

Company Name: Group 1 Automotive  
Company Ticker: GPI US  
Date: 2019-10-24  
Event Description: Q3 2019 Earnings Call

Market Cap: 1949.983875  
Current PX: 105  
YTD Change(\$): 52.28  
YTD Change(%): 99.165

Bloomberg Estimates - EPS  
Current Quarter: 2.654  
Current Year: 10.358  
Bloomberg Estimates - Sales  
Current Quarter: 2970.833  
Current Year: 11755.25

## Q3 2019 Earnings Call

### Company Participants

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

### Other Participants

- John J. Murphy
- Rajat Gupta
- N. Richard Nelson
- Armintas Sinkevicius
- Mike Ward
- David Whiston

### Presentation

#### Operator

Good morning, ladies and gentlemen. Welcome to Group 1 Automotive's 2019 Third Quarter Financial Results Conference Call. Please be advised that today's conference call is being recorded. At this time, I'd like to turn the conference call over to Mr. Pete 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 and Public Affairs**

Thank you, Jamie, and good morning, everyone and welcome to today's call. The earnings release we issued this morning and related slide presentation that include reconciliations related to the adjusted results that we'll refer to on this call for comparison purposes have been posted at 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, risk associated with pricing, volume and the conditions of markets. Those and other risks are described in the company's filings with the Securities and Exchange Commission over the 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.

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Participating with me today on the call, Earl Hesterberg, our President and Chief Executive Officer; John Rickel, our Senior Vice President and Chief Financial Officer; Daryl Kenningham, our President of U.S. Operations, and Michael Welch, our Vice President and Corporate Controller. Please note that all comparisons in the prepared remarks are to the same prior year period unless otherwise stated.

I'll now hand the call over to Earl.

## **Earl J. Hesterberg, President and Chief Executive Officer**

Thank you, Pete. Good morning, everyone. I'm pleased to report that for the quarter, Group 1 generated all-time record revenue of \$3.1 billion earned \$56.3 million of adjusted net income. This equates to all-time record quarterly adjusted earnings per share of \$3.02 per diluted share, an increase of 22% over the prior year.

Our record setting quarter was achieved despite continued market headwinds in the U.K. due to Brexit. We were able to achieve meaningful increases in all three of our markets in after-sales led by almost 10% growth in the U.S., and extremely strong performances in used vehicles in both the U.S. and Brazil. Our adjusted results did reflect an approximate \$9 million of after tax cost associated with Tropical Storm Imelda, but more important is this the impact the storm had on our 300 employees in that market. Many of our employees had their lives devastated by the severe flooding, yet they worked together to ensure our businesses were open within days of the storm's conclusion. We did our best to financially support the storm victims within our Group 1 family through our Group 1 Foundation. We truly have an amazing group of employees at our Beaumont stores and we sincerely appreciate them.

Turning to our business segment. During the quarter, we retailed over 44,000 new vehicles. Total consolidated new vehicle revenues increased 8% on a constant-currency basis, driven by increases in the U.K. and U.K. average selling price. Additionally, our U.S. new vehicle same-store unit sales increased 2.9%, which kept pace with the overall retail market.

Our new unit sales geographic mix was 74% U.S., 21% U.K. and 5% Brazil. Our new vehicle brand mix was led by Toyota/Lexus sales, which accounted for 26% of our new units. VW/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 over 41,000 used units, driven by continued strong performance in the U.S. A 12% same-store unit volume increase, while expanding our per unit retail margins by 5% is another very impressive performance by our U.S. operating team. And as I previously mentioned, this growth did not come at the expense of our new vehicle sales.

I should also note that our same-store retail used unit volume in Brazil also grew 15% for the quarter. Total consolidated used vehicle revenues grew 10% to gross profit increased 11% increase on a constant-currency basis. Total consolidated aftersales revenue increased 9% on a constant-currency basis driven by increases in customer pay of 13%, warranty of 8%, collision of 6%, and wholesale parts sales of 4%. As we mentioned, our U.S. same-store aftersales gross profit growth of 10% was an all-time record for the company.

