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CORPORATE PARTICIPANTS

Pete DeLongchamps
Group 1 Automotive Inc. - VP Manufacturer Relations and Public Affairs

Earl Hesterberg
Group 2 Automotive Inc. - President, CEO

John Rickel
Group 1 Automotive Inc. - Senior VP, CFO

CONFERENCE CALL PARTICIPANTS

Simeon Gutman
Credit Suisse - Analyst

Rick Nelson
Steven Hood Investment - Analyst

Matt Nemer
Wells Fargo Securities - Analyst

Ravi Shanker
Morgan Stanley - Analyst

Scott Stember
Sidoti & Co. - Analyst

Jordan Hymowitz
Philadelphia Financials - Analyst

John Murphy
Bank of America, Merril Lynch - Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Group 1 Automotive Incorporated first quarter 2011 conference call. Please be advised this call is being recorded. I will now turn it over to Mr. Pete DeLongchamps, Vice President Manufacturer Relations and Public Affairs. Please go ahead, Mr De Longchamps.

Pete DeLongchamps - *Group 1 Automotive Inc. - VP Manufacturer Relations and Public Affairs*

Well, thank you, James, and good morning, everyone and welcome to today's call. Before we begin, I would like to make some brief remarks about forward-looking statements in the use of non-GAAP financial measures. Except for historical 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 and future periods to differ materially from forecasted results. Those risks include but are not limited to risks associated with price and volume in the conditions of market. 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 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 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. I will now hand the call over to Earl.

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

Thank you, Pete, and good morning, everyone. Thank you for joining us on today's call. I'm pleased to announce that Group 1's first quarter results reflected revenue and gross profit growth in all segments of the business. We continue to leverage our leaner cost structure. We discussed on the fourth quarter earnings call, our focus is on growing the business.

Keeping with that strategy we sold 20% more new vehicles compared to the first quarter of 2010 which drove a 22% increase in revenues and a 9% gross profit expansion. New vehicle gross margin continued to be constrained due to our brand mix and an ongoing competitive selling environment. However, we would anticipate improvement in the coming months as the overall industry inventory level tightens.

We also retailed 12% more used vehicle units resulting in a 16% revenue increase. More than a third of these sales were certified pre owned vehicles that typically sell at higher prices and have better service retention rates. Our used vehicle gross margin expanded 130 basis points on a sequential basis, primarily reflecting $113 per retail unit increase and stronger wholesale results.

Finance and insurance revenues increased 18% on higher new and used retail unit sales. Gross profit for retail unit increased $16 year-over-year to $1,068 per unit as we generated higher penetration rates in our vehicle contract offerings and improved profitability for arranging financing contracts. We had another strong quarter in parts and service with revenues up 5% and gross profit growing 4%.

We experienced growth in all areas of this business led by warranty and wholesale parts increases. The growth in each of our business segments drove the 18% increase in total revenues and the 8% gross profit increase. We remain prudent about containing costs in the first quarter. The sales leverage was evidenced by the SG&A as a percentage of gross profit improvement of 210 basis points from the prior year period to 79.3%. Slight improvement in operating margin to 2.8% contributed to the 49% increase and adjusted net income which John will discuss in more detail in a moment.

Turning now to our new vehicle sales mix and inventory levels. On a geographic basis we saw continued improvement in Texas, California and the southeast. Our central region had a 24% increase in new vehicle sales with strong results in both Oklahoma and Texas. Sales at our Texas stores were up 23% and our southeast store sold 25% more new vehicle units than last year. These results are noteworthy because 12 of our stores in Oklahoma lost an average of two days of business and seven of our stores in the southeast lost an average of three days of business due to severe weather those states experienced in January and February. In total our stores lost a total of 105 selling days during the first quarter which makes our results even more notable.

Imported luxury brand new vehicle unit sales mix remained relatively flat at 85%. Although there was a slight shift toward the domestic brands for the fourth quarter. The biggest mix swing was in our import brands where sales mix increased 350 basis points from the fourth quarter to account for 59% of our new vehicle unit sales in the first quarter. Our new vehicle unit sales increase of 20% was slightly below the industry retail increase for the quarter, but this was due to our brand mix being waived toward brands such as Toyota, BMW and Ford which under-performed for the quarter. Group 1 sales performance significantly exceeded the national growth rate for seven of our eight major brands during the quarter.

