Company Name: Group 1 Automotive
Company Ticker: GPI US
Date: 2015-02-05
Event Description: Q4 2014 Earnings Call

Market Cap: 2,041.32
Current PX: 83.99
YTD Change($): -5.63
YTD Change(%): -6.282

Bloomberg Estimates - EPS
Current Quarter: 1.369
Current Year: 6.441
Bloomberg Estimates - Sales
Current Quarter: 2444.167
Current Year: 10525.182

Q4 2014 Earnings Call

Company Participants

- Peter C. DeLongchamps
- Earl J. Hesterberg
- John C. Rickel

Other Participants

- N. Richard Nelson
- Brett D. Hoselton
- James Albertine
- David Whiston
- David H. Lim
- William R. Armstrong
- Scott L. Stember
- John J. Murphy

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and welcome to Group 1 Automotive's Fourth Quarter and Full-Year Earnings Conference Call. All participants will be in listen-only mode. [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 Mr. Pete DeLongchamps, Group 1's Vice President of Manufacturer Relations, Financial Services and Public Affairs. Please go ahead.

Peter C. DeLongchamps

Thank you, Amy, and good morning, everyone, and welcome to today's call. The earnings release we issued this morning and a related slide presentation that includes reconciliations related to the adjusted results we'll refer to on this call for comparison purposes have been posted to the Group 1 website. Before we begin, I'd 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 pursuant to the Safe Harbor provisions 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 the market. 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 also 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 on any such non-GAAP financial measures to the most-directly comparable GAAP measures on its website.

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

I would now like to hand the call over to Earl.

Earl J. Hesterberg

Thank you, Pete, and good morning, everyone. For the full year of 2014, Group 1 reported an 18.3% increase in adjusted earnings per diluted share to an all-time record of $5.87. Adjusted net income increased 16.1% to $151.7 million, marking a fifth consecutive year of double-digit net income growth.

During 2014, Group 1 retailed approximately 167,000 new vehicles and 110,000 used units, driving $1 billion increase in revenue to a record $9.9 billion. This equates to 11.4% growth and marks the fifth consecutive year that we have also grown revenue by double digits.

For the full year, revenue increased across each of our business segments with new vehicles up 9.9% and double-digit growth in used vehicles, up 14%; parts and service up 11.4%; and finance and insurance up 17.7%. We did a better job leveraging this revenue growth. And as a result, our adjusted SG&A as a percent of gross profit improved 90 basis points to 73.9% for 2014.

And finally, we made a significant improvement to our capital structure by extinguishing our convertible debt during the year. Removing these instruments from our balance sheet significantly reduced our fully-diluted share count and greatly simplified our capital structure, making our company's results easier to understand and providing a clear linkage between growth and net income and earnings per share.

Turning now to our fourth quarter results, on an adjusted basis, Group 1 earned $40.7 million in fourth quarter, which equates to an all-time any quarter record of $1.67 per diluted share. On a GAAP basis, net income and EPS were $18.7 million and $0.77, respectively. John will cover the adjustments in his comments shortly.

For the quarter, total revenue increased $259.4 million or 11.4% to a fourth quarter record of $2.5 billion. Turning to our business segments, total consolidated new vehicle revenues grew 9.9% as we retailed 8.4% more units. New vehicle gross profit increased 13.1% as gross profit per unit increased $83 to $1,973 as the average new vehicle selling price increased $477 to $35,203. During the quarter, we retailed 42,200 new vehicles.

Our new vehicle unit sales geographic mix was 80.6% U.S., 11% Brazil and 8.4% UK. Our new vehicle brand mix was led by Toyota, Lexus sales, which accounted for 25.4% of our new vehicle unit sales. BMW/MINI, Honda Acura and Ford all represented over 10% of our new vehicle unit sales. Nissan was at 9.7% and GM and Mercedes increased their share of Group 1's new vehicle unit sales during the quarter. U.S. new vehicle inventory stood at 29,500 units, which equates to a 68-day supply compared to a 77-day supply for the fourth quarter of 2013.

Total consolidated used vehicle retail revenues grew 15.6% as we retailed 15.1% more units during the quarter. U.S. same-store retail units increased 9.2% with same-store certified pre-owned units increasing 13.6%. Used vehicle retail gross profit increased 14.4% as the average used vehicle selling price increased $78 to $21,157.

During the quarter, we retailed 27,500 used retail units. U.S. used vehicle inventories stood at 12,220 units, which equates to a 32-day supply compared to a 35-day supply for the fourth quarter of 2013. Total consolidated parts and service revenue increased 9.5%, while consolidated parts and service gross profit rose 9.0%. Same-store parts and service gross profit grew 5.5% on 6% higher revenues with U.S. same-store gross profit up 7.5% on 7.3% higher revenues.

Within finance and insurance, a combination of increased profitability per unit, coupled with higher volumes, drove a total gross profit increase of 21.3% on a consolidated basis. Total consolidated F&I increased $117 to $1,373 per retail unit. Our same-store consolidated F&I income per retail unit increased $86 to $1,368 with substantial improvements in each of the three country groups. U.S. same-store F&I increased $70 to an all-time quarterly record of $1,521 per unit.

