KERRIGAN ADVISORS

THE KERRIGAN INDEX™

December 2021

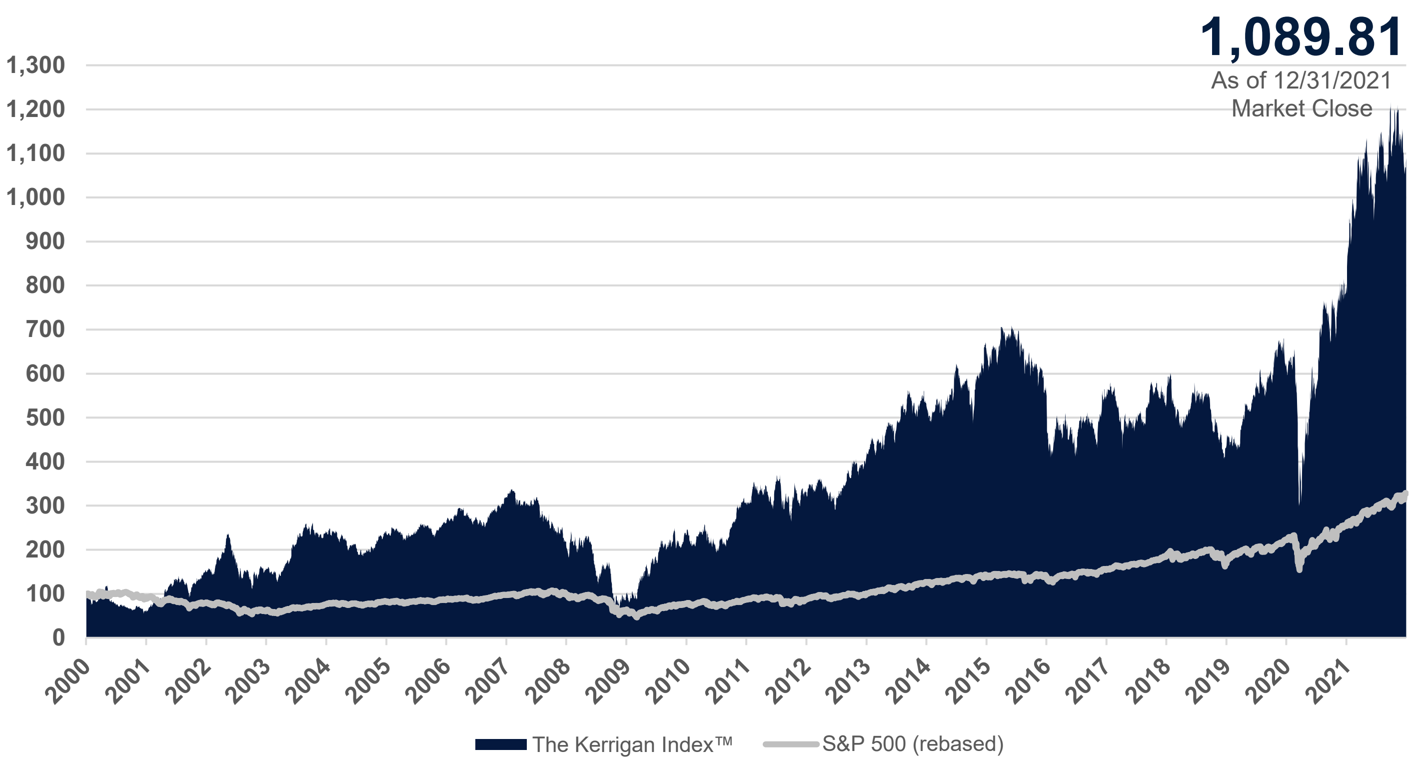
The Kerrigan Index™ is composed of the seven largest publicly traded auto retail companies with operations focused on the US market and is reported monthly. While the auto retail industry remains highly fragmented and is influenced by thousands of small and mid-sized private companies, the publicly traded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

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 & Driveway, 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.

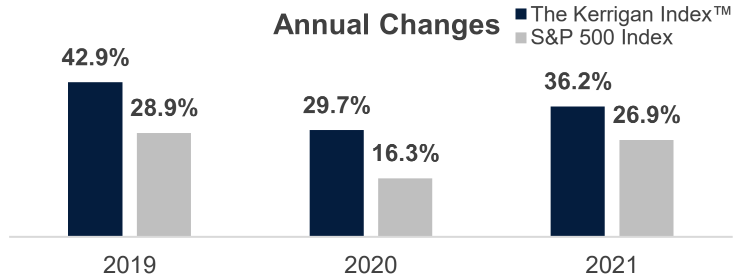
Ticker	Company	12/31/2021 Stock Price	12/31/2021 Market Cap.	Dec-21 Monthly Change
KMX	CarMax	$130.23	$21.11B	-7.80%
LAD	Lithia & Driveway	$296.95	$8.99B	+1.89%
AN	AutoNation	$116.85	$7.66B	-5.65%
PAG	Penske Automotive Group	$107.22	$8.39B	+7.63%
ABG	Asbury Automotive Group	$172.73	$4.00B	+5.55%
GPI	Group 1 Automotive	$195.22	$3.53B	-0.70%
SAH	Sonic Automotive	$49.45	$2.04B	+10.11%



2021 – Year in Review

Another Record-Setting Year for Auto Retail Valuation

The Kerrigan Index™ ended December 2021 at **1,089.81**, down 1.95% for the month, but finishing the year up 36.2%, handily outperforming the S&P 500 (+26.9%) for the third straight year. Auto retail's outperformance is particularly notable given the equity market's record valuations in 2021.

