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GPI - Q3 2013 Group 1 Automotive Earnings Conference Call

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OVERVIEW:

GPI reported 3Q13 total revenues of $2.34b, adjusted net income of $32.9m, and adjusted diluted common EPS of $1.20.

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CORPORATE PARTICIPANTS

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John Murphy *BofA Merrill Lynch - Analyst*

Ravi Shanker *Morgan Stanley - Analyst*

Rick Nelson *Stephens - Analyst*

Scott Stember *Sidoti & Company - Analyst*

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Bill Armstrong *CL King & Associates - Analyst*

PRESENTATION

Operator

Good morning, and welcome to the Group 1 Automotive third-quarter 2013 financial results conference call.

(Operator Instructions).

After today's presentation, there will be an opportunity to ask questions.

(Operator Instructions).

Please note, this event is being recorded.

I would now like to turn the conference over to Lance Parker, Vice President and Corporate Controller. Please go ahead.

Lance Parker - *Group 1 Automotive Inc - VP & Corporate Controller*

Thank you, Laura. Good morning, everyone, and welcome to today's call.

The earnings release we issued this morning and the related slide presentation that includes reconciliations related to the adjusted results that we will refer to on this call for comparison purposes has been posted to Group 1's website. Before we begin, I would like to make some brief remarks about forward-looking statements and the use of non-GAAP financial measures.

Except for historical information mentioned during the conference call, statements made by management of Group 1 Automotive are forward-looking statements that are made pursuant to the Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve both known and unknown risks and uncertainties, which may cause the Company's actual results in future periods to differ materially from forecasted results. Those risks include but are not limited to risks associated with pricing, volume and the conditions of markets.

Those and other risks are described in the Company's filings with the Securities and Exchange Commission over the last 12 months. Copies of these filings are available from both the SEC and the Company. In addition, certain non-GAAP financial measures as defined under SEC rules may be discussed on this call. As required by applicable SEC rules, the company provides reconciliations of any such non-GAAP financial measures to the most directly comparable GAAP measures in its website.

Participating with me on today's call are Earl Hesterberg, our President and Chief Executive Officer, and John Rickel, our Senior Vice President and Chief Financial Officer. Please note that all comparisons in the prepared remarks are to the same prior-year period unless otherwise stated.

I will now hand the call over to Earl.

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

Thank you, Lance, and good morning, everyone.

For the third quarter, Group 1 reported a 4.9% increase in adjusted net income to $32.9 million, an adjusted diluted earnings per common share of $1.20 on an 18.4% revenue increase. While we are pleased with our top-line growth, several factors prevented us from driving a similar increase in profit levels. First, competition among US dealers for new vehicle sales continued to ratchet up significantly during the quarter causing new vehicle margins to contract across most of our brands and markets.

This impacted not only gross generation but also made it more difficult for us to deliver our normal cost leverage. Second, we also saw a significant weakening in the Brazilian industry sales, which were down 10% over prior year during the quarter, which hurt our Brazilian results. I will cover the actions we're taking to respond to these issues in just a moment. While two of our markets had challenges, it should be noted that our UK business turned in a record quarter on both a consolidated and same-store basis. Total same-store revenues were up 14.4% with new vehicle units sales increasing 17.8%.

Turning now to other key performance metrics. Total revenue increased 18.4% to $2.3 billion reflecting double-digit increases across all parts of our business, except used wholesale which was up 9.4%. New vehicle revenues grew 21.5% as new vehicle units sales increased 22.5% to 42,311 vehicles. US same-store new vehicle unit sales increased 6.2%. Group 1's new vehicle unit sales mix was 78% US, 12% Brazil and 10% UK.

Toyota Lexus sales accounted for 26.9% of our new vehicle unit sales with Ford Lincoln, Honda Acura and BMW Mini contributing more than 10% each. New vehicle inventory was at 65 day supply or 29,718 units, with US inventory at 79 day supply for 25,334 units on September 30. Used vehicle retail unit sales increased 16.2% in the third quarter. This generated retail gross profit increase of 9.9% on 14.6% higher revenues. The average used vehicle selling price decreased about $280 to $20,332, primarily explained by the addition of Brazil and the Fort stores in the UK, which carry lower-priced units.

On a same-store basis, pricing was about flat. We ended the quarter with a 34 day supply of used vehicles. Total consolidated finance and insurance per retail unit was $1,207, while the US results were up $115 per unit to an all-time record of $1,375. Parts and service had another strong quarter with revenue up 13.5% from gross profit up 13.2%. Same-store revenue improved 8%. On a consolidated basis, adjusted selling, general and administrative expenses as a percent of gross profit increased 90 basis points to 75.1%.

