Company Name: Group 1 Automotive
Company Ticker: GPI US
Date: 2019-07-25
Event Description: Q2 2019 Earnings Call

Market Cap: 1611.81272576
Current PX: 87.04
YTD Change($): 34.32
YTD Change(%): 65.099

Bloomberg Estimates - EPS
Current Quarter: 2.719
Current Year: 10.106
Bloomberg Estimates - Sales
Current Quarter: 2897
Current Year: 11535

Q2 2019 Earnings Call

Company Participants

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

Other Participants

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

Presentation

Operator

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

Please go ahead Mr.DeLongchamps.

Pete DeLongchamps, 'Senior Vice President, Manufacturer Relations, Financial Services and Public Affairs'

Thank you, Debbie and good morning everyone and welcome to today's call. The earnings release we issued this morning and a related slide presentation that includes reconciliations related to the adjusted results we'll refer to on this call for comparison purposes have been posted to 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 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 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 today, Earl Hesterberg, our President and Chief Executive Officer; John Rickel, our Senior Vice President, and Chief Financial Officer; and Daryl Kenningham, our President of US operations.

Please note that all the comparisons in the prepared remarks are of the same-prior period unless otherwise stated. I'd now 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 $52.8 million of adjusted net income for the quarter.

This equates to all-time record quarterly adjusted earnings per share of $2.83 per diluted share, an increase of 16% over the prior year. This increase was delivered in an environment of slowing new vehicle sales in both our US market where industry retail sales declined 2% and the UK where the overall industry was down 5%. This result again 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 controls: used vehicles and aftersales.

The initiatives we have undertaken in these areas continue to drive strong same-store sales growth independent of the new vehicle sales market conditions. Our 10% US same-store aftersales revenue growth is an all-time quarterly record, and our 10% US same-store used vehicle gross profit growth continues our strong used vehicle performance. Although it may not sound quite as impressive, our new vehicle sales outperformed the market. With same store volume equal to the second quarter last year.

Given our continued strong F&I performance, maintaining our new vehicle volume is very important. Turning to our business segments. During the quarter, we retailed nearly 42,000 new vehicles. Total Consolidated new vehicle revenues increased 2% on a constant currency basis, driven by increases in US average selling prices and Brazil unit sales, partially offset by a decline in UK unit sales due to weak market conditions that I'll cover further in a moment.

Our new unit sales geographic mix was 72% US., 22% UK., and 6% Brazil. Our new vehicle brand mix was led by Toyota and Lexus sales which accounted for 25% of our new units.

Volkswagen/Audi represented 13%, BMW and MINI represented 12%; and Ford and Honda Acura both represented 11% of our new unit sales. During the quarter, we also retailed nearly 40,000 used units, driven by continued strong performance in the US A 7% same-store volume increase while expanding our per unit retail margins by almost 5% is another impressive performance by our US operating team. Total consolidated used vehicle revenues grew 4% and gross profit increased 5% on a constant currency basis. Total consolidated aftersales revenue increased 7% on a constant currency basis, driven by increases in customer pay of 10%, warranty of 9%, and wholesale parts of 3%.

Our US and Brazilian after sales businesses, both increased by over 10% on a same-store local currency basis for the quarter. Finance and insurance gross profit increased 12% on a consolidated constant currency basis. This growth was driven by strong increases in US and UK profit per retail unit as total 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 Kenningham, 'President, US Operations'

Thank you, Earl. We're very pleased with our performance in the US in the second quarter. Due to strong growth in used vehicles, F&I, and after sales, we were able to generate a 9% increase in total same-store gross profits.

Same-store used retail unit sales grew 7% and used vehicles once again outsold new vehicles in the quarter. The Val-U-Line retail unit sales grew 19% and represented 11% of our quarterly used unit volume. We also saw an increase in total used gross profit per unit of $63. Our continued focus on pricing, inventory discipline and sourcing have been critical to driving used vehicle gross profit growth, 10% on a same-store basis.

