THE KERRIGAN INDEX™

THE KERRIGAN AUTO RETAIL INDEX

In this monthly issue of The Kerrigan Auto Retail Index, we are pleased to continue coverage of the best public market data available to those involved in the auto retail industry. While the 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 US auto retail. These stocks are "marked-to-market" every business day with the cumulative data and wisdom available to those investing.

Methodology

The Kerrigan Index™ is composed of the seven publicly traded auto retail companies with operations focused on the US market, including CarMax, AutoNation, Penske Automotive Group, Lithia Motors, Asbury Automotive Group, Group 1 Automotive, and Sonic Automotive.

The Kerrigan Index™ is weighted by the market capitalization of each company and benchmarked at 100 on 1/3/2000.

Ticker	Company	Close 10/31/2018	Market Cap	Monthly Change
KMX	CarMax	67.91	11.68B	-10.04%
AN	AutoNation	40.48	3.64B	-2.58%
PAG	Penske Automotive Group	44.38	3.77B	-9.34%
LAD	Lithia Motors	89.08	2.15B	+7.13%
ABG	Asbury Automotive Group	65.10	1.28B	-13.22%
GPI	Group 1 Automotive	57.75	1.10B	-12.04%
SAH	Sonic Automotive	18.12	774.64M	-6.27%

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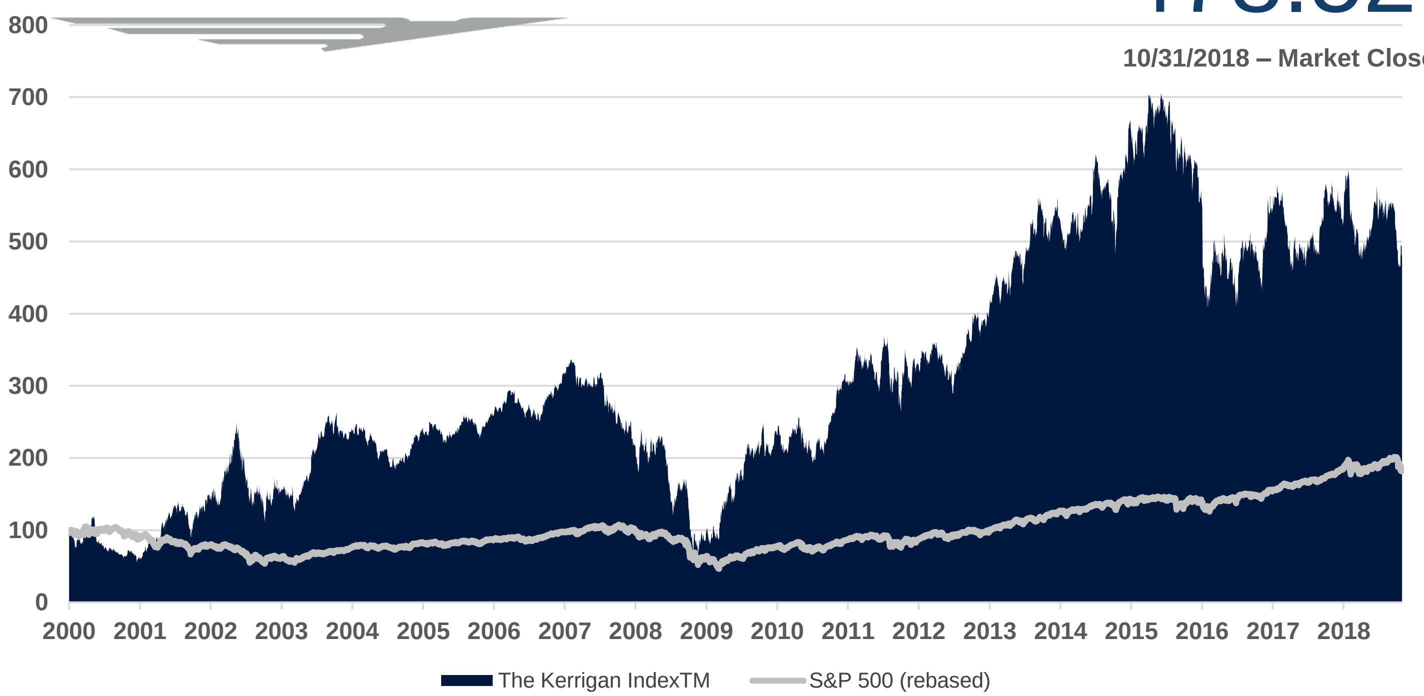
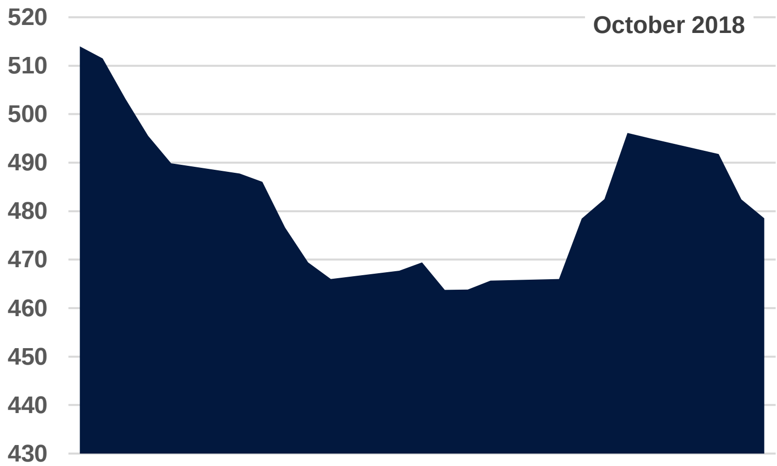
478.52

