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Company Name: Group 1 Automotive
Company Ticker: GPI US
Date: 2015-04-28
Event Description: Q1 2015 Earnings Call

Market Cap: 2,032.16
Current PX: 83.70
YTD Change($): -5.92
YTD Change(%): -6.606

Bloomberg Estimates - EPS
Current Quarter: 1.800
Current Year: 6.757
Bloomberg Estimates - Sales
Current Quarter: 2699.250
Current Year: 10649.200

Q1 2015 Earnings Call

Company Participants

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

Other Participants

- John J. Murphy
- N. Richard Nelson
- David H. Lim
- Patrick K. Archambault
- Brett D. Hoselton
- Paresh B. Jain
- William R. Armstrong
- James Albertine

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen and welcome to Group 1 Automotive's 2015 First Quarter Financial Results Conference Call. Please be advised that today's call is being recorded.

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

Peter C. DeLongchamps

Thank you, Jamie, and good morning, everyone, 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'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 call, statements made by the management of Group 1 are forward-looking statements that are made pursuant to 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 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 available from both the SEC and the company. In addition, certain non-GAAP financial measures, as defined under SEC rules, may be discussed on this call. As required by applicable SEC rules, the company provides reconciliations of any such non-GAAP financial measures to the most directly comparable GAAP measures on its website.

Participating on the call today, 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 period, unless otherwise stated.

I'd now like to hand the call over to Earl.

Earl J. Hesterberg

Thank you, Pete, and good morning, everyone.

I'm pleased to report Group 1 achieved record first quarter net income of $35.8 million. This equates to a record first quarter EPS of $1.47 per diluted share, an increase of 23.5% over the prior year. For the quarter, total revenue increased approximately $172 million or 7.6% to a first quarter record of over $2.4 billion. On a currency adjusted basis, revenue grew 10.1% for the quarter.

Turning to our business segments, total consolidated new vehicle revenues grew 5%, as we retailed 3.9% more units, and the average new vehicle selling price increased $352 to $33,964. New vehicle gross profit increased 4.2%, as gross profit per unit increased by $5 to $1,777. During the quarter, we retailed nearly 40,000 new vehicles.

Our new vehicle unit sales geographic mix was 80.1% U.S., 11.5% UK and 8.4% Brazil. Our new vehicle brand mix was led by Toyota/Lexus sales, which accounted for roughly 26% of our new vehicle unit sales. Ford, BMW/MINI and Honda/Acura each represented over 10% of our new vehicle unit sales. Nissan was at 9.3% and General Motors, Hyundai/Kia and Daimler each increased their share of Group 1's new vehicle unit sales during the quarter. U.S. new vehicle inventory stood at 27,975 units, which equates to a 69-day supply compared to a 75-day supply for the first quarter of 2014.

Total consolidated used vehicle retail revenues grew 13.3%, as we retailed 11.6% more units and the average used vehicle selling price increased $325 to $20,785. U.S. same-store retail units increased 5.9% driven by an 11.4% increase in certified pre-owned units.

Used vehicle retail gross profit increased 7.8%, as gross profit per unit decreased $54 to $1,538. Roughly half of this decrease can be explained by changes in foreign exchange rates.

During the quarter, we retailed nearly 30,000 used retail units. U.S. used vehicle inventory stood at 12,976 units, which equates to a 32-day supply compared to a 30-day supply for the first quarter of 2014. Total consolidated parts and service revenue increased 4.8%, while consolidated parts and service gross profit rose 6.4%. Despite exchange rate headwind, same-store parts and service gross profit grew 4.4% on 3.4% higher revenues. U.S. same-store gross profit increased 6.4% on 5.5% higher revenues.

Within finance and insurance, a combination of increased profitability for retail unit and higher volumes drove a total gross profit increase of 13.1%, on a consolidated basis. Total consolidated F&I per retail unit increased $72 to $1,366. U.S. F&I increased $80 to an all-time quarterly record of $1,538 per unit.

Regarding our geographic segment results, our U.S. operations had strong growth with total revenue increasing 8.9%. The revenue growth was driven by double-digit same-store new unit increases in Houston and along the Gulf Coast. So it's reasonable to say we were not impacted negatively by low oil prices in Q1. We were impacted negatively however by the record extreme snowfalls in New England during Q1, which hurt both vehicle and service sales as well as drove higher costs for snow removal.

Our UK operations had another strong quarter with total revenue growth on a local currency basis of 32.5% supported by our December acquisition of three BMW/MINI dealerships, as well as growth across all our segments, new vehicle, used vehicle, parts and service and finance insurance at our existing stores.

For Brazil, while the overall Q1 industry sales were down 16% reflecting both a weakening of the macroeconomic environment and the impact of the vehicle tax increase that occurred at the beginning of the year, our new vehicle unit sales were only down 9.5% on a same-store basis. Our strategy of aligning with growing brands is working, and in conjunction with aggressive cost cuts, this allowed us to incur only a small loss in the quarter.