Our quarterly aftersales revenue grew by an all-time record of 10.1% on a same-store basis in the US Customer pay revenues increased 11.9%, warranty increased 14.7%, wholesale parts increased 6.8% and collision increased 4%. Hiring technicians continues to be an industry challenge and on that front we're winning. We've implemented our four-day work week in 65 stores. It is driving better employee retention and has enabled us to increase our same-store headcount by 344 technicians in the last year, a 16% increase.

Our adviser headcount is up 13% as well. These capacity improvements led to our double-digit growth in both and warranty in the quarter. We are on track to implement the four-day work week initiative at 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 at least double-digit growth rates.

I'm sorry, expect -- expect aftersales growth to maintain at least mid-single-digit growth rates. F&I income per retail unit for the quarter increased $163 to $1,818 per unit driven by strong product penetration and income per contract increases. We feel confident, we can keep F&I around $1,750 per unit for the full year 2019. Turning to our online digital efforts.

We feel confident that we are providing a robust omnichannel experience for our customers. Our goal is to do business when and how our customers want to do business with us off-line or offline. We have launched Acceleride, our online digital retailing initiative in 98 of our US dealerships. Our selling rates continued to increase in the quarter, nearly a 1,000 customers who started the Acceleride process, bought a car from one of our dealerships, nearly double the number from the first quarter.

We're pleased with the gross profits and the customer feedback continues to be excellent. We are on track to install Acceleride in all of our US stores before the end of Q3. In addition, our Omnichannel efforts and aftersales are continuing. Customer scheduling service appointments online grew 22% versus the second quarter of 2018 and now over 26% of our service appointments are made online.

This complements our best-in-class service development center that handles over 400,000 inbound customer calls during the quarter. In addition, our customers can approve and pay for service work via text or online. Our trends in digital traffic also continued on a positive track. Leads increased 41%, organic traffic increased 29%, and website visits increased 22%.

Lastly, our team was able to leverage SG&A by 40 basis points on a same-store basis from 74 -- 70.4% down to 70.0%. We anticipate continuing to be able to leverage SG&A as we increase gross profit from our used and aftersales efforts. I'll turn the call back over to Earl.

Earl Hesterberg, 'President and Chief Executive Officer'

Thanks, Daryl.

As mentioned earlier, market conditions in the UK remain very challenging. Primarily caused by continuing uncertainties surrounding Brexit. The total new vehicle industry was down 5% for the quarter. The true customer demand is likely down even more than that as some OEMs are aggressively pushing self-registrations to support higher new vehicle sales numbers.

The combination of this new vehicle market pressure, plus above average used vehicle values last year caused by WLTP related new vehicle shortages resulted in downward pressure on used vehicle values in the second quarter. New vehicle gross profit declined 30% on a same store basis as margins were also hit by new vehicle market volume pressure. We elected to forego certain OEM volume bonuses by not self-registering as many new vehicles this quarter. Although, this had a significant short term negative impact.

It is the right business decision and should benefit future profitability. These same market conditions also hit used vehicle margins, and caused a 25% same-store decline in total used vehicle gross profit. Our focus for the remainder of the year will be on inventory management, growing our aftersales business and cost control. As we weather what we expect to be a temporary slowdown in the auto retail sector.

Now turning to Brazil which continues to benefit from the ongoing economic recovery. Total same-store gross profit increased 11% on a constant currency basis, driven by a 51% increase in used vehicles, a 14% increase in aftersales, and a 5% increase in new vehicles. Costs however also accelerated as we have added staff in anticipation of further market recovery. We are reviewing the balance here and would anticipate better leveraging the market growth going forward.

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

John Rickel, 'Senior Vice President and Chief Financial Officer'

Thank you, Earl, and good morning everyone. For the second quarter of 2019, our adjusted net income increased $2 million or 3.9% over our comparable 2018 results to $52.8 million. These 2019 adjusted quarterly results exclude $3.5 million of net after tax charges explained primarily by $3 million of inventory damage from hailstorms in West Texas.

