THE KAR INDEX™

THE KERRIGAN AUTO RETAIL INDEX

In this inaugural report of The Kerrigan Auto Retail Index (The KAR Index™), we are pleased to initiate coverage on the best public market data available to those involved in the auto retail industry. While the auto retail industry remains highly fragmented and is influenced by thousands of small and mid-sized private companies, the seven publicly-traded auto retail 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. For the vast majority of auto dealers who will only come to market one time and discover the true value of their dealership, there is value in understanding the drivers that influence the valuations of these public companies.

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	Price 2/29/16	Market Cap
KMX	CarMax	46.26	9.05B
AN	AutoNation	51.47	5.52B
PAG	Penske Automotive Group	37.72	3.38B
LAD	Lithia Motors	92.72	2.39B
ABG	Asbury Automotive Group	58.40	1.44B
GPI	Group 1 Automotive	55.76	1.31B
SAH	Sonic Automotive	19.15	953.87M

470.12

2/29/2016 – Market Close

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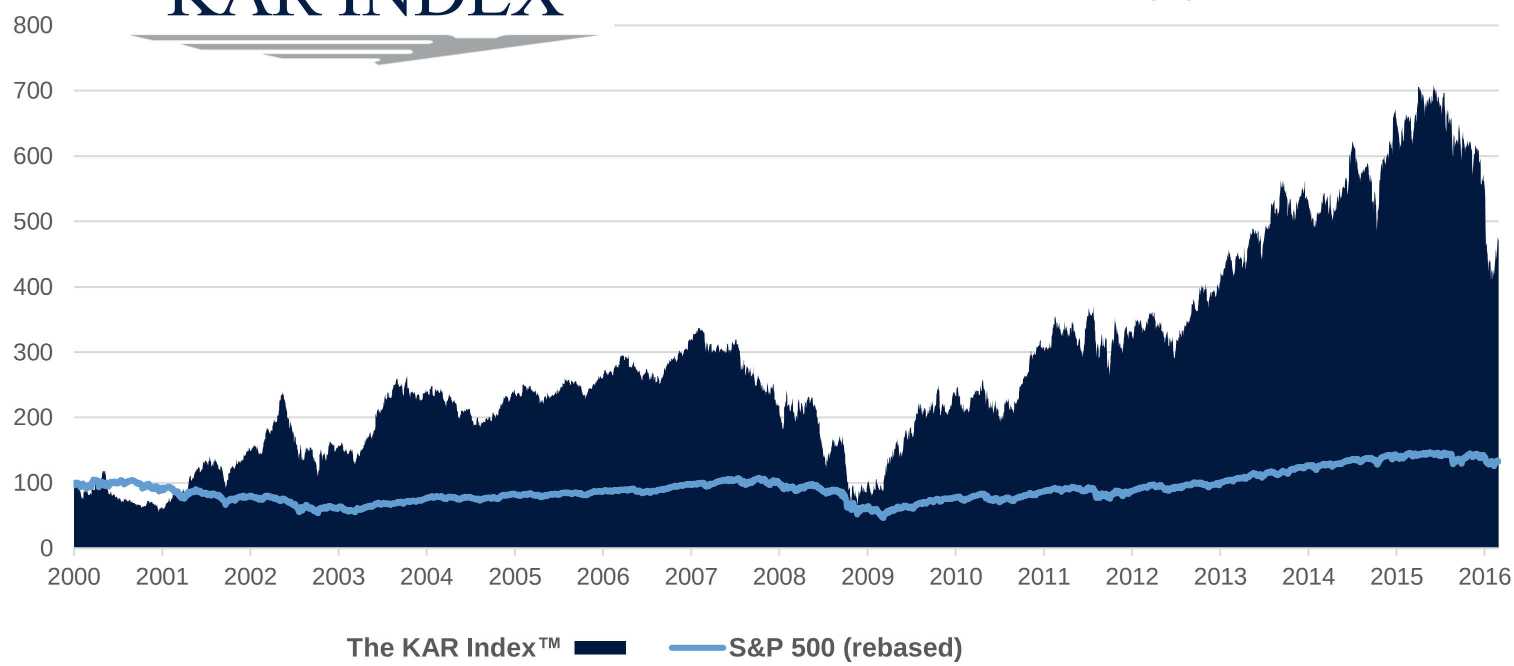
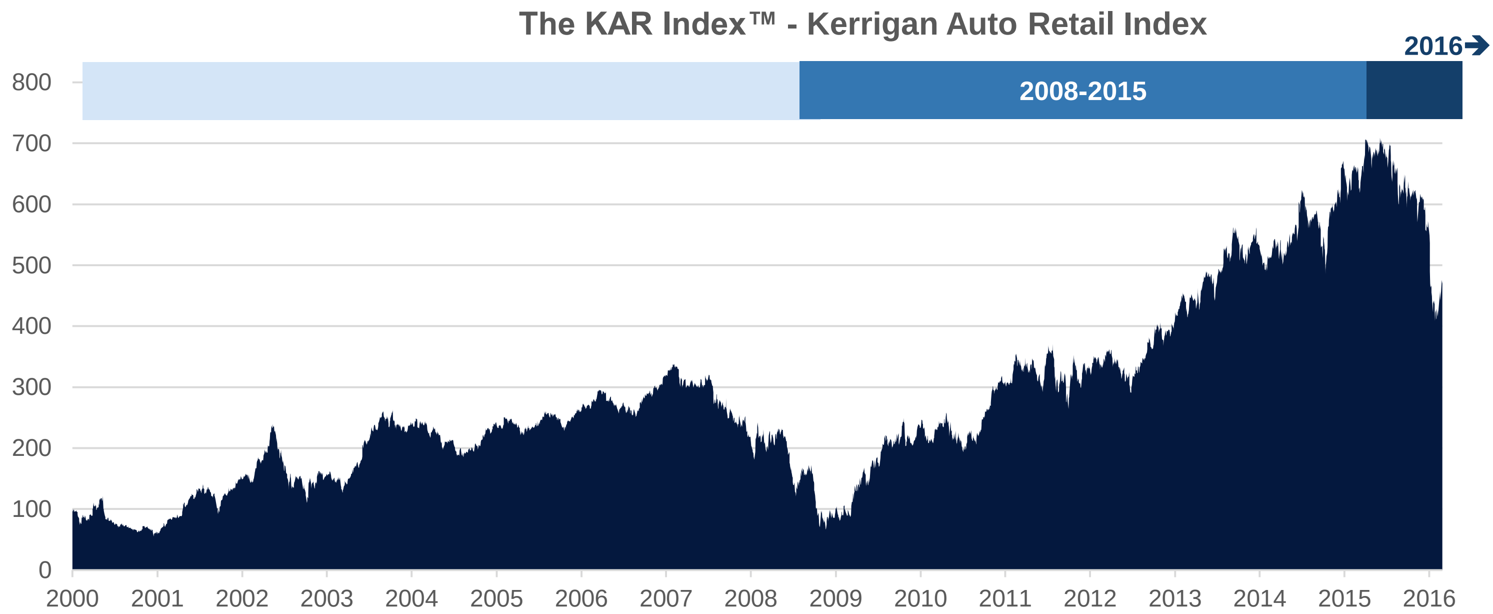