I should also mention that our quarterly same-store aftersales revenue in the U.K. grew 7.3% in local currency, which is a good accomplishment in a weak overall market. Finance and insurance gross profit increased 11% on a consolidated constant currency basis. This growth was driven by strong increases in U.S. and U.K. retail penetration, as well as U.S. retail unit growth of 7%.

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

## **Daryl Kenningham, President, U.S. Operations**

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

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straight quarter. Same-store used in the retail sales for 12%, as value line unit sales for 10%, represented 11% of our quarterly used unit volume. In addition to our substantial volume growth, we were able to expand our margins with an increase in total used car gross profit of \$57. The shift of more business to the retail channel along with our recently implemented big data pricing strategies have been critical in driving used car vehicle gross profit growth, which was up 17% over the prior year on a same-store basis.

Our quarterly aftersales revenue grew by 9.6% on a same-store basis and gross profit increased by 9.9%, which again was all-time record for the company. Same-store customer pay revenues increased 11.1%, and warranty increased 10.6. We've implemented our four-day work week in 72 stores and are very happy with the results. It's driving better employee retention and has enabled us to increase our same-store headcount by over 300 technicians in the last 12 months, a 13% increase.

We plan to implement four-day work week initiatives in another handful of stores in the fourth quarter, which will substantially complete this initiative and cover approximately 85% of our part and service revenues.

Looking forward to the fourth quarter, we would expect aftersales growth to maintain a mid-to-high single-digit growth rate. F&I income for retail unit for the quarter increased \$58 to \$1,746, driven by strong product penetration and income per contract increases. We feel confident we can keep F&I PRU around \$1,750 for the full-year 2019.

Turning to an update on our digital efforts. The AcceleRide platform, our online retailing initiative is now in nearly all of our U.S. dealerships, and we remain pleased with the traffic, gross margins and customer feedback. During the quarter, nearly 1,800 customers used AcceleRide as a tool in their vehicle purchase. In addition, our omni-channel efforts in aftersales continue. Customer scheduling service appointments online grew 24% versus the third quarter 2018, and are now nearly 27% of our service appointments. Our trends in digital traffic also continued on a positive track. Total leads and website visits increased 34%, and organic traffic increased 30%.

I will now turn the call back over to Earl.

## **Earl J. Hesterberg, President and Chief Executive Officer**

Thanks, Daryl. As we discussed last quarter, market conditions in the U.K. remain very challenging, primarily caused by continuing uncertainty surrounding Brexit. The total new vehicle industry was down roughly 1% 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, and dealerships were also pushing sales before the new emissions legislation called RDE, went into effect September 1st. This new vehicle market pressure also resulted in increasing downward pressure on used vehicle values. As we saw same-store gross profit for retail unit declines of 18% for new vehicles and 20% for used vehicles on a constant currency basis.

On a positive note, the local team did a good job of implementing our cost reduction plans and we were able to lower SG&A by over 400 basis points versus the second quarter. And as I previously mentioned, we continue to grow our aftersales and F&I business even in this challenging environment. Our focus will continue to be on inventory management, growing our aftersales business and cost control as we weather what we expect to be a temporary slowdown in the U.K. auto retail sector.

In Brazil, we generated positive year-over-year bottom line profit growth behind very strong used vehicle and SG&A performance. While the new vehicle industry increased 5%, our brand mix was about flat due to full in certain OEM product cycles. And as I previously mentioned, we grew used vehicle sale 15%, while our after-sales grew over 5%. It is encouraging given the relative weakness in new vehicle that the team was able to execute on cost reduction plans and used vehicle initiatives to drive meaningful bottom line profit growth.

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

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

Thank you, Earl. Good morning, everyone. For the third quarter of 2019, our adjusted net income increased \$7.2 million or 14.6% over our comparable 2018 results to an all-time record of \$56.4 million. The 2019 adjusted quarterly results exclude \$18.4 million of net after tax charges, explained primarily by \$9 million of previously announced flood damage from tropical storm Imelda and \$8.3 million of noncash intangible assets impairment driven by the negative Brexit impact on our U.K. dealerships.

