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Group 1 Automotive Inc. Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) We'll hear first from John Murphy – Bank of America-Merrill Lynch.

John Murphy – BAS-ML

Just a question on the cost cutting and the cost saves. The \$100 million is completely incremental in 2009 meaning the \$20 million or so that was achieved in the fourth quarter this is incremental for that.

Earl Hesterberg

No. It would include that, John. It expanded the original \$35 million target, of which that 20 million was in response to some of the actions that we took to \$100 million. So the \$20 is inclusive within the \$100.

John Rickel

John, this is John Rickel. Think about it this way. The reason we set up the target this way is because of the incremental nature of the reductions that we are identifying. The easiest way is it's a \$100 million reduction off of the full year 2008 levels.

John Murphy – BAS-ML

And then if we look at this \$65 million is coming from personnel. I mean is that a structural reduction or is that kind of cost that will creep back in overtime as sales hopefully at some point maybe this year start to recover?

Earl Hesterberg

It's both. Some of that is variable in nature and is volume sensitive. I couldn't tell you what the percentages are exactly, but I would guess at least around half is volume related.

John Murphy – BAS-ML

Okay. And then as you work through the process of cleaning out some of the weaker dealerships through disposition, you mentioned there might be some cost associated with that. I mean what kind of payback period are you looking at on those kinds of dispositions?

John Rickel

John, this is John Rickel when we've been able to do those in the past couple of years the paybacks are actually reasonably quick, I'd say on average probably two years maybe even a little less.

John Murphy – BAS-ML

On the collision repair shops, three new shops opened. When were they opened, were they opened late in the quarter, when did they start impacting results?

Earl Hesterberg

They were dramatically expanded shops actually. For example, we took individual Toyota and Lexus, two small shops and made them into a large one here in Houston. That became active in September, so really fourth quarter was the first real impact of that.

We had a very small shop on Long Island with BMW and we made it a much larger shop. That was also probably fourth quarter in terms of first full quarter of impact. I would say most of the impact was fourth quarter.

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