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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Group 1 Automotive's 2013 first quarter conference call. Please be advised that this call is being recorded.

I would now like to turn the call over to Mr. Pete DeLongchamps, Vice President of Financial Services and Manufacturer Relations. Please go ahead, sir.

Pete DeLongchamps - *Group 1 Automotive - VP, Financial Services and Manufacturer Relations*

Thank you, Yusef, 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 we'll refer to on this call for comparison purposes have been posted on the Group 1 website.

Before we begin, I would 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 conference 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 also include, but are not limited to, risks associated with pricing volume and the conditions of the markets. Those and other risks are described in the Company's filings with the Securities and Exchange Commission over the last 12 months, and copies of these filings are available from both the SEC and the Company.

In addition, certain non-GAAP financial measures, as defined under SEC rules, may be discussed on this call. As required by applicable SEC rules, the Company provides reconciliation of any such non-GAAP financial measures to the most directly comparable GAAP measures on its website.

Participating with me on today's call -- Earl Hesterberg, our President and Chief Executive Officer, John Rickel, our Senior Vice President and Chief Financial Officer, and Lance Parker, our Vice President and Corporate Controller.

Please note that all comparisons in the prepared remarks are on the same prior-year period, unless otherwise stated.

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

Earl Hesterberg - *Group 1 Automotive - President and CEO*

Thank you, Pete, and good morning, everyone. I'm pleased to announce that Group 1 turned in a strong performance in the first quarter with 18% revenue growth and record adjusted first quarter earnings. As our UK operations continue to grow and we began operating a significant number of dealerships in March, we have changed our segment reporting to give you more insight into our business and make comparisons easier.

John will provide the detail on the individual segments in a moment, but on a consolidated basis, Group 1 reported records for both first quarter adjusted net income of \$29.2 million, which was up 26.5% over last year, and adjusted earnings per common share of \$1.16, which grew 19.6%. Total revenue increased 18% to \$2 billion, with double-digit growth across each business line.

The total new vehicle unit sales rose 18.5% to 33,096 vehicles, with U.S. unit sales up 7.4%. Our average new vehicle selling price increased 2.7% to \$33,546 per unit, reflecting an improved luxury mix, which, coupled with the unit growth, drove a 21.7% increase in new vehicle revenues.

Group 1's new vehicle unit sales mix was 87% U.S., 8.5% from the UK, and with only the month of March included, 4.5% from Brazil. Toyota-Lexus sales accounted for 28% of our new vehicle unit sales, with Honda-Acura, Ford-Lincoln, Nissan-Infiniti and BMW-Mini contributing more than 10% each. We also saw significant growth with VW-Audi-Porsche, which accounted for 7% of our total new vehicle unit sales.

Consolidated new vehicle inventory was at a 62-day supply, or 30,582 units, with U.S. inventory at a 71-day supply, or 26,734 units, on March 31st.

Used vehicle sales increased 12% in the first quarter. This generated a retail gross profit increase of 10.7% on 13.6% higher revenues. The average selling price increased 1.4% to \$20,286, reflecting an expanded mix of used vehicle sales in our luxury stores. Used vehicle inventory was at 31-day supply on both a consolidated basis and in the U.S.

Total consolidated finance and insurance per retail unit was \$1,245, with the U.S. at \$1,339, reflecting a \$136 increase per retail unit. Consolidated F&I revenues grew 22.6% on a 15.7% increase in retail units. Parts and service revenue grew 11.5%, and gross profit grew 12.3%, with same-store revenue up 5.4% as our investments over the past few years in this business gained traction.

We've made significant progress during the quarter on our costs leverage. On a consolidated basis, adjusted selling, general and administrative expenses as a percent of gross profit improved 110 basis points to 75.4%. On a same-store basis, the leverage was even more pronounced with a 134 basis point improvement of 74.7%.

We continue to roll out the three initiatives we discussed in February -- accounting consolidation, which should be completed by the end of 2013, conversion to a single CRM through October, and the launch of a service call center, which should be completed by year-end. We are on track with our plans and continue to believe that all three will provide significant benefits when completed.

Finally, I want to welcome our Brazilian team. As previously announced, we closed on the acquisition of UAB at the end of February, so our results this quarter only include the month of March for the Brazilian market. I'm pleased to report that we have made good progress with the integration of UAB's reporting systems into our reporting systems, and importantly, that we generated enough profitability in our first month to cover the dilutive effect of the shares that we issued for the acquisition. We remain very excited about the prospects that this market offers.

