Company Name: Group 1 Automotive
Company Ticker: GPI US
Date: 2016-02-11
Event Description: Q4 2015 Earnings Call

Market Cap: 1,232.59
Current PX: 52.02
YTD Change($): -23.68
YTD Change(%): -31.281

Bloomberg Estimates - EPS
Current Quarter: 1.573
Current Year: 7.589
Bloomberg Estimates - Sales
Current Quarter: 2534.000
Current Year: 11143.000

# Q4 2015 Earnings Call

## Company Participants

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

## Other Participants

- Elizabeth Lane Suzuki
- David H. Lim
- Irina Hodakovsky
- N. Richard Nelson
- William R. Armstrong
- Michael Montani
- Steve J. McManus
- David Whiston
- David Tamberrino

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning, ladies and gentlemen. Welcome to Group 1 Automotive 2015 Fourth Quarter and Full-Year Financial Results Conference Call. Please be advised that this call is being recorded.

I would now like to turn the call over to Mr. Peter DeLongchamps, Group 1's Vice President of Manufacturer Relations, Financial Services and Public Affairs. Please go ahead, Mr. DeLongchamps.

### Peter C. DeLongchamps

Well, good morning, and thank you, Keith.

And welcome to today's call. The earnings release we issued this morning and a related slide presentation that include reconciliations related to the adjusted results we will 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 call, statements made by management of Group 1 are forward-looking statements that are made 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 markets. Those and other risks are described in the company's filings with the Securities and Exchange Commission over the past 12 months, and 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 in 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 on its website.

Joining me today, Earl Hesterberg, our President and CEO; 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 the same prior period, unless otherwise stated.

I'll now hand the call over to Earl.

## Earl J. Hesterberg

Thank you, Pete, and good morning, everyone.

For the full year 2015, Group 1 reported a 17% increase in adjusted earnings per diluted share to an all-time record of $6.87. Adjusted net income increased 9% to $165.5 million. During 2015, Group 1 retailed approximately 175,000 new vehicles and over 124,000 used units, delivering record revenue of over $10.6 billion, which equates to a 7% growth.

For the full year, revenue increased across each of our business components, with new vehicles up 4.5%, used vehicles up 13.5%, parts and service up 5.4%, and finance and insurance up 11.5%. While we delivered a strong year, fourth quarter results were significantly hampered by the negative impact of the continued oil and gas price decreases on the economy and our core Texas and Oklahoma markets.

For the quarter, we earned $35.7 million of adjusted net income, which equates to $1.51 per diluted share. Our GAAP results were impacted greatly by an after-tax intangible asset impairment from $73 million, as a result of our annual goodwill and franchise value testing process. The majority of the impairment relates to our Brazilian business where the auto market declined 26% last year. Our GAAP earnings per share for the full-year were $3.90, an 8% increase over 2014.

Turning to our fourth quarter results, for the quarter total revenue increased $133.7 million, or 5.4%, to a fourth quarter record of $2.7 billion. Total consolidated new vehicle revenues grew 3.2% as we retailed 3% more units. As mentioned, the ongoing lower energy prices became an increasing drag on our business in the fourth quarter, with new vehicle sales only up 1% in the Houston market, about flat in the State of Texas overall, and down 3% in Oklahoma.

New vehicle gross profit decreased 3.7% as gross profit per unit decreased $130 to $1,843, driven primarily by volume pressure in the energy markets and within our U.S. luxury brand dealerships. Our new vehicle unit sales geographic mix was 82% U.S., 10% U.K. and 8% Brazil. Brand mix was led by Toyota/Lexus, which accounted for 26.2% of our new vehicle unit sales. BMW/MINI, Honda/Acura and Ford all represented over 10%, and Nissan and General Motors accounted for roughly 8% of unit sales.

U.S. new vehicle inventory stood at 31,600 units, which equates to a 70-day supply, compared to a 68-day supply for the fourth quarter of 2014. Inventory levels in our luxury branded dealerships saw significant increases and created serious margin pressure as previously mentioned.

Total consolidated used vehicle retail revenues grew 11%, as we retailed 10% more units during the quarter. U.S. same-store retail units increased 7.1% and U.K. same-store unit sales increased 12.1%. Consolidated used vehicle retail gross profit was essentially flat as the average gross profit per retail unit decreased by $136, or 9.2%, which offset the unit volume growth. U.S. used vehicle inventory stood at 13,200 units, which equates to a 31-day supply, consistent with our target range of 30 days to 35 days.

Total consolidated parts and service revenue increased 5.7%, while consolidated parts and service gross profit rose 8.7%. Same-store parts and service gross profit grew 5.4% on 2.7% higher revenues, with U.S. same-store parts and service gross profit up 7.3% on 4.5% higher revenues.

Finance and insurance gross profit increased 5.9% on a consolidated basis. This growth was driven by vehicle unit sales as our consolidated F&I per retail unit was essentially flat at $1,374.