On a fully diluted per share basis, adjusted earnings increased 22.3% to \$3.02 in all time quarterly record. For the quarter, we generated \$3.1 billion in total revenues, which was an increase of 9.1% from the prior year on a constant currency basis, and an all-time quarterly record. Our gross profit increased 7.9%, as total gross margin decreased 20 basis points to 14.9%. As a percent of gross profit, adjusted SG&A decreased 50 basis points to 73.2%, as U.S. and Brazil cost leverage more than offset weak U.K. market conditions.

Floor plan interest expense increased \$700,000, or 5% from prior year to \$15.4 million, explained by higher inventory balances. Other interest expense decreased by \$200,000 or 1% from the prior year to \$18.9 million, primarily reflecting lower acquisition line borrowing rates. Our consolidated adjusted effective tax rate for the third quarter was 22.2%, bringing our year-to-date rate to 22.9%.

Turning to our consolidated liquidity and capital structure. As of September 30, we had \$41 million of cash on hand and another \$25.2 million that was invested in our floor plan offset accounts, bringing immediately available funds to a total of \$66.2 million. In addition, there was \$280 million of additional borrowing capacity on our U.S. syndicated acquisition line.

During the third quarter, we used \$5.2 million to pay dividends of \$0.28 per share, which is currently an annualized yield of approximately 1.2%. We do not repurchase any of our common stock during the quarter. For additional details 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'll now turn the call back over to Earl.

## Earl J. Hesterberg, President and Chief Executive Officer

Thanks, John. Related to our corporate development efforts, in early October, we opened a four-storey state-of-the-art Jaguar-Land Rover dealership in densely populated Northwest London, which increases our Jaguar-Land Rover dealership count to four in the U.K. and nine worldwide. This open point is expected to generate approximately \$85 million in annual revenues, bringing total year-to-date acquired revenues to \$340 million from 13 franchises.

In addition, in September, we opened a Greenfield collision center in Atlanta, Georgia. We now operate 30 collision centers in the U.S. and we're exploring opportunities for further expansion. Since our last earnings call, we also disposed of the Volkswagen franchise in Texas. To date in 2019, we have disposed of 12 franchises that generate \$240 million dollars in trailing 12-month revenue.

That 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

Ladies and gentlemen will now begin the question-and-answer session. (Operator Instructions) Our first question today comes from John Murphy from Bank of America, please go ahead with your question.

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## John J. Murphy

Good morning, guys. Thanks for all the information. Just a first question on the used vehicle business, which really shined in the quarter. It seems like Value Line is helping out quite a bit. I'm just curious, as you look at that how much more room is there for that to grow as a percent of total and if we think about GPUs on Value Line seems like they're probably similar but the margins are much higher. So just wondering if you can comment on that. But then also it seems like there's a lot of other good news going on in the used vehicle business outside of Value Line. So I'm just curious if you can talk about what's driving that strength and if that is an area of focus for you as well.

## Daryl Kenningham, President, U.S. Operations

Thank you John, this is Darryl. Value line, start with the margins. Yes, they are higher on a percentage basis and on a raw dollar basis they're quite good and we're very pleased with them. We think there's a little bit of room to grow Value Line. One of our competitors have announced this week. They do a little more than we do. We don't think it's unlimited upside but we think there's a little bit more. Also on the rest of our used vehicle business in the U.S. There's better discipline across the board and there's more leverage we're getting out or scale with our inventories, putting them in the right place, being able to add velocity to our inventory and we're seeing signs of all of that with much revenue metrics across the board. Those are things we continue to focus on.

## John J. Murphy

But Darryl, that's not an identified effort like Value Line. It's just an increased focused on operating efficiency in the used vehicle business. Is that a fair way to characterize it?

## Daryl Kenningham, President, U.S. Operations

It's a lot of operating efficiency. A lot of it has to do with our digital efforts as well. A lot of the organic traffic that we're generating is generating additional used car-buyers.

## John J. Murphy

Okay, and then a second question on the other, big effort here on the four-day work week for service writers and techs. Felt like you added 300 text techs, you said in an LTM basis. Just want to make sure I heard that right for a 13% increase, but then there's also the stories of folks that want to work more than just a four-day work week so they're putting in extra hours. So if you think about your human capital capacity expansion there, is it above and beyond what you're adding in heads? And is that going to support this same store sales growth you're talking about?

