The Kerrigan Index™ is composed of the seven publicly traded auto retail companies with operations focused on the US market and is reported monthly. While the auto retail industry remains highly fragmented and is influenced by thousands of small and mid-sized private companies, the publicly traded auto retail stocks provide a special insight into the dynamics affecting US auto retail.

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, Group 1 Automotive, Asbury Automotive Group and Sonic Automotive.

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

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<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>KMX</td>
<td>CarMax</td>
<td>$106.93</td>
<td>$17.47B</td>
<td>10.27%</td>
</tr>
<tr>
<td>LAD</td>
<td>Lithia Motors</td>
<td>$248.96</td>
<td>$5.81B</td>
<td>8.64%</td>
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<tr>
<td>AN</td>
<td>AutoNation</td>
<td>$56.86</td>
<td>$5.45B</td>
<td>10.75%</td>
</tr>
<tr>
<td>PAG</td>
<td>Penske Automotive Group</td>
<td>$47.17</td>
<td>$3.84B</td>
<td>5.24%</td>
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<tr>
<td>ABG</td>
<td>Asbury Automotive Group</td>
<td>$105.79</td>
<td>$2.04B</td>
<td>5.63%</td>
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<tr>
<td>SAH</td>
<td>Sonic Automotive</td>
<td>$42.26</td>
<td>$1.80B</td>
<td>10.86%</td>
</tr>
<tr>
<td>GPI</td>
<td>Group 1 Automotive</td>
<td>$86.44</td>
<td>$1.59B</td>
<td>2.88%</td>
</tr>
</tbody>
</table>

The Kerrigan Index™

8/31/2020 – Market Close

743.09

S&P 500 (rebased)
Few Valleys, Mostly Peaks in August

The Kerrigan Index™, which is comprised of the seven publicly traded auto retailers, reached an all-time high for the second month in a row, hitting 766.40 on August 18, 2020. This surpassed the Index’s previous peak of 710.10 on July 29, 2020. The Kerrigan Index ended August 2020 at 743.09, up 9.01% for the month, while the S&P 500 Index was up 7.01% during the same period. Year-to-date, The Kerrigan Index is up 20.44%, while the S&P is up only 8.34%.

All seven component stocks posted increases in the month of August. Sonic Automotive had the largest increase of 10.86%, followed by AutoNation (+10.75%), CarMax (+10.27%), Lithia Motors (+8.64%), Asbury Automotive Group (+5.63%), Penske Automotive Group (+5.24%) and Group 1 Automotive (+2.88%). Notably, Sonic, Lithia and CarMax hit all-time highs on August 12th, August 18th and August 24th, respectively. AutoNation also posted a 52-week high in the month of August.

As earnings recovered throughout the auto retail industry from historic lows in April to record highs in June, Wall Street investors recognized the resilience of the auto retail business model and the growth prospects of the largest auto retailers, as the industry consolidates and leverages technology to increase retail efficiency and profitability. Auto retail’s ability to post record earnings in the face of a pandemic-induced recession is in stark contrast to the financial struggles of many brick and mortar retailers throughout the US.

Auto Sales Continue to Recover from April Lows

The seasonally adjusted annual rate (SAAR) of new vehicle sales continues to trend upwards, ending August at 15.0 million, representing the fourth month in a row of increases. Sales are still significantly below August 2019’s 17.1 million SAAR, partially due to August 2020 having two fewer selling days and Labor Day weekend falling in September this year. JD Power estimates consumer spending on new vehicles in August will total $41.6 billion, a 10.9% decline from August 2019, but the highest level of spending since December 2019.

Dealers are facing limited inventory as a result of COVID-related factory shutdowns. Per Cox Automotive, Toyota, Lexus and BMW each had less than a 40-day supply of vehicles in late August, far below the current industry average of 60 days. “Supply and inventory are still expected to be a challenge in high demand segments going into the fall, due to factory shutdowns this past spring. Additionally, a potential second wave of shutdowns during the fall and winter seasons remains a concern,” said Sara Richards, a Kelley Blue Book analyst.

While inventory levels are low, dealers who can secure newly produced vehicles are selling them quickly with lower discounts. JD Power estimates nearly 45% of all vehicles sold in August will spend fewer than 20 days on dealer lots, up from 35% last year. These factors are helping dealers post significant margin improvements. According to JD Power, total gross per unit including F&I, is on pace to reach $2,064 in August, an increase of $759 from last year.
Company News

In August, AutoNation announced, as part of a cost-cutting and efficiency initiative, the company will be terminating the unprofitable aftermarket collision parts unit by the end of 2020. The division, launched in 2018 as part of AutoNation’s larger brand extension strategy, sources and sells retail and wholesale collision parts, from bumpers to radiators, for more than 30 brands at 12 distributions centers nationwide. Customers include retail consumers, dealerships and other collision centers. The collision parts unit represented less than 1% of AutoNation’s $700.2 million parts and service gross profit in the first half of this year. As a result of the termination, AutoNation expects to incur approximately $52 million in charges in the second half of 2020.

On August 24th, Asbury completed the purchase of 12 new vehicle franchises from Park Place Dealerships in the Dallas, Texas market. The acquisition is expected to add $1.7 billion in annual revenue.

On August 2nd, Lithia Motors announced the acquisition of four dealerships (3 Honda, 1 Toyota) from John Eagle Dealerships in Dallas and Austin, Texas. On September 1st, Lithia announced the acquisition of the six remaining John Eagle Dealerships which includes 3 Honda dealerships, 1 Acura dealership and 2 Infiniti dealerships in Houston, Texas. These 10 Texas dealerships are expected to add $1.1 billion in annualized revenue.

Other Significant Industry Data

- Per JD Power, the average new vehicle retail transaction price in August was estimated to reach a record $35,240, driven by demand for SUVs and trucks.
- Trucks and SUVs accounted for 76.2% of new vehicle retail sales, the highest level ever for the month of August.
- Fleet sales are estimated to have declined 34% from August 2019 and are expected to be 141,900 units for the month, representing 11% of total light vehicle sales.
- Average incentive spending per unit in August is expected to fall 1.2% to $4,105. In August, incentive spending as a percentage of the average MSRP was 10.0%, down 0.5 percentage points from a year ago.

Sources: SEC Filings, NADA, Edmunds, JD Power, Automotive News, Bank of America, Cox Automotive, Yahoo Finance
About Kerrigan Advisors:
Kerrigan Advisors has the honor of advising the industry’s leading dealers through the lifecycle of growing, operating and, when the time is right, monetizing their businesses. In the last five years, we have represented on auto retail’s largest transactions, including five of the Top 100 Dealership Groups, more than any other firm in the industry. Kerrigan Advisors works with auto retail’s leading families on their growth strategy, capital allocation, real estate and buy/sell transactions. Kerrigan Advisors is often asked 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 reports, please email your contact information to info@kerriganadvisors.com or visit our website at www.KerriganAdvisors.com.

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