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Penske Automotive Group, Inc. Q3 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you. [Operator Instructions]. And first we'll go to the line of Edward Yruma with JP Morgan. Please go ahead.

Edward Yruma - JP Morgan

Roger, congratulations to you and your team on a phenomenal quarter.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Yes, thanks Ed.

Edward Yruma - JP Morgan

As you had some very impressive SG&A gross leverage and as you think about this longer term, what are the key drivers to see that kind of continued growth?

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Well, I think as you start to look at the business, we have looked at a number of things. We have got metrics on SG&A as a percentage of gross profit, we have compensation. We are looking at the back office consolidation, as you know, has been key. There has been a big shift in advertising too as we have been looking at traditional models of advertising, electronic and newspaper. We are shifting a lot to Internet and we've seen the benefit of the Internet as we've developed the Smart model.

Edward Yruma - JP Morgan

Fantastic. And one other question. Many of your competitors are complaining about the environment, and based on the strength of your results today, it seems that you've been a bit insulated. What are you hearing from your consumers? Are they complaining about credit and how has housing impacted sales in those particular regions? Thank you.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Well, let me first try to differentiate our business from the home building business. Basically, our customers come in and make a buying decision in 60 days to buy a vehicle. And we are into a situation where we have inventory that sits for four or five or six months as it's being built as you see in the industry, the home building area. And what I've seen is big inventories and no customers. And then with the sub prime issue, all of a sudden, the cost to purchase or finance a home has gone up. We have got just the inverse situation in the auto business. We have got their inventories, we turn quickly. We can shut down the pipeline from the OEM, which gives us the benefit at the downstream end being able to maintain a day's supply. And in our particular business model, 65% of our business is leasing and we have some vented rates that are coming in from the manufacturer. So unless the individual customer out there is impacted because of his maybe a redo of his interest on his mortgage, that might have some impact to our customer. But to date, I think our premium brand mix, and in those brands, we see a lot of new models and it's giving us the continued momentum. So I don't see that... the housing had any effect at least on our business. And I think the brand mix has been key and also a number of these projects that we've been working on over the last two and a

half years; in fact, I am in Turnersville today for the call. We started this four years ago. And I think that we are in a position to get some benefit out of those as we go forward. And the other thing we do obviously with our customers, we work with them on a payment or lease which they can afford.

Edward Yruma - JP Morgan

Great. Thank you very much, Roger.

Operator

Our next question is from the line of Matt Nemer with Thomas Weasel Partners. Please go ahead.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Hey Matt.

Matt Nemer - Thomas Weisel

My congrats as well. Hi. My first question is on Turnersville and Inskip. Can you provide enough data on how those campuses are progressing?

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Well, the first thing we should talk about when we look at Turnersville and Inskip, Turnersville, we are in the final process of completing their... our Hummer and Cadillac showrooms will then... will be 100% complete from the standpoint of sales and service. We are finishing the Bentley and premium luxury pre-owned showroom in Inskip. And those... both of these facilities should be completed by the end of the year. We have opened the new mini point in Inskip. And from an overall perspective, in the third quarter, Turnersville broke even for Q3, which was \$250,000 improvement from last year. And from Inskip, they earned approximately 175,000 more in the quarter versus a year ago. So we are seeing some traction. They are just now getting all the costs associated with the construction, obviously, baked into their rent factors. But I think we've got a pretty level playing field going forward. And one of the things that we are doing now is working on processes, and to me, once we do that, we are going to see our volume go up and I think we'll see grosses go up also because we have had some efficiencies as we've been moving service departments and sales sites in and out of trailers over the last couple of years.

Matt Nemer - Thomas Weisel

Got it. My next question is a couple of your peers are working on an Internet-based vehicle purchasing system where you could potentially buy the car from home and potentially even have it dropped off at your house without going to the store. Is that something that you've thought about? It seems like given your luxury and lease penetration, it fits well with your product.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Well, I think at the end of the day, the strength of the Internet is obvious to all the players in the space. And with a U.S. footprint in the major markets, there is no question that you have the benefit to transact business on the Internet. The OEM sites primarily are driving most of the traffic to the dealers. So we get leads from the OEMs and then we can either deliver those directly to peoples home or we can even put our inventories online. Today, most people have your used inventory online anyhow. I think we would look at potentially maybe not just selling online, but looking... having an auction online for our used vehicles in the future because today everyone has the ability to put new vehicles online and also then obviously have selling prices. The issue is that you've got to be able to transact business. You've got trade ins, you've got financing. So the model becomes somewhat complex from the standpoint, and then I'm not sure whether OEMs will weigh in on this type of activity. Early on, there was a real pushback from the OEMs from the standpoint of the Internet. They now obviously embracing it because they can see the benefit that we have seen from Smart. So I think it's a good strategy and one that we obviously are working on and we have... we are using the

Internet for a virtual auction going on in the UK. At Sytner, we've been doing that for three years. So we have some experience.

