

Company Name: Group 1 Automotive
Company Ticker: GPI US
Date: 2016-07-28
Event Description: Q2 2016 Earnings Call

Market Cap: 1,376.98
Current PX: 62.32
YTD Change(\$): -13.38
YTD Change(%): -17.675

Bloomberg Estimates - EPS
Current Quarter: 2.077
Current Year: 7.485
Bloomberg Estimates - Sales
Current Quarter: 2924.375
Current Year: 11156.300

Q2 2016 Earnings Call

Company Participants

- Peter C. DeLongchamps
- Earl J. Hesterberg
- John C. Rickel

Other Participants

- Elizabeth Lane Suzuki
- Rick Nelson
- Michael Montani
- Paresh B. Jain
- David H. Lim

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. Welcome to Group 1 Automotive's 2016 Second Quarter Financial Results Conference Call. Please be advised that this call is being recorded.

At this time, I'd like to turn the conference call over to Mr. Pete DeLongchamps, Group 1's Vice President of Manufacturer Relations, Financial Services and Public Affairs. Please go ahead, Mr. DeLongchamps.

Peter C. DeLongchamps

Thank you, Jamie, and good morning, everyone. And welcome to today's call. The earnings release we issued this morning and a related slide presentation that include reconciliations related to the adjusted results we will refer to on this call for comparison purposes have been posted to Group 1 website.

Before we begin, I'd like to make some brief remarks about forward-looking statements and the use of non-GAAP financial measures. Except for historical information mentioned during the call, statements made by management of Group 1 Automotive are forward-looking statements that are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements involve both known and unknown risks and uncertainties, which may cause the company's actual results in future periods to differ materially from forecasted results. Those risks include, but are not limited to, risks associated with pricing, volume and the conditions of markets. Those and other risks are described in the company's filings with the SEC over the last 12 months. Copies of these filings are available from both the SEC and the company.

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

Participating with me today are 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

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that all comparisons in the prepared remarks are to the same prior periods, unless otherwise stated.

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

Earl J. Hesterberg

Thank you, Pete, and good morning, everyone. I'm pleased to report that Group 1 earned \$47.4 million of adjusted net income for the second quarter. This equates to record second quarter adjusted EPS of \$2.16 per diluted share, an increase of 9.1% over last year. For the quarter, total revenue increased approximately \$56 million, or 2.1%, to a second quarter record of nearly \$2.8 billion. On a constant currency basis, revenue grew nearly 4% for the quarter.

Turning to our business segments, during the quarter we retailed over 43,000 new vehicles. Total consolidated new vehicle revenues were about flat as the average new vehicle selling price increase of \$1,029 to \$35,303 was offset by 2.5% fewer unit sales. The volume weakness was seen throughout much of the United States and Brazil and especially Texas and Oklahoma as I will cover in a minute. More than offsetting this volume decline however was a significant increase in new vehicle margins as we made a conscious decision to trade off margin for volume in some brands.

Consolidated new vehicle gross profit increased 6.6% as gross profit per unit increased \$158 to \$1,859 with U.S. same-store margins up 15%. Our unit sales geographic mix was 76% U.S., 18% UK, and 6% Brazil. Our new vehicle brand mix was led by Toyota/Lexus sales, which accounted for 25% of our new vehicle unit sales. BMW/MINI, Ford, VW, Audi, Porsche and Honda/Acura each represented over 10% of our new vehicle unit sales and General Motors accounted for roughly 8% of unit sales.

U.S. new vehicle inventory stood at 29,900 units, a 1,500 unit decrease from March 31. Despite this decrease, our day supply remained elevated at 83 days, due to the softening of new vehicle sales. We further adjusted orders in light of this new sales environment and expect to bring inventory down by the end of the third quarter. Total consolidated used vehicle retail sales grew roughly 5% as we retailed 4.8% more units and the average used vehicle selling price increased \$20 to \$21,722. Used vehicle retail gross profit also increased roughly 5% as gross profit per unit remained flat at \$1,465. During the quarter, we retailed nearly 33,000 used retail units.