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

John Rickel - Group 1 Automotive - SVP and CFO

Thank you, Earl, and good morning, everyone. Our adjusted net income for the first quarter of 2013 rose \$6.1 million, or 26.5% on a comparable basis, over our 2012 results of \$29.2 million, which is the best first quarter in our Company's history.

These results for 2013 exclude \$7 million of after-tax deal costs primarily associated with the previously announced acquisition in Brazil and \$504,000 of after-tax insurance deductibles primarily related to the previously announced hail storm affecting our four New Orleans dealerships. These adjustments were partially offset by a \$356,000 after-tax net gain on the previously announced disposition of a Nissan dealership in California. There are no adjustments made to first quarter 2012 reported net income.

Earnings per diluted common share improved 19.6% on a comparable basis over the prior year results to \$1.16, which was also the best first quarter result in Group 1's history. This result continues to highlight the growth of our Company and the significant improvements we made to our processes and cost structure, and demonstrates the leverage these improvements are delivering as new vehicle sales volumes continue to increase.

As Earl mentioned, beginning with this quarter's reporting, we have significantly expanded our disclosures to provide additional important information for each of our key geographical market segments -- the U.S., the UK and Brazil. We intend to provide this level of disclosure going forward. With the continued growth in the UK and now the entry into Brazil, we believe this additional detail is useful and important to understanding our results.

Starting with a summary of our consolidated results, we delivered record revenues in the first quarter of \$1.96 billion, which were up \$299.1 million, or 18%, compared to the same period a year ago. This record reflects the acquisitions we've made and the increases in each of our business lines. Our gross profit increased \$40.1 million, or 15.4%, from the first quarter a year ago to \$300.5 million, which represents the best all-time any quarter in the Company's history.

Now turning to the first quarter same-store results, which include stores from the U.S. and UK owned during the same period. In the first quarter, we reported revenues of \$1.74 billion, which was a \$112 million, or 6.9%, increase from the comparable 2012 period.

Within this total, new vehicle revenue was up 8.8% to \$967.3 million on 5.8% higher new vehicle unit sales, and an increase in our average new vehicle sales price of \$942 per unit to \$33,781. Our used retail revenues improved 3.8% to \$420.5 million on 2.4% more units and a \$287 increase in our average retail used vehicle sales price to \$20,342. Given the strength of the comps from last year, we are pleased with this performance.

As a reminder, during the period of constrained new vehicle supply, we significantly increased our focus on the used business. In the first quarter 2012, our same-store used retail revenue increased 19.3%, so we were happy this quarter to continue building from such a strong base.

F&I gross profit per retail unit rose 11.9% to \$1,328, driven primarily by increases in our penetration rates and income per contract for our major product offerings. F&I revenues were up \$9.4 million, or 16.7%, compared to the same period a year ago.

We posted strong growth in our parts and service business, as revenues grew 5.4% in the quarter. The overall revenue growth is explained by increases of 13.2% in collision, 7.8% in warranty, 5.9% in wholesale parts, and 2.3% in customer pay. It should be noted that manufacturer free maintenance programs, such as Toyota Care, have shifted what once were classified as customer pay revenues over to the warranty line, partially explaining the relative underperformance of customer pay growth as compared to warranty.

As a reminder, our parts and service revenues are not impacted by increases in internal business. The revenue associated with internal work is eliminated in consolidation. This varies across the sectors. Some of our competitors account for internal work differently.

Overall, our same-store gross profit grew 6.9%, or \$17.5 million, to \$272.2 million. Our same-store new vehicle gross profit dollars increased 1.4%, which was primarily a result of higher volumes partially offset by a decrease in gross profit per unit at our import-branded dealerships, but the prior year quarter still had a partial benefit from constrained inventory levels.



Our used vehicle retail gross profit dollars increased 1.9%, primarily explained by the 2.4% increase in units sold, while gross profit for retail units sold decreased \$8 to \$1,756. Parts and service gross profit grew 6.6%, or \$7.2 million, reflecting improvement in each business line.

Our SG&A as a percent of gross profit improved 130 basis points to 74.7%, as we took quick and decisive action on a variety of cost (inaudible) following our Q4 results.

Over the quarter, we grew gross profit by \$17.5 million and held SG&A expense growth to \$9.2 million, excluding approximately \$750,000 of expenses related to three initiatives discussed on our fourth quarter call. This equates to a 48% flow through of gross profit to EBITDA. A rough rule of thumb is that we expect that each incremental gross profit dollar will only add about \$0.50 of variable SG&A expenses on a same-store basis. This cost leverage enabled our same-store operating margin to improve 20 basis points over the comparable prior-year results to 3.5%.

