Company Name: Group 1 Automotive
Company Ticker: GPI US
Date: 2019-04-25
Event Description: Q1 2019 Earnings Call

Market Cap: 1,409.89
Current PX: 76.31
YTD Change($): +23.59
YTD Change(%): +44.746

Bloomberg Estimates - EPS
Current Quarter: 2.539
Current Year: 9.352
Bloomberg Estimates - Sales
Current Quarter: 2925.857
Current Year: 11601.000

Q1 2019 Earnings Call

Company Participants

- Peter C. DeLongchamps, Senior Vice President Manufacturer Relations, Financial Services, Public Affairs
- Earl Hesterberg, President and Chief Executive Officer
- Daryl Kenningham, President, US Operations
- John C. Rickel, Senior Vice President and Chief Financial Officer

Other Participants

- John Murphy, Analyst
- Michael Ward, Analyst
- Rick Nelson, Analyst
- David Tamberrino, Analyst
- Armintas Sinkevicius, Analyst
- Rajat Gupta, Analyst
- David Whiston, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to Group 1 Automotive's 2019 First Quarter Financial Results Conference Call. Please be advised that this call is being recorded. I would now like to turn the conference over to Mr. Peter DeLongchamps, Group 1's Senior Vice President of Manufacturer Relations, Financial Services and Public Affairs. Please go ahead Mr. DeLongchamps.

Peter C. DeLongchamps, Senior Vice President Manufacturer Relations, Financial Services, Public Affairs

Thank you, William, and good morning, everyone, and welcome to today's call. The earnings release we issued this morning and a related slide presentation that include reconciliation related to the adjusted results we will refer to on this call for comparison purposes have been posed to Group 1's 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 Automotive 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 condition of markets. Those and other risks are described in the Company's filings with the SEC 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 with me today are, Earl Hesterberg, our President and Chief Executive Officer; John Rickel, our Senior Vice President and Chief Financial Officer; Daryl

Kenningham, our President of US Operations; and Lance Parker, our Vice President and Corporate Controller.

Please note that all comparisons in the prepared remarks are of the same prior-year period unless otherwise stated. Now, I would like to hand the call over to Earl.

Earl Hesterberg, President and Chief Executive Officer

Thank you, Pete, and good morning, everyone. I'm pleased to report that Group 1 earned $38.2 million of adjusted net income for the quarter. This equates to record first quarter adjusted earnings per share of $2.06 per diluted share, an increase of 21% over the prior year. This increase was delivered in an environment of slowing new vehicle sales in both our US markets where industry retail sales declined almost 5% and the UK where the overall industry was down 2%. This result demonstrates our ability to grow earnings even in an environment of declining new vehicle sales in our core markets. Our profit growth is being driven by strong execution in the areas that are within our control, used vehicles and after sales. Initiatives we have undertaken in these areas continue to drive strong same-store sales growth independent of the new vehicle market conditions. We will cover more details on both used vehicles and parts and service in a few moments.

Turning to our business segments, during the quarter, we retailed nearly 39,000 new vehicles. Total consolidated new vehicle revenues decreased 5% on a constant currency basis driven by a 6% decrease in unit sales to the general US and UK industry declines, as well as the continued WLPT-related supply constraints negatively impacting our Audi business in the UK. Our new unit sales geographic mix was 68% US, 27% UK and 5% Brazil. Our new vehicle brand mix was led by Toyota/Lexus sales, which accounted for 23% of our new units; VW/Audi represented 15% percent; BMW and MINI represented 13%; and Ford and Honda Acura both represented 11% of our new unit sales. During the quarter, we also retailed nearly 39,000 used retail units driven by continued strong performance in the US that Darryl will cover in a moment. So our consolidated used vehicle revenues grew 5% in gross profit increased 8% on a constant currency basis.

The conversion of more used vehicle wholesale sales into the retail channel resulted in an 8% increase in total used vehicle gross profit per unit. Total consolidated aftersales revenue increased 7% on a constant currency basis, driven by increases in warranty of 16%, customer pay up 7%, wholesale parts of 2%, and collision of 2%. Our UK and Brazilian aftersales businesses both increased by over 10% on a local currency basis for the quarter. Finance and insurance gross profit increased 2% on a consolidated constant currency basis. This growth was driven by an increase in profit for retail units as retail unit sales were roughly flat from the prior year.