Regarding our geographic segment results, our U.S. operations had strong growth of total revenue increasing 13.1%, driven by the improving U.S. sales environment and recent acquisitions. Our UK operations had another good quarter with total revenue growth of 19.6%, driven by the acquisition of three BMW/MINI stores, and supported by growth across all segments of the new vehicle, used vehicle, parts and service and F&I business at our existing stores.

For Brazil, the market remained soft, down 4% for the industry in the fourth quarter. The disposition of three Renault stores as well as the weaker exchange rate drove a revenue decrease of 10.4% for the quarter. On a same-store local currency basis, revenues increased 2.7% and gross profit increased 4.8%. Strong cost reduction efforts more than offset the revenue declines, allowing Brazil to post another quarter of profitability.

Relative to our cost performance, on an overall consolidated basis, adjusted selling, general and administrative expenses as a percent of gross profit improved 360 basis points to 72.7%.

Regionally, total adjusted SG&A as a percent of gross profit improved 350 basis points in the U.S., 660 basis points in Brazil. The UK increased 220 basis points due the previously-announced acquisition of three sizeable BMW/MINI dealerships in late December.

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

John C. Rickel

Thank you, Earl. Good morning, everyone. Our adjusted net income for the fourth quarter of 2014 was $11.8 million or 40.7% over our comparable 2013 results to $40.7 million. On a fully diluted per share basis, adjusted earnings increased 54.6% to $1.67, an all-time record for any quarter. These quarterly results for 2014 exclude $22 million of net after-tax adjustments, consisting of $19.9 million of non-cash intangible asset impairments, primarily associated with our Peugeot and Nissan franchises in Brazil, as well as two parcels of real estate that are held for sale in the U.S, and a $1.6 million net loss on dealership dispositions.

The comparable results for the fourth quarter of 2013 excluded a $3.6 million valuation allowance for certain deferred tax assets, $3.3 million of asset impairment charges and $237,000 of severance costs associated with restructuring activities. For the full year, our adjusted net income rose $21 million or 16.1% to an all-time record of $151.7 million. On a fully diluted per share basis, adjusted earnings increased 18.3% to a record $5.87.

Revenue grew 11.4% to a full-year record of over $9.9 billion, driven by strong increases in each line of business. Our gross profit increased 12% to over $1.4 billion, reflecting the strong revenue growth and a 10 basis point expansion in our gross margin to 14.6%. We leveraged this growth with adjusted SG&A as a percent of gross profit declining 90 basis points to 73.9% and adjusted operating margin expanding 20 basis points to 3.4%.

Starting with the summary of our quarterly consolidated results; for the quarter, we generated $2.5 billion in total revenues. This was an improvement of $259.4 million or 11.4% over the same period a year ago and reflects healthy increases in each of our business units. Our gross profit increased $44.6 million or 13.9% from the fourth quarter a year ago to $366 million.

For the quarter, adjusted SG&A as a percent of gross profit improved 360 basis points to 72.7% and adjusted operating margin was 3.5%, an increase of 60 basis points from the same period a year ago.

Floorplan interest expense decreased roughly $800,000 or 7.6% from prior year to $9.9 million, primarily due to lower floorplan borrowings in Brazil. Other interest expense increased $3.2 million or 31.2% to $13.4 million. This increase is primarily attributable to an increase in weighted average debt outstanding related to our issuance of $550 million of 5% bonds used to retire our 2.25% and 3% convertible notes during the second and third quarters. Our adjusted consolidated effective tax rate for the quarter was 38%.

Now, turning to fourth quarter same-store results; for the quarter, we reported revenues of $2.3 billion, which was $150.4 million or a 7% increase from the comparable 2013 period. Within this total, new vehicle revenue was up 6.5% and used vehicle retail revenues improved 8.6%. Both finance and insurance and parts and service delivered another strong quarter, growing revenues 13.9% and 6%, respectively.

New vehicle revenue increased $82.8 million to $1.3 billion on a 5.7% increase in unit sales and an increase in our average new vehicle sales price of $269 to $34,915 per unit. By country, same-store new vehicle unit sales increased 6.6% in the U.S., 10.4% in the UK, and decreased 2.7% in Brazil.

Our used retail revenues improved $41.3 million to $520.6 million on an 8.3% increase in unit sales as U.S. certified pre-owned unit growth of 13.6% helped drive sales. By country, same-store used retail vehicle unit sales increased 9.2% in the U.S., 5.7% in the UK and decreased roughly 1% in Brazil. F&I per retail unit rose 6.7% to $1,368, driven by increases in income per contract and penetration rates for most of our major product offerings.

The 6% revenue growth in parts and service is explained by increases of 12.2% in collision, 10.3% in warranty, 10.3% in wholesale parts and approximately 1% in customer pay. As has been previously mentioned, as manufacturer paid maintenance continues to expand in the U.S., there's an ongoing shift of business from customer pay to warranty.

As a reminder, our parts and service revenues are not impacted by increases in internal business. The revenue associated with internal work is eliminated upon consolidation. This varies across the sector as some of our competitors account for internal work differently.

