Risk Factors Comparison 2024-02-16 to 2023-02-21 Form: 10-K

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Our business, financial condition, results of operations, cash flows, prospects, and the prevailing market price and performance of our common stock may be affected by a number of factors, including the matters discussed below. Certain statements and information set forth herein as well as other written or oral statements made from time to time by us or by our authorized officers on our behalf, constitute " forward- looking statements " within the meaning of the Federal Private Securities Litigation Reform Act of 1995. Words such as " anticipate, " " believe, " " estimate, " " expect, " " intend, " " may, " " goal, " " plan, " " seek, " " project, " " continue, " " will, " " would, " and variations of such words and similar expressions are intended to identify such forward- looking statements. We intend for our forward- looking statements to be covered by the safe harbor provisions for forward- looking statements contained in the Private Securities Litigation Reform Act of 1995, and we set forth this statement in order to comply with such safe harbor provisions. You should note that our forward- looking statements speak only as of the date of this Annual Report on Form 10- K or when made, and we undertake no duty or obligation to update or revise our forward- looking statements, whether as a result of new information, future events, or otherwise. Although we believe that the expectations, plans, intentions, and projections reflected in our forward- looking statements are reasonable, such statements are subject to known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward- looking statements. The material risks, uncertainties, and other factors that our stockholders and prospective investors should consider include the following: Operational Risks Macro- economic and geo- political conditions. Our performance is impacted by geo- political conditions such as the war in Ukraine and by general economic conditions overall and in particular by economic conditions in the markets in which we operate. These economic conditions include levels of new and used vehicle sales, availability of consumer credit, changes in consumer demand, consumer confidence levels, fuel prices, **demand for trucks to move freight with respect to PTS and PTG,** the rate of inflation, personal discretionary spending levels, interest rates, and unemployment rates. When the worldwide economy faltered early in 2020, we were adversely affected, and we expect a similar relationship between general economic and industry conditions and our performance in the future. Any geo- political developments that adversely affect the economies of our markets will also likely affect us. Moreover, geo- political conditions can affect the vehicle supply chain as has recently happened with the war in Ukraine. Certain vehicle manufacturers and suppliers are experiencing difficulty sourcing certain parts which is further exacerbating the supply chain difficulties resulting from the ~~COVID- 19 pandemic,~~ demand for labor ~~,~~ and the shortage of microchips and other components. Many of our market countries are experiencing a high rate of inflation. Inflation affects the price of vehicles, the price of parts, the rate of pay of our employees, the cost and availability of consumer credit, and consumer demand. Used vehicle prices in particular have experienced periods of a high rate of inflation ~~during 2022~~ **in recent years** , and continued high rates of inflation may adversely affect consumer demand and increase our costs, which may materially and adversely affect us. Similarly, periods of rapid deflation in vehicle prices may materially and adversely affect our ability to profitably sell the affected vehicles. Adverse conditions affecting one or more significant automotive manufacturers or suppliers will affect us. Our success depends on the overall success of the automotive industry generally and in particular, on the success of the brands of vehicles that each of our dealerships sell. In ~~2022~~ **2023** , revenue generated at our BMW / MINI, Audi / Volkswagen / Porsche / Bentley, Toyota / Lexus, and Mercedes- Benz / Sprinter / smart dealerships represented 26 %, ~~21~~ **22** %, ~~14~~ **13** %, and ~~10~~ **9** %, respectively **, or 70 % in aggregate** , of our total automotive dealership revenues. In addition, our retail commercial truck operations rely principally on Freightliner and Western Star trucks (both Daimler brands). Significant adverse geo- political events, weather- related events, supply chain issues, or other events that interrupt vehicle or parts supply to our dealerships would likely have a significant and adverse impact on the industry as a whole, including us, particularly if the events impact any of the manufacturers whose franchises generate a significant percentage of our revenue. COVID- 19 and the war in Ukraine have impacted and may continue to impact the supply of vehicles or parts to the U. S. or U. K. markets, and our business could be materially adversely affected. The supply chain required to manufacture and supply parts for the vehicles we sell is highly complex and integrated. Any failure of that supply chain could materially and adversely affect us. Our new vehicle days' supply is **39 as of December 31, 2023, compared to** 25 as of December 31, 2022 ~~, compared to 17 as of December 31, 2021, and 50 as of December 30, 2020~~ . While we expect to continue to have normal levels of used vehicles for sale (our used vehicle days' supply is **48 as of December 31, 2023, compared to** 53 as of December 31, 2022 ~~, compared to 60 as of December 31, 2021, and 48 as of December 31, 2020~~) ~~. The~~ **, the** lower supply of new vehicles **has** contributed to higher vehicle gross profit on new vehicles sold, which contributed to our higher overall profitability in ~~2022~~ **recent years** . While we expect increased new vehicle availability ~~in 2023~~ , continued production disruptions and supply shortages could result in suppressed new and used vehicle sales volumes which would impact the availability and affordability of new and used vehicles and may adversely affect us. ~~When~~ **As** the supply of **new** vehicles **has** ~~improves~~ **improved** , we **have experienced, and** may **continue to** experience **,** reduced new and used vehicle gross profit together with higher sales volumes. The success of our commercial vehicle distribution and other business is directly impacted by availability and demand for the vehicles and other products we distribute. We are the exclusive distributor of Western Star commercial trucks, MAN commercial trucks and buses, and Dennis Eagle refuse collection vehicles, together with associated parts, across Australia, New Zealand, and portions of the Pacific. We are also the distributor of diesel and gas engines and power systems in these same markets. The profitability of these businesses depends upon the number of vehicles, engines, power systems, and parts we distribute, which in turn is impacted by demand for these products. We believe demand is subject to general economic conditions, exchange rate fluctuations, regulatory changes, competitiveness