We remain confident that the improvement actions that the team has implemented over the last six months will allow us to be profitable on a full-year basis. Relative to our cost performance, on an overall consolidated basis, selling, general and administrative expenses as a percent of gross profit improved 160 basis points to 74.6%. Regionally, total SG&A as a percent of gross profit improved 160 basis points in the U.S., increased 160 basis points in Brazil and increased 10 basis points in the UK due to the previously announced acquisition of three sizeable BMW/MINI dealerships in December that are still being assimilated into our group.

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

John C. Rickel

Thank you, Earl, and good morning everyone.

Our net income for the first quarter of 2015 rose $4.5 million or 14.4% over our comparable 2014 results to $35.8 million. On a fully-diluted per share basis, earnings increased 23.5% to $1.47, an all-time first quarter record. There are no adjustments made to either quarter's GAAP earnings.

Starting with the summary of our quarterly consolidated results, for the quarter we generated over $2.4 billion in total revenues. This was an improvement of $172 million or 7.6% over the same period a year ago, and reflects healthy increases in each of our business units in the U.S. and the UK. Weaker exchange rates and the impact of a slowing economy in Brazil were partial offsets.

Our gross profit increased $25.8 million or 7.6% from the first quarter a year ago to $363.9 million. For the quarter, SG&A as a percent of gross profit improved 160 basis points to 74.6% and operating margin was 3.3%, an increase of 20 basis points from the same period a year ago.

Floorplan interest expense decreased roughly $1.6 million or 14.3% from the prior year to $9.3 million, explained by lower floorplan borrowings in Brazil due to both inventory management and the procurement of lower cost alternative financing options that are now reported under other interest expense.

Other interest expense increased $3.4 million or 32.3% to $13.9 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 of 2014, as well as the shift in Brazil interest expense that I just mentioned. Our consolidated effective tax rate for the quarter was 37.7%.

Now, turning to the first quarter same-store results. For the quarter, we reported revenues of over $2.2 billion, which was $76.4 million or a 3.5% increase from the comparable 2014 period. On a local currency basis, which ignores the change in foreign exchange rates, total revenues increased 6%. Within the 6% total, new vehicle revenue was up 4.5% and used vehicle retail revenues improved 8.6%. Both finance and insurance in parts and service delivered another strong quarter, growing revenues 8.8% and 5.2% respectively.

Please note, we've modified our press release and posted investor presentation to include year-over-year percentage change metrics on both the U.S. dollar and local currency basis. My remaining same-store comments will be on a local currency basis, unless otherwise noted.

New vehicle revenues increased 4.5% on a 1.9% increase in unit sales and a 2.5% increase on our average new vehicle sales price. By country, same-store new unit sales increased 3.4% in the U.S., increased 2% in the UK and decreased 9.5% in Brazil. Our used retail revenues improved 8.6% on a 5.9% increase in unit sales, as U.S. CPO unit growth of 11.4% help drive revenues. By country, same-store used retail unit sales increased 5.9% in the U.S., increased 11.2% in the UK and decreased 5.5% in Brazil. F&I per retail unit rose 5.1%, driven by increases in both income per contract and penetration rates for most of our major product offerings.

The 5.2% revenue growth in parts and service is explained by increases of 16.1% in warranty, 11.1% in collision, 3.1% in wholesale parts and 0.3% in customer pay. As has been previously mentioned, our manufacturer paid maintenance continues to expand in the U.S., there is an ongoing shift of business from customer pay to warranty.

There has also been an increase in recall activity driving warranty revenues, which has put pressure on customer pay growth due to labor capacity constraints. We've increased our service technician head count by roughly 5% in the U.S. since the first quarter of 2014, but are still actively looking to hire more technicians. Also, 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 5.2% on a local currency basis. Our same-store new vehicle gross profit dollars increased 2.2%, reflecting the 1.9% increase in unit sales mentioned previously combined with a small increase in gross profit per unit. Our used vehicle retail gross profit increased 1.3% as the 5.9% increase in unit sales was partially offset by a gross profit per unit decrease of 4.4%. Our F&I gross profit grew 8.8%, reflecting a 5.1% increase in PRU and a 3.6% increase in total retail unit sales. Finally, parts and service gross profit grew 6.1%, reflecting the strong revenue growth mentioned previously as well as a 50-basis-point increase in margins to 53.1%.

Turning now to our geographic segments, starting with the U.S. market on an actual basis. For the quarter, total U.S. revenues grew 8.9% to $2 billion driven by increases of 13.3% in F&I revenue, 12.9% in total used vehicle revenue, 7.4% in new vehicle revenue and 5.5% 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 7.4% increase in retail vehicle sales volume, coupled with improved profitability per retail unit which grew $80 or 5.5% to $1,538, which is yet another all-time quarterly record.

