THE BLUE SKY REPORT®

A KERRIGAN QUARTERLY

First Quarter 2021

June 2021

KERRIGAN ADVISORS

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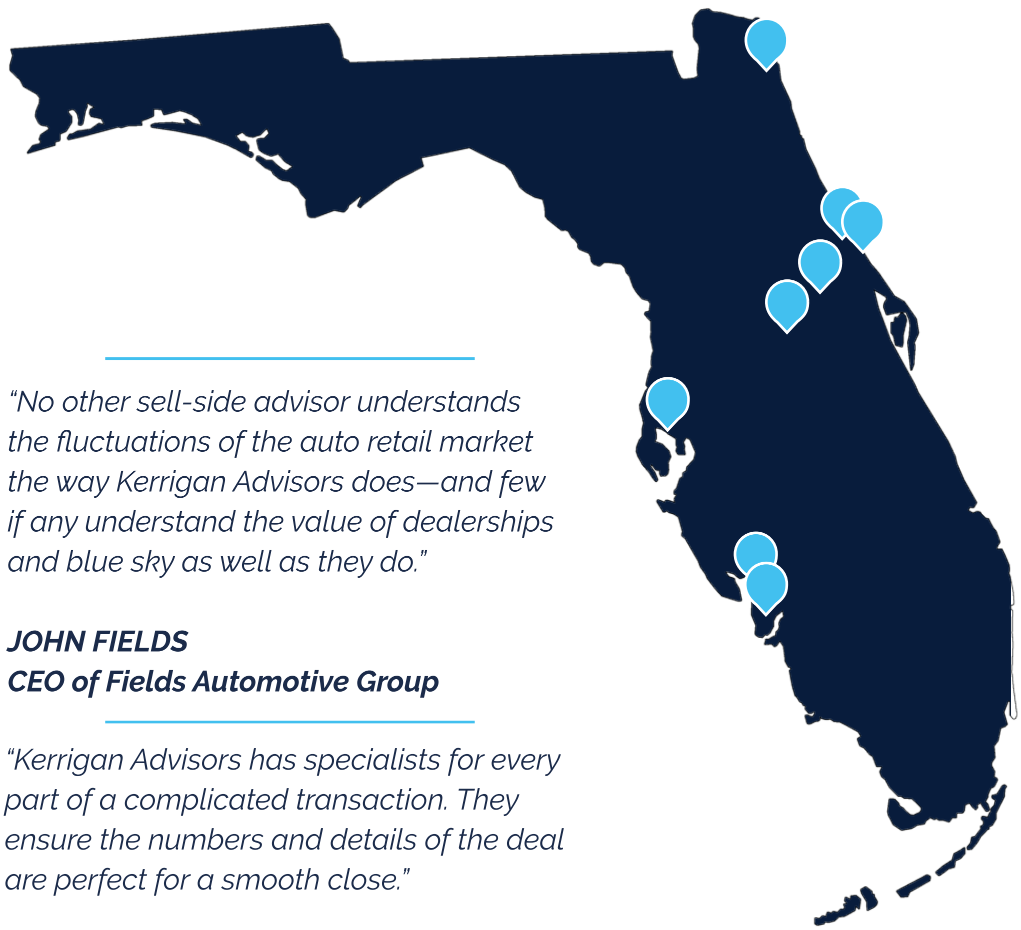
The Leading Advisor to Higher Value Dealerships in Florida

Kerrigan Advisors' Recently Completed Florida Transactions



ORLANDO, FL
Sold January 2021

SANFORD, FL
Sold January 2021

CAPE CORAL, FL
Sold March 2021

PORT CHARLOTTE, FL
Sold March 2021

DAYTONA, FL
Sold February 2020

DAYTONA, FL
Sold February 2020

WESLEY CHAPEL, FL
Sold January 2020

JACKSONVILLE, FL
Sold December 2019

"No other sell-side advisor understands the fluctuations of the auto retail market the way Kerrigan Advisors does—and few if any understand the value of dealerships and blue sky as well as they do."

JOHN FIELDS
CEO of Fields Automotive Group

"Kerrigan Advisors has specialists for every part of a complicated transaction. They ensure the numbers and details of the deal are perfect for a smooth close."

BILLY FUCCILLO JR.
Fuccillo Nissan of Orange Park

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. Since 2015, we have represented on auto retail's largest transactions, including six of the Top 100 Dealership Groups, more than any other firm in the industry.