In aggregate, our same-store gross profit grew $25.9 million or 8.5% to $330.4 million. Our same-store new vehicle gross profit dollars increased 7.8%, reflecting the 5.7% increase in unit sales mentioned previously, combined with a $37 increase in gross profit per unit to $1,910. Within that total, U.S. new vehicle gross profit per unit was up $75 to $1,871. Our used vehicle retail gross profit increased 5.9%, as the 8.3% increase in unit sales was partially offset by a gross profit per unit decrease of $33 to $1,476. Our F&I gross profit grew $10.6 million or 13.9%, reflecting 6.7% increases in both PRU and retail unit sales.

Finally, parts and service gross profit grew $7 million or 5.5%, reflecting the strong revenue growth mentioned previously, which was partially offset by a 30 basis point decline in margins to 52%. The decrease is more than explained by country mix change as deteriorations in our UK and Brazilian parts and service margins more than offset the 10 basis point improvement in the U.S.

For the fourth quarter, we grew our total gross profit by $25.9 million, while adjusted SG&A expenses increased just $10.6 million. This equates to a gross profit flow-through of approximately 59% and, as a result, our adjusted SG&A as a percent of gross profit decreased 270 basis points to 72.7%. This extraordinary level of flow-through is explained by the cost cutting in Brazil over the back half of 2014. We would expect to return to our guided range of 40% to 50% in a normalized environment.

Turning now to our geographic segments, starting with the U.S. market on an actual basis. For the quarter, total U.S. revenues grew 13.1% to $2.1 billion, driven by increases of 21% in F&I revenue, 15.4% in total used vehicle revenue, 12.1% in new vehicle revenue and 10.6% in parts and service revenue.

The increase in our parts and service revenues reflects growth in all areas of the business and our F&I revenue growth reflects a 12.8% increase in retail vehicle sales volumes, coupled with improved profitability per retail unit, which grew $103 or 7.3% to $1,521, an all-time quarterly record. Total gross profit improved 16.4%, driven by increases of 22.9% in used vehicles, 17.9% in new vehicles and 11.2% in parts and service, as well as the F&I increase that I just mentioned.

For the fourth quarter, we grew gross profit by $44.7 million, while adjusted SG&A expenses increased just $22.2 million, resulting in gross profit flow-through of 50%. As a result, our adjusted SG&A as a percent of gross profit improved 350 basis points to 70.9%. Adjusted operating margin for the U.S. business segment increased 60 basis points to 3.9%.

Related to our UK segment, as previously announced, we closed on our purchase of three BMW/MINI dealerships on December 1 with annual estimated revenues of $225 million. Our UK operating team delivered a good quarter considering the transition associated with these stores.

For the quarter, total revenue increased $38.7 million to more than $236 million. Gross profit for the UK segment was up 10.1% from the prior year. New vehicle gross profit grew 11% as an increase of 19.7% in unit sales was partially offset by declining gross profit per unit of $167 to $2,130, roughly half of which can be explained by weaker exchange rate.

Used vehicle retail gross profit declined 5.7% as a 13.5% increase in retail units was more than offset by a decrease of $312 in gross profit per unit to $1,535, which was roughly flat on a sequential basis. Parts and service gross profit improved 8.1% and our F&I income increased 45.4%, which is attributable to a 24.4% increase in gross profit per retail unit to $817 and a 17% increase in total retail units.

During the fourth quarter, our SG&A as a percent of gross profit increased 220 basis points to 84.9% with nearly all of the increase explained by the December acquisition. As we assimilate these new stores, we expect the SG&A performance to come in line with our existing operations. Operating margins in the UK business segment declined 50 basis points to 1.3%, also as a result of the December acquisition.

Related to our Brazil segment, on a macro basis, the economy continues to be challenging, but has begun to level off on a prior-year comparable basis. Also, as was previously announced, we disposed of three Renault dealerships during the quarter. As such, my comments will be on a same-store basis.

As Earl mentioned, the total industry new unit volume decreased roughly 4% from the fourth quarter of 2013. Despite this, our total gross profit increased 4.8% on a local currency basis. However, a weaker exchange rate caused reported gross profit to decline 6.2% from the prior year. New vehicle gross profit declined 6.3%, reflecting a decline of 2.7% in unit sales combined with the decline in gross profit per unit of $78 to $2,007. Used vehicle retail gross profit increased 27.4% as flat retail unit sales were aided by an increase of $222 in gross profit per unit to $1,010.

Parts and service gross profit declined 16.3%, primarily explained by the weaker exchange rate. And our F&I income increased 10.3%, which is attributable to a 12.8% increase in gross profit per retail unit to $537. The head count reductions discussed by Earl on last quarter's call continue to drive cost efficiencies as we realized an 830 basis point improvement in adjusted SG&A as a percent of gross profit from 89.8% in the prior year to 81.5% this quarter.

Not only did we see year-over-year improvement, but on a sequential actual basis, our SG&A decreased 290 basis points, as further cuts were made in the quarter. This drove a 90 basis point increase in our year-over-year same-store operating margin to 1.8%. It should be noted that even though we have made significant cost reductions, the first quarter is seasonally the weakest due to summer vacations and carnival.

