Q1 2017 Earnings Call

Company Participants

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

Other Participants

- Elizabeth Lane Suzuki
- Michael Montani
- James J. Albertine
- William R. Armstrong
- Irina Hodakovsky
- Nicholas Todd Zangler

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. Welcome to Group 1 Automotive's 2017 first quarter financial results conference call. Please be advised this call is being recorded.

I would now like to turn the conference 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, Keith, and good morning, everyone. And welcome to today's call. The earnings release we issued this morning and the 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 the 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 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 Commission over the last 12 months. Copies of these filings are available from both the SEC and the company.

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

Participating with me today, 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 comparison in the prepared remarks are to the same prior-year period, unless otherwise stated.

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

Earl J. Hesterberg

Thank you, Pete, and good morning, everyone. Group 1 earned $32.8 million of adjusted net income for the first quarter. This equates to first quarter adjusted earnings per share of $1.53 per diluted share, a decrease of 4% from last year. Although we had another strong performance in our U.S. new vehicle margins, a record quarter in the U.K. and a profitable quarter in Brazil, these factors were not enough to offset extreme weakness in vehicle sales in our energy price impacted markets.

Combined new and used sales dropped 11% in Texas and Oklahoma during the quarter. Our largest market, the U.S. energy capital of Houston, had an industry new vehicle sales decline of 16% for the quarter. Group 1 new vehicle sales in Houston were down 13% for the quarter. So, we outperformed the market, but still need to make further adjustments to our business.

Turning to our business segments. During the quarter, we retailed over 38,000 new vehicles. Total consolidated new vehicle revenues decreased 3% on a constant currency basis, as the average new vehicle selling price increase of 3% was more than offset by 6% fewer unit sales. As was the case throughout 2016, the volume weakness was seen throughout the oil-dependent markets in the United States and in Brazil. Thanks to our new vehicle sales increased more than 11% in the U.K.

Consolidated new vehicle gross profit was down 1% on a constant currency basis, as gross profit per unit increased 5%. U.S. new vehicle gross profit per unit was up from prior year for the fifth consecutive quarter with an increase of 6%.

Our new unit sales geographic mix was 72% U.S., 24% U.K., and 4% Brazil. Our new vehicle brand mix was led by Toyota/Lexus sales, which accounted for 23% of our new vehicle unit sales. BMW/MINI represented 14% of our new vehicle unit sales, and Ford and VW/Audi each represented 13% of our new vehicle unit sales.

U.S. new vehicle inventory stood at 29,800 units, which equates to a supply of 86 days, consistent with a year ago, but far too high. While first quarter inventories tend to be elevated due to preparation for the spring selling season, we must adjust our inventory level downward in the second quarter. Domestic branded inventories remain the biggest challenge with GM, Chrysler and Ford, all over 100 days. We need to adjust some of our production orders further, especially in our impacted Texas and Oklahoma markets.

During the quarter, we retailed over 31,000 used retail units. Total consolidated used vehicle retail revenues decreased 2% on a constant currency basis, as the average used vehicle selling price increase of 2% was more than offset by 4% fewer unit sales. This sales result was driven by a 9% decline in our Texas and Oklahoma markets.

Used vehicle retail gross profit decreased 8% on a constant currency basis, as average gross profit per unit declined 4%. This per unit decline has been partially caused by overall weakness in used car industry prices as well as lower trade-in volumes. Trade-in units generate our highest used vehicle retail margins. U.S. used vehicle inventory stood at 11,800 units, which at a 28-day supply, is lower than we would like.

Total consolidated parts and service, which going forward we will refer to as after-sales, revenue and gross profit both increased 5% on a constant currency basis, driven by increases in warranty of 9%, customer pay of 5%, and collision of 5%, while wholesale parts was flat. U.S. same-store after-sales revenues increased 4%, and we maintain our guidance of mid-single digit same-store revenue growth for 2017.

Finance and insurance gross profit decreased 2% on a consolidated constant currency basis, as an increase in F&I per retail unit of 3% was more than offset by a 5% decline in retail unit sales. U.S. F&I per retail unit delivered yet another quarterly year-over-year increase, up $73 per unit to a first quarter record of $1,637.

Regarding our geographic segment results, our U.S. same-store operations saw a total revenue decline of 4%, driven by a 9% decline in new vehicle unit sales. As previously mentioned, sales were once again negatively impacted in the Texas and Oklahoma markets due to weakness in the oil industry, with decreases of 12% in Texas and 16% in Oklahoma.