On a same-store basis, adjusted SG&A as a percent of gross profit increased 60 basis points to 73.6%. As we would normally have expected to further leverage our cost structure as we had in recent quarters, we will need to make further cost adjustments to address the ongoing pressure on new vehicle margins. The actions are focused primarily on our US and Brazilian operations. The market continues to strengthen in the UK and we continue to generate cost leverage in that market during Q3.

For Brazil, the challenge is pretty straightforward. The market declined 10% in the third quarter compared with the same period a year ago. Similar to the experience we went through in US in 2008 and 2009, we need to reduce our costs to match the present size of the market. Our team is well underway with that task. We incurred approximately $300,000 in severance costs this quarter as we reduced about 50 positions.

Additional actions will be implemented in the fourth quarter that will further adjust our costs to fit the present market conditions. Longer-term, we remain bullish on Brazil, but we need to work our way through this present slowdown. The US market is a more challenging landscape in that sales continue to grow but the competitive environment on new vehicle margins has continued to deteriorate.

We saw dollar margin compression across almost all of the brands and markets where we operate. This is putting pressure on our cost structure as a higher percentage of our sales are at minimum commission levels. This necessitates a variety of cost-cutting actions across all of our major expense categories, which is well underway.

I will now turn the call over to our CFO, John Rickel, to go over our third-quarter financial results in more detail. John?

John Rickel - *Group 1 Automotive Inc - SVP, CFO*

Thank you, Earl, and good morning, everyone.

Our adjusted net income for the third quarter of 2013 rose $1.5 million over our comparable 2012 results to $32.9 million. These 2013 results exclude $100,000 of net after-tax expenses for various non-GAAP adjustments. The comparable results for third quarter of 2012 do not exclude any similar adjustments.

Despite the 4.9% increase in adjusted net income, our adjusted earnings per diluted common share declined 9.1% from the comparable prior year results to $1.20, reflecting a 3.9 million share increase in weighted-average diluted common shares outstanding to $26.3 million. This equates to a 17.3% increase in weighted-average diluted common shares outstanding and is primarily the result of the dilution from our 3% and 2.25% convertible notes.

Included in our weighted-average diluted share count for the third quarter of 2013, are 3 million shares attributable to these notes, which is up 1.3 million shares from the second quarter of 2013 and 2.1 million from the third quarter of 2012, as a result of the increase in Group 1's average stock price during the third quarter and from year ago levels. It should be noted that the accounting dilution calculation does not include the beneficial impact of the call spreads the Company has in place. For the quarter, the call spreads would offset 2.2 million shares of the calculated dilution. For your reference we include tables in both our investor presentation and our quarterly SEC filings that provide the share dilution for these notes at various stock prices.

Starting with a summary of our consolidated results, for the quarter, we generated $2.34 billion in total revenues. This was an improvement of $363.6 million, or 18.4% over the same period a year ago, and reflects increases in each of our business units. Our gross profit increased $38.2 million for 13.1% from third quarter a year ago to $329.5 million. On adjusted basis for the quarter, SG&A as percent of gross profit was 75.1% and operating margin was 3.1%. Floorplan interest expense increased $2.7 million or 34.6% from prior year to $10.7 million. This increase is primarily explained by our Brazil acquisition earlier this year which added $2.2 million of floorplan interest expense in the quarter, as well as higher inventory levels to support rising sales in the US.

At September 30, 2013, our new vehicle inventory stood at 29,718 units with a value of $1 billion, compared to 24,469 units with a value of $826 million as of September 30, 2012. Other interest expense increased $352,000 or 3.7% to $10 million. This increase is attributable to an increase in weighted average debt outstanding of $31.5 million explained by additional mortgage borrowings associated with recent dealership acquisitions. Our consolidated interest expense for the third quarter includes incremental, non-cash discount amortization of $2.7 million related to our convertible notes.

Now turning to the third quarter same-store results, which include stores from the US and UK owned during the same period. In the third quarter we reported revenues of $1.99 billion, which was a $133.9 million or 7.2% increase from the comparable 2012 period. Within this total, new vehicle revenue was up 7.7%, used vehicle revenues improved 6.4%, finance and insurance revenues rose 14.5%, and parts and service delivered another strong quarter with revenues up 8%. New vehicle revenue increased to $1.15 billion from 7.1% more new vehicle units sales, and an increase in our average new vehicle sales price of $183 to $33,620 per unit. Our used retail revenues improved to $467.1 million on 6.5% more units, partially offset by a $16 decrease in our average retail used vehicle sales price to $20,780.

F&I revenue per retail unit rose 7.1% to $1,338, driven by increases in both penetration rates and income for contract for most of our major product offerings. The overall revenue growth in Parts and Service is explained by increases of 5.2% in customer pay, 7.4% in warranty, 22.4% in collision and 6.5% in wholesale parts. As a reminder, our Parts and Service revenues are not impacted by increases in internal business. The revenue associated with internal work is eliminated in our consolidation. This varies across the sector, as some of our competitors account for internal work differently.