Regarding our geographic segment results, I'd like to turn the call over to Daryl Kenningham, President of US Operations, to discuss our US quarterly results before I cover the UK and Brazil. Daryl?

Daryl Kenningham, President, US Operations

Thank you, Earl. We were very pleased with our performance in the US in the first quarter. Due to strong growth in used vehicles, F&I and aftersales we were able to offset declines in our new vehicle business and generated 4% increase in total same-store gross profit. Used unit retail sales grew 7% and used vehicles outsold new vehicles by nearly 3,000 units in the quarter; the first time used vehicles have outsold new vehicles in our US business. Our Val-U-Line sales grew 29% and represented 11% of our quarterly used volume. We also saw an increase in total used gross profit per unit of $130. A shift of more business to the retail channel along with our recently implemented pricing strategies have been critical in driving used vehicle gross profit growth, which was up 13% over the prior year on a same-store basis.

At an 81-day supply, our new vehicle inventories are above our targeted levels. Some of this was due to lower new vehicle volumes, wholesale programs by some Asian OEMs and an oversupply in our domestic brands. We are working very closely with our stores to quickly address this situation. Our quarterly aftersales revenue grew 6.8% on a same-store basis. Customer pay revenues increased 7.6%, warranty increased 12.2%, collision 3.1%, and wholesale parts up 2.8%. The 7.6% increase in customer pay represents an all-time record US performance. We have now fully implemented our four-day workweek in roughly 60 stores and we're very happy with the results. It is driving better retention and has enabled us to increase our technician headcount by 15% and our advisor headcount by 12%. We are on track to implement this initiative in about 75 stores by the end of the third quarter, which will cover approximately 85% of our parts and service revenues.

Looking forward to the rest of the year, we would expect aftersales growth to maintain a mid-single digit growth rate. Despite headwinds from our Val-U-Line initiative and rising interest rates, F&I income per retail unit for the quarter increased $9 to $17.27 per car. We feel confident we can keep F&I around $1,700 for the rest of 2019.

We made additional progress in our digital efforts during the quarter. Our goal is to do business when and how our customers want to do business with us. At the end of March, we had launched our online retailing initiative in 47 of our US dealerships. Our selling rates continue to be outstanding. We are pleased with the gross profits and customer feedback has been excellent. We are on track to install online retailing in all of our US stores before the end of the second quarter.

In addition, customer scheduling service appointments online grew 18% versus the first quarter of 2018 and now over 25% of our service appointments are made online. Our trends in digital traffic also continued on a positive track. Organic traffic increased 22%, lease increased 29%, and website visits increased 19%.

Lastly, our team was able to leverage SG&A by 120 basis points on a same-store basis, from 75.0% down to 73.8%. This continues our positive leverage performance from the second half of 2018 and we anticipate continuing to be able to leverage SG&A as we increase gross profit from our use and aftersales efforts.

I will now turn the call back over to Earl.

Earl Hesterberg, President and Chief Executive Officer

Thanks, Daryl. As mentioned earlier, our UK operations were once again negatively impacted by uncertainty surrounding Brexit and early supply issues due to the WLTP legislation. The total industry was down 2% for the quarter but the Audi brand in the UK was disproportionately affected with a 13% decline. As Audi would normally represent about one-third of our UK new vehicle mix, this brand's specific shortfall explains our same-store sales decline of 5%. Despite the decline in our new vehicle sales, we were able to increase same-store gross profit on a constant currency basis reflecting an 8% increase in aftersales gross profit and a 12% Increase in F&I penetrations, both on a constant currency basis. In addition to the gross profit growth, our UK team was able to leverage SG&A by 150 basis points on a same-store basis as we continue to assimilate our recent acquisitions.

Now turning to Brazil, which continues to benefit from the ongoing economic recovery, total same-store gross profit increased 5% on a constant currency basis, driven by a 6% increase in F&I, a 6% Increase in aftersales and a 5% increase in new vehicles. We continue to be very proud of the work our local team has done and are well positioned to take full advantage of the recovering market.