Matt Nemer - Thomas Weisel

And turning to Smart, obviously, that's going well, perhaps better than expected. Has that created a desire on the part of manufactures, other manufactures to use Penske as a distribution network in the United States? Are you are getting leads from potentially other distribution... for other distribution businesses?

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Well, you are always hoping that a success story will lead to other business. At this point, we are not in any negotiations to be distributor for any other products. Obviously, if there would be an opportunity, we would look at that. There was an article an Automotive News about our potential involvement with Alpha. I had a conversation about that at the Frankfurt Auto Show in saying listen, be great if they ever came to the U.S. potentially. We'd love to be a distributor, and then it turned out to be an article. So you've got to be careful at this point. We have nothing that's pending that I could report on today.

Matt Nemer - Thomas Weisel

Okay, great. Thank you. Great quarter.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Thanks Matt.

Operator

Our next question is from Rick Nelson with Stephens. Please go ahead.

N. Richard Nelson - Stephens, Inc.

My congratulations as well, Roger.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Thank you. I remember you guys --

N. Richard Nelson - Stephens, Inc.

I may want to cover some parts. Looking like Atlantic's [ph] the other segments, the growth rate there will be still at very high levels. Any signs the consumer is holding back on service and parts and if you could talk about trends --

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Well, I think one that of things we are seeing is that the quality of cars today is so much better and there is much less warranty. In fact, I think warranty is down across the board 15% or 20%. And when you look at service and parts, our comp in the second quarter was 6.1 and we were 6.8. So actually our same-store was really up third quarter over second. We are starting to see some benefit of the investments we are making in the UK, which I think will continue to drive that. But of course the number gets bigger as we start to activate many of these investments. But the good news is that the gross profit on that incremental business is 55% to 60%.

N. Richard Nelson - Stephens, Inc.

And what was the timing [ph] customer pay and warranty?

Roger S. Penske - Chairman of the Board and Chief Executive Officer

The customer pay to warranty, I think we are down probably 15 to 20 points overall for CP going up and customer pay going down. One thing also we are doing, we are capturing lot of the quick lube business and the quick service where we guarantee a customer will be in and out in 30 minutes. So there is a lot of that activity going on. And we have kind of got to shift our focus away because we don't have the luxury of just working on warranty. And to me, that's good news and bad news. It's bad because we make good money on it. On the other hand, we have the benefit of a better quality car

and potentially holding our customer. One of the things in some of the states, we had been limited on the markup on warranty parts. And I don't know the exact details, maybe Tony can get them for you. And I know one of the manufacturers is now going to pay us list price for our warranty parts which will be a benefit for us as we go through next year.

N. Richard Nelson - Stephens, Inc.

Thank you for that. How many dealers, Roger, are talking about Toyota margin pressures and inventory build and starting to feel more like some of the domestic brands. It's an important brand for you. Wondering your thoughts on that subject.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Well, obviously, Toyota is one of our leadership brands. And there is no question as we get into these push times for volume that there has been some... we have been under some pricing pressure, and it's basically on models as you start to envy the model cycle that you'll see some of that. But we continue, when you looked at the metrics I gave you earlier on the call on our inventories, our inventories are in good shape. Look, there is no question there is margin pressure on every single brand. And I wouldn't just say that it's only in Toyota; I think we see it in all brands, depending on what model.

N. Richard Nelson - Stephens, Inc.

Thanks.

Operator

Our next question is from the line of Joe Amaturio with Buckingham Research. Please go ahead.

Joe Amaturio - Buckingham Research

Good afternoon, Roger. Could you just touch on any impact you have you are seeing from the California fires on your dealerships out there?

