THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

GPI - Q2 2012 Group 1 Automotive Earnings Conference Call

EVENT DATE/TIME: JULY 26, 2012 / 2:00PM GMT

OVERVIEW:

GPI reported 2Q12 consolidated revenues of $1.9b, gross profit of $285.3m, adjusted net income of $29.7m, and adjusted diluted earnings per common share of $1.25.

©2012 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

CORPORATE PARTICIPANTS

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

Earl Hesterberg *Group 1 Automotive - President, CEO*

John Rickel *Group 1 Automotive - SVP, CFO*

CONFERENCE CALL PARTICIPANTS

Aditya Oberoi *Goldman Sachs - Analyst*

Rick Nelson *Stephens Inc. - Analyst*

Scott Stember *Sidoti & Company - Analyst*

Jamie Albertine *Stifel Nicolaus - Analyst*

Matt Nemer *Wells Fargo Securities, LLC - Analyst*

PRESENTATION

Operator

Good morning ladies and gentlemen. Welcome to Group 1 Automotive's second quarter earnings conference call. Please be advised that this call is being recorded. I would now like to turn the conference call over to Mr. Pete DeLongchamps, Vice President of Financial Services and Manufacturer Relations. Please go ahead, Mr. DeLongchamps.

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

Thank you Jamie, and good morning, everyone, and welcome to today's call. Before we began 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 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 Securities and Exchange Commissions over the last 12 months. Copies of these filings are available from both the SEC and the Company.

In addition, certain non-GAAP financial measures, as defined under SEC rules may be discussed on this call. As required by applicable SEC rules, the Company provides reconciliations of any such non-GAAP financial measures to the most directly comparable GAAP measures on its website. Participating with me today on today's call is 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 and prepared remarks are to the same prior period unless otherwise stated. I'll now hand the call over to Earl.

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

Thank you, Pete, and good morning, everyone. I'm delighted to announce that earlier today Group 1 reported its best ever quarter in revenues, gross profit, adjusted net income, and adjusted diluted earnings per common share. Second quarter 2012 revenues increased 29% to $1.9 billion, which drove a 17% increase in gross profit to $285.3 million. Adjusted diluted earnings per common share were $1.25 on adjusted net income of $29.7 million. John will provide more detail on the adjustments shortly.

Clearly, the US auto industry is continuing a robust recovery from the depths of the recession in 2008 and 2009. With industry retail new vehicle sales up 15.2% for the second quarter, according to JD Power. Our same store sales increases of almost 25% on new vehicles, and almost 19% on

©2012 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

used vehicles, seems to be well above market averages. Our strong Japanese brand mix certainly helped in the quarter, but our sales strength extended beyond those brands into brands like Ford where our sales increased 22% versus a national average of 6%. We needed this strong sales performance to mitigate the gross margin pressure prevalent in the industry today as a result of higher levels of supply and competition this year versus last.

On a consolidated basis we sold 32,924 new vehicles in the second quarter, a 37% increase that significantly out paced the overall industry results. Our average sales price decreased 2% to $32,824, reflecting a mix shift away from luxury brands and back to imports, hence a 150 basis point shift from trucks to cars. The increased volume drove a 33% increase in new vehicle revenues, and an 18% increase in new vehicle gross profit.

Even against tough comps used vehicle unit retail sales were strong in the quarter, increasing 28% to 22,004 vehicles. Used retail gross profit grew 12% on 29% higher revenues. Gross profit decreased 12% to $1,765 per retail unit, versus last year's exceptionally strong levels stemming from the new and used vehicle supply shortages. On a sequential basis gross profit per retail unit increased $11.

Finance and insurance per retail unit reached an all time high of $1,191. Finance and insurance revenues were 41% higher on a 33% retail unit increase. Parts and service remain strong as we continue to grow this business with additional Management focus and financial investment that benefit and help retain our customers. Gross profit grew 9% on a 8% revenue increase, reflecting growth in our customer pay, warranty parts, and collision businesses. Our average revenue per repair order increased 4.6% this quarter. In addition, I am pleased to report that even against tough comps and significant margin pressure, we were able to improve our cost leverage this quarter. Adjusted selling, general and administrative expenses as a percent of gross profit improved 40 basis point to 74.6%, and as a percent of revenues improved 120 bases point to 11.2%. On sequential basis adjusted operating margin improved 20 basis points to 3.4%.