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

John C. Rickel, Senior Vice President and Chief Financial Officer

Thank you, Earl. Good morning, everyone. For the first quarter of 2019, our adjusted net income increased $2.4 million or 6.6% over our comparable 2018 results to $38.2 million. These 2019 adjusted quarterly results exclude $500,000 of net after-tax gains consisting of $3.8 million of net gain on dealership and real estate transactions, partially offset by $1.5 million of inventory damage due to a hailstorm in Oklahoma and $1.9 million in legal matters. On a fully diluted per share basis, adjusted earnings increased 21.2% to $2.06, a first quarter record. For the quarter, we generated $2.8 billion in total revenues, which was flat versus the prior year on a constant currency basis. Our gross profit increased

4.4%, however, as gross margin increased 70 basis points to 15.4%. As a percent of gross profit, adjusted SG&A decreased 120 basis points to 76.1%, as continued cost control efforts in the US and UK contribute to our earnings growth. Floor plan interest expense increased by $1.6 million or 12% from prior year to $15.7 million, primarily explained by higher LIBOR interest rates, they were partially offset by a significant benefit from our interest rate swaps. Other interest expense was basically flat.

On a consolidated, adjusted effective tax rate for the quarter was 25.6%, which is higher than we would expect going forward. We forecast our full-year 2019 tax rate to be between 23% and 24%.

Turning to our consolidated liquidity and capital structure, as of March 31, we had $33.6 million of cash on hand and another $98.7 million that was invested in our floor plan offset account, bringing immediately available fund to a total of $132.3 million. During the first quarter, we used $4.8 million to pay dividends of $0.26 per share, which is an annualized yield of approximately 1.5%. For additional detail regarding our financial condition, please refer to the schedules of additional information attached to news release, as well the investor presentation posted on our website.

I'll now turn the call back over Earl.

Earl Hesterberg, President and Chief Executive Officer

Thanks, John. Relative to our corporate development efforts, since our last earnings call we disposed of a Chrysler-Jeep-Dodge-Ram in California and opened a Kia add-point in an existing facility in the UK. To-date in 2019, we have disposed of seven franchises that generated $120 million in trailing 12-month revenues and have opened two add-points that are expected to generate $40 million in annual revenues. This concludes our prepared remarks.

I will now turn the call over to the operator to begin the question-and-answer session. Operator?

Questions And Answers

Operator

We will now begin the question-and-answer session (Operator Instructions) Our first question today will be John Murphy with Bank of America, Merrill Lynch. Please go ahead.

John Murphy, Analyst

Good morning, guys, and congrats on a very good quarters here. I just wanted to dig into used for a second. I mean, you know the fact that you kind of hit this milestone of selling more used than new is pretty impressive. Just curious, how much further you think this can go and when we think about the sourcing of vehicles particularly for Val-U-Line, if you could just kind of remind us where those are coming from and what the opportunity is there specifically on Val-U-Line as well?

Earl Hesterberg, President and Chief Executive Officer

Okay. John, this is Earl, and I'll let Daryl comment in a moment, but I expect there will continue to be a shift towards the used vehicle market just for the industry in general. I think you're seeing is, we know prices of new vehicles have really increased quite a bit and I think there is a market shift that direction. We don't really plot it one way or the other. We want to sell as many new as we can, as many used as we can and it just seems to be trending that direction. We do want to make sure we're continuing to maximize our new vehicle sales. I think we probably could have done a little better in the quarter and I think the OEMs are going to get more aggressive in pushing new vehicles with higher incentives rather than cut production in a lot of cases. So, I don't know how that will play out. And I think everyone's had some challenges in securing supply of good used vehicles and in particular it's not very easy to go out and buy these Val-U-Line cars, they either come to or they don't.

Daryl Kenningham, President, US Operations

John, this is Darryl. Yeah. The Val-U-Line sourcing, we source -- try to source as many of those as possible internally and those with vehicles that typically we would have wholesaled out through the auction markets. In the quarter, we wholesaled almost 2,300 fewer units this quarter than we did the same quarter a year ago and that's where the source of a lot of our Val-U-Line comes from, and we feel like there's still some room to run there. It's not unlimited, but we know that there's still some opportunity there.