New vehicle inventory fell slightly to 51-day supply at March 31st. Our import and luxury inventories were on target at 48-day supply and our domestic inventory was at 66-day supply. Which brings me to a topic that has been in the headlines, Japan. First let me convey our sympathies by those who have been affected by the earthquake and tsunami that struck Japan in March. We have many business partners and friends who have been directly impacted by the quake. I am proud to report that Group 1 and its employees have made significant contributions to the American Red Cross Japan Earthquake and Pacific Tsunami Fund to help the relief efforts. We all hope for a speedy recovery. It has been a little more than six weeks since the earthquake and resulting tsunami struck Japan and manufacturers are still assessing the impact within the supply chains to feed the Japanese brands as well as some European brands. A fluid situation that we are monitoring constantly.

We are in constant contact with our manufacture partners in disseminating information throughout our dealer network so operational decisions can be made accordingly. Each of our stores has a flexible action plan in place to deal with the situation as it evolves. We are already taking the necessary action such as adjusting advertising, staffing and other expense levels at the dealerships that have the most probability of feeling the affect of near term production slow downs until we have a complete understanding of the situation. As it looks today we anticipate seeing a decrease in some new vehicle unit production volumes in the coming months of anywhere of 30 to 50%. We will most likely lose some retail sales in the second half of the second quarter and end of the third quarter due to lack of new vehicle availability in our major Japanese brands.

However, this is impossible to quantify and we will attempt to mitigate lost sales by drawing on inventory from all of our same-brand dealerships within the company. We have experienced operating in a reduced inventory environment. The import manufacturers have historically had much higher inventory levels where a high percentage of vehicles were actually pre -old before physically arriving at the dealership. It won't be easy, but as I said earlier we have previous experience of short supply and we have plans in place to deal with the challenge. We know the production slow down will just be a 60 to 120-day temporary bump in the road and we are confident we will successfully move through it as we have done with other issues that have impacted the industry over the past 24 months. I will now turn the call over to our CFO, John Rickel, to go our over first quarter financial results in more detail. John?

John Rickel - *Group 1 Automotive Inc. - Senior VP, CFO*

Thank you, Earl, and good morning, everyone. For the first quarter of 2011 our adjusted net income rose 48.5% or $5.1 million over prior year to $15.5 million. This result excludes $140,000 of after tax non-cash asset impairment charges primarily related to real estate holdings. Per diluted share adjusted net income rose $.23 cents or 52.3% to $.67 in the first quarter of 2011. On a consolidated basis, revenues increased $218.1 million or 18.3% to $1.4 billion compared to the same period a year ago, primarily reflecting a 21.5% increase in our new vehicle sales, and 15.7% increase in our used retail vehicle sales. Our gross profit increased $17.3 million from the first quarter a year ago to $221.8 million which included increases of 8.6% in new vehicles, 9.3% in retail used vehicle and 18% in F&I.

These improvements primarily reflect the volume increases I just mentioned. We are also very pleased to report a 3.8% increase in our parts and service gross profit. Overall our gross margin declined 150 basis points to 15.7% in the first quarter of 2011, primarily reflecting the mix effect of higher new and used vehicle sales which outpaced our parts and service sales increases. Our new vehicle margins which were virtually flat on a sequential quarter basis at 5.5% continue to be pressured by the competitive new vehicle market.

Used vehicle retail margins improved 70 basis points on a sequential quarter basis to 8.9% as a percent of inventory source from trade-ins improved sequentially, consistent with new vehicle sales growth outpacing used sales growth in the quarter. Parts and service gross margin decreased 70 basis points to 53% from the year-ago period which is primarily attributable to our warranty parts and service business that benefited from the two major Toyota recall campaigns that began in the first quarter of 2010. For the first quarter of 2011, SG&A expense as a percent of gross profit improved 210 basis points from the comparable results in the first quarter of 2010 to 79.3% as we continue to leverage our cost base.

(Inaudible) interest expense decreased $806,000 or 10.7% in the first quarter of 2011 to $6.8 million as compared with the same period a year ago. This decrease primarily reflects a decline in our weighted average borrowing rate as $250 million of our interest rate swaps at a weighted-average rate of 4.8% expired in December of 2010, firstly offset by a higher weighted average gross borrowing of $149.2 million. Manufacturers' insurance assistance which we record as a reduction of new vehicle cost of sales at the time the vehicles are sold covered 91.9% of total floor plan interest expense, a 22.7 percentage point improvement from the first quarter of last year. Other interest expense increased $838,000 or 11.8%, to $7.9 million in the first quarter of 2011, primarily explained by higher mortgage interest costs. Our consolidated interest expense includes non-cash discount amortization of $2.3 million related to our convertible notes.