U.S. same-store total gross profit declined 2%, as a $91 improvement in new vehicle gross profit per unit and the growth in after-sales and F&I per unit, previously mentioned, partially offset the revenue decline.

Our U.K. operations had a record sales quarter with over 9,000 new and 5,600 used retail unit sold, a 22% increase in both categories. Total same-store revenue grew 9% on a constant currency basis, driven by 11% increase in new vehicle revenue, an 8% increase in used retail sales, an 8% increase in after-sales, and an 8% increase in F&I revenue. Our same-store new vehicle unit sales increase of 11% significantly outperformed the industry increase of 6%. We believe some March pull-ahead occurred in advance of an April road tax increase and that this contributed to the industry sales record.

We still forecast a slight decline in the U.K. SAAR for the full year. But as previously stated, we should be able to outperform the industry due to a favorable brand mix and improvement from our recent acquisitions.

In Brazil, we generated a quarterly profit despite continuing industry weakness, especially in the luxury segment, which had industry sales declines well into the double digits. We achieved profitability through growing same-store used vehicle gross profit by nearly 180%, after-sales gross profit by 18%, and F&I gross profit per unit by 65%, all of which are on a local currency basis.

We are very pleased that our local team was able to deliver profitability in the first quarter, which is historically the weakest quarter of the year. With our dealership and brand portfolio optimization finally complete, we are well positioned to take full advantage of the future recovery in the local market.

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

John C. Rickel

Thank you, Earl, and good morning, everyone. For the first quarter of 2017, our adjusted net income decreased $4.3 million or 11.5% over a comparable 2016 results to $32.8 million. These 2017 quarterly results exclude $1.1 million of nonrecurring net income recognized from an OEM legal settlement.

On a fully diluted per share basis, adjusted earnings decreased 3.8% to $1.53. As Earl mentioned, our earnings were negatively impacted by ongoing weakness in our U.S. oil markets, as well as exchange rate headwinds related to the British pound.

Starting with the summary of our quarterly consolidated results. For the quarter, we generated $2.5 billion in total revenues, which was a 3.4% decrease from prior year. On a constant currency basis, which ignores the change in foreign exchange rates, total revenues decreased 1.5% for the quarter.

Our gross profit decreased $5.6 million or 1.4% in the first quarter a year ago to $383.5 million was roughly flat on a constant currency basis. As a percent of gross profit, adjusted SG&A increased 120 basis points to 76%, due largely to U.S. oil market pressures.

Floorplan interest expense increased by $900,000 or 8.5% from prior year to $11.9 million, which can be attributed to a higher LIBOR interest rate versus the first quarter of last year. Other interest expense remained roughly flat at $17 million.

Our adjusted consolidated effective tax rate for the quarter was 33.6%, down from 35.8% a year ago as the mix of our income generated in the U.K. has continued to increase. We expect our full-year tax rate to be around 36%.

Turning now to our geographic segments, starting with the U.S. market on a same-store basis. For the quarter, total U.S. same-store revenues decreased 3.9% to $2 billion, driven by a decrease of 5.8% in new vehicles, 3.9% in total used vehicles, and 3.7% in F&I. These decreases were partially offset by a 4.2% increase in after-sales.

This 4.2% increase in after-sales revenue consisted of increases of 7.6% in warranty, 5.1% in customer pay, and 3.4% in collision, while wholesale parts was flat. We reiterate our guidance for mid-single-digit same-store revenue growth for 2017. Our 3.7% F&I revenue decrease was driven by a 7.1% decrease in total retail units, partially offset by a PRU increase of $58 or 3.7% to $1,629 per unit.

Total same-store gross profit decreased 2.2%, driven by decreases of 13.8% in total used and 3.8% in new vehicles, partially offset by a 2.8% increase in after-sales. Our after-sales gross margin decreased 80 basis points to 53.8% due to less internal reconditioning work, which we reported as 100% margin business.

As Earl previously mentioned, our used vehicle business in the U.S. oil markets was negatively impacted by both demand softness and the lack of trade-in supply, which forced our dealerships to purchase more expensive inventory at auction. Our adjusted SG&A, as a percent of gross profit, increased 160 basis points to 74.3%, as cost cuts were not enough to overcome the decline in used vehicle gross profit.