U.S. used vehicle inventory stood at 14,100 units, which equates to a 34-day supply. Relative to stop sale inventory, we currently have approximately 500 new and 600 used vehicles in stock under an OEM stop sale order. This represents less than 2% of our U.S. new vehicle inventory and about 4% of our used inventory. Total consolidated parts and service revenue increased 6.2% while consolidated parts and service gross profit rose 4.9%. On a local currency basis, same-store parts and service gross profit grew 2.5% on 4.5% higher revenues. U.S. same-store gross profit increased roughly 2% on 3.6% higher revenues, as warranty and collision comps were difficult coming off of a 10% and 19% same-store growth from the prior year, respectively.

There were also several high-margin labor intensive warranty campaigns in the prior year. We maintain our guidance of mid-single-digit same-store revenue growth throughout the remainder of the year. Finance and insurance gross profit increased 2.2% on a consolidated basis. This growth was primarily driven by an increase in F&I for retail unit of \$23 to \$1,404, as retail unit sales were about flat. We delivered yet another all-time quarterly F&I per unit record in the U.S. of \$1,602, an increase of \$67 over the second quarter of 2015. Regarding our geographic segment results, our U.S. same-store operations saw a total revenue decline of 3% driven by a 9% decline in new vehicle unit sales.

Sales were once again heavily impacted in the Texas and Oklahoma markets due to weakness in the oil industry, with decreases in these markets of 9% and 11%, respectively. As mentioned previously, we were able to more than offset the volume decline with improved new vehicle gross profit per unit resulting in new vehicle gross profit growth of over 4%.

So despite a 9% decline in new vehicle unit sales, we were able to increase total same-store gross profit in the quarter due to a focus on improving new vehicle margins, the further expansion of our parts and service operations, and record F&I per unit results. Our UK operations had another strong quarter with total same-store revenue growth on a local currency basis of 9.4%, driven by an 11.8% increase in new vehicle revenue, a 5.9% increase in used retail revenue, an

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11.8% increase in parts and service revenues, and a 13.3% increase in F&I per retail unit. We also generated 220 basis points of adjusted same-store SG&A leverage during the quarter.

Our new vehicle sales performance was negatively impacted in June due to uncertainty both before and after the Brexit vote. However, it is too early to predict the impact on auto retail sales going forward. Thus far, July sales do not appear to be severely affected. In Brazil, while the overall Q2 industry sales were down 22%, our same-store total revenues decreased only 4% on a local currency basis from the prior year; once again an amazing performance by our Brazilian team. Our strategy of aligning with growing brands is working and, in conjunction with the significant portfolio adjustments we have previously announced, we remain confident that we have positioned ourselves to be profitable for the remainder of 2016.

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 C. Rickel

Thank you, Earl, and good morning, everyone. For the second quarter of 2016, we reported adjusted net income of \$47.4 million. On a fully diluted per share basis, adjusted earnings increased 9.1% to another all-time record of \$2.16. These quarterly results for 2016 exclude \$830,000 of net after tax adjustments primarily consisting of \$1.7 million of losses due to hail and flood damage in the U.S. and approximately \$600,000 of charges related to the write off of lease hold improvements on a dealership facility that is under contract to be purchased, partially offset by a \$1.7 million net gain due to deferred tax adjustments in our Brazil segment.

Starting with the summary of our quarterly consolidated results. For the quarter, we generated an all-time second quarter record of \$2.8 billion in total revenues. This was an improvement of \$56 million, or 2.1% over the same period a year ago, and reflects increases in each of our business lines. On a local currency basis, which ignores the change in foreign exchange rates, total revenues increased 3.8% for the quarter. Our gross profit increased \$18.5 million, or 4.7%, from the second quarter a year ago to \$410.1 million.

For the quarter, adjusted SG&A as a percent of gross profit increased 80 basis points to 72.2%, partially due to the mix effect of increased UK business, which inherently has a higher cost structure. Floorplan interest expense increased by \$1.6 million or 15.8% from prior year to \$11.6 million. This increase is primarily attributed to higher U.S. and UK inventory levels. Other interest expense increased \$2.5 million or 17.4% to \$16.7 million reflecting the issuance of \$300 million of 5.25% bonds in December 2015. Our adjusted consolidated effective tax rate for the quarter was 35.1%, which is lower than our historical tax rate, primarily due to the increased profitability from our UK region.

