021	2020	Increase	% Increase
Personnel	$ 314.0	$ 228.5	$ 85.5	37.4 %
Advertising	29.5	27.6	1.9	6.9
Rent	11.3	10.2	1.1	10.8
Facility costs[1]	24.2	20.1	4.1	20.4
Loss on sale of assets	1.0	0.1	0.9	NM
Other	70.4	59.5	10.9	18.3
Total SG&A	$ 450.4	$ 346.0	$ 104.4	30.2 %

[1] 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 March 31, 2021	2020	Increase (Decrease)
Personnel	43.9 %	49.6 %	(570) bps
Advertising	4.1	6.0	(190)
Rent	1.6	2.2	(60)
Facility costs	3.4	4.4	(100)
Loss on sale of assets	0.1	—	10
Other	9.8	12.9	(310)
Total SG&A	62.9 %	75.1 %	(1,220) bps

SG&A as a percentage of gross profit was 62.9% for the three-month period ended March 31, 2021 compared to 75.1% for the same period of 2020. SG&A expense increased 30.2% in the three-month period ended March 31, 2021 compared to the same period of 2020. Overall, SG&A expense increased primarily due to increased personnel costs with the remainder of costs seeing minimal increases in the three-month period ended March 31, 2021 compared to the same period of 2020. Our performance-based culture is geared towards an incentive-based compensation structure for the majority of personnel. This approach allows us to maintain a responsive cost structure in relation to fluctuations in vehicle sales and service volumes and general economic conditions.

On a same store basis and excluding non-core charges, SG&A as a percentage of gross profit was 64.0% for the three-month period ended March 31, 2021 compared to 73.9% for the same period of 2020. The decrease for the three-month period ended March 31, 2021 was primarily related to increased gross profit without proportionate increases in SG&A costs.

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

(in millions)	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Increase	% Increase
Personnel	$ 314.0	$ 228.5	$ 85.5	37.4 %
Advertising	29.5	27.6	1.9	6.9 %
Rent	11.3	10.2	1.1	10.8 %
Facility costs[1]	24.2	20.1	4.1	20.4 %
Adjusted loss on sale of assets	0.3	0.2	0.1	NM
Adjusted other	68.3	58.2	10.1	17.4 %
Adjusted total SG&A	$ 447.6	$ 344.8	$ 102.8	29.8 %

[1] 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 March 31, 2021	Three Months Ended March 31, 2020	Decrease
Personnel	43.9 %	49.6 %	(570)bps
Advertising	4.1	6.0	(190)
Rent	1.6	2.2	(60)
Facility costs	3.4	4.4	(100)
Adjusted loss on sale of assets	—	—	—
Adjusted other	9.6	12.6	(300)
Adjusted total SG&A	62.6 %	74.8 %	(1,220)bps

Adjusted SG&A for the three-month period ended March 31, 2021 excludes $0.8 million in storm insurance reserve charges, $1.3 million in acquisition-related expenses, and a $0.7 million net loss on store disposals.

Adjusted SG&A for the three-month period ended March 31, 2020 excludes $0.8 million in storm insurance reserve charges, $0.5 million in acquisition-related expenses, and a $0.1 million net gain 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 March 31, 2021	Three Months Ended March 31, 2020	Increase	% Increase
Depreciation and amortization	$ 26.8	$ 22.0	$ 4.8	21.8 %

Acquisition activity contributed to the increase in depreciation and amortization in 2021 compared to 2020. We acquired approximately $177 million of depreciable property as part of our 2020 acquisitions. For the three-months ended March 31, 2021, we invested $50.0 million in capital expenditures. These investments increased the amount of depreciation expense in the three-month period ended March 31, 2021. 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 March 31,	
	2021	2020
Operating margin	5.5 %	3.3 %
Operating margin adjusted for non-core charges [1]	5.6 %	3.4 %

[1] See "Non-GAAP Reconciliations" for more details.

Operating margin increased 220 bps in the three-month period ended March 31, 2021 compared to the same period in 2020. The increase in operating margin for the three-month period ended March 31, 2021 was primarily due to increased gross profit of 55.2%, with an offsetting increase to SG&A of only 30.2% compared to the same period in 2020.