Total gross profit improved 8.5% driven by increases of 7.6% in used vehicles, 7.2% in parts and service and 5.4% in new vehicles as well as the F&I increase that I just mentioned. For the first quarter, we grew gross profit by $24.8 million, while SG&A expenses increased just $13.6 million. As a result, our SG&A as a percent of gross profit improved 160 basis points to 73.1%.

Operating margin for the U.S. business segment increased 20 basis points to 3.7%. Related to our UK segment on a local currency actual basis, for the quarter, total revenue increased 32.5%, roughly three-fourths of this increase is due to the December 2014 acquisition of three BMW/MINI dealerships. Gross profit for the UK segment was up 30.4% from prior year.

New vehicle gross profit grew 29.3%, as an increase of 20.4% in unit sales combined with an increase in gross profit per unit of 7.4%. Used vehicle gross profit increased 34.2%, as a 34.2% increase in unit sales combined with an increase of 1.7% in gross profit per unit.

Parts and service gross profit improved 29.5% with roughly 6% being contributed on a same-store basis. F&I income increased 31.2%, which is attributable to a 4.3% increase in gross profit per retail unit and a 25.7% increase in total retail units.

During the first quarter, our SG&A as a percent of gross profit increased 10 basis points to 78.3% with the increase explained by the December acquisition. Same-store SG&A, as a percentage of gross profit, decreased 220 basis points to 76.1%. As we assimilate these new stores, we expect the SG&A performance to come in line with our existing operations. Operating margins for the UK business segment was flat at 2.2%.

Related to our Brazil segment, on a local currency same-store basis. As Earl mentioned, the total industry new unit volume decreased roughly 16% from the first quarter of 2014. Despite this, our total gross profit increased by 2.4%. New vehicle gross profit increased 8.5% as a decline of 9.5% in unit sales was more than offset by an increase in gross profit per unit of 19.8%. Used vehicle gross profit decreased approximately 30%, as a 7.7% decrease in total used unit sales combined with the decrease of 24.3% in gross profit per unit. Parts and service gross profit increased roughly 1%, and our F&I income increased roughly 20%, which is more than explained by a 30% increase in gross profit per retail unit.

SG&A, as a percent of gross profit, increased 80 basis points to 92.7% and operating margin decreased 20 basis points to 0.4%. It should be noted that the first quarter is seasonally the weakest due to summer vacations and carnival.

Additionally, as Earl mentioned, the total industry volume in Q1 was negatively impacted by the expiration of the government-sponsored auto purchase tax incentive at the end of 2014. Even though, we reported a slight loss in the first quarter, we do expect to be profitable for the full year in Brazil.

Turning to our consolidated liquidity and capital structure. As of March 31, 2015, we had $26.3 million of cash on hand and another $100.8 million that was invested in our floorplan offset accounts, bringing immediately-available funds to a total of $127.1 million. In addition, we had $150.6 million available on our acquisition line that can also be used for general corporate purposes. As such, our total liquidity at quarter end was $277.7 million.

With regards to our real estate investment portfolio, as of March 31, we own roughly $745 million of land and buildings, which represents 47% of our dealership locations. To finance these holdings, we've utilized our mortgage facility and executed borrowings under other real estate specific debt agreements.

As of March 31, we had $57.2 million outstanding under our mortgage facility and $404.6 million of other real estate debt excluding capital leases. During the first quarter, we repurchased approximately 198,000 shares of our outstanding stock at an average price of $81.62 for a total of $16.2 million. As of March 31, we had $83.3 million of share repurchase authorization remaining.

In the first quarter, we used $4.9 million to pay dividends of $0.20 per share, an increase of $0.03 per share or 17.6% over the prior year. For additional detail regarding our financial condition, please refer to the schedules of additional information attached to news release as well as 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 effort, as previously announced, the company acquired an Audi dealership in Texas during March 2015, and an Audi dealership in Florida during April 2015. These franchises are expected to generate approximately $240 million in annual revenues.

During the quarter, the company also disposed of the small master franchise in Georgia, which generated roughly $5 million in annual revenues. We continue to adjust our dealership portfolio to ensure we are generating appropriate returns for our shareholders.

This concludes our prepared remarks. I will 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 John Murphy from Bank of America, Merrill Lynch. Please go ahead with your question.

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

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

<Q - John J. Murphy>: Just a first question on the SG&A leverage, which was pretty good in the quarter here. As we think about going forward, it sounds like Brazil will get a little bit less worse or get a bit better and the U.S. is accelerating and Europe's accelerating. So it sounds like there should be some operating leverage, but it also sounds like there's some other actions that are going on. I'm just curious where you think this can go during the course of this year, and are we seeing the benefit of some of your proactive measures in the oil patch ahead of potential weakness really coming through and will those just bear fruit as the top line doesn't decelerate there? Just trying to understand that – sort of what the potential is here this year, because it sounds like there is a lot of opportunity in front of you?