Most Recent Economic Cycle

The period spanning 2008 to 2015 represents a historic upcycle for auto retail stocks, underlining the incredibly strong growth and profitability of these companies during this time period. From a low of 66.43 in 11/20/2008 to its high in June 2015, the index rose a **stunning 968%,** outpacing the S&P in the same time frame by 784%. This placed the cumulative value of the seven stocks at $36.27 billion, with peak earnings less one-time expenses for the 7 stocks reaching $1.98 billion in 2015. During this remarkable 7-year period the index grew 968%.



What Led to Such a Historic Run?

With the benefit of hindsight, a near perfect set of factors caused a historic period of growth including: high demand, low interest rates, stronger manufacturers and decreasing cost structure. For all of the interesting innovation in the "sharing economy" and new technologies, this period marked old-fashioned, broad-based demand for cars in all segments of the US population. Going into the recession, the American fleet had aged to an average of 10 years, and when economic recovery finally came, it released a lot of pent up demand for cars. This demand was further enhanced by record low interest rates as a result of Fed Reserve policy, and the strength of auto credit (vs. housing) during the recession. The manufacturers, particularly the Detroit Three, dramatically improved their financial position by way of bankruptcy (GM, Chrysler) and dramatic restructuring (Ford), allowing them to increase investment in product development and develop a strategic growth plan. These positive factors all contributed to very strong revenue for dealerships who had aggressively cut costs during the 2008-2009 downturn, allowing profits to explode. Total adjusted earnings increased from $0.59 billion in 2008 to an industry setting high of $1.98 billion in 2015. And, similarly, on the private side, average profits per dealership more than tripled from $279,685 in 2008 to $1,166,675 in 2015.