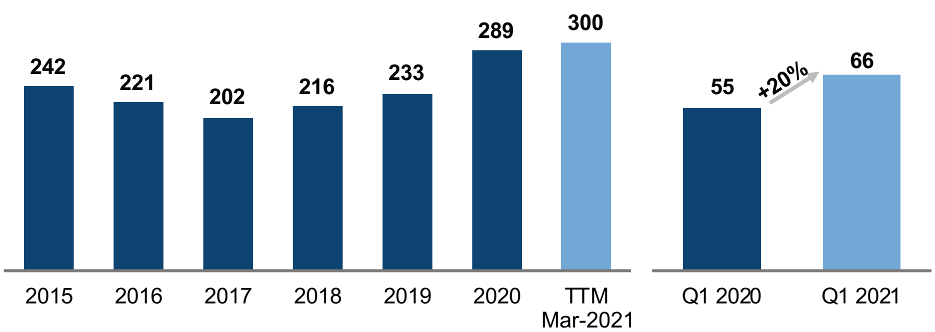
If you would like to learn more about the firm, please contact Erin Kerrigan or Ryan Kerrigan at (775) 993-3600 or visit KerriganAdvisors.com.

DEALERSHIP ACQUISITION ACTIVITY

The unique factors that made 2020 a record year for the auto retail buy/sell market have continued to gain momentum well into 2021, with 66 completed transactions in the first quarter—a 20% increase over the first quarter of 2020 (see Chart I). This acceleration of buy/sell activity in the first quarter resulted in a record 300 completed transactions over the last 12 months, more than any 12-month period in recent history.

COVID-19 remains a key factor in auto retail's tremendous success. As cases diminish, states reopen and the country emerges from the pandemic, consumer demand—and their access to capital—will ensure dealership profits remain high, especially as dealers continue to leverage and pay-forward the operational efficiencies and digital strategies they adopted during the pandemic. This, combined with other positive macro-economic factors, and the acceleration of industry consolidation, will ensure a thriving buy/sell market throughout 2021, even in the face of chip shortages and inventory challenges.

Chart I | Total Number of Completed Dealership Transactions



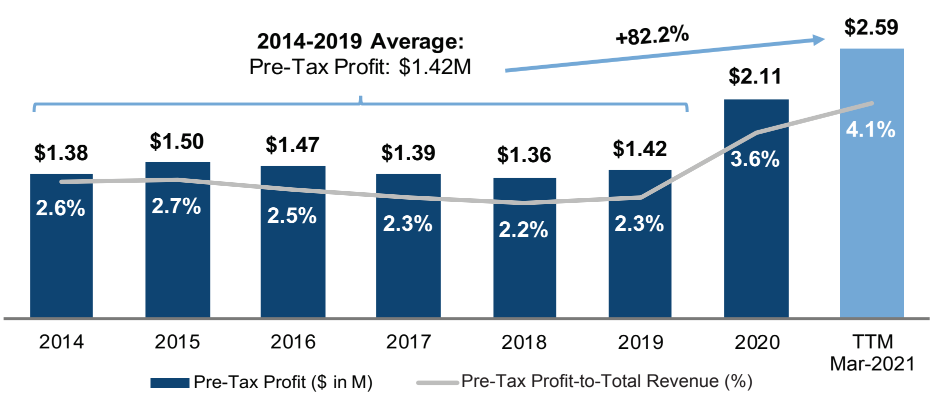
Source: The Banks Report, Automotive News, Kerrigan Advisors' Research

In the first quarter, transaction activity accelerated 20% quarter over quarter, culminating in an unprecedented 12 months of activity, with 300 transactions completed since the second quarter of 2020.

> *"We are in the most active consolidation environment that we have seen in the last two decades."*
>
> ***Bryan DeBoer, President & CEO, Lithia Motors***
> ***First Quarter 2021 Earnings Call***

Today's buy/sell activity levels are largely a byproduct of auto retail's unprecedented earnings growth since April 2020. Through the first quarter of 2021, the average dealership earned $2.6M on a trailing twelve-month basis, achieving a historic 4.1% net-to-sales margin (see Chart II). At this level, dealership profits are now 82% higher than their six-year average before the pandemic.

