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AutoNation, Inc. Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Matthew Fassler - Goldman Sachs.

Matthew Fassler - Goldman Sachs

A couple of questions, if I could. First of all, in the fourth quarter you disclosed some lending metrics about loans that had been underwritten by some of the domestic captives for your customers and they had really slowed to barely a trickle. I'm curious if in the quarter you saw some recovery in that, sort of what was actually happening in the trenches from a credit perspective?

Michael E. Maroone

I'll focus my comment on two lenders, GMAC and Chrysler Financial, which obviously were the ones under the most stress.

In Q1 '09 13% of our vehicles in our GM stores were financed by GMAC. I'd contrast that to 2% in Q4 of '08. Also contrast it to a year ago it was 20%. So we certainly are seeing some recovery there.

In Chrysler Financial, 16% of our deals were financed through Chrysler and that compares to 7% in Q4 '08 and 20% a year ago, so we're seeing the recovery not quite back to year ago levels.

Matthew Fassler - Goldman Sachs

The second question I'd like to ask related to the used business. Obviously with essentially record increases in the Manheim Auction Index in January and February, we're in a peculiar used car environment. I guess that showed up both in your profitability per vehicle, which was excellent, and your units, I guess, somewhat constrained.

Now that those price increases in the Manheim Index have started to moderate, what's your best sense of how the used business plays out over the next couple of quarters?

Michael E. Maroone

It's clear that the supply from trade-ins is limited and that's the supply we prefer. Our new vehicle traffic, new vehicle sales are not at the levels they were a year ago. We have really remained disciplined with our supply. We want to stay lean with that inventory. As I mentioned, we're moving a lot of vehicles from store to store to try and optimize the value, but we believe there could be some

more volatility in the market and we're going to play it conservatively and we'd like to be able to maintain this level of gross margin.

Matthew Fassler - Goldman Sachs

Do you need to see the sequential pops in used car pricing at auction in order to hold gross profit rates where they are or do you think you can continue to do so even if the used car environment stabilizes?

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