Regarding our second quarter new vehicle unit sales mix, with Toyota and Honda inventory supply back to normal, Group 1's new vehicle unit sales mix began to shift back to a stronger import mix that is more consistent with our recent historical performance. Our import brands grew to account for 55% of our new vehicle unit sales, while luxury brand unit sales contributed 27% and domestic brands contributed the remaining 18%. Toyota and Lexus sales were strong, expanding to account for 31% of our unit sales, with Honda Acura, BMW Mini, and Nissan Infinity contributing 11% each. Ford accounted for 9%, followed by VW, Audi, Porsche with 7%, GM 6%, Daimler 5%, and Chrysler 4%. New vehicle inventory expanded to a 63 day supply or 22,990 units at June 30.

Our import and luxury inventories have now returned to normal levels. We had a 31 day supply of used vehicles at June 30. Certified preowned sales remained flat at 33% of our used retail vehicle sales. Our acquisition pace was brisk in the first half of the year. During the second quarter we announced that we acquired six Audi franchises in the United Kingdom, as well as two Volkswagen and one Honda franchise in Florida. In total, we expect these 9 franchises to generate an additional $361 million in estimated annual revenues.

Year-to-date we have acquired of total 12 franchises that should generate $504.5 million in estimated annual revenues. While we continue to review acquisition opportunities and we have ample capability and resources, we do not expect significant acquisition activity in the second half of the year. I will now turn the call over to our CFO, John Rickel, to go over our second quarter financial results in more detail. John?

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

Thank you, Earl. And good morning, everyone. My following comments will be on a year-over-year basis, unless otherwise noted. Our adjusted net income from the second quarter of 2012 rose $5 million or 20.1% to $29.7 million, which is the best quarter in our Company's history. This result excludes $115,000 of after tax, non-cash asset impairment charges related to real estate holdings, a $659,000 after tax net gain on real estate transactions, and a $1.7 million after tax charge for insurance deductibles related to the previously announced hailstorm in Oklahoma City.

Earnings per diluted common share improved 21.4% to $1.25 per share, which is also the best quarter in our Company's history. In comparison, the previous best quarter results were achieved in a SAR environment of 16.6 million units versus this quarter's 14.1 million SAR. This result continues to highlight the significant improvements we've made to our processes and cost structure and demonstrates the leverage those improvements are delivering as new vehicle sales volumes continue to increase.

©2012 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

On a consolidated basis, we delivered record revenues in the second quarter of $1.9 billion, which were up $421.7 million or 28.6%. This record reflects increases in each of our business segments. New vehicle revenues increased 33.4% to $1.08 billion on 36.6% more units sold. Our used vehicle retail revenues improved 29.2% to $456.2 million on 27.9% more units. Used vehicle wholesale revenues grew 20.7% to $73.1 million, while our F&I revenues rose 40.7% to $65.4 million or $1,191 per retail unit sold, which is the Company's best ever quarterly F&I performance. And, for the tenth straight quarter, we've reported year-over-year revenue growth from the core of our business at the parts and service segment. Revenues from our parts and service business improved $16.2 million or 7.9% to $220.3 million.

Our gross profit increased $41.1 million or 16.8% to $285.3 million, which also represents the best quarter in the Company's history. The gross profit results include increases of 17.7% in new vehicles, 8.2% in total used vehicles, and 9% in parts and service as well as the F&I improvement that I just mentioned. We continue to leverage our cost base, and as a result adjusted SG&A expenses as a percent of gross profit improved 40 bases points to 74.6%. Floorplan interest expense increased $1.3 million or 20.6% to $7.9 million. This increase is primary explained by a $187.8 million increase in weighted average borrowings as Japanese brand inventory has normalized, and overall inventory increases were required to support rising sales, as well as recent dealership acquisitions.