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Well it's interesting you asked that question. I was in Escondido on Sunday doing business plans and drove from Escondido down to San Diego through this mess. And in fact Monday morning, we closed our campuses up in Escondido, which is North of San Diego. And those stores have been shut down for three days because it was so important because most of our people living in that area had been evacuated from their homes. And then on Tuesday, we determined that because the interstates were closed that we would close our businesses in San Diego. Now we have reopened today, and probably 90% to 95% of our employees have showed up in Kearny Mesa, which is San Diego and only about 80% have returned to Escondido where the real impact of the fire was. The phones are busy. I think we are getting some service business. We did a little check before the call. We had 62 cars in for service at BMW San Diego. We probably had half a dozen people who have lost their homes. So that's going to be an impact to those families that work for us, and we are going to set up a program to support them through some means that we can do from a corporate prospective. And we still have two or three GMs that haven't been able to get back to their homes yet. So we kind of read these things or see them from afar. But I experienced some of that at the beginning of the week. So I think it's going to have an impact on our business as we look to the next week or two and maybe even further into the quarter. But we'll keep everybody posted.

Joe Amaturio - Buckingham Research

Okay. And then secondly, could you just give us your view of what you think the store [ph] is going to be in the fourth quarter that underlies the fourth quarter guidance that you put out there?

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Well, I've said all along, I think we are going be 16 to 16.2. But I am the wrong guy to tell you what that's going be. And you've got to take out the fleet, and I think that there is a lot of moving parts there

and would be interesting to see what kind of incentives are going to flow here and what inventories are in place as we end up. That's always an interesting time, not only domestically, but you also get that in the UK.

Joe Amatore - Buckingham Research

Right. Would you... do you expect incentives to increase from where we are today as we approach the end of the year?

Roger S. Penske - Chairman of the Board and Chief Executive Officer

I think you are going to see some incentives come out to drive inventory on some of the brands. I don't know what's going to happen with Chrysler. I don't know; I haven't heard to date quite honestly whether they were able to settle... I guess Tony said they settled the strike. So that won't have an impact. But basically, everybody has got to manage their inventory. We don't want to go into 2008 with any 2007 inventory that isn't already maybe continuing to be produced because they don't have a model change. So we are going to push that out, and obviously that has some impact. But when you look at the overall market, the foreign nameplates have gained 3 market share points and I don't think they want to give those up before the end of the year. And then you've got Chevy coming out with the Malibu, which is going to be a strong entry. So the brand mix... our brand mix is going to key, and I see leasing. That's one thing we didn't talk about on the call. Leasing continues to grow from the standpoint of the premium luxury brands.

Joe Amatore - Buckingham Research

All right, thank you. Good quarter.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Thanks.

Operator

Our next question is from the line of Rich Kwas with Wachovia. Please go ahead.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Hi Rich.

Rich Kwas - Wachovia

Hi, good afternoon Roger. Can you give us an update on the... for the quarter in terms of SG&A, particularly compensation as a percent of SG&A? You had laid out this goal earlier in the year of 100 basis points. What did you do in the third quarter and are you on track? And then the other piece here is ad spending per unit. You were down in the second quarter year-over-year. How did you do in the third quarter?

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Well, we gave... we said we want to get 100 basis points out of our personnel cost as a percent to gross. year-to-date, we are down 50 basis points. We were down 40 basis points for the quarter. In September, we saw real effects of our actions were down 90. So I think we are going to get close. And basically, our total advertising, as you look at the business, was down from \$22.8 million to \$22.4 million. And in the third quarter, we were down approximately \$13 per unit to \$290.

Rich Kwas - Wachovia

Thank you. And then on Smart, it looks like you've upsized, if I got it correct, you were looking for 16,000 to 20,000 units before and now you're looking for 20,000 to 25,000. As you look at next year, that 20,000 to 25,000, is there potential for upside from that other than more reservations? Meaning, are you going to run into any capacity issues with Smart on the manufacturing side or the engine side beyond the potential 25,000 units?

Roger S. Penske - Chairman of the Board and Chief Executive Officer

My biggest risk is the euro to dollar, because they probably can sell those vehicles in other markets. So the exchange rate is probably our hurdle. I think that we are going to be in that 20,000 to 25,000. That's what we are negotiating. Dave Schembri's doing that right now. Obviously have had tremendous interest in this vehicle and I think their capacity is 130,000 to 140,000 vehicles on an annualized basis once again full production. So I think that's a pretty solid number as we look at 2008.