## Daryl Kenningham, President, U.S. Operations

If I understand your question. Yes. 300 is the right number. You heard that correctly and our teams are able to work more than that, if they like to, but we're happy with the productivity. We're getting out of that group and we feel like there's still more to go.

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

Yes John, this is John Rick. I just add, I mean that 303 heads that we've added is a 13% increase. So, mathematically that certainly supports the target that Darryl shared with you.

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## John J. Murphy

Okay, great. And then on the UK was pretty good cost saves, that got executed sequentially there, how much more room is there to cut absolute costs in the UK and what is really driving that? Is that a headcount -- function of headcount and what's driving that cost reduction?

## Earl J. Hesterberg, President and Chief Executive Officer

Yeah, John, this is Earl. Yeah, there is more opportunity. We probably got started a little bit later than I would have liked, but yes, you can achieve substantial cost reductions like we have without making some headcount adjustments. And it varies by brand because there's a big variation in how strong those businesses are. But yes, we have we actually have more cost cuts under way.

## John J. Murphy

Okay. But there it's not sticky it's more of a headcount issue and identifying where that cost of those heads need to come out so it's something that's really in your control. Is that a fair statement?

## Earl J. Hesterberg, President and Chief Executive Officer

Yes that's a fair statement. It's every single area of cost we can find down to the most minute detail but the nature of this business is that the majority of your costs are in people. So, by definition there has to be a lot of action in that area.

## John J. Murphy

Got that, Okay. And just lastly on the floorplan going forward, I mean it sounds like your inventory, it's up a bit, sounds like you might want to work that down on an absolute basis. Just curious what you think the floor plan interest expense opportunity is going forward with rates coming down and maybe getting a little bit leaner on inventories. That's something you guys are focused on? And do you think there's sort of a real meaty number that might -- you might be able to achieve there?

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

Yes John, this John Rickel. I mean, there's definitely opportunity there. The inventory is probably a little heavy, the team has done a good job of managing it, but you're right there's probably a little bit in the balances. Certainly, the spreads have come in on the floor plan renewal that we negotiated. So, there will be a little bit there. And if LIBOR rates continue to come in that, will also offer some opportunities. Balanced by the fact that, obviously we have swaps that temper some of the LIBOR downside, but in general, I think you're right. There's probably be some opportunity going forward in floor plan interest expense.

## John J. Murphy

Okay great. Thank you very much guys.

## Operator

Our next question comes from Rajat Gupta with J.P. Morgan. Please go ahead with your question.

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## Rajat Gupta

Hey, thanks for taking my question. Could you talk a little bit about the impact of melda in the quarter in terms of like how it impacted the revenue and gross profit? And were you be able to recover a lot of that within the quarter as well because it doesn't look like your new vehicle profit, I mean they were pretty decent. So just trying to understand, how that played through the actual numbers.

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

Yes, Rajat, this is John Rickel.. Really the main impact was in Beaumont and as Earl indicated, it was pretty devastating for our team that was there but the kind of the end of the day, one it hit late in the quarter and two, the six stores there, the annualized revenues out of those are about \$250 million. So it's not a massive market for us. So, I don't think it had a very meaningful impact in the way of revenue or lost sales in the quarter. We'll get some of that back in the fourth quarter. But once again, it was not nearly as many units impacted as like Harvey two years ago, the estimates are there are only 10,000 to 15,000 units in total, lost in that market.

## Rajat Gupta

Got it. It's clear. And then on the new vehicle side. I mean you do have a decent exposure to Nissan, roughly 8% of your mix in 3Q, I mean, one of your peers talked about how they were impacted by changes in incentives in the quarter. Were you surprised by that at all or did that have any impact to your results?

## Daryl Kenningham, President, U.S. Operations

Hi, Rajat, this is Darryl Kenningham, just to clarify, you said Nissan, is that correct?

## Rajat Gupta

Yes.