John Murphy, Analyst

Is there any opportunity to source those vehicles in another way or is it really vehicles that are coming in trade that you would have otherwise wholesale? I mean, is there another opportunity to maybe push that a little bit further?

Earl Hesterberg, President and Chief Executive Officer

There might be, John. We're not at that point, yet. But, our best vehicles that we sell are the ones we trade for and that includes Val-U-Line.

John Murphy, Analyst

Got it. Okay. And then second question on parts and service. I'm just curious where you stand on the flexible staffing there and if we think about cap utilization on sort of flexible basis, where you are on stall cap utilization versus main capacity utilization and how we should think about sort of same-store sales there? It teams like the way you're operating what's coming to you should be able to keep putting up sort of this mid-single same-store sales and parts and service, but just curious what your thoughts are.

Daryl Kenningham, President, US Operations

This is Darryl, again. Yes, you're correct. We still have stall capacity in our network in the US and we still have several stores to roll out and we will reach a point where we will have more technicians than we do have, this is some stores; we have more technicians in stalls because we're -- of the flexible work schedule, we're able to leverage that and -- but we still have stall capacity that we can fill and we're confident that we'll be able to continue that.

John Murphy, Analyst

Any sort of rough guess on 60%, 70%, 80% cap utilization though, I mean, where you roughly think is (inaudible).

Daryl Kenningham, President, US Operations

I will tell you. I think we're at about 80% today. I'll come back to you on it, John. I think we're about 80% on stall utilization today. Hang on, one second.

John C. Rickel, Senior Vice President and Chief Financial Officer

John, this is John Rickel. While he is looking down, I mean, the point we make is, we don't really focus on that that much because as the business is there what the flexible schedules allowed us to do is to expand the hours, which expands your capacity, right? And so that's the beauty of this flexible schedule. We're now running full day Saturdays but in the past you wouldn't view that as part of your capacity. This is a very capital friendly way to grow the business. We're utilizing fixed assets without spending additional cash to do it.

Daryl Kenningham, President, US Operations

John, today we have about 84% of our technicians -- stalls in the technician, and as John Rickel just indicated, we can go -- we still have a lot of room to run.

John Murphy, Analyst

So, there's a lot of room on the stalls and potentially if you staff them more efficiently as you are, there's actually even a lot more room than 16% left there, right?

Earl Hesterberg, President and Chief Executive Officer

Right. Correct.

John Murphy, Analyst

Okay. And then just lastly, as you think about SG&A going forward, as the business shifts, I'm just curious if you can maybe give us sort of the flow-through on growth for new, used, parts and service and F&I or you know maybe what the attach rate is SG&A, because some of SG&A is the highest on new, so as we look at these other three channels particularly used and parts and service pumping out higher gross the flow-through should potentially be significantly higher over time. So any idea maybe of the flow-through or the SG&A attach rate by segment?

John C. Rickel, Senior Vice President and Chief Financial Officer

Yes. John, it's John Rickel. In general, we guide to kind of -- our target is 40% flow-through, but you're right, it's going to be a little bit better on parts and service and F&I than new and used but it's not massive; certainly, more positive but not massive between the elements.

John Murphy, Analyst

Great. Thank you very much, guys.

Operator

And our next questioner today will be Michael Ward with Seaport Global. Please go ahead.

Michael Ward, Analyst

Thanks very much. Good morning, everyone. Just a follow up, Earl, on the service business. Earl, you talked about the US customer pay being up 7.6%. Is that correct?

Earl Hesterberg, President and Chief Executive Officer

Yes.

Michael Ward, Analyst

Okay. So if I'm looking at it with the flexible schedules that affects the customer pay in the wholesale about two-thirds of the service and parts revenues, is that right ?

Earl Hesterberg, President and Chief Executive Officer

That's probably right.

Michael Ward, Analyst

Okay. So it looks like the last year or so, we're looking at increases of somewhere in that 5% to 7% type range is that the new normal ?

Earl Hesterberg, President and Chief Executive Officer

We would like it to be, yes. We think it has consistently been there and we feel like thus we can maintain.

