

THE KERRIGAN DEALER SURVEY

2020



A Leading Sell-Side Advisor and Thought Partner to Auto Dealers

KERRIGAN ADVISORS

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Methodology

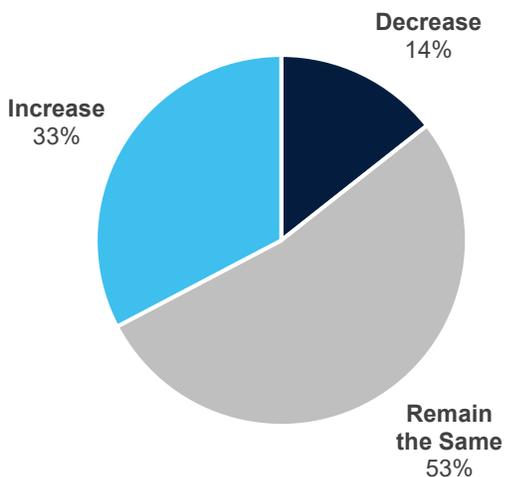
The data for The Kerrigan Dealer Survey is gathered from Kerrigan Advisors' annual survey of auto dealers in conjunction with the issuance of The Blue Sky Report®. The Kerrigan Dealer Survey is based on over 680 responses from franchised auto dealers in Kerrigan Advisors' proprietary database. Survey responses were collected from June 2020 to October 2020.

2020 Kerrigan Dealer Survey Results

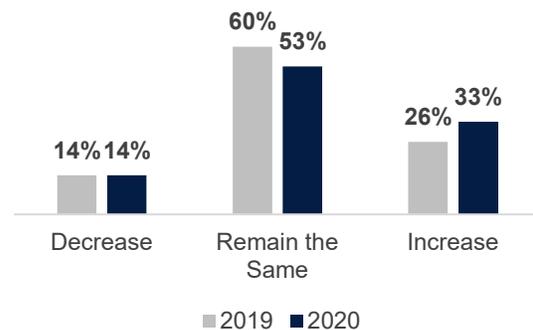
Kerrigan Advisors' second annual Dealer Survey was designed to gauge dealer sentiment about the future value of their businesses, as well as their perspective on franchise valuations and the current buy/sell market. The results of the survey found that dealers remain largely optimistic about the valuation of their dealerships over the next 12 months, despite the economic turmoil associated with COVID-19. Of the 680 responses, 86% of dealers expect the valuation of their dealerships to remain the same or increase in value. Notably, 33% of dealers surveyed expect an increase in their business' value, as compared to 2019's results when only 26% of dealers expected their dealership value to increase. Only 14% of dealers surveyed in 2020 believe the value of their business will decrease over the next 12 months.

Kerrigan Advisors' 2020 Dealer Survey results are consistent with the firm's assessment of the buy/sell market. In our Second Quarter 2020 Blue Sky Report, we noted that blue sky values rose slightly in the first half of the year, despite earnings volatility due to a period of economic shutdown. Our firm believes the rebound in auto sales coupled with reduced dealership expenses and higher vehicle margins will result in record industry earnings in 2020. Dealers' valuation expectations reflect the strength of the dealership business model in the face of a crisis and the expectation for continued sales and profit growth into 2021.

How do you expect the value of your dealership/dealership group to change in the next 12 months?



33% of dealers expect the value of their dealership to increase in the next 12 months, as compared to 26% surveyed in 2019.



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Surveyed dealers reported positive expectations regarding the sustainability or improvement in their dealerships' franchise values over the next 12 months. The majority of dealers surveyed expect all but two franchises (Nissan and Infiniti) to either increase or remain the same in value.

How do you expect these franchises to change in value over the next 12 months?

Highest Expected Valuation Gains:

Subaru, Toyota, Porsche, Honda, Mercedes-Benz, Lexus

- Over 25% of dealers surveyed expect to see an increase in these franchise values in the next 12 months, while less than 16% expect a decline.

Most Dependable Valuations:

BMW, Audi, Honda, Jaguar Land Rover, Mercedes-Benz

- Over 60% of respondents expect these franchise values to remain the same over the next 12 months.
- Audi and Jaguar Land Rover are new to this list from last year.