Related to our U.K. segment, on a same-store basis, with percentage change metrics on a constant currency basis. For the quarter, total revenue decreased $23.4 million to $376.6 million, but increased 8.9% on a constant currency basis. Total gross profit for the U.K. segment was up 10.9% from prior year. New vehicle gross profit grew 9.2%, driven by unit sales increase of 11.1%. And total retail used vehicle gross profit increased 5.5%, driven by unit sales increase of 8. 9%. After-sales gross profit improved 16.4%, and our F&I income increased 7.5%.

Related to our Brazil segment, on a same-store basis, with percentage change metrics on a constant currency basis. As Earl mentioned, our team did a tremendous job increasing used, after-sales, and F&I gross profit by double digits to generate total gross profit growth of 13%. This 13% increase was despite a 21% decrease in new vehicle gross profit, which was driven by weak sales in our luxury brands, consistent with the overall industry.

Our SG&A, as a percent of gross profit, also improved, declining 690 basis points to 89.8%, driven by a 5% reduction in head count, reduced outside service spending, and renegotiated lease terms for several of our dealership properties. As Earl mentioned, we generated a profit in what is seasonally the weakest quarter of the year, and look forward to building on this momentum as the year progresses.

Turning to our consolidated liquidity and capital structure. As of March 31, we had $33.8 million of cash on hand and another $123.9 million that was invested in our floorplan offset accounts, bringing immediately available funds to a total of $157.7 million. We did not repurchase any common stock during the quarter and have $22.4 million remaining on our board-authorized share repurchase program.

Finally, during the quarter, we used $5.1 million to pay dividends of $0.24 per share, an increase of 9.1% per share over the first quarter a year ago. 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 J. Hesterberg

Thanks, John. Related to our corporate development efforts, we're pleased to announce the March opening of a Ford add point in the city of Reading in the U. K. This new point is contiguous with our existing Ford market area and expands our U.K. Ford network to seven dealerships. The dealership is expected to generate $30 million in annual revenues.

Also, last week, we opened a Nissan add point in Cedar Park, Texas, a suburb of Austin. This increases our U.S. Nissan network to nine dealerships and will also generate approximately $30 million in annual revenues. We're actively reviewing potential acquisitions in all three of our markets and are optimistic that we will have some external growth opportunities in 2017.

Finally, the magnitude of the industry sales declines in Oklahoma and parts of Texas, especially Houston, were greater than we expected. However, drilling activity has recently increased, and we expect the energy industry to begin to recover and resume some degree of hiring. We continue to adjust our business to the near-term lower level of demand in these markets.

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

Q&A

Operator

Thank you. We will now begin the question and answer session. [Operator Instructions] And today's first question comes from John Murphy with Bank of America Merrill Lynch.

<Q - Elizabeth Lane Suzuki>: Good morning, guys. It's Liz Suzuki on for John. Some of the commentary from your peers has been somewhat cautionary in terms of the behavior of certain manufacturers and the overall level of new vehicle inventory, inconsistent incentives. So how are your dealers managing through this environment? And is there anything that you're seeing that's either particularly concerning or particularly encouraging in the recent months?

<A - Earl J. Hesterberg>: Well, I don't know that I can apply any across-the-board summary of what's happening. But we're not the only dealers in these oil patch markets who have found themselves with too much inventory based on a further slowdown of sales. So, these OEMs are quite well managed these days. They understand as well as we do that there needs to be some further production cuts, at least in these geographic pockets. They've all been working to shift the mix more toward trucks than cars.

So I think that, generally speaking, adjustments were made quite well last year. We were actually in the same situation early last year. And by the end of the year, I believe, much of the industry and certainly our company had the inventory levels under control again. And now with this more recent decline in the oil patch sales, there needs to be another adjustment made. And I'm confident that we'll work together to make that happen.

<Q - Elizabeth Lane Suzuki>: Great. And are you finding that you just don't have enough room on your lots for used vehicle inventory, particularly off-lease, since new vehicle inventories have been so high recently?

<A - Earl J. Hesterberg>: No. Actually, the bigger issue is space for this excess new vehicle inventory. When you start to get up to 86-day supply and some brands over 100, the additional storage we're having to seek is for new vehicles. The off-lease inventory moves fairly quickly through us if we don't accept those cars. So the bigger storage problem at the moment is the new vehicle inventory, not used.

