

## Group 1 Auto

# Miscues from across the pond result in uncharacteristic miss – 4Q first take

Maintain Rating: BUY | PO: 455.00 USD | Price: 282.29 USD

## 4Q:23 results miss on UK operating miscues

GPI reported 4Q:23 adjusted EPS from continuing ops. of \$9.50, below our estimate of \$10.41 and Bloomberg consensus of \$10.46. On an operating basis and at a high level, the miss was driven by weaker same-store sales for Parts & Service (P&S), slightly worse SG&A leverage, but most of this was a function of operational issues in the UK business. Specifically, rising SG&A costs and lower new & used vehicle margins were material headwinds. In response GPI announced a ~10% reduction in UK headcount with more likely to come. New grosses and pricing continue to come in better than feared while new vehicle volumes were strong following total US industry unit sales volume growth of 7% YoY to 3.8mm or 15.5mm on a SAAR basis in 4Q. Despite the miss, efficient capital allocation (buybacks & acquisitions) and still strong same-store performance and grosses are structural positives. We maintain our Buy rating.

## New SSS better than forecast, Used a bit softer on UK

GPI's New vehicle retail same-store sales increased 11.7% YoY, above our estimate of a 5.9% YoY increase. This was driven by a 10.6% YoY increase in unit sales and 1.7% YoY growth in revenue per unit. Total New vehicle gross margin of 8.0% was down 250bps YoY, but slightly better than our 7.9% est. Same-store New vehicle GPU declined \$1,212 YoY to \$3,986 (total New GPU down \$1,170 YoY to \$4,025), above our total estimate of \$3,836. Used vehicle retail same-store sales decreased 2.0% YoY, softer than our estimate of a 0.9% YoY increase, driven by a 2.4% YoY decrease in revenue per unit, partially offset by a 0.4% YoY increase in unit sales. Total Used vehicle retail gross margin of 4.8% was slightly above our est. of 4.6% and up 20bps YoY. On a same-store basis, Used vehicle retail gross profit per unit (GPU) was up \$17 YoY to \$1,413 (total Used retail GPU +\$49 to \$1,434), which was stronger than our total est. of \$1,365.

## P&S lighter than forecast; F&I was solid

On a same-store basis, Parts & Service (P&S) sales increased 4.9% YoY, below our optimistic estimate for 8.0% YoY growth. Although still solid performance, this marks the first slowing of same-store P&S growth after four robust quarters. Total P&S gross margin of 54.9% was above BofAe 54.0%. Finance & Insurance (F&I) same-store sales increased 4.1% YoY, which was better than our estimate for a 3.2% YoY decline, helped by the stronger New same-store sales performance and favorable pricing environment (higher ASP = higher FIPVR). Same-store F&I per vehicle retailed (FIPVR) was down \$22 YoY to \$2,051 (total FIPVR was flat YoY at \$2,068), higher than our \$1,921 estimate.

## Execution and capital allocation a structural positive

Adjusted SG&A as a % of gross profit of 66.5% was weaker than our 65.5% estimate, and increased 350bps YoY. Although cost containment slipped a bit in the quarter largely because of miscues in the UK, the still solid performance demonstrates that at least some of the costs removed is more structural. GPI repurchased 5.1% of outstanding shares in 2023 and 21.8% since the start of 2022. GPI continues to grow through accretive acquisitions with a total of \$1.1bn of revenue acquired in 2023. The continued allocation of strong free cash flow towards accretive efforts structurally bolsters EPS.

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### Stock Data

Price	282.29 USD
Price Objective	455.00 USD
Date Established	28-Nov-2023
Investment Opinion	C-1-7
52-Week Range	194.33 USD - 310.08 USD
Mkt Val (mn) / Shares Out (mn)	3,873 USD / 13.7
Free Float	96.2%
Average Daily Value (mn)	33.51 USD
BofA Ticker / Exchange	GPI / NYS
Bloomberg / Reuters	GPI US / GPI.N
ROE (2023E)	25.0%
Net Dbt to Eqty (Dec-2022A)	90.9%
ESGMeter™	Medium