Regarding our international segment results, our U.K. operations had another strong quarter with total revenue growth of 20.8%, supported by strong double-digit growth across all components of the business. In Brazil, the market deteriorated further, with the industry down 34% in the fourth quarter as compared with the same period a year ago. Revenue decreased 38% for the quarter, nearly all of which is explained by weaker exchange rates. On a same-store constant currency basis, revenues decreased 2.2%.

Despite the collapse of the auto market and other economic challenges we faced in Brazil this year, we're proud to report that we generated a small pre-tax profit for the quarter and on a full-year basis after adjusting for nonrecurring items. This is a testament to our strong operating team and brand portfolio.

Relative to our cost performance, on an overall consolidated basis, adjusted selling, general and administrative expenses as a percent of gross profit increased 260 basis points to 75.3% for the quarter. U.S. vehicle margin erosion and the impact of inflation in the Brazilian market were the main drivers of this increase. We also had a significant spike in U.S. healthcare expenses in the fourth quarter that John will touch on in his remarks. We're reviewing all costs in the U.S. for potential savings opportunities.

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, and good morning, everyone.

For the full-year, our adjusted net income rose $13.7 million, or 9% to an all-time record of $165.5 million. On a fully-diluted per share basis, adjusted earnings increased 17% to a record $6.87. Revenue grew 7% to a full-year record of over $10.6 billion, driven by strong increases in each line of business. Our gross profit increased 5.9% to over $1.5 billion and we leveraged this growth with adjusted SG&A as a percent of gross profit declining 50 basis points to 73.4%.

For the fourth quarter of 2015, our adjusted net income decreased $5 million or 12.3% over our comparable 2014 results to $35.7 million. On a fully-diluted per share basis, adjusted earnings decreased 9.6% to $1.51. These quarterly results for 2015 excludes $79.2 million of net pre-tax adjustments, consisting of $85.6 million of intangible asset impairments, primarily associated with our dealerships in Brazil, partially offset by a $7.3 million gain on a dealership disposition. U.S. margin pressures and the corresponding compensation effects, as well as higher healthcare costs were the primary drivers of the year-over decline in earnings per share.

Starting with a summary of our quarterly consolidated results; for the quarter, we generated $2.7 billion in total revenues. This was an improvement of $133.7 million or 5.3% over the same period a year ago and reflects increases in each of our business units. On a local currency basis, which ignores the change in foreign exchange rates, total revenues increased 8.2% for the quarter. Our gross profit increased $14.2 million or 3.9% from the fourth quarter a year ago to $380.1 million.

For the quarter, adjusted SG&A as a percent of gross profit increased 260 basis points to 75.3%. This increase is primarily explained by margin pressures in the United States as well as continued softness in the Brazilian economy. Floorplan interest expense increased by roughly $300,000 or 3% from prior year to $10.2 million. Other interest expense increased $1.5 million or 11% to $14.8 million. This increase is primarily attributable to an increase in weighted average debt outstanding related to higher average acquisition line borrowings and the issuance of $300 million of 5.25% bonds in December. Our adjusted consolidated effective tax rate for the quarter was 37.5%.

Now turning to the fourth quarter same-store results, for the quarter, we reported revenues of $2.5 billion, which was a $48.4 million, or 1.9% increase from the comparable prior-year period. On a local currency basis, total same-store revenues increased 4.9%. Within this 4.9% total, used vehicle retail revenue was up 10.4%, parts and service revenue was up 5.1%, finance and insurance increased 4.4% and new vehicle revenues increased 3.2%. My remaining same-store comments will be on a local currency basis, unless otherwise noted.

New vehicle revenues increased 3.2%, which was mainly driven by an increase of $930 or 2.6% in average new vehicle sales prices as unit sales were up by less than 1%. By country, same-store new unit sales increased 2.1% in the U.S., 11.3% in the U.K. and decreased 19.1% in Brazil. Our used retail revenues improved 10.4% on an 8% increase in unit sales.

By country, same-store used retail unit sales increased 7.1% in the U.S., 12.1% in the U.K. and 14.9% in Brazil. F&I income per retail unit increased by roughly 1% to $1,397. Parts and service revenue grew 5.1%, explained by increases of 8.8% in collision, 7% in warranty, 4.9% in wholesale parts, and 3.1% in customer-pay. We continue to make progress hiring additional U.S. service technicians. On a full-year same-store basis, we increased our U.S. technician head count by 180, an increase of over 9% from December 2014.

In aggregate, our same-store gross profit grew 2.9% on a local currency basis. Our same-store new vehicle gross profit dollars decreased 2.8%, reflecting the small increase in unit sales mentioned previously, that was more than offset by a 3.3% decrease in gross profit per unit. New vehicle margin pressure was most notably seen in the luxury brands and in our oil-centric markets in the U.S.

Our Texas and Oklahoma markets generated 39% and 7.5% of total company new unit sales respectively. Our used vehicle retail gross profit decreased 1.6% as the 8% increase in unit sales was more than offset by a gross profit per unit decrease of $132 or 8.8%. Our F&I gross profit grew 4.4%, reflecting an approximate 1% increase in PRU, on a local currency basis, combined with a 3.5% increase in total retail unit sales.