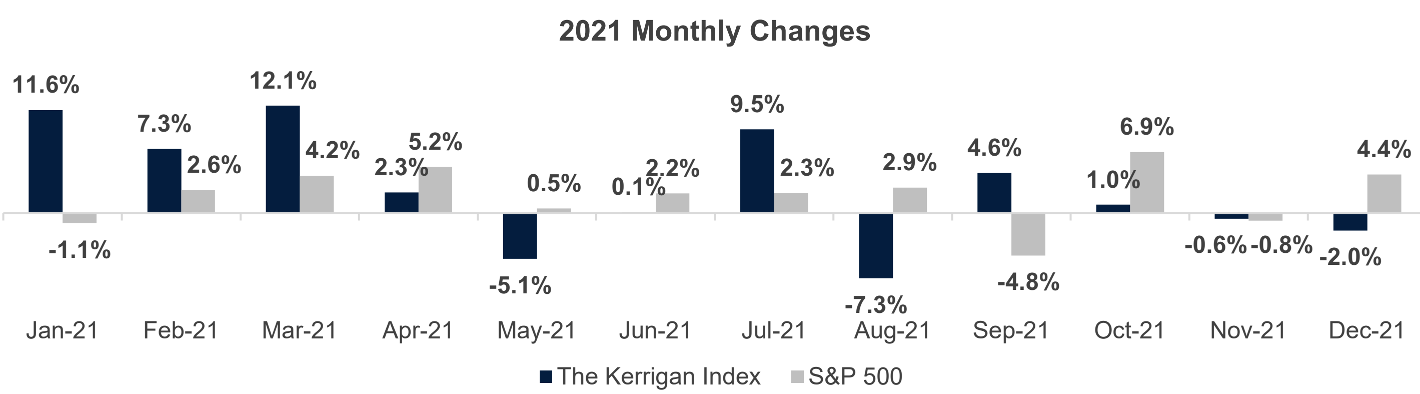


From the lows of March and April 2020, the auto retailers in the Kerrigan Index have shot up more than 266% (the new car public auto retailers (the index components excluding CarMax) are up 372%.

Each component stock posted significant gains in 2021. Penske achieved the largest increase of 75.9%, followed by Group 1 Automotive (+47.1%), Asbury Automotive Group (+42.2%), CarMax (+37.1%), Sonic Automotive (+25.8%), AutoNation (+24.9%) and Lithia & Driveway (+15.8%).

In 2021, all seven of the component stocks hit all-time highs, with five hitting highs in Q4, namely CarMax, AutoNation, Penske, Asbury and Group 1.

Company	Date of All-Time Peak	2021 % Change	% Change from 2020 Low
CarMax	11/9/2021	37.1%	194%
Lithia & Driveway	3/17/2021	15.8%	369%
AutoNation	10/25/2021	24.9%	418%
Penske Automotive Group	10/25/2021	75.9%	403%
Asbury Automotive Group	10/21/2021	42.2%	310%
Group 1 Automotive	11/16/2021	47.1%	503%
Sonic Automotive	9/27/2021	25.8%	395%
THE KERRIGAN INDEX™	**9/29/2021**	**36.2%**	**266%**