Now turning to first quarter same store results, in the first quarter we reported revenue of $1.4 billion which was a 16.6% increase from the 2010 period. Our new vehicle retail sales improved 20.2% to $762.6 million on 18.2% more units. We were particularly proud of these results given the unusual number of selling days that we lost during the first couple of months of 2011 due to inclement weather that plagued many of our markets. In total our stores lost over 100 selling days more than last year including 24 days in Oklahoma and another 18 days in the southeast portion of the country. Our used vehicle business posted another very strong quarter as well with used vehicle revenues increasing 12.5% to $311 million on 9.2% more units.

Our F&I revenues were up $6.6 million or 18%. In addition to the positive impact from the increase in retail unit sales, our F&I revenues were bolstered by a 7% increase in our financing (Inaudible) contract. This improvement reflects the focus we've had on our business processes in this area as well as the improving economic and customer lending conditions that have allowed for lower customer down payments and higher amounts financed. We also generated a 260-basis point improvement in our vehicle service contract penetration rates to 35.7% of our retail sales. Overall our same store F&I income per retail unit increased $33 to $1,084 from the same period a year ago.

Turning to the core of our business, our parts and service operations. We continue to deliver year-over-year growth with same store revenues up 4.2% over the comparable period. This growth included a 7.9% improvement in our warranty business despite challenging comparative results from a Toyota pedal adjustment and floor mat campaigns that bolstered last year's results. We also realized a 2.7% increase in our customer pay parts and service revenues a 5.1% increase in our wholesale parts business and 2.1% growth in our collision business. The fact we were able to deliver these levels of growth in the face of the days we lost to weather in the quarter makes the results even more impressive. It is also important to note our parts and service revenues are not bolstered by increases in internal business. The revenue associated with internal work is eliminated in consolidation. This varies across the sector as some of our competitors account for internal work differently. Generally we have begun to see an uptick in warranty-related activity across a number of manufacturers and our customer pay revenues improved in most of the major brands that we represent as initiatives focus on customers, products and processes continue to build momentum and generate results.

Increases in our wholesale parts and collision businesses are primarily attributable to our recent focus on enhancing our business processes in these businesses. Our wholesale parts sales also have benefited from the closure of competing dealerships as well as the impact of the stabilizing economy that has helped to strengthen our wholesale parts customers' credit worthiness. As a result of our strong same store revenue growth, our first quarter growth profit improved $15.6 million or 7.7% compared to 2010. On a per unit basis our average new vehicle selling prices increased $542 to $31,816 primarily reflecting a mix shift toward trucks. On a sequential basis our new vehicle gross margin was about flat at 5.5%. Our retail used vehicle revenues were up more than $560 on a per unit basis and sequentially our used vehicle retail gross margin rose 70 basis points to 9%.

Our same store parts and service margin decreased 50 basis points to 53.4% primarily reflecting a return to more normalized margins in our warranty parts and service business. As I mentioned several times last year our 2010 warranty margins were bolstered by the higher labor content of the Toyota recalls. In addition recently implemented customer pay initiatives that are designed to grow our market share and revenues have resulted in a slight (inaudible) decline in our customer pay parts and service margins. Same store SG&A expense as percent of gross profit improved 190 basis points from the first quarter year ago to 78.7% reflecting the leverage on our cost structure that the higher revenues provide.

Now turning to liquidity and capital structure. We generated cash flow from operations of $53.4 million on an adjusted basis in the first quarter. As of March 31st, 2011 we had $44.8 million of cash on hand and another $107.7 million that was invested in our flow plan account bringing immediately available funds to a total of $152.5 million. In addition we had $204.2 million available on our acquisition line that could also be used for general corporate purposes. As such, our total liquidity at March 31st was $356.7 million.

We used $5.3 million for capital expenditures during the quarter to construct new facilities, purchase equipment and improve existing facilities. We will continue to critically evaluate all planned capital spending for 2011 and work with our manufacturer partners to maximize the return on our investments. We anticipate that our full year capital spending will be less than $50 million which includes $10 million for specific growth initiatives in our parts and service business. At quarter end our new vehicle inventory stood at 17,400 units with a value of $555 million compared to 15,200 units with a value of $454 million a year ago.