Chart II | Average Dealership Pre-Tax Profit ($ in Millions) vs. Pre-Tax Profit-to-Total Revenue (%)



Source: NADA Industry Analysis

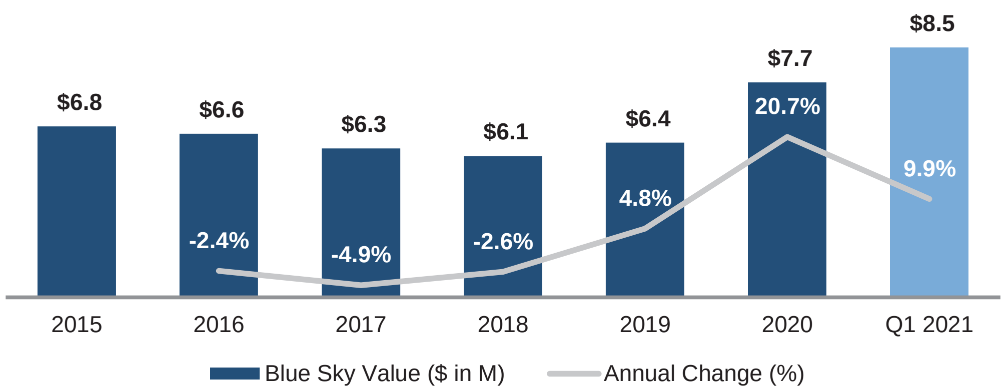
Auto dealership profits showed no signs of abating, already up 82% through the first quarter compared to the six year pre-pandemic average. A perfect combination of government stimulus, low interest rates, pent-up demand and shrinking inventories resulted in a historic average profitability of $2.6M in the last 12 months.

Most dealers, regardless of location, franchise and facility, continued to achieve historic profit levels in 2021. The rare mixture of record government stimulus, the reopening of a dormant economy, low interest rates and pent-up consumer demand, combined with limited inventory, has resulted in tremendous industry-wide success. Not surprisingly, the rising tide of industry profits is lifting the valuations of all franchises in today's active buy/sell market.

> *"Everyone looks great, everyone is reporting good numbers, everyone is showing high margins."*
>
> ***David Hult, President & CEO, Asbury Automotive Group***
> ***First Quarter 2021 Earnings Call***

Kerrigan Advisors estimates that the average dealership blue sky value reached another peak in the first quarter, driven by earnings growth, as well as a slight increase in average blue sky multiples (see Chart III). Similarly, the publicly-traded auto dealership groups saw their valuations rise in the first quarter with the Kerrigan Index hitting new heights. Year-to-date through April, the Kerrigan Index of the largest seven public auto retailers is up 37.4%, outperforming the S&P 500 by over 230% (see Chart IV).

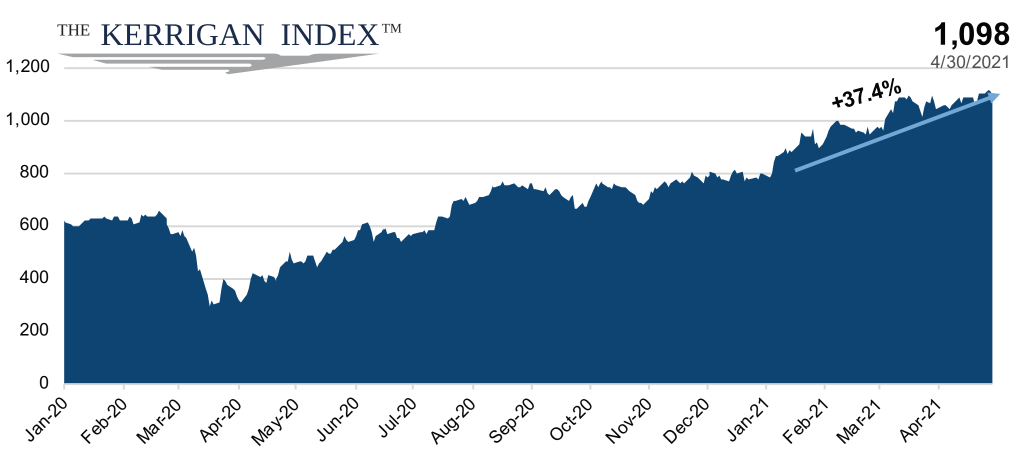
Chart III | Average Dealership Blue Sky Value ($ in Millions) vs. Annual Change (%)



Record dealership earnings—and an increase in blue sky multiples—drove average dealership blue sky values to another peak in the first quarter.