On a fully diluted per share basis, adjusted earnings increased 15.5% to $2.83, an all-time quarterly record. For the quarter, we generated $3 billion in total revenues, which was an increase of 3.7% from the prior year on a constant currency basis. Our gross profit increased 4.8%, as gross margin increased 20 basis points to 15.1%. As a percent of gross profit, adjusted SG&A increased 80 basis points to 73.8% as weak UK market conditions more than offset US cost leverage.

Floor plan interest expense increased by $1.4 million or 10% from prior year to $15.9 million, explained by higher inventory balances and LIBOR interest rates. Other interest expense decreased by $1.5 million or 8% from the prior year to $18 million, reflecting lower mortgage and working capital loan borrowings. Our consolidated adjusted effective tax-rate for the second quarter was 21.5%, bringing our year-to-date rate to 23.3%, which is consistent with our full-year forecast of between 23% and 24%. Turning to our consolidated liquidity and capital structure.

As of June 30, we had $37.7 million of cash on hand and another $69.5 million that was invested in our floor plan offset accounts, bringing immediately available funds to a total of $107.2 million. As previously announced, we amended and extended our $1.8 billion US credit facility at the end of June for another five-year term. Interest savings as a result of reduced rent spreads will benefit us by approximately $2 million annually. In addition, revised covenant calculations lower our rate adjusted leverage ratio from 3.7 times to 3.33 times.

Also during the second quarter, we used $4.8 million to pay dividends of $0.26 per share, which is currently an annualized yield of approximately 1.2%. 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. I will now turn the call back over to Earl.

Earl Hesterberg, 'President and Chief Executive Officer'

Thanks, John.

Related to our corporate development efforts, as previously announced, we acquired two BMW and two MINI franchises in New Mexico in July that also included our first US BMW motorcycle franchises. These dealerships are expected to generate approximately $100 million in annualized revenues. We also announced the recent acquisition of four Volkswagen franchises and one Volkswagen commercial vehicle franchise in the UK These dealerships are within our existing geographic footprint and increase our Volkswagen franchise count to 10 in the UK This acquisition is expected to generate approximately $115 million in annual revenues, bringing total year-to-date acquired revenues to

$255 million from 11 franchises. Since our last earnings call we have also disposed of BMW, MINI and Volkswagen commercial vehicle franchises in the UK and a Mercedes Benz franchise in Brazil.

To-date in 2019, we have disposed of 11 franchises that generated $200 million in trailing 12-month revenues. This concludes our prepared remarks. I'll now turn the call over to the operator to begin the question-and-answer session. Operator? (Question And Answer)

Operator

We will now begin the question-and-answer session.

(Operators Instructions). The first question comes from John Murphy with Bank of America. Please go ahead.

John Murphy

Good morning guys, this is Zade -- on for John.

A first question on the UK Market. As it remains relatively weak or at least volatile, in your view how much of that weakness reflects regulatory dynamics like WLTP and now RDE and how much of it is driven by more structural economic weakness? And I guess relatedly, how does that impact your expense and strategy in the region if at all?

Earl Hesterberg, 'President and Chief Executive Officer'

Hey this is Earl. I believe the majority of the weakness is this politically driven consumer confidence issue WLTP has impacted some brands more than others Volkswagen group, Volkswagen and Audi more so than others at least, in terms of our brand mix and to a lesser degree some others, but the underlying problem is this political problem. And until there's a clear path forward BREXIT, it's probably going to remains a bit choppy.

John Murphy

And then , on WLTP I know in previous quarters, you've mentioned supply constraints with VW in particular. Have you seen that easing in any way in 2Q?

Earl Hesterberg, 'President and Chief Executive Officer'

Well, it had eased in the first half of this year, but we're about to go into another pressure point, because there are certain cars that must be registered by September 1, because of a new emissions' regime starting then. And so we're already seeing problems being pushed to register certain cars and we know that there will be some supply issues with the new model vehicles beginning in September. So yes, it's not behind us yet.

John Murphy

Okay. Thank you, that's helpful. And then lastly can you maybe talk about how you think about SG&A over the long term is a low 70 % level an appropriate range to use or is a mid-70 % level is more likely just given industry volumes are slowing and related where do you see the greatest opportunity to take out cost? And how can your digital efforts potentially help drive that number down?