Rich Kwas - Wachovia

Okay. And then finally, what is your number of refunds off that reservation base your --

Roger S. Penske - Chairman of the Board and Chief Executive Officer

We have had 1783 refunds and 35,400 is net of those refunds. So we are in great shape. Interesting, as we go out on the reconfirmation process, we are getting back 85% of the people are queuing up almost within say 7 to 10 days redoing their reservation. And overall the number... we've been out now I think with over almost 5000, 75% have reconfirmed. We've got that group that we are still mining and then we have the group that falls off. But that 1783 includes the people why have decided not to buy at this time. But now we have them as a customer list, we've got their email address. So we'll be able to mine them not only for smart cards, but we'll start to communicate with that group obviously on an overall basis on Penske Auto Group.

And the option content, which is really interesting, we thought the pure was going to be 10% when we set back with our crystal ball initially. It's now moved down to about 3%. So people are buying a car with more content. In fact, the reconfirmation reservation is adding another \$1000. Interesting, over 50% want leather seats, so, and things that we might not have expected as we were sitting around the room initially.

Rich Kwas - Wachovia

Great. Thanks so much.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Thank you.

Operator

Our next question is from John Murphy with Merrill Lynch. Please go ahead.

John Murphy - Merrill Lynch

Good afternoon, Roger. I was just wondering if you could talk about how First Look exactly works in that pilot in the Central region and how it could potentially be rolled out in your other two regions.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Well, we entered into an agreement with First Look, and I think there is lots of Internet technology, lots of software. But I think the key thing there is building a process. And First Look has really a strong process and we need to get our people to buy in because used car guys usually know more about it than anyone else. And I think what we have able to do is generate a list of best practices, and that's a way you show your vehicle, the way you reprice the selling price, at least the selling price shown on the sticker on a 30, 45, 60, 90 day basis, if you keep your cars that long. And then we have the understanding of what vehicles are selling. And probably most interesting is the fact that we have lowered in the Central region. We are running about 30,000 as our average selling price and with the process in the Central region, we have dropped that down considerably based on the First Look. And that's given us more margin on the cars we have sold, it's reduced the loss on any wholesale we might have, and I think that the average price in fact is 15,000. So we've kind of found a new beachhead where we are taking all these vehicles that we were wholesaling out and maybe making \$200 or \$300 wholesale cars that have higher mileage. And we are now able to sell those at retail. And again, when you think about 15,000 in the Central and average selling price of 30,000 for the

company, there is a real model there. And I would have to say that First Look were the ones that really kind of turned our thinking because we have been so focused on premium luxury.

John Murphy - Merrill Lynch

Roger, is there any update or any add points that you may have gotten recently or you think that might be on the horizon?

Roger S. Penske - Chairman of the Board and Chief Executive Officer

I don't have anything now to communicate.

John Murphy - Merrill Lynch

Okay. Then on your debt to cap level of 37%, it's improved quite a bit recently. Are you comfortable with those levels or, I mean is that something you're focused on the target in the mid 30s?

Roger S. Penske - Chairman of the Board and Chief Executive Officer

I would say... we've always said we want to be between 35 and 45. So I think we are right in the sweet spot here. Obviously, our cash flow and the ability to pay down our debt. We have nothing under our credit lines. We have a small amount borrowed over in the UK, but we expect the debt level to be pretty much where it is now at the end of the year even though we have some ongoing CapEx. We probably have \$25 million of projects which ultimately today that we have spent that we can't convert into CapEx because the projects aren't complete. So we'll keep our debt to cap in good shape.

John Murphy - Merrill Lynch

Then lastly on the guidance on the fourth quarter, a \$0.04 spread there. It's a little on the wide side. Is there any reason for that or is that just the general macro uncertainty that's out there?

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Well, we moved the top range up. If you look... we made \$0.33 last year, and that's a 7% to 8% increase. And we are impacted some times in the fourth quarter with weather on the East Coast and really not knowing what that is. And I just don't want to get too far out from the standpoint of the fourth quarter. And I think that it's consistent with our fourth quarter guidance in the past.

John Murphy - Merrill Lynch

Thank you very much.

Unidentified Company Representative

Thank you.

Operator

Our next question is from Jonathan Steinmetz with Morgan Stanley. Please go ahead.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Jonathan, how are you?