<Q - Elizabeth Lane Suzuki>: Great. And just one more quick one. Regarding policy, between a potential lower corporate tax rate and a tear-up of NAFTA that might significantly increase the cost of imports, what's your view on the current proposed policies and what the net impact would be on your business?

<A - Earl J. Hesterberg>: Well, I think it's fairly simple. Obviously, our industry comes pretty close to paying the maximum federal tax rate every quarter. And so that potential legislation is of great interest and potentially great benefit to everyone in our sector. The border adjustment tax that was proposed but does not seem to be on the front burner at the moment is likely problematic to most of our OEM suppliers, because the supply chains are so global these days. So we have some serious concerns about that one.

<Q - Elizabeth Lane Suzuki>: Great. Thank you.

Operator

Thank you. And the next question comes from Mike Montani with Evercore ISI.

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

<A - Earl J. Hesterberg>: Morning, Mike.

<Q - Michael Montani>: Just wanted to ask, first off, if I could – there's been some activity in the M&A market that you guys referenced on the call that you all have been doing. But if you think about from the U.S. side for the moment, can you just provide some updates in terms of what you're seeing from multiples and sort of the number of willing sellers that might be out there in the market? Is anything changing there?

<A - Earl J. Hesterberg>: It's quite difficult to comment on the multiples, because we don't have access to what the prices are on the deals that have been completed. But I will say there are a large number of sellers in the market. And I think that has continued to increase since there has been some perception that the market is somewhat plateaued, let's say. And in the U.K., there have also been an increasing number of sellers since the Brexit decision.

So, I think there's a lot of potential activity this year. It's just being able to find deals that work for individual buyers in terms of the math and geography and brand mix. I'm quite optimistic that we'll find some external growth opportunities in all three of our markets by the end of this year.

<Q - Michael Montani>: Understood. And then, sort of a housekeeping question. But is there anything that you guys can say additionally about the OEM payment? Was that Takata-related or more for diesel? And should we anticipate that there would be further payments or was this more of a onetime item?

<A - Peter C. DeLongchamps>: This is Pete DeLongchamps. It's more of a onetime payment surrounding the Audi diesel situation.

<Q - Michael Montani>: Okay. Understood. And just the last one I had. You'd referenced earlier in the call that there may have been some pull-ahead from Vehicle Excise Duty coming on the U.K. Can you talk at all about what you've seen in April thus far relative to expectations?

<A - Earl J. Hesterberg>: Yeah, I would say April is progressing about like we expected. Quite frankly, every April is fairly soft in new vehicle sales in the U.K. and a bit heavier in used vehicle sales. Because March is a license plate change month, so there is always extreme new vehicle activity in March, and then quarter-end with programs and such. And the dealerships get quite loaded with used car trade-ins. So then, all dealers are moving – or trying to move those trade-ins in April, and frequently the early part of May. So, this year is quite typical in that way.

What was different is this road tax increase in early April would increase the annual ownership costs of some of these cars, especially luxury cars, by as much as, let's say, £1,000 a year for some of these luxury brand SUVs. So, with that looming, I believe there were a few more people purchasing new vehicles in March than normal, which we had a little bit of pull-ahead business and also probably a few more trade-ins than normal. But you really can't judge where the market is until you get into late May or June, both this year and in any year. So, we haven't seen anything that shows us that there has been any material shift in the U.K. market, but it's likely too early to tell.

<Q - Michael Montani>: There was a comment from one of your competitors a day or two ago referencing hailstorm damage that they had had in the Texas market, in particular in April. Could you guys talk at all about what you've seen there, and has that had any impact beyond just kind of insurance to potentially leaving you with less inventory than you'd like in some cases?

<A - John C. Rickel>: Yeah, Mike, this is John Rickel. We were fortunate the hailstorms basically went around most of us. We had minor damage at one dealership in Dallas. But by and large, we've been very fortunate and have escaped any sort of significant hit.

<Q - Michael Montani>: Okay, great. Thank you.

Operator

Thank you. And the next question comes from James Albertine with Consumer Edge.

<Q - James J. Albertine>: Great. Thanks for taking the question, and good morning, everyone.

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

<Q - James J. Albertine>: So, if I may, a housekeeping item. Can you just remind us how the sort of Houston and Oklahoma markets trended last year, so we can get a sense of the compares in our modeling for 2017?