Earl Hesterberg, 'President and Chief Executive Officer'

Okay, this is Earl. I'm going to speak to the corporate SG&A metric, and then I'll let Daryl or John comment in on the US.

, which drives our numbers primarily, but we have cost issues and opportunity in both the UK and Brazil right now. And we need to do a better job in both markets, clearly this weak market condition on new and used vehicles in the UK., means we have to resize the business much more dramatically than we have. And in Brazil, the market is recovering a bit.

But we haven't experienced the kind of cost leverage we can experience, we may have added a few too many people expecting the market to recover a little quicker than it has. So on a corporate basis, we have significant cost opportunity in the UK and Brazil.

John Rickel, 'Senior Vice President and Chief Financial Officer'

Yes, this is John Rickel. Just to kind of add to what Earl was saying.

I think on a corporate basis longer-term, we can get into that mid to lower 70s is the right kind of overall consolidated number. If you look at the individual country pieces, certainly 70% is sustainable and if we can continue to grow gross profit in the US we should be able to leverage that. And overtime I think something in the mid to upper 70s in the UK and similar maybe high 70s for Brazil are good longer-term structural targets to think about.

John Murphy

Thank you so much.

Daryl Kenningham, 'President, US Operations'

This is Daryl. The thing I'd add about a US specific comment is we've made people investments in the US to add to our capacity in aftersales nearly 500 advisers and technicians and as we continue to grow aftersales double digits we'll be able to scale that expense well.

John Murphy

Thank you. That's very helpful.

That's it for me.

Operator

The next question comes from Michael Ward with Seaport Global. Please go ahead.

Michael Ward

Thanks very much.

Good morning everyone. Push up on the your UK Strategy, where you're selling some stores and then buying some other ones what is the driver of that strategy? Is it you mentioned footprint?

Earl Hesterberg, 'President and Chief Executive Officer'

The acquisition Michael in the recent quarter was just circumstantial. In fact, we weren't even going to bid on it. We're trying to consolidate in the UK until the market improves and we made some pretty big acquisitions in recent years.

But the OEM very much wanted us to acquire those Volkswagen franchises as they're contiguous to our existing stores. So we did that in concert with the OEM and the Volkswagen brand has been recovering nicely in the UK After the diesel issue of a few years ago. So we really didn't plan on that. That was circumstantial but it will work out well for us and the OEM long-term and.

.

Michael Ward

Profitability pair on those versus the ones you disposed?

John Rickel, 'Senior Vice President and Chief Financial Officer'

The this is John. The ones that we disposed, obviously as we look at the portfolio had some challenges, I mean whether it's real estate or fixed cost issues. And certainly the ones we picked up are more profitable.

So I would say it's very fair to assume the ones we divested were underperforming in the ones we picked up. We certainly expect to be consistent with the overall portfolio.

Michael Ward

Thanks. There is a chart on page 16, and it has new technology business impact on the service business.

And I just want to make sure I understand it. So this is if you're looking at the retention levels and then the electrified vehicles versus internal combustion engine? Is that correct? So you're getting.

John Rickel, 'Senior Vice President and Chief Financial Officer'

You're correct. Yes, Mike this is John Rickel.

It's basically trying to say that, you know, there's a assumption out there among certain investors that battery electrics, whether they're hybrids or pure battery-electrics have lower service dollars associated. And the data that we have and what we shared with you here, doesn't really support that hypothesis what we see is that the battery electrics, basically have about the same dollars per unit as what a nice engine would have you maybe have a little less repair, but you have better retention because there's no other place to take those units.

Michael Ward

Okay, so then the retention levels, so if I'm looking at the 2017 data for the US at 69%, so you have like a 79% retention is that what you're talking about with? Yes the electrified. Wow.

Earl Hesterberg, 'President and Chief Executive Officer'

Because there's fewer alternatives to take those units to.

Michael Ward

right and John just one housekeeping item. On the onetime items, I assume all those hits are in the US Is all but the asset impairment in SG&A?