Operator

Mr. Steinmetz, your line is open. Please take yourself off mute. And we will move on to Scott Stember with Sidoti & Company. Please go ahead.

Scott Stember - Sidoti & Company

Good afternoon.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Hey Scott.

Scott Stember - Sidoti & Company

Roger, did you give the customer pay increase in the quarter and the actual percentage decline on the warranty work?

Roger S. Penske - Chairman of the Board and Chief Executive Officer

You know, I'll let Tony get that exactly. I just know that we've seen that go down because it's been trending down from the beginning of the year because the quality of not only the foreign nameplates but the domestics. Now, there are some costs in there which don't reflect warranty CP where we these full circle programs. Those are paid for by the manufacturer. So those would look as if warranty had gone up, but pure warranty work is definitely down. And I really can't give you a good number here, and I'll get Tony to communicate back with you.

Scott Stember - Sidoti & Company

But customer pay work clearly is up, the offsetting factor there?

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Customer pay work is definitely up.

Scott Stember - Sidoti & Company

Okay.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

And we are doing a lot more things. We want the quick lube, we want the alignment and things like that that we really weren't focused on because our shops are typically filled up with warranty and customer pay. So we've got to be a lot more aggressive, and I think, in many cases, sell a full circle maintenance package with the cars we were selling were looking potentially to offer that with Smart, so someone knows it's going to cost them \$100 a year for maintenance, and the dealer can buy right into that at the beginning. We are looking at programs like that and once we communicate some of the final details before we launch.

Scott Stember - Sidoti & Company

Okay. And as far as stall utilization, where are you right now and how many, in total for 2007, how many new stalls would you suggest we should look for to be open to maybe --

Roger S. Penske - Chairman of the Board and Chief Executive Officer

We are probably at 70% to 75% utilization and we have 200 probably based [ph] today that we see increasing over the year.

Scott Stember - Sidoti & Company

Okay. And going back to used side of the business in the UK, the demonstrators. I think on the last year call, you had indicated that you were trying to limit the issues that you had during the demonstrators.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Well that's fair [ph]. They call them the pre-registration vehicles. We did limit, though, significantly at the end of the third quarter and the end of the second. So that should bode well for us and we would hope to see that margin move up because we are over 10% in the U.S. on used car margin and we are probably mid 6s in the UK because of the pre-registrations. And remember, all demonstrators in the UK have to be sold as used cars, where in the U.S. those cars are sold as new. So you've got a large environment of vehicles to take that demo impact from a margin perspective.

Scott Stember - Sidoti & Company

So we should probably see in the fourth quarter things improving a little bit on that front?

Roger S. Penske - Chairman of the Board and Chief Executive Officer

It's hard for me to say. I definitely, and in the discussions with the management team feel that's an area of opportunity for us.

Scott Stember - Sidoti & Company

Okay, fair enough. And just last couple of questions here. In the last couple of calls, you've given same-store gross profit in the parts and service business at Inskip and Turnersville. Just trying to give an indication of how that's really taking off over there. Do you have any figures for this quarter?

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Well, I think when you look at our parts and service gross from the standpoint of Turnersville, we are up probably about 22% versus a year ago now that we have got many of these facilities up and running and we have got technicians hired. And we are up at Inskip probably in the neighborhood of 6% to 8%.

Scott Stember - Sidoti & Company

Okay. And last question, any comments on what you are seeing in October so far here in the U.S.?

Roger S. Penske - Chairman of the Board and Chief Executive Officer

I'd tell you we talked with our guys this morning. The Central region looks to be pretty well on track. Obviously, in the UK, I would say these guys take a big deep breath after the registration month.

They have to kind of get their engine running for the last quarter. So we'll probably see... we will see a much wider quarter in the UK, and it's going to be up to the weather. And certainly the situation in California is going to have some impact on us, so we are going to have to work our way out of that hole. But overall, I think I never can base the quarter just on one month, and it's typically coming off the end of a quarter. We tend to start a little bit slower than the momentum we had finishing. So it's... I think it's going to be... again, it's hard work and we'll see how we end up.

Scott Stember - Sidoti & Company

All right, that's all I have. Thank you, Roger.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Thanks a million.

Operator

And we go to Deron Kennedy with Goldman Sachs. Please go ahead.