<A - John C. Rickel>: Yeah, John. This is John Rickel. Yeah, we think that obviously there are more things we can do on the cost front, as we've talked about. As long as we continue to grow gross profit dollars, we would expect to leverage those. So I think you're right that there is more that we can do on the cost and the cost leverage.

<Q - John J. Murphy>: Okay. And then as we think about the parts and service business, there's a melding of the customer pay and the warranty because of the prepaid programs. So just trying to understand, when we look at this, you said customer pay was up only 0.3% and but warranty was up 11%. Do you have any way of putting those numbers together to understand really what the customer parts and service sort of all-in is up, because there's obviously been a lot of recalls and that 11% may be somewhat inflated by the recalls. And we're just trying to gauge what the actual normal ongoing increase is here.

<A - Earl J. Hesterberg>: Well, it's definitely inflated by the recalls and we've tried to do that, but I don't think we can give you a very reliable number. We had displacement in the quarter from both recalls displacing normal work and also some increased internal work. Our internal was up 10%, but we backed that out of our numbers. So we have a lot of used car activity, particularly an increase in a certified pre-owned, which has a lot higher reconditioning costs in times. So we've had some displacement on warranty as well as these prepaid maintenance programs that come through as warnings that a customer pay, but I really can't give you a very reliable number, I'm afraid.

<Q - John J. Murphy>: But recall activity as a percent of parts and service right now is, what, far less than 10% of total parts and service revenue in gross?

<A - Earl J. Hesterberg>: Certainly, in terms of gross. I don't know in terms of number of ROs, but yeah, certainly in terms of gross. A lot of your recall activity is just the inspection of a vehicle and you bring it in and then there is no repair required or the parts aren't available. So there is a lot of traffic on recalls but it doesn't necessarily generate a lot of gross profit dollars.

<Q - John J. Murphy>: Okay. And then if we think about the European business, it sounds like the BMW/MINI dealerships really helped out in the quarter, but absent that, there still was some pretty good acceleration in the business, but we're hearing sort of mixed messages coming out of the UK and the rest of the continent on what's going on in the markets over there. I'm just wondering if you can comment on what you're expecting for the market for the full year and how you might be able to leverage that, plus or minus.

<A - Earl J. Hesterberg>: Well, I would expect the UK, if it has a growth this year, would be quite minimal. That market has been very strong. We don't think it's going to go down, but clearly it can't grow like it has. Our UK BMW dealerships, those new ones, just came good during the [ph] plate (25.12) change month in March. They lost money, lost quite a bit of money in the three of the first four months we owned them. So they were kind of a mixed bag. And that's one of the reasons it took our SG&A down. But we still have some relatively young dealerships in the UK, so we think we can continue to leverage some operating improvement, not just from the new BMW dealerships, but from most of our dealerships in the UK. So we still have upside in the UK.

<Q - John J. Murphy>: Okay. And then just lastly, John, you were pretty active on the balance sheet last year as far as simplifying and terming some debt out. Are there any other opportunities to do so this year, and would you consider doing a euro-denominated issuance because we've seen a lot of companies do that at very, very, very minimal cost?

<A - John C. Rickel>: Yeah. It's a good question, John. We did most of the heavy lifting last year. There's not really a lot left in the way of cleanup that's needed. If we would need to do any sort of debt issuance this year, I mean, the idea you float is one that we certainly would probably look at. But right now, there's really nothing on the horizon that would require us to do any debt issuance.

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

<A - John C. Rickel>: Thanks.

Operator

Our next question comes from Rick Nelson from Stephens. Please go ahead with your question.

<Q - N. Richard Nelson>: Hey, good morning. [indiscernible] (26:32) for the local currency disclosure that sounds very helpful. Can you put the currency translation in terms of the bottom line impact? How much you think that affected EPS?

<A - John C. Rickel>: Yeah, Rick. This is John. It cost us probably about $0.02 for the UK and benefited us about $0.01 for Brazil, so net-net about $0.01 of EPS.

<Q - N. Richard Nelson>: Okay. That's good. Thank you. Also, I like to ask about the acquisition environment. You bought these two Audi stores, if you could comment on the multiples there and the BMW stores in the UK that closed, I guess, in the fourth quarter.

<A - Earl J. Hesterberg>: Well, I wouldn't comment specifically Rick, but the luxury stores like that Audi and BMW are extremely expensive these days. And they're quite difficult to find them, and to find a business proposition that creates a good return on investment for shareholders. So those are difficult to find. We're glad we did. But I don't think there are necessarily a lot of those out there that will pencil well, if you're objectively looking it at future return on investment. We're continuing to look for them.

The numbers are generally easier to make work in the UK, just because the competitive environment is a little bit different there. The acquisition environment in the U.S., I think, has slowed down a little bit, There's still plenty of dealerships for sale, but it appears that the price expectations are still pretty stout. And I think an acquirer has to be a lot more careful purchasing dealerships in a $17 million industry SAR than a $13 million or $15 million industry SAR.

