

THE KERRIGAN INDEX™

September 2022

