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Group 1 Automotive Q1 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Our first question comes from John Murphy with Merrill Lynch. Please go ahead.

John Murphy - Merrill Lynch

Good morning guys.

Earl Hesterberg

Good morning John.

John Murphy - Merrill Lynch

Just wondering on SG&A, you guys really attaching up to the weakening sales environment on the new vehicle side on SG&A. Just wondering how far long you think you are in cutting those costs, if there's more opportunities in the near term on available side or even on the fixed side, just really where you stand on that?

Earl Hesterberg

John this is Earl. There is more opportunity for us. Obviously the concern is can we realize that opportunity faster than sales or margins drop. In new vehicle margins, the 6.4% is lower than we would have anticipated at a short time ago. I am hoping we are getting near the bottom on margins but as we look at the inventory pressure, our inventories are too high but I don't think we are the only one that has inventory too high, that continues to put pressure on margins, but clearly there is more cost we have to get after and we are working to do that. We are not finished with the cost yet.

John Murphy -Merrill Lynch

And just to follow up on the new vehicle margins. I mean with these day supply numbers going through, not through the roof, but actually fairly high, are you seeing pricing discipline erode among the manufacturers. I mean for a while we started to see a little bit of relative discipline, but with that starting to reverse course and if there is any auto makers that are specifically getting out of hand if you could call them out, that would be great.

Earl Hesterberg

Sorry, John. Is your question about discipline on incentives or discipline on manufacturing levels, production levels?

John Murphy -Merrill Lynch

On the actual incentives, on the pricing themselves.

Earl Hesterberg

There are some manufacturers that I think have held back so much and I am thinking of General Motors right off the top of my head that is actually I think put them in a competitive disadvantage in a weak market. Whereas Ford -- I think a year ago we were concerned Ford wasn't playing hard, well Ford is playing hard now and relatively speaking at least particularly in Texas, Oklahoma our markets -- not saying Ford's doing great but they are certainly on a competitive view point. They are fighting harder for their share of a weak market and then there are the two domestic counterparts at the moment. So, there is a difference right now in how some of the manufacturers are attacking the market with incentives.

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