<Q - N. Richard Nelson>: And Brazil, do you have kind of hold off there for a while or...?

<A - Earl J. Hesterberg>: No, not all. I was there all last week. We have some more adjustments to make to our portfolio there to make it stronger. In particular, our Nissan Pajero dealerships are not performing well there, but there are significant number of opportunities in Brazil. And we will actively look to expand there, particularly with the strength of the dollar.

<Q - N. Richard Nelson>: Okay, okay. And finally, your outlook for the UK was helpful. Brazil, take the last quarter you had talked about a flat market expectation. Any changes to that coming out of the first quarter?

<A - Earl J. Hesterberg>: No, the first quarter was really tough in January and February, but we expected that. And the real pressure is on the big four brands, and we don't participate with those brands that's Fiat, Volkswagen, Ford and General Motors. They are struggling the most as you would expect when the market is weak. Higher brands such as Toyota, BMW and Land Rover, our key brands are much more stable.

<Q - N. Richard Nelson>: Great. All right. Thanks a lot. Good luck.

<A - John C. Rickel>: Thanks, Rick.

Operator

Our next question comes from David Lim from Wells Fargo. Please go ahead with your question.

<Q - David H. Lim>: Great. Good morning, everyone. Just the question on truck mix in the quarter. Can you sort of explain, we noticed that the [ph] ATPs (30:14) in the U.S. has, I think, increased about $700, $800 per unit. But your gross profit per unit only increased $7 on a year-over-year basis. Is there anything to do with you guys still being more Toyota heavy than Ford heavy, and is there anything to do with F Series not full being ramped up? Thank you.

<A - John C. Rickel>: Yeah, David. This is John Rickel. Yes. Your numbers are basically accurate. And yeah, that is the pieces of it. One, clearly being more Toyota heavy, we continue to see pressure on midline imports, and I don't think that was unique listing to some of what the others have announced with a partial offset. We're also seeing the luxury brands kind of get down into more entry level models. There's been some pressure on some of the luxury margins. And then your final point is right that Ford hasn't fully loaded up with F Series. As that comes on stream later this year, that should be a benefit for us.

<Q - David H. Lim>: Thanks, John. And also the question I had is, on your SG&A to gross profit improvement in the U.S., it was sort of flattish on a same-store sales basis, better on from a consolidated basis in the U.S. Is that just more to do with the recent acquisitions still going down the cost curve?

<A - John C. Rickel>: No, on the same-store basis, David, as Earl mentioned, we had stores up in Boston – we're heavier up in the Northeast than anybody else really other than maybe PAG, and saw a lot of expenses around snow removal. Boston, in particular, just got hammered, and that really kind of held back some of the same-store flow through. On the consolidated, it was basically the benefit of some of the disposals we did over the last couple quarters.

<Q - David H. Lim>: Okay. And just two more for me. On the SG&A to gross profit, if you neutralize FX, would that have been a 20-basis-point impact? I think that's what I'm calculating as a 20-basis-point, 30-basis-point impact for FX.

<A - John C. Rickel>: It sounds about right, David, but let me confirm that for you offline.

<Q - David H. Lim>: Okay. And then finally, there're some recent discussions about this Digital Millennium Copyright Act, I think OEMs are trying to limit the accessibility of individual like DIY or even do-it-for-me kind of people when it comes to the ECU access of the vehicle. Any commentary there on what you're hearing from the OEs as these cars are becoming more supercomputer-esque in many respects as well as the need for improved cyber security?

<A - Earl J. Hesterberg>: Yeah, we're aware of the issue, David. But I can't profess to be an expert on it. We've been involved with some of the Right to Repair legislation in certain stage, but it tends to be I think an OEM driven intellectual property discussion. And I don't really have any insights, I think that could be productive from this discussion.

<Q - David H. Lim>: I got you. And the let me squeeze one last thing here. CFPB front, any new thoughts there or any new developments there? Thank you.

<A - Peter C. DeLongchamps>: Hi, David. This is Peter DeLongchamps. I guess the short answer is, no. We continually work with our lending partners to ensure that we're compliant as possible in all of our dealerships, but all the discussions are through the lenders at this point. So I don't think there's any new development since the last time we talked about it.

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

<A - Peter C. DeLongchamps>: Thank you.

Operator

Our next question comes from Patrick Archambault from Goldman Sachs. Please go ahead with your question.

<Q - Patrick K. Archambault>: Yeah, thank you. Good morning. Couple from me. Just a clarification on Brazil. So, it just seems like since you guys have spent time down there, well in general, but it seems like you've spent a lot of time down there recently. What do you see the trajectory of sales, and how do you see this trajectory of sales? I mean it sounds like there was this kind of IPI issue that kind of expired in December and that's what created a very weak start of the year. But has it been picking up and are people actually more constructive about an improvement relative to what you saw in January and February?