Turning now to our geographic segments, starting with the U.S. market on an actual basis, total revenues grew 8.5%, which was driven by increases of 10.3% in new, 5.4% in total used, 5.3% in parts and service, and 18.9% in F&I. Total gross profit grew 8.8%, which was driven by increases of 3.6% in new, 4.8% in total used, and 7.3% in parts and service, as well as the F&I increase previously mentioned.

New vehicle retail unit sales increased 7.4%, partially offset by a \$66 decrease in gross profit per unit to \$1,792. This decrease was primarily attributable to our import-branded dealerships, as the prior-year quarter still carried partial benefit from constrained inventory levels. Used vehicle retail unit sales increased 6.1% as gross profit per unit increased \$6 to \$1,782.

As a reminder, our trade-to-auction sourcing ratio is still well below historical levels at around 60%. We would expect that the availability as well as quality of used vehicle inventory will receive a lift starting towards the end of this year as more off-lease units start returning to our dealerships.

F&I income for retail units rose 11.3% to \$1,339, driven primarily by higher penetration rates and income per contract for our major product offerings. Gross profit from our parts and service business grew \$7.8 million, or 7.3%, to \$114.8 million, driven by a 5.3% increase in revenues and a 100 basis point margin expansion. This gross profit growth across all major business lines helped leverage our cost base by 160 basis points to 74.8%. Operating margin for the U.S. business improved 30 basis points to 3.6%.

Related to our UK segment, we have seen a tremendous amount of growth in the past 12 months at our UK operations due to the acquisition of a net of five Audi and four Ford dealerships with total estimated annual revenues of approximately \$425 million. These dealerships provide us a scale opportunity as we begin to leverage both the leadership team and the back office support of our five existing BMW-Mini dealerships. Total revenues and gross profit have both more than doubled with the increases seen throughout all business lines.

Speaking to some of the fundamental differences in the UK and U.S. operating lines, our new margins are higher in the UK, reflecting our higher luxury mix, and are comparable and adjusted for this mix difference. Used margins are lower in the UK, primarily due to the relatively lower percentage of vehicles sourced through trade-ins, approximately 35% compared to approximately 60% in the U.S. Parts and service margins are lower than the U.S., primarily due to lower warranty reimbursement rates from the OEMs.

Related to our Brazil segment, while we see a number of growth opportunities with our Brazil operations, we are nonetheless pleased with the first month's results. Speaking of some of the fundamental differences in the Brazil and U.S. operating lines, new margins are higher across all comparable brands and used retail margins are lower, while wholesale margins are higher, and capital and space constraints help contribute to the relatively earlier liquidation of higher quality units. Going forward, we believe there is opportunity to expand the used car business.

F&I PRU of approximately \$300 is much less due to the lower finance reserves saved by lenders as well as the present lack of other insurance products, namely vehicle service contracts. We believe this to be a significant area of opportunity.

As with the UK, lower parts and service margins are due to lower warranty reimbursement rates from the OEMs. Collision margins are also lower, as insurance companies do not reimburse the dealers at a retail level.



Now, returning to a consolidated basis, floor plan interest expense increased \$1.7 million, or 22.9%, from the prior year to \$9.4 million. This increase is primarily explained by a \$312.6 million increase in weighted average borrowings, as overall higher inventory was required to support rising sales and recent dealership acquisitions as well as the addition of Brazil. Partially offsetting this increase in borrowings is a lower weighted average interest rate, which was mainly attributable to the expiration of several higher rate slots during 2012.

At March 31, 2013, our new vehicle inventory stood at 30,582 units with a value of \$1 billion, compared to 26,615 units with a value of \$906 million as of December 31, 2012.

Other interest expense increased \$200,000, or 2.2%, to \$9.2 million, explained by increased mortgage borrowings associated with recent dealership acquisitions. Our consolidated interest expense includes non-cash discount amortization of \$2.6 million related to our convertible notes.

Now, turning to liquidity and capital structure, as of March 31, 2013, we had \$17.7 million of cash on hand and another \$59.2 million that was invested in our floor plan offset account, bringing immediately available funds to a total of \$76.9 million. In addition, we had \$220.7 million available on our acquisition line that could also be used for general purposes. As such, our total liquidity at March 31, 2013, was \$297.6 million.

To repeat a point we made when we announced the UAB deal, all the cash used came from the available cash on hand. In fact, that has been the case for the entire \$1.4 billion of revenues we've acquired over the past 12 months.

With regards to our real estate investment portfolio, we own \$581.8 million of land and buildings at March 31st, which represents more than one-third of our total real estate. To finance these holdings, we've utilized our mortgage facility and executed borrowings under other real estate specific debt agreements. As of March 31st, we had \$50.1 million outstanding under our mortgage facility and \$240.1 million of other real estate debt, excluding capital leases. During the first quarter, we used \$3.6 million to pay dividends of \$0.15 per share, an increase of \$0.01 per share over the first quarter of 2012.