Additionally, the total industry volume in Q1 will likely be negatively impacted by the expiration of the government-sponsored auto purchase tax incentive at the end of 2014. Therefore, we do not expect to be profitable next quarter. We do, however, expect to be profitable for the full-year in Brazil.

Turning to our consolidated liquidity and capital structure, as of December 31, 2014, we had $41 million of cash on hand and another $62.1 million that was invested in our floorplan offset account, bringing immediately-available funds to a total of $103.1 million. In addition, we had $207.1 million available on our acquisition line that can also be used for general corporate purposes. As such, our total liquidity at year-end was $310.2 million.

With regards to our real estate investment portfolio, we purchased approximately $70 million of property in the fourth quarter, bringing our full-year real estate purchases to approximately $140 million. As of December 31, we owned $746 million of land and buildings, which represents 46% of our dealership locations. To financing holdings, we've utilized our mortgage facility and executed borrowings under other real estate-specific debt agreements.

As of December 31, we had $58 million outstanding under our mortgage facility and $338.8 million of other real estate debt excluding capital leases. During the fourth quarter, we repurchased approximately 37,000 shares of our outstanding stock, bringing our total 2014 repurchases to approximately 537,000 shares at an average price of $68.51

for a total of $36.8 million. As of December 31, we had $99.4 million of share repurchase authorization remaining.

Also, as previously announced, we extinguished all of our convertible notes during the year, which has reduced our fully diluted share count by over 2.7 shares when calculated using the average 2014 share price of $75.22.

In the fourth quarter, we used $4.8 million to pay dividends of $0.19 per share, an increase of $0.02 per share over the prior year. For the full year, we used $17.1 million to pay dividends of $0.70 per share, a 7.7% increase over 2013. 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 J. Hesterberg

Thanks, John. Related to our corporate development efforts, fourth quarter included the acquisition of three BMW/MINI dealerships in the UK. We also received an [ph] ad (25:24) point for our Sprinter franchise in Beaumont, Texas. During 2014, we acquired a total of 19 franchises that are expected to generate roughly $910 million in annual revenues. We divested four franchises during the fourth quarter, which included one Fiat franchise in Houston Texas and three Renault franchises in Brazil.

Overall, during 2014, we divested 12 franchises that generated approximately $450 million in annual revenues. We continue to adjust our dealership portfolio to ensure we're generating appropriate returns for our shareholders.

Before I turn the call over to the operator for your questions, let me update you on our market outlook for 2015. For the U.S., we expect to see continued growth in the overall new vehicle industry. Total new vehicle sales in 2014 came in at 16.5 million unit with the pace increasing as the year progressed. Having the improving pace across the year, coupled now with lower gas prices and improving consumer confidence, we're looking for a 17 million unit total industry in the U.S. for 2015. Within that total, we're closely monitoring sales and market such as Houston and the State of Oklahoma, which are fairy dependent on the oil and gas business.

Through this weekend, we have not seen any slowing. Our stores continue to report strong traffic and sales consistent with overall industry trends. We see any slowing in these markets, we will adjust costs accordingly. For the UK, we expect the market to be up slightly to around 2.5 million units; and for Brazil, we expect the market to be flat with 2014 levels of roughly 3.3 million units.

Within that total, we anticipate the first several months to be weaker as the market adjusts to the IPI tax increase that occurred at the start of the year. As John indicated, because of seasonal factors, we expect our first quarter results to be weak, but the cost reductions the team has implemented over the last six months should allow us to be profitable on a full-year basis.

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

Q&A

Operator

[Operator Instructions] Our first question comes from Rick Nelson at Stephens.

<Q - N. Richard Nelson>: Thanks and good morning.

<A - Earl J. Hesterberg>: Good morning, Rick.

<A - John C. Rickel>: Good morning.

<Q - N. Richard Nelson>: You have made some terrific gains year-over-year in SG&A. And curious if you think those ratios can be sustained or improved. And is it more of a function now of getting the grosses up where there's no cost opportunities?

<A - John C. Rickel>: Yeah, Rick. This is John Rickel. Obviously, the gross is part of the equation, but we continue to be comfortable with the guidance that we've given that on a go-forward basis if we can continue to grow gross profit, we should be able to leverage that with 40% to 50% sort of flow-through level. So, if we're right that the market continues to grow, particularly here in the U.S., there should be an opportunity to continue to leverage that.

<Q - N. Richard Nelson>: Thanks for that. And then, Texas, is it a situation where you would make adjustments in advance of any downturn or you're waiting to see sales develop and then adjust accordingly?

<A - Earl J. Hesterberg>: Yes, Rick. This is Earl. We've already made some adjustments in advance in some of the energy-dependent markets. So, yeah, you need to be in front of those things a bit.

<Q - N. Richard Nelson>: And finally, if I could ask about F&I, big, big gains actually across the chain. I think the U.S. now leads the sector, UK, Brazil. How much more opportunity do you see there, I guess, especially in the UK and Brazil, which will lag the U.S.?