Turning now to our geographic segment, starting with the U.S. market on a same-store basis. For the quarter, total U.S. same-store revenues decreased 3% to \$2.2 billion, driven by decreases of 5.4% in new, 2% in F&I, and 0.9% in total used. These decreases were partially offset by a 3.6% increase in parts and service. The 3.6% increase in same-store parts and service revenue consisted of increases of 4.5% in customer pay, 4.1% in wholesale parts and 3.7% in warranty. Our collision operations were about flat.

Our 2% F&I revenue decrease was driven by a 5.1% decrease in total retail units, partially offset by per retail unit increase of \$51 or 3.3% to \$1,594 per unit. Total same-store gross profit improved 1.1% driven by increases of 4.4% in new vehicles, 1.9% in parts and service and approximately 1% in total used. As Earl previously mentioned, we displayed improved pricing discipline as our new vehicle gross profit per unit increased \$240 per unit to \$1,839.

Our adjusted SG&A as a percent of gross profit increased 110 basis points to 70.5% and adjusted operating margin remained flat at 4.1%. Related to our UK segment on a same-store basis with percentage change metrics on a local currency basis. For the quarter, total revenue increased \$7.5 million to \$315.6 million, an increase of 9.4% on a local currency basis. Gross profit for the UK segment was up 15.9% from prior year. New vehicle gross profit grew 16.5% as a unit sales increase of 4.2% combined within 11.8% increase in gross profit per unit.

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Total used vehicle gross profit increased 24.6% as a 3.7% increase in unit sales combined with a 20.2% increase in gross profit per unit. Parts and service gross profit improved 11.9% and our F&I income increased 18.4%, which is attributable to both a 13.3% increase in gross profit per retail unit to \$737 and a 4.5% increase in total retail units. For the quarter, our adjusted SG&A as a percent of gross profit improved 220 basis points to 75.8% and adjusted operating margins improved 30 basis points to 2.4%. These improvements represent the impact of leverage from our growing scale in the UK, as we continue to fully integrate acquisitions from prior years and capitalize on efficiencies in our processes.

Related to our Brazil segment on a same-store basis, as Earl mentioned, the total industry new unit volume decreased roughly 22% from the second quarter of 2015. Despite this, our total revenues decreased only 4% on a local currency basis and we were close to breakeven for the quarter. Despite the continued local economic challenges that we expect will persist throughout 2016, we project our Brazil segment to be profitable over the remainder of the year.

Turning to our consolidated liquidity and capital structure. As of June 30, we had \$25 million of cash on hand and another \$63 million that was invested in our floorplan offset accounts, bringing immediately available funds to a total of \$88 million. As previously announced during the quarter, we completed a new \$1.8 billion syndicated credit facility that will expire in June 2021. This facility further strengthens our balance sheet by securing ample, reasonably price capital for vehicle financing in an acquisition growth over the next five years. The facility can also be expanded to \$2.1 billion in total availability if necessary.

Year-to-date, we have repurchased approximately 2.3 million shares of our common stock at an average price of roughly \$55.90 per share for a total of \$127.6 million. These repurchases equate to an approximate 10% reduction from our year-end diluted common share count of 22.6 million shares. As of July 28, we have approximately 20.6 million diluted common shares outstanding and \$22.4 million remaining on our board authorized share repurchase program. While we will continue to look for acquisitions, we still believe that our current share price offers a very attractive alternative for capital allocation.

Therefore, any potential acquisitions would need to offer a very attractive return on investment opportunity for us. Also during the second quarter, we used \$5 million to pay dividends of \$0.23 per share, an increase of 15% per share over the second quarter a year ago and an annualized yield of approximately 1.5%. 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 it back over to Earl.

Earl J. Hesterberg

Thanks, John. Related to our corporate development efforts, as previously announced, the company added four franchises in Brazil and disposed of our two remaining Peugeot franchises during the second quarter. We will continue to adjust our dealership portfolio to strengthen our company and prepare for the eventual recovery of the market.

This concludes our prepared remarks and I'll now turn the call over to the operator to begin the question-and-answer session. Operator?

Q&A

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] Our first question today comes from John Murphy from Bank of America Meryl Lynch. Please go ahead with your question.