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GPI = Group 1

F&amp;I = Finance &amp; Insurance

P&amp;S = Parts &amp; Service

FIPVR = Finance &amp; Insurance per vehicle retailed

GPU = Gross profit per unit

SSS = Same-store sales

SAAR = Seasonally adjusted annual rate

**Exhibit 1: Quarterly results YoY and versus BofAe**

GPI reported 4Q:23 adjusted EPS of \$9.50 versus BofAe \$10.41

	YoY Change			Variance		
	4Q:23	4Q:22	% Δ	4Q Actual	4Q BofAe	% Δ
<b>Revenue</b>						
New vehicles - retail	\$2,311,200	\$1,972,800	17.2%	\$2,311,200	\$2,209,470	4.6%
Used vehicles - retail	1,334,500	1,319,400	1.1%	1,334,500	1,393,111	-4.2%
Used vehicle - wholesale	102,300	85,700	19.4%	102,300	99,785	2.5%
Total used vehicle	1,436,800	1,405,100	2.3%	1,436,800	1,492,896	-3.8%
Parts and services	545,000	518,400	5.1%	545,000	584,875	-6.8%
Finance and insurance	187,100	172,700	8.3%	187,100	177,857	5.2%
<b>Total Revenue</b>	<b>4,480,100</b>	<b>4,069,000</b>	<b>10.1%</b>	<b>4,480,100</b>	<b>4,465,097</b>	<b>0.3%</b>
COGS	3,749,500	3,349,500	11.9%	3,749,500	3,731,228	0.5%
<b>Gross Profit</b>	<b>730,600</b>	<b>719,500</b>	<b>1.5%</b>	<b>730,600</b>	<b>733,869</b>	<b>-0.4%</b>
SG&A	485,700	452,900	7.2%	485,700	481,046	1.0%
D&A	23,100	22,400	3.1%	23,100	22,800	1.3%
<b>Operating Profit</b>	<b>221,800</b>	<b>244,100</b>	<b>-9.1%</b>	<b>221,800</b>	<b>230,023</b>	<b>-3.6%</b>
Floorplan interest expense	(19,400)	(9,600)	102.1%	(19,400)	(17,500)	10.9%
Other interest expense, net	(27,700)	(22,000)	25.9%	(27,700)	(28,000)	-1.1%
<b>Net Inc. from Cont. Ops</b>	<b>\$131,100</b>	<b>\$158,500</b>	<b>-17.3%</b>	<b>\$131,100</b>	<b>\$141,160</b>	<b>-7.1%</b>
Diluted Share Count	13,500	14,170	-4.7%	13,500	13,561	-0.4%
<b>Adj. EPS from Cont. Ops</b>	<b>9.50</b>	<b>10.86</b>	<b>-12.6%</b>	<b>9.50</b>	<b>10.41</b>	<b>-8.8%</b>
<b>Gross Margin Detail:</b>	<b>4Q:23</b>	<b>4Q:22</b>	<b>Bps Δ</b>	<b>4Q Actual</b>	<b>4Q BofAe</b>	<b>Bps Δ</b>
New Vehicle Retail	8.0%	10.5%	(253)	8.0%	7.9%	6
Used Vehicle Retail	4.8%	4.6%	23	4.8%	4.6%	20
Parts & Service	54.9%	54.2%	69	54.9%	54.0%	92
Finance & Insurance	100.0%	100.0%	-	100.0%	100.0%	-
Total Gross Margin	16.3%	17.7%	(137)	16.3%	16.4%	(13)
SG&A as % of Gross Profit	66.5%	63.0%	352	66.5%	65.5%	93
<b>Same-Store Sales:</b>	<b>4Q:23</b>	<b>4Q:22</b>	<b>Bps Δ</b>	<b>4Q Actual</b>	<b>4Q BofAe</b>	<b>Bps Δ</b>
New vehicles - total	11.7%	6.6%	510	11.7%	5.9%	577
Used vehicles - retail	-2.0%	5.3%	(732)	-2.0%	0.9%	(289)
Used vehicles - total	-0.9%	4.0%	(487)	-0.9%	1.3%	(222)
Parts and services	4.9%	9.3%	(438)	4.9%	8.0%	(307)
Finance and insurance	4.2%	4.6%	(41)	4.2%	-3.2%	734
Total Same-Store Sales Growth	6.2%	5.9%	26	6.2%	4.2%	196
<b>Units Sold:</b>	<b>4Q:23</b>	<b>4Q:22</b>	<b>% Δ</b>	<b>4Q Actual</b>	<b>4Q BofAe</b>	<b>% Δ</b>
New vehicles - retail	45,827	39,922	14.8%	45,827	45,651	0.4%
Used vehicles - retail	44,656	43,560	2.5%	44,656	46,943	-4.9%
<b>Per Unit Data:</b>	<b>4Q:23</b>	<b>4Q:22</b>	<b>\$ Δ</b>	<b>4Q Actual</b>	<b>4Q BofAe</b>	<b>\$ Δ</b>
New Vehicle Revenue per Unit	\$50,433	\$49,416	\$1,017	\$50,433	\$48,399	\$2,034
Used Vehicle Revenue per Unit	\$29,884	\$30,289	(\$405)	\$29,884	\$29,677	\$207
New Vehicle Gross Profit per Unit	\$4,026	\$5,195	(\$1,169)	\$4,026	\$3,836	\$190
Used Vehicle Gross Profit per Unit	\$1,435	\$1,387	\$49	\$1,435	\$1,365	\$70
FIPVR	\$2,068	\$2,069	(\$1)	\$2,068	\$1,921	\$147