<A - Peter C. DeLongchamps>: Hey, Rick. This is Pete DeLongchamps. We do have additional opportunities in the UK and Brazil and we're working on those closely. And in regard to the U.S., we're comfortable with where we are. And it's a function of working on underperforming dealerships. And we have our processes in place. So, we're very comfortable with the business model we have now, which is – it's improving, the dealerships that maybe aren't as proficient or on average with the other brands.

<Q - N. Richard Nelson>: Okay. Thanks a lot, and good luck.

<A - Earl J. Hesterberg>: Thanks, Rick.

Operator

Our next question comes from Brett Hoselton at KeyBanc.

<Q - Brett D. Hoselton>: Good morning, Earl, John, Pete.

<A - Earl J. Hesterberg>: Good morning.

<A - Peter C. DeLongchamps>: Good morning, Brett.

<Q - Brett D. Hoselton>: John, I think you've done a fair amount of work in considering the oil and gas and potential impact on new vehicle sales and so forth. I know you haven't seen anything else as of this past weekend. But I'm kind of wondering, as you've kind of thought through that, what you may be able to add to your – how are you thinking about that impact? What are you seeing as the potential puts and takes, pros and cons and where you might actually see some impact, if at all?

<A - John C. Rickel>: Well, Brett, this is John. There's obviously multiple factors at play here. Overall, for auto sales across the country, it should be a positive. The lower oil prices are translating to significant reductions at gas prices at the pump. That puts additional discretionary money in consumers' pocket. So, on a macro basis, I think it's good for auto sales. Where we're watching specifically, as Earl indicated, are markets that have heavier exposure to the oil and gas industry. For us, that would be, primarily, Houston and, to a lesser degree, kind of Oklahoma. As Earl indicated, we have not seen any impact so far, but we are monitoring it and started to take some cost-reduction actions. But so far, the market's holding up.

And I think one of the challenges with this is this is different than kind of the prior oil bust in the mid-1980s. Houston economy is diversified. There's a lot of medical services here. So, we're just going to have to watch and adjust on the fly, but we're monitoring it closely.

<Q - Brett D. Hoselton>: Can you just roughly quantify the exposure to those markets that you're reciting?

<A - Earl J. Hesterberg>: Well, the State of Texas is 36% of our business. I would guess, about half of that would be in Southern Texas, which would be more in the heavy energy belt. And then, the State of Oklahoma is about 8%. That's of our total vehicle sales.

<Q - Brett D. Hoselton>: And then, as we think about switching gears, gross profit throughput, very strong in the quarter. And my question is how do we think about the potential puts and takes, the drivers of what appeared to be some very good gross profit throughput? Was there some unusual items? I think last year, for example, you had some spending and maybe you had some easier comps. How do we think about that?

<A - John C. Rickel>: Yeah, Brett. This is John, again. I mean, the basic overall guidance that we provide on this is that, overall, 40% to 50% on a same-store basis of incremental gross profit that we generate, we should be able to deliver through. We did better than that this quarter. Some of that was driven by the extraordinary cost cutting that's going on in Brazil allow them to overachieve. That, obviously, doesn't repeat. So, I think that 40% to 50% range is a good one to think about.

<Q - Brett D. Hoselton>: Excellent. Thank you very much, gentlemen.

<A - John C. Rickel>: Thank you.

Operator

The next question comes from Jamie Albertine at Stifel.

<Q - James Albertine>: Good morning, gentlemen. Thanks for taking the question.

<A - Earl J. Hesterberg>: Good morning, Jamie.

<A - John C. Rickel>: Hey, Jamie.

<Q - James Albertine>: I just had a quick housekeeping item, first, your tax rate in the fourth quarter, by our math, on a GAAP basis, looked somewhat higher than the 38% or so, on an adjusted basis. I think we calculated 43.6%. So, what may be impacted that from a GAAP perspective on the tax rate, first? And then, a bigger-picture question on sort of M&A.

<A - John C. Rickel>: Sure, Jamie. This is John. You're right. That's the exact number that I recognize. Our GAAP rate was 43.6%. The non-GAAP rate was 38%. So, the differential was 5.6 percentage point, and that's basically all explained by the loss on the Renault disposition that happened in Brazil, was basically, at present time, not deductible. Those losses are trapped in an entity that doesn't have income. If we're able to do something in the future with how we structure down there, we might be able to recover some of that. But for the time being, the proper accounting is that we're not able to deduct those losses on the Renault disposition.

<Q - James Albertine>: Very helpful. So, we should still think about 38% or so kind of going forward?

<A - John C. Rickel>: Yes. Yeah, that's the right go-forward rate to think about.

<Q - James Albertine>: Okay. Great. And given the rebalancing effort you've had – you've undergone in the U.S., is it fair to say, I guess; first, you've sort of got the U.S. portfolio to where you wanted, and then, in light of that, what are your priorities from a capital allocation perspective? And how do you think about M&A? And how important is M&A to the future, the next phase, if you will, of your growth story?

<A - Earl J. Hesterberg>: Well, I think M&A is important, because I think at the size our company is at, scale helps us. But that said, I think prices in the U.S. acquisitions are fairly high, but we still would prioritize growth as our best use of our capital. Similar in the UK, we've deliberately grown that from beginning with 3 dealerships to now 17. And we have three now we need to work to absorb here that we took over in December. So, the opportunities in the UK are not nearly as plentiful, but we still have an interest to grow in the UK.