At June 30, 2012 our new vehicle inventory stood at 22,990 units with a value of $773.9 million, compared to 15,670 units with a value of $527.4 million as of June 30, 2011. Manufacturers interest assistance, which we record as a reduction of new vehicle cost of sales at the time vehicles are sold, covered 110.1% of total floorplan interest expense in the second quarter. Which is up from 90.3% from the second quarter a year ago.

Other interest expense increased $1 million or 11.7% to $9.2 million, explained by increased mortgage borrowings associated with recent dealership acquisitions. Our consolidated interest expense includes non-cash discount amortization of $2.5 million related to our convertible notes.

Now turning to the second quarter same store results, again statements are on a year-over-year basis unless otherwise noted. In the second quarter we reported revenues of $1.73 billion, which was an increase of $258.9 million or 17.6%. Within this total, new vehicle revenue was up 21.5% to $979.3 million on 24.7% more new vehicle retail unit sales. As a partial offset, our average new vehicle sales price decreased $867 per unit to $32,754, which is primarily explained by a mix shift away from luxury and towards import brands as constrained import inventories recovered from the effects of natural disasters in Japan last year.

In total our used vehicle revenues rose 16.7% to $481 million. Within that, our used retail revenues improved 18.8% to $417.8 million on 18.6% more units, and a $44 increase in our average retail used vehicle sales price of $20,572. Our wholesale used vehicle revenues increased 4.4% to $63.2 million.

F&I income for retail unit rose 7.1% to $1,206, driven primarily by increases in our penetration rates for finance and vehicle service contracts, as well as improvements in our finance income per contract. In total F&I revenues were up $14.3 million or 30.8%.

We posted another positive quarter in our parts and service business. Parts and service revenues grew 1.3%. The overall increase is more than explained by increases of 3.5% in our customer pay revenues, 2% in our wholesale parts business, and 0.4% in our collision business. Our customer pay revenues improved in most of the major brands that we represent as initiatives focused on customers, products, and processes continued to produce positive results.

The overall growth in parts and service revenues is particularly noteworthy given the 4.6% decline in our warranty revenues, resulting from the drop off of several large recall campaigns that bolstered the prior year results. Within the decline of warranty revenues our Lexus brand stores decreased 42% and BMW decreased 11%. As a reminder, our parts and service revenues are not strengthened by increases in internal business. The revenue associated with internal work is eliminated in consolidation. This varies across the sector, some of our competitors account for internal work differently.

Overall our gross profit improved $19.3 million or 7.9%. Our same store new vehicle gross profit dollars improved 5.9%, which is the result of 24.7% higher unit volume, partially offset by a $340 decrease in gross profit per retail unit to $1,913. Our used vehicle retail gross profit dollars increased 3.5%, reflecting an 18.6% increase in units sold, partially offset by a $254 decrease in gross profit per retail unit sold to $1,750. And our used vehicle

©2012 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

wholesale gross profit decreased $1.2 million as auction prices moderated during the quarter, and as we continue to move as many units as possible to retail. However, we did again generate a slight used vehicle wholesale profit of $41 per unit and maintained a lean 31 day supply of used cars.

As we previously mentioned, new vehicle and used vehicle gross profit per unit was inflated last year as a result of the severe industry wide inventory constraints that resulted from the natural disasters in Japan. Given that, we would suggest a sequential comparison is more appropriate. Compared with the first quarter our new vehicle and used vehicle retail gross profit per retail unit increased $48 and $11 perspectively.

We continue to leverage our SG& A cost. Adjusted SG&A as a percent of gross profit improved 100 bases point to 74.1%. As new vehicle sales increase and gross profit continues to grow, we anticipate further leveraging SG&A.

Now, turning to liquidity and capital structure. During the second quarter of 2012 we generated adjusted cash-flow from operations of $42.9 million. As of June 30, 2012 we had $9.5 million of cash on hand and another $101.8 million that was invested in our floorplan offset account, bringing immediately available funds to a total of $111.3 million. In addition, we had $225.7 million available on our acquisition line that can also be used for general corporate purposes. As such, our total liquidity at June 30, 2012 was $337 million.