John Rickel, 'Senior Vice President and Chief Financial Officer'

No. The hail stuff is obviously the US The asset impairment is in Brazil.

And it's associated with basically the divestiture of a franchise down there.

Michael Ward

Okay. So we're looking at it from an income statement standpoint the 3.9 and the other two items in the legal those would be in -- and on the real estate. Are those items included in SG&A in the US operations?

John Rickel, 'Senior Vice President and Chief Financial Officer'

The $3 million is the other items are in SG&A in Brazil.

Michael Ward

Altering the game and the real estate and the other ones. Okay,

John Rickel, 'Senior Vice President and Chief Financial Officer'

Correct.

Michael Ward

Alright, so that's how you get to a lower SG&A as a percentage of growth in the US If you kind of back that out and do it apples-to-apple

John Rickel, 'Senior Vice President and Chief Financial Officer'

Correct.

Michael Ward

Awesome.

Thank you guys.

Operator

The next question comes from Rajat Gupta with JP Morgan. Please go ahead.

Rajat Gupta

Hi thanks for taking my question.

I just wanted to follow-up on the UK Cost saving actions could you just give us a sense of magnitude and timing of the benefits related to that. And what kind of actions are you taking there? And I have a follow up.

Earl Hesterberg, 'President and Chief Executive Officer'

Yes, this is Earl. Simplistically the major cost items that need to be addressed in the UK Quickly are.

Personnel related staffing when you're selling less vehicles, you don't need as many people. And a lot of expense comes from used vehicle depreciation on these short-term vehicle sales actions. Such as changing demo fleets employee-leased vehicles and self-registered cars is the used car values have dropped substantially this year that depreciation expense has jumped up dramatically. But the way you address that is you have to control your inventories better.

You have to create less of those vehicles, you have to sell those vehicles more quickly and so for. So we have a staffing and personnel expense related adjustment to make the size our business better and we need to control our inventories better.

Rajat Gupta

Got it. Is there -- would be able to quantify that at this stage or is it still the planning process there?

John Rickel, 'Senior Vice President and Chief Financial Officer'

Yes Rajat, this is John Rickel.

I don't know that we would want to put a number to it just yet, because it's also dependent on the gross profit part of that equation. The one thing that makes the quarter SG&A for the UK look worse is that there was quite a bit of contraction in the gross profit line as well. Some of that is a little bit transitory. It's the used vehicle issue that earl mentioned.

Used vehicle values were really kind of inflated in the first half of the year when some of the acquisitions of the inventory happened, because of the WLTP shortages, that I think will pass and allow us to recover the used growth. We also took a decision about passing on a volume bonus from one of our OEM partners that depressed the new vehicle growth. So we have to work both sides of the equation. But suffice it to say we're looking to bring that SG&A as a percent of growth back into more normalized ranges.

Rajat Gupta

Got it, but that's helpful. And I just wanted to also ask on, the new online initiative, the launch. Could you -- is it possible to quantify the impact that you've already started to see on sales and what you would expect in the second half from that launch?

Daryl Kenningham, 'President, US Operations'

Yes, this is Daryl Kenningham. The impact we've seen is nearly 1,000.

We sold 30,000 vehicles -- in the first and second quarter and 30,000 new. The impact we've seen is a 1,000 customers who started their process online bought a car from us. And that's almost double of what we saw in the first quarter. And we continue to monitor it, but we expect that to grow over time.

And we learn something with every one of these transactions as customers do more of their business online, so we expect it to be a bigger piece of t.

Rajat Gupta

Got it. All right. This going forward.

Thanks. I'll pass on.

Operator

The next question comes from David Tamberrino with Goldman Sachs. Please go ahead.

David Tamberrino

Great, Good morning. I got a question on your parts and service guidance. Obviously, not the double-digits you just talked about but having said that the technician growth is great. I think it's Slide 15 of your deck.

You've got easy comps year-over-year and you've been growing, I don't know. 7% to 9% for the first two quarters. Just wondering if there's something in the back-half you're seeing that's going to drive a little bit of a slowdown in that growth or are you just being conservative?