Deron Kennedy - Goldman Sachs

Hi there. Deron Kennedy with Matt Fassler here.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Hey Deron, how are you?

Deron Kennedy - Goldman Sachs

Good, thank you. You had spoken about California in terms of the wildfires. I don't know if you ever gave any specifics about how that market is in general for you since many companies with exposure... high exposure to... Florida and California have tried to kind of separate it out for us.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Well, when I look at California, our new units were down 7% for the quarter. Used were only down 1.5. And yet when you look at San Diego, they were pretty strong, and I think its pockets. We saw the Honda business a little softer up in Marin County and up in Clovis. But yet, the premium luxury stores down in Kearny Mesa and Santiago were pretty strong. If you think about Florida, we had one Toyota dealership in which we changed management. If you would exclude that, new units in Florida were up 1.5% and used units were down about 10. So it's kind of a mixed bag. And depending on the other OEM or the other publics, what's their mix in those markets. So I think it's an unfair comparison with us and someone else unless you knew the exactly specific market, Northern California, because there is a difference we see in the business level. Los Angeles, our domestics were down in Los Angeles, let you go to... if you go down to San Diego, and yet we had pretty good strength of the foreign nameplates.

Deron Kennedy - Goldman Sachs

Okay. Yes, I was just trying to get additional color. I know you may have a unique mix there. Finally, you had spoken about leverage in advertising and payroll, and combined leverage you spoke of I think approaches the leverage you achieved. I think... what I could... if there was less of an expense

impact as a percentage of sales or gross from investments coming off at Turnersville and Inskip and how much your fixed costs delevered, if at all, or you got leverage on fixed cost.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Well, we don't have all the fixed costs in at Turnersville now as we are just starting to finish the final projects. But from a fixed absorption basis, overall, we went up to 80 basis points to 55% absorption, which is the amount of parts and service business in our overall fixed cost. So I think that's positive. Now, I expect that to grow significantly. And when you look at Inskip, we went from approximately 69% to 73%. So we've got... there is 400 basis points at Inskip and not quite that at Turnersville because there is still... they have had more construction going here this last year finishing up than Inskip had.

Deron Kennedy - Goldman Sachs

Okay. But everything is still on track in terms of completion of those projects that you spoke to us last about for next year?

Roger S. Penske - Chairman of the Board and Chief Executive Officer

They'll be done I think by within... by the end of the quarter. And the big now is us to be able attract and hire the right kind of people as we need more sales staff, we need more technicians, because you can't have these people standing by until the facilities done. So we have got our HR guys in full gear on recruitment here in both locations as we enter the fourth quarter.

Deron Kennedy - Goldman Sachs

One final question. You had spoken about your expectations for CapEx gross and net this year. Do you have anything to tell us about next year, your plans?

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Wow.

Deron Kennedy - Goldman Sachs

Or it's too early to ask?

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Yes, I would rather give you a precise number because we actually go project for project. I will say, though, that we'll spend on a net basis probably \$75 million to \$90 million less this year than we did last year. So that's obviously positive cash flow, which is important as we go forward.

Deron Kennedy - Goldman Sachs

Okay, that's all I got. Thank you.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Thanks a million.

Operator

And we'll go to the line of Carl Dorf with Dorf Asset Management. Please go ahead

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Carl, how are you?

Carl Dorf - Dorf Asset Management

I am good, Roger. Great quarter. I just got a quick question. Looking at your inventories on the balance sheet are relatively flat yet your floor plan debt is up a lot and correspondingly the rate... the interest you've paid on floor plan is up in the quarter. Are you shifting using floor plan more than long-term balance sheet debt, or what's going on there?

Roger S. Penske - Chairman of the Board and Chief Executive Officer

We have had higher interest rates if you are comparing quarter-to-quarter Q3 this year versus last. Our inventory is... we are in great shape. I think we said we had on a same-store basis we had about \$80 million more in the U.S., than we did a year ago, or overall on a same-store basis. So the impact

on interest would be strictly any acquisitions. I remember we had Ryland which came in last year would be the total overall, but it's all over interest rate on the variable side for floor plan.