With regards to our real estate investment portfolio we owned $504.5 million of land and buildings at June 30, which represents nearly 40% of total real estate. To finance these holdings we utilized our mortgage facility and executed borrowings under other real estate specific debt agreements. As of June 30 we had $58 million outstanding under our mortgage facility and $205.5 million of other real estate debt excluding capital leases. During the second quarter we used $3.4 million to pay dividends of $0.15 per share, which is an increase of $0.04 per share over the second quarter of 2011.

We also used $11.3 million to repurchase 241,991 shares of our stock during the second quarter at an average price of $46.75 per share. Subsequent to these repurchases, our Board of Directors authorized a new $50 million share repurchase program replacing any remaining amount under the prior authorization at June 30. The Company expects that any share repurchases will be funded using cash from operations. 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. With that I'll now turn back over to Earl.

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

Thanks, John. To summarize, we delivered a record setting quarter with all-time high revenues and profits, even against some tough comps and a very challenging weather related event that impacted our results this quarter. I want to thank our 436 team members in Oklahoma City, where we had 7 of our dealerships impacted by a significant hailstorm in late May that severely damaged virtually all of the new and used inventory at these stores. Damage to the vehicles and buildings totaled more than $22 million.

Our team members pulled together and in conjunction with outstanding support from our OEM partners, and our insurance company, we were able to clean up and get back in business by the end of the quarter. This would not have been possible without many long hours and tremendous hard work by the team, so I want to recognize and thank them. That concludes our prepared remarks. I'll now turn the call over to the operator to begin the question-and-answer session.

QUESTIONS AND ANSWERS

Operator

We'll now begin the question-and-answer session.

(Operator Instructions)

John Murphy, Bank of America Merrill Lynch.

©2012 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Unidentified Participant - - *Analyst*

Good morning, this is Leslie in on for John. We've heard a couple of dealers comment recently that they've seen consumers who are shopping for a late model used vehicle, end up buying a new vehicle because the incentives have picked up and the price differential is getting a bit smaller, but others have said that they aren't seeing that. Can you just comment on what you're seeing in your markets in terms of consumers trading up from late model used to new vehicles?

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

I think that's a valid observation. That's very typically happens when new car prices start to sit down a little bit, which you can see by the pressure on gross margins on new vehicles this quarter across the industry, and I think Kelly Blue Book stated that the new vehicles are selling for $400 or $500 less. And I think that just has new car prices sitting down a little bit on used cars and when they get a little closer together relatively with the good financing on new cars, you'll -- it's quite typical to see a little bit of movement from the used car market to the new car market. There's always some overlap there. And I would say we've seen that also.

Unidentified Participant - - *Analyst*

Okay. Great. And I was hoping you can comment that a bit on manufacturer stair step programs and which brands are doing them now and what impact is it having on your volumes and margins.

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

Well, it's always has a negative impact on margins and a negative impact on customer satisfaction. Nissan has always been one of the worst in that regard, but Chrysler does it -- there's even a program on Honda Accord that's volume related at the moment. It has spread more across the industry. It's not healthy either for dealers or customers, but it's something we just have to live with at the moment.

Unidentified Participant - - *Analyst*

Okay. Great, I'll sneak in one more. You mentioned that your Ford store's significantly out paced Ford's overall US growth. Was that mainly a function of the markets in which you operate like Texas, or do you think you gained share within those strong markets as well?

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

I think Texas is a large part of that because we do have quite a few Ford dealerships in Texas, but we've also done extremely well with virtually all of our Ford dealerships that would include places like Louisiana and the panhandle of Florida and so forth. I would say it's a little more than Texas. But Texas is clearly a factor.

Unidentified Participant - - *Analyst*

Okay, great, thanks. And congrats on the good quarter.

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

Thank you very much.

©2012 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Operator

Aditya Oberoi, Goldman Sachs.

Aditya Oberoi - *Goldman Sachs - Analyst*

Great. Thanks a lot. Congratulations guys on a good quarter.

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

Thank you.