of the products, and other factors over which we have limited control. In the event sales of these products are less than we expect, our related results of operations and cash flows for this aspect of our business may be materially adversely affected. The products we distribute are principally manufactured at a limited number of locations. In the event of a supply disruption, sufficient quantities of the vehicles, engines, power systems, and parts are not made available to us, or if we accept these products and are unable to economically distribute them, our cash flows or results of operations may be materially adversely affected. Australian economic conditions. Our commercial vehicle distribution and other operations in Australia and New Zealand may be impacted by local and regional economic conditions and in particular, the price of commodities such as copper and iron ore, which may impact the desire of our customers to operate their mining operations and replace their vehicle fleets. Adverse pricing concerns of those, and other commodities, may have a material adverse effect on our ability to distribute, and / or retail, commercial vehicles and other products profitably. These same conditions may also negatively impact the value of the Australian **and New Zealand** Dollar versus the U. S. Dollar, which negatively impacts our U. S. Dollar reported financial results and the pricing of products sold by Penske Australia, which are manufactured in the U. S., U. K., and Germany. Additional risks relating to PTS. PTS' business has additional risks to those in the retail business: Customers. PTS has a more concentrated customer base than we do and is subject to changes in the financial health of its customers, changes in their asset utilization rates, and increased competition for those customers. Workforce. PTS requires a significant number of qualified drivers and technicians, which may be difficult to hire, and is subject to increased compliance costs or work stoppages relating to those employees, particularly in regard to changes in labor laws and time of work rules regarding those employees. PTS contributes to several U. S. multi- employer pension plans that provide defined benefits to approximately 2, ~~590~~ **540** associates covered by collective bargaining agreements. If they withdraw or are deemed to withdraw from participation in any of these plans, then applicable law could require them to make withdrawal liability payments to the plan. If any of those plans were deemed to be underfunded, PTS could be subject to additional assessments, which could be substantial. Fleet risk. As one of the largest purchasers of commercial trucks in North America, PTS requires continued availability from truck manufacturers and suppliers of vehicles and parts for its fleet, which may be uncertain, in particular if a significant recall were to occur. PTS is affected by the same supply issues noted above and any failure of the supply chain resulting in limited availability of new trucks or parts may have a material adverse impact on PTS. In addition, because PTS sells a large number of trucks each year and is subject to residual risk for the vehicles it leases to customers, changes in values of used trucks affects PTS' profitability. Capital markets risk. PTS relies on banks and the capital markets to fund its operations and capital commitments. PTS ~~had~~ **has** a significant amount of total indebtedness ~~at December 31, 2022~~ , which it uses in part to purchase its vehicle fleet and therefore, is subject to changes in, and continued access to, capital markets. Regulatory Requirements ~~,~~ **and** Vehicle Mandates ~~, and Consumer Sentiment~~ . **Increasing** ~~Global, federal, state, and local legislative and regulatory~~ efforts to ~~address~~ **control emissions of carbon dioxide and certain** ~~the~~ **other** ~~effects of global warming and climate change~~ **gases, referred to as greenhouse gases (“ GHGs ”), are likely to** have ~~affected and~~ **an** ~~will likely continue to affect~~ **effect** ~~PTS' businesses and may require restrictions~~ on PTS' ~~activities~~ **(and PTG' s) business and results of operations. In particular, President Biden and Congressional leaders, as well as California, New Jersey, and other states, have expressed support** ~~or~~ **for policies limiting GHG emissions from vehicles through new regulations that** require ~~PTS~~ **moving** to ~~take certain actions, all of which may, over time, increase PTS' costs and adversely affect its business and results of operations. For instance, a regulatory mandate for the use of~~ zero- emission ~~vehicles~~ **formats and / or the implementation of more stringent emissions controls.** ~~or~~ **For** ~~ban of diesel~~ **example, original equipment manufacturers may be required to install additional engine components, additional aerodynamic features,** or ~~gasoline powered vehicles could reduce the resale value~~ **low- rolling resistance tires to comply with fuel economy regulations, which may result in higher costs associated with more complex components** and ~~demand~~ **a shorter useful tread life** for **tires, increasing operating costs for customers, suppliers, and** PTS ~~' vehicles~~ **. Additionally, the Advanced Clean Trucks rule,** as **adopted by the California Air Resources Board (" CARB") and several other states,** ~~well~~ **will require that certain truck manufacturers sell zero- emission trucks** as ~~the demand for leasing, truck rental, and~~ **an** ~~contract maintenance services and offerings~~ **increasing percentage of their annual sales** in ~~its logistics business~~ **these states from 2024 to 2035 (and likely beyond)** . Furthermore, the Advanced Clean Fleet rule, **issued** ~~currently being developed~~ by ~~the state of California~~ **CARB in April 2023** , and which may be adopted in other jurisdictions, will require certain larger fleets, including ~~the fleet of~~ PTS **'** , to purchase zero- emission trucks to comprise ~~over time~~ an increasing percentage of their fleets from 2025 to 2042. ~~In August~~ **On December 28,** ~~2021~~ **2023** , **CARB** ~~the Environmental Protection Agency~~ announced **that it would defer enforcement of the rule, which was scheduled to become effective on January 1, 2024, while its request for a waiver from the EPA to authorize the rule is pending. The EPA' s** ~~the~~ **three phase** Clean Trucks Plan ~~, which~~ includes pledges to update current ~~greenhouse gas (~~ GHG ~~) emission~~ standards to reflect market shifts to zero- emission technologies in certain segments of the heavy- duty vehicle sector and new **,** more stringent GHG emissions standards for heavy- duty engines and vehicles ~~starting~~ **beginning** as soon as model year 2027. **The EPA initiated the first phase of the Clean Trucks Plan by issuing a final rule on December 20, 2022, which focuses on reducing emissions that form smog and soot and will apply to heavy- duty engines and vehicles beginning in model year 2027. Foreign, federal, state, provincial, and local lawmakers also are considering a variety of other climate change proposals, including prohibiting the use of certain substances with high “ global warming potential. ”** These and any other future requirements could result in higher prices for vehicles, diesel engines, materials, and fuel **,** as well as higher maintenance costs and uncertainty as to reliability **and range** of the new engines. **Any of these factors** ~~A decrease in demand due to higher costs for PTS' customers to operate vehicles leased or rented from PTS~~ could ~~adversely affect its business and results of operations. In addition, increased~~ **increase** operating costs in the **transportation** industry **, which** would directly ~~and adversely~~ affect PTS' **and PTG' s** ~~logistics business in the same manner as it would affect its~~ customers ~~. Even absent any such regulations, increased awareness on the~~

