

THE KAR INDEX™

THE KERRIGAN AUTO RETAIL INDEX

Volatile, Downward Pressure in Recent Weeks – Index Down 9% Since May 1st

The Kerrigan Auto Retail Index (The KAR Index™) is composed of the seven publicly traded auto retail companies primarily focused on the US market. This special release comes mid-month as The KAR Index™ is down over 9% since the end of April. The sharp drop is a continuation of a highly volatile first quarter driven by a few key trends influencing auto retailers, both public and private, including:

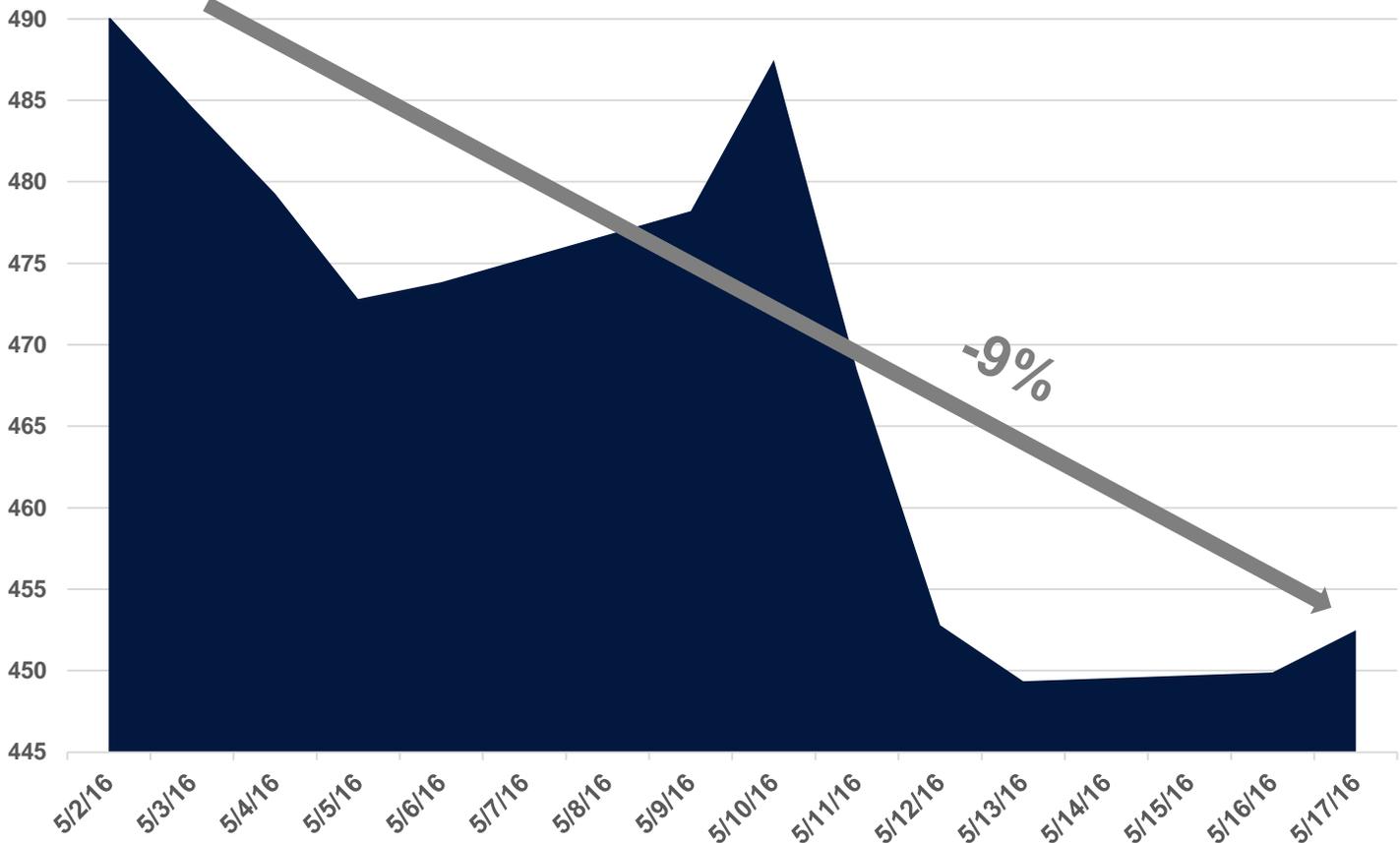
1. High inventory levels
2. Gross margin compression in new vehicle sales
3. Weak sales forecasts

The KAR Index™	452.49
Monthly Change	-9.5%
YTD Change	-20%
Change from Peak (6/5/2015)	-36%

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452.49

5/17/2016 – Market Close



Earnings Releases

The KAR Index™ components first quarter earnings results showed revenue growth, but overall lower earnings compared to the same period last year.