Highest Expected Valuation Declines:

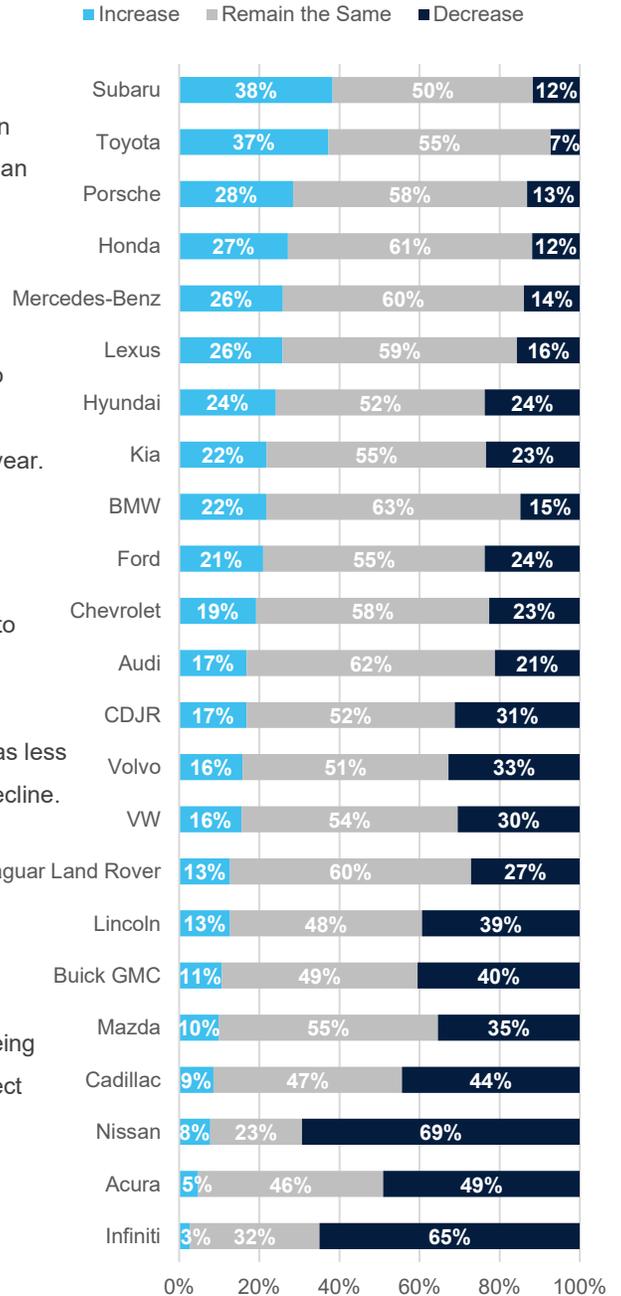
Nissan and Infiniti

- The majority of dealers surveyed expect these franchises to decline in value in the next 12 months, while less than 8% believe they will increase in value.
- Acura, Cadillac and Buick GMC are no longer on this list, as less than 50% of dealers surveyed expect their valuations to decline.

Most Improved Valuation Expectations since 2019:

Buick GMC, Cadillac, Chevrolet, CDJR, Ford, Hyundai, Kia, Jaguar Land Rover, Toyota

- These franchises saw an increase from last year in the number of dealers expecting a rise in value, while also seeing at least a 10 percentage point reduction in those who expect the franchise value to decline.



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In the 2020 Kerrigan Dealer Survey, our firm noted an overall improvement in valuation and buy/sell activity expectations by surveyed dealers, which is consistent with our market observations. Kerrigan Advisors also saw a high correlation between the 2020 results and franchise demand in our proprietary Buyer Database. Franchises most expected to increase in value have the strongest buyer demand, while franchises most expected to decline in value have the lowest buyer demand. That being said, the majority of respondents believe franchise values will either hold steady or increase, except in the case of Nissan and Infiniti, where the majority of dealers surveyed expect a decline in value.

Top 5 Franchises Expected to Increase in Value (2020)			Top 5 Franchises Expected to Remain the Same in Value (2020)			Top 5 Franchises Expected to Decrease in Value (2020)		
Rank	Franchise	%	Rank	Franchise	%	Rank	Franchise	%
1	Subaru	38%	1	BMW	63%	1	Nissan	69%
2	Toyota	37%	2	Audi	62%	2	Infiniti	65%
3	Porsche	28%	3	Honda	61%	3	Acura	49%
4	Honda	27%	4	Jaguar Land Rover	60%	4	Cadillac	44%
5	Mercedes-Benz	26%	5	Mercedes-Benz	60%	5	Buick GMC	40%

Of note in this year's survey is the noticeable improvement of the domestic franchises. Chevrolet, Buick GMC and Ford saw on average a 7 percentage point improvement in the number of dealers who expect their franchise to increase in value and on average a 13 percentage point reduction in the number of dealers who expect a decline. These results are consistent with the improvements we are seeing in buyer demand for these franchises, particularly as the truck and SUV market continues to grow and gas prices remain low.