~~impact of climate change~~ and ~~any adverse publicity about emissions by the transportation industries~~ could ~~accelerate the adoption of~~ **reduce demand for vehicles. The** new technology and ~~potentially decrease customer demands for some~~ **legal requirements may also affect the resale values** of **these vehicles when** PTS **or PTG attempts** ~~' services and used vehicles if consumers change their purchasing behaviors in response~~ to **sell** ~~the~~ **them in the future** ~~effects of climate change~~. Centralized Information Systems. PTS relies heavily on centralized information systems to process lease and rental transactions, manage its fleet of vehicles, account for its activities, and otherwise conduct its business. A failure of a major system, or a major disruption of communications between the system and the locations it serves, could cause a loss of reservations, interfere with PTS' ability to manage its fleet, impede real- time diagnostics of vehicles, slow leasing, rental, and sales processes, and otherwise adversely affect PTS' ability to manage its business. The COVID- 19 pandemic ~~has~~ disrupted ~~, and may continue to disrupt,~~ our business, ~~which~~ **and any future pandemic** could adversely affect **us** ~~our financial performance~~. The outbreak of the COVID- 19 pandemic across the globe has adversely impacted each of our markets and the global economy, leading to disruptions to our business. **Any future** ~~If shelter- in- place orders are re- enacted or other restrictions are placed on our business, we may be adversely impacted. The COVID- 19~~ pandemic **could** ~~remains highly fluid and continues to, among other things,~~ impact production levels from our manufacturing partners ~~and~~ **,** impose other unintended consequences, and **require us** ~~while we continue~~ to adjust our operations to conform to regulatory changes and consumer preferences in the evolving environment **. Potential** ~~, we cannot anticipate with any certainty the length, scope, or severity of the business impact from the COVID- 19~~ pandemic ~~in each of the jurisdictions that we operate. This impact~~ **impacts** could include changes in customer demand, our relationship with, and the financial and operational capacities of, vehicle manufacturers, captive finance companies and other suppliers, workforce availability, risks associated with our indebtedness (including available borrowing capacity, compliance with financial covenants, and ability to refinance or repay indebtedness on favorable terms), the adequacy of our cash flow and earnings and other conditions which may affect our liquidity, and disruptions to our technology network and other critical systems, including our dealer management systems and software or other facilities or equipment. Business disruption ~~relating to the COVID- 19~~ **as a result of a future** pandemic **could also** ~~may continue to~~ negatively impact the global economy and may materially affect our businesses as outlined above, or in other manners including global supply chain disruptions resulting in lower levels of vehicles and parts available for sale, all of which would adversely impact our business and results of operations. Strategic Risks Brand reputation. Our businesses and our commercial vehicle operations, in particular, as those are more concentrated with a particular manufacturer, are impacted by consumer demand and brand preference, including consumers' perception of the quality of those brands. A decline in the quality and brand reputation of the vehicles or other products we sell or distribute, as a result of events such as manufacturer recalls or legal proceedings, may adversely affect our business. If such events were to occur, the profitability of our business related to those manufacturers could be adversely affected. Our business is very competitive. We generally compete with other franchised dealerships in our markets, used vehicle dealerships, private market buyers and sellers of used vehicles, an increasing number of internet- based vehicle sellers, electric vehicle manufacturers that sell direct to consumers, national and local service and repair shops and parts retailers with respect to commercial vehicles, distributors of similar products, and manufacturers in certain markets. Purchase decisions by consumers when shopping for a vehicle are extremely price sensitive. The level of competition in the market can lead to lower selling prices and related profits. If there is a prolonged drop in retail prices or if new vehicle sales are allowed to be made over the internet or otherwise without the involvement of franchised dealers, our business could be materially adversely affected. Changes to the retail delivery model, including increased digital retailer competition, efforts to sell vehicles direct outside the franchise system, and transition to an ~~"~~ agency model ~~"~~ of distribution each could adversely affect our business, results of operations, financial condition, and cash flows. ~~The retail automotive industry is experiencing a period of unprecedented change and disruption in several respects:~~ Competition from online retailers. The automotive retail industry is experiencing ~~growing~~ competition in the used vehicle market from companies with a primarily online business model, including companies such as Carvana ~~, Vroom, Shift, Cazoo,~~ and others. We and the other traditional automotive retailers are implementing digital retail strategies, providing consumers with online vehicle purchasing experiences, including at- home delivery. We also continue to develop technology solutions to improve the online buying experience. We may face increased competition for market share with these non- traditional delivery models and digital retailers over time which could materially and adversely affect our results of operations. We cannot be sure that our initiatives will be successful or that the amount we invest in these initiatives will result in our maintaining or enhancing **our** market share and continued or improved financial performance. Sales outside the franchise system. In recent years, new electric vehicle manufacturers have been able to conduct new vehicle sales outside of the franchised automotive system as new entrants. While the sales levels of these new entrants ~~was~~ **were** approximately 4 **. 6** % of new vehicles in the U. S. and approximately ~~3~~ **2. 