Finally, same-store parts and service gross profit grew 7.3%, reflecting the 5.1% revenue growth mentioned previously, as well as a 140 basis point increase in margins to 53.9%. By country, same-store parts and service gross profit improved 7.3% in the U.S., 12.8% in the U.K., while Brazil was basically flat.

Turning now to our geographic segment, starting with the U.S. market, for the quarter total U.S. revenues grew 7.6% to $2.3 billion, driven by increases of 12.3% in used retail, 7.5% in parts and service, 6.2% in new vehicles, and 6% in finance and insurance. Total gross profit improved 5.2%, driven by increases of 10.1% in parts and service, and 1.2% in used retail, as well as the F&I increase that I just mentioned. These increases were partially offset by a decrease in new vehicle gross profit of 2.3%, as profit per vehicle decreased by $130 to $1,824. As previously mentioned, this pressure was mainly felt in our luxury brand dealerships, and in our oil-impacted markets.

For the fourth quarter, our adjusted SG&A as a percent of gross profit increased 310 basis points to 74%. While a majority of this increase can be explained by deleveraging, associated with the new and used margin pressures, we did experience a $3 million increase in healthcare expenses in the fourth quarter. Historically, we have been able to fund our claims expense with premiums collected, so this was an unexpected occurrence and potentially related to a decision to modify our healthcare plans, starting in January 2016 in response to Affordable Care Act requirements. We will continue to monitor this trend, and will take action if necessary.

Related to our U.K. segment, for the quarter total revenue increased $49 million to $285 million, an increase of 20.8%. Gross profit for the U.K. segment was up 22% from the prior year. New vehicle gross profit grew 25.9%, reflecting an increase of 21.1% in unit sales, combined with an increase in gross profit per unit of $84 to $2,214. Used vehicle retail gross profit increased 2.1% as a 20.5% increase in retail units was partially offset by a decrease of $236 in gross profit per unit to $1,299, which was roughly flat on a sequential basis. Parts and service gross profit improved 22.6%, and our F&I income increased 32.3%, which is attributable to a 9.4% increase in gross profit PRU to $894 and a 20.9% increase in total retail units.

For the fourth quarter, our adjusted SG&A as a percent of gross profit improved 330 basis points to 81.6%. Operating margin and pre-tax margin for the U.K. business segment both increased 40 basis points to 1.7% and 1.3% respectively, related to our Brazil segment on a same-store basis. As Earl mentioned, the total industry new-unit volume decreased roughly 34% from the fourth quarter of 2014. Despite this, our total gross profit decreased by only approximately 5%

on a local currency basis and we generated an adjusted pre-tax profit for the quarter.

On a local currency basis, new vehicle gross profit decreased 7% as a decrease of 19.1% in unit sales was partially offset by a 15% increase in gross profit per unit. Used retail gross profit decreased by 5.9%, F&I decreased by 3.3%, and parts and service gross profit was relatively flat. SG&A as a percent of gross profit increased 14 percentage points, reflecting the impact of lower gross generation and the contractual effect of higher inflation on rent and wages. Despite the local economic challenges throughout 2015 that saw industry sales decrease by more than 25%, our Brazil segment generated a small adjusted pre-tax profit for the full year. This is a testament to the quality of our local management team and our strong brand portfolio.

Turning to our consolidated liquidity and capital structure, as previously announced in December, we issued $300 million of 5.25% senior notes, which was used to pay down a revolving acquisition line and other debt financing, as well as to provide additional liquidity for future opportunistic acquisitions or share repurchases. As of December 31, we had $13 million of cash on hand and another $136.3 million that was invested in our floorplan offset accounts, bringing immediately available funds to a total of $149.3 million. With regards to our real estate investment portfolio, as of December 31, we owned roughly $800 million of land and buildings, which represents 47% of our dealership locations. To finance these holdings, we have a total of $357.4 million of real estate debt outstanding, excluding capital leases.

During the fourth quarter, we repurchased approximately 327,000 shares of our outstanding stock, bringing our total 2015 repurchases to 1,176,908 shares. As announced today, the board has increased our share repurchase authorization to $150 million. While we will continue to look for acquisitions, our current share price offers a very attractive alternative for capital allocation. Therefore, any potential acquisitions would need to offer a very attractive return on investment opportunity for us.

In the fourth quarter, we used $5.2 million to pay dividends of $0.22 per share, an increase of $0.03 per share over the prior year. For the full year, we used $19.9 million to pay dividends of $0.83 per share, an 18.6% increase over 2014. 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 back over to Earl.

## Earl J. Hesterberg

Thanks, John.

Related to our corporate development efforts, as announced last week, the company acquired the Spire Automotive Group in the U.K., which consists of 12 dealerships in the Greater London market. These dealerships are expected to generate approximately $575 million in estimated annual revenues. This will increase our U.K. footprint to 29 stores, which will generate annual revenues of approximately $1.8 billion.