10/31/2018 – Market Close



Stocks Down, SAAR and Profits Strong

The Kerrigan Auto Retail Index was down -7.74% for the month of October, in line with the S&P 500 Index's performance, which was down -6.94%.



The Kerrigan Index™ October 2018	478.52
Monthly Change	-7.74%
YTD Change	-8.40%

Six of the seven component stocks were down in October. Lithia Motors was the only stock to post a gain, increasing 7.13%. Asbury Automotive Group posted the largest loss at 13.22%, followed by Group 1 Automotive (-12.04%), CarMax (-10.04%), Penske Automotive Group (-9.34%), Sonic Automotive (-6.27%) and AutoNation (-2.58%).

October seasonally adjusted annualized sales rate (SAAR) was 17.59 million, the highest of the year, and well above forecasts for 17.3 million, but down from October 2017 when demand soared following Hurricanes Harvey and Irma. 2018 is expected to top 17 million units for the fourth straight year, an unprecedented stretch.

"Many signs in the economy would suggest that vehicle demand should be moderating – higher interest rates, import tariffs, weak housing market, stock market volatility, elevated gas prices – yet vehicle buying remains strong," said Charlie Chesbrough, senior economist for Cox Automotive.

Incentives are on pace to decline for a fourth consecutive month, the longest stretch since the recession ended in 2009, according to J.D. Power, generally indicating continued health in consumer demand. "For manufacturers, the financial benefits of continued growth in truck mix along with reduced incentives is helping to offset the effect of reduced sales volumes," according to Thomas King, senior vice president of J.D. Power.

In the month of October, six public auto retailers released second quarter earnings, which were largely positive. Average revenue was relatively flat, increasing a modest 3%, while average earnings jumped 28%. Consistent themes from recent earnings calls were continued compression in new car margins and the strength of service, parts, F&I and used car operations in sustaining profitability.

Third Quarter 2018 Earnings Results:

Company	Q3 2018 Revenue ($B)	YoY % Change	Q3 2018 Net Income ($M)	YoY % Change
Asbury	$1.76	10%	$44.30	44%
AutoNation	$5.35	-2%	$112.00	15%
Group 1	$2.89	-4%	$34.78	16%
Lithia	$3.09	15%	$93.11	79%
Penske	$5.66	2%	$130.10	38%
Sonic	$2.47	-1%	$15.12	-22%
Average		**3.3%**		**28.3%**

ABG: Asbury Automotive Group's reveneue was up 10% and net income was up 44% in the third quarter. The earnings increase was driven by increases in the company's F&I and parts and service business lines. While Asbury did not announce any acquisitions in the third quarter, the group is actively seeking new markets as well as acquiring "tuck-in" stores, generally described as one or two stores that help round out a retailer's presence in an existing market.

AN: AutoNation posted a 2% decline in revenue, while net income rose 15% in the third quarter. The decrease in revenue can be attributed to a 5.6% decline in new vehicle revenue. The increase in net income was driven by strong parts and service, used vehicle, and F&I performance, which more than offset a decline in new vehicle gross profit. AutoNation acquired one BMW dealership in Southern California during the quarter, as well as one collision center in Maryland. The company also announced a strategic $50M investment in Vroom. "We will continue to strategically invest in emerging digital technologies, internally and externally, as the mobility space is transforming," AutoNation CEO Mike Jackson said in a statement. "We are excited to invest in Vroom, a leader in the online car retail business."