<A - John C. Rickel>: Yes, Jamie. This is John Rickel. The slowdown started in the kind of the fourth quarter of 2015, but it really didn't pick up pace until second quarter of 2016. So, the numbers, if you look at Texas and Oklahoma, on new vehicles, we were down 1% in the fourth quarter of 2015. It was down 3% in the first quarter of 2016, and then it jumped into the double digits really starting in the second quarter. So, that's really where the easier compares if you want to think about that way, it really don't start until next quarter.

<Q - James J. Albertine>: Okay. And if I heard correctly on the prepared comments, 1Q 2017 relative to 4Q 2016, so on a sequential basis, it didn't sound as though you were indicating weakening trends. But did I hear that incorrectly? Or did it get worse in the first quarter relative to the fourth?

<A - Earl J. Hesterberg>: It was worse in the first quarter relative to the fourth.

<Q - James J. Albertine>: Okay. Well, then, thank you for that clarification. And then, so strategically, as my final question here, if we were to look at sort of the next maybe 12 to 18 months, there's a lot of, obviously, big moving parts, off-lease vehicle, supply following residuals, potential credit concerns, and so forth. Help us understand, best guess, will new vehicle margins be up, down, or flat? Used, up, down, or flat? Parts and service and F&I. So, if we go down the four segments, can you help us sort of broad strokes, sort of delineate where you think the trends are headed from here based on your best guess of sort of the macro kind of forces at work?

<A - Earl J. Hesterberg>: Jamie, I believe the biggest challenge remains in used vehicle margins just because that is the segment that has to react to new vehicle incentive activity and oversupply and so forth. So, I think that's where the risk is. We've worked hard to get our new vehicle margins better than they were a year or two ago, as we get under more volume pressure. And we've been up five quarters in a row on our new vehicle margins.

So, we're going to do our best to kind of hold as close as we can to these levels. That won't necessarily be easy. But when you have some volume pressure, the margin becomes much more important to the business model. There's no reason for parts and service margins to decline other than mix of business from warranty to customer pay or wholesale parts and so forth. So, the parts and service business should be solid. I think the challenge for all of us is in this dynamic used car market is trying to mitigate any downward movement in used margins.

<A - John C. Rickel>: Jamie, the only thing I'd add on parts and service is the other kind of piece that can move it is the used car volumes, because your reconditioning work, as we saw in the first quarter, can impact that. But absent that, I agree with Earl that we ought to be pretty stable on parts and service. And I think as we've mentioned in a number of conferences, we've done a great job on F&I, but we would not continue to model that upward. I think we can hold what we got.

<Q - James J. Albertine>: Understood. Thank you so much for the color, and best of luck.

Operator

Thank you. And the next question comes from Bill Armstrong with C.L. King & Associates.

<Q - William R. Armstrong>: Hi. Good morning, everyone. I wanted to shift gears to Brazil. The overall market was down about 3% for new car sales in the quarter. You guys were down 28%. So, you mentioned luxury brands were weaker than the overall market. Was Europe decline relative to the overall market due to mix? Or were there other things affecting that?

<A - John C. Rickel>: Bill, this is John Rickel. I would say that it was mix a little bit, that was moresome decisions that we made on trying to hold margins. The guys did a good job on – especially the Toyota and the Honda brands, about protecting margins. And we gave up some volume to do that. But I think we're going to be well positioned for the remainder of the year with the actions they've taken. Our inventories are in very good shapes down there.

<Q - William R. Armstrong>: Okay. And then, on used, you had a huge increase in gross profit per vehicle, and you alluded to that a little bit in your opening comments. I was wondering if you could just flesh that out a little bit. What's going on there? And maybe is that something that's sustainable?

<A - Earl J. Hesterberg>: I don't think that increase is sustainable because you lap yourself at some point. But it is a function of us centralizing the used vehicle appraisal process in Brazil. We've been working to implement that over the last year. The used car market is not as developed in Brazil. So your guidebook data and third-party info for how you should appraise a car what a car is worth is quite unsophisticated in Brazil. So that skill set doesn't exist very many places. So we had to create some central experts in buying our cars and appraising our cars, and you can see that's had a pretty material financial effect, getting our arms around that.

<Q - William R. Armstrong>: Right. I know you're not going to be able to triple your GPUs once you cycle through this. But do you think you can – you came in at about $1,500 per unit. Do you think that sort of neighborhood is something we can hang our hats on a little bit going forward?