Floor Plan Interest Expense and Floor Plan Assistance

	Three Months Ended March 31,		
(in millions)	2021	2020	% Change
Floor plan interest expense (new vehicles)	$ 6.8	$ 14.0	(51.4)%

Floor plan interest expense decreased $7.2 million in the three-month period ended March 31, 2021 compared to the same period of 2020. The 51.4% decrease in floor plan interest expense for the three-month period ended March 31, 2021, compared to the same period in 2020, includes a decrease of 25.8% related to decreased same store inventory levels; a 4.6% increase related to acquisition volume; and a 30.2% decrease related to decreased LIBOR rates as compared to the same period of 2020.

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.

	Three Months Ended March 31,			%
(in millions)	2021	2020	Change	Change
Floor plan interest expense (new vehicles)	$ 6.8	$ 14.0	$ (7.2)	(51.4)%
Floor plan assistance (included as an offset to cost of sales)	(24.8)	(14.9)	(9.9)	66.4
Net new vehicle carrying costs	$ (18.0)	$ (0.9)	$ (17.1)	NM

NM - Not meaningful

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

	Three Months Ended March 31,			
(in millions)	2021	2020	Increase	% Increase
Mortgage interest	$ 6.8	$ 6.6	$ 0.2	3.0 %
Other interest	17.1	10.8	6.3	58.3
Capitalized interest	(0.4)	(0.4)	—	NM
Total other interest expense	$ 23.5	$ 17.0	$ 6.5	38.2 %

NM - not meaningful

Other interest expense for the three-month period ended March 31, 2021 increased $6.5 million, primarily related to the additional interest expense associated with the senior notes issued in 2020.

Income Tax Provision
Our effective income tax rate was as follows:

	Three Months Ended March 31,	
	2021	**2020**
Effective income tax rate	26.1 %	28.0 %
Effective income tax rate excluding other non-core items	26.1 %	28.0 %

Our effective income tax rate for the three month period ended March 31, 2021 was positively affected by excess tax benefits on stock awards vesting in the current period and a reduction in our current state effective tax rate due to changing state mix. Additionally, our effective income tax rate was favorably affected by an increase in forecasted pre-tax income. We estimate our annual effective income tax rate, excluding non-core charges, to be 27.5%.

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.

	Three Months Ended March 31, 2021					
(in millions, except per share amounts)	**As reported**	**Net disposal loss on sale of stores**	**Investment loss**	**Insurance reserves**	**Acquisition expenses**	**Adjusted**
Selling, general and administrative	$ 450.4	$ (0.7)	$ —	$ (0.8)	$ (1.3)	$ 447.6
Operating income	238.3	0.7	—	0.8	1.3	241.1
Other income, net	3.4	—	0.3	—	—	3.7
Income before income taxes	$ 211.4	$ 0.7	$ 0.3	$ 0.8	$ 1.3	$ 214.5
Income tax provision	(55.2)	(0.2)	(0.1)	(0.2)	(0.4)	(56.1)
Net income	$ 156.2	$ 0.5	$ 0.2	$ 0.6	$ 0.9	$ 158.4
Diluted net income per share	$ 5.81	$ 0.02	$ 0.01	$ 0.02	$ 0.03	$ 5.89
Diluted share count	26.9					

	Three Months Ended March 31, 2020				
(in millions, except per share amounts)	As reported	Net disposal gain on sale of stores	Insurance reserves	Acquisition expenses	Adjusted
Selling, general and administrative	$ 346.0	$ 0.1	$ (0.8)	$ (0.5)	$ 344.8
Operating income (loss)	92.9	(0.1)	0.8	0.5	94.1
Income (loss) before income taxes	$ 64.2	$ (0.1)	$ 0.8	$ 0.5	$ 65.4
Income tax provision	(18.0)	—	(0.2)	(0.1)	(18.3)
Net income (loss)	$ 46.2	$ (0.1)	$ 0.6	$ 0.4	$ 47.1
Diluted net income per share	$ 1.97	$ —	$ 0.02	$ 0.02	$ 2.01
Diluted share count	23.5				

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% investment in capital expenditures 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)	March 31, 2021	December 31, 2020	Change	%
Cash and cash equivalents	$ 170.3	$ 160.2	$ 10.1	6.3 %
Available credit on credit facilities	1,200.3	1,237.1	(36.8)	(3.0)
Total current available funds	$ 1,370.6	$ 1,397.3	$ (26.7)	(1.9)%

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

	Three Months Ended March 31,		Increase (Decrease)
(in millions)	2021	2020	in Cash Flow
Net cash provided by operating activities	$ 496.4	$ 121.7	$ 374.7
Net cash used in investing activities	(442.8)	(118.3)	(324.5)
Net cash used in financing activities	(43.5)	(30.8)	(12.7)

Operating Activities

Cash provided by operating activities for the three-month period ended March 31, 2021 increased $374.7 million compared to the same period of 2020, primarily related to increased net income, a decrease in inventories and an increase in borrowings on our floor plan notes payable, partially offset by an increase in accounts receivable compared to the same period of 2020.