Carl Dorf - Dorf Asset Management

But the floor plan itself, the aggregate amount on the balance sheet is up. I don't know what the average figure was.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Well, you might be looking... I'll tell you what you are probably looking at. Under the new accounting rules, we have floor plan listed as floor plan that we get directly financed by GMAC or Ford. And if it's not, if it's by... if we have, let's say, under our credit agreement we have today, we have DaimlerChrysler financing other manufactures and we carry that in another category, and I forget... Bob O'Shaughnessy is here... what we call that category. That might be the difference.

Robert O'Shaughnessy - Executive Vice President, Finance and Chief Financial Officer

That's floor plan non-trading. Carl, are you comparing it to the September, or I mean the December '06 balance sheet?

Carl Dorf - Dorf Asset Management

I'm comparing to the balance sheet that you showed on the... in the press release.

Robert O'Shaughnessy - Executive Vice President, Finance and Chief Financial Officer

Right. What you have to remember is, if you recall, last December, we went out and raised money. We did a senior sub note offering for 3.75 [ph]. We took the money that we raised there, paid down floor plan and then called our high yield notes in March of the next year and we borrowed the money back. So at December 31st of '06, we had an artificially low floor plan liability.

Carl Dorf - Dorf Asset Management

Okay, that explains it.

Robert O'Shaughnessy - Executive Vice President, Finance and Chief Financial Officer

Okay.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Okay, sorry.

Carl Dorf - Dorf Asset Management

Thank you.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Yes, thanks Carl.

Operator

[Operator Instructions]. And we'll go to the line of Mike Geoghegan with Bear Stearns. Please go ahead.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Hey Mike.

Mike Geoghegan - Bear Stearns

Hi. I hope I didn't miss this, but you talked about strength in used vehicles being helped by sort of by pre-owned business. And I'm wondering if you could put some color around whether that business is a lot more robust in the premium lines versus volume brands, or whether you're seeing it sort of evenly distributed. And what I am really trying to get at is whether there are... whether there is a difference among income groups as far as macroeconomic pressures.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Well, let me say this. It's a good question. When we look at the premium luxury, the BMWs, Mercedes, Audis, Lexuses, they have really pushed hard on these full circle programs and certified vehicles. In fact, they are giving us extended warranty on those to the customer, and in most cases

we get better finance rates. So that's driving behavior in our sales area. And I think that we also have the opportunity now to take vehicles that are coming off lease where we have leased them in the past and we get first choice on those to purchase. Then they become... we certify those and we get the benefits of obviously longer term warranties and better financing. So I would say that the premiums have really started this program and a number of them are copying BMW's program was probably we had the most successful one to date. We have Toyota and certainly Honda certified programs, but I don't see that customer quite as interested in a certified versus a standard car because it's hard to get used Toyotas and Hondas quite obviously. And the ones we do have significant miles on them, and when we sell those, we don't like to certify them because you have to add quite a bit of cost into the inventory, price them if you have to sell those. We haven't sold them. In 60 days, you take a loss typically because you don't get reconditioning back.

Mike Geoghegan - Bear Stearns

Okay. But those customers... so those customers are still very interested in used cars; they just care less about the certified pre-owned designation.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

I think when you get into a buyer at the... in the 10,000 or 12,000, they are more interested in the transaction price than they are, whether it's a certified vehicle or not.

Mike Geoghegan - Bear Stearns

Right, okay. Regarding new cars, were there are any particular models that you had trouble obtaining this year or during the quarter or any model, your transitions that were more lumpy for you?

Roger S. Penske - Chairman of the Board and Chief Executive Officer

Well, the toughest car to get always is a Ferrari, and I know we don't sell a lot of those. But I would just say that's the toughest car to get. But we've had, with BMW, because we have grown these stores so much, we have had a tougher time getting... it's interesting getting passenger cars out of BMW. But that's good news and bad news. I'd rather have them short C-Class obviously. We have waited for the C-Class and we are going to be short of this new coupe that they have at Audi. It's really... brand to brand, each of them have that... the new Accord obviously has been very successful. And I think the manufacturers are doing a much better job in managing these new model entries and obviously the exhausting of the other models. But I can't give you anything that comes to mind, and I have a... I am fairly close to the field where people are screaming that we don't have particular models.

Mike Geoghegan - Bear Stearns

Okay, that's helpful. Thank you.

Operator

And Penske and Mr. Pordon, there are no further questions in queue.

Roger S. Penske - Chairman of the Board and Chief Executive Officer

All right, John, thanks a million for your help. Thanks everybody for being on.

Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation. You may now disconnect.

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