6** % of new vehicles in the U. K. for the year ended December 31, ~~2022~~ **2023** , continued market share gains by manufacturers operating outside the franchise system may materially and adversely affect us. Moreover, while we expect continued good relations with our manufacturer partners, should U. S. franchise laws be repealed or amended to allow our existing manufacturer partners to effectively operate outside the franchised system, our results of operations may be materially and adversely impacted. Our franchised automotive dealers in the U. K., European Union, and Japan operate effectively without U. S. franchise law protections. Agency. **Beginning** ~~Some of our key automotive manufacturer partners, including Audi, BMW / MINI, and Land Rover, have announced plans to explore an agency model of selling new vehicles~~ in **2023** ~~the U. K. and other European countries~~ , ~~and~~ **we transitioned our** Mercedes- Benz U. K. **dealerships** ~~has transitioned~~ to an agency model ~~with its U. K. dealers as of January 1, 2023. Under~~ **under which these** ~~an agency model, our~~ dealerships **, and a limited number of our other dealerships in Europe,** receive a fee for facilitating the sale by the manufacturer of a new vehicle but do not hold the vehicle in inventory. **Vehicles sold under this agency model are counted as new agency units sold instead of new retail units sold by us, and only the fee we receive from the manufacturer, not the price of the vehicle, is reported as new revenue (as opposed to previously recording all of the vehicle sale price as new**

revenue) with no corresponding cost of sale. We ~~will~~ continue to provide new vehicle customer service at our ~~dealerships. The~~ Mercedes- Benz U. K. **dealerships, and the Mercedes- Benz U. K.** agency model ~~is~~ **at this time has** not ~~expected to structurally change~~ **changed** our used vehicle sales operations or service and parts operations, although the **long- term** impact of the agency model **at these dealerships** ~~implemented by Mercedes- Benz U. K.~~ as well as other agency models proposed by our manufacturer partners is ~~uncertain. The agency model will reduce reported revenues (as only the fee we receive, and not the price of the vehicle, will be reported as revenue), reduce SG & A expenses, and reduce floor plan interest expense, although the other impacts to our results of operations remain~~ uncertain. We believe transition to an agency model in the U. S. would be difficult for the manufacturers in light of U. S. franchise laws. See the risk captioned" Sales outside the franchise system" above. New mobility models and vehicle electrification will continue to result in rapid changes to the automotive and trucking industries. Shared vehicle services such as Uber and Lyft provide consumers with increased choice in their personal mobility options. The effect of these and similar mobility options on the retail automotive industry is uncertain and may include lower levels of new vehicles sales but with increasing miles driven, which could require additional demand for vehicle maintenance. Most major vehicle manufacturers have announced plans to electrify some or all of their new vehicle fleets in response to concerns about the environment and due to regulatory requirements to limit vehicle emissions. We expect to continue to sell electric and hybrid gas / electric vehicles through our franchised dealerships; however, our service revenues may decline over time as these vehicles may require less physical maintenance than gas and hybrid vehicles due to the absence of certain parts systems. ~~Moreover~~ **Conversely** , ~~while~~ increasing consumer adoption of electric vehicles may present new service opportunities, including with respect to range maintenance and optimization, cooling protection, torque protection, battery replacement, and warranty on newly released models. The effects of the eventual adoption of driverless vehicles are uncertain. Technological advances are facilitating the evolution of driverless vehicles. While many manufacturers offer varying degrees of driver assistance technology, the timing of adoption of true driverless vehicles remains uncertain due to regulatory requirements, additional technological requirements, and uncertain consumer acceptance of these vehicles. The effect of driverless vehicles on the automotive retail and trucking industries is uncertain and could include changes in the level of new and used vehicles sales, the price of new and used vehicles, the levels of service required by driverless vehicles and the role of franchised dealers, any of which could materially and adversely affect our business. Key personnel. We believe that our success depends to a significant extent upon the efforts and abilities of our senior management and in particular, upon Roger Penske who is our Chair and Chief Executive Officer. To the extent Mr. Penske, or other key personnel, were to depart from our Company unexpectedly, our business could be significantly disrupted. Financial Risks Leverage. Our significant debt and other commitments expose us to a number of risks, including: Cash requirements for debt and lease obligations. A significant portion of the cash flow we generate must be used to service the interest and principal payments relating to our various financial commitments, including $ 3. ~~0~~ **8** billion of floor plan notes payable, $ 1. 6 billion of non- vehicle long- term debt, and $ 5. ~~4~~ **3** billion of future lease commitments (including extension periods that are reasonably assured of being exercised and assuming constant consumer price indices). A sustained or significant decrease in our operating cash flows could lead to an inability to meet our debt service or lease requirements or to a failure to meet specified financial and operating covenants included in certain of our agreements. If this were to occur, it may lead to a default under one or more of our commitments and potentially the acceleration of amounts due, which could have a significant and adverse effect on us. Credit Availability. Because we finance the majority of our operating and strategic initiatives using a variety of commitments, including floor plan notes payable and revolving credit facilities, we are dependent on continued availability of these sources of funds. If these agreements are terminated or we are unable to access them because of a breach of financial or operating covenants or otherwise, we will likely be materially affected. Interest rate variability. The interest rates we are charged on a substantial portion of our debt, including the floor plan notes payable we issue to purchase the majority of our inventory, are variable, increasing or decreasing based on changes in certain published interest rates. Increases to such interest rates ~~has~~ **have** resulted and may continue to result in higher interest expense for us, which negatively affects our operating results. Because many of our customers finance their vehicle purchases, increased interest rates may also decrease vehicle sales due to affordability, which would negatively affect our operating results. ~~We may be adversely affected by changes in LIBOR reporting practices or the method in which LIBOR is determined. Regulatory authorities in the U. S. have announced their intention to stop compelling banks to submit rates for the calculation of the