Aditya Oberoi - *Goldman Sachs - Analyst*

Yes, two questions here, first on the P&S side I know the comps were really difficult from second quarter of last year. Can you remind us when the comps start to ease off? My presumption is that by next quarter you are -- by the third quarter itself you should see some relief. Is that the correct understanding or can you just refresh our memory on that?

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

Yes, it is the correct understanding and they started to ease a little bit at the end of the second quarter. Our warranty sales decreased by 5% in the second quarter and a lot of that, of course, was recall work in the previous year. But, I think we're starting to get away from some of those challenging comparisons now.

Aditya Oberoi - *Goldman Sachs - Analyst*

Got it. And another question on M&A, actually two questions on that. First specific to GPI, you guys have been pretty aggressive on the M&A front since the beginning of the year. What is your thought process for back half? Are you going to take a pause and consolidate what you've done so far or will you continue to look for more opportunities? And the second, more industry wide, of late we've been hearing that there has been, again, a gap between what the sellers expect and what the buyers want to pay, just because sellers are now seeing a SAR recovery and they want to wait until you get to [1,500] and thus command a better price. Just wanted to hear your thoughts on that.

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

Well, we are taking an unintentional pause for the reason you just mentioned. There is a gap from what we see at least in terms of brands and markets that we're interested in, there is a big gap between the prices being asked by sellers and what would enable us to make a fair return on our investment. So at the moment it would seem that we're not going to run at an significant acquisition level in the second half. But, we would continue to prefer to invest our available capital to grow the Company, but there don't appear to be any substantial opportunities in the near term.

Aditya Oberoi - *Goldman Sachs - Analyst*

Got it. So is it fair to say that the focus of cash deployment, building more towards buy backs than acquisitions in the near term?

©2012 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Well, the buy backs we execute are generally opportunistic so that's based on market situation. But, yes, we will, it's dynamic, but when there are not -- when there are not acquisition opportunities available, we work hard to try to return capital to shareholders either through the buy back or dividend.

Aditya Oberoi - *Goldman Sachs - Analyst*

Great. Thanks a lot, guys and a good quarter.

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

Thank you.

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

Thank you.

Operator

Rick Nelson, Stephens.

Rick Nelson - *Stephens Inc. - Analyst*

Thank you. Good morning. I'm curious how July is tracking, and I may have missed it, but did you update your SAR forecast for the year?

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

No. We're going to stick with $14.5 million. JD Powers reaffirmed that quite recently. Yesterday or today, perhaps even. And that's a little bit on the high side of what we've seen in the last couple of months, but we still think the driving forces in the market are still pretty solid and we still think that's as good assumption as any. So $14.5 million is still our assumption.

Rick Nelson - *Stephens Inc. - Analyst*

And July, do you feel that's tracking similar to the year-to-date experience or are you seeing any uptick or fall off?

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

July would be forward looking for us at this moment since we have good data through June. I follow the press and the independent prognosticators like you do. There doesn't seem to be any factors that would make July significantly different than recent months that I have seen in the press or my contacts. It's hard -- it's hard to judge those things, so much of the business is now done in the last week or weekend or a few days of the month. It's hard to get a feel for the things until you have full month data.

©2012 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Rick Nelson - *Stephens Inc. - Analyst*

And the new car margins below $2,000, this quarter, I realize a lot of the pressure is due to the mix and inventories normalizing, but, you know, where do you think we go from here?

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

Well, unfortunately most of that's dictated by the competitive dynamics in the market, so I don't have any great hope that it's going to dramatically improve in the months ahead. They're lower than I would like to see them. But with the volume increases that we've been able to generate, we're getting a good amount of money to the bottom line. But don't really like the grosses at this level, and I don't really see any factor that's going to drive them much higher in the quarters ahead, last two quarters of this year.

Rick Nelson - *Stephens Inc. - Analyst*

And the SG&A even with those gross pressures, 74.6%. That's the lowest, I think on record for any quarter, do you see more opportunity there? Or have we sort of reached an inflection point, do you think?

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

Rick, this is John Rickel. I think as long we're able to continue to grow the gross profit dollars we ought to be able to continue to leverage that, so we think that there is more to come there. So, yes.