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)	Three Months Ended March 31, 2021	2020	Increase (Decrease) in Cash Flow
Net cash provided by operating activities – as reported	$ 496.4	$ 121.7	$ 374.7
Less: Net repayments on floor plan notes payable, non-trade	(74.8)	(43.5)	(31.3)
Less: Borrowings on floor plan notes payable, non-trade associated with acquired new vehicle inventory	(69.3)	(14.1)	(55.2)
Net cash provided by operating activities – adjusted	$ 352.3	$ 64.1	$ 288.2

Investing Activities

Net cash used in investing activities totaled $442.8 million and $118.3 million, respectively, for the three-month periods ended March 31, 2021 and 2020.

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

(in millions)	Three Months Ended March 31, 2021	2020	Decrease in Cash Flow
Capital expenditures	$ (50.0)	$ (41.6)	$ (8.4)
Cash paid for acquisitions, net of cash acquired	(383.5)	(72.3)	(311.2)
Cash paid for other investments	(9.6)	(9.3)	(0.3)
Proceeds from sales of stores	0.3	4.7	(4.4)

Capital Expenditures

Below is a summary of our capital expenditure activities:

(in millions)	Three Months Ended March 31, 2021	2020
Post-acquisition capital improvements	$ 2.2	$ 14.1
Facilities for open points	0.1	0.8
Purchase of facilities for existing operations	10.3	5.9
Existing facility improvements	20.3	16.4
Maintenance	17.1	4.4
Total capital expenditures	$ 50.0	$ 41.6

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 three-month period ended March 31, 2021, compared to the same period of 2020 related primarily to higher post-acquisition capital improvements due to an increase in acquisitions in the prior year.

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:

	Three Months Ended March 31,	
	2021	2020
Number of locations acquired	8	2
(in millions)		
Cash paid for acquisitions, net of cash acquired	$ (383.5)	$ (72.3)
Less: Borrowings on floor plan notes payable: non-trade associated with acquired new vehicle inventory	69.3	14.1
Cash paid for acquisitions, net of cash acquired – adjusted	$ (314.2)	$ (58.2)

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

	Three Months Ended March 31,		Increase (Decrease)
(in millions)	2021	2020	in Cash Flow
Cash used in financing activities, as reported	$ (43.5)	$ (30.8)	$ (12.7)
Adjust: Repayments on floor plan notes payable: non-trade	74.8	43.5	31.3
Cash provided by financing activities – adjusted	$ 31.3	$ 12.7	$ 18.6

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

	Three Months Ended March 31,		Increase (Decrease)
(in millions)	2021	2020	in Cash Flow
Net borrowings on lines of credit	$ 61.0	$ 55.0	$ 6.0
Proceeds from issuance of long-term debt	—	17.2	(17.2)
Repurchases of common stock	(15.9)	(48.2)	32.3
Dividends paid	(8.2)	(7.0)	(1.2)

Equity Transactions
On October 22, 2018, our Board of Directors authorized the repurchase of up to $250 million of our Class A common stock, increasing our total share repurchase authorization to $500 million. We repurchased a total of 54,218 shares of our Class A common stock at an average price of $292.86 per share in the first three months of 2021. No shares were purchased as part of our repurchase authorization; all shares purchased were related to tax withholding on vesting RSUs. As of March 31, 2021, we had $187.5 million remaining available for repurchases and the authorization does not have an expiration date.