The company also divested three stores in the U.S. and generated approximately $160 million in trailing-12-month revenues. During 2015, the company acquired a total of three dealerships, which are expected to generate $340 million in estimated annual revenues. The company also disposed of five dealerships that generated approximately $115 million in trailing-12-month 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 2016. For the U.S., we expect to see continued growth in the overall new vehicle industry. Total new vehicle sales came in in 2015 at 17.4 million units. We're anticipating a 17.6 million unit total industry in the U.S. for 2016. For the U.K., we expect the market to be about equal to last year at 2.6 million units. And for Brazil, we expect the market to be down 10% from 2015 levels to about 2.2 million units.

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

Thank you. We will now begin the question-and-answer session. [Operator Instructions] And the first question comes from John Murphy with Bank of America.

**<Q - Elizabeth Lane Suzuki>**: Good morning. This is Liz Suzuki on for John. Just looking at your vehicle mix between cars and light trucks, what are you seeing in terms of gross profit per unit trends year-over-year in each segment? And is there more pressure on the car side or is it pretty even across the board?

**<A - John C. Rickel>**: Liz, this is John Rickel. There's more pressure on the car side than truck and the other piece that I would point out is there is more pressure in the oil-impacted markets versus the non-oil-impacted markets. Those are the two key parameters.

**<Q - Elizabeth Lane Suzuki>**: Okay, thanks. That's helpful. And in terms of looking at domestic, luxury, midline, I would imagine more of your stores in those oil markets are domestic-based, but looking at luxury and midline, are the midline imports still seeing the same kind of pressure that the dealers have been talking about for the last year or so, or is that starting to ease at all?

**<A - Earl J. Hesterberg>**: I wouldn't say it's easing at all. I would say it's been consistently highly competitive throughout the year.

**<Q - Elizabeth Lane Suzuki>**: Okay. And is luxury experiencing now kind of an increase in pressure?

**<A - Earl J. Hesterberg>**: Yes. Yes, no doubt about that. We saw a noticeably increased level of margin pressure in the luxury brands throughout the country. And that's a function of some very powerful companies fighting for market share and also oversupply.

**<Q - Elizabeth Lane Suzuki>**: Okay. Thanks very much. And just one more quick one; is what do you think the biggest drivers are of the decline in used vehicle gross profit per unit? Is there a mixed shift towards more late-model vehicles that come in at lower grosses or are the dealers having to cut price due to weakening demand? Or what do you think is happening there on a year-over-year basis?

**<A - Earl J. Hesterberg>**: It's not a demand issue at all. It is an increased supply issue primarily. An increased supply issue and also I believe there is a mix issue of a greater supply of used cars and used trucks and SUVs. So the dynamic in the new vehicle land of trucks and SUVs being in greater demand than cars is same in the used vehicle market, and many new vehicle customers are trading in a car and moving to an SUV or a truck and then those trade-ins get pushed into the used retail market.

**<Q - Elizabeth Lane Suzuki>**: All right. Thanks very much.

## Operator

Thank you. And the next question comes from David Lim with Wells Fargo.

**<Q - David H. Lim>**: Hi. Good morning, gentlemen and Sheila. Just wanted to sort of peel back the onion on premium luxury; can you sort of characterize, was it a – did demand tail off or incentives? And how did that all work with incentives? And was there like a pre-planned increase in inventory going into Q4 for Group 1, knowing that the luxury side normally does well in the December period?

**<A - Earl J. Hesterberg>**: No, David. This is Earl. There was no pre-planned inventory increase. There was increased pressure from manufacturers based on their supply. And I think particularly in the energy-related markets as demand dropped throughout the quarter, there was pressure on all the dealers to try to achieve various volume targets, which in many cases are related to incentives. So I think with supply and demand, with demand getting a little bit softer and supply being stronger than optimal.

**<Q - David H. Lim>**: Were you seeing, so were the premium luxury guys doing any kind of volume bonuses or retro bonus, or any kind of anomalies from their standard incentive structures that they normally provide to the dealerships?

**<A - Earl J. Hesterberg>**: Well I don't know how much was atypical to the standard, but yes, there are meaningful volume targets and dollars associated with it for a variety of luxury brands.

**<Q - David H. Lim>**: Got you. And then a follow-up question on M&A, I mean we're hearing through the grapevine that some dealers are beginning to maybe hunker down a little bit and I know that's a broad term, but are you seeing valuation multiples for a possible targets sort of going down? And would that be an opportunity for you guys to be a little bit more aggressive in 2016 with your buys here in the U.S.?

**<A - Earl J. Hesterberg>**: David, I can't really say I've seen the ask prices on dealerships for sale go down yet. My personal opinion is the pricing for acquisitions peaked in the U.S. over a year ago.

