Group 1 Automotive, Inc. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from John Murphy with Merrill Lynch.

John Murphy - Merrill Lynch

I was just wondering if you could talk a little bit about what's going on with Chrysler and the pull back in leasing in the US. I know it's only a small part of your business mix, but just how that impacts the dealers ability to sell these vehicles and if GM and Ford were to follow suit, or GMAC and Ford Motor Credit were to follow suit, how that would impact your business?

Earl Hesterberg

Of our Chrysler business, leasing is only about 7%. We tend to be in heavy truck states and pickup trucks haven't been big leases overall, at least not for us. It is certainly psychologically damaging because there is a lease market out there. That's not a good thing for dealers to hear, but this trend is not unexpected. I tell you what was unexpected is that somebody totally withdrew from leasing vehicles, because there's always going to be a lease market out there, but you saw BMW take a 270 million Euro hit a few months ago, maybe you've seen Ford Credit with their $2 billion hit, even Honda had a hit in their earnings announcement.

It's just the fact that the market shifted too much towards a heavy percent of leasing. This happened a decade or so ago and also it had to shake out. I think it became the incentive tactic of choice and that got things out of balance, so I don't expect most of the major captive credit companies to get out of the leasing business, but I do expect them to temper it down to a lower percent of their sales.

If you noticed BMW incentive programs almost immediately after their announcement they went to a very strong array of sublimed interest rates 0.9 APR, they didn't say anything they just clearly put an aggressive marketing program together to start moving the dealers away from so much leasing and it's been very successful, our BMW business has held up very well. I would expect to see more approaches like that because there are certain segments of the market that are always going to want to lease and so it's another obstacle in a touch market, but it's something that we'll be able to work through.

John Murphy - Merrill Lynch

You mentioned on your used vehicles terms, I think you said, were 27 or 28 days which is incredibly fast; target was a little bit higher than that. Doesn't it make sense to keep these terms incredibly low given what’s going on in the used market and with residuals here? Is that something that’s been actively done or is it just because of the mix of vehicles that were in your inventory there was a high demand for those?