Michael Ward, Analyst

Okay. And other than the service technicians and the expanded four-day flexible schedule, how is retention going? In the handout, you have December 2017, 69% retention. Are those the vehicles you sold in December 2017 or is that just -- where does it stand today ?

John C. Rickel, Senior Vice President and Chief Financial Officer

Yes. Mike this is John Rickel. Normally, what we quote on service retention on these are, we sold the car and so what's the retention in 12-months for the service or service-to-service retention and we're running right now kind of in the mid-70s on both of those buckets. And we are seeing a nice upward trend, and I guess the long answer to your question, we continue to see an upward trend in that as we're able to do business when the customer wants to do business.

Michael Ward, Analyst

Okay. Does that online service appointment is growing up 25% now, as it continues to grow as -- does that increase the retention level ?

Earl Hesterberg, President and Chief Executive Officer

Well, we think it's -- it makes us easier to do business with and we make that available in as many places as possible, 52% of our digital traffic today comes from mobile and you can schedule service appointments through all of our mobile sites and apps very easily. So, yes, we think that makes us a little more secure secure and easier to make that.

Michael Ward, Analyst

All right. Just to confirm, that goes through that one service center when you're doing all of the online service appointment that goes through the one service center there in Houston ?

Earl Hesterberg, President and Chief Executive Officer

Those are online through our scheduling software.

Michael Ward, Analyst

Okay.

Earl Hesterberg, President and Chief Executive Officer

It's just the service center in Houston or service development center takes our telephone calls on service.

Michael Ward, Analyst

I see. Okay. Beautiful.

Earl Hesterberg, President and Chief Executive Officer

(inaudible) Houston.

Michael Ward, Analyst

Okay, And John, just a question on share repurchase. You were very active last year, you didn't do anything in the first quarter. Is there anything structurally changed on that or do you think you'll still remain aggressive if the share price justifies et cetera?

John C. Rickel, Senior Vice President and Chief Financial Officer

Yes. We will continue. You're right we were really aggressive in the fourth quarter, so we took just a little bit of a breather in the first quarter, wanted to cash balances come back. But, no, I don't think there's any fundamental change in the Company's strategy. it's always going to be kind of mix in between share repurchase and acquisitions that provide good returns.

Michael Ward, Analyst

Beautiful. Thanks very much, guys.

Operator

And the next questioner today will be Rick Nelson with Stephens. Please go ahead.

Rick Nelson, Analyst

Thanks. Good morning. And great quarter. Like to follow up on the last question on acquisitions. If you could characterize the environment that you see and and your appetite for acquisitions?

Earl Hesterberg, President and Chief Executive Officer

Yes. Hi, Rick, it's Earl. Well, our appetite is good for acquisitions and I would say there's been a fairly continuous stream of sellers over the past year. It's just making the math work that -- but this has been somewhat challenging, I think you've seen the whole sector trade down in valuations, which makes it tougher to find to not destroy capital when you are buying a new business and you're now having to project these -- many of these businesses at lower or future profit rates than what they generated two or three years previously in 17.5 million unit industry. But markets adjust; there is a nice flow of opportunities and we remain very interested, and as John just mentioned, we just have to balance how we use our capital and how creative these actions are -- these two different ways of deploying our capital. But, yes, there's still plenty of sellers and we're still very interested.

Rick Nelson, Analyst

Thanks for that color. Like to also follow up on the SG&A improvement, you're very good there. How much of that is driven by this mix shift toward parts and service or are there other factors or drivers to the improvement ?

John C. Rickel, Senior Vice President and Chief Financial Officer

Yes, Rick, this is John Rickel. I mean, clearly you get a little bit of benefit from the mix shift in the business, but the vast majority of this is the hard work that Daryl and the operating team did through the second half of last year and is really the flow-through of all the kind of hard yards on the cost reductions. When I look at the elements, a lot of it came out of other SG&A and that was from the line item by line item grind it out exercise that the team did, continues to pay benefits. So I'd say a lot of it is just sustainable reductions in cost that the team has delivered.

Rick Nelson, Analyst

And finally I could ask a pilot, these 47 stores with online capabilities exactly what that encompasses and if you could provide some color around the economics on what kind of lift you're seeing to use an attachment to F&I, that would be helpful.