<A - Earl J. Hesterberg>: Well, the overall environment is quite fragmented in terms of the psychology. Of course, its Petrobras and/or has dominated a lot of the psychology economically in the market. So maybe that will start to settle down after they provided some clarity last week. But in the automotive sector, it's more of a brand story. And as I mentioned previously, the big four brands are challenged quite a bit since they have the most to lose, but brands like Toyota and Honda are actually selling every car they can make.

They have new factories in Brazil, and Nissan has a new factory in Brazil. We're a little confused about what that business model is, but it appears that their sales are going up, I wouldn't say our profits are following that yet, but then you have BMW with a new factory, Land Rover planning a new factory, those are our brands.

So there is really a big transition for many of the brands, particularly the ones that we deal with as they start to produce locally and that enables them to have more competitive price points and should enable them to increase our hold volume even in this kind of challenging market. So you almost have to look at it brand-by-brand in the automotive industry. But in Toyota and Honda, they make more cars. They can sell more cars. That's how different it is from the overall macro numbers of down 16.5% or whatever that final number was.

<Q - Patrick K. Archambault>: So is it a market that's been starved of premium product and you're finally starting to see that come in with these kind of manufacturing locally?

<A - Earl J. Hesterberg>: It hasn't been starved to premium product, but premium product has been priced so astronomically because of the tax structure that it has limited overall demand historically. And as these premium brands start to produced locally, it's going to dramatically reduce the transaction prices and I expect there'll be much more volume potential for them.

<Q - Patrick K. Archambault>: Got it. That's helpful. Just back on, I guess, consolidated numbers, your used-to-new ratio was up quite a bit year-on-year. It had been declining all through last year actually. And I guess the first quarter was the first time we'd seen it up in a year. So maybe a little bit on what has allowed you to do that? Is that the industry where used is maybe coming back because of some of that inventory acquisition or is that more of a Group 1 factor?

<A - Earl J. Hesterberg>: Yeah. I expect there're several factors. We don't really look at that metric. I know as we exited the Long Island market that probably helped our ratio a bit, because we didn't have much space for used cars there. But I think overall, the used market is strong this year. And with a better supply of off-lease vehicles, we've seen our certified pre-owned volume increase quite a bit. That seems to be a stronger part of the market. So I would just say overall that we're seeing the used car market have some strength so far this year, probably more than we would have forecasted.

<Q - Patrick K. Archambault>: Okay. I appreciate the color. And then one last one for me. I mean I sort of have to ask here the sales report coming in a couple of days, any kind of initial views of how we're stacking up here in April versus March?

<A - Earl J. Hesterberg>: Well, I would refer to the press reports of the last couple days, which showed a relatively strong April. It seems that the prognosticators are kind of between 16.3 million and 16.7 million unit SAR for April. That makes sense to me. April is seldom quite as strong as March, because with quarter-end marketing programs you generally get a push in March in overall volume. But I would say we haven't seen anything to materially change the overall momentum of the market. And that seems consistent with what these third-parties are forecasting this month in terms of 16.3 million to 16.7 million. So I think it's fair to say the momentum in the market is still quite strong.

<Q - Patrick K. Archambault>: Okay. Great. Thanks a lot guys.

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

Operator

Our next question comes from Brett Hoselton from KeyBanc. Please go ahead with your question.

<**Q - Brett D. Hoselton**>: Good morning.

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

<**Q - Brett D. Hoselton**>: Thanks for taking my question. I want to start off kind of focusing again on the Brazil market. I'm looking at slide 47, which I know it's a lot of slides here. So Earl, you may not be familiar with it, but in it you have your new vehicle sales in Brazil going from 3.4 million in 2014 to 3.4 million in 2015 consistent with your kind of flat expectations. It looks like 2016 it's jumping up to 4.2 million units, if I'm not mistaken give or take, but that's like around a 24% year-over-year increase. So obviously, pretty substantial increase in 2016. I presume these aren't necessarily your projections; they're probably somebody else's. But my question is simply that's a big jump and...

<**A - John C. Rickel**>: Yeah. Brett, let me jump in there. This is John Rickel. Those are the local kind of dealer association. The numbers in there for 2014 and 2015, we've obviously put in our local forecast. We don't have an independent number. We're not planning the business on that kind of jump. The indication there though is that clearly there is longer run potential in the market, whether or not that's next year or 2017, I don't know that we're smart enough to say that. But your point about a big jump for the next year, we're not planning the business based on that.

<**Q - Brett D. Hoselton**>: Okay. So I guess the crux of the question was ultimately going to be, what do you think about next year? I mean, it sounds like generally speaking, up is probably a good estimate, but do you think that you're likely to see a single-digit increase or flat or up 10%? I mean, what do you think is – based on what you're seeing today, what's your general sense of 2016, any guess?

<**A - John C. Rickel**>: Yeah, Brett. This is John. We really don't forecast the next year. I mean, it's way too early to be offering prognostications on 2016. We'll address that when we get into the fall. We need to see how this year unfolds. Clearly, we like the longer run aspect of Brazil, but we're not in a position to give you any sort of estimates on 2016 just yet.