Daryl Kenningham, 'President, US Operations'

Well, this is Daryl. One thing that we're pleased with our growth but what also goes into aftersales, obviously is wholesale parts collision and warranty and.

We're seeing double-digit warranty growth, which we really have also truly haven't seen, we saw decline in warranty last year. So you never know when that might reverse that. So in total, that's why we're comfortable with the mid-single-digit growth forecast.

David Tamberrino

Understood, but let me ask this another way though, the tax service issuing the US tech account growth has been pretty stellar so far since you've gone to your change.

Is that something that you think you can continue through '19 into 2020 and continue to add capacity? I think you said you might be rolling it out to 85% of the stores by year-end?

Daryl Kenningham, 'President, US Operations'

Yes, this is Daryl again. We expect to be in the stores to cover 85% of our aftersales revenue by then. We do expect to add more tax between now and the end of the year. And we're looking at ways for how we can, we want to leverage the capacity, we have as much as possible.

So we expect to continue to do it. I don't know that we'll do it at this rate, but we're certainly pleased with where we are.

David Tamberrino

Okay, and then the last one, how much is the favorable used backdrop in the US helping drive the current business IE, do you still think that if off lease wasn't growing or OEM incentives picked up and that kind of pressured residual values, you'd still have a strong used markets? Just kind of -- I'm trying to understand, how fluid that market is to some potential changes going forward in terms of other supply and new vehicle incentives?

Earl Hesterberg, 'President and Chief Executive Officer'

Yes, this is Earl. Yes, I think there's a fundamental shift toward the used vehicle market in the US and I think it will be difficult to reverse that shift.

It began with a lot of additional supply the last few years in off-lease vehicles. But there's a value equation for the consumer that really will be difficult to shift even with more new vehicle incentives you've seen the pricing data on new vehicles. And I think the financial support, there's a lot of money to be lent by retail lenders. So I don't really see a massive shift back toward the new vehicle market at the expense of the used vehicle market

David Tamberrino

Got it.

Helpful. Thank you very much.

Operator

The next question comes from Armintas Sinkevicius with Morgan Stanley. Please go ahead

Armintas Sinkevicius

Good morning.

Thank you, for taking my question. When I look at the UK I just wanted to make sure I heard this right, you were talking about WLTP from last year RDE from this year. How do you anticipate RDE to impact the business in the back half of this year starting September?

Earl Hesterberg, 'President and Chief Executive Officer'

Well, I think it will continue to be bumpy for some brands. I think we're going to be short on new model, new vehicles in certain brands.

Audi is our biggest concern, because it's the biggest piece of our business.

Armintas Sinkevicius

And then with regards to acceleride you essentially used, a software there from a third-party and it looks like a pretty nice product. There is some interaction there with the dealer representative on the site. Just curious, at what point could we see, the need to interact with a dealer representative, sort of fade and where the entire transaction could actually happen online from start to finish?

Daryl Kenningham, 'President, US Operations'

Hey.

This is Daryl. I think that's up to the customers honestly. The only thing they really need to do is come in and pick up the car, if they'd like to or they can choose to have it delivered. And we use a couple of different providers and we learn from each one of them the world is moving to online purchases.

And we want to be able to accommodate that if customers want to it.

Armintas Sinkevicius

And then last one here with the UK used market, we've seen warnings from, some of your competitors on the used side, you know, Pendragon and lookers. Yes, what are you seeing on your end, from on the used car side?

Daryl Kenningham, 'President, US Operations'

Well, it's tough. But the tough part of the used-car side are these nearly new used cars.

That's what is the most difficult to manage these very low mileage. And whether they're self registrations, demo change outs those types of vehicles. And when the values drop those tend to be fairly expensive to vehicles and you get hit pretty hard. Hence the depreciation expense issue that mentioned earlier.

So the true used car market in the UK if you're looking at two and three and four year old cars is not nearly as bad as a new vehicle dealer performance numbers would indicate. Most of our problems as franchise new vehicle dealers relate to these very young, low mileage used cars.