<A - Earl J. Hesterberg>: That's our target. That's our target. But we also want to acquire more vehicles now that we have this process in place. But that will be our target. So, it could be a little pressure on that.

<Q - William R. Armstrong>: Yeah. Okay, understood. Thank you.

Operator

Thank you. And the next question comes from Irina Hodakovsky with KeyBanc.

<Q - Irina Hodakovsky>: Thank you. Good morning, everyone.

<A - Peter C. DeLongchamps>: Good morning, Irina.

<Q - Irina Hodakovsky>: I just had two questions for you guys, in terms of the Texas market. Clearly, you're still seeing a lot of weakness there and things seem quite difficult. We're hearing on the industrial side of our coverage that the rigs are back in motion, and hiring is starting to take a little bit of place and service and parts demand in the industrial side is back. Wondering if you were seeing any of that developing and if you anticipate some kind of relief in consumer demand perhaps in the back half or midyear.

<A - Earl J. Hesterberg>: Well, we also perceive some of the increased activity by the energy companies. I think if – they look at the rig count every week, I think it's up 300 rigs across the country from the low point. And a lot of the activity is out in the Permian Basin. And capital budgets for most of the energy companies are up this year. So there is increased activity, no doubt. What we have not yet seen is any significant hiring, but we expect that that must occur. So we are somewhat optimistic about the future. But for the near term, we have to deal with the reality of the present. But, yes, we're optimistic that the energy industry is going to start to slowly recover now.

<Q - Irina Hodakovsky>: Thank you. And then, the second question was on your SG&A expense. It seems a little bit higher than we would have anticipated in terms of the throughput rate on the way down. We thought that perhaps [indiscernible] (33:57), but you didn't see any of that. Wondering if you have a little bit of color on what we're seeing there, and how to view this going forward. You've been really good at maintaining costs there.

<**A - John C. Rickel**>: Yeah. Thank you. Irina, this is John. Yeah, I mean that the pressure was primarily in a number of these oil-impacted markets. And you saw the falloff of used vehicles' gross profit. It was just really hard to adjust the cost structure as rapidly as we saw the impact on the used vehicle gross profit, was the biggest piece of it.

<**Q - Irina Hodakovsky**>: Thank you. So, as long as that pressure remains, perhaps we should anticipate a little bit of a headwind in SG&A. Is that fair to assume?

<**A - John C. Rickel**>: If there's pressure on gross profit dollars in total, yes. I mean there's always some deleverage that goes along with that.

<**Q - Irina Hodakovsky**>: All right. Thank you, gentlemen. And looking forward to your improvement in Texas during the back half. It should help things a bit.

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

Operator

Thank you. [Operator Instructions] And the next question comes from Nick Zangler with Stephens Inc.

<**Q - Nicholas Todd Zangler**>: Hey, guys. I don't know if I missed it here, but this performance in the quarter, particularly Texas and Oklahoma, throughout the quarter, was there an uptick in March? I know some others kind of pointed to a relatively strong March. But just, I guess, January, February, March, how did performance track?

<**A - Earl J. Hesterberg**>: No, there was an actual downtick in both February and March of about equal proportions. So, no, we did not end the quarter on a strong note. That said, Houston in particular isn't going anywhere. The latest population growth data for the top 20 metros in the U.S., Houston is still adding population on an absolute basis, second only to Dallas. So Houston is still growing.

Most of the jobs we've lost in Houston have been replaced. The problem is they've been replaced by hospitality industry jobs, lower-paying jobs, hotel restaurant things. And we've lost the oil and manufacturing and construction jobs. But those are the ones that should start to come back. So, we still think that we're somewhere near the low point, and we'll start to climb out of this fairly soon.

<**Q - Nicholas Todd Zangler**>: Got it, got it. And then, F&I question here. So, this was, obviously, again, very strong. And maybe from my education here, why does there not seem to be any type of correlation with unit sales and F&I performance, I guess, on a per vehicle basis? Meaning it seems likely that, in particular in Texas and Oklahoma, customers right now might be less likely to go out and purchase a vehicle. But for those that do, based on your performance, they're still willing to pay up on the F&I side. And I'm assuming F&I penetration is unchanged. So, just maybe help me understand that dynamic there.