London Interbank Offered Rate (" LIBOR"), ending after June 30, 2023, for the LIBOR tenors that are relevant to our business. Our senior secured revolving credit facility in the U. S. and many of our floorplan arrangements utilize LIBOR as a benchmark for calculating the applicable interest rate, although some of our floorplan arrangements and our U. K. credit agreement have already transitioned to utilizing an alternative benchmark rate. Changes in the method of calculating LIBOR, the elimination of LIBOR, or the replacement of LIBOR with an alternative rate or benchmark may require us to renegotiate or amend these facilities, loans, and programs, which may adversely affect interest rates and result in higher borrowing costs. This could materially and adversely affect our results of operations, cash flows, and liquidity. We cannot predict the effect of the potential changes to or elimination of LIBOR or the establishment and use of alternative rates or benchmarks and the corresponding effects on our cost of capital, which may be adversely affected by changes in LIBOR reporting practices or the method in which LIBOR is determined.~~ Impairment of our goodwill or other indefinite- lived intangible assets has in the past had, and in the future could have, a material adverse impact on our earnings. We evaluate goodwill and other indefinite- lived intangible assets for impairment annually and upon the occurrence of an indicator of impairment. Our process **and results** for impairment testing of these assets is described further under “ Impairment Testing ” in Part II, Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates. If we determine that the amount of our goodwill or other indefinite- lived intangible assets are impaired at any point in time, we would be required to reduce the value of these assets on our balance sheet, which would also result in a material non- cash impairment charge that could also have a material adverse effect on our results of operations for the period in which the impairment occurs. Performance of sublessees. In connection with the sale, relocation, and closure of certain of our franchises, we have entered into a number of third- party sublease agreements. The rent paid by our sub- tenants on such properties in ~~2022~~ **2023** totaled approximately $ 17. ~~9~~ **0** million. In the aggregate, we remain ultimately liable for approximately $ ~~112~~ **95** . ~~4~~ **2** million of such lease payments including payments relating to all available renewal periods. We rely on our sub- tenants to pay the rent and maintain the properties covered by these leases. In the event a subtenant does not perform under the terms of their lease with us, we could be required to fulfill such obligations, which could have a significant and adverse effect on us. International and foreign currency exchange risk. We have significant operations outside of the U. S. that expose us to changes in foreign currency exchange rates and to the impact of economic and political conditions in the markets where we operate. As exchange rates fluctuate, our results of operations as reported in U. S. Dollars fluctuate. For example, if the U. S. Dollar strengthens against the British Pound, our U. K. results of operations would translate into less U. S. Dollar reported results. Sustained levels or an increase in the value of the U. S. Dollar, particularly as compared to the British Pound, could result in a significant and adverse effect on our reported results. Joint ventures. We have significant investments in a variety of joint ventures, including retail automotive operations in Germany, Italy, and Spain. We have a 28. 9 % interest in PTS. We expect to receive annual operating distributions from PTS and the other ventures and in the case of PTS, realize significant cash savings on taxes. These benefits may not be realized if the joint ventures do not perform as expected, or if changes in tax, financial, or regulatory requirements negatively impact the results of the joint venture operations. Our ability to dispose of these investments may be limited. In addition, the relevant joint venture agreement and other contractual restrictions may limit our access to the cash flows of these joint ventures. For example, certain of PTS' debt agreements allow partner distributions only as long as it is not in default under those agreements and the amount it pays does not exceed 50 % of its consolidated net income, unless its debt- to- equity ratio is less than 3. 0 to 1. 0, in which case its distributions may not exceed 80 % of its consolidated net income. Legal and Compliance Risks Vehicle manufacturers exercise significant control over us. Each of our new vehicle dealerships and distributor operations operate under franchise and other agreements with automotive manufacturers, commercial vehicle manufacturers, or related distributors. These agreements govern almost every aspect of the operation of our dealerships and give manufacturers the discretion to terminate or not renew our franchise agreements for a variety of reasons, including certain events outside our control such as accumulation of our stock by third parties. They also limit our ability to acquire dealerships on a national, regional, and local basis. Without franchise or distributor agreements, we would be unable to sell or distribute new vehicles or perform manufacturer authorized warranty service. If a significant number of our franchise agreements are terminated, not renewed, or, with respect to our distributor operations, a competing distributor were introduced, we would be materially affected. Regulatory Issues. We are subject to a wide variety of regulatory activities and oversight, including: Governmental regulations, claims, and legal proceedings. Governmental regulations affect almost every aspect of our business, including the fair treatment of our employees, wage and hour issues, and our financing activities with customers. In California, previous judicial decisions have called into question whether long- standing methods for compensating dealership employees comply with the local wage and hour rules and may do so again. We could be susceptible to claims or related actions if we fail to operate our business in accordance with applicable laws or it is determined that long- standing compensation methods did not comply with local laws. Many laws and regulations applicable to our business were adopted prior to the introduction of online vehicle sales, the Internet and certain digital technology, generally. As a result, we are tasked with maintaining compliance in an uncertain regulatory environment. Claims arising out of actual or alleged violations of law which may be asserted against us or any of our dealers by individuals, through class actions, or by governmental entities in civil or criminal investigations and proceedings, may expose us to substantial monetary damages which may adversely affect us. **Our financing activities with customers are subject to truth- in- lending, consumer leasing, equal credit opportunity, and similar regulations as well as motor vehicle finance laws, installment finance laws, insurance laws, usury laws, and other installment sales laws. In the U. K., the Financial Conduct Authority (the" FCA") regulates financial services firms and financial markets, including our activities in acting as broker for the financing of vehicle sales. The FCA has announced that it will investigate the historic use of discretionary commission arrangements (" DCAs") amid concerns that this practice may have been unfair to customers. The purpose of the investigation is to consider whether the historic use of DCAs caused customers to pay too much for their car loans and, if so, to consider potential remediation measures. The investigation is being undertaken after the Financial Ombudsman Service (a public body, which resolves financial complaints) determined that DCAs, in two separate cases which do not involve us, had caused financial losses to customers. We await the outcome of the FCA' s investigation. Any regulatory or judicial outcome that ultimately results in the refund of historical commissions paid to us could materially and adversely affect us.