And in Brazil, we still have some work to do to shift around our portfolio a little bit there. You're seeing us do some work with that and we'll continue to do that this year. There are far more opportunities in Brazil than we could ever act upon. That's a totally different environment. But we're going to continue to strengthen that core business there and, in particular, lower our cost structure a bit.

<Q - James Albertine>: I appreciate that. And just to clarify, we shouldn't expect any more dispositions to the extent that we saw in 2014 kind of going forward, is my next question. And then, lastly, if I can sneak another in on Texas, you said no impact. Does that include any potential segmentation shift between cars and trucks? Thanks.

<A - Earl J. Hesterberg>: First, on dispositions, I don't in the near term anticipate any major ones in the U.S. but I think it's always possible to have some small ones, because it's our job to continue to free up frozen capital and make sure we get a good return. But I don't see anything major in the U.S. at the moment. In Brazil, I think there'll be some more dispositions and acquisitions.

<A - John C. Rickel>: And then, Jamie, on your question on segmentation shift, we are seeing a little bit of strengthening in SUVs and pickups and a little bit of fall off in things like compact cars. So, on the margin, that's a positive as well.

<Q - James Albertine>: Thanks again. Appreciate the color, guys, and good luck.

Operator

The next question comes from David Wilson (sic) [David Whiston] (37:44) at Morningstar.

<Q - David Whiston>: Good morning.

<A - John C. Rickel>: Good morning, David.

<Q - David Whiston>: Two questions. The first, could you – I can't remember you talked about this previously. Can you just talk a little bit about why you disposed those Renault stores in Brazil, given that [ph] UAD (37:59) wasn't that long ago?

<A - Earl J. Hesterberg>: They weren't in – we didn't believe they were good long-term business proposition given their cost structure and the future of that brand. Thought we could make more money by investing that money elsewhere.

<Q - David Whiston>: Yeah. And have you done any scenario planning on Brazil if it were to go well below 3.3 million this year?

<A - Earl J. Hesterberg>: Yes. Yeah, we always do that and that's one of the reasons we're making some adjustments to get lower cost structure in Brazil.

<Q - David Whiston>: Okay. And last question. Given your pickup truck expertise in Texas and Oklahoma, I'd be curious to hear your thoughts on GM's new mid-sized trucks versus the Toyota Tacoma for this year?

<A - Earl J. Hesterberg>: Well, the Toyota Tacoma is kind of an icon. That's rock solid. If you ever look at what used Tacoma brings, look just about like the price of a new Tacoma. So, I don't think anything is going to happen to the Tacoma. But I think the new entry from General Motors have been very well-received and I think there is room to expand that segment. Some of that comes from the fact that full-sized trucks have moved up in transaction price point over the years.

So, I think there's – I don't think anything is going to happen competitively to the Tacoma. They've sold everyone they can make for a long time and I think they'll continue to, and Toyota to sell everyone they can make. But the new GM product seems to be doing nicely in the marketplace and I think it's going to do – it's going to fit in very well.

<Q - David Whiston>: Okay. And just following up on that, could you expand a little bit, in your opinion, over the years, what makes the consumer at the – who wants a pickup truck to say, I want full-size versus mid-size? Is it fuel economy, towing power?

<A - Earl J. Hesterberg>: Well, that's a pretty good question, probably better for an OEM person to answer. But I will say the full-size truck market is very hot right now, and it's probably hotter than anyone can see by data, because there isn't a good supply of Ford trucks in there right now.

So, I do think with low fuel prices, you get the more casual urban user invested. I think there was a shakeout in the full-size segment during the downturn, and more and more of those customers were people who functionally needed to haul things for work or their vocation of some sort. But it seems to me there's a lot of recreational people who don't necessarily need the function of a truck bed coming into the market these days, both with the mid-sized truck from GM there, but now these – the relatively new General Motors product and the all-new Ford products. So, I think that segment is going to have a very, very strong year.

<Q - David Whiston>: Okay. Thanks so much.

Operator

The next question comes from David Lim at Wells Fargo Securities.

<Q - David H. Lim>: Good morning, gentlemen.

<A - John C. Rickel>: Good morning, David.

<Q - David H. Lim>: John, congrats to your Ohio State Buckeyes National Championship and also I talked to the recruiting class.

<A - Earl J. Hesterberg>: No, no, no.

<A - John C. Rickel>: Thank you, David. Very much appreciate it.

<A - Earl J. Hesterberg>: He's been unbearable. He's been unbearable.

<Q - David H. Lim>: So, I just wanted to ask on the new vehicle margins, increased year-over-year after, like, I think, a string of 10 quarters of decline. Can you sort of explain to us how that was achieved? Was it more due to mix, launches? Any additional color there?

<A - Earl J. Hesterberg>: Well, I think, that's just kind of a normal vacillation, I expect. The fourth quarter is usually a little heavier luxury brand quarter. Clearly, there is a little bit of mix shift towards bigger vehicles with trucks and large SUVs. And then, also, we probably hit some volume bonuses from some of the OEMs, which throws that money into gross.