For additional details regarding our financial conditions, please refer to the schedules of additional information attached to the news release as well as the investor presentations hosted on our website.

With that, I will now turn it back over to Earl.

Earl Hesterberg - *Group 1 Automotive - President and CEO*

Thanks, John. Before I turn the call over to the operator for your questions, let me update our market outlook for the remainder of 2013.

While the U.S. market remains very competitive, the conditions for buying vehicles is positive with many exciting new products being offered, widely available credit at very low rates, and solid used car values. All of this is supported by significant pent-up demand, as evidenced by the age of the car park.

Given then conditions, we continue to anticipate new vehicle industry sales will range from 15.3 million to 15.5 million units in the U.S. in 2013. The UK is one market in Europe that has shown stability over the past two years. The latest SMMT forecast has sales growing 3% this year, for a total industry outlook of 2.1 million units. With our strong luxury mix, we are well positioned for this environment.

And finally, for Brazil, March industry sales were encouraging, with the daily selling rate increasing 4.1% compared with the prior year. However, the Brazilian economy is facing many challenges and not demonstrating significant growth at the moment. The government's recent decision to not implement the planned increases in IPI taxes that were scheduled for April 1st and the freeze of current tax rates indefinitely is positive for the market. We would expect industry sales to range from flat to a 3.5% industry growth this year, which is consistent with the forecast of the Brazilian dealer association, Anfavea.

That 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

Thank you. We will now begin the question-and-answer session. (Operator instructions). At this time, we will pause momentarily to assemble our roster. Our first question comes from Simeon Gutman with Credit Suisse. Please go ahead.

Simeon Gutman - Credit Suisse - Analyst

Thanks. Good morning. It's Simeon Gutman. Earl, a quick question on Nissan pricing. Given the announcement yesterday, I'm curious what you think, if any, competitive response will happen. And then more generally, when a manufacturer comes to the market with lower prices, are the dealers fully protected? And in this instance, will the dealers be fully protected on the margin side?

Earl Hesterberg - Group 1 Automotive - President and CEO

Yes, good question. The answer to your second question was yes. Pete actually showed me the dealer bulletin this morning, so the dealers will receive some compensation to attempt to make them whole for those price reductions. I thought it was a very intelligent move. I don't have the facts to back this up, but my perception has been that in recent years, Nissan has been a little high on their retail prices, which I perceived as a compensation for the fact that they had to have the incentives, so their transaction prices may not have had the same relationship to MSRP that some of their main competitors did.

And I think they have various new management who has figured out that a lot of the search world on the Internet shopping process lines up MSRP's, and so I think they were trying to get more competitive with brands like Honda and other heavy cross-shop vehicles. So I thought that was a very intelligent move, and I don't think that's a negative for the dealers at all.

Simeon Gutman - Credit Suisse - Analyst

Okay. And do you think that the other J3 brands -- the other two, in this instance -- will be, I guess, baited to coming back with something more aggressive, or is this just one manufacturer just trying to recapture some lost share?

Earl Hesterberg - Group 1 Automotive - President and CEO

I think it's one manufacturer trying to align their competitive position visually better. We call MSRP pricing visual pricing, and then, of course, there's equipment-adjusted pricing and there's transaction pricing. That's the way the OEM marketing people look at it, and I think they had a visual price problem. I wouldn't necessarily expect their competitors to do anything, unless those competitors feel they're also uncompetitive in that visual pricing area.

Simeon Gutman - Credit Suisse - Analyst

Okay. And then focusing on the U.S. business for a minute, the gross profit dollars were up a little bit more than the sales growth, and the parts and service margin explains that, and then F&I, which was really impressive, going up explains the other piece. My question is how sustainable that dynamic -- or how sustainable is that dynamic? Meaning it's sort of a very loaded question of whether margins on the other side of the business will continue to either flat-line or decline a little. And how much more is left on the parts and service side on F&I where we can see gross profit dollars still outpace the sales growth?

Earl Hesterberg - *Group 1 Automotive - President and CEO*

This is Earl again. Let me address parts and service first. We focus our business efforts on growing the parts and service business, and quite frankly, the margin falls out. It just becomes what it becomes, and it's frequently a mix among our different segments of customer pay, warranty, collision, wholesale parts and so forth. So our emphasis will continue to be on growing that business. I think our same-store growth rate was 5.4%, which I was quite happy with. I think that was a good job. That moves around a bit from quarter to quarter, but I wouldn't read anything significant into that.