Rick Nelson - *Stephens Inc. - Analyst*

Finally if I could ask you one more. I know it's a small piece of your business, but if you can tell us how the UK performed during the quarter and your expectations for the balance of the year there?

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

The UK market in my opinion -- bear in mind we only have five BMW and five Mini dealerships, and 2 months ago added six Audi dealerships, the UK business, certainly in the luxury market where we compete, has held up much better than I would have expected. It's not spectacular but it's achieved our budget target. So I would say it's been pretty good. There were some more negative info that came out of the UK on their GDP yesterday or today, but the luxury business seems to have held up reasonably well. So we feel that, you know, we're steady as she goes there and we're still happy with our investments there.

Rick Nelson - *Stephens Inc. - Analyst*

Great. Good to hear. Thanks a lot and good luck.

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

Thanks.

Operator

Ravi Shanker, Morgan Stanley.

©2012 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Unidentified Participant - - *Analyst*

Good morning guys, this is EJ in for Ravi. Congrats on a great quarter.

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

Thank you very much.

Unidentified Participant - - *Analyst*

Can we dig a bit deeper into used pricing? I think you guys saw a 20 basis point increase there, when Manheim would indicate the quarter was down about 200 BPs. What drove that, especially given that you face tough comps with the impact of the tsunami last year?

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

Our margins were down though versus last year and I don't really have a factor for you that would explain our pricing change year-over-year. I will tell you that we had dramatic volume increases which have basically been driven by better supply as our Japanese import brand, new vehicles sales business recovered we're able to supply a lot more trade ins. Our used car business is very good, but relative to any significant factor driving the pricing, I don't have anything I could tell you.

Unidentified Participant - - *Analyst*

And as a follow up that, sorry. Go ahead.

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

That's --

Unidentified Participant - - *Analyst*

Oh. And as a follow up to that just talking about the used supply, beyond the increase in trade ins. Are you guys still seeing any difficulties in acquiring used vehicles, perhaps off the auctions on wholesale?

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

Yes, I think that's going to continue. The difficulty is finding a good supply of high quality used cars. There are lots of used cars now on the market, but many of them are very high mileage, I think you know, there's a lot of pent up demand and many people are buying new and used vehicles now because they can't drive their car any further. There's a lot of poor quality trades in the market. So finding good used cars is still a big challenge for our Company and I expect for most dealers. And I think that's going to continue.

Unidentified Participant - - *Analyst*

Right. If I can sneak in one more, what are you seeing in terms of credit availability? One of your competitors went so far to recently classify it as back to pre-2007 levels. So I just wanted to get your thoughts on that.

©2012 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

I'll let Pete take that one. Pete, he runs that business for us.

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

The credit availability is robust. The relationship that we have with our key lenders is probably at an all time high and accessing credit at our dealerships is not an issue.

Unidentified Participant - - *Analyst*

Got it. Thanks again, guys, and congrats on a good quarter again.

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

Thanks.

Operator

Scott Stember, Sidoti & Company.

Scott Stember - *Sidoti & Company - Analyst*

Good morning. Can you talk about BMW, how it performed for you in the quarter and maybe talk about how you expect the supply to improve as the model year change overs, particularly for the 3 Series is complete?

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

Yes, for us, BMW was flat, I might have been up 2% or something. I think all the BMW dealers in the US and in particular, in the northern half of the US are struggling with supply. The new 3 Series is selling so well they've never really been able to build up much inventory. And the all-wheel drive version is not available yet. So your dealerships in the northern half of the country tend to sell, or their customers tend to want the all-wheel drive version, which hasn't been available. And I also don't think they've ever caught up on their X3, and to a certain degree, X5. So BMW dealers I think have -- could have sold more this year if they had more. We've been told by the factory that the second half of the year will have better availability, but it's still a great business, it's just, you know, they have demand ahead of supply, which isn't the worst problem for a dealer believe me. But they've been supply constrained.

Scott Stember - *Sidoti & Company - Analyst*

Circling back to the F&I side, you continue to see very strong growth there. Could you maybe just quantify how much of is it coming from better credit markets or is there something else that you guys are doing to help you increase your penetration rates?