In aggregate, our same-store gross profit grew $15.5 million or 5.6% to $290.9 million. Our same-store new vehicle gross profit dollars declined 7.4% as higher volumes were more than offset by a $270 decline in gross profit per unit to $1,716.

Our used vehicle retail gross profit dollars increased 1.9%, more than explained by volume growth, partially offset by a $73 decline in gross profit per unit to $1,628. Our F&I gross profit grew 14.5% reflecting the unit volume growth in the improved PRU that I mentioned previously. Finally, Parts and Service gross profit grew $10.5 million or 9.5%, primarily reflecting the strong revenue growth and an 80% basis improvement in margins to 53.3%. ¶ For the third quarter we grew our total gross profit by $15.5 million while adjusted SG&A expense rose $13.2 million. The increase in SG&A expense is primarily explained by higher personnel costs. As a result, our adjusted SG&A as percent of gross profit increased 60 basis points to 73.6%. Our same-store adjusted operating margin declined by 20 basis points to 3.4%.

Turning now to our geographic segments, starting with the US market on an actual basis. As a reminder, we re-balanced our US dealership portfolio over the last 12 months and, as a result, disposed of a net of six franchises representing annualized revenues of approximately $154 million since third quarter last year. As a result, our consolidated results are not fully reflective of underlying same-store performance in the US. Total US revenues grew 4.1% to $1.89 billion driven by increases of 4% in new vehicle revenue, 4.8% in used retail revenue, 3.3% in Parts and Service revenue and 13.3% in F&I income.

New vehicle revenues grew as a result of increases in retail unit sales of 2.8% and in our average sales price per unit of $385. The increase in used vehicle retail revenues reflects 5.3% growth in retail units, partially offset by a $94 increase -- decrease in our average retail sales price per unit. Our F&I growth reflects the increase in retail vehicle sales volume, coupled with improved profitability per retail unit, which grew $115 or 9.1% to $1,375. Increase in our Parts and Service revenues reflects growth in all areas of the business.

Total gross profit improved 3.2%, driven by increases of 4.6% in Parts and Service and 2.9% in used vehicle retail, as well as the F&I increase that I just mentioned. These gross profit improvements were mostly offset by an increase in our SG&A expenses resulting in no change to adjusted SG&A as a percent of gross profit at 74%. Adjusted operating margin for the US business segment declined 10 basis points to 3.4%.

Related to our UK segment, our UK operations delivered a strong quarter with total revenues up 44.7% driven by the acquisition of four Ford dealerships in the first quarter of this year, as well as impressive same-store growth of 14.4%, reflecting positive contributions from each of our retail business segments. New vehicle revenues grew 48% on 67.5% more retail unit sales which more than offset a mixed driven decline of 11.7% in the new vehicle average retail sales price.

Used vehicle retail revenues improved 52.1% on 86.1% more retail units, which more than offset an 18.2% decrease in used vehicle average retail sales price, which is also explained by an increased mix of volume brand unit sales linked with the Ford dealership acquisitions. Parts and Service revenues improved 32.8% primarily attributable to a 27.1% increase in our customer paid Parts and Service business.

Our F&I income growth of 60.9% reflects the 73.9% increase in total retail unit sales, partially offset by a dealership mix driven $50 decline in income for retail units sold to $622. On a same-store basis, UK F&I income for retail units sold improved $81 per unit to $758. Total gross profit grew 29.7% on improvements in each of our retail businesses. SG&A as percent of gross profit rose 20 basis points to 77% over the third quarter of last year.

Operating margins in the UK business segment declined 20 basis points to 2.2%. However, on the same-store basis, we leveraged our costs and, coupled with the gross margin improvement, decreased SG&A as a percent of gross profit by 70 basis points to 74%. Similarly, on a same-store basis, our operating margin in the UK improved 10 basis points to 2.8% in the third quarter.

Related to our Brazil segment, for the third quarter we retailed 5,139 new units compared to 5,337 in the second quarter. We also retailed 1,343 used units in the third quarter versus 1,182 in the second quarter. In aggregate for the third quarter, we generated $215.9 million in total revenues and $23.7 million in gross profit, compared to $246 million and $27.1 million, respectively in the previous quarter. Our adjusted SG&A as a percent of gross profit was 85.6% in the third quarter, compared to 80.5% last quarter, while our adjusted operating margins for the third quarter was 1.4% versus 2% in the second quarter.

Overall, we remain profitable during the quarter, but we did not generate enough income this quarter to cover dilution. Compared with the second quarter, adjusted net income generated from Brazil declined $1.7 million.