<**Q - Brett D. Hoselton**>: Okay. Then let me ask you a little bit shorter term perspective on Brazil. So if unit sales are down 9.5% on a same-store basis in the first quarter, you're expecting kind of flattish through – for the full-year. That generally implies that you're going to see some improvement as you move through the remainder of the year. So my question is kind of, is that as a result of sales kind of stabilizing at current levels and comparisons becoming easier, or is it simply – I mean, how do you think about the remainder of the year? Why does it go up on a year-over-year basis?

<**A - Earl J. Hesterberg**>: Yeah. I think the remainder of the year would be, probably as an industry, significantly better than January and February. January and February were atypically weak. Our March business was significantly profitable, and because the market settled down, the pull ahead to last year settled down, people got back to work after Carnival and we think we can make headway and certainly our sales won't be down 9.5% in the quarters ahead in Brazil.

<**Q - Brett D. Hoselton**>: Okay. Very good then. Looking at your UK business, on the used cars side up 11% on a same-store sales basis is very good. And I guess my question is, was that just a matter of kind of maybe an easy comparison, was there some fleet business in there? Was there anything in particular that is driving that?

<**A - Earl J. Hesterberg**>: Well, it's not fleet business on the used car side, but there is some aggressive marketing pushes in the UK per OEMs because the pound's relative strength compared to the euro and such. And so, I think there are probably some manufactured used cars that are getting pushed into the market with low mileage and that can be good for dealers like us.

<**Q - Brett D. Hoselton**>: Okay. And then as we kind of think about your parts and service business, ignoring FX, you're kind of growing in that low-to-mid single-digit range. Is that kind of a reasonable expectation, again ignoring FX, for the parts and service revenue going forward? Or is there some reason to believe that it's going to maybe accelerate or decelerate in your case?

<**A - Earl J. Hesterberg**>: Well, I think we had a below-average quarter in the U.S. in terms of fixed growth. I think we should have been a little bit higher than that. I think we mentioned some warranty and internal displacement. We also had six dealerships in New England that barely grew at all and that was against a weak comp last year, but we had

three weeks of four consecutive snowstorms up there. We had five big shops under construction during the quarter that throttled business a bit. So I think our U.S. business – I think we should have a reasonable chance to have better growth rates in the quarters ahead this year.

<**A - John C. Rickel**>: Yeah, Brett. I'll stand by what we've told you, which the expectation is mid-single digits. And for the reason as Earl indicated, we're a little bit under that in first quarter, but I think we're still very comfortable with that for as we look forward.

<**Q - Brett D. Hoselton**>: Excellent. Earl, John, thank you very much gentlemen.

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

Operator

Our next question comes from Paresh Jain from Morgan Stanley. Please go ahead with your question.

<**Q - Paresh B. Jain**>: Good morning everyone. First question on Brazil, the head count reductions you had there, what percentage of it was purely a response to low volumes and how much of it was efficiency related? Trying to get a sense of how much cost can come back, if and when volumes come back in Brazil.

<**A - John C. Rickel**>: Yeah. The head count reductions, you're right, we're in Brazil. We took about 10% of the head count out. Certainly, a portion of that was volume related, but better than half of it was just kind of pure efficiencies and we're comfortable that those costs will stay out.

<**Q - Paresh B. Jain**>: Thanks. That's good color. And switching to the U.S. same-store new number, the growth rate there was much below industry rate, and it seems like the oil-related markets did well. So what was the driver of the underperformance there? Do you think there was any impact from the advertising spend cut that you guys saw in the last two quarters?

<**A - Earl J. Hesterberg**>: No. I didn't see it as advertising related, but particularly, our Ford truck business has been throttled way back in Texas and across the southern U.S., just due to lack of supply in some cases of the new trucks that the customers want and in some cases, we're running out of 2014. So, our Ford business was much weaker than I would expected it to be. We actually expected it to be quiet strong this year as the supply increases of the new truck.

<**Q - Paresh B. Jain**>: Right.

<**A - John C. Rickel**>: And as Earl indicated, the snow-up in the Northeast didn't help either.

<**Q - Paresh B. Jain**>: Got it. Thank you.

Operator

Our next question comes from Bill Armstrong from C.L. King & Associates. Please go ahead with your question.

<**Q - William R. Armstrong**>: Good morning, gentlemen. Back to Brazil, your decline in sales was obviously better than the overall industry. You indicated that it was really driven by your brand mix. Do you have any sense for whether you gained or lost market share within the brands that you carry?

<**A - Earl J. Hesterberg**>: We're definitely gaining market share with the exception of Peugeot, I would say.

<**Q - William R. Armstrong**>: And what's driving those share gains and maybe also what's driving the share loss in Peugeot?