On F&I, our performance has been spectacular. I don't like to say that with Pete in the room, because he's responsible for that business. And clearly the better we do, the less upside there is in the future, but I don't -- we still have dealerships that perform significantly below our average dealerships, so we continue to try to grow that business also.

Simeon Gutman - *Credit Suisse - Analyst*

Okay. This is my last one, then I'm off. Is incentive comp issue in the fourth quarter -- is the business adjusted to that? Is it largely resolved?

Earl Hesterberg - *Group 1 Automotive - President and CEO*

Well, I hope so, and what we did was go back to every dealership and try to scrub every bit of cost, but I believe we're back in a more competitive position, at least based on the results in the first quarter. But it's one of those things you have to be constantly vigilant about.

Simeon Gutman - *Credit Suisse - Analyst*

Okay, thanks, and good quarter.

Operator

Our next question comes from John Murphy with Bank of America Merrill Lynch. Please go ahead.

Elizabeth Lane - *BofA Merrill Lynch - Analyst*

Good morning. This is Elizabeth Lane on for John. I was hoping you could give us some more detail about the charges for acquisitions in the quarter, because they were excluded in the adjusted SG&A, and that seemed a little strange. So could you talk about why those charges would be considered one-timers, since acquisitions are a pretty normal part of the business?

John Rickel - *Group 1 Automotive - SVP and CFO*

Sure, Elizabeth. This is John Rickel, and a fair question. Obviously, the big difference with the first quarter was for almost all the other acquisitions that we do, we do it in-house and we don't have to have large investment banker fees, large legal fees, large public accounting fees. So for that reason, we view that as different than the normal model and appropriate to exclude from the results.

Elizabeth Lane - *BofA Merrill Lynch - Analyst*

Okay, so those aren't charges that you would expect to happen in future acquisitions if they were just the normal one-offs?



John Rickel - *Group 1 Automotive - SVP and CFO*

Correct. For normal one-offs, we don't go through those charges. We do all of that in-house.

Elizabeth Lane - *BofA Merrill Lynch - Analyst*

Got it. Great. And then just one follow up on Simeon's pricing question. Would a price cut like what Nissan is doing ultimately be a positive for the dealer, since it relieves some of the pressure to discount at the dealer level in order to push volumes?

Earl Hesterberg - *Group 1 Automotive - President and CEO*

Well, to the degree that a manufacturer can more closely align MSRP prices and transaction prices, I think it's healthier for everybody involved. I don't think accounting for or compensating for incentive costs in MSRP pricing is a healthy thing, and I honestly believe that's what Nissan was doing, so I think they're trying to fix that, and I think it's a good thing for the brand and the dealers.

Elizabeth Lane - *BofA Merrill Lynch - Analyst*

Okay, great. Thank you.

Earl Hesterberg - *Group 1 Automotive - President and CEO*

Hello? Is anyone on there?

Operator

Pardon me, we've lost our questionnaires. We're having some technical difficulties. If you could hold patiently, please.

Earl Hesterberg - *Group 1 Automotive - President and CEO*

Okay.

Operator

(Operator instructions). Our next question comes from Bill Armstrong with CL King Associates. Please go ahead.

Bill Armstrong - *CL King & Associates - Analyst*

Good morning. I wanted to talk about finance penetration for a minute. The UK and Brazil look pretty close at 45%, 46%, and they're well below the U.S. I was wondering if you could just discuss any opportunities in the UK and Brazil for increasing the finance penetration, and is there any structural reason why those penetration rates are so much lower than in the U.S.?

John Rickel - *Group 1 Automotive - SVP and CFO*

Yes, Bill, this is John Rickel. We think there probably are additional opportunities in the UK. We're obviously still very early on in the learning process with Brazil. I'm not sure on penetration rates in Brazil, but we certainly think as the market develops, there are going to be significant opportunities on products like extended service contracts.

Bill Armstrong - *CL King & Associates - Analyst*

And in the UK, is there opportunity there to get up towards U.S. penetration rates in the mid-70's, or are there structural impediments to that?

John Rickel - *Group 1 Automotive - SVP and CFO*

I don't know about what the ultimate penetration potential is, but we know that particularly with our newer businesses, which is about nine of our dealerships, that we can -- that there isn't a structured process like we'd like to see it, and that should improve penetration. We also have not had much scale in the UK, so I do believe that we will have some opportunity to leverage lenders as we grow that business. So I think there is significant upside in the UK, but I couldn't really give you a number on what the market would hold as a penetration potential from the top of my head.

Bill Armstrong - *CL King & Associates - Analyst*

Okay, understood. Thank you.