**<Q - David H. Lim>**: Yes.

**<A - Earl J. Hesterberg>**: That's one of the reasons we did not buy very much last year; I think we bought three different dealerships, and intentionally, all of them are outside of the oil patch and they were luxury brands, pretty valuable assets we think. So I think that will take some time for the pricing to get more realistic in the market. So I would think that with the margin pressure and a lot of the volatility in the stock market and such that all buyers would be a little more cautious this year, but I expect them to take a little more time for the pricing to adjust to a new psychology.

**<Q - David H. Lim>**: And...

**<A - John C. Rickel>**: And the other thing, David...

**<Q - David H. Lim>**: Yes.

**<A - John C. Rickel>**: The other thing, David, I would add to that is obviously with where the share prices fallen to.

**<Q - David H. Lim>**: Sure.

**<A - John C. Rickel>**: The hurdle to have an acquisition is steeper than it would have been. Our shares are, obviously, a very attractive alternative for capital allocation at these prices.

**<Q - David H. Lim>**: True. And one follow-up question, I know that I'm sort of jumping around here a little bit, but can you comment on any kind of phenomena with the OEMs maybe pushing a little bit more on the preregistration front. Thank you.

**<A - Earl J. Hesterberg>**: Well, I don't want to comment on that.

**<Q - David H. Lim>**: Okay. Thanks.

**<A - Earl J. Hesterberg>**: There's a lot of aggressive companies that are out there fighting for market share.

**<Q - David H. Lim>**: Gotcha. I think that bodes pretty well for us. Thank you so much.

**<A - Earl J. Hesterberg>**: Thank you, David.

## Operator

Thank you. And the next question comes from Brett Hoselton with KeyBanc.

**<Q - Irina Hodakovsky>**: Thank you, everyone. This is Irina Hodakovsky on for Brett. How are you doing?

**<A - John C. Rickel>**: Good. Morning, Irina

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

**<Q - Irina Hodakovsky>**: Good morning. I wanted to ask you a little bit about Texas. You mentioned weakness there. How did you perform in Texas relative to the overall state results? And you mentioned in the past you had sensitivities in place to pick-up any sign of a pullback. They would trigger cost reduction should demand slow down. So wondering if you could also touch up on what those sensitivities are telling you right now about the outlook? Do we see continued deterioration? And is this triggering any sort of cost actions on your side? And what kind of cost actions are you able to pull? And how material their anticipated impact?

**<A - Earl J. Hesterberg>**: Well, that's a good long question. Our results in the fourth quarter, our Houston sales, which is our biggest market, we're actually up 1%. And although, the data lagged a little bit, our understanding is that outperformed the Houston market. And in the State of Texas, we were flat. And the State of Texas is a little harder to judge because markets like Dallas and Austin don't seem to be significantly impacted by energy. The rest of the State seems to have some impact. So we were flat in the State of Texas. And Oklahoma, we were down 3.5%, which we believe outperformed the market. But again, the data has a certain timeline to it on registrations. So we actually expect that in this type of environment we'll gain share.

We've had cost reduction actions in place since probably the middle of the fourth quarter. The most obvious thing we need to do is get the inventories in line. And those vehicles are still coming in through the end of December. So we have some adjustments there. But mostly our staffing is, our people is 60% of our costs. So we have to lean these things down to the level of gross profit that we generate.

And you size advertising also to your sales. And there's certain outside services that we can work on. But that's pretty much the standard nature. How that relates to a future dollar figure or percentage of gross profit figure, I really couldn't give you a forecast on that. But we clearly have work to do.

**<Q - Irina Hodakovsky>**: Thank you. And one last question. I missed what you said you're expecting in the U.S. market in terms of sales outlook for 2016.

**<A - Earl J. Hesterberg>**: I would say in the U.S. market slight growth, about 200,000 units, more towards 17.6 million units and 17.4 million units. Across the U.S. the conditions are still very good in the auto market with low interest rates and fairly high employment. So, and for example, in the fourth quarter our California business was up double-digits. So I mean there's still – and the East Coast, our East Coast business was, generally in most markets, up 5% or so.

**<Q - Irina Hodakovsky>**: Great. Thank you very much. Appreciate that.

## Operator

Thank you. And the next question comes from Rick Nelson with Stephens.

**<Q - N. Richard Nelson>**: Thanks. Can you tell us what was relative price spot for the quarter and the year, adding toward the key registration period here in March? And if you could comment on the momentum there and your expectation for 2016 in the U.K.

**<A - Earl J. Hesterberg>**: Yeah. Certainly, Rick. Yeah. I think overall we're still very positive on the U.K. There has been some oversupply in the U.K. market. Again, the pound has stayed relatively strong versus the euro. So there are some European manufacturers that like to pump additional supply into the U.K. So there are some challenges to deal with there. But we believe March is setting up for a very strong month, again, with our key brands that we have. So we think the U.K. is still pretty solid business.

**<Q - N. Richard Nelson>**: And the energy markets, I'm curious as we move into early 2016, has the momentum seemed to be worsening? Or is it about the same? Or is it...?