Daryl Kenningham, President, US Operations

Okay. Rick, this is Daryl. In those 47 stores, on -- let me start with your last question first, the F&I was basically right on where we are with the rest of our business. So it's on a (inaudible) basis, it's basically identical -- almost identical. In terms of what that means and when we talk about online retailing or digital retailing our customer can go on to our website, they can select a car out of our inventory, they can submit an offer and they can go through select finance insurance products, they can decide -- they can select if they would like us to deliver the car to their home or if they'd like to kind of the dealership, they can value their trade and they can either drive to a payment or a purchase price and commit a purchase the vehicle online.

And some of them go all the way through to that final step, some stop somewhere in the middle because they may want to go look at the green one and the blue one on site and not commit to one before they see it. But what we're seeing with those people is they -- once they get into that funnel they are much more predisposed to purchase than customers who might come to us in another way through our normal websites or through a lead provider or walking in off the street.

So either way if they finish that transaction or if they started and stopped somewhere in the middle, we've seen their propensity to purchase is very good. (inaudible) are comparable to what we see in our used and new business and as we roll out the rest of our dealerships, we should be done by the end of the second quarter, I expect we'll we'll see some more robust information available to compare with.

Rick Nelson, Analyst

Thanks and good luck.

Earl Hesterberg, President and Chief Executive Officer

Thank you.

Operator

Our next questioner today will be David Tamberrino with Goldman Sachs. Please go ahead.

David Tamberrino, Analyst

Yes, great. Thanks for taking my questions here. I wanted to dig in reasonably as to maybe what some of the trends you're seeing within the US and the larger exposures you have in Texas and Oklahoma region and how that trended throughout the quarter?

Daryl Kenningham, President, US Operations

Sure. I wouldn't say that we saw anything materially different in across the regions, I mean, there were some slight changes between our stores in the Northeast and our stores in Texas and Oklahoma. So, I wouldn't say that we saw enough difference, David, where it was a significant change.

David Tamberrino, Analyst

Okay. And then within the Brazil, I think your units were down versus industry being up. What were the specific drivers and do you expect that type of performance to continue while the economic recovery continues there?

Earl Hesterberg, President and Chief Executive Officer

Yes. This is Earl. I think the biggest issue there was we're trying to manage our cash flow better. So late last year, we cut back our supply particularly on Honda where we had too much inventory, and as that inventory ages, we tend to pay it off because the high interest rates down there and then it soaks up our cash. So we've restrained our supply a little bit on our biggest brand where the biggest Honda retailer in Brazil. So we probably didn't get dialed in perfectly. But I think that's the the biggest function as we have got some decent positive cash flow in Brazil and you have to manage your inventories too tightly to do that.

John C. Rickel, Senior Vice President and Chief Financial Officer

David, this is John Rickel. The other piece I would add to that is, I think the team also traded a bit of margin for some of that volume. If you look even though the revenue on new vehicle sales were down, we actually grew the gross profit dollars. So kind of the silver lining in all that is the team at least was able to gross on the units we had.

David Tamberrino, Analyst

Understood and then back within the US region, you made some interesting comments within your prepared remarks about your expectation for the OEMs to incentivize a little bit more not pull back on production. Have you been seeing that in terms of the incentives cash in the hood so far in April? Is that more from your conversations with your OEM partners or is that just your opinion of what they're going to do?

Daryl Kenningham, President, US Operations

This is Daryl. We've seen an increase in April with the programs that the OEMs announced as an example, Ford announced 0% interest for 72 months on the F150, which was new in April, and some of the OEMs have been shying away from some being interest rates, because of the costs, but it appears that we saw some enhancements at several other OEMs during April. So we expect that they're trying to address this new vehicle inventory issue .

David Tamberrino, Analyst

Understood. That's very helpful. And the last one for me is, I think you touched on a little bit earlier, but just wanted to make sure and clear. From a warranty perspective within parts and service, I think that was up mid-teens. Are you expecting that to continue throughout the remainder of the year?

Daryl Kenningham, President, US Operations

This is Darryl. We saw a lot of all we OEMs have increases in warranty in the quarter and we would expect that it would continue. I don't know if it'll continue at that high of a rate but I certainly expect we'll see some really good warranty business this year. I really do.