Operator

Our next question comes from [Addie Overo]. Please go ahead.

Addie Overo

Great. Thanks a lot. Good morning, guys. I had a question on your parts and service -- obviously, a very strong performance in Q1, comps of 5.3%. Can we sustain this momentum, or was there some one-off that helped the parts and service business in Q1?

Earl Hesterberg - *Group 1 Automotive - President and CEO*

This is Earl. I believe we can sustain that momentum. On the last call we had a couple months ago, I noted that at the end of last year, we started to see a turn up in our growth rate, which I think there is an underlying tailwind we're starting to get now, which is the units in operation profile. And we're trying to go a little bit beyond that, but our growth rate -- I believe in the fourth quarter and the first quarter, you're starting to see it step up, and we've made a lot of investments in recent years to try to accentuate that.

So I think we can stay in mid-single digits. That will be our goal, and we'll try to even do a little better than that, so I think we're coming into a nice phase of parts and service growth.

Addie Overo

Got it. And my second question is on the gross profit per vehicle on the new side in the U.S. I think, John, you mentioned that it was a little bit under pressure because of a tough comp from last year. When do we start seeing the normalization of comps on that end?

John Rickel - *Group 1 Automotive - SVP and CFO*

Addie, this is John Rickel. I think that we've lapped kind of the period that was a little more difficult. Basically, the first quarter of 2012 was when inventories basically fully returned. Honda came in kind of right at the end of the quarter, but by the start of the second quarter last year, the inventories were back, and from those levels, I think we're kind of now at about a run rate.



Addie Overo

Got it. And my final question, on Brazil. For now, Brazil has been part of your Company for slightly more than two months now. Anything that has surprised you on the positive or the negative since the time you've done the acquisition, closed the acquisition? Thanks.

Earl Hesterberg - *Group 1 Automotive - President and CEO*

Yes, this is Earl. The positive is the quality of our people. I love our team down there. They think like we do, they're aggressive, they're intense, so I'm really excited and having fun working with them. I guess on the educational side, which is similar to my experience in other developing markets where I worked, like Russia and Turkey and Eastern Europe, the supply of vehicles is very choppy, very unpredictable in these markets. One month you have the cars, and the next month you don't have the cars, so I'm still trying to sort some of that out. So that makes things a little less predictable than the way we do business in the UK and the U.S.

Addie Overo

And was that comment related to new vehicles or used or both?

Earl Hesterberg - *Group 1 Automotive - President and CEO*

New. The used vehicle market is very undeveloped, at least at the dealership level, at the moment.

Addie Overo

Got it. Thanks a lot, guys. Congrats on a good quarter.

Operator

Our next question comes from Scott Stember with Sidoti. Please go ahead.

Scott Stember - *Sidoti & Company - Analyst*

Good morning. John, you mentioned part of the warranty trend was related to things like Toyota Care moving from customer pay. Could you basically talk about how much of that or, anecdotally, how much of that shift really drove the warranty business?

John Rickel - *Group 1 Automotive - SVP and CFO*

Yes, Scott, I don't have the exact numbers in front of me, but it's probably a couple of percentage points, because it's not just Toyota Care. Recognize that this is now spreading to other manufacturers, so it's now more than just Toyota Care. We used that as an example, but there are a number of manufacturers that have now introduced this.

Earl Hesterberg - *Group 1 Automotive - President and CEO*

BMW has had it for a long time, as well.



Scott Stember - *Sidoti & Company - Analyst*

Right. And maybe just talk about on the collision side. You've seen very strong growth there. How much of that was driven by weather, or is that just you guys doing a good job of improving your operations at those stores that you have?

Earl Hesterberg - *Group 1 Automotive - President and CEO*

Well, I believe the majority of it was the investments we have made in that business, including people to operate it. We have a great Management team, which we've developed over the years. So I would say the majority has been execution, but there are a couple markets we have where we had some weather tailwind, which generally ends up being more negative for our Company than positive. We've had a couple of hail storms in recent months, not counting the one we announced yesterday. We've had one in New Orleans, and another one in Oklahoma City many months back. So there's some weather in there too, but I would only think that would be a couple of percentage points.

Scott Stember - *Sidoti & Company - Analyst*

Gotcha. And going back to that point you just made about the hail storm in Houston and Oklahoma City, can you maybe just talk about, from the sales disruption, what kind of an impact that could have within the next couple of quarters?