**<A - Earl J. Hesterberg>**: Well, thus far, it seems to be about the same as it was in December. But it's clearly a notch-down from what it was a year ago or even from the third quarter. So some of the decisions we'll have to make is you know do we continue to push to gain share, because we're quite strong in all these markets? Or do we try to take a bit more margin? Because we really can't go much lower on the margins. So the other phenomenon that isn't yet consistent across the market, but in Oklahoma our used vehicle sales are up double-digit.

And our overall used vehicles business in the U.S. is quite strong. In fact, we seem to be growing faster than most in used vehicles, and even much faster than the people who only do used vehicle retail for a living. So that will be a lever we'll try to pull pretty hard on is – there is a possibility that as new demand wanes some of that will shift to used.

**<Q - N. Richard Nelson>**: Thanks a lot. And good luck.

**<A - Earl J. Hesterberg>**: Thanks.

## Operator

Thank you. And the next question comes from Bill Armstrong with C.L. King & Associates.

**<Q - William R. Armstrong>**: Good morning. In Brazil I understand the market obviously is very weak, but you guys actually did pretty-well all things considered. I was wondering what prompted the big goodwill write-down. And then maybe longer-term how much of a commitment do you still have down there in terms of your long-term commitment, and what might it take to either – maybe prompt the thought of possibly exiting Brazil?

**<A - Earl J. Hesterberg>**: Let me, well I'm not the accounting expert. But I can't tell you those impairments aren't optional. That's just the process we go through every year. And John's team and Ernst & Young test the intangible asset values and that was the result. So the rules are the rules and that's not optional. But the performance in Brazil, which is probably hard for people to grasp, in a market that was down 34% in the fourth quarter, to actually make a small profit is indicative that we've got some incredible people and some pretty good businesses down there.

So, no, we're still all-in in Brazil. The population is still growing in Brazil; it's up to 207 million I think this year or next year, which is probably 7 million more than when we went down there. There's still no increase in public transportation. The political situation is probably as close to a nightmare as you can get. And so the economic situation follows right behind that.

So I'm not sure it could be a lot worse. But this too will pass, and our timing wasn't the best to go into that market, but our task and our objective is to keep making that business stronger. We've made some adjustments to our brand portfolio down there. We're going to make a few more, so that when the market does turn someday, we'll be in a position to generate some meaningful profit. That's what we're going to do.

**<Q - William R. Armstrong>**: Do the Olympics down there this summer have any impact on all the sales, either positive or negative, or is it pretty much a non-event for your business?

**<A - Earl J. Hesterberg>**: Well, I should say it's likely a non-event for our business because that's in Rio de Janeiro and that general surrounding area. And we don't do business in that area. So I don't think that would be material, unlike the World Cup, which was all over the country, that event's pretty localized.

**<Q - William R. Armstrong>**: Okay. Got it. And then finally on the U.S. SG&A that was up significantly and you mentioned healthcare costs up about $3 million, I think, year-over-year. Is that something we ought to be modeling in going forward sort of on a quarterly run rate?

**<A - John C. Rickel>**: Yes, Bill, this is John Rickel. At this point, we have some hope that that was fairly lumpy. We're going to need to continue to monitor it. I can't tell you, you know, with 100% certainty. But we do think it was tied into some changes we had to make in our healthcare plans to be in compliance with the Affordable Care Act. We changed carriers as part of that. So we think that some of that was some pull ahead of people making some decisions around maybe changing doctors. So we're going to have to continue to monitor it. At this point, I think there's some hope that that is not an ongoing increase.

**<Q - William R. Armstrong>**: Okay. Understood. Thank you.

## Operator

Thank you. And the next question comes from Michael Montani with Evercore ISI.

**<Q - Michael Montani>**: Hey, guys. Good morning, and thanks...

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

**<Q - Michael Montani>**: ...for taking the question. I just wanted to ask about what you'd mentioned in terms of production and perhaps there being a little bit too much of that. Could you characterize a little bit any discussions that you may have had with OEMs, you know to try to either cut back a bit or to tailor the production more to SUV and truck where there seems to be a higher natural demand level?

**<A - Earl J. Hesterberg>**: I think, firstly, all retailers such as ourselves have been communicating to the OEMs that we don't have enough trucks and SUVs. So I think that's been pretty clear. And we're at the point now where we're in discussions with most of our OEM partners that we just can't take any more inventory at the moment, at least in terms of a days supply. We need to work it down a little bit. And actually our total inventory only went up two days year-over-year. But what's within that is skewed too heavily to cars, which are not moving as well, so.

**<Q - Michael Montani>**: Okay. That's helpful. And I mean I guess just from prior experience and having lived through situations like this, I mean, what is your outlook about how long that sort of takes to get GPUs stable again? Is it just – we need to lapse some of these initial hits and then things stabilize? Or how do you guys think about planning the business and how long that might take?