Also, of interest in this year's survey is the improved position of Jaguar Land Rover. In the 2019 survey, 40% of respondents expected the franchise would decline in value, whereas in the 2020 survey 73% believe the franchise will either increase or remain the same in value. Jaguar Land Rover's rebound is a reflection of the strength of the luxury SUV market in 2020 and the benefit of low interest rates.

Most Improved Franchises in the Percentage of Dealers Expecting an Increase in Value (2019 vs. 2020)			Most Improved Franchises in the Percentage of Dealers Expecting a Decline in Value (2019 vs. 2020)		
Rank	Franchise	% Point Increase	Rank	Franchise	% Point Reduction
1	Toyota	7.4%	1	Jaguar Land Rover	13.1%
2	Chevrolet	7.3%	2	Ford	13.1%
3	Buick GMC	6.8%	3	Buick GMC	12.9%
4	Ford	6.6%	4	Kia	12.7%
5	Hyundai	5.2%	5	Hyundai	12.3%

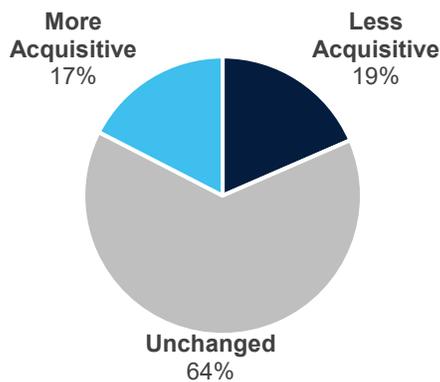
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The results also highlight Toyota's continued success and the value of its franchise. 37% of dealers surveyed expect the franchise to increase in value, up 7.4 percentage points from last year – more than any other franchise. This improvement is particularly impressive when considering Toyota commands the highest blue sky multiple amongst non-luxury franchises.

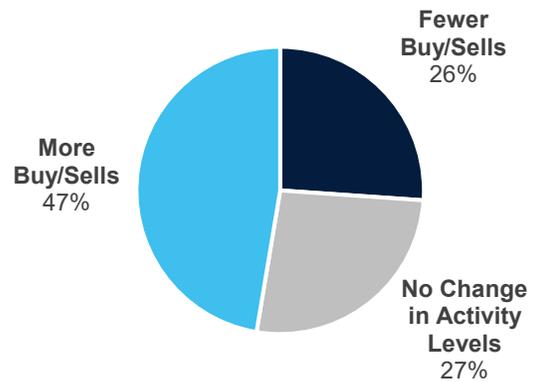
In this year's survey, Kerrigan Advisors also asked dealers how COVID-19 would affect their acquisition plans and the buy/sell market. Interestingly, of the 680 dealers surveyed, the majority (64%) reported no change to their acquisition plans as a result of COVID-19. Only 17% expect to be more acquisitive, while 19% plan to be less acquisitive.

By contrast, 47% of dealers surveyed believe buy/sell activity will increase in the next 12 months. Kerrigan Advisors attributes these conflicting responses to a rise in dealers who are considering a sale and thus expect more dealership buy/sells. These results are consistent with our expectations for a significant increase in buy/sell activity in the second half of 2020 and a growing pool of dealerships for sale over the next 12 months.

How has the COVID-19 pandemic changed your acquisition plans for the next 12 months?



How do you believe the COVID-19 pandemic will affect the buy/sell market for the next 12 months?



ABOUT KERRIGAN ADVISORS

Kerrigan Advisors is a leading thought partner and sell-side advisor to auto dealers in the US. In the past five years, our firm has represented on the sale of the industry's largest transactions throughout the US, including seven of the Top 150 Dealership Groups, **more than any other firm in the industry**. Our sale process is extremely successful and has led to the highest sale price per transaction of any firm in the industry over the last five years. Kerrigan Advisors has had the honor of advising auto retail's leading families on their growth strategies, capital allocation plans, operations, real estate and the sale of their valuable businesses. Our team oversees and manages client engagements from beginning through successful outcome. In our view, *dealerships are far too valuable to be advised any other way.*