** Privacy Regulation. We are subject to numerous laws and regulations in the U. S. and internationally designed to protect the information of clients, customers, employees, and other third parties that we collect and maintain, including the European Union General Data Protection Regulation (the " EUGDPR ") and the United Kingdom General Data Protection Regulation (the" UKGDPR"). Both the EUGDPR and UKGDPR, among other things, mandate requirements regarding the handling of personal data of employees and customers, including its use, protection, and the ability of persons whose data is stored to correct or delete such data about themselves. The state of California has a similar law called the California Consumer Privacy Act, recently amended and enhanced effective January 1, 2023, by the California Privacy Rights Act (as so amended, the" CCPA"). In addition to enforcement authority granted to the California Attorney General, the CCPA established the" California Privacy Protection Agency," a dedicated state agency charged with the authority to audit and enforce privacy rules, among other responsibilities, and the CCPA permits a private right of action for certain violations of law. **Other U. S. states** ~~Connecticut, Utah, and Virginia,~~ have also enacted comprehensive consumer privacy laws, and ~~other~~ **additional** states may follow. These laws pose increasingly complex and rigorous compliance challenges, which may increase our compliance costs and related risk. If we fail to comply with these laws or other similar regulations applicable to our business, we could be subject to reputational harm and significant litigation, monetary damages, regulatory enforcement actions, or fines in one or more jurisdictions. For example, a failure to comply with the UKGDPR could result in fines up to the greater of £ 17. 5 million or 4 % of annual global revenues. Recalls. Legislative and regulatory bodies from time to time have considered laws or regulations that would prohibit companies from renting or selling any vehicle that is subject to a recall until the recall service is performed. Whether any such prohibition may be enacted, and its ultimate scope, cannot be determined at this time. If a law or regulation is enacted that prevents the sale of vehicles until recall service has been performed, we could be required to reserve a significant portion of our vehicles from being available for sale for even a minor recall unrelated to vehicle safety. In addition, various manufacturers have issued stop sale notices in relation to certain recalls that require that we retain vehicles until the recall can be performed, whether or not parts are then available. While servicing recall vehicles yields parts and service revenue to us, the inability to sell a significant portion of our vehicles could increase our costs and have an adverse effect on our results of operations if a large number of our vehicles are the subject of simultaneous recalls or if needed replacement parts are not in adequate supply. Vehicle requirements. Federal and state governments and regulators in both our domestic and international markets have increasingly placed restrictions and limitations on the vehicles sold in the market in an effort to combat perceived negative environmental effects. For example, in the U. S., automotive manufacturers are subject to federally mandated corporate average fuel economy standards, which will increase substantially through 2026. **Moreover, the U. S. Environmental Protection Agency (the " EPA ") has proposed new requirements for model year 2027 and later vehicles which are significantly more restrictive than existing requirements which are designed to incent an increased adoption of electric vehicles.** Representatives of the U. K. government have proposed a ban on the sale of gasoline **engines and gasoline hybrid** engines in new cars and new vans that would take effect **in** ~~as early as 2030~~ **2035** ~~and a ban~~ **while also providing government incentives** on **certain electric vehicles to entice consumers to transition from internal combustion vehicles to electric vehicles** ~~the sale of gasoline hybrid engines in new cars and new vans as early as 2035~~ . The European Parliament ~~provisionally~~ **recently** approved a law requiring most automakers to reduce the emissions of new cars sold by 55 % in 2030 and achieve a zero carbon- emission standard by 2035, effectively banning the sale of new gasoline and diesel cars and vans by 2035. Similar legislation ~~has been announced~~ in **various states across the United States** ~~Washington, California, Massachusetts, and New York, which~~ would ban the sale of new vehicles with gasoline- only engines in cars ~~in~~ **as early as** 2035. The California legislation requires 35 % of all new vehicles sold to meet a zero emissions standard by 2026 (with certain allowances for hybrid gas / electric vehicles), which percentage requirement increases until 2035, after which 100 % of new vehicles sold must comply. Significant increases in fuel economy requirements and new restrictions on emissions on vehicles and fuels could adversely affect prices of and demand for the vehicles that we sell, which could materially adversely affect us. Commercial trucks are subject to similar regulatory risks related to emissions standards and other regulatory requirements **discussed above. The EPA has also recently proposed to revise existing standards to reduce greenhouse gas emissions from heavy- duty vehicles in model year 2027 and set new, more stringent standards for model years 2028 through 2032** . PTG sells new and used heavy- and medium- duty commercial trucks, parts and service, and offers collision repair services. PTS, with its broad product offering including full- service truck leasing, contract maintenance, and truck rental, along with ~~logistic~~ **logistics** services, is one of the largest purchasers of commercial trucks in North America. Should future regulations or consumer sentiment hinder our or PTS' ability to maintain, acquire, sell, or operate trucks, we may be adversely affected. Tariff and trade risk. Increased tariffs, import product restrictions, and foreign trade risks may impair our ability to sell foreign vehicles profitably. ~~The United States Mexico Canada Agreement allows tariff- free importing of automobiles among the countries only if (i) the vehicles have 75 % of their components manufactured in the U. S., Mexico, or Canada, (ii) workers with an hourly wage of at least $ 16, manufacture at least 40 % of the vehicle, or in the case of trucks, 45 % and (iii) 70 % of the steel and aluminum used in the production of the vehicle is sourced within North America.