I really do.

David Tamberrino, Analyst

Okay. Thank you for taking my questions.

Operator

And our next questioner today will be Armintas Sinkevicius with Morgan Stanley. Please go ahead.

Armintas Sinkevicius, Analyst

Good morning. Thank you for taking the question. A quick question on the Oklahoma-Texas dynamic. As you mentioned, it's not materially different. When do we start to see that as a tailwind? Is it just as simple as crude prices going higher or if you could provide some context there that would be helpful.

Earl Hesterberg, President and Chief Executive Officer

This is Earl. I don't think I conveyed two insightful, but clearly oil prices have been trending up and there's a lot of energy backbone to the economy. I wouldn't say we've seen any spurts recently but jobs are being added in Houston in particular. And so we would at least expect that at minimum those markets to be stable and with some decent potential for steady growth in the quarters ahead. But I couldn't tell you I've seen any spurts.

Armintas Sinkevicius, Analyst

Okay. And then I feel like -- maybe this is just not having covered the company for too long, but there's been a pickup in your commentary on digital initiatives maybe the last several quarters and you've seemed to have some successes as your traffic numbers would suggest. What peak that initial interest in digital, was it just trying to run a pilot and then the pilot success sort of built on itself or just curious how you first approached the idea?

Earl Hesterberg, President and Chief Executive Officer

Yes. This is Earl. I mean, we have been working on it consistently because primarily it's vendors that develop these capabilities and we don't spend the money ourselves to any large degree. But my perception has been for the last year or more, it has become a competitive requirement and it's just part of being competitive, and as Daryl already quoted a couple of times today, you have to be able to do business the way your customers want to do business, how and when. So it's just part of being competitive I think. And the vendor capabilities have developed to the point where we can pull the trigger now and have very soon the vast majority of an online purchasing capability for vehicles.

Armintas Sinkevicius, Analyst

And then any sort of need to invest more in the logistics? I believe you have some third party and some some in-house logistics. At what point would you see the need to in-source more and more of the logistics?

Earl Hesterberg, President and Chief Executive Officer

Well, we've been delivering cars to customers for a long, long time. We have the capability to move cars around, sell lot of other inventories, deliver, do all of those things. If there were a spurt in people who wanted to do business that way, well, yes, it would cost us more but we already have the infrastructure to do that.

Armintas Sinkevicius, Analyst

Got it. And then one of your peers talked about the or emphasized the value of procuring inventory. Just want to get your thoughts there if there's an opportunity for you to sort of implement a no-haggle approach to source vehicles and to pick up cars from customer homes or how you think about that opportunity as a whole?

Earl Hesterberg, President and Chief Executive Officer

Yes. We have also toyed with that for a long period of time and tested that in several different ways. Theoretically, it makes sense. I can't tell you we have struck oil yet, but we'll continue to cover our bases and that if customers want to do business that way and we can buy cars -- we need to buy cars any way we can buy them, and that's kind of a logical approach. So I know Daryl has tested a few things and they will keep testing and trying and until we find something that works but there's no patency we've found yet.

Armintas Sinkevicius, Analyst

Okay. Thank you for replaying the question.

Earl Hesterberg, President and Chief Executive Officer

Let me have just one brief comment, we've partnered with a couple of our business partners on procuring inventory and we're always looking at how we might expand that and we're actively doing that even today.

Armintas Sinkevicius, Analyst

Okay. Thank you.

Operator

And our next questioner today will be Rajat Gupta with JPMorgan. Please go ahead. buying it.

Rajat Gupta, Analyst

Hi, guys. Good morning. Thanks for taking my question. Just wanted to follow up on the acquisition comments. Could you talk a little bit about your capacity overall for deals in terms of how much you're willing to stretch your leverage? And then if you do end up doing any deals with specific regions, are you more focused on in order to potentially diversify? And related to that, I mean, outside the US and could we see something potentially in the UK, particularly on the standalone new side? And I have a follow up.