With regard to our real estate investment portfolio, we own $405.9 million of land and buildings at March 31st, which represents approximately one-third of our total real estate. To finance these holdings we utilized our mortgage facility and executed borrowings under other real-estate specific debt agreements. For additional detail regarding our financial condition please refer to the schedules of additional information attached to the news release as well as investor presentation posted on our website. With that I will now turn it back over to Earl. Earl?

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

Thanks, John. Looking ahead at the rest of 2011, the production slow downs of a few of the brands we sell will have an impact on our near term sales. Tight industry inventories have historically allowed us to expand our profit margins and we have the experience and the appropriate plans in place to operate successfully at these lower sales levels during the next couple of months. Looking at the full year we expect some sales may now slip into next year and as a result industry growth may be constrained as the year progresses. The lower end of our SAR range of $12.5 million appears more likely if the production constraints are extended through the summer. As for our used vehicle business we have the technology and processes in place to operate an environment of lower trade-in volumes and higher auction prices.

Parts and service should remain stable as it has been historically. We do not anticipate parts to be an issue and we may see an increase in services provided for customers who delay their new vehicle purchases until later in the year. There have also been some recent large recalls that will drive incremental warranty service work in the coming months. Our overall strategy is to grow the business both organically and by acquiring additional franchises to further diversify our brand mix port folio. We plan to acquire franchises that will complement our footprint but will also look for deals that expand our geographic reach. In February we announced that Group 1 acquired a Ford dealership in our Huston metro market area and in March we announced the acquisition of a Volkswagen dealership in the Dallas market area. In addition last week we announced a BMW-Mini dealership acquisition that expanded our footprint into El Paso, Texas.

In total we have acquired four franchises in 2011and we expect to generate an additional $150 million in annual revenues. Our corporate development department also oversees our capital expenditures of which we still anticipate spending less than $50 million on this year. These expenditures include specific parts and service initiatives to expand that segment of the business as well as other improvement projects that have a solid business case.

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

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). We will take our first question from Simeon Gutman with Credit Suisse.

Simeon Gutman - *Credit Suisse - Analyst*

Thanks. Earl, first a big picture question on new vehicle gross margins, and I realize this has been a topic for the past several quarters, are the margin challenges beginning to look more structural in nature? I look at the data here and we are going through a real demand recovery. We were at I think 17% and change, $100 per vehicle this quarter and in 2007 we were over $2000. So what is structural here? Is there anything having to do with the internet that is taking that down? And what is cyclical, maybe some fallout from Toyota and import categories? Thanks

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Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

Interesting point you made on the internet. Because I think that is a longer term issue that has crept in in recent years that manufacturers haven't come to fully recognize yet that will be a long-term part of our business model and a pressure on margins. But I believe the pressure over the last year or so has been one more of recovering manufacturers and dealers in the total market that still is low relative to historic terms at 12 million units or whatever it's been, 11.5 million, 12 million, 13 million. You have a lot of fairly strong competitors fighting it out in a market that is smaller than historically it has been. And also I believe the Japanese manufacturers have been struggling to mitigate share losses because of the obvious Toyota-related recall issue. So I think that was more of what we experienced in the last year. So I don't know that was long-term structural.

But I think one of the -- one of those main factors obviously now should turn toward more positive margins for us because this scrapping for share by the Japanese manufacturers and the associated over supply particularly on volume models such as Camry, Corolla, Accord, Civic, things like that, is clearly going to dissipate in the next couple months. So we should certainly get back to healthier, new vehicle margins as we move through the summer. What happens when we come out into very late this calendar year and early next year? We will have to see what the overall level of demand is and what the supply and demand balance is after these Japanese manufacturers can produce cars again at normal clip.

Simeon Gutman - *Credit Suisse - Analyst*

And just thinking through the supply issue, we have heard some of the manufacturers pull incentives, we've heard dealers are thinking about getting closer to MSRP and that's consistent maybe with some of your comments today. We have also heard that maybe recently in some markets there has been a little bit of a pull back. Consumers are very sensitive and they know that and may just be willing to wait it out or wait for someone to come back in the market. Is there a risk that the dealers that push incentives back because yes you are adjusting the fixed cost structures, but at some point you want to move the needle on the sales as well. Is there a risk that occurs at some point?