Turning to our consolidated liquidity and capital structure. As of September 30, 2013 we had $26.3 million of cash on hand and another $47.7 million that was invested in our floorplan offset account, bringing immediately available funds to a total of $74 million.

In addition, we had $227.7 million available on our acquisition line that can also be used for general corporate purposes. As such, our total liquidity as of September 30, 2013 was $301.7 million. Year-to-date for 2013 we have generated $147.1 million of operating cash flow on an adjusted basis. With regards to our real estate investment portfolio, we owned $546.6 million of land and buildings at September 30, which represents more than one-third of our total real estate.

To finance these holdings, we have utilized our mortgage facility and executed borrowings under other real estate specific debt agreements. As of September 30, we had $48.8 million outstanding under our mortgage facility and $243.4 million of other real estate debt excluding capital leases. During the third quarter, we used $4.1 million to pay dividends of $0.17 per share, an increase of $0.01 per share over the second quarter of this year, and $0.02 per share over the third quarter of last year.

In addition, as included in this morning's earnings press release, the Board has increased our share re-purchase authorization by 50% bringing our total approved re-purchase program to $75 million. For additional detail regarding our financial condition, please refer to the schedules of additional information attached to the news release, as well as the investor presentation posted on our website.

With that, I'll now turn it back over to Earl.

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

Thanks, John.

Before I turn the call over to the operator for your questions, let me update you on our market outlook for the remainder of 2013. In the US, as we stated last quarter, the market continues to be highly competitive. While the overall condition for car buyers remains positive with low interest rates, improving employment levels and attractive products, the selling environment for dealers will remain very competitive.

We continue to anticipate new vehicle industry sales will range from 15.4 million to 15.6 million units in the US in 2013 given the pent-up demand and favorable buying conditions. The UK continues to outperform the rest of Europe. Vehicle registrations increased 12.1% in September and increased 10.8% year-to-date. Conditions look favorable for the market to continue growing and we believe with our brand mix we are well-positioned to take advantage of this growth.

Brazil's third-quarter industry sales were down about 10% compared with the prior year, which reflects the impact of weakened consumer confidence, higher interest rates and tax changes. Brazilian economy continues to face many challenges. The summer protests affected the last half of June's results and continued to have a negative impact on new vehicle sales in the third quarter.

Given these near-term challenges we expect industry sales to be flat at best this year. We reiterate a bullish perspective on a longer-term outlook for the country and auto sales to recognize, as with any developing market, there will be some bumps along the way.

That concludes our prepared remarks. I'll now turn the call over to the operator to begin the question-and-answer session. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions).

Our first question is from John Murphy, Bank of America, Merrill Lynch.

John Murphy - *BofA Merrill Lynch - Analyst*

Good morning, guys. I apologize. I missed the first few minutes of the call. I wanted to ask -- so I hope I'm not asking a duplicative question here. On parts and service - the 8% positive same-store sales comps is the fifth quarter where you guys are starting to really see some acceleration. Is this really the backlog of the zero to five year old UIOs coming in or is there something else going on in the quarter? And if we're not seeing that yet, when do you expect that to really hit and really funnel through your service base?

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

Yes. I think the driving force, John, is clearly, the UIO build and that pattern of age of vehicles. I also think we are performing very well in that area. Our customer paid business was up 5%, our warranty business was up 8% and our collision business was up almost 23%. Some of that is investments we have made in this area of the business.

John Murphy - *BofA Merrill Lynch - Analyst*

Okay. That's helpful. And then on the SG&A front, when we look at what you did in the US, it was pretty good performance, but Brazil and UK are obviously well above that -- Brazil at 85 and UK at 77. I know there's some market conditions, specifically in Brazil, that make the numbers a little bit tougher to hit, but is there a time where you think you can ramp those down to levels that you are seeing in the US, potentially as those markets recover? Or are they just structurally going to be higher SG&A to gross markets?

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

I believe they are structurally higher in both cases, John. That said, we continue to leverage the UK as we did last quarter. In particular, we're starting to gain a little scale in the UK with the four Ford dealerships we purchased earlier this year and five Audi dealerships we purchased in May of 2012. Scale will help us continue to leverage a bit in the UK. It is structurally higher market. I would never expect it to be the same as the US. Some costs are just higher. Real estate in particular. Brazil, we haven't even scratched the surface yet. Again, I think it is going to always be a higher SG&A market than the US, but we've got a long way we can go in Brazil, I believe.

John Murphy - *BofA Merrill Lynch - Analyst*

Okay. And then, Earl, you also seem to be pretty aggressive in the portfolio rebalancing. Obviously, the acquisitions have ramped up and that's pretty clear. You've also been ramping up the dispositions of seven franchises for almost 320 million. Is there something in your port -- we're going to see more of this in your portfolio paring back of the underperformers or is this a one-time phenomenon we've seen year-to-date? Is there a lot of stuff that you need to still work out of the portfolio that you can think are underperformers that you'd rather get rid of?