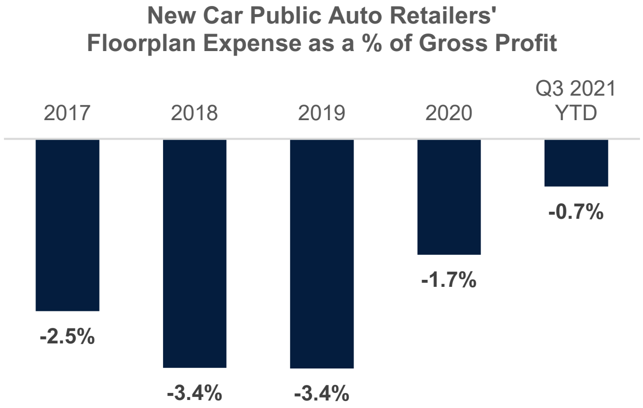


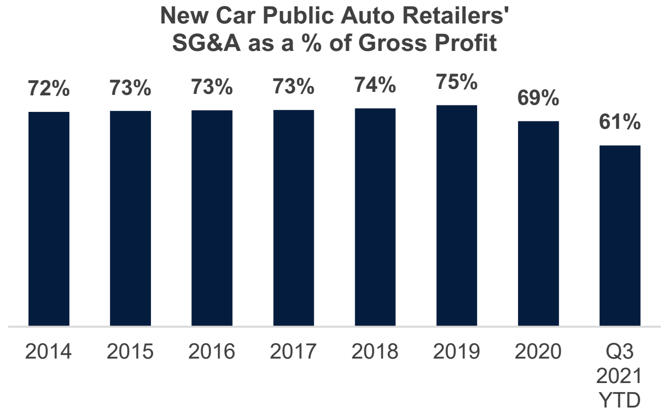
In reviewing 2021's monthly performance data, The Kerrigan Index traded positively eight months of 2021, with the largest increases in January, February, March and July. The market's gains in 2021 were achieved in the first quarter of the year, buoyed by industry profit margins at levels not seen in decades, if ever. Days' supply slipped to 32 days by March and auto retailers shifted to taking orders and pre-selling cars in contrast to the typical 60-90 days supply of inventory on dealership lots. New car margins climbed to all-time highs, while advertising and flooring costs plummeted. Tightening labor markets and strong consumer demand pushed up margins across both used cars and fixed operations as consumers stopped price shopping and purchased bought goods and services at full price. Those margin-enhancing trends continued throughout 2021, allowing for multiple quarters of record setting earnings on the part of the public auto retailers, and many of those positive trends continue as we enter 2022.

The New Landscape for Auto Retail in 2022 – Structural Change or Passing Fancy?

As we wrap up 2021 and enter 2022, the industry looks very different from its pre-Covid reality, and the question is how sustainable these changes prove to be. Regardless, todays' new reality encompasses the following:

New business model. For the time being, many historical financial guideposts of the auto retail business model have been rendered obsolete. Metrics relating to days' supply, optimal inventory, advertising budgets, staffing levels, etc. have all been radically impacted by this "new normal". In the current environment, auto retailers are able to operate much more efficiently across the board, reducing inventory expense, advertising, staffing and nearly eliminating price negotiation and discounting. It is the perfect storm for increasing margins and exploding profitability. While predictions vary on how durable these changes will prove to be, there is no question that the operating reality on the ground today is unique from any time in recorded industry history.





Heightened expectations for margins. Given auto retail's enhanced business model and exploding margins across departments, expectations of margins and profitability have increased dramatically from prior cycles, begging the question of whether higher expectations will lead to sustained higher operating margins. Historically, automotive retail has generally anchored between 1% and 3% pre-tax margins, returns that seem quaint by today's standards. In 2021, average pre-tax margins for Index companies through the first three quarters averaged 6%. It is an open question whether retailers and their OEM partners will fundamentally reengineer industry economics to allow for mutually beneficial changes, such as less price discounting/incentives (hugely beneficial to OEMs) and higher margins for retailers allowing for more stable operations and possibly less employee turnover.

Record valuations. As tracked carefully in our quarterly Blue Sky Report®, increased profitability and margins have predictably played out in pushing up auto retail valuations, in both the public and private arenas. The Kerrigan Index companies all posted record valuations in 2021, with most companies achieving this mark in the fourth quarter. Similarly, Kerrigan Advisors estimates that private dealership valuations have risen by approximately 60% since 2019, a very substantial increase in a 100-year old industry. These increases have been accompanied by rising dealership real estate prices. In contrast to other sectors of commercial real estate which suffered during the pandemic, the strength of the automotive retail business model was reflected in dealership real estate valuations which are up an estimated 7.2% since 2019. In total, valuations for auto retailers have increased substantially in the last two years, notwithstanding the ongoing discussion of industry transitions ahead.

Record transaction activity. Interestingly, increased profitability and increased valuations have also translated into increased transaction activity on the part of public auto retailers. In 2021, the publics acquired a jaw-dropping 250+ franchises, which are expected to add more than $20B in annualized revenues, and deployed an estimated $7B+ dollars to dealership acquisitions, outspending any prior year by more than $4.5B. This represents a real shift from the last decade when the publics were relatively inactive and sold more dealerships than they bought. Buoyant stock prices and Lithia's leadership with an aggressive acquisition strategy have shifted the industry into growth and consolidation mode, with a renewed conviction that scale and geographic reach are critical in the years ahead.

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2021 was the second year of record-setting results for the auto retail sector. While discussion continues on the impact of autonomous, electric and shared cars, and as OEM new entrants (e.g. Rivian, Lucid, in addition to Tesla) continue to focus on direct-to-consumer business models, the public auto retailers remain a source of strong cash flow with revenue growth opportunities, particularly as consolidation trends continue.

Sources: Automotive News, Yahoo Finance, Microsoft Finance, SEC Filings

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 eight of the Top 150 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.