<Q - Elizabeth Lane Suzuki>: Good morning. This is Liz Suzuki on for John. F&I per unit continues to strengthen and you eclipsed above \$1,600 in U.S. Within the various buckets of F&I what's been experiencing the strongest

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growth and what do you view as opportunities within segment to improve even further?

<A - Peter C. DeLongchamps>: So, Liz, it's Pete DeLongchamps. Thanks for the question. So we've really focused on improving our penetration within the overall finance business, but we focused on maintenance vehicle services contracts. And on the training side, we've been very vigilant in our approach to compliance and the people, and it's working – very closely with our lenders has just paid off. And we continue to have increases in all of our product offerings and we're delighted with the results.

<Q - Elizabeth Lane Suzuki>: Great, thank you. And between the issues in the oil patch, volatility in Brazil and now Brexit concerns, it seems like you guys have a lot to juggle these days. What do you think is the biggest near-term concern for the business and requires the most attention by the management team for now?

<A - Earl J. Hesterberg>: Yeah, we feel kind of how bad we missed out on the Greek crisis. That seems to be the only thing we've missed out on so far. Yeah, I think in the UK, which seems to be the topic of conversation. We have an extremely strong operation and we've acquired some dealerships 18 months ago and some five months ago. And there were some great dealerships within that. But we also had quite a few broken ones that we feel we can continue to fix, which will offset much of any weakness that might occur with the economic uncertainty in the UK.

And in the U.S., it still seems to be the biggest challenge is balancing margins and volume on new vehicle sales, so particularly in a softer market. And we did a pretty good job of that, I would say. We had 15% increase in new vehicle margins in the U.S., a remarkable accomplishment in this environment. But there's probably a handful of dealerships, where we went too far and we lost too much volume. So we have to correct on a few of those. So I still think that the biggest challenge in our business is new vehicle margins.

<Q - Elizabeth Lane Suzuki>: Great. Thanks very much.

Operator

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

<Q - Rick Nelson>: Thanks. Good morning. Earl, very strong performance in the UK, sounds like sales have still been good since the vote. I'm curious what your crystal ball tells you about that market?

<A - Earl J. Hesterberg>: Well, I don't think anyone can really speak with authority on that Rick, because this has never happened before. And if you listen to enough people, you can hear positive and you can hear negative. The market actually was hit a bit in June, not badly. The market was down 1%, but within that retail was down 3% or 4%, and fleet was up 3% or 4% and self-registrations were up 46%. There seem to be a little slowdown right before and after the vote, but checking as recently as yesterday, we can't really see any damage to our order take in July. It seems like business as usual.

The next real data point that will tell us if the market is being impacted will be the September plate change. So, I don't think we'll really know much until that occurs. I do think that there isn't much that's going to reverse the exchange rate. So that hit is going to be in our translation results, probably as we go forward in the foreseeable future. But we have a very strong business in the UK, and my experience is that markets adjust better than we think they do. And so we still expect the UK to be a pretty powerful contributor going forward.

<Q - Rick Nelson>: And then looks like Ford is going to be scaling back production. Any signs some of the other OEMs are doing similar?

<A - Earl J. Hesterberg>: No, I don't have any tangible proof. I did see the Ford announcement and – but all of our domestic brand inventories are in triple-digits, so we have plenty of inventory in virtually every brand except Toyota, is in good shape. Honda is okay. Lexus and Audi are okay but generally speaking, we still have too much inventory in most brands. So we would be happy to see more actions like Ford is taking. And no relative, no relative...

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<Q - **Rick Nelson**>: And then with respect to the acquisition environment in the UK and U.S. as well as Brazil, are there more sellers, more opportunities?

<A - **Earl J. Hesterberg**>: Yeah. Recently in the UK, Rick, there've been a lot more businesses on the market as you might expect. But we're going to be busy digesting our recent acquisition for a while I would think. And in Brazil, there are quite a few on the market, but I have to be very careful – you have to be very careful on a distressed market like Brazil. So there are plenty of businesses for sale in both of those markets. And...

<Q - **Rick Nelson**>: Great. In the U.S.?

<A - **Earl J. Hesterberg**>: There are plenty of businesses for sale in the U.S as well. It still seems to me that prices are based on the past and we have to look at returns based on future cash flows and earnings. And as well as other considerations of how we deploy our capital. So we're not likely big players in the U.S. acquisition market at the moment.