<Q - David H. Lim>: Got you. And then you mentioned a little earlier on the call about Houston and Oklahoma and the levers that you've already sort of pulled. Can you give us a little more color on what those levers are? And going forward, what more can you do in the cost reduction side in the case that there is a slowdown, both in Houston and in Oklahoma?

<A - Earl J. Hesterberg>: I don't want to go into too much detail for competitive reasons on that, David.

<Q - David H. Lim>: Got you.

<A - Earl J. Hesterberg>: But we've made some cost cuts. We're just getting some things down that are somewhat discretionary.

<Q - David H. Lim>: Got you. Understandable.

<A - John C. Rickel>: David, this is John. As you know, the same management team is here that was here in 2008 and 2009. We haven't lost the playbook. So, worse comes to worst, we know what levers to go pull.

<Q - David H. Lim>: Got you. Very good. And then, on the – and finally, just wanted to get a little color on the F-150 performance. If you could shed a little light on the customer demand between the old and the new truck and any kind of indication on the profitability, like how well you guys are holding grosses on the new truck, excuse me.

<A - Earl J. Hesterberg>: There isn't a very good supply of the new truck yet, but they're going out as quickly as they come in. And the demand, as always, is for the very highly-equipped ones, and grosses are quite good. And strangely enough, the demand on the old model, which is also good, is on the more highly-equipped vehicles as well.

<Q - David H. Lim>: Interesting.

<A - Earl J. Hesterberg>: But the profile for that, the demand for that truck is very strong.

<Q - David H. Lim>: Great. Thank you so much.

Operator

[Operator Instructions] Our next question comes from Bill Armstrong at C.L. King & Associates.

<Q - William R. Armstrong>: Good morning, gentlemen. Going back to Texas, are you seeing any change in the attitude of lenders who are making oil loans to your customers? Any signs that they're getting nervous given the conditions in the energy industry?

<A - Peter C. DeLongchamps>: Bill, this is Pete DeLongchamps. I've spent time with the heads of each of the large lenders and I can unequivocally say no.

<Q - William R. Armstrong>: Okay. Moving to Brazil, really all year, your gross profit per unit on used has been up big time. And I guess, in the previous year, maybe those numbers were depressed. Should we – sort of as we're modeling this out, should we be looking for further increases in 2015 or do you think that gross profit per unit is more at kind of a stable level where you think it's more sustainable?

<A - John C. Rickel>: Bill, this is John. My sense is that there is probably some more to come there. We've been helping them. One of the things that we brought was an ability to actually finance and keep some of the inventory a bit longer. They were turning their used vehicles pretty rapidly. A lot of it went through wholesale. So, they're moving some of that mix to retail, and I think there's still opportunities there.

<Q - William R. Armstrong>: Okay. And then, finally, in the UK, F&I was up quite sharply. What's driving that?

<A - Earl J. Hesterberg>: I think it was, we put much more focus on, it was one of our top priorities in the UK operation last year and we dedicated management to that with that management working directly with Pete here in the U.S. So, we've now applied some of the things Pete has done in our U.S. business to our UK business and the results were immediate and significant.

<Q - William R. Armstrong>: Right. And then, I guess, I'll just add a similar question that we had in Brazil and that is do you see further improvements in 2015 or do you think you've now pretty much captured the low-hanging fruit?

<A - Earl J. Hesterberg>: Was that question about F&I or in total?

<Q - William R. Armstrong>: Yeah, that F&I in the UK.

<A - Earl J. Hesterberg>: Okay. Relative to Brazil, the potential in the market is much lower than the other two markets. But I think, relatively speaking, we still have some significant opportunity for improvement there. And Pete and our Brazilian team are starting to try to put more structure into that effort also. So, I think we have a little upside in Brazil on the F&I.

<Q - William R. Armstrong>: And how about in the UK?

<A - Earl J. Hesterberg>: UK, there's still some more. We've got the low-hanging fruit and a massive lift. But I think there's still a little bit more in the UK.

<Q - William R. Armstrong>: Okay, that's great. Thanks very much.

Operator

The next question comes from Scott Stember at Sidoti & Company.

<Q - Scott L. Stember>: Good morning.

<A - John C. Rickel>: Good morning, Scott.

<A - Earl J. Hesterberg>: Good morning, Scott.

<Q - Scott L. Stember>: Can we just talk about the new margin, again, in the U.S.? You talked about the fourth quarter, there were some mixed shift which helped in – towards more luxury brands and some of these volume bonuses. But could you talk about how the midline imports performed from a pricing standpoint in the fourth quarter and how should we look at this without some of those masking items for 2015, where the margins should be?

<A - Earl J. Hesterberg>: Scott, on the midline imports, it's still extremely competitive, very difficult. And too much of the business is related to certain incentives and bonuses, which it has not historically been that way. But there's just an awful lot of competition, in particular, in those mid-sized and compact cars, which tend to dominate those brands.

<A - John C. Rickel>: Scott, to the other part of your question, this is John. I think what we've been talking about for three quarters or four quarters now is, basically, for modeling purposes, stability in those new vehicle margins, it was up a little bit in the fourth quarter. Earl indicated some of the reasons. But I think if you continue to model something in this flat range, you're probably safe.