©2012 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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

Scott, this is Pete. I will tell you that certainly low interest rates are a tail wind for the F&I business there's no question about that. You know, we continue to work on our processes. We redoubled our efforts on training. We're really paying close attention to the nonperforming stores. I've got seven regional finance directors that are executing on the plan. It's just a lot of hard work and basic fundamentals on doing business the right way.

Scott Stember - *Sidoti & Company - Analyst*

And last question as it's probably difficult to give, but -- you alluded to the fact that the stores are back up and running in Oklahoma. Can you basically talk about how much was lost in the quarter from a sales perspective?

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

Yes. Scott, this is John Rickel, that's really kind of tough to quantify, so we didn't really try to get into that. Because the sales are up across the board in the markets, we did see a sales increase in Oklahoma but could it have been better if we had -- not had the storm, I think the answer is yes. But it's very difficult to quantify what that would have been.

Scott Stember - *Sidoti & Company - Analyst*

But you're back up and running now.

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

Yes.

Scott Stember - *Sidoti & Company - Analyst*

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

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

Thanks.

Operator

Jamie Albertine, Stifel Nicolaus. Mr. Albertine, your line is open. Is it possible your phone is on mute?

Jamie Albertine - *Stifel Nicolaus - Analyst*

Excuse me, can you hear me now.

Operator

Yes we can.

©2012 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Jamie Albertine - *Stifel Nicolaus - Analyst*

Great. Thanks for taking my questions. Good morning and let my add my congratulations. I wanted to ask very quickly on any sort of feedback from your stores in the Northeast.

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

Actually, that was probably our weakest area in the quarter from New York and New Jersey up. We've certainly, our sales increase levels were below the average for the Company.

Jamie Albertine - *Stifel Nicolaus - Analyst*

Okay. And sort of your outlook for the back half with respect to model refreshes across the different brands and sort of your expected flow through to the P&L and to sales.

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

Well, I would expect on the luxury front, now we don't have the biggest luxury mix in the world, but a substantial part of our business, particularly BMW and Lexus, I would expect the luxury business will accelerate in the second half of the year. We talked about BMW on a previous question, but I think you know that Mercedes is quite strong in the market and there's a bit of a contest going on, they're the top selling brand and Lexus will have the new ES350 available here within a month or two. And you can see they're coming back quite strongly. I think the luxury brand business is going to improve as we move into the second half of the year, and Honda seems to be building some strength. Obviously, they are working to move out the current model Accord in preparation for the new one.

Jamie Albertine - *Stifel Nicolaus - Analyst*

Is it fair to say your that experience with model refreshes has been positive to date but you expect, maybe in absolute terms, more refreshes in the back half versus the first half?

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

Yes, I think, you know, I guess we should probably have somebody study the data on the model introductions for the second half. But my perception is that there's going to be some model driven activity in the second half.

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

This is John Rickel. I mean, a lot of what has launched so far, they're still building up to speed. So you're still going to get a run rate impact I think in the second half. If you think about things about the Ford Escape and the Ford Fusion, we're still getting up to speed on those, and yet on top of that you've got Accord and Civic in the second half. You've got an Avalon refresh late in the year. You've got the Lexus stuff coming on. So actually I do think it will gain pace as the year progresses.

Jamie Albertine - *Stifel Nicolaus - Analyst*

Very good and then a quick housekeeping item, just wanted to confirm where the adjustments with respect to the real estate and hailstorm adjustments you noted hit your P&L.

©2012 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Primarily in SG&A.

Jamie Albertine - *Stifel Nicolaus - Analyst*

Very good, thanks so much.

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

Thank you.

Operator

Matt Nemer, Wells Fargo Securities.

Matt Nemer - *Wells Fargo Securities, LLC - Analyst*

Good morning, everyone, and congrats, great results.

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

Thanks, Matt.

Matt Nemer - *Wells Fargo Securities, LLC - Analyst*

Quick question for you, Earl, given some of the disruptive force that we might see in the back half in terms of the election and what's going on in Europe, how are you thinking about planning for the back half in terms of new vehicle orders, expenses, and capital spending.