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

Well, John, the short answer to your question is I don't see any significant dispositions in the near-term, but it is our job for our shareholders to make sure we redeploy the capital where we can get a good return for our shareholders. I will continue to look at every dealership we own, every quarter. Whenever comes a trend that I don't think we can get it to a good return on investment for our shareholders, we will dispose of that and redeploy the assets. We did a lot of that earlier this year. We don't have anything substantial pending at the moment in that area.

John Murphy - *BofA Merrill Lynch - Analyst*

Okay. Lastly, you may have talked about this a little bit earlier in the call, but there has been a lot of concern around the sales rate moderating. Although that wouldn't be that surprising given all the insanity that was going on in DC early in the month. I'm curious what your comments are and it seems like people are interpreting this very differently. What did you see earlier in the month? Have you seen anything more recently that would lead you to believe the market is normalizing maybe, without putting a fine point on it, back to where it was in the mid 15 million to high 15 million unit rate, in the last week or so?

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

I don't see anything alarming at all, John. Of course most of the sales in a given month occur in the last week. That is what will determine October. September did not close as well as I think everyone expected, not just myself. It was hard to tell if that was starting to have some relationship to the Washington bit or if it was just a pull ahead into that big Labor Day weekend which actually got booked in August.

I think overall the fundamentals haven't changed in auto retail. Maybe there was a blip because of the government shutdown. I really couldn't point to any data that shows you that. I think we're still in pretty good shape. I think all the factors remain that have driven kind of a 15.5 million unit selling rate. It don't see any reason why that will vary too much in the fourth quarter this year and why there can't be kind of a mid-single-digit increase year-over-year in 2014.

John Murphy - *BofA Merrill Lynch - Analyst*

That's very helpful. Thank you very much.

Operator

Our next question will come from Ravi Shanker of Morgan Stanley.

Ravi Shanker - *Morgan Stanley - Analyst*

Thanks. Good morning everyone.

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

Good morning.

Ravi Shanker - *Morgan Stanley - Analyst*

I had a question on new margins. New margins across the dealer group have been coming down for the last few years or so. Can you just address environment there? Is it just again a case of voluntary giving up of margins to try and drive more comps? Can you describe the competitive environment of the result?

John Rickel - *Group 1 Automotive Inc - SVP, CFO*

Ravi, this is John Rickel. Clearly we've seen over the last couple years, but certainly across the summer, saw it accelerate a bit more. I think a piece of it is that it's just a competitive environment out there. There is a lot of transparency on the Internet. People have pretty good idea of what our costs are. It is easy for them to cross-shop. I think the combination of those has made it very competitive for the front-end sales.

Ravi Shanker - *Morgan Stanley - Analyst*

Got it. And just moving to a new PNS. That collision number of 23%, is that normal? Is that a sustainable level? Or is there something going on this quarter?

John Rickel - *Group 1 Automotive Inc - SVP, CFO*

If you look at last quarter, Ravi. This is John again. We had close to similar comps in the second quarter. It is an area that we have put additional capital to work in. We have a lot of focus on that business. I don't know how long we can continue to comp at those double-digit levels, but we certainly continue to see growth opportunities in collision and we'll continue to put additional capital to work in that part of the business.

Ravi Shanker - *Morgan Stanley - Analyst*

Got it. Finally, on the PNS business again, can you help us understand what percent of the cars you service are zero to three years old versus older than three years?

John Rickel - *Group 1 Automotive Inc - SVP, CFO*

I don't have that number in my head or at hand. Perhaps we can do some research and get back to you on it.

Ravi Shanker - *Morgan Stanley - Analyst*

Sure. That is fine. Thanks very much.

Operator

The next question will come from Rick Nelson of Stephens.

Rick Nelson - *Stephens - Analyst*

I would like to address a follow-up on this new car margin pressure, whether it's across-the-board, the three segments or are you feeling it to a greater extent with the imports and, regionally, if there is big differences there? And then how quick do you think you can move on the expense side to get the flow throughs more in line with your historic norms?

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

Okay, Rick, thank you. This is Earl. The margin pressure is very widespread. I would say it was across all brands except Ford. Actually our Ford margins were up a bit, but other than that it was across all brands. I would also say half our businesses in Texas and Oklahoma -- our full size truck sales are up 17%, or are truck sales in total were up 17% for the quarter.

There's a lot of dynamics in the truck market with the sell down of '13s and the new Chevrolet Silverado and GMC Sierra coming out. There was a lot of aggressive activity in the full size truck segment. We're a big truck company. Despite the fact our Ford margins were okay, the Ford truck bit of that was pretty competitive as they were fighting the Chevrolet introduction, so there was some truck.