<**A - Earl J. Hesterberg**>: The Peugeot brand is extremely weak and is a bad financial proposition for us right now. So we're just trying to minimize the losses at our Peugeot stores right now, yeah. And we're trying to determine what the long-term business model is there, but we have very strong operations and where we dominate our locations with the

other brands like Land Rover, BMW and Toyota.

<**Q - William R. Armstrong**>: Got it. Okay. In the U.S., your new unit same-store sales were up about 3.4%, which looks like it lagged in the industry a little bit. Any color there?

<**A - Earl J. Hesterberg**>: Well, on a brand adjusted basis, I don't think, I think it was just about on the industry average.

<**Q - William R. Armstrong**>: Okay.

<**A - John C. Rickel**>: And it's basically for the reason that Earl mentioned previously, being short of F Series we're 10% plus Ford mix. So certainly the Ford stores were held back by not having enough of the new truck. And then clearly the snow impact up in the Northeast played a role as well.

<**Q - William R. Armstrong**>: Right. Got it. And then finally, your U.S. parts and service margins were up very nicely. Was that a mix issue? Or, what drove that increase and is that sustainable?

<**A - Earl J. Hesterberg**>: No. I think, it was more of a mix issue. Our wholesale parts business was down for the quarter and that's our lowest margin business.

<**A - John C. Rickel**>: The other piece, Bill, that plays into that is, we had a lot of internal work on the back of all those used car sales. We don't count the revenue, but we do keep the gross profit associated with that. So it's basically largely driven by the impact of the internal work. And as long as we continue to sell used cars at the rate that we're doing that should be sustainable.

<**Q - William R. Armstrong**>: Okay. Got it. Understood. All right. Thank you.

Operator

[Operator Instructions] Our next question comes from James Albertine from Stifel. Please go ahead with your question.

<**Q - James Albertine**>: Thanks, good morning. And thanks for squeezing me in here at the end. Real quickly, on F&I, you continue to set the bar higher. Pete, congratulations again. I think it's one of the big stand-outs of your results in the first quarter relative to your peers. Can you first frame for us how much of it is sort of financing-related and how much of it is product related, and where do you see the expansion opportunity is greatest between those two buckets? Thanks.

<**A - Peter C. DeLongchamps**>: Well, thank you, Jamie. We think that where we are today is a comfortable position for the company. About a third of it is related to lending activities and the remainder is to product, which we've increased our penetration rates over the past few years. But at the end of day, it's been about training and execution at the dealership level, the compliance that we have and the audit procedures that we have in place has helped grow the business. So we're comfortable from a forecasting standpoint we are today, we did have a terrific quarter. And we're just going to continue to work on the underperforming dealerships to try and make those dealerships better. But there's been a lot of hard work and execution and a good team work with our lenders and vendor partners. So it's a solid piece of our business, and I appreciate you're asking the question.

<**Q - James Albertine**>: Well, thanks for that color, Pete. And if I may ask just a follow-up, in light of some of your comments on the F-150, which are understood, and clearly in the Northeast as well understood. Can you give us any clarity in terms of the, perhaps the order backlog for the F-150 that gives you some visibility into the second quarter, perhaps beyond?

And then to the extent that you're not going to get most likely parts and service work back going forward, but to the extent that new vehicle or used vehicle sales in the Northeast were deferred, any insight there as well? Thanks so much.

<**A - Earl J. Hesterberg**>: On the F Series, Jamie, this is Earl. It's actually a very complex dynamic. There're decent numbers of the 2015 trucks out there, but the customer demand we have are for very loaded trucks, King Ranch, Platinum and so forth. And these are early adapters on the truck like this one, the exact truck they want and we just

don't have the precise trucks in stock that a lot of these buyers are clamoring for. That's quite normal on a launch. And then there is a big difference in transaction price between the 2015s and the 2014s. And there're incentives on the 2014s and not much on the 2015s, and a lot of the most popular 2014s work trucks, and popularly-equipped trucks and kind of more value models, those sort of in many cases sold out.

So the 2014 is a totally different transaction price and a great value proposition, but again it's hard to get the trucks that customers want in both the 2014 and the 2015 at the moment. That's normal. That's a normal particularly for a massive volume model that sells 700,000 units a year, is an issue. There's also some Super-Duty F Series shortages that we've run into.

Back to the New England, the New England situation, we had bad weather last year, it's just that in New England this year it extended for about three straight weeks, I think four consecutive snowstorms and we never really got reopened. And it seems that you get most of that new vehicle business back, but the service business is tough to get back because once you lose those hours, the shops tend to run either fully loaded or close to fully loaded most of the time these days, so you just never get those work hours back.

<Q - James Albertine>: Thanks so much again, and best of luck in the second quarter.

<A - Earl J. Hesterberg>: Thanks.

Operator

And ladies and gentlemen at this time, I'm showing no additional questions. I'd like to turn the conference call back to Earl for any closing remarks.

Earl J. Hesterberg

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

Operator

And ladies and gentlemen that does conclude today's conference call. We do thank you for attending. You may now disconnect your telephone line.