~~ Should tariffs increase, we expect the price of many new vehicles we sell to increase **,** which may adversely affect our new vehicle sales and related finance and insurance sales. Moreover, new rules in place after the Brexit accord between the European Union and the U. K. require varying levels of content in vehicles to originate in either the U. K. or the European Union to remain tariff free. If automotive manufacturers cannot meet these content rules, there may be import tariffs on any affected vehicles, which could adversely affect our U. K. results. Franchise laws in the U. S. In the U. S., state law generally provides protections to franchised vehicle dealers from discriminatory practices by manufacturers and from unreasonable termination or non- renewal of their franchise agreements. In many states, the laws require that new vehicle sales be conducted exclusively by automotive retailers (not manufacturers). Should U. S. franchise laws be repealed or amended to allow our existing manufacturer partners to effectively operate outside the franchised system, our results of operations may be materially and adversely impacted. See the risk factor captioned " Sales outside the franchise system " above. Changes in law. New laws and regulations at the state and federal level may be enacted which could materially adversely impact our business. For example, in **December** ~~2022~~ **2023** , the **U. S.** Federal Trade Commission ~~proposed~~ **(the" FTC") announced its** new ~~regulations for automotive dealers that~~ **Combating Auto Retail Scams (" CARS") Rule, which** would **change the way vehicles are advertised and sold in the U. S. The rule originally was to take effect in July 2024. However, in light of recent legal challenges, the FTC has delayed the rule' s effective date pending resolution of related litigation. Once effective, the rules are expected to** change industry- accepted practices with regard to sales and advertising, require **a** ~~an extensive~~ series of oral and written disclosures to consumers in regard to the sale price of vehicles, credit terms, and voluntary protection products ~~, mandate the posting of certain pricing and other information on dealer websites~~ , and impose burdensome recordkeeping requirements ~~. These changes~~ , **all of which** ~~if adopted as proposed,~~ may lead to additional transaction times for the sale of vehicles, complicate the transaction process, decrease customer satisfaction, and ~~enhance~~ **increase** compliance **costs and** risk, among other effects. ~~If these~~ **These** ~~regulations or other adverse~~ changes ~~in law were to~~ **, as well as any others that could** be ~~enacted~~ **adopted** , ~~it~~ could have a significant and adverse effect on us. Climate change and environmental regulations. Scientific evidence suggests that the globe is warming potentially resulting in an environment more prone to natural disasters, such as flooding. To date, we have seen increases in our cost to insure against such risks, which costs could continue to increase should this trend continue. We are subject to a wide range of environmental laws and regulations, including those governing discharges into the air and water; the operation and removal of storage tanks; and the use, storage, and disposal of hazardous substances. In the normal course of our operations we use, generate, and dispose of materials covered by these laws and regulations. In the face of climate change, these laws could become more stringent. We face potentially significant costs relating to claims, penalties, and remediation efforts in the event of non- compliance with existing and future laws and regulations. Furthermore, should climate change continue, we expect further regulation of internal combustion engines and vehicle emissions which may affect the types of vehicles we sell and service. We cannot predict the future costs to our businesses for these developments. Accounting **and disclosure** rules and regulations. Significant changes to **generally accepted accounting principles in the U. S. ("** GAAP **")** ~~in the U. S.~~ could significantly affect our reported financial position, earnings, and cash flows upon adoption and effectiveness. In addition, any changes to lease accounting could affect PTS customers' decisions to purchase or lease trucks, which could adversely affect their business if leasing becomes a less favorable option. See the disclosure provided under " Recent Accounting Pronouncements " in Part II, Item 8, Note 1 of the Notes to our Consolidated Financial Statements for additional detail on accounting standard updates that could have an impact on us. **In addition, we are subject to various reporting regimes in the U. S. and internationally. In the U. K., we are subject to the Climate- related Financial Disclosure Regulations which require disclosure of climate risks and opportunities, among other matters. We are also subject to California' s Climate Corporate Data Accountability Act and Climate- Related Financial Risk Act which require disclosure of emissions and other matters. Further, we are subject to the European Sustainability Reporting Standards which also require emissions and other disclosures, as well as any regulations regarding climate and sustainability disclosures eventually adopted by the U. S. Securities and Exchange Commission. We are also subject to regulations in other jurisdictions that we operate in. These multiple sets disclosures standards are not yet clearly defined and require duplicative and sometimes conflicting disclosures. Compliance with these standards will subject us to additional expense and compliance risk which may adversely affect our business.** Related parties. Our two largest stockholders, Penske Corporation and its affiliates (" Penske Corporation ") and Mitsui & Co., Ltd. and its affiliates (" Mitsui "), together beneficially own approximately ~~70~~ **71** % of our outstanding common stock. The presence of such significant stockholders results in several risks, including: Our principal stockholders have substantial influence. Penske Corporation and Mitsui have entered into a stockholders agreement pursuant to which they have agreed to vote together as to the election of our directors. As a result, Penske Corporation has the ability to control the composition of our Board of Directors, which may allow it to control our affairs and business. This concentration of ownership coupled with certain provisions contained in our agreements with manufacturers, our certificate of incorporation, and our bylaws could discourage, delay, or prevent a change in control of us. Some of our directors and officers may have conflicts of interest with respect to certain related party transactions and other business interests. Roger Penske, our Chair and Chief Executive Officer and a director, holds the same offices at Penske Corporation. Robert