Earl Hesterberg, President and Chief Executive Officer

Yes. This is Earl, again. My perception has been we have more capacity than deals that meet our requirements, but we're open to expansion anywhere we're doing business in the US and if there's a growing market with a good brand where we're not doing business, we consider that too. Because it is a good use of our capital if we can find creative acquisitions. In the UK, we have called time out because we grew very quickly over the last two or three years. We do have about 50 dealerships plus or minus and 3,200 employees. We've moved into two very large JLR facilities and we're about the bringing other one online. We acquired five Mercedes dealerships a year ago, and we've got some BMW dealerships that are in North London in a very high cost area that we're restructuring a bit as well. So we're we're kind of digesting in the UK, but long term we see that as a great business with a lot of profit potential for our Company. So it's not impossible for us to expand in the UK If we found something that was really attractive but it would seem in the short term, our acquisition opportunities are more likely to occur in the United States.

John C. Rickel, Senior Vice President and Chief Financial Officer

Rajat, this is John. I just I would add to Earl's comment. He's right, I mean, there are plenty of dry powder. The leverage is at 3.8 times rent adjusted. We're comfortable. There's plenty of capacity for the deals that we can find.

Rajat Gupta, Analyst

Understood. Did just on digital, could you provide an update on your digital investments. Where is majority of the spending focused currently? And if you could quantify the level of spending that's going through? And is there any incremental spending that we could expect going forward or is it all in the base currently?

John C. Rickel, Senior Vice President and Chief Financial Officer

Yes, Rajat, this is John Rickel. It -- as Earl basically described, we don't go develop a lot of this stuff ourselves. This is all vendor software that we're utilizing and it's great that way because you can pick and choose, it moves rapidly and you can pick the right exact tools but that's basically is in the base. We're using money that we're already spending on software, you just redeploy it from one to the other. So there's really not an incremental piece to this. So that's kind of the beauty of this we're just getting better leverage out of the dollars we've been spending.

Rajat Gupta, Analyst

Great. Just one last one. Any change in your tax rate guidance for the year? Is it still in the 23% to 23.5%?

John C. Rickel, Senior Vice President and Chief Financial Officer

Yes. We ticked up the kind of the top end of 24%. So 23% to 24%. We came in at 25.6% for the quarter, which was -- there was a couple kind of lumpy pieces. The way your stock comp falls is more in the first quarter and kind of the calendarization around Brazil. The first quarter is the weakest in Brazil. So other than that we're still comfortable but 23% to 24%, one of the things that changed the full year is New Jersey went to a unitary tax, which has increased kind of the state tax load a little bit in New Jersey.

Rajat Gupta, Analyst

Understood. That's it. Thanks. Thanks for taking my questions.

Operator

Our next questioner today will be David Whiston with Morningstar. Please go ahead.

David Whiston, Analyst

Thanks. Good morning. I wanted to go back to Brazil, first. In addition to the Honda issue you talked about to improve working capital,it looks like used pricing and profitability really was a struggle in the quarter. Is that purely the Honda issue or is there something else going on there?

Daryl Kenningham, President, US Operations

No, on used vehicles, there was also to try to get the inventory lower to move it out to create more cash. So it wasn't just one brand, it was -- we've some luxury used vehicles because we're big BMW retailers, maybe the second or third biggest in Brazil and JLR retailer. So it was again inventory reduction.

David Whiston, Analyst

Okay. And in the US with new vehicle starts slowing and -- but oil markets are up, which could be good for your energy market area. Are you seeing any traffic coming in the stores, are you seeing any difference there in terms of people wanting a car over a light truckers, as light truck demand is still definitely dominating.

Daryl Kenningham, President, US Operations

It's Daryl Kenningham. Light truck demand is still dominating. Have seen no change in the that trend.

David Whiston, Analyst

Okay. And Darryl, did I hear you right earlier saying that US technician headcount was down 15% with (inaudible).

Daryl Kenningham, President, US Operations

Down 15%.

David Tamberrino, Analyst

I was upset. Okay. That makes a lot more sense. All right. Thank you.

Daryl Kenningham, President, US Operations

Sure. Important clarification.

Operator

And this will conclude our question-and-answer session. I would like to turn the conference back over to Earl Hesterberg for any closing remarks.

Earl Hesterberg, President and Chief Executive Officer

Thanks to 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 the conference has now concluded. Thank you all for attending today's presentation and you may now disconnect your lines.