<Q - **Rick Nelson**>: Okay. Stock buyback seem to take precedence, makes sense. Thanks a lot and good luck.

<A - **Earl J. Hesterberg**>: Thanks Rick.

Operator

Our next question comes from Michael Montani from Evercore ISI. Please go ahead with your question.

<Q - **Michael Montani**>: Hey, guys. Good morning.

<A - **Earl J. Hesterberg**>: Good morning.

<Q - **Michael Montani**>: Just wanted to ask about the performance on new vehicle margin, obviously, reflects the discipline management there with volumes. But the question I had was from a full year standpoint, are we still kind of comfortable with a glide path towards \$750 – \$1,750 per unit basically steady with last year. And how sustainable do you all feel that that number could be for the next back half of the year.

<A - **John C. Rickel**>: Yeah, Michael. This is John Rickel. I think as we look at it, that \$1,750 to \$1,800 is a reasonable target for the second half.

<Q - **Michael Montani**>: Okay, that's helpful. And I guess, if I could on the used vehicle side for a moment, also seen a little bit of improvement there, in terms of grosses as well. What are you guys seeing in terms of depreciation, residual value potential impact, and do you have also conviction that you can manage through that with firm used grosses?

<A - **Earl J. Hesterberg**>: The biggest challenge in the used car market right now is the pressure on the values of the cars. SUVs and truck values are actually pretty firm. But you have – with the current low fuel prices and we sell to lot of customers trying to trading cars for smaller SUVs and things like that. And those are the challenges, just like I think most brands have in excess of new vehicle car inventory, handling the car portion of the used vehicle market is where the challenge is and where the most pressure is on values.

<A - **John C. Rickel**>: Michael, this is John Rickel. Bear in mind, I think we've discussed before, we only have 34 days supply of used inventory. So as long as we're keeping abreast of what's going on with those market conditions, we don't have a lot of depreciation or residual value risk. It's just basically – you kind of buy them at the market and turn them pretty quickly and you avoid most of that. We've been running \$1,500 a unit. I think that's a reasonable assumption for your second half models.

<Q - **Michael Montani**>: Okay. Thank you. And if I could just on the selling environment. Both U.S. and UK, but firstly on the U.S. side some of the checks that we have been seeing or indicating may be a little bit of a pickup, and new vehicle SAAR. I don't know if you guys can comment at all about what you're seeing in your markets. And then also in the UK just to follow-up, was the comment that the business has stabilized referring to retail registrations with

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consumers or is that impacted by fleet or can you just help with additional color on that?

<A - **Earl J. Hesterberg**>: What was the second question about the UK?

<Q - **Michael Montani**>: The UK retail versus fleet.

<A - **Earl J. Hesterberg**>: Yeah. Well, the most recent data we have is June and it shows retail softening and fleet increasing. And retail was down, seems to me 3% or 4% and fleet was up 3% or 4% and the total market was down actually 0.8 of a percent, so say 1%. And that was a little bit different. So June was kind of the weakest month of the first half of the year in the UK. But looking at the order take we have now in July, we don't really see any major change in the business. The UK business is still pretty steady. We're just going to have to wait and see how big the September plate change month is to see if there is any real softening in the market. We don't have any real evidence of that, as of yesterday. We checked as recently as yesterday with the operating team and traffic is still reasonably steady in the UK.

<Q - **Michael Montani**>: Okay. And just in the U.S. market as well, I'm sorry?

<A - **Earl J. Hesterberg**>: The U.S. market is a little tough to tell. July started pretty strongly because of July 4 weekend, there was a lot of activity and traffic and OEM promotions and such. And then, it slowed down quite a bit as far as we can tell but this is the time of month when things pick up again and we'll just have to see how the data comes out. I don't really – I wouldn't see a major change from the SAAR pattern we've had recently. But I have read some things where some people do think it's going to be a stronger month. But I don't have any data to confirm that.

<Q - **Michael Montani**>: Got it. Thank you.

Operator

Our next question comes from Paresh Jain from Morgan Stanley. Please go ahead with your question.