Source: Company filings, BofA Global Research estimates

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**Price objective basis & risk****Group 1 Auto (GPI)**

Our price objective of \$455 is based on a P/E multiple of roughly 11x on our 2024 estimates, which is about in-line with an average dealer through-cycle multiple. We believe this is appropriate in light of the ongoing recovery in the US/NA automotive cycle following the COVID-induced trough in 2020, which should translate into revenue and earnings growth across the dealer vertical over our forecast period.

Downside risks: 1) weaker demand than expected in the US, and/or UK, 2) the loss of key management, 3) the possibility that GPI is unable to achieve the operating leverage we

forecast, 4) higher interest rate environment causes material demand deterioration and/or repossessions, 5) consumer dissatisfaction with auto retailing, and 6) the potential for franchise law and/or consumer finance law changes.

Upside risks: 1) US/NA cycle recovers and plateaus at a high level of sales, continues growing, or even declines less than expected, 2) GPI is able to gain back some gross profit per unit in its new and used vehicles businesses, 3) growth in international markets helps to offset weakness in the US market, and 4) interest rates decline quicker than expected, stimulating demand in 2H23.

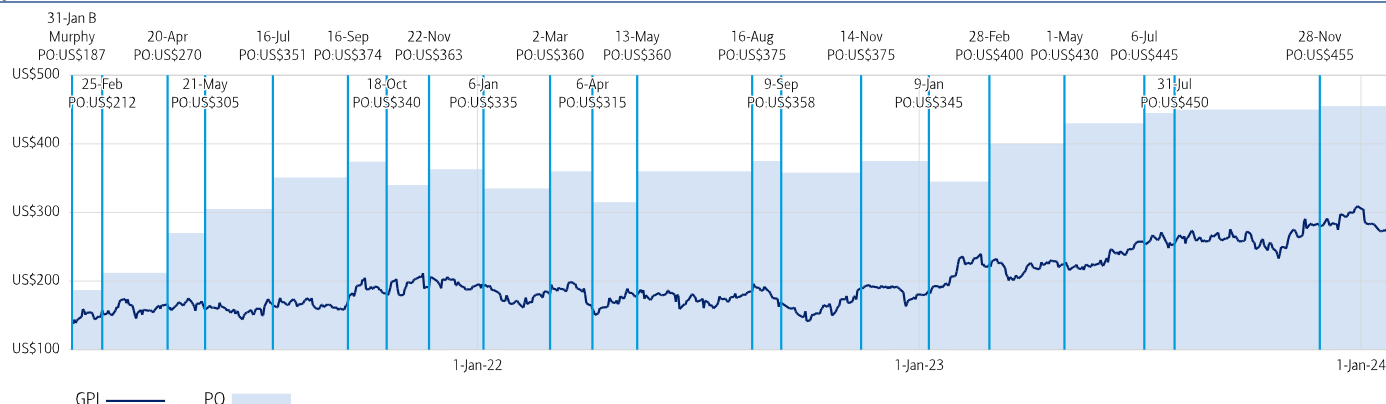
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### Group 1 Auto (GPI) Price Chart



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Buy	5	71.43%	Buy	2	40.00%
Hold	0	0.00%	Hold	0	0.00%
Sell	2	28.57%	Sell	1	50.00%

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