In the first three months of 2021, we declared and paid dividends on our Class A and Class B common stock as follows:

Dividend paid:	Dividend amount per share	Total amount of dividend (in millions)
March 2021	$ 0.31	$ 8.2

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:

	As of March 31, 2021		
(in millions)	**Outstanding**	**Remaining Available**	
Floor plan note payable: non-trade	$ 1,480.7	$ —	1
Floor plan notes payable	341.5	—	
Used and service loaner vehicle inventory financing commitments	—	455.5	2
Revolving lines of credit	100.0	744.8	2, 3
Real estate mortgages	604.7	—	
Finance lease obligations	245.0	—	
5.250% Senior notes due 2025	300.0	—	
4.625% Senior notes due 2027	400.0	—	
4.375% Senior notes due 2031	550.0	—	
Other debt	2.3	—	
Unamortized debt issuance costs	(17.7)	—	4
Total debt	$ 4,006.5	$ 1,200.3	

[1] As of March 31, 2021, we had a $2.1 billion new vehicle floor plan commitment as part of our credit facility.
[2] The amount available on the credit facility is limited based on a borrowing base calculation and fluctuates monthly.
[3] Available credit is based on the borrowing base amount effective as of February 28, 2021. This amount is reduced by $17.7 million for outstanding letters of credit.
[4] Debt issuance costs are presented on the balance sheet as a reduction from the carrying amount of the related debt liability.

Credit Facility

Our syndicated credit facility (credit facility) is comprised of 19 financial institutions, including seven manufacturer-affiliated finance companies, with a maturity date of January 2025.

We have the option to reallocate the commitments, provided that the used vehicle inventory floor plan financing commitment does not exceed 16.5% of aggregate commitments, the revolving loan commitment does not exceed 18.75% of aggregate commitments, the service loaner floor plan financing commitment does not exceed $100 million, and the sum of these commitments plus the new vehicle inventory floor plan financing commitment does not exceed the aggregate total financing commitment of $2.8 billion. Additionally, we may request an increase in the aggregate new vehicle floor plan commitment of up to $400 million provided that the aggregate commitment does not exceed $3.2 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 of one-month LIBOR plus 1.10% for new vehicle floor plan financing, one-month LIBOR plus 1.40% for used vehicle floor plan financing, 1.20% for service loaner floor plan financing and a variable interest rate on the revolving financing ranging from the one-month LIBOR plus 1.00% to 2.00% depending on our leverage ratio. The annual interest rate associated with our new vehicle floor plan commitment was 1.22% at March 31, 2021. The annual interest rate associated with our used vehicle floor plan commitment was 1.52% at March 31, 2021. The annual interest rate associated with our service loaner floor plan commitment was 1.32% at March 31, 2021. The annual interest rate associated with our revolving line of credit was 1.12% at March 31, 2021.

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 March 31, 2021
Current ratio	Not less than 1.10 to 1	1.39 to 1
Fixed charge coverage ratio	Not less than 1.20 to 1	4.84 to 1
Leverage ratio	Not more than 5.75 to 1	2.29 to 1

As of March 31, 2021, 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 March 31, 2021, $341.5 million was outstanding on these agreements at interest rates ranging up to 4.75%. Borrowings from, and repayments to, manufacturer-affiliated finance companies are classified as operating activities in the Consolidated Statements of Cash Flows.

Other Lines of Credit

Our other lines of credit include a commitment of up to $20.0 million, secured by certain assets from select Chrysler locations and a commitment of $60.0 million with Ford Motor Credit Company, secured by certain assets from all Ford locations. These other lines of credit mature in 2021 and have interest rates up to 5.55%. As of March 31, 2021, no amounts were outstanding on these other lines of credit.

On July 14, 2020, we entered into a five-year 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 $254.7 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. The facility includes financial and restrictive covenants typical of such agreements, lending conditions, and representations and warranties by us. Financial covenants include requirements to maintain minimum current and fixed charge coverage ratios, and a maximum leverage ratio, consistent with those under the our existing syndicated credit facility with U.S. Bank National Association as administrative agent. As of March 31, 2021, no amounts were outstanding on the real-estate backed facility.

On July 31, 2020, we entered into a securitization facility which provides initial commitments for borrowings of up to $150 million and matures in July 2022. As of March 31, 2021, we had $100.0 million drawn on the securitization facility, which is included as part of "Revolving lines of credit" in the "Summary of Outstanding Balances on Credit Facilities and Long-Term Debt" table above.

On April 12, 2021, we entered into a credit agreement with Ally Bank which matures in April 2023. The credit agreement provides for a revolving line of credit facility of up to $300.0 million and is secured by real estate owned by us. See Note 14 of the Condensed Notes to the Consolidated Financial Statements for additional information.