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

That's a good question. Clearly, there have been a lot of these global storm clouds over the last month or so. I think we need to be a little more vigilant on the inventory levels, that's one of my big concerns. We're now back to normal on new. We always run very tight, 31 days on used. But we need to watch inventory as we start to move toward the winter and that's one of the things that we do have to have some discipline on. We normally, of course, will see used car prices. They tempered a little bit over the last six months or nine months. There's always a seasonal factor there as well and we certainly don't need to continue to build new vehicle inventories, particularly on the domestic front as we go into the winter, so, we'll be more vigilant there.

Matt Nemer - *Wells Fargo Securities, LLC - Analyst*

And what about advertising and other sort of capital type expenses as well?

©2012 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Yes -- our capital expenditures are pretty well set for the year. You can't turn those on and off, and we've been pretty prudent on that and we're kind of, you know, at a $55 million run rate on that. That's kind of been our plan, so that's pretty well committed. Any changes we would make to that will have to be in the first half of next year if there's some economic disruption. We've -- we calendarize our advertising very carefully both on a cost per unit sold and a percent of gross profit, so we've already -- we've already adjusted our plans and budgets for particularly November and December. Those are lower selling months anyway, so we're very cognizant of that.

Matt Nemer - *Wells Fargo Securities, LLC - Analyst*

Okay. And then second question is I'm just wondering if you can comment on the multiples that you're paying for the acquisitions that you've announced. Particularly interested in, I'm sure you're not going to give exact numbers, but I'm interested in the spread between what you're paying and sort of where your stock is trading here at about 10 times earnings.

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

Matt, this is John Rickel, that's a discussion that we just don't get into for a lot of reasons. Primarily, you know, we don't want to kind of set the bar for what expectations are. The other issue is, you know, they're very subjective, is it a multiple on what the store was earning when we looked at it, is it based on pro formas. I just don't think it's very value add to get into that.

Matt Nemer - *Wells Fargo Securities, LLC - Analyst*

I guess to rephrase it, do you feel like the spread between what you're paying and your stock price is, you know, where your stock is trading is wider or narrower than normal?

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

Well, I would say that our acquisitions over the last year have been incredibly good values for our shareholders.

Matt Nemer - *Wells Fargo Securities, LLC - Analyst*

Okay. Fair enough.

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

Already.

Matt Nemer - *Wells Fargo Securities, LLC - Analyst*

That's helpful. And then lastly, it looks like your personnel expense was up a little bit as percent of gross, is that -- do you expect to be able to leverage that line going forward, or do you think that that sort of stays about flat as a percentage of gross?

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

We need to try to continue to leverage that. You know, we look at our efficiency, the biggest issue we have at the moment is the gross, the new vehicle gross margins. But if you look at the first half of this year on a consolidated basis, we're selling about 30% more vehicles, new and used.

©2012 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

That's consolidated, not same store and we increased our head count 5.2% I think. So we think on the personnel front we're being highly efficient, and if we look at our SG&A as a percent of revenue, it's quite good at 11.2% or 11.3%. That's a very lean number, particularly for a company our size. The best way we can leverage that is to generate some more gross. I'd have to say the new vehicle grosses come in a little lighter than what we'd like to see. I think we've all discussed that and it's the nature of the market at the moment.

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

Yes, Matt, I would add to this -- John Rickel -- that really on a year-over-year basis that's the bigger issue is the compression of the grosses versus the expense, and I think if we look at it sequentially, we are leveraging it and I would think if the model holds true as it has that you should be able to see us continue to leverage it as we go forward.

Matt Nemer - *Wells Fargo Securities, LLC - Analyst*

Great. Very helpful. Thanks, congrats again.

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

Thank you.

Operator

And that concludes today question-and-answer session. At this time I would like to turn the conference call back over to Mr. Hesterberg for any closing remarks.

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

Thank you for joining us today. We look forward to updating you on our third quarter results in October. Have a good day.

Operator

Ladies and gentlemen that concludes today's conference call. We do thank you for attending. You may now disconnect your telephone lines.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2012, Thomson Reuters. All Rights Reserved.

©2012 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS