FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning, ladies and gentlemen. And welcome to to today's Group 1 Automotive 2010 first quarter financial results conference. Please be advised that this call is being recorded.

At this time, I would like to turn the conference over to Mr. DeLongchamps, Vice President of Manufacturing Relations and Public Affairs. Please go ahead, Mr. DeLongchamps.

Pete DeLongchamps - *Group 1 Automotive - VP of Manufacturing Relations and Public Affairs*

Thank you, Sara. 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 and the use of non-GAAP financial measures. Except for historical information mentioned during the conference call statements made by management of Group 1 Automotive are forward-looking statements that are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995.

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

Securities & Exchange Commission over the past twelve months. Copies of these filings are available from both the SEC and the Company. In addition, certain non-GAAP financial measures, as defined under the 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 its website.

Participating on today's call is Mr. Earl Hesterberg, President and CEO, John Rickel, our Senior Vice President and Chief Financial Officer, and Lance Parker, our Vice President and Corporate Controller and myself. I will now hand the call over to Earl.

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

Thank you, Pete. Good morning, everyone. In a moment, I will turn the call over to John Rickel so he can provide details of our first quarter financial results.

Let me first touch on some of the operational highlights during the quarter. We improved our new vehicle sales by 18%, despite a very poor start to the quarter, resulting from the Toyota recall challenges and numerous selling days lost due to extreme winter weather in January and February. Industry selling activity for both new and used vehicles dramatically improved in March. While manufacturing incentive activity in March certainly contributed to the improving sales environment. It is our sense that consumers are starting to gain confidence and we're seeing the beginnings of a recovery in new vehicle sales. We saw improvements in most markets and brands in March.

According to J.D. Powers, the March SAAR came in at 11.7 million units, reflecting a 38% increase in retail sales from February 2010. This was the best showing since the cash-for-clunkers-driven in August last year, and we are continuing to see signs of market strength in April. Consistent with this improved new car sales environment, we saw significant double-digit improvement in our new vehicle revenues, gross profit, and gross profit per unit results, compared with the same period a year ago. New vehicle gross margin increased 70 basis points to 6.1% on a year-over-year basis.

Turning to our largest manufacturer partner. Clearly, Toyota's recall issues dominated the automotive news during the first quarter. We talked about this on our fourth quarter call, but were not sure how much of an impact these issues would have on our sales. Particularly the stop sale on all models that represented about 60% of our Toyota volume. We found that the stop sale was short lived. And following that period, Toyota began to introduce aggressive financing incentives and pre-maintenance programs to restart their sales. This worked well in March and gave consumers a reason to come back to Toyota dealerships. The Toyota brand remains a powerful one, and the attractive offers generated a substantial increase in customer traffic at our Toyota dealerships. As a result, we have seen Toyota sales rebound strongly.

For the quarter our Toyota sales increased 14% over the same period a year ago. The other operating highlights of the first quarter were -- improved used vehicle sales of 24% on a year-over-year basis, increased gross profit in all business segments, expanded new vehicle and parts and service gross margins from the prior year period, better retail used vehicle margins on a sequential quarter basis, improved SG&A as a percent of gross profit by 250 basis points due to a leaner cost structure and increased gross profits, operating income increased 38%, and earnings on an adjusted basis more than doubled.

Now, regarding our brand mix during the first quarter, the percentage of our sales from Toyota, Scion and Lexus brands was down a bit from the fourth quarter accounting for 35% of our new vehicle units. Where as Nissan Infinity, and Honda Acura increased their percentage of the mix to 16% and 13% respectively. Rounding out our new vehicle unit sales were BMW and Mini with 10%, Ford at 9%, Mercedes Benz accounted for 5%, and GM and Chrysler accounted for 4% and 3% of unit sales respectively. In total, luxury and import sales account for 85% of our new vehicle unit sales. Our new vehicle inventory was in good shape at a 48-day supply at the end of the first quarter.

Now looking at the used vehicle business, retail unit sales were up 15%, driving a 24% revenue improvement in the first quarter from the prior year period. We did see a sequential improvement in used retail margins of 70 basis points from the fourth quarter as better [trade-in] volumes helped offset continued margin pressure from the need to outsource the supply of a significant number of used vehicles. Increases in used vehicle prices through the quarter led to the higher than normal wholesale profits of $248 per unit. We anticipate seeing both our used retail and wholesale results return to more historical ranges, as new vehicle sales rebound and used vehicle valuations normalize. We continue to manage our used vehicle inventory at a lean 31-day supply, which is consistent with industry levels.

Turning now to our other business segments, in line with improved retail vehicle sales, our finance and insurance revenues grew 17%. On a per unit basis, profit increased to $1,052 per unit, primarily as a result of increased finance penetration rates and improved chargeback experience. Our parts and service gross profit grew 4.2% on a 2.5% higher revenues, resulting in a 90 basis points gross margin improvement to 53.7%. Two large Toyota recalls were a major driver during the quarter.

However, our customer pay and wholesale parts businesses were also up. And our parts and service business in total had positive revenue growth of about 1%, excluding the Toyota recall work. In total, we repaired almost 35,000 unique Toyota vehicles in the quarter at an average repair order value of $145 per unit. While the initial rush has passed, we anticipate we will continue making these repairs through the third quarter. At present, we're still repairing approximately 1,500 vehicles per week.

With that, I will now ask John to discuss our bottom line and go over our financial results in more detail. John?

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

Thank you, Earl, and good morning, everyone. For the first quarter of 2010, our adjusted net income more than doubled to $10.4 million or $0.44 per diluted share. This result excludes an after-tax loss of $2.5 million that we incurred to redeem the remaining $74.6 million of our outstanding 8.25% senior subordinated notes. On a comparable basis, adjusted net income increased $5.7 million, or 121.8% from $4.7 million in the first quarter of 2009.

Our 2009 results excluded a $4.2 million after-tax gain on the redemption of a portion of 2.25% convertible notes as well as a $549,000 after-tax loss on a dealership disposition. We redeemed the $74.6 million face value of 8.25% notes in the first quarter using proceeds from the convertible note offering that we completed in March. We initially issued $100 million at a 3% coupon. The 3% notes are convertible into cash and if applicable common stock at initial conversion price of $38.61 per common share.

In conjunction with the issuance of the 3% notes, we entered into separate hedge and warrant transactions related to our common stock that effectively increased the conversion price for common share of the 3% notes from $38.61 to $56.74. Before factoring in tax benefits, the net cost of the hedge and warrant transactions was $14.5 million. On April 1, the underwriters exercised their overallotment option for an additional $15 million, and we entered into corresponding hedge and warrant transactions.

During the first quarter on a consolidated basis, revenues increased $171.3 million or 16.8% to $1.19 billion compared to the same period a year ago, reflecting increases in each of our business segments. Our new vehicle gross margins improved 70 basis points to 6.1%. And parts and service margins improved 90 basis points to 53.7%. Retail used vehicle margins declined 140 basis points from the prior year period but increased 70 basis points to 9.5% sequentially. Wholesale margins continue to be strong, improving 110 basis points to 3.9%. Our gross profit increased 29 -- sorry, our gross profit increased $21.9 million or 12% from the first quarter a year ago outpacing the increase in absolute SG&A expenses. This resulted in a reduction in our SG&A expense as a percent of gross profit of 250 basis points to 81.4% from the first quarter of 2009.

Floor plan interest expense declined $1.4 million or 15.6% in the first quarter of 2010 to $7.6 million of comparable with the same period a year ago, primarily reflecting $122.5 million reduction in weighted average floor plan borrowings during the quarter. At March 31, 2010, our new vehicle inventories stood at 15,200 units with a value of $454.3 million compared to 16,100 units with a value of $484.1 million a year ago. Other interest expense increased 100,000 or 2% to $7.1 million for the first quarter of 2010, reflecting slightly higher [margin] interest expense. Our consolidated interest expense included $1.5 million of noncash discount amortization related to our convertible notes in both the first quarters of 2009 and 2010. As a reminder, our covenant calculations exclude the impact of noncash interest. Manufacturers' interest assistance, which we record as a reduction of new vehicle cost of sales at the time the vehicles are sold, covered 69.2% of total floor plan interest expense, up from 50.6% in the first quarter a year ago primarily as a result of faster inventory turns.

Now, turning to first quarter same store results. In the first quarter, we had revenues of $1.17 billion which was a 17.4% increase from the same period in 2009. Our new vehicle retail sales improved 18.5% to $633 million on 15.6% more units, despite the Toyota stop sale which impacted 60% of our Toyota sales for two weeks during the quarter,and unfavorable weather events that interrupted operations in parts of the Northeast, Oklahoma and Texas in January and February. We experienced increases in most of the brands that we represent but most notably Nissan unit sales increased 55.8%, Toyota sales improved 14%, Ford unit sales increased 23.1%, and Lexus unit sales grew 23%. Our revenues per unit sold improved 2.5% to $31,304. Generally, we believe that our new vehicle results are at least consistent with the retail performance of the brands that we represent and the markets that we serve.

Retail used vehicle revenues increased 24.7% to $272.5 million on 15.9% more units. With the increase in new vehicle sales and [trade-in] activity, we also experienced an increase in our wholesale used vehicle revenue of 23.1% on 6.1% more units. Our parts and service revenues increased 3.9%, primarily reflecting an 8.6% improvement in our warranty parts and service business, which was driven by the recent Toyota recalls. Importantly, we also experienced a 2.8% increase in our customer pay parts and service revenues, reflecting an 8.2% increase in our domestic brand stores and a 3.7% improvement in our luxury brand stores.

In addition, our wholesale part sales grew 5.5% as a result of increased business with independent collision centers and repair shops. Our F&I revenues were up $5.7 million or 18.2% compared to the same period a year ago. In addition to the positive impact from the 15.7% increase in new and used retail unit sales, our F&I revenues were bolstered by a 3.9 percentage point improvement in our finance penetration rates and lower chargeback costs. Overall our F&I income for retail unit increased $22 to $1,063 from the same period a year ago.

Our new vehicle gross margins improved 50 basis points to 6% and our used vehicle margins were consistent with our consolidated results coming in at 9.5%. On the new vehicle side gross margins improved to nearly all the brands we represent. On a pre-unit basis our new vehicle gross profit improved 13.6% to $1,891. Our same store parts and service margin improved 80 basis points to 53.7%, primarily reflecting the positive impact to the Toyota recalls on our warranty parts and service segment of this business. With the 12.7% improvement in our gross profit, the leverage on our cost structure resulted in 150 basis points improvement in SG&A as a percent of gross profit to 81.2%. In absolute dollars, SG&A increased 10.6% from the first quarter a year ago to $163.3 million reflecting the vehicle sales volume improvement.

Now, turning to liquidity and capital structure, during the first quarter of 2010 we generated cash flow from operations on an adjusted basis of $47.5 million. We used $3 million for capital expenditures to construct new facilities, purchase equipment, and improve existing facilities. In addition, we invested another $13.8 million into our floor plan offset account, which we use to temporarily hold excess cash. As a result, we had $28.2 million of cash on hand and $85.4 million invested in our floor plan offset account as of March 31, 2010, bringing immediately available funds to a total of $113.6 million at quarter end.

In addition, we had $177.4 million available on our acquisition line that can also be used for general corporate purposes. As such our total liquidity at March 31, 2010, was $291 million. We have updated the financial covenant calculations within each of our debt agreements and as of March 31, 2010, we were in compliance with all such covenants. Based upon our industry outlook and projected earnings for 2010, we expect to remain compliant for the foreseeable future.

With regards to our real estate investment portfolio, we had $382.9 million of land and buildings at quarter end, 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. As of March 31, we had borrowings outstanding of $190.1 million under our mortgage facility with $44.9 million available for future borrowings.

With regards on our capital expenditures, we'll continue to critically evaluate all planned capital spending for 2010 and work with our manufacturer partners to maximize return on our investments. We anticipate that our full year capital spending will be less than $40 million. Traditional details regarding our financial condition including the specifics regarding our covenant calculations. 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 will now turn back over to Earl. Earl?

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

Thanks, John. With improved auto retailing conditions, we're excited about growing our business again. As John mentioned, we more than doubled our bottom line earnings validating that we're solidly positioned to grow the Company while maintaining the discipline we demonstrated during the last eighteen months.

We made a good start this year with the additions of the Sprinter franchise to our Mercedes Benz stores in Augusta and [Massapequa], Long Island in January, the doubling of the footprint with two BMW Mini stores in Farnborough and Hindhead in February, in addition of two dealerships in South Carolina in April -- Toyota/Scion of Rock Hill and Audi of Columbia.

Continuing to review potential acquisition opportunities to find those that make good business sense and we will only proceed with those that we believe will return value to our shareholders. Looking forward, for 2010 J.D. Powers current SAAR estimate is 11.7 million units, which is the assumption we're using for our near-term planning purposes. We believe the Company is well positioned with leaner cost structure, more efficient processes, and a stronger balance sheet but should allow us to take full advantage of the recovering market.

That concludes our prepared remarks. In a moment, we'll open the call up for Q&A. I'll now turn the call over to the operator to begin the Q&A session. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first from Stephens we'll go to Rick Nelson.

Rick Nelson - *Stephens Inc. - Analyst*

Good morning.

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

Good morning, Rick.

Rick Nelson - *Stephens Inc. - Analyst*

I ask if we could try to separate the Toyota recall benefits from the reported results. Maybe looking at same-store sales of 3.9% that you reported in service and parts with that would have looked like ex Toyota?

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

Rick, this is John. Ex the two large recalls, we would have been up 1.1% on a total basis. So the recalls were worth 2.8 of the 3.9 percentage point growth.

Rick Nelson - *Stephens Inc. - Analyst*

If we could take a look at warranty and customer pay, also ex Toyota stores, that would be helpful.

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

I don't have the specific on weampt, but warranty would have been significantly without the Toyota increase.

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

The specific numbers is the excluding the recalls would have been down 5% on warranty. Customer pay would have been basically unchanged. It was up 2.8%.

Rick Nelson - *Stephens Inc. - Analyst*

And that excludes the Toyota stores?

Pete DeLongchamps - *Group 1 Automotive - VP of Manufacturing Relations and Public Affairs*

No, that excludes the recall. If you want to exclude Toyota in total, Rick, customer pay would have been up 4% excluding Toyota and warranty would have been down 9.2%m excluding Toyota in total.

Rick Nelson - *Stephens Inc. - Analyst*

Thank you. That's helpful. Do you think at the end of the day, then, Toyota was actually plus for the first quarter? I know you had indicated that you thought it might negatively impact in the first quarter.

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

Yes, Rick. It was definitely a significant plus all driven by one month obviously in March, but at the end of February our Toyota sales were down 17%. We ended the quarter up 14%, so the March Toyota sales more than offset the issues we had earlier in the quarter on new vehicle sales. Of course we just related the parts and service number so Toyota was a very powerful part of our first quarter performance.

Rick Nelson - *Stephens Inc. - Analyst*

And how do you see the Toyota recall rolling out? Was it front end loaded or is there still a significant number of cars out there?

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

Yes, it was front end loaded in terms of volume, but now the mix is shifting. We were running three of the ac accelerator pedal spacer bar repairs to every two accelerator pedals shaping repairs, and now it is down to about 1 to 1, and it will start to shift more to the pedal shaping -- the floor mat related repair. And we were at one point doing 1,000 a day, and now we're doing 300 a day total. So you can see that the volume of repairs is coming down, but it is shifting towards the repair that takes a bit longer and hence, has a little more revenue with it.

Rick Nelson - *Stephens Inc. - Analyst*

And how does the margin compare on that?

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

They're both mostly labor repairs, Rick, so they're close to -- they're between 60 and 70% gross margins because it is mostly labor. There aren't many parts involved. I believe the time on the floor mat related accelerator pedal shaping repair is 2.5 times more labor than the sticky accelerator pedal repair.

Rick Nelson - *Stephens Inc. - Analyst*

Okay. That's helpful. Also, I would like to ask you about capital allocation. And, John, as well how you evaluate the opportunities between debt paydown and acquisitions. And are acquisitions still high priced or are you finding opportunities up?

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

Rick, our priority at the moment would be to invest to expand the Company after two years of contraction and playing defense. But I would say although we've obviously made some very valuable acquisitions this year that are good returns on investment for our company that we're excited about. I don't see a lot of those in the market. There are a lot of potential acquisitions in the market, but those that really make financial sense are still fairly limited. But investing to grow our business is our top priority right now. Obviously it is a dynamic marketplace and we'll have to look at that going forward.

I don't think we're in the mood to repurchase debt a few weeks after we just issued new debt, but again it is all a mathematical calculation at any point in time how we can best deploy the cash our business generates. So we're open on a continual basis to revisiting that as we are -- with things like a dividend.

Rick Nelson - *Stephens Inc. - Analyst*

Finally, if I could ask you about the areas of regional strength and weakness?

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

Yes. Actually for the first time in the last couple years the strength which by the way the strength wasn't really for a quarter the strength was for a month, at least for our company, but it was pretty well distributed across the country. Not quite as strong in California for us as the rest of the country but for the first time we really see what appears to be something driven by the consumers' psychology across the country, and that's very encouraging to us because it also appears to have carried through into April.

Rick Nelson - *Stephens Inc. - Analyst*

How long do you think Toyota steps on the incentive pedal?

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

I believe that will continue through second and probably into the third quarter. They appear to be very focused and aggressive and very much want to compete and they're very wide awake. Now, I wouldn't necessarily guarantee that they will maintain this exact level of incentives, whether it is into May or the summer selling months. But they're very much focused on maintaining their market position, and that's a very good thing as far as we're concerned.

Rick Nelson - *Stephens Inc. - Analyst*

Great. Thanks a lot and good luck.

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

Thanks, Rick.

Operator

From Bank of America Merrill Lynch, we'll go next to John Murphy. Please go ahead, sir.

John Murphy - *BofA Merrill Lynch - Analyst*

Good morning, guys.

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

Good morning, John.

John Murphy - *BofA Merrill Lynch - Analyst*

Just wondering if you could talk a little bit about show room traffic through the quarter and how it trended. Also that relative to your ability to close the ups or how available financing was to close the consumer as they showed up in the show room?

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

Certainly, John. Our traffic was very poor in January and February. It may have been flat to slightly up in February, but January was very, very poor. In February, was below average, so March was very explosive with traffic up anywhere from 10% to 50%. And so again this was a one-month phenomenon in terms of the quarter.

But the good news is unlike cash-for-clunkers it has continued after the close of the month and appears to be running at a very nice rate in April as well, so it was traffic that really has been driving the recovery in the market. It is also true that credit is not an insignificant factor. Credit is a little bit more available, a few more customers being bought, advances are better. For the first time we have seen GMAC buying retail paper. Bear in mind GM and Chrysler are probably only 7% of our business, so it is not a big thing for us, but it appears that credit is loosening up, but traffic was the underlying factor for this increase in sales.

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The closing rates increased simultaneously because the incentives were also very powerful. And many of the incentives were finance driven offers, which certainly compliment a little looser credit. So we had the best possible an condition of more customer shopping in March and being able to close more of them. So it really is the best market selling conditions we have had in probably two plus years.

John Murphy - *BofA Merrill Lynch - Analyst*

Okay. If you could just comment on the acquisitions in the quarter because we're under the impression you were going to have a more cautious stance on acquisitions but over $240 million in revenue in the first quarter is a pretty healthy run rate if you will. Were those very opportunistic as far as distressed sellers or geographic locations? What was the real driver of that big acquisition run rate in the first quarter?

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

Opportunistic -- opportunities. You articulated it better than I could. Absolutely, just things that fit with our strategy that were too good to pass up. But I don't want to convey that there are a lot of deals like that out there because there simply are not. And probably the prime complicating factors in a lot of the potential acquisitions the market at the moment are the decline in real estate values.

If you're going to buy a dealership today, first of all, even though the market is turning up, clearly the profit opportunities even in a 12 or 13 million unit market for a dealership aren't the same as they were at 17 million units a couple years ago. And then there is no doubt a significant decline in real estate values, so you can't lock yourself into a rent at something other than what current real estate values are, whether you buy the property or facility or lease it.

And then there are CapEx requirements that are associated with many potential acquisition opportunities these days. And we need to be very mindful of our overall CapEx spending also. So those factors culminate in a market environment still where I don't really think financially attractive acquisition opportunities are overwhelming at the moment, but we're certainly looking at them.

John Murphy - *BofA Merrill Lynch - Analyst*

Lastly, was there any change in floor plan assistance being paid by any automakers in general? It looks like floor plan assistance versus floor plan expense was a bit of a negative in the quarter. Just trying to understand if there was any change in the assistance payment terms.

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

I don't think there was any change in the terms, but we actually had a little better coverage of our overall floor plan expense from manufacturer reimbursement due to a faster turn rate of our new vehicle inventory.

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

That's correct.

John Murphy - *BofA Merrill Lynch - Analyst*

Great. Thank you very much.

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

Thank you.

Operator

Scott Stember from Sidoti and Company has the next question. Please go ahead.

Scott Stember - *Sidoti & Company - Analyst*

Good morning.

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

Good morning, Scott.

Scott Stember - *Sidoti & Company - Analyst*

Can you talk about how Lexus is fairing right now following the recent recall of the mid-sized SUV that they have?

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

We have not seen any significant impact in our Lexus business. I know a couple of the actual recall actions have impacted some of their models, but overall our Lexus business is moving quite well. There is a year-over-year comparison issue if you look at Lexus dealerships individually, because about a year ago Lexus had a fairly significant recall campaign involving some high dollar repairs. I believe it was steering racks, so our warranty business on Lexus year-over-year is impacted quite a bit on that comparison. But Lexus has a very high brand loyalty with their customers and very competitive products and our Lexus business is quite stable.

Scott Stember - *Sidoti & Company - Analyst*

Just shifting gears over to the UK, looks like you guys are getting a little bit more of a toehold over there. Can you just talk about from a big picture, what you guys are seeing there as far as the strength in the market and how you see yourself positioned going forward?

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

Yes. Relative to the UK market, Scott?

Scott Stember - *Sidoti & Company - Analyst*

Yes.

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

Yes. We have wanted to gain more scale there for some time. And we had an opportunity to increase our presence there both with the brands that we already were operating there BMW and Mini and in the geography contiguous to where we were already operating. And so we were able to basically double the size of our operation in the UK, but at this point it is still with BMW and Mini, but very good markets. And so we'll continue to look to expand our footprint in the UK both with BMW and Mini and other brands.

The UK market is likely to soften up a bit relative to the volume brands which, of course, won't impact us at the moment because they're scrapping incentive or cash-for-clunkers equivalent expired recently. But that didn't impact the luxury brands very much during the existence of the program and likely they won't have any payback which the volume brands will in the UK. But we have a good management team and the ability to grow our business in the UK, if we can find acquisitions there that represent an attractive return on investment.

Scott Stember - *Sidoti & Company - Analyst*

And can you just talk about in general how your UK stores did quarter-over-quarter, year-over-year in this quarter?

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

They were up significantly -- up significantly.

Scott Stember - *Sidoti & Company - Analyst*

That's all I have right now. Thank you.

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

Thanks.

Mark Andre - *Goldman Sachs - Analyst*

Matt Fassler of Goldman Sachs has our next question. Hi. This is actually Mark [Andre] filling in for Matt. First question I had a question in parts and service. I would be interested in hearing your views about the impact from lower units in operation more broadly on the industry. And how we should by about the segment going forward without talking about the near-term noise of the Toyota recall?

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

Relative to the units in operation, I don't think we really could see much impact in Q1, but I think we should be realistic and understand that is a factor going forward. When you look at the five-year window of units in operation we typically deal with this franchise new car dealers. There is going to be pressure on that, but we actually had surprisingly strong customer pay business, just forget about the Toyota issues.

I think our domestic customer pay business was up over 8% in the first quarter, which was very surprising to me -- positive surprise. But I think there is probably some pent-up demand from people who were putting off repairs to their vehicles, and now with a more positive consumer psychology they may be coming into the market this year to get some repairs. So there are some positive factors as well as these longer warranties and the fact that we continue to invest more in our parts and service capabilities.

That should help us fight against the reduced units in operation as well as the inherent decreases in the warranty business that come along with the improving manufacturer quality. So I think when everything mixes out in the Toyota business finds its natural level, if we can grow our parts and service business this year, that will be a good target in total. All up, all in.

Mark Andre - *Goldman Sachs - Analyst*

Got it. That's very helpful. I was wondering do you think there could be any trade people trading up -- like people that might have traded down going to repair shop last year and coming back. Or are you seeing those people coming back or is it really just strength in terms of pent-up demand?

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

Yes. I am not exactly sure who those people are, but it is clearly some pent-up demand. I would expect that it is people who are normally customers of our dealership who have been putting off repairs, but we haven't had time to really study that yet. And we were, as I mentioned pleasantly surprised by some of that strength in customer pay.

And realistically our customer pay business as a company would have been even higher in the quarter, if we hadn't displaced so much Toyota customer pay business with the warranty business that pretty much filled up our shops.

Mark Andre - *Goldman Sachs - Analyst*

Got it. Thanks very much.

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

Thank you.

Operator

From Wells Fargo Securities we'll move next to Matt Nemer.

Matt Nemer - *Wells Fargo Securities - Analyst*

Good morning, everyone.

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

Good morning, Matt.

Matt Nemer - *Wells Fargo Securities - Analyst*

My first question is regarding Texas. It seemed like Texas fell into the recession a little late and perhaps coming out late, but I was wondering if you could just comment more qualitatively on what you're seeing in your markets in Texas right now.

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

Well,on a relative basis, Texas actually was a drag on our business through last year. And I think I mentioned before that the Houston auto market, for example, was down 30% last year which was about double what the Northeast markets did on a year-over-year basis. But by the same token Houston seemed to recover in March just as well as every other area in the country, so it is a little hard for me to get much of a trend line after three months of the year, particularly when two of the months were dreadful and one was outstanding.

But our expectation is that our big issues here in Houston related to the energy business, when energy prices, oil and natural gas, in particular, dropped very low 12 to 18 months ago. And they have been quietly and steadily improving, now north of, I think $80 a barrel, so that should slowly improve the economy here in Houston and should allow it to at least perform on par with the national average this year.

Matt Nemer - *Wells Fargo Securities - Analyst*

Great. And then following up on one of Rick's questions regarding the recalls. As the mix shifts from the shin replacement to the pedal entrapment replacement and the labor dollars go up by a factor of 2 to 2.5, what impact do you think that could potentially have on your service same-store sales in the second and the third quarter? I would think it should be potentially a higher impact.

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

Yes, Matt, this is John. The dollars per repair are likely to trend up a bit, but of course the number of repairs as Earl indicated are going to be down pretty significantly. We had a pretty intense rush in the first month of those repairs being available and it is steadily flowed down to about 1,500 a week, so I think the volume fall off may offset the increase in labor piece.

Matt Nemer - *Wells Fargo Securities - Analyst*

Any idea what percentage of the entrapment repairs in your markets have been completed relative to the percentage of shin repairs?

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

No, I don't other than there were four Toyota models still to roll out on the floor mat entrapment repair and the big bottom one is Corolla. Corolla still to come. Camry has been rolled out and Corolla is still to come and that's where a big part of the volume is, but I would only be guessing if I tried to give you a number, so I shouldn't even try.

Matt Nemer - *Wells Fargo Securities - Analyst*

Okay. And then turning to expenses, you had a great gross profit performance. You were up, I think, about $15 million versus the fourth quarter. But your EBIT dollars sequentially were up about $2 million, so that's by calculation about a 15% incremental flow through. Just wondering if there is some investment that took place in the quarter or a reset of the way you're compensating your folks, something that may have impacted the incremental flow through?

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

Let me just talk about SG&A because I think that's a part of our performance I am the least satisfied with. It was still well over 80%.

There were two operational things that -- related to that. First, was as we began the year we intended to be very aggressive and focused all of our efforts on selling. And because after a year-and-a-half of cost cutting we thought it was time to try to drive the top line. And we were very aggressive, particularly with the advertising in January and February and the market wasn't there. And we were very fortunate that we were bailed out to a certain degree by the market showing up in March, but we spent disproportionate amounts of advertising in January and February, which it is what it is.

And we also in the first quarter reinstituted some compensation reductions, which our employees had sacrificed in our effort to reach our cost reduction goals and to keep our company healthy during the downturn. So we did reinstitute some compensation facets in the first quarter that are probably increased costs a little disproportionate with the increase in gross during the quarter. Those are the two --

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

Matt, this is John. The other unique item when you go from fourth to first and basically happens every year is you reset on things like your Social Security taxes, your payroll taxes. And on a quarter-over-quarter basis that was about $3 million of added expense going from fourth to first.

Matt Nemer - *Wells Fargo Securities - Analyst*

Got it. Okay. That's really helpful. Lastly, with regards to the acquisitions that you have done year-to-date, you have acquired I think about $240 million in revenue. Can you talk to the cash paid or the total consideration for those deals?

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

No.

Matt Nemer - *Wells Fargo Securities - Analyst*

Thought I would try. Thanks very much.

Operator

Ee Lin See from Sirios Capital has our next question.

Ee Lin See - *Sirios Capital - Analyst*

Hi. I am curious about your increase in your 2010 SAAR assumption from previously 10.5% to now 11.7%. Is that falling J.D. Power or --

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

Yes, we're just following J.D. Power. We have found over time that they spend more time on this than we do. And they seem to be as accurate as any other forecasting service that we have used or considered using.

Ee Lin See - *Sirios Capital - Analyst*

Traffic versus March?

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

Sorry, was your question traffic?

Ee Lin See - *Sirios Capital - Analyst*

In April versus March?

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

We're seeing continued good traffic in April. So far April looks like it is continuing to March trends.

Ee Lin See - *Sirios Capital - Analyst*

Okay. Any comments on the new vehicle gross margin of 6.1% versus your long-term guidance of 6.5%?

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

Yes. I think that margin performance is still below what we would hope to achieve long-term. It was driven to a high degree by a lot of our Toyota business which was driven by some program lease deals. In particular Corolla and Camry are a very big part of the Toyota incentive offerings at the moment. And margins small cars like Camrys and in particular on advertised lease deals, those vehicles don't have the same margin potential that a lot of your typical vehicle dues in a normal market.

So, I would think that our high mix of Toyota sales particularly program -- incentive program Toyota units continues to keep us from maximizing our gross margin percentage, but the beauty is it drove an awful lot of volume.

Ee Lin See - *Sirios Capital - Analyst*

Okay. Thank you.

Operator

Ryan Brinkman of J.P. Morgan has our next question.

Ryan Brinkman - *JPMorgan Securities Inc. - Analyst*

Hi. Good morning. You commented a little earlier on the profitability of Toyota related warranty work. And I understand that in the past yourself or others have commented that parts and service warranty work can sometimes carry even close to 60% or 65% gross margins versus overall parts and service of maybe closer to 50%. And given that the warranty work likely increased substantially quarter over quarter.

Can you help us in terms of thinking about why we did not see this reflected in sequential uptick in parts and service gross margins?

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

Certainly on a year-over-year basis you did see it. We were up about 80 or 90 basis points from same period a year ago and largely explained by the increase in the warranty work.

Ryan Brinkman - *JPMorgan Securities Inc. - Analyst*

Okay. Sequentially is there a seasonality there that needs to be taken into account?

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

Yes. I really didn't look versus fourth quarter, but, yes, you can have seasonality. You can also have level of internal work that's being done.

Ryan Brinkman - *JPMorgan Securities Inc. - Analyst*

Okay. Thanks for that. Just real broad and I know you have touched on this in the past, but connecting the dots regarding the recent year's decline in gross profit per used vehicle retailed as chronicled on slide eight of your presentation. And as well as the longer term decline in gross margins for new vehicle retail, not specific to your Company of course.

Are you able to please comment on possible future trending for new and used vehicle gross margins and perhaps speak to normalized gross margins for new and used vehicle retail given the market decline and vehicle dealerships across the country that you also outline nicely on slide 17, I think?

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

Let me first comment on the pressure on used vehicle margins. Our 9.5% retail used vehicle margin, I didn't find particularly impressive although we did improve it from the previous quarter. There are two factors that gave us a little headwind on that at the moment.

The first is that for the last year or two we have had to go to auction or other outside sources and purchase a disproportionate percentage of our inventory for sale because we weren't getting enough trade-ins because new vehicle sales were down. And as new vehicle sales pick up, we should be able to purchase less vehicles outside which should give us an opportunity for better margin.

The other thing that's become more challenging in the last two quarters is the used vehicle market prices have increased so much and they have been on a trend now for probably 15 months or more. And I guess they're certainly recent highs that they have started to crowd new vehicle prices in. And in particular in March when new vehicle incentives got very a impressive, new vehicle pricing -- excuse me, starts to sit on top of used vehicle pricing. So if you want to move those used units on someone looking at both new and used, you sometimes have to take a little lower price to get the sale.

So the relativity of new and used and the outsourcing of significant amounted of our inventory has prevented us from getting that retail margin into double-digits recently, but I think we can achieve double-digit margins at some point in the future again as market conditions get back more toward normal.

Ryan Brinkman - *JPMorgan Securities Inc. - Analyst*

Okay. Thanks for your help.

Operator

Our final question today comes from Ravi Shankar of Morgan Stanley.

Ravi Shankar - *Morgan Stanley - Analyst*

Thanks very much. I had a follow-up on the SG&A. On slide 21 you have given us a pretty good break up of the four components of SG&A as a percentage of gross profit. Can you just talk about what do the longer term levels for these components look like -- if advertising is going to stay at 5% or more at a 4.5% number?

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

I would expect the advertising percent to drop just because as top line growth occurs with the recovery in the market we should get more efficient with advertising.

Ravi Shankar - *Morgan Stanley - Analyst*

Okay. And the others -- other components numbers (inaudible) , I am trying on get a sense of what you think maybe longer term what 2010 SG&A gross looks like if you're going to dip down below the 80% mark.

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

Ravi, that gets difficult because it depends on what sales forecast, and where you think the rest of the year is trending, and since we really haven't given guidance it is tough to get into. I would say that you would normally anticipate further declines in the second and third quarters, usually are your two strongest selling quarters and as you continue to apply top line leverage you would hope that you would continue to see reductions in SG&A as a percent of gross. Beyond that you have to really come up with a forecast of what do you think the top line is going to do.

Ravi Shankar - *Morgan Stanley - Analyst*

Got it. Can you talk about what inventory levels for new vehicles look like in the market?

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

Inventory levels are probably the best they have been in a long time. In fact, about as far as I can remember, particularly given the fact that there is selling activity going on. So with our new vehicle inventory of 48 days, and I don't think we're necessarily all that a typical in the industry that, that relationship of supply and demand is very healthy at the moment which is also very encouraging part of what's happening right now.

And for us to have opportunities to further increase our new vehicle margin we need this supply and demand balance to continue. And throughout the downturn, one of the potentially positive things is virtually all the manufacturers quit jamming vehicles on their dealers. And if we, in May, can hold that as the market recovers, that should help our business model.

Ravi Shankar - *Morgan Stanley - Analyst*

Are you hearing at all stories of low inventory being an issue to sales?

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

It is and will be a little bit of an issue, but I am always happy to take that trade-off. There have been sales lost even throughout the very poor first quarter, in terms of January and February with Chevrolet Equinox, Tahoes, and some of the these brands have been losing sales even throughout the winter. But the good news is when you have that situation you can actually make some money when do you sell one. So I think most dealers would be happy to miss a few sales to to keep this relatively optimal inventory balance we seem to have at the moment.

Ravi Shankar - *Morgan Stanley - Analyst*

Final question. You had an interesting comment earlier in the call about increased domestic customer pay business. What do you think is exactly driving that? You spoke about pent-up demand and some people going back into the market, and I wouldn't think that's something isolated to the domestic brands. So do you think the reduced foot printed that GM and Chrysler has has anything to do with this or is it more of a -- just people holding back?

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

I was also surprised that the domestic customer pay business disappeared more quickly in the downturn than certainly than in the import in luxury brand business. So it almost appears the domestic brand customers are economically more sensitive and not -- haven't done any detailed study, but they -- our domestic customers pay business was down in many quarters last year 8% or 9% and now that it is up 8 plus percent in the first quarter, it just appears they're very economically sensitive.

Ravi Shankar - *Morgan Stanley - Analyst*

That makes sense --

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

Raise consumer [confident] sensitive.

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

Ravi, this is John. I think you're right. There may be a piece of it and it is harder for to us quantify that may be from the neighboring dealer closures, which would also be a positive for this, but I think Earl is right. I think if you look income levels, and all of the measurables. The domestic customers tend to be a little lower down on the economic food chain and as a result probably are more price sensitive.

Ravi Shankar - *Morgan Stanley - Analyst*

That does make sense. Thank you very much and have a great day.

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

Thank you.

Operator

At this time I would like to turn the call back over to Mr. Hester Berg for closing remarks. Please go ahead sir.

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

Thank you for joining us today. We look forward to updating you in July on our second quarter 2010 earnings results. Thank you and have a nice day.

Operator

That does conclude today's conference. We thank you all for joining us.