## Daryl Kenningham, President, U.S. Operations

Yes, we heard some of that commentary this week. You know, we tried -- we have to play in our Nissan business very carefully because of the way they structured their programs. And everything that one of the other consolidators mentioned is absolutely true. We have to watch that very carefully and we do. We don't feel like it impacted us nearly as much. We feel like we're ahead of some of those issues.

## Rajat Gupta

Got it. And just lastly on F&I. You continue to, do better than expectations there, on the GPUs. I mean is that just a function of better penetration? Is it just more product mix within that? I mean, does interest rates have any benefit? Just trying to understand like how to size that going forward, in the background.

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

Thank you, Rajat, this is Pete DeLongchamps. Yes, I would say that the product penetrations have been consistent and we will continue to outperform in product sales and the team's done a good job of implementing all of our procedures and plans. So we continue as Daryl mentioned in his comments, mid-1,700s is a good place to model for the F&I business.

### **Rajat Gupta**

Got it. Okay. Thanks. I'll pass on.

### **Operator**

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

### **N. Richard Nelson**

Thank you. Good morning.

### **Unidentified Speaker,**

Morning.

### **N. Richard Nelson**

Due to follow up on that F&I question. Pete if you could talk about availability of finance a prime, near-prime and sub-prime, what you're seeing.

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

Sure, Rick, we still have terrific relationship with all of our lenders. At this time we have got access to all the capitals that we need to assist our customers in getting around.

### **N. Richard Nelson**

Great, planning to UK, all WLTP challenges those are behind you. Now we got RDE. If you could talk about supply availability?

## **Earl J. Hesterberg, President and Chief Executive Officer**

Well, yes. Sure Rick, it is a still a, still a major issue for the second in a row, which is somewhat surprising but it's quite different by brand. And for us by far the most drastic impact is on the Volkswagen Group, which unfortunately is our probably our biggest group because we have 10 Audi stores, eight Volkswagen stores et cetera, couple Fiat and couple



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Skoda. So it is -- we still do not have the proper new vehicles in many of our stores and it's been a problem now since September 1st, and that also resulted in us having to self-register some cars before September 1st, which we're now retailing as Used cars. So that's a big challenge on top of a challenging market.

And the other factor that gets lost and applies to many brands is most OEMs or at least many still do not have the proper production mix of diesel and petrol engines. There's been a material shift in the UK in the demand for diesel engine than you might imagine and it takes time for some OEMs to adjust their production ability. And so all of these factors together frequently relayed in us having to retail vehicles that are not precisely what the market is demanding and that's part of what is putting this huge pressure on our margins to move those cars.

### **N. Richard Nelson**

And that's also the case and they Used business in the UK and would you expect that is going to get sequentially better on the Used because they find a clearing price there or is that going to be a lingering challenge?

### **Earl J. Hesterberg, President and Chief Executive Officer**

Well, I think it's lingering into the fourth quarter Rick, but yes, the market will eventually sort itself out and the OEMs are trying hard to address these problems from their viewpoint. So it should get progressively better, but it's not going to go away for several months yet.

### **N. Richard Nelson**

and finally, if I could ask about the acquisition environment and how you view acquisitions versus stock buybacks versus debt retirement at this point?

### **Earl J. Hesterberg, President and Chief Executive Officer**

Well at this point we're still most interested in growing the company via acquisitions. And there are no shortage of potential acquisitions in either the U.S. or the UK. market. But we have to value these things based on future profit not past and so we're being very careful in how we invest money in that external growth but that is still our preference would be to deploy our capital in that way.

### **N. Richard Nelson**

Thanks, and good luck.

### **Operator**

Our next question comes from Armintas Sinkevicius from Morgan Stanley, please go ahead with your question.

### **Armintas Sinkevicius**

Great. Thank you for taking the question. With the regards to the UK. Maybe you could talk about the Used-car environment, when I take a look at the Pendragon release from about a month ago, it still seems like there are some challenges in the Used car market. How do you expect that to trend and when do we get to the end of that?