5.250% Senior Notes Due 2025
On July 24, 2017, we issued $300 million in aggregate principal amount of 5.250% senior notes due 2025 to eligible purchasers in a private placement under Rule 144A and Regulation S of the Securities Act of 1933. Interest accrues on the notes from July 24, 2017 and is payable semiannually on February 1 and August 1. We may redeem some or all of the notes subject to the redemption prices set forth in the Indenture. If we experience specific kinds of changes of control, as described in the Indenture, we must offer to repurchase the notes at 101% of their principal amount plus accrued and unpaid interest to the date of purchase.

4.625% Senior Notes Due 2027
On December 9, 2019, we issued $400 million in aggregate principal amount of 4.625% senior notes due 2027 to eligible purchasers in a private placement under Rule 144A and Regulation S of the Securities Act of 1933. Interest accrues on the notes from December 9, 2019 and is payable semiannually on June 15 and December 15. We may redeem the notes in whole or in part, on or after December 15, 2022, at the redemption prices set forth in the Indenture. Prior to December 15, 2022, we may redeem the notes, in whole or in part, at a price equal to 100% of the principal amount thereof plus a make-whole premium set forth in the Indenture. In addition, prior to December 15, 2022, we may redeem up to 40% of the notes from the proceeds of certain equity offerings. Upon certain change of control events (as set forth in the Indenture), 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.

4.375% Senior Notes Due 2031
On October 9, 2020, we issued $550 million in aggregate principal amount of 4.375% notes due 2031 to eligible purchasers in a private placement under Rule 144A and Regulation S of the Securities Act of 1933. Interest accrues on the notes from October 9, 2020 and is payable semiannually on January 15 and July 15. We may redeem the notes in whole or in part, on or after October 15, 2025, at the redemption prices set forth in the Indenture. Prior to October 15, 2025, we may redeem the notes, in whole or in part, at a price equal to 100% of the principal amount thereof plus a make-whole premium set forth in the Indenture. In addition, prior to October 15, 2025, we may redeem up to 40% of the notes from the proceeds of certain equity offerings. Upon certain change of control events (as set forth in the Indenture), 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.

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 2.2% to 5.3% at March 31, 2021. The mortgages are payable in various installments through August 1, 2038. As of March 31, 2021, we had fixed interest rates on 76.2% 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 March 31, 2021. The leases have terms extending through August 2037.

Our other debt includes sellers' notes. The interest rates associated with our other debt ranged from 4.4% to 5.3% at March 31, 2021. This debt is due in various installments through January 2031.

Recent Accounting Pronouncements

See Note 13 of the Condensed Notes to Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

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 2020 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 19, 2021.

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 2020 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on February 19, 2021.

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

There have been no material changes from the risk factors previously disclosed in our 2020 Annual Report on Form 10-K. The information in this Form 10-Q should be read in conjunction with the risk factors and information disclosed in our 2020 Annual Report on Form 10-K, which was filed with the SEC on February 19, 2021. We have described in our 2020 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 Class A common stock during the first quarter of 2021:

	Total number of shares purchased[2]	Average price paid per share	Total number of shares purchased as part of publicly announced plans[1]	Maximum dollar value of shares that may yet be purchased under publicly announced plan (in thousands)[1]
January	54,087	$ 292.67	—	$ 187,522
February	5	292.67	—	187,522
March	126	373.95	—	187,522
	54,218	$ 292.86	—	$ 187,522

[1] On October 22, 2018, our Board of Directors approved a $250 million repurchase authorization, increasing our total share repurchase authorization to $500 million. This authorization does not have an expiration date.
[2] Of the shares repurchased in the first quarter of 2021, all 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.

3.1	Restated Articles of Incorporation of Lithia Motors, Inc. (incorporated by reference to exhibit 3.1 to the Company's Form 10-Q filed July 26, 2019).
3.2	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).
10.1	Credit Agreement dated April 12, 2021, among Lithia Motors, Inc., Lithia Real Estate, Inc., and Ally Bank (Ally Capital in Hawaii, Mississippi, Montana and New Jersey) (incorporated by reference to exhibit 10.1 to the Company's Form 8-K filed April 15, 2021).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
32.1	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.
32.2	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.

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: April 29, 2021	LITHIA MOTORS, INC. Registrant	
	By:	/s/ Tina Miller
		Tina Miller Chief Financial Officer, Senior Vice President, and Principal Accounting Officer

EXHIBIT 31.1

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: April 29, 2021

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

EXHIBIT 31.2

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: April 29, 2021

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

EXHIBIT 32.1

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 March 31, 2021 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.
April 29, 2021

EXHIBIT 32.2

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 March 31, 2021 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.
April 29, 2021