<Q - **Paresh B. Jain**>: Good morning, everyone. I just have a broader question on the acquisition environment actually. So when you look at the U.S., expectations are for SAAR to be range bound and it could be similar to the previous session years from – let's say 2003 to 2007 and there were quite few acquisitions in that period as well. So when you compare the two periods, when you compare the acquisition environment, what are the differences or similarities this time around?

<A - **John C. Rickel**>: Yeah. I think, Paresh, part of it is that you still have sellers out there right now that are basically wanting to price off of I think fairly aggressive SAAR and Ford year assumptions. I don't think the private cap dealers have come to grips that may be this is a plateau environment like what you're saying with 2003 through 2008. And I think the other thing is, there is a significant value difference right now between where the public companies are trading, where those private cap dealers are that didn't exist in that prior period, which has shifted a lot of our priorities to share buybacks because there seems to be better value creation for our shareholders in that arena right now.

<Q - **Paresh B. Jain**>: Got it. And just a follow up on again – a quick follow up on Brexit actually. How's Group 1's geography exposure within UK? And is there anything you'd like to highlight that could suggest that you could be somewhat protected, not completely, but somewhat protected from potential Brexit impact?

<A - **Earl J. Hesterberg**>: Well, our geography footprint in the UK is basically a donut around London. So we try to stay away from the City Center where the rents are high, but we go from Essex, which is the bedroom community in the northeast and we're due north now and northwest in Watford, and we're southwest in Farnborough and we're due south in Brighton. And so we're kind of all around the city. And of course the economic activity and higher levels of income are in that southern part of England.

And so we feel pretty good about our geographic footprint in the UK, and as well as our brand mix, which is dominated by BMW and Audi; both are doing very well. And also we have four incredibly good Ford businesses in the UK that are doing very well in the first half of this year. So we feel very good about the strength of our UK business.

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<Q - Paresh B. Jain>: That's very helpful. Thank you.

Operator

Our next question comes from David Lim from Wells Fargo. Please go ahead with your question.

<Q - David H. Lim>: Hi. Good morning gentlemen and Sheila. Sorry I got on the call a little late, but I was wondering, Earl and John, if you guys could give color on your inventory? And I apologize if you already went over this but on your inventory end, what are you guys doing with orders to the OEMs right now?

<A - Earl J. Hesterberg>: Yeah. Dave, we touched on it a little bit but just to summarize it, we still have too much new vehicle inventory in virtually every brand except Toyota. Toyota is in great shape. Honda is not bad, and then Audi and Lexus are okay. Other than that, we have too much, we have a total of 83 days. We actually had it down to around 70 days at the end of May. Thought we were starting to make progress and then sales were a bit slower in June and we jumped up to 83. All of our domestic brands have over 100 days. So we have some more work to do. So we're going to have to continue to work hard and reduce some orders to get that down by the end of the third quarter.

<Q - David H. Lim>: Are you pushing back on orders a little bit?

<A - Earl J. Hesterberg>: Oh, yeah, yeah. We have been for some time. We have been since the end of the first quarter. And we dropped our absolute number by 1,500 units, but clearly on a day supply basis it's still too high.

<Q - David H. Lim>: There is a lot of talk obviously that pickup trucks demand has been really good, but are you also seeing triple-digit day supply with large pickup trucks as well?

<A - Earl J. Hesterberg>: The bigger part of the inventory problem is in cars, that's true, but we now have enough trucks. Now our truck business is good. I think our truck sales may have been up 4%. Most of that was driven by a big increase in Ford truck sales in the quarter. Although we do see GM truck sales picking up now beginning of this quarter, and I think that's due to more aggressive marketing support by GM. But I think it's fair to say that we have enough of everything at the moment pretty much except Toyota.

<Q - David H. Lim>: And...

<A - John C. Rickel>: Yeah, Dave. This is John. Just to add a little color to that, on a day supply basis cars are at 90 and trucks are at 77.

<Q - David H. Lim>: Got you. On June, it was a very poor SAAR, 16.6 million. And when we talk with our channels, they sort of scratch their heads saying that it's a little bit of seasonality. Can you guys sort of give additional color of what may have transpired for you guys in June? And are you seeing like a similar kind of background or similar kind of setup going into July? I know that – I think J.D. Power said they are estimating with 18.2 million for this month. Our channel checks are definitely in the mid 17 million. But I wanted to see relative to June if the environment has really changed all that much or is it just a continuation of what we're seeing in July?