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## Daryl Kenningham, President, U.S. Operations

Well, the true Used car market in the UK is still surprisingly good. The problem for all of us, I think, all of the auto retailers in the UK is a very high percentage of our Used vehicle sales are not true Used cars. They're very nearly new cars. And that's where the challenges are. And one of the metrics, we use is what percentage of our inventory are truly used cars meaning more than a year old and with some mileage on it and so forth. And we continue to do quite well with those cars, we just need to continue to adjust our operations to have those cars represents a higher percentage of our inventory. That's the way we're approaching it, but we also need to support our OEMs and help them keep moving their new vehicles. So, it's a pretty difficult balance right now.

## Armintas Sinkevicius

I think, last year with the, sort of, outcome from WLTP, Used car prices went higher in the UK because of the shortage on the new side and then as we got out of that then yeah, there's a challenge where the inventory was priced higher than what you were able to sell the cars for or the industry for that matter was able to sell those cars for. Are we expecting or are you seeing early signs of that? You know on the basis of RDE this year?

## Daryl Kenningham, President, U.S. Operations

I don't know what the impact is on the values of this new regulation 30 or 45 days ago, but you make a very good point that few people recognize and that is we got lulled to a sleep a bit by the fact that Used vehicle values were artificially high at this time last year. And so based on where we come from, at the beginning of this year to now the residual value drops are massive on a historical basis and so we literally can't turn those vehicles fast enough to make any good money on them. Basically our new and used vehicle margins are both down about GBP 300 or \$300, \$400 and that's a substantial amount on big volume.

## Armintas Sinkevicius

And last question here on the digital initiatives accelerateRide largely in most of your stores. What are some of the next things that you have planned ahead, product rollout or upgrades? What are you looking for on the horizon here?

## Daryl Kenningham, President, U.S. Operations

Well, we're looking at a number of things. That we are not ready to talk about today but our focus is always on doing business how and when our customers want to. And we know there is also opportunities in sourcing used vehicles. So those are areas we are looking at very hard right now.

## Armintas Sinkevicius

Thanks appreciate taking the question .

## Operator

Our next question comes from Michael Ward from Seaport Global. Please go ahead from your question.

## Mike Ward

Company Name: Group 1 Automotive  
Company Ticker: GPI US  
Date: 2019-10-24  
Event Description: Q3 2019 Earnings Call

Market Cap: 1949.983875  
Current PX: 105  
YTD Change(\$): 52.28  
YTD Change(%): 99.165

Bloomberg Estimates - EPS  
Current Quarter: 2.654  
Current Year: 10.358  
Bloomberg Estimates - Sales  
Current Quarter: 2970.833  
Current Year: 11755.25

Thanks very much. Good morning. Just a follow-up on Rick's question about share repurchase. Did you buyback any stock in the third quarter?

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

No, Mike we did not.

### **Mike Ward**

Okay. Was there a reason for that or just timing?

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

Just timing, I mean we tend to be opportunistic, we look for best places to deploy the capital, as Earl indicated, there's probably some more acquisition opportunities floating around out there. So we're always balancing those levers.

### **Mike Ward**

Okay. On the online retailing and it's in, I think you have mentioned that most of your stores have that availability now in the U.S. Does that include -- I think the service side of it like the online servicing by year-end it's going to cover of 80% of your revenue, but 77 out of the 117 stores. Will you expand it to all the stores? Or there some limitations with the stores where it doesn't make sense or is that the flex work week that, is limited to those 77 stores?

### **Daryl Kenningham, President, U.S. Operations**

Daryl Kenningham, the -- I believe you're talking about our acceleRide initiative on new and used vehicles where in all, but the three stores in the U.S. We expect those to be done in next few days.

### **Mike Ward**

Okay, and does that include the service scheduling too or no?

### **Daryl Kenningham, President, U.S. Operations**

Service scheduling online service scheduling is in every dealership in the U.S.

### **Mike Ward**

It is.

### **Daryl Kenningham, President, U.S. Operations**

Our four day work week is we expect to be in 85% of our revenue by the end of the year. We will be substantially finished by then because stores, you can't put that in very small dealership. So you need to.

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## Mike Ward

Just doesn't work. Okay, you've seen the steady increase in the online service scheduling from like 25, 26, 27 in the three quarters this year. Is there a goal in mind?