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

Well, I think that is the nature of our business. It is a very aggressive business on behalf of both the manufacturers and dealers. And as we move through the summer I'm sure we will discover which manufacturers really can make vehicles at a near normal clip. I don't think that's clear yet as this information continues to drip out. We focus on the Japanese brands, and I don't think we are completely clear on which non-Japanese brands would have an opportunity this summer to go for market share because they can produce it at higher volumes. But there is an ongoing risk in this business of volume pressure.

But the good news is as dealers we have more flexible cost structures more than any other part of the supply chain, and that's what we will be able to use now to adjust to whatever the market brings to us through the summer. Clearly we going to lose new vehicle sales, but we can compensate what margin we can compensate with expense reductions and we can move more of our business into used sales. And the good news is it is no longer a consumer issue we are dealing with. There is no evidence the consumer has backed off. Even in April the JD Powers tracking for the SAR in April still seems to be pretty strong and certainly closer to 13 million than 12 million. Thus far I don't think we have seen any consumer pull back.

Simeon Gutman - *Credit Suisse - Analyst*

My last one and just can you comment on inventories on some of the makes that are the better sellers that are having supply issues already like the Prius we've heard. In some places they are out of them. I realize you're...

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

Quite frankly, we were out of Prius before any impact from this earthquake-related production disruption. That was more a function of rising fuel prices, and we have been out of Prius for several, several weeks. The issues that exist, or actually the ones that existed before this supply disruption, the compact SUV segment has been the hottest for quite some time. Rav4, CRV will be the first in short supply. Juke and Rogue Four for Nissan have been hot. Those were hot before any of this happened. Prius was that way. Hyundai vehicles were short all during the first quarter across the board, nothing to do with this. Those are the only types of supply issues that have manifested thus far that I am aware of.

Simeon Gutman - *Credit Suisse - Analyst*

Okay, thanks.

Operator

Next we will hear from Rick Nelson with [Steven Hood Investment]

Rick Nelson - *Steven Hood Investment - Analyst*

Thank you and good morning.

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

Good morning.

Rick Nelson - *Steven Hood Investment - Analyst*

I would like to ask you about Toyota allocations and maybe some of the other Japanese brands we are hearing that Toyota is on a week to week basis has really curtailed allocations. Is it the OEMs? Are they telling you that it is a few months issue or I guess how are you coming to that conclusion?

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

Well, Rick, it certainly has dribbled out week by week in terms of information and has been painfully slow, and perhaps that's because the manufacturers are discovering more each week in their supply chain, and I guess there are more tiers of suppliers than any of us realized. I've heard then talk about tier five suppliers and even when I worked at the factory I didn't know there were more than three tiers. Toyota has told us they reached the bottom of production, but won't get back to normal until November. They are clearly going to be hit hard, and we are kind of assuming looking at our business with 50% of normal production through the summer.

But I will say that we are nowhere near in a tight inventory situation on those volume models for things like Camry and Corolla, they have been over supplied and we are certainly in no near term danger of running out of those. And similar fashion on things like accord and Altima. Civic is probably a little bit tighter than these volume Japanese models because they are going through a major model change. But the core Japanese models are in a position to holdup pretty well for several months as far as I can tell.

Rick Nelson - *Steven Hood Investment - Analyst*

If production does drop 30% or even 50%, are the offsets that you mentioned, new car margins, used car sales, service potentially accelerating the expense, cuts? I'm sure we will see some brand migration. Is that enough to offset that production issue from a profitability standpoint?

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

I don't know enough to say that, and I would think it is unlikely they will offset it dollar for dollar. But bear in mind we have been growing at kind of 20% annual -- or quarterly sales rate over three, four, five quarters. So it doesn't mean we can't continue to grow, but it is clearly going to hit our growth rate. There's no doubt about that. There's just too many variables for us to judge this dollar for dollar in terms of a complete offset. But I'm assuming that won't be the case.

But that said all the analysis we do or have done shows that we will get down in the 20 to 30-day supply level with these Japanese brands, but not down into the teens. And That's encouraging to me because for many years I called on Japanese brand dealers from the factory and they dealt with 20 to 30-day supply of inventory for virtually decades. So we may be a little rusty in our memory in how to do that, but I guess we are going to get back to that pretty soon. And so I'm optimistic we can do better than people think.

Rick Nelson - *Steven Hood Investment - Analyst*

What do you see happening in the used car business benefiting from the short supplies, but then having to source more at auction which would be lower margin and how do you see those two dynamics playing out as a positive?

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

Well That's one of the big variables that make it difficult to predict the financial impact of this, but used car prices are about as high as anyone has seen them, very high. And I'm sure everyone in our business is trying to source as many used cars as possible which is pushing a lot of people to auction. And to the degree that we have to go to auction more, we will have lower margins on our used cars. So again we will have to see how that plays out, and everyone's goal is to minimize the percentage of outside sourcing they will have to do on used cars.

Rick Nelson - *Steven Hood Investment - Analyst*

As we build our models on the foregone gross profit on the Japanese brands, I know they are lower margin, can you give us an idea of where that gross per unit might be?

John Rickel - *Group 1 Automotive Inc. - Senior VP, CFO*

Rick, this is John Rickel, you are looking for kind of percent margins on those?

Rick Nelson - *Steven Hood Investment - Analyst*

No, dollar per vehicle on those cars we will be losing due to the supply disruption.

John Rickel - *Group 1 Automotive Inc. - Senior VP, CFO*

Yeah, I mean, the challenges that we have had over the last couple quarters have been predominantly in the Japanese brand. I think if you are modeling something around $1000 to $1200 a unit you are I think in the right ballpark on the lost units.

Rick Nelson - *Steven Hood Investment - Analyst*

And then the...

John Rickel - *Group 1 Automotive Inc. - Senior VP, CFO*

Bear in mind --

Rick Nelson - *Steven Hood Investment - Analyst*

per unit... the outlook of Japanese to the rest of the business.

John Rickel - *Group 1 Automotive Inc. - Senior VP, CFO*

The Japanese business is the lower margins, but bear in mind it is not only the front end gross that you lose, but you also lose the back end F&I that goes with those which is why what Earl mentioned, the emphasis on used vehicles is important. It allows us to continue to capture the F&I opportunities.

Rick Nelson - *Steven Hood Investment - Analyst*

Very good, thanks a lot and good luck.

John Rickel - *Group 1 Automotive Inc. - Senior VP, CFO*

Thank you.

Operator

We will now hear from Matt Nemer with Wells Fargo Securities.

Matt Nemer - *Wells Fargo Securities - Analyst*

Good morning, everyone.

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

Good morning, Matt.

Matt Nemer - *Wells Fargo Securities - Analyst*

So my first question you may -- I may have missed this, but can you comment on front end grosses in late March and April on import brands? In other words do the reported numbers for Q1 really tell the full picture of maybe what happened to margins more recently?

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

Yes, Matt, it is Earl. Margins have started to creep up in April for Japanese brands. I wouldn't comment on non-Japanese brands; we've been watching Japanese brands most closely. I would still say I was still stunned last weekend at the number of competitive deals we saw in our dealerships where competitive dealers were offering to sell cars below cost. So I'm not sure everyone has caught on yet, but we are certainly making a concerted effort to move those grosses up from their first quarter levels, and I think that will -- that trend has to continue to improve as we move into May.

Matt Nemer - *Wells Fargo Securities - Analyst*

Just order of magnitude, are we talking about a couple hundred dollars or could it be bigger than that on a per unit basis?

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

I think ultimately it can be bigger than a couple hundred dollars. I don't believe it is yet.

Matt Nemer - *Wells Fargo Securities - Analyst*

Got it, okay. And really I had the same question for the used vehicle segment. Are you seeing -- are you starting to see improved grosses in that segment in late March and into early April?

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

I don't think I would say that I have seen anything yet, and the big issue there is with this rapid and continual increase of used car prices that costs go up and you try to work off of a steady margin, but I don't think there is any significant movement in used vehicle grosses at the moment, nor would I expect anything in the near term like I would on the new vehicle side.

Matt Nemer - *Wells Fargo Securities - Analyst*

Got it. And on that topic as you look to improve or reduce outside sourcing, improve customer sourcing on used cars, are there any specific plans to drive that, i.e., you know, maybe more advertising sort of on the we buy cars theme?

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

Yes, there are a lot of plans to try to do that, but they are somewhat competitive in nature, and we will have to see if they work.

Matt Nemer - *Wells Fargo Securities - Analyst*

Got it. And just lastly on parts and service, should we expect that parts and service comps start to go flat or maybe even turn negative in the back half of the year as you go up against tougher comparisons?

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

No, I don't expect them to turn negative. I think that we've got kind of a significant growth trend, and I would hope that will be kind of steady as she goes. You know, in 3%, 4%, maybe 5% range, That's our goal. But I don't know of any factors, but the tail wind we had seems to continue and there was another Nissan recall yesterday and a Ford F series last week. So there is still a lot of recall activity in the market which helps us continue to generate traffic in our shops.

Matt Nemer - *Wells Fargo Securities - Analyst*

So the warranty side of the equation will sort of keep this bus moving along?

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

Well, the warranty helps us with the traffic. Our goal is to sell those people something and give them a good experience when they are in. So there is the warranty component that the factory pays for. Some of the recalls are not really big repair dollars in and of themselves, but it gives us a chance to get customers in and show them we can do a nice job taking care of their car.

Matt Nemer - *Wells Fargo Securities - Analyst*

Got it, great. That's all I've got. Thanks, guys.

Operator

Next we will hear from RaviShanker with Morgan Stanley.

Ravi Shanker - *Morgan Stanley - Analyst*

Good morning, everyone. Thanks for taking my call. So, Earl, just a follow-up on something you said earlier in the Q&A. How low do you think inventory can go before it starts impacting sales? Because I think, if I remember right, post Cash for Clunkers the industry dipped away 28, 29-day supply and it seemed dealer lots were empty at that time. Can we go much lower than that, do you think?

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

Well, obviously it is a model by model situation, but if we looked at brand inventories we should be able to hold our own pretty well at a 30-day plus level for a given brand. When it gets below 30 days we start to lose some significant numbers of sales. Within 30 or 40 or 50 days of inventory you can have hot models that are down to 10 and That's what will happen particularly on some of these compact SUVs which has been the hottest part of the market I think for a while, and in the last month or two I think smaller cars have become more popular again with the increasing fuel prices. So there may be some other pockets of shortage in smaller car models.

Ravi Shanker - *Morgan Stanley - Analyst*

Got it. And how soon can you pull the trigger on costs? Is that something you are doing already or are you waiting for certain benchmarks like if your new vehicle supply falls below 30 days before you start taking some actions?

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

No, we have been doing that for the last two or three weeks. We are on to part of that right now. But I will say that through April our business has been close to normal levels. So we certainly haven't wanted to take our foot off the marketing pedal too much while we can still enjoy fairly normal sales. But that will start to shift more in May. We will back off the marketing peddle a little more in may.

Ravi Shanker - *Morgan Stanley - Analyst*

So we should see an improvement in SG&A gross next quarter even more than these seasonal improvement (inaudible)?

John Rickel - *Group 1 Automotive Inc. - Senior VP, CFO*

Ravi, this is John Rickel. I don't -- I'm not sure they go quite that far. We will obviously try to mitigate some of this, but it depends on what happens to top line revenues. So I don't know that I would want to commit you will see an improvement in SG&A as a percent of gross.

Ravi Shanker - *Morgan Stanley - Analyst*

Understood. Finally a couple of key new launches for the Japanese this year. The new Civics already hit the lots and can you talk about what customer response to that product has been and what the transaction prices are given that it seems like (inaudible) current car versus some of the competitors of the segment. Also, are you hearing anything on the new Camry that we were supposed to get probably middle of the year, anything regarding the timing of that launch because of the earthquake?

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

I don't have any transaction price data on the new Civic but that is one of the most powerful name plates in entire industry, and particularly with fuel prices trending the way they have been, there is huge pent up demand for a new Civic now or anytime it comes out. The new Civics well move off the lot as quickly as they arrive and there has been a lot of customers waiting to that. As of last week we were advised by Toyota there is no delay to the new Camry.

Ravi Shanker - *Morgan Stanley - Analyst*

Got it. Thanks so much.

Operator

Our next question comes from Scott Stember with Sidoti.

Scott Stember - *Sidoti & Co. - Analyst*

Good morning.

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

Good morning, Scott.

Scott Stember - *Sidoti & Co. - Analyst*

Could you possibly talk about your ability to cross sell between brands concentration of certain brands, for instance Toyota next to a Ford dealer? And on the used side can you talk about whether you have been bulking up with inventory at auction in anticipation of trying to sell more used cars?

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

Yes, the first question of cross selling, it is a little bit challenging for us to move a Toyota customer to a Ford and so forth. We operate these things as separate, independent businesses, but what we are trying to do and we will do is one of the advantages to being a large dealer group is we have 14 Toyota dealerships or something. And if we have a customer who wants a specific Toyota and we don't have it in Houston, I mean we will put it on the truck from Lubbock or Oklahoma City or New Orleans or whatever it takes. That should be an advantage we have within a brand as some of these various models become shorter in supply. So we will definitely work that angle to the degree it is feasible to move a car.

I don't think we going to move cars from L.A. to Boston, but we will certainly move them a good distance to make our customers happy and maximize our sales through this. We have been out aggressively looking for used cars for some time, but I will tell you that we are trying to use some restraint and management oversight in terms of going to auctions and buying large quantities of cars. That is something with the current level of attendance at auctions and price levels at auctions that we want to exhaust non auction sources before we get too carried away at auctions. That's our general approach at the moment.

Scott Stember - *Sidoti & Co. - Analyst*

Last question just on fuel cost. You guys touched on it real quick. What are you seeing with some of the larger SUV sales and migration? Can you give some tangible evidence of people trading down to some of the car-based SUVs?

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

I don't know that I have seen the people bringing in the large SUVs and trading them in like they did two or two-and-a-half years ago, but there is clearly more interest on the new vehicle and used vehicle sales end with smaller cars. So the fuel price increase in the first quarter of this year, the first four months of this year is starting to be noticeable in the types of new vehicles people are looking for, but I wouldn't say that our lots and our trade in appraisal lines are jammed with SUVs like they were back during that last fuel spike a couple years ago.

Scott Stember - *Sidoti & Co. - Analyst*

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

Operator

Jordan Hymowitz with Philadelphia Financials has our next question.

Jordan Hymowitz - *Philadelphia Financials - Analyst*

Thanks, guys. Couple quick questions because most of them have been answered. First of all with this slow down in allocations, do you think the retail channel will be allocated additional vehicles at the expense of the rental car channel?

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

We have been told the answer to that is definitely a yes from all the manufacturers that we deal with.

Jordan Hymowitz - *Philadelphia Financials - Analyst*

Okay, and second question is that you said it is a couple hundred dollars more you would say now on the let's call it a Toyota Camry or Prius now versus three or four weeks ago before the crisis hit, so to speak?

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

Yes, and I was getting a general order of magnitude, but That's my impression, yes.

Jordan Hymowitz - *Philadelphia Financials - Analyst*

So it sounds like the second quarter because you won't have as much supply constraints the gross margins will mitigate a fair amount, possibly as much as all of the supply, but in the third quarter, That's when the volumes if they continue to go down will be more of a negative, would that be a fair statement?

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

That's a fair statement in my opinion.

Jordan Hymowitz - *Philadelphia Financials - Analyst*

Okay, thank you very much.

Operator

You have a question from John Murphy, from Bank of America, Merrill Lynch.

John Murphy - *Bank of America, Merril Lynch - Analyst*

Good morning, guys.

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

Good morning, John.

John Murphy - *Bank of America, Merril Lynch - Analyst*

I just have one last question here. I was wondering in the acquisition market if you guys are seeing any change in multiples given the one last leg of stress we seem to be having after a couple years of tough sales. Are you getting any signs that you see any of these private guys finally throwing in the towel and you might have more acquisition opportunities because of this last leg of stress with the Japanese brands?

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

John, I think there is more acquisition opportunities this year than there has been in several years, but I haven't seen any change in pricing. Nor have we felt comfortable in changing our hurdle rates. But I do believe that there are more potential sellers, and that seems to relate more to CapEx requirements that these people are going -- the way they are going to incur. But in terms of pricing of acquisitions in the market, I don't see any change.

John Murphy - *Bank of America, Merril Lynch - Analyst*

So do you think you will pick up the pace of acquisitions as we go through the course of the year then based on that?

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

We have been trying to do that for a long time, we are going to continue to look as you can see our balance sheet is fairly strong. We want to continue to grow, but we just haven't found a big number or any significant number other than what we already announced, that it met our hurdle rates. But yes, we will continue to look, and I believe there continue to be things for us to look at.

John Murphy - *Bank of America, Merril Lynch - Analyst*

Great, thanks very much.

And that will conclude our question-and-answer session. I will turn the conference over to Mr. Earl Hesterberg for closing comments.

Earl Hesterberg - *Group 2 Automotive Inc. - President, CEO*

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

Operator

This does conclude today's conference call. Thank you for your participation and have a nice day.