**<A - Earl J. Hesterberg>**: Well, outside of the oil areas and the luxury brands, we actually got some margin stabilization last quarter. You just couldn't see it because of this new luxury brand factor in particular. So I would think that these luxury brand inventories can be right-sized in three months to six months.

**<Q - Michael Montani>**: Okay. That's helpful. And but I wanted to follow-up on was one for John. How quickly can you deploy some of these costs-out initiatives to manage down the cost base? Is that a three month thing or a six month thing? Can you give a little bit of incremental color there? And then also on Spire, you know it looks like an attractive acquisition. Can you provide any detail on either multiple or some of the synergy opportunities you guys may see?

**<A - John C. Rickel>**: Sure. On the cost as Earl indicated, we started to pull some of the triggers kind of the middle of the fourth quarter. That's going to be an ongoing task that we are going to have to work at, especially in these oil impacted markets. So I think that's certainly through the first half of this year we're going to be working hard on trying to right-size the businesses and take out costs where we can.

The challenges that we have is the volumes have really not fallen that significantly. So a lot of these things that you could have done in 2008, 2009 are not as easy to do because the volumes are still there. So you still need to be able to service the customers and process the paperwork in the back offices. So that piece is a bit more challenging, but it's around the pieces that Earl talked about where there are some controllables that we're working hard.

On Spire, we were very, very excited about this acquisition, $575 million of annualized revenues. The stores sit kind of right within the same geography, so there ought to be a good opportunity to continue to leverage our scale. Things like our back office consolidation and the management team. So I think that it takes a little bit longer in the U.K. because of some of the social legislation around staff reductions, redundancies as they call them in the U.K. There's notice periods and such, so it will take probably a year to fully integrate. And basically we should think about kind of that revenue at average U.K. margins.

<**Q - Michael Montani**>: Okay. Great. And I guess if I could squeeze one more in. Just the share repurchase authorization went up. Is there any way to think about the timing that you might look to redeploy that, especially given as you've mentioned valuations?

<**A - John C. Rickel**>: Well, I think the share price appears to us to be very attractive. We certainly have cash. And I think you'll see us be reasonably aggressive.

<**Q - Michael Montani**>: Okay. Great. Thank you, guys. And good luck.

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

## Operator

Thank you. And the next question comes from Steve McManus with Sidoti & Company.

<**Q - Steve J. McManus**>: Hey, guys. Thanks for taking my questions. So the first question I have, looking at customer-pay growth, it's been under some pressure the last couple of quarters. Anything worth noting there?

<**A - Earl J. Hesterberg**>: No I don't think there's anything material. The recall flows have really been intense and also kind of up and down. So I think we continue to displace some customer-pay business in various brands, working on warranty and recall work. But I think overall, the service market is still – parts and service market is still very solid. And that's another lever we are going to have to pull harder on because it's there. That business is there, even in the energy impacted markets.

<**Q - Steve J. McManus**>: Okay then. As to the U.K. acquisition, I mean looking at the margin profile for new vehicles in the U.K. versus the U.S. obviously much better. Has there been any margin erosion there? And if not, are you expecting any kind of movement into 2016 in respect to the U.K.?

<**A - Earl J. Hesterberg**>: Yeah. The new vehicle margins have been, relatively speaking, decent in the U.K. A lot of that margin money particularly that we get in the fourth quarter comes from hitting various targets, line targets and such. And as I mentioned with, there is some supply pressure in the U.K. as well. So we've got to work pretty hard, but we like – we've been very successful with our Audi and BMW businesses and this new acquisition gives us more power in both those brands. So we would think we can pretty-well hold year-over-year margins in the U.K. That's going to be our goal. I wouldn't see a lot of opportunity to increase them, but we think we can hold them.

<**Q - Steve J. McManus**>: Okay. And the last one for me I guess, looking at the F&I GPUs kind of holding flat at about $1,346 per unit in the quarter. Should we expect any room for improvement there in the next couple of quarters? Or stay relatively stable?

<**A - Peter C. DeLongchamps**>: This is Peter DeLongchamps, and I think relatively stable. We've still got some work to do clearly in Brazil. U.K. has been a bright spot for us, U.S. remained consistent. So we've always kind of modeled that area, consolidated in the $1500 range for U.S.

<**Q - Steve J. McManus**>: Okay. Great. Thanks a lot, guys. I appreciate it.

<**A - Earl J. Hesterberg**>: Thank you.

## Operator

Thank you. And the next question comes from David Whiston with Morningstar.

<**Q - David Whiston**>: Good morning.

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

<**Q - David Whiston**>: A question on the oil market weakness. I just want to get a bit more color on, is this impacting all segments? Is it just the dams? Is it just small business pickup customers, or just personal pickup customers?

<**A - Earl J. Hesterberg**>: Well, I think it's an overall demand issue, but I think it's going to be felt an awful lot more in the car segments. If there's still the overall strength of demand in the truck and SUV segments mitigated to a certain degree, and there's much lower supply on those vehicles. So although, it's an overall demand issue, I think it really manifests itself a lot more in cars.