Source: NADA Industry Analysis, Kerrigan Advisors' Analysis

Chart IV | The Kerrigan Index™ (January 2, 2020 - April 30, 2021)



The Kerrigan Index continued to rise, surpassing the 1,000 mark in the first quarter and ending April up 37.4%. The Index has outperformed the S&P 500 by 230% year-to-date.

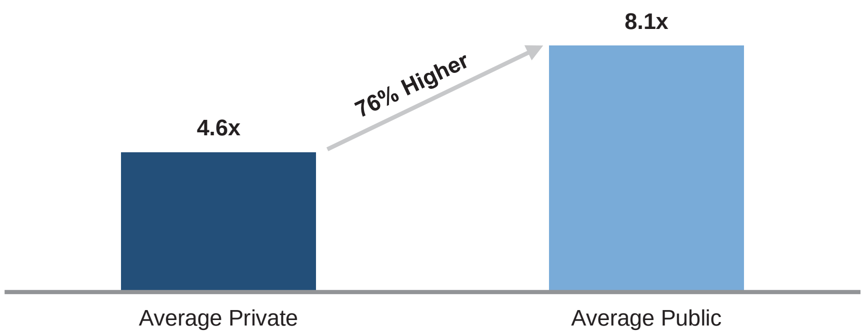
Index	Apr-21 YTD Change
The Kerrigan Index™	37.4%
S&P 500 Index	11.3%

Source: Yahoo Finance, Microsoft Finance, Kerrigan Advisors' Analysis

Methodology: The Kerrigan Index™ is composed of the seven largest 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.

Wall Street clearly believes the largest auto dealership consolidators have tremendous earnings growth potential, particularly as the industry continues to consolidate. Today, the publics' average blue sky multiple is 8.1x, 76% higher than the average private dealership (see Chart V). At these valuation multiples, most private acquisitions are accretive to the publics' earnings.

Chart V | Average Blue Sky Multiples (Private vs. Public), First Quarter 2021



The power that consolidation lends to the publics' potential earnings growth is reflected in their average blue sky multiple of 8.1x, 76% higher than the average private.

Source: SEC Filings for Asbury, AutoNation, Group 1, Lithia, Penske and Sonic, Yahoo Finance, Kerrigan Advisors' Analysis

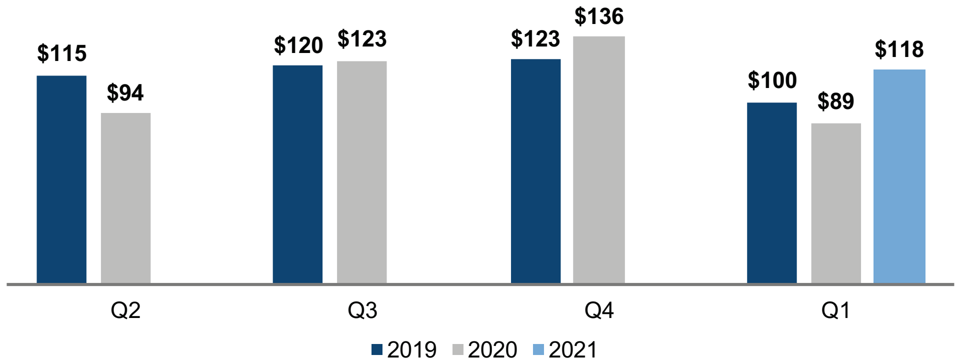
Wall Street investors are also increasingly enamored by the transformative potential of the publics' proprietary omnichannel strategies. Many investors believe these investments could dramatically disrupt the traditional dealership distribution model and ultimately supercharge their future sales and earnings growth. Some investors believe the return on investment in the public auto retailers could yield Amazon-like results, with the expectation that these companies' market share will grow disproportionately as they tap into the equity and debt markets.

> *"Our multi-faceted strategy for disruption begins by combining our proprietary technology with the scale of our people, inventory and network to modernize the industry."*
>
> ***Bryan DeBoer, President & CEO, Lithia Motors***
> ***First Quarter 2021 Earnings Call***

While many investors are attracted to auto retail's tremendous financial performance in 2020 and 2021, there are some who worry about the staying power of current auto dealership profitability levels when the chip crisis abates. They are concerned the OEMs will once again overproduce vehicles, ultimately leading to a decline in new vehicle gross margins. While Kerrigan Advisors recognizes this economic risk, there are specific reasons for continued optimism about industry profits in 2021 and beyond.