But Japanese brands probably more than anything, we are a big Toyota company as you know, is where the greatest margin pressure was. Relative to how quick we can adjust costs, clearly, we knew this was an issue before the quarter ended so we are probably six weeks or more into working on that. Our goal will be to make a difference immediately in this quarter, but sometimes those things take a little more time than that. We have certainly been on it for at least six weeks.

Rick Nelson - *Stephens - Analyst*

Great. Also curious on the M&A front, if the recent challenges cause you to slow up at all in acquisitions?

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

No. They don't cause us to slow up, Rick. We intend to continue to make our best effort to grow the business in all three markets where we operate. I don't have anything to announce at this time, but I'm optimistic by the end of the year we may be able to announce another action or two.

Rick Nelson - *Stephens - Analyst*

Finally, if I could ask you on the F&I side per unit came down a little year-over-year. Are you seeing any changes from lenders as a result of the CFPB?

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

Actually, our F&I total number may not have looked as strong as our actual US number was an all-time record. Our US number continues to improve. I think it was $115 up to $100,375 per unit. Our F&I business actually quite strong. The Brazil and the UK market all don't do as well. Although, we actually had an increase in the UK also. That part of the business, like our parts and service business is very strong at the moment. Let me ask John to make comments on your other part of the question.

John Rickel - *Group 1 Automotive Inc - SVP, CFO*

Yes, Rick. Earl's correct. If you look at the individual markets, particularly the US and the UK, we actually saw good growth in F&I income both on a retail business and obviously as volumes were up. What you're seeing on a consolidated basis is basically the mixed effect of the countries. And then to your question on any different behavior from the banks, no, we really are not seeing any change in their behavior. They are all obviously working hard to answer data requests from the Consumer Finance Protection Bureau. So far we have not seen any change in their buying or their terms of how they buy.

Rick Nelson - *Stephens - Analyst*

Great. Sounds good. Thanks and good luck.

John Rickel - *Group 1 Automotive Inc - SVP, CFO*

Thanks, Rick.

Operator

The next question will be from Scott Stember of Sidoti & Company

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Scott Stember - *Sidoti & Company - Analyst*

Good morning.

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

Good morning, Scott.

Scott Stember - *Sidoti & Company - Analyst*

Is there any way of talking about if you adjust for the $300 million of disposed revenue, what the unit volume and comps would have been in the US on the new car side?

John Rickel - *Group 1 Automotive Inc - SVP, CFO*

Scott, this is John. Yes. I can talk to you on a same-store basis.

Scott Stember - *Sidoti & Company - Analyst*

Yes. Same-store basis.

John Rickel - *Group 1 Automotive Inc - SVP, CFO*

Probably the best way to look at it. Same-store new vehicle retail revenue would have been up, it was up, on a same-store basis 6.9% driven primarily by a 6.2% increase in new vehicle retail unit sales.

Scott Stember - *Sidoti & Company - Analyst*

Okay. Got you. Can you talk about the parts and service business, maybe the comps by region? Or was there not that much of a divergence?

John Rickel - *Group 1 Automotive Inc - SVP, CFO*

There really wasn't that much of a divergence. The US was up about the 8% and the UK was up a little bit more than that. In total, both were within the same bandwidth.

Scott Stember - *Sidoti & Company - Analyst*

Okay. And maybe you could, with Brazil in mind, talk about some of the additional moves that you plan on making and how far along do you think you are with respect to what you think you totally need to get done?

John Rickel - *Group 1 Automotive Inc - SVP, CFO*

Yes. Like most markets outside the US -- Europe or South America, it takes longer to make personnel changes in Brazil. We mentioned that reduction of about 50 heads there. There is union contracts that are kind of annual that you have to work with and other labor regulations and laws. Obviously, we have a very experienced local team that is managing through that.

We will probably still have some severance costs in Q4, although I don't think they'll be quite as big as they were in Q3. It will take some time. We are also changing some of the pay plans within our field operating and dealership teams to have a component relating to either gross or net profit, which is a little more the way we operate and not as traditional in Brazil. Those changes will probably take another three months to six months too really settle in.

Scott Stember - *Sidoti & Company - Analyst*

Great. And last question, John, on the share count to make sure that we all get it right going forward. Are we looking at, obviously with the stock paring back here a little bit -- is it safe to assume in the 26 million range going forward for the foreseeable future?

John Rickel - *Group 1 Automotive Inc - SVP, CFO*

Scott, you hit on an important point there. You obviously will have to continue to adjust for what goes on with stock price. We have the tables in the presentation on our website that give you the diluted impact of the convertibles at various share prices. You're going to have to continue to adjust quarter-to-quarter based on where the stock is trading.