Is This Just a Cycle?

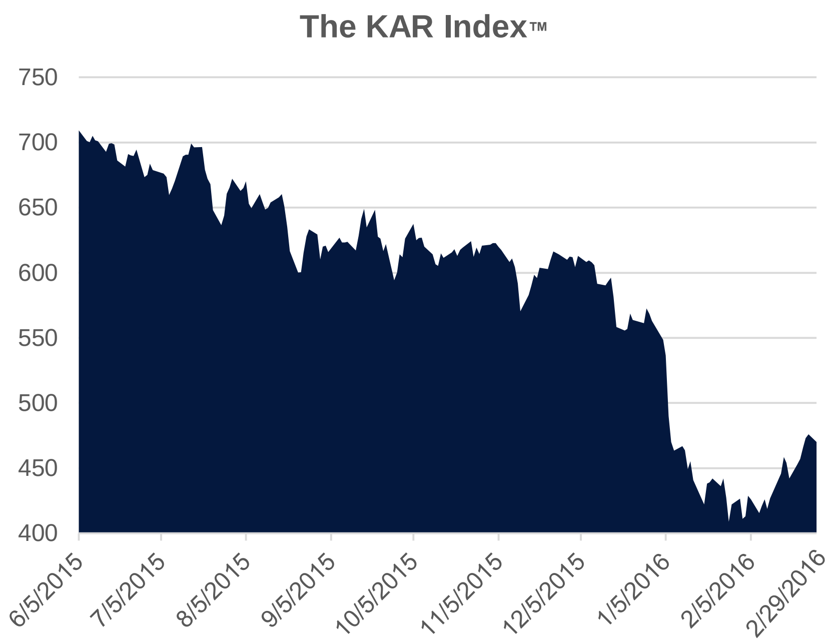
Many in the industry point to the predictable cyclicality that has long been associated with auto retail. But, was this more recent cycle "normal"? A quick lookback would indicate that maybe this has been a better than normal run. For example, in the last bull market period, from 2002 to 2006, the KAR Index™ went from 148 to 317. While a solid performance, this pales in comparison to the 33.2% compounded average annual growth from 2009 to 2015. And, during the 2002-2006 cycle, the KAR Index™ performed on par with the S&P 500, while in the recent run-up the KAR Index™ outperformed the S&P 500 by 3.3X (2008 to 2015). The data suggests that this most recent up cycle was unique in its length and magnitude, and reflects a confluence of specific factors that may be hard to replicate.

What Happens Next?

All good things must come to an end. It is still too early to call the end of the cycle, but the public markets have clearly voted with their feet. The KAR Index™ has dropped significantly in recent months from its high of 709.27, down 33.7% to 470.12 as of February 29, 2016.

Factors and viewpoints driving the Index down include:

- ✓ **Widespread concern about a slowing US economy**
- ✓ **Concern about future profitability**



The first concern is more obvious, portending a slowing economy and thus potentially falling SAAR, product mix changes, and resulting revenue and margin pressure. The latter concern is somewhat more subtle; while auto retail sales may remain robust for years to come in a steady-state environment, growth in units may have plateaued and a stable market will result in increased competition for market share and higher costs, with the potential to significantly impact profitability. The public companies comprising the KAR Index™ posted adjusted profit margins of 2.2% in 2015, so relatively small changes in gross margins and cost structure can significantly impact profitability.

The next leg of the road will likely prove more challenging than recent years, though there are multiple factors that support strong SAAR in the years to come. The average age of the American fleet remains at a record high of 11.4 years old. And, total American passenger miles continues to climb 1% per year. The US population is expected to continue growing at .8% per year over the next 5 years and the Millennials, the largest generation in US history, are beginning to purchase cars. Employment rolls continue to grow, and workforce participation recently reached its largest one-month increase in more than a year. Lastly, historically low oil prices have increased consumer's disposable income, and reduced the total cost of car ownership. As such, industry forecasters including NADA and IHS automotive predict SAAR stability, and even some growth in 2016 and 2017.

Moving forward, Kerrigan Advisors will publish the KAR Index™ on a monthly basis. We hope the index will serve as a valuable resource to our industry and an indicator of the financial health of our sector. To be added to the distribution list, please email us at info@theKARindex.com or for questions please contact Ryan Kerrigan at 949-738-8849 or ryan@kerriganadvisors.com.