First, today's auto retail market appears to be primarily demand driven. The US consumers' access to capital from savings, government stimulus and low interest rates, combined with a strong desire for personal mobility, are driving record spending on new vehicles (see Chart VI on the following page). According to a recent Cox Automotive study, 40% of consumers surveyed were willing to pay 12% above MSRP to purchase a car today. As a result, even with new unit sales below pre-pandemic levels for the last four quarters, spending on new vehicles in the US surpassed prior records. As the economy continues to reopen, the only limitation to consumer spending appears to be supply.

Chart VI | Total Consumer Spending on New Vehicles, $ in Billions



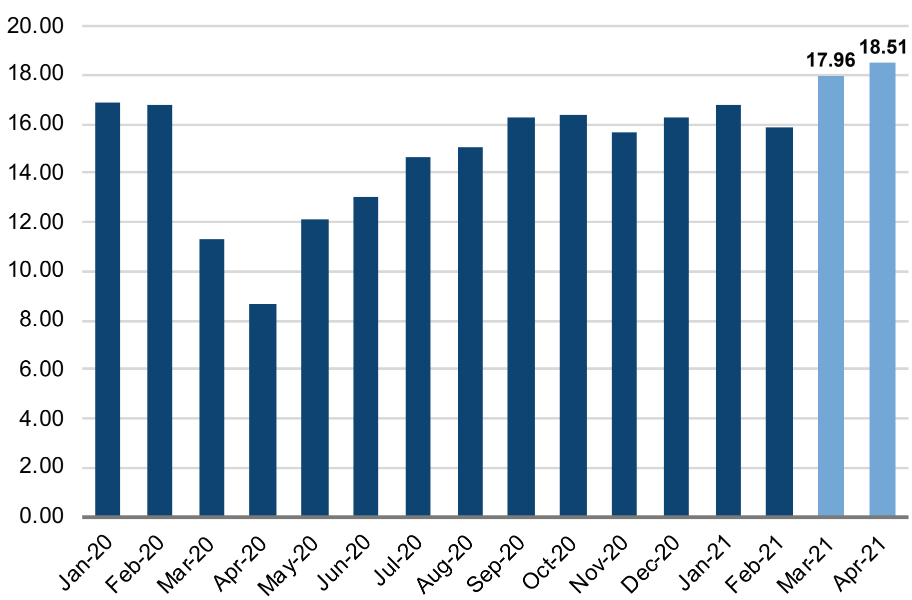
Source: JD Power, Kerrigan Advisors' Analysis

Consumers' access to capital and desire for personal mobility spurred spending on new vehicles to $118 billion in the first quarter. The first quarter of 2021 surpassed the first quarter of 2019's spending levels despite limited inventory.

> *"Demand continues to exceed supply for new vehicles and we expect this to continue through 2021 in part due to the production disruption. More importantly, low interest rates and consumer preference for vehicle ownership versus ride-sharing and public transportation are supporting demand."*
>
> ***Mike Jackson, CEO & Director, AutoNation***
> ***First Quarter 2021 Earnings Call***

Second, dealers are learning to operate in a more efficient manner, resulting in higher sales per employee and less expense per sale. Despite supply constraints, the SAAR approached 18 million for the first time in almost 16 years in March, followed by an 18.5 million SAAR in April, the 6th highest monthly SAAR on record (see Chart VII). Dealers are selling vehicles before they hit the lot and demonstrating increased operational efficiencies and pricing power as days supply plummets to less than 30 days. While it is unknown when supply will rebound, when it does, many dealers plan to avoid the "race to the bottom" pricing strategy that proliferated prior to COVID-19 and retain their more efficient and profitable business model going forward.

Chart VII | Light Vehicle Sales: Autos & Light Trucks, Millions of Units, Monthly, Seasonally Adjusted Annual Rate



Rank by Monthly SAAR	Month-Year	Monthly SAAR In Millions
1	Oct-01	21.71
2	Sep-86	21.22
3	Jul-05	20.61
4	Feb-00	18.88
5	Sep-85	18.81
6	**Apr-21**	**18.51**
7	Sep-00	18.25
8	Jan-00	18.11
9	Aug-02	18.11
10	Jun-05	17.97
11	**Mar-21**	**17.96**
12	Aug-15	17.94
13	Aug-03	17.93
14	Sep-17	17.91
15	Oct-17	17.91