Kurnick, Jr., our President and a director, is also the Vice Chair and a director of Penske Corporation **and an Advisory Board member of PTS** . Bud Denker, our Executive Vice President, Human Resources, is also the President of Penske Corporation. Each of these officers is paid much of their compensation by Penske Corporation. The compensation they receive from us is based on their efforts on our behalf; however, they are not required to spend any specific amount of time on our matters. The Vice Chair of our Board of Directors, Greg Penske, is the son of our Chair and also serves as a director of Penske Corporation. Michael Eisenson, one of our directors, is also a director of Penske Corporation **and an Advisory Board member of PTS. Lisa Davis, one of our directors, is also an Advisory Board member of PTS** . Kota Odagiri, one of our directors, is also an employee of Mitsui. Roger Penske also serves as Chairman of Penske Transportation Solutions, for which he is compensated by PTS. Penske Corporation ownership levels. Certain of our agreements have clauses that are triggered in the event of a material change in the level of ownership of our common stock by Penske Corporation, such as our trademark agreement between us and Penske Corporation that governs our use of the " Penske " name which can be terminated 24 months after the date that Penske Corporation no longer owns at least 20 % of our voting stock. We may not be able to renegotiate such agreements on terms that are acceptable to us, if at all, in the event of a significant change in Penske Corporation' s ownership. We have a significant number of shares of common stock eligible for future sale. Penske Corporation and Mitsui own approximately ~~70~~ **71** % of our common stock, and each has two demand registration rights that could result in a substantial number of shares being introduced for sale in the market. We also have a significant amount of authorized but unissued shares. Penske Corporation has pledged a substantial portion of its shares of our common stock as collateral to secure a loan facility. A default by Penske Corporation could result in the foreclosure on those shares by the lenders, after which the lenders could attempt to sell those shares on the open market or to a third party. The introduction of any of these shares into the market could have a material adverse effect on our stock price. General Risks Property loss, business interruption, or other liabilities. Our business is subject to substantial risk of loss due to the significant concentration of property values, including vehicle and parts inventories at our operating locations; claims by employees, customers, and third parties for personal injury or property damage; and fines and penalties in connection with alleged violations of regulatory requirements. While we have insurance for many of these risks, we retain risk relating to certain of these perils, including through self-insurance, and certain perils are not covered by our insurance. Certain insurers have limited available property coverage in response to the natural catastrophes experienced in recent years. If we experience significant losses that are not covered by our insurance, whether due to adverse weather conditions or otherwise, or we are required to retain a significant portion of a loss, it could have a significant and adverse effect on us. Information technology. Our information systems are fully integrated into our operations, and we rely on them to operate effectively, including with respect to electronic interfaces with manufacturers and other vendors, customer relationship management, sales and service scheduling, data storage, and financial and operational reporting. The majority of our systems are licensed from third parties; the most significant of which are provided by a limited number of suppliers in the U. S., U. K., and Australia. The failure of our information systems to perform as designed, the failure to protect the integrity of these systems, or the interruption of these systems due to natural disasters, power loss, unexpected termination of our agreements, cyber- attacks, or other reasons could significantly and adversely disrupt our business operations, impact sales and results of operations, expose us to customer or third- party claims, or result in adverse publicity. Cybersecurity. As part of our business model, we receive sensitive information regarding customers, employees, associates, and vendors from various online and offline channels. We collect, process, retain, and in some cases share this information in the normal course of our business. Our internal and third- party systems are under a heightened level of risk from cyber criminals or other individuals with malicious intent to gain unauthorized access to our systems and exploit the information, including sensitive personal information, that we gather. Cyber- attacks and threats to network and data security are becoming increasingly diverse and sophisticated, with attacks increasing in frequency, scope, and potential harm. In addition, some of our software applications are utilized by third parties who provide outsourced administrative functions. Such third parties may have access to confidential information that is critical to our business operations and services. While our information security program includes enhanced controls to monitor third party providers' security programs, these third parties are subject to their own risks of data breaches, cyber- attacks, and other events or actions that could damage, disrupt, or close down their networks or systems, which in turn may adversely impact our business operations. For an overview of certain of our efforts related to cybersecurity risk management, strategy, and governance and our written Information Security Program, see Item ~~1~~ **1C** . ~~Business — Business Description — " Information Technology, Data Security,~~ Cybersecurity ~~, and Customer Privacy~~ . ~~"~~ Despite the security measures we have in place, we may be unable to fully detect, mitigate, or protect against cyber- attacks, ransomware attacks, security breaches, social engineering, malicious software, lost or misplaced data, programming errors, human errors, acts of vandalism, or other events. Many companies have disclosed security breaches involving sophisticated cyber- attacks and ransomware attacks that were not recognized or detected until after such companies had been affected, notwithstanding the preventive measures they had in place. Any security breach or event resulting in the misappropriation, loss, or other unauthorized disclosure of confidential information or degradation of services provided by critical business systems, whether by us directly or our third- party service providers, could adversely affect our business operations, sales, reputation with current and potential customers, associates or vendors as well as other operational and financial impacts derived from investigations, litigation, the imposition of penalties, or other means. In addition, our failure to respond quickly and appropriately to such a security breach could exacerbate the consequences of the breach and efforts to prevent, detect, and mitigate data breaches and cyber- attacks subject us to additional costs.