Scott Stember - *Sidoti & Company - Analyst*

Great. That's all I have. Thank you.

John Rickel - *Group 1 Automotive Inc - SVP, CFO*

Thank you.

Operator

Our next question is from Brett Hoselton of KeyBanc.

Brett Hoselton - *KeyBanc - Analyst*

Good morning, gentlemen.

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

Good morning, Brett.

Brett Hoselton - *KeyBanc - Analyst*

And ladies. I wanted to first ask you about gross profit per unit on the new vehicle segment. Obviously you've made some acquisitions in both Brazil and the UK and we're kind of looking at these numbers. I'm wondering as you think about gross profit per new unit, maybe you can comment on this regionally, would you consider the current level you reported here in the third quarter to be a reasonable go-forward expectation? Or was there something materially better or worse in the quarter that might cause it to improve or decrease going forward?

John Rickel - *Group 1 Automotive Inc - SVP, CFO*

Brett, this is John. I guess the levels within each of the markets, obviously, we saw pressure as we have talked about. We don't see anything near-term that changes that. I guess the individual market levels are kind of where they're at. You can always get mix among changes. Obviously, third quarter is the strongest quarter for the UK. That's going to contribute a little bit more. That will fall off in fourth quarter just given normal seasonality of that market. You're going to have to watch the swings and roundabouts from the country mix, would be the main thing I would tell you to watch.

Brett Hoselton - *KeyBanc - Analyst*

And then as you think about -- similar question on the used vehicle side, your thoughts there? With used vehicle price declining here in the US, certainly, does that give you an opportunity to potentially improve your gross profit per unit on the used side or do you think that might remain stable and you just benefit from higher sales?

John Rickel - *Group 1 Automotive Inc - SVP, CFO*

I expect the used margins will remain somewhat stable. I would like to see us do a little better than we did in the quarter. I think we were moving some units out of retail at lower margins so we didn't need to wholesale them. I think we can do a little better than that, but I expect it to be stable. There is projected kind of 1.5% overall used vehicle price level decrease in the months ahead. It is fairly typical due to seasonality.

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

Perhaps the one thing that helps us, John, that potentially helps us going into next year is that we do start to get a better flow of units coming off lease here in the US. Those tend to be good used car pieces for us. They are low mileage, later model, great for the CPO business. I think there is some potential going into next year that we get some benefit from that.

Brett Hoselton - *KeyBanc - Analyst*

And then can you talk about gross profit throughput. Obviously, you've had a lot of acquisitions and so forth which have affected the calculation there. Maybe you could talk about gross profit throughput in the quarter on a same-store sales basis. I don't know how you're thinking about it these days. More importantly, as you think about the next two, three, four, five quarters, I know that your target has traditionally been 50%, but how should we be thinking about that gross profit throughput as we move forward?

John Rickel - *Group 1 Automotive Inc - SVP, CFO*

Brett, this is John. You are right. Our longer-term goal is certainly in that 50% range. We clearly were significantly below that for the quarter. Probably closer to 25%, 26% flow through on a same-store basis which was why SG&A was basically unchanged. Near-term, it is difficult to tell. Obviously it's going to be a combination of the speed at which the cost reductions kick in versus what happens with the competitive environment with margins.

Brett Hoselton - *KeyBanc - Analyst*

Okay. Excellent. Thank you very much.

John Rickel - *Group 1 Automotive Inc - SVP, CFO*

Thank you.

Operator

The next question is from Matt Nemer of Wells Fargo.

Matt Nemer - *Wells Fargo - Analyst*

Good morning, everyone.

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

Good morning, Matt.

Matt Nemer - *Wells Fargo - Analyst*

I hate to do it, but one more question on new vehicle grosses. Is there a way to parse out how much of this pressure is transitory, i.e. the J3 share grab or the truck launches versus what I would think are more permanent issues like transparency.

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

Good question. I wish I had an answer. We talk about this subject almost every day around here and I still don't think I have a good answer for your question, Matt. We are operating the business and which is why we have invested so much in Parts and Service, F&I, used vehicles, in that. A great percentage of decline we have seen in recent years is going to become more permanent. To the degree we can shift brand mix and things, we can help that a bit. I think a big part of it is going to be somewhat structural in the future.

Matt Nemer - *Wells Fargo - Analyst*

And I guess given that -- does that cause you -- since part of this is a permanent change, does it cause you to think about the way you think about advertising, spend or type or maybe even your pricing strategy, your go-to-market strategy?

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

Yes, it does, in many ways. We've been wrestling with that for a long time. It is also not just related to the transparency. It is also related to digital marketing. A lot more of our business comes via Internet leads which are driven by digital marketing. We have to be much more efficient in our media spend and much more of our media spend in recent years has been digital. It does have tails in almost every area of our business. We've been operating under that assumption for quite a long time.