Source: Federal Reserve Bank of St. Louis

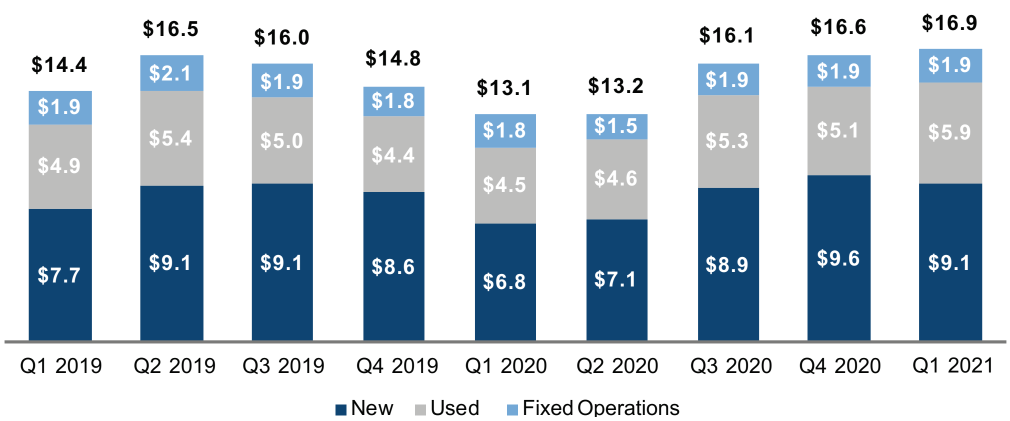
> *"We've never seen demand like this."*
>
> ***Bob Carter, Executive Vice President of Sales, Toyota Motor North America***
> ***Interview with CNBC on June 2, 2021***

Some OEMs are discussing implementing more profitable and balanced production plans once chip availability rebounds. These companies have experienced the economic benefits of undersupplying the market, including lower incentive spending. If habits are formed in 60 days, then a year spent operating with a constrained supply may bring about more balanced inventory levels post-COVID, potentially creating a new normal where supply meets, instead of exceeds, demand.

> *"When these vehicles are balanced with supply and demand, the auto manufacturers make more money. And so I think there will be a material change in the way the distribution network works with the OEMs when the dust settles. I think we'll both be more productive and efficient."*
>
> ***Earl Hesterberg, President & CEO, Group 1 Automotive***
> ***First Quarter 2021 Earnings Call***

Lastly, as vaccinations roll out across the nation, consumers are hitting the road again in a meaningful way, returning to work, leisure travel and school. Since the low in April 2020, miles driven in March 2021 increased 58% and was just 3.2% lower than the 2019 monthly average. With this increase, fixed operations has fully recovered (see Chart VIII). In the near term, new vehicle inventory levels will be historically low during the critical summer selling season; however, rebounding fixed operations, as well as higher margin used vehicle sales, will help to offset these short-term challenges.

Chart VIII | Average Dealership Revenue by Department, $ in Millions



Source: NADA Industry Analysis

Consumers are back in their vehicles—heading to work, school and on vacations—with "miles driven" nearing normal levels, all of which benefitted high margin fixed operations, which has fully recovered from pandemic lows.

> *"So, the customers are back on the road, the service business is back."*
>
> ***David Hult, President & CEO, Asbury Automotive Group***
> ***First Quarter 2021 Earnings Call***

With this backdrop, Kerrigan Advisors has identified the following three important trends we expect to meaningfully impact the buy/sell market in the second half of 2021.

- **A growing number of dealers will sell in 2021 hoping to lock in current tax rates**
- **Buyers finance growth with low interest rate debt rather than expensive private equity**
- **An alternative dealership valuation model emerges based on revenue instead of earnings**

The Blue Sky Report® is informed by Kerrigan Advisors' nationwide experience enhancing the value of the industry's leading dealers through the lifecycle of growing, operating and selling their businesses. Our firm has represented on the sale of the industry's largest transactions, including six of the Top 100 Dealership Groups, more than any other firm in the industry.

Our team oversees and manages our client engagements from beginning through a successful outcome. In our view, *dealerships are far too valuable to be advised any other way.* We do not take listings, rather we develop a customized sales approach for each client to achieve their transaction and financial goals. Our sale process is extremely successful and has led to the highest sale price per transaction of any firm since 2015.

We hope you find the information presented in this quarter's report helpful to your business. We look forward to answering any questions you may have regarding The Blue Sky Report, The Kerrigan Index or Kerrigan Advisors' client services.

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If you would like to receive the full report including franchise blue sky multiples, please email: info@kerriganadvisors.com