Earl Hesterberg - *Group 1 Automotive - President and CEO*

Well, unfortunately, it usually has a two- to three-week, if not a month, disruption, because we just can't get replenishment on new vehicle inventory from the OEMs that quickly. We do try to move some from our own dealerships to the degree possible, but it basically takes you out of undamaged, fresh, salable new vehicle inventory for a minimum of a couple weeks, and sometimes it's a month or more before you get it back. So unfortunately, we have too much experience with these events.

Scott Stember - *Sidoti & Company - Analyst*

Okay. And just a last question. Obviously, we saw the April numbers for the U.S. have come through. Can you maybe just talk about what you saw in, let's say, the U.S. and the UK in the overall operations in April?

Earl Hesterberg - *Group 1 Automotive - President and CEO*

Yes, well, and without doing too much specific forward-looking information, which I really can't do because I don't have final April numbers for my Company anyway, but Pete gave me some data this morning on the retail side for April, which is what we look at, and it's really just about the same as it was for the first three months of the year, \$12.3 million. It was \$12.4 million the previous two months and \$12.6 million in January, and this is according to a manufacturer report that we get that we find to be highly reliable. It's not J.D. Powers, which is the other source we tend to use.

But it still seems like a fairly steady market to me on new vehicles in the U.S. I don't think it's taken a step change up in the last four months, but I don't see it being that much weaker, with the one exception for our Company is we are finding the Northeast -- and in particular, New England -- extremely weak. The UK also appears to be quite steady, which has been very surprising to me over the last year or two given their government spending cuts and so forth, but we really haven't seen anything changing the level of sales in the UK either.

Scott Stember - *Sidoti & Company - Analyst*

Got it. That's all I have. Thank you.

Operator

Our next question comes from Matt Nemer with Wells Fargo Securities. Please go ahead.

Matt Nemer - Wells Fargo Securities - Analyst

Good morning, everyone. So my first question is on service, given the stronger growth that we're seeing there. I'm wondering if you can to how the flow through rate in that business might differ versus the overall 50% flow through rates that you're targeting. I would think it would be higher, but I just wanted to verify that.

John Rickel - Group 1 Automotive - SVP and CFO

Yes, Matt, this is John Rickel. Not massively. I mean, it's actually pretty close, and we've looked at this because we've had the question before, so I'm kind of comfortable with kind of that general assumption on the same flow through for parts and service.

Matt Nemer - Wells Fargo Securities - Analyst

Okay. And then turning to SG&A, in terms of the cost actions that you took during the quarter, did we see the full benefit of those in this quarter, or were there actions that took place during the quarter and the middle of the first quarter where Q2 will be a better proxy for expenses?

John Rickel - Group 1 Automotive - SVP and CFO

Yes, Matt, this is John. Earl jumped on this really fast and really hard, so I think we got a lot of it in the first quarter. There may be a little bit of run rate going into the second, but I think we got the vast majority of it out pretty quick.

Matt Nemer - Wells Fargo Securities - Analyst

Okay, great. And then just lastly, Earl, it would be great if you could give us some help in terms of prioritizing the acquisition opportunities between the U.S., the UK and Brazil. How are you kind of ranking those types of opportunities for the next year or so?

Earl Hesterberg - Group 1 Automotive - President and CEO

Sure, Matt. Well, quite frankly, we're looking to expand in all three markets if we can find a good return on investment for our shareholders, but it's probably safe to say we would prioritize the U.S. and the UK a little bit higher in the near term until we get a better feel of what the natural sales and profit level and cash flow level is in the Brazilian market. But that said, we're pretty excited about Brazil, and we are looking at expansion opportunities there. But it is only logical that after 60 days of doing business, you'd want to have a good understanding of what that business can generate on its own in a steady state. We're looking at all three, but clearly we have more confidence and experience base in the U.S. and UK.

Matt Nemer - Wells Fargo Securities - Analyst

Okay, great. Congratulations on a great start to the year.

Earl Hesterberg - Group 1 Automotive - President and CEO

Thank you.

Operator

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

Rick Nelson - Stephens Inc. - Analyst

Thank you. Good morning. Truck sales have been quite strong through the quarter, and in April, that seemed to be the case. Can you talk about what that means for your business, and do you think we've turned the corner now on margins with this mix shift that seems to be occurring?

Earl Hesterberg - Group 1 Automotive - President and CEO

Yes, Rick, this is Earl. You're correct, the truck business has been gaining strength now. I actually think it started late last year, but it's become more transparent, I think, in the first quarter this year and probably in April also, because I saw the Ram brand had a huge increase in April. And the Ford business was very good in April also, as reported by Ford yesterday. So I don't know if we've turned the corner on margins. I hope we have. The truck business certainly helps the dollar margin. I don't know that it helps the percent that much. The trucks are very expensive, so the dollar profits tends to be pretty good, but I don't know that they're that much above average in terms of a percentage gross margin.