## Daryl Kenningham, President, U.S. Operations

There's not a hard goal. But continue to go as far as our customers want to go and make it as easy as we possibly can for them to do that. We make improvements every day on that to try to facilitate more and more online scheduling.

## Mike Ward

And on both those fronts, the online retailing and the online service appointments. Is that something that you can expand into the UK or Brazilian markets?

## Earl J. Hesterberg, President and Chief Executive Officer

Yes, I think it is this is Earl. However in the UK and Brazil. The OEMs have a lot more influence on the dealer websites and the ability to interact with the OEM systems. I would say is not quite as advanced as it is in the U.S. Because to do online retailing the customer has to be able to search a particular brand's inventory, in detail with correct vehicle specifications and such. So we're not quite at the point where we can do that in these other markets, but I'm sure it will come.

## Mike Ward

Beautiful. Thank you very much.

## Operator

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

## David Whiston

Thanks. Good morning. On the UK, just two questions there. And then one on Brazil. Is it fair to say with self-registration that you guys do that less than your competition there and that you really only do it as a measure of last resort when the discounting from competitors gets really bad.?

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

I like to say that. It's been true in recent month for some of our major brands we have had to back off. I think it's kind of a competitive in market situation in the UK, where every major retail dealer group does more self-registrations or additional demo changes. There's a variety of different classifications of these types of sales. I can assure you we do more than we want. And I think if you talk to my colleagues in the UK, they give you that same answer. We try to balance it because there are new vehicle targets we have to get. And there is a lot of bonus money usually attached to that, but I can tell you that we are the leaders in fewest self-registrations.

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## David Whiston

Okay, and the UK SG&A and gross. It's a fairly large gap in the U.S. Can you just remind me, are there some maybe structural reasons there that gap will always be large? Or do you think there's a lot of improvement you can do there? Obviously cyclical wise. It's not a great time in the UK, but outside of that?

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

Yes, David, this is John Rickel. As Earl indicated, we're working on cost reductions. So we do think that there's opportunities to continue to bring that down but I don't think we will ever fully close the gap with the U.S. There's a couple really kind of key structural differences one F&I is not as large as a part of the gross profit stream over. There is a number of reasons for that. You don't sell as many extended service contracts because people don't keep the cars as long. There's a higher proportion of the car park that is basically company cars that turn more frequently. So, that's a big piece of it. Rent tends to be more expensive. Land is pretty expensive in the UK. So, for things like that, we're probably never going to get down to the U.S. Level, but certainly into the mid-to-high 70s, I think it is a very attainable sort of target.

## David Whiston

Okay, thanks. And in Brazil the GPU's there are big -- there's a really big contrast between new and used vehicles, one down a lot, one up a lot. Can you just talk about what's going on in the market to cause that?

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

Yeah, this is John Raquel again. On the new vehicle front some of it is around brand mix. One of our partners down there one of the larger exposures is kind of at a lull in their product cycle. So, they're basically, you have to do some discounting to kind of move those older units that will turn when the next product cycle comes through. On the Used front, the team has done a fabulous job. They've basically instituted a centralized process down there for both procurement and helping to price the inventory. And so, we're seeing major, major improvements in both volume and in the gross profit we're generating off Used down there.

## David Whiston

So, how has the team learned to price better on used? Is that more big data or just..

## Earl J. Hesterberg, President and Chief Executive Officer

Yeah, although I -- this is Earl. I think in Brazil, it may not be as big a data as it is in the U.S. It's just not as sophisticated a market. So, we have taken that into a central operation where we have four or five people that do it every day and they have every possible bit of data that's available in Brazil. But Brazil's a massive country. So you have a lot of regionalization of these values. So, it's the sophistication of pricing these cars is beyond the generally available skill level in the dealership.

## David Whiston

Okay, Thanks.

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## Operator

Ladies and gentlemen at this time I am showing no additional questions. I would like to turn the conference call back over to management for any closing remarks.

## Earl J. Hesterberg, President and Chief Executive Officer

Okay. Thanks to everyone for joining us today. We look forward to updating you on our fourth quarter earnings call in February.

## Operator

Ladies and gentlemen that does conclude today's conference call. We do thank you for joining today's presentation. You may now disconnect your lines.

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