<**A - Peter C. DeLongchamps**>: So the penetrations have remained constant. But what we're really focused on is maximizing our opportunities with vehicle service contracts, maintenance contracts, and providing the customers with a peace of mind when they do buy that car or truck. And at the end of the day, each transaction stands on its own. It's our responsibility to make sure that we can get our customers financed and provide them with products that are meaningful for them during the ownership cycle of their car.

<**Q - Nicholas Todd Zangler**>: Got it. Thanks, guys.

Operator

Thank you. And the next question is a follow-up from Mike Montani with Evercore ISI.

<**Q - Michael Montani**>: Hey, guys. Earl, I just wanted to follow up. You did mention that there was a downtick in February and March. But there was also an earlier competitor who mentioned that they had seen some encouraging

signs, I think, into April in terms of the Texas market development. Is there any optimism there from the near term? Or is it more like hopefully things would improve in the back half?

<A - Earl J. Hesterberg>: Yeah, in the data I was quoting that the downtick was in the Houston market, not Texas overall, in February and March -

<Q - Michael Montani>: Okay.

<A - Earl J. Hesterberg>: – because that's what we have data for. We have data from the Houston auto dealers. So, overall, Texas, for example, Dallas and Austin, are not impacted very much at all by energy. And so – but West Texas and Houston, parts of San Antonio, those are the areas that are impacted. So, that reference of the decline in Feb and March was Houston.

<Q - Michael Montani>: Okay. But in terms of the easier comparison set, would that have begun in April of last year, so now you'd be cycling that?

<A - John C. Rickel>: Yeah. Mike, this is John Rickel. It's a little hard to get that granular, what I was quoting you, was kind of full-quarter numbers.

<Q - Michael Montani>: Okay.

<A - John C. Rickel>: It clearly got – it accelerated last year as you got into the second quarter is my sense of it.

<Q - Michael Montani>: Yeah. Okay. Understood. And then, just the second follow-up I had was, in terms of the gross profit dollar per unit side, just trying to think through how things might progress from here. If you look at the used side, kind of $1,500 and some change. And then, on the new side, getting closer to $1,900. How should we think about how that might evolve over the course of the current year? How are you guys planning for that?

<A - John C. Rickel>: Well, I think what Earl indicated, Mike, is that kind of the new – we've worked hard to get it to these levels. But we're going to continue to also try to sell some units. So, I've kind of modeled the new at kind of the levels that we're running in this $1,800, $1,850 kind of range. On used, you would hope if we can start to sell some new, we'll get a better flow of trade-ins. And perhaps there are some opportunities to bring that number up off the $1,500. $1,500 is a bit lower than where we'd like it to be.

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

Operator

Thank you. And the next question is also a follow-up from Irina Hodakovsky with KeyBanc.

<Q - Irina Hodakovsky>: Thank you. John, this is actually a question for you in terms of the share count, diluted share count. It seems that the Street had mismodeled some of that. I'm seeing something in excess of $0.05 miscalculation. Most of your – the participating securities impact was, I believe, accounted for. And then, the converts, most of those that were taken care off in the past. So, wondering, if you have some input in terms of how this share count may have been off by almost $1 million.

<A - John C. Rickel>: Well, we obviously – we're repurchasing pretty heavily through kind of the middle of last year, Irina. And I'm not sure that everybody kind of picked up the run rate on that. But I mean, the share count is basically leveled off at this point, as of for this quarter. And it should have been, I think, pretty consistent with where we were with fourth quarter. I'm not sure why would have been much of a surprise because there wasn't much difference between fourth quarter and first quarter.

<Q - Irina Hodakovsky>: So, really not an impact of the dilutive effect. In terms of your share buyback activity, you have just in excess of $20 million left. Should we maybe expect a more opportunistic approach or more of a leveling off? Or how should we think about your view on the share buybacks?

<A - John C. Rickel>: Same as what we've operated, Irina. We'll continue to be opportunistic. We will pick and choose our places. I think we've done a pretty good job at that. The shares we took out last year were all in the kind of the mid-55 range, and we think that was a pretty good trade. And obviously, we'll also be balanced against the acquisition opportunities that Earl alluded to.

<Q - Irina Hodakovsky>: All right. Thank you very much. Appreciate the answers.

<A - John C. Rickel>: Okay.

Operator

Thank you. And as there are no questions at the present time, I would like to return the call to management for any closing comments.

Earl J. Hesterberg

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

Operator

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