<**Q - David Whiston**>: Okay. And in Brazil I know you guys have done a great job there, this year especially. But are you at a point where you just can't take any more costs out without cutting into bone, so to speak. Or is there still more you can do there?

<**A - Earl J. Hesterberg**>: We are getting pretty close to the bone there. Now the best thing we can do is kind of manage our portfolio a little bit which we've done, and we are doing a little more work. So we're getting pretty close to the bone there.

<**Q - David Whiston**>: Okay. And back to the U.S., now that Ford has made the lighter F-150 more readily available with higher production, just curious if there's any feedback, positive or negative you can share from your customers in places like Texas and Oklahoma on the new truck.

<**A - Earl J. Hesterberg**>: I think the feedback on the F-150 is overwhelmingly positive. Our F-150 sales for the fourth quarter were actually up 14%, which on any benchmark that's a pretty good number. So I think that's a positive story for us and for Ford.

<**Q - David Whiston**>: Okay. Thanks very much.

<**A - Earl J. Hesterberg**>: Thank you.

## Operator

Thank you. And the next question comes from Pat Archambault with Goldman Sachs.

<**Q - David Tamberrino**>: Yeah. Hi, thanks. It's actually Dave Tamberrino on for Pat. Just a couple of questions for us here, but back to the premium luxury segment in the U.S., you mentioned needing to adjust your inventory levels and that should occur in the first half of 2016. But will the pressure in that segment really abate here, meaning are you seeing an overall behavior change from the luxury OEMs now following the weaker 4Q, or does the flattening overall market impact their actions and really intensify the fight for market share?

<**A - Earl J. Hesterberg**>: I don't' really think I can speak for the OEMs, and they know that we're going to have to adjust. And too much inventory in the long-term isn't' good for them or us. I think it may take them some time to adjust their car flows regionally. I expect they weren't thinking about this regional issue as much as we do. And so it may be relatively new issues for them. I chatted with some of those top executives probably early in the fourth quarter. I'm not sure it was on their radar screen until then. But it takes them a while to move their car flows around regionally. But it will cost everyone more money if those inventories stay too high for an extended period of time. And they're pretty smart business people. They know that. So I think we'll work together to adjust this.

<**Q - David Tamberrino**>: Okay, that's helpful. And then just staying within premium luxury, has there been a difference in demand for passenger car versus SUVs, meaning is it more the inventory oversupply just in passenger cars and you can't get enough SUVs or is it similar for both segments?

<**A - Earl J. Hesterberg**>: No, you're correct that industry-wide trend applies to the luxury brands also. The SUVs have a greater level of demand than the cars in many cases.

**<Q - David Tamberrino>**: Okay, that's helpful. And then just shifting gears on the F&I side have you seen any changes in lending standards more recently, particularly the willingness to loan to subprime borrowers or even an increase in rates there?

**<A - Peter C. DeLongchamps>**: This is Pete DeLongchamps. I can tell you from our perspective and from our company, we have not seen a change.

**<Q - David Tamberrino>**: And does that hold true for the Houston market as well?

**<A - Peter C. DeLongchamps>**: Yes.

**<Q - David Tamberrino>**: All right. Thanks for taking my questions.

## Operator

Thank you. [Operator Instructions] And the next question comes from Irina Hodakovsky from KeyBanc.

**<Q - Irina Hodakovsky>**: One more question for you guys. You have a lot of Toyota exposure. And there have been a couple of publications who discussed the Toyota disruption in Japan due to steel shortage. Can you give us any information on that? Are you hearing anything from Toyota? There are different reports in terms of the magnitude of this disruption.

**<A - Earl J. Hesterberg>**: Yeah. We saw that in the last few days also. And so we checked with our Toyota representatives. And they said the impact on our U.S. supply is not material, insignificant.

**<Q - Irina Hodakovsky>**: Great. Thank you very much.

## Operator

Thank you. And we also have a follow-up question from David Lim from Wells Fargo.

**<Q - David H. Lim>**: Yeah the follow-up that I have is when you talk about inventory correction on the premium luxury, I mean is this – as you said, is this just a shifting of distribution of cars out of let's say South Central U.S. to other areas? Or are we talking about possible production cuts at the luxury OEMs? I just wanted to get a little bit more color on the commentary there, if you would, please?

**<A - Earl J. Hesterberg>**: Actually, David, I couldn't really speak for the OEMs. I don't know what their entire situation is. But my viewpoint on it was just that they would likely have to redistribute within the U.S. I don't know where they are at any one point in time. But I think they keep a pretty close eye on these things. So I don't really think they want the cars backing up either. So my guess would be they need to move them around within the U.S. But I would have to let them speak for themselves.

**<Q - David H. Lim>**: Gotcha. Thank you.

## Operator

Thank you. And as there are no more questions at the present time. This does conclude our question-and-answer session. I would now like to turn the conference back over to management for any closing comments.

## Peter C. DeLongchamps

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

## Operator

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