Matt Nemer - *Wells Fargo - Analyst*

Okay. And just a follow-up on the service business. Again, is there any way to parse out the benefit of some of the internal initiatives that you have been working on like the service call handling process? I realize that a piece of this is the market, but is there any way to quantify the internal benefits that you've have been driving?

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

Matt, this is John. I'd give you one kind of macro way, is look what our competitors are doing and look how much we're outperforming them. If it was just the market we ought to be all up kind of the same amount.

Matt Nemer - *Wells Fargo - Analyst*

Fair point. Also, on service, the collision growth has been really strong which I think is partly due to new facilities. Does that, as you look into the future, does the 20% growth rate sustain because you have other new facilities that are coming online? How should we model that going forward?

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

I don't think you can model 20%. We have some shops that we have launched in the last 12 months to 18 months that are starting to mature. It takes a while for these shops ramp-up and to get insurance providers supporting them and so forth. We have been operating for a couple of years now and we will continue to try to add two or three new shops a year. We also, in this most recent quarter, I don't think we had much benefit from some hailstorms that we had in the previous quarter. Our goal will be for high-single digit year-over-year growth in that area. We'll probably set our internal targets at low double-digit.

Matt Nemer - *Wells Fargo - Analyst*

Okay. That's helpful. Lastly, the parts and service margin, despite this very strong growth, the percentage margin has been down a little bit. Is that mix between segments or geographic mix? I would think that as you drive capacity utilization across all of your segments and service that that would trend higher over time.

John Rickel - *Group 1 Automotive Inc - SVP, CFO*

Matt, this is John Rickel. It's basically geographic mix. If you look within the countries, the US margins, in particular, have moved up almost a full percentage point. It's basically the impact of Brazil and UK which are our lower-margin, primarily in the warranty arena where we don't get full reimbursement at retail rates in those two countries.

Matt Nemer - *Wells Fargo - Analyst*

Got it. Thanks so much.

John Rickel - *Group 1 Automotive Inc - SVP, CFO*

Thank you.

Operator

(Operator Instructions

Our next question is from Bill Armstrong of CL King & Associates.

Bill Armstrong - *CL King & Associates - Analyst*

To our favorite topic, gross profit per car in the US, some of the other public retailers had actual slight increases year-over-year. Was there any difference in the way you approached the market? In the way you guys went after stair-step incentives? Anything like that that you could call out or that you are aware of that may, number one explain why your decline was greater than some of the others? Number two, might, these declines might mitigate a little bit going forward?

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

Well, I don't know if I can speak with any degree of authority on the other companies. I know that our brand mix is generally very heavy in the Japanese big three. We have been pushing a lot of volume and aggressively attacking with those brands. Our luxury brand mix may also not be the same as a couple other companies. I know of a couple that have far bigger luxury brand mixes than we do.

Our Northeast region where we do a considerable amount of business, the overall market there hasn't been as strong this year as it has been across the southern half of the country, including California. I know Florida is in a rebound also. We don't have much in Florida. That is about all I could say, is that I think there is probably a little different brand and geography mix for each country. We are pushing hard with the Japanese brands and we're having to push a little harder in the Northeast than we are other places.

Bill Armstrong - *CL King & Associates - Analyst*

Okay. And then in the US, as far as UK gross profit per unit also is down. Is that more of a mix issue with Ford?

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

We have only operated Ford dealerships there since March. Of course, in a play change month like September, March or September, the two play change months in the UK, there's a lot of fleet vehicles registered. The Ford business has a pretty high fleet component. And it is profitable fleet, but you're moving a lot of units at much different margins with Ford than you might be at BMW and Audi which are our other two brands in the UK.

Bill Armstrong - *CL King & Associates - Analyst*

Okay. And just in the UK, I'm not sure if you have this handy, same-store unit sales on used and new. You have that?

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

We've got it. For the UK, new vehicle retail sales were up 17.8% and retail used vehicles were up 14.1%. So a really strong performance by our UK team.

John Rickel - *Group 1 Automotive Inc - SVP, CFO*

That does not include Ford. That's same-store. We didn't own the Ford dealerships a year ago.

Bill Armstrong - *CL King & Associates - Analyst*

Right. What would it be on a total revenue basis?

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

Total revenue same-store was up 14.4%.

Bill Armstrong - *CL King & Associates - Analyst*

Okay. Great. Thank you.

Operator

That does conclude our question-and-answer session. I would like to turn the call back over to Earl Hesterberg for any closing remarks.

Earl Hesterberg - *Group 1 Automotive Inc - President, CEO*

Thanks everyone for joining us today. We look forward to updating you on our fourth quarter earnings call. Thank you.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.