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Penske Automotive Group, Inc. Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from the line of Matt Nemer - Thomas Weisel

Matt Nemer - Thomas Weisel

Just a couple of questions, on the service business is there a way to quantify the impact of the change in BMW warranty rates and then the Lexus recall, do either of those have a significant impact one way or the other.

Roger Penske

I think number one, one might offset the other. Obviously there's been a big recall with Lexus throughout the country, I think its seven hours per car so we've had the benefit of that in the first quarter. Then as you know BMW reduced their warranty support on labor about 20% so one offsets the other but I think the good news is when we track our BMW stores, we've been up selling more hours per RO on the retail side.

So at this point it was probably not either a positive or a negative for the quarter.

Matt Nemer - Thomas Weisel

If you looked at the used profit per vehicle, obviously you had a very big move sequentially, how much of that do you attribute to the change in vehicle prices during that period, obviously used prices have been quite strong and I guess how sustainable do you think the current margin profit is per unit.

Roger Penske

I think there was somewhat of an arbitrage when you think about it, low used car prices and we had high margins that we could generate on those while the supply was high. As the supply has tightened up both in the US and the UK, I think there'll be some downward pressure on used but I think today when you look at the retail business model, and I'll take a minute here.

We really have three levers, we have new, we have used and we have parts and service and the continuing stream of reoccurring revenue in the service and parts have given us good support over the last quarter. But on the used side I think we're seeing the customer really moving down because the new car price, there was such a difference.

And with residuals down on used it was a better value for the used car customer. I think we're going to see that probably decline as we go into Q2 and I think we won't be able to sustain our 9.1% margin. And I think that we have the cost of our used, was going to go up, so that's going to have some impact on our margins as we go forward.

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