<Q - Scott L. Stember>: Got you. And just last question on Brazil, again. Can you just remind us some of the maneuvers that you've taken this last year as far as cost cuts? And how far along the curve are we here and what we can we expect going forward?

<A - Earl J. Hesterberg>: Well, the major action was we reduced our head count by 10%, which was about 150 positions. There's probably been a few more of those trimmed out since that major action in the third quarter. So, that effort's ongoing. The three Renault dealerships we disposed of were in a very high-cost area of São Paulo. It's kind of like doing business in Manhattan. And we added a Mercedes dealership out in a lower-cost area, a town of one million people in Western Brazil. So, we kind of rebalanced the portfolio in that regard. So, those were some of the major actions we took last year.

<Q - Scott L. Stember>: And just taking it one step further. I know we've talked about at some point having a common DMS, advanced systems, would certainly help you guys take it to the next level in Brazil. Could you maybe talk about that, where we are in that process?

<A - Earl J. Hesterberg>: Yeah. Unfortunately, we're not close to being able to do that. It's one of our top priorities. We have talked with some suppliers, but there actually is no system that meets our needs yet available. And we're trying to interest some suppliers in entering the Brazilian market and we'll help them pioneer that.

<Q - Scott L. Stember>: Got you. That's all I have. Thanks for taking my questions.

Operator

Our next question comes from John Murphy, Bank of America Merrill Lynch.

<**Q - John J. Murphy**>: Good morning, guys.

<**A - Earl J. Hesterberg**>: Good morning, John.

<**Q - John J. Murphy**>: Just a first question. I mean if we think about the M&A environment being pretty hot and valuations being somewhat extended, wouldn't this be a good time to potentially pair the portfolio maybe a little bit more aggressively with underperformers and maybe realize good prices? I mean, you alluded to sort of slowing down the sales pace in the U.S., but I'm just curious if there might be opportunities.

<**A - Earl J. Hesterberg**>: Well, we took advantage of some of those opportunities last year, John, because that is true. If it's a bad time to be a buyer because you think you're paying too much, it's a good time to be a seller because somebody might pay you too much. So, we've done a little of that and we'll continue to do that. But I don't think we have any major underperformers that are on the radar screen for us at the moment.

<**Q - John J. Murphy**>: Okay. And just the second question on used vehicle pricing, there's a lot of consternation that it's going to fall off here sometime in the short run as we an increase in supply in 2015. But it looks like in the quarter in the U.S., your average transaction prices were up almost 5%. We're seeing this from a number of other dealers as well. What's your take on what's going on in the used vehicle market, because there is a lot of fear out there, but the pricing keeps coming through pretty strong?

<**A - Earl J. Hesterberg**>: Yeah, I think the relative price level probably will continue to be under a little bit of pressure. But as you may have noticed, our CPO business grew a lot. And I think because there is an increasing supply of off-lease vehicles, particularly for luxury brand, that that's driving up some of the average transaction prices, and that will probably continue.

But there will also continue to be increasing off-lease supply, which may put a little negative pressure. So, maybe the mix is richening up a bit, but I think the supply and the aggressive marketing of new vehicles is going to continue to put a little bit of downward pricing pressure on used vehicle prices overall.

<**Q - John J. Murphy**>: And do you foresee that being an issue with trade-in values as people's collateral might be lower as they're coming in trade-ins or is that something that you don't think is going to be a big deal in the near term?

<**A - Earl J. Hesterberg**>: I don't think it's going to be a big deal in the near term. I think that only becomes a big deal if it's something dramatic, and I don't see anything dramatic happening.

<**Q - John J. Murphy**>: Okay. And then, just lastly, on the F&I PVR $1,521, it's a big number. Can you just parse out some of the major buckets there of financing and warranty and other items that might be in there, just so we can remember what's actually in that number, because it's getting pretty large?

<**A - Peter C. DeLongchamps**>: Sure. John, it's Pete DeLongchamps. So, we play close attention to vehicle service contracts. Our GAAP business has improved with the increase in leasing. We work hard on maintenance, which improves the retention rates for us. Our Road Hazard Tire is a product that we believe in, along with dent insurance and sealant. And that's pretty much the products that we focus on and we've really worked on making sure that we penetrate those at a high level in order to provide value to our consumers – or to our customers. So, it's been a lot of hard work, a lot of process, but it's working for us. And the other piece that, I think, is important to recognize is, in April, we adopted the NADA Fair Lending Practice Act, which put additional process into our system and it's worked for us. So, we're very comfortable with our position and proud of the work that all of our associates have put in.

<**Q - John J. Murphy**>: Can you actually disclose the dollar value or sort of the percentage roughly of that $1,521 that's actually just financing?

<**A - John C. Rickel**>: It's about a third, John.

<**Q - John J. Murphy**>: Okay. Cool. Thank you very much.

Operator

At this time, I show no further questions. Now, I'd like to turn the conference back over to Earl Hesterberg for closing remarks.

Earl J. Hesterberg

Thanks, everyone, for joining us today. We look forward to updating you on our first quarter earnings call in April. Have a good day.

Operator

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