There is some competition out there, and there will be more competition in the full-size truck segment as the new General Motors truck gets out there. There's some aggressive sell down of the old General Motors trucks. I just mentioned the Ram sales increase, and Ford always protects their share quite nicely, so I think there's going to be a lot of competitive activity. But I would expect it to be a very good sales year for full-size trucks, and I think that trend is going to continue.

Rick Nelson - Stephens Inc. - Analyst

Earl, as you look at the three major categories, domestic and mid-line import and luxury, who do you think -- which of those segments do you think would outperform this year?

Earl Hesterberg - Group 1 Automotive - President and CEO

Well, I'm not sure I should say this, but I think the domestic looks strong to me right now. Our Ford business has been incredible for two years, and I think you saw those numbers yesterday, and I don't believe they've fully ramped up Fusion and Escape inventories yet, along with the strong truck market we just mentioned. And we also just mentioned the Ram business, and I think they have some new Jeep product on the way, and then, of course, the General Motors truck family is critical to their corporate success.

So I think the domestics have a lot of things going for them this year, so I would probably favor that. Of course, there's been a lot of talk about the yen and so forth with the Japanese, and we'll have to see how that plays out.

John Rickel - Group 1 Automotive - SVP and CFO

The other thing, Rick -- this is John -- to kind of bear in mind is certainly through the next couple months, the comps for Toyota and Honda are really difficult. They got some boost last year. We were delivering units that had been ordered that customers had to wait three and four months to get while the inventories normalized, which makes some really difficult comparisons, and I think when you look at the April results, you see a little bit of that. That obviously mitigates as the year goes on, but certainly for the next couple of months, I think the Japanese have some really difficult comps.

Rick Nelson - *Stephens Inc. - Analyst*

Yes, Toyota did look kind of -- and the Koreans looked a little weaker. Do you think they step up incentive activity to positively comp --

John Rickel - *Group 1 Automotive - SVP and CFO*

I'm sorry, who, the Korean brands?

Rick Nelson - *Stephens Inc. - Analyst*

Toyota and the Koreans seemed like they were a little weak.

John Rickel - *Group 1 Automotive - SVP and CFO*

Well, relative (inaudible) Toyota had that tough comp. The Korean brands seem to be suffering a little bit on supply. They've had some disruptions at home. So I know that they're both very aggressive organizations, Hyundai and Toyota, so I would expect them to continue to try to fight to get some of that share back.

Rick Nelson - *Stephens Inc. - Analyst*

Okay. Thanks, and good luck.

Operator

(Operator instructions). Our next question comes from Jordan Hymowitz with Philadelphia Financial. Please go ahead.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Thanks, guys. On the finance side of finance and insurance, what percent is financing versus the rest? Is it about 40%?

John Rickel - *Group 1 Automotive - SVP and CFO*

Yes, Jordan, this is John Rickel. Probably of the \$1,300 a unit, about \$450 of it is finance.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Okay. And you said that in Brazil, there's also some sort of yield spread premium cap, but it's lower than the U.S.?

John Rickel - *Group 1 Automotive - SVP and CFO*

Well, it's not a cap. The issue is that there are only a handful of banks that actually are in the market down there, so it's just not as competitive, and the amounts you get on your lending is just not as lucrative as a result.



Jordan Hymowitz - Philadelphia Financial - Analyst

Okay. And what percent -- when you say finance, does that include leasing or not include leasing?

John Rickel - Group 1 Automotive - SVP and CFO

Does include leasing.

Earl Hesterberg - Group 1 Automotive - President and CEO

That includes leasing.

Jordan Hymowitz - Philadelphia Financial - Analyst

Do you guys give (inaudible) on leasing as well?

John Rickel - Group 1 Automotive - SVP and CFO

Yes, but they tend to be more flat, Jordan, because those are almost all through the captive OEMs.

Jordan Hymowitz - Philadelphia Financial - Analyst

Okay. And last question, what percent is leasing?

Earl Hesterberg - Group 1 Automotive - President and CEO

I think in our Company, it's running about 17% or 18%, which is a little below the market, but that's because we are big in Texas, which isn't a big lease state.

Jordan Hymowitz - Philadelphia Financial - Analyst

Okay. Thank you. And by the way, the presentation was excellent. The disclosure was really good.

John Rickel - Group 1 Automotive - SVP and CFO

Thank you.

Earl Hesterberg - Group 1 Automotive - President and CEO

Thank you, Jordan.

Operator

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



Earl Hesterberg - *Group 1 Automotive - President and CEO*

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

Operator

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

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