GPI: Group 1 Automotive's revenue declined 4%, while net income increased 16% in the third quarter. The revenue decline was driven by a 10% decline in new vehicle revenue and a 17% decline in used vehicle wholesale revenue. On an adjusted basis, net income rose 5.5% due to adjustments from reduced tax liabilities, gains on real estate and the sale of dealerships. The company also recorded noncash asset impairments of $17.7M and legal settlement reserve adjustments of $1.6M. Group 1 reported a 9.7% rise in used car sales worldwide, and 6.9% increase in the US. Growth was driven by Val-U-Line, the company's brand for older-model, higher-mileage used vehicles launched in early 2018. Group 1 acquired two Honda stores during the quarter, located in the San Antonio and New Orleans markets, bringing the total number of franchises added to Group 1's portfolio to 14 in 2018.

LAD: Lithia Motors' revenue increased 15% and net income rose 79% in the third quarter. Profits in F&I, fixed operations and used vehicles were up quarter-over-quarter and supported earnings growth for the period. The increases were also driven largely by gains from tax changes and store divestitures. Lithia announced the divestitures of seven dealerships durinig the third quarter, bringing total divestitures to nine for the year. Additionally, Lithia announced a strategic partnership with Shift by making a $54M investment in the third quarter. Bryan DeBoer said in a statement, "This partnership will further the in-home vehicle purchasing, selling and servicing experience and leverage our nationwide network that currently reaches over 80% of consumers in the country."

PAG: Penske Automotive Group's revenue increased 2%, and net income increased 38% year-over-year. Profits were boosted by an $11.6M tax benefit related to the 2017 U.S. Tax Cuts and Jobs Act. Without that benefit, adjusted income increased 26%. The strong third quarter performance was driven by increases in new vehicle, used vehicle and F&I gross profit per retail unit sold and a 70 basis-point increase in service and parts gross margin. Penske CEO Roger Penske said in a statement, "Our U.K. business produced another record quarter on the strength of its premium brand mix and stand-alone used vehicle supercenter operations." Penske did not announce any acquisitions during the third quarter.

SAH: Sonic Automotive's revenue declined 1.4% and net income declined 22% in the third quarter. Adjustments in the third quarter included charges for storm damage, executive transition and divestures. Sonic continues to see growth from their EchoPark standalone used-vehicle stores, with revenue up over 226% over the prior year quarter. The company opened a new EchoPark store in Charlotte, NC in October and plans to open another store in Houston by the end of 2018. Sonic also announced that Scott Smith is stepping down as CEO, and will be replaced by David Smith (his younger brother) and Jeff Dyke will be promoted to President.

Other significant industry data include:

- Fleet sales are projected to total 290,200 units in October, down 2.3% from October 2017. Fleet volume is expected to account for 22% of total light vehicle sales, up from 21% last year.
- Trucks and SUVs accounted for 70.4% of new vehicle retail sales through Oct. 21, the highest level ever for the industry. This month marks the 28th consecutive month trucks and SUVS were above 60% of new vehicle retail sales.
- The average new-vehicle retail transaction price in October was $32,947, an all-time monthly record. The previous high for the month of Octobe was set last year.
- Average incentive spending per unit in October was $3,742, down from $3,885 during October last year.
- Consumers are projected to spend $34.9B on new vehicles in October, a $300M increase from last year's level.
- Days to turn, the average number of days a new vehicle sits on a dealer lot before being sold to a retail customer, was 69 days through October 21st, down 5 days from last year.

Sources: SEC Filings, JD Power, LMC Automotive, Automotive News, Cox Automotive, and Edmunds

About Kerrigan Advisors:

Kerrigan Advisors is the leading sell-side advisor to auto dealers in the U.S., having sold 72 dealerships since 2015, including five of the *Top 100 Dealership Groups*, representing over $1.5 billion in client proceeds. In addition to its sell-side services, Kerrigan Advisors offers a suite of consulting services which include accounting preparation for a sale, open point proposals, transactional due diligence, and litigation support. The firm's executives are licensed investment bankers and have collectively completed transactions worth over $3 billion during their careers. Kerrigan Advisors is often invited to keynote top auto retail conferences, as well as leading manufacturer events. In addition to The Kerrigan Index™ monthly, the firm publishes a quarterly Blue Sky Report®, the industry authority on blue sky multiples and buy/sell trends. To sign up to receive both firm's reports, please email your contact information to info@kerriganadvisors.com or visit our website at www.kerriganadvisors.com.