Armintas Sinkevicius

Okay. Much appreciated.

Operator

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

Rick Nelson

Thanks. Good morning.

Up on the US market. Same-store sales were flat in the US The industry was down, if you could speak regionally, what you think the driver was there?

John Rickel, 'Senior Vice President and Chief Financial Officer'

It wasn't any one market we were generally across, most of -- were mostly in Texas we were generally flat with Texas and up a little in Oklahoma. And -- but it wasn't any one specific market that seemed to drive that.

Rick Nelson

Also a question for Pete.

Once again F&I per unit, $1,821 this quarter even with the shift towards used cars and value cars, which I would think have lower F&I attachment the drivers there and the outlook?

John Rickel, 'Senior Vice President and Chief Financial Officer'

Well Daryl said the outlook in his opening at $1,750 so we're comfortable in that $1,700 range. But we've just been focusing on product and product sales, that's the main driver of F&I performance this quarter Rick.

Rick Nelson

And what drive that number lower?

John Rickel, 'Senior Vice President and Chief Financial Officer'

What would drive the number lower is selling fewer products but we still think the $1700 range is a good number for us moving forward.

Rick Nelson

Turn-up also like to ask about the acquisition environment and how you view acquisitions versus debt paydown at this point?

Earl Hesterberg, 'President and Chief Executive Officer'

Yeah Rick, this is Earl.

We've continued -- to be interested in acquisitions but our decisions are financially driven, on those opportunities, because it's very easy to destroy capital when you're in a soft new vehicle market and sellers expect to be paid on profits generated in past years, when the new vehicle market was stronger. So again, that's very opportunistic and circumstantial, in terms of acquisitions and our board discusses every quarter the relative uses of our cash, we have until this year been very aggressive in buybacks. And, we'll just continue to revisit that quarter-by-quarter. It's a very dynamic market and the same relative to debt repayment.

Rick Nelson

Thanks, and good luck.

Operator

The next question comes from David Whiston with Morningstar. Please go ahead.

David Whiston

Thanks, good morning.

Going back to the UK on the cost-cutting and restructuring. I guess just a question on how you both reduce and then rehire efficiently because if you caught a bunch of people now, and BREXIT at some point although who knows when will not be an issue how do you balance having to maybe spend too many resources money and time rehiring people to staff the stores?

Earl Hesterberg, 'President and Chief Executive Officer'

Yes, that's one of the challenges in our business is how we go about that. In the UK market, it's a different dynamic than in the US It takes longer to reduce your headcount. It takes longer to staff headcount back that's just the way employment laws work in that country.

So we do tend to be a little slow in both directions. Little slow and cutting costs, a little slow in hiring back and we keep that in mind when we take these actions. But when you saw the drop in and gross profit of 25% or 30% on new and used vehicles, we have to take some actions now. Even if it does make it a little slower on it when the uptick comes.

David Whiston

Okay. And going back to US, I guess, couple of questions there are you seeing any weakness even marginally in light trucks whether it's crossover SUV or pickup amongst consumers right now?

Daryl Kenningham, 'President, US Operations'

Hey, this is Darryl. 67% of the market, in the second quarter was truck and SUV, which is fairly consistent with where it's been. Not seeing any material change over the first quarter.

David Whiston

Okay, and you guys are in ground zero for pickup trucks there in Texas and Oklahoma. The automakers and Tesla and Rivian are all talking about doing BEV pickups, do you think your customers want those type of vehicles?

Daryl Kenningham, 'President, US Operations'

This is Darryl. Our customers love big trucks with gas engines also.

David Whiston

Okay.

Thanks.

Daryl Kenningham, 'President, US Operations'

Thank you.

Operator

This concludes our question-and-answer session. I would now like to turn the conference back over to Mr.Earl Hesterberg for any closing remarks.

Earl Hesterberg, 'President and Chief Executive Officer'

Thanks everyone for joining us today. We look forward to updating you on our third quarter earnings call in October.

Operator

The conference has now concluded. Thank you for attending today's presentation.

You may now disconnect.

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