↓ AutoNation Inc. – Net income dropped 14 percent to \$95.9 million in the first quarter, though total revenues rose 3.5 percent to \$5.12 billion.

↓ Lithia Motors Inc. – Net income was down 0.9 percent to \$40.27 million in the first quarter, while revenue was up 10.8 percent to \$1.98 billion.

↓ Group 1 Automotive Inc. – First-quarter net income fell 4.2 percent from a year earlier to \$34.3 million. Revenue grew 7.2 percent to \$2.6 billion.

↓ Asbury Automotive Group Inc. – Net income dropped 13.6 percent to \$31 million, as revenue edged up 0.6 percent to \$1.55 billion.

↓ CarMax Inc. – Net income decreased 1.5 percent to \$141.03 million. Revenue was up 5.46 percent to \$3.7 billion.

↑ Penske Automotive Group Inc. – Net income saw a 5.7 percent rise in first quarter with revenue increasing 7.6 percent to \$4.8 billion.

↑ Sonic Automotive Inc. – Net income rose 4.7 percent to \$14.62 million in the first quarter. Revenue stayed flat at \$2.2 billion.

Key Trends

Inventory Levels

A consistent theme impacting the KAR Index™ is an oversupply of new vehicle inventory. "We simply have too much," Group 1 Automotive Inc. CEO, Earl Hesterberg said to Reuters. "More of the manufacturers are pushing more inventory. They are making more than they really need." Industry inventories have risen with retail days supply outstanding at approximately 80 days. These inventory levels are creating pricing pressure and leading to declines in gross profit. Sonic Automotive Inc.'s Executive Vice President of Operations, Jeff Dyke, stated, "We continued to see gross profit compression in new vehicles and expect this to continue until *inventory supply* corrects to more normalized levels."

Margin Compression in New Car Sales

Directly tied to the inventory issue, the majority of the KAR Index™ components saw earnings decline even as revenue grew. This earnings decline was driven by gross margin compression in new car sales. New car margins are under pressure from high inventory levels, internet sales channels, and increased consumer awareness. AutoNation saw significant declines in gross profit in both their new and used business lines. Though Penske Automotive Group grew earnings in the first quarter, the Company saw gross profits per new vehicle fall 5.1 percent and gross profits per used vehicle decline 9.4 percent in the first quarter.

Sales Forecasts

The third key trend affecting the auto retail industry is weakened sales forecasts as the industry expects declining growth. As the year unfolds, SAAR growth forecasts have been revised down to just 2% by many analysts. AutoNation's Mike Jackson reported that the Company is "reducing costs and vehicle inventories in anticipation of slower sales growth." Lithia Motors' CEO Bryan DeBoer noted, "national new vehicle sales growth is moderating" and Asbury Automotive is also expecting flat unit sales.

Share Repurchases

Auto retailers have been taking advantage of lower share prices by repurchasing stock, buying over \$800 Million of their own shares in the first quarter, more than they spent during all of 2015. These share repurchases have allowed these companies to decrease shares outstanding and increase their EPS. If stock prices continue to decline, we expect these companies to authorize further share repurchases.

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The KAR Index™ (The Kerrigan Auto Retail Index) is the best public market data available to those involved in the auto retail industry. While the auto retail industry remains highly fragmented and is dominated by thousands of small and mid-sized private companies, these seven publicly-traded stocks provide a special insight into the dynamics affecting auto retail. These stocks are “marked to market” every business day with the cumulative data and wisdom available to those investing. Kerrigan Advisors believes the KAR Index™ is a leading indicator of the directional trends of private dealership values and a barometer of auto retailers’ financial health.

Methodology

The Kerrigan Auto Retail Index (The KAR Index™) is composed of the seven publicly traded auto retail companies with operations focused on the US market. The purpose is to track this group of companies to identify and assess the drivers impacting changes in their valuations, with implications for both public and private auto retailers. **The KAR Index™ is weighted by the market capitalization of each company and benchmarked at 100 on 1/3/2000.**

Ticker	Company	Close 5/17/16	Market Cap
KMX	CarMax	50.81	9.85B
AN	AutoNation	46.95	4.84B
PAG	Penske Automotive Group	36.53	3.12B
LAD	Lithia Motors	79.24	2.03B
ABG	Asbury Automotive Group	54.05	1.20B
GPI	Group 1 Automotive	60.32	1.33B
SAH	Sonic Automotive	16.75	767.45M

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