<A - Earl J. Hesterberg>: Yeah. My feeling David is it's not going to change that much from the recent trend. I did see that big number reported in the press of 18 million. That surprised me – that would surprise me. I hope it's true. July got off to a great start because it was a holiday weekend and there was a lot of activity, but then it fell off in the middle weeks to kind of what I would consider a more normal level. And now we have to see how the last week closes, but I would be very happy with 18 million. But I really expect it to be more like we've seen prior to last month. Last month was a bit low, I think but I would expect it to be more in the mid-17 million, but we will see.

<Q - David H. Lim>: Got you. And then...

<A - Earl J. Hesterberg>: I have data to confirm – to say one way or the other at the moment.

<Q - David H. Lim>: Right. And just two more questions. Are you seeing like the OEMs maybe looking to expand all new dealer points and build their dealer count? And also, your thoughts on maybe some mega deals related to maybe –

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Date: 2016-07-28
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Market Cap: 1,376.98
Current PX: 62.32
YTD Change(\$): -13.38
YTD Change(%): -17.675

Bloomberg Estimates - EPS
Current Quarter: 2.077
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is it possible in this point of the cycle, or maybe two large dealer groups to come together? Thank you.

<A - **Earl J. Hesterberg**>: Well, I really don't know what could happen in terms large M&A. There's so many manufacturer stipulations and kind of constrains. And I think anyone that's doing big M&A during this time period has to be careful that they're not buying at the peak of the market. And just because I don't know how much upside there is to a market that's kind of running at 17.5 million plus or minus.

<Q - **David H. Lim**>: And the new dealer points?

<A - **Peter C. DeLongchamps**>: David, I'll take that one.

<Q - **David H. Lim**>: Yeah.

<A - **Peter C. DeLongchamps**>: It's Pete.

<Q - **David H. Lim**>: Hi Pete.

<A - **Peter C. DeLongchamps**>: I deal with the manufacturers on a daily basis saying – there's open points, there's onesies and twosies, but I would say overall they're being very measured in their approach to the marketplace. So that's not something that we're still concerned about.

<Q - **David H. Lim**>: Great. Thank you gentleman. Thanks, Sheila.

Operator

And our next question is a follow-up from Michael Montani from Evercore ISI. Please go ahead with your follow up.

<Q - **Michael Montani**>: Hey, guys. Just wanted to flesh out a little bit if I could, any color you can share on the sequential trend intra-quarter within Texas and the energy patch, what you're seeing? And then just a follow up on GPU.

<A - **Earl J. Hesterberg**>: This is Earl. My comment on the auto market in Texas would be that it's gotten slowly and progressively more challenging. So we were down in Texas for the quarter about 9% and in Oklahoma about 11%. So we probably haven't quite found the bottom yet. We're actually holding up pretty well. We're down 6% or 7% in Huston, which is our strongest market. And according to the Huston Auto Dealers Association the market was down 26% in June in Houston, and we were down mid single-digit. So I don't know if that Houston Auto Dealer Association data was accurate but it has gotten more difficult. There was another large round to layoffs last week, about 15,000 by the oil companies headquartered in Houston. But it does seem that we're getting pretty much near the bottom in terms of these oil companies restructuring both their balance sheets and their workforce. But we've had more pressure progressively on the auto market in Texas and Oklahoma.

<Q - **Michael Montani**>: And then if I could just – can you give additional color on the GPU performance if you were to break it out by midline versus import and then the premium luxury space?

<A - **John C. Rickel**>: Yes, this is John Rickel. Basically we saw improvements across all three of them. The strongest was in imports but we saw improvements across all three segments.

<Q - **Michael Montani**>: Okay. So there is no one particular driver to that 15% decrease.

<A - **John C. Rickel**>: No.

<Q - **Michael Montani**>: Okay, got it. All right, thank you guys.

Operator

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And ladies and gentlemen, at this time, I'm showing no additional questions. I'd like to turn the conference call back over to management for any closing remarks.

Earl J. Hesterberg

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

Operator

Ladies and gentlemen, the conference is now concluded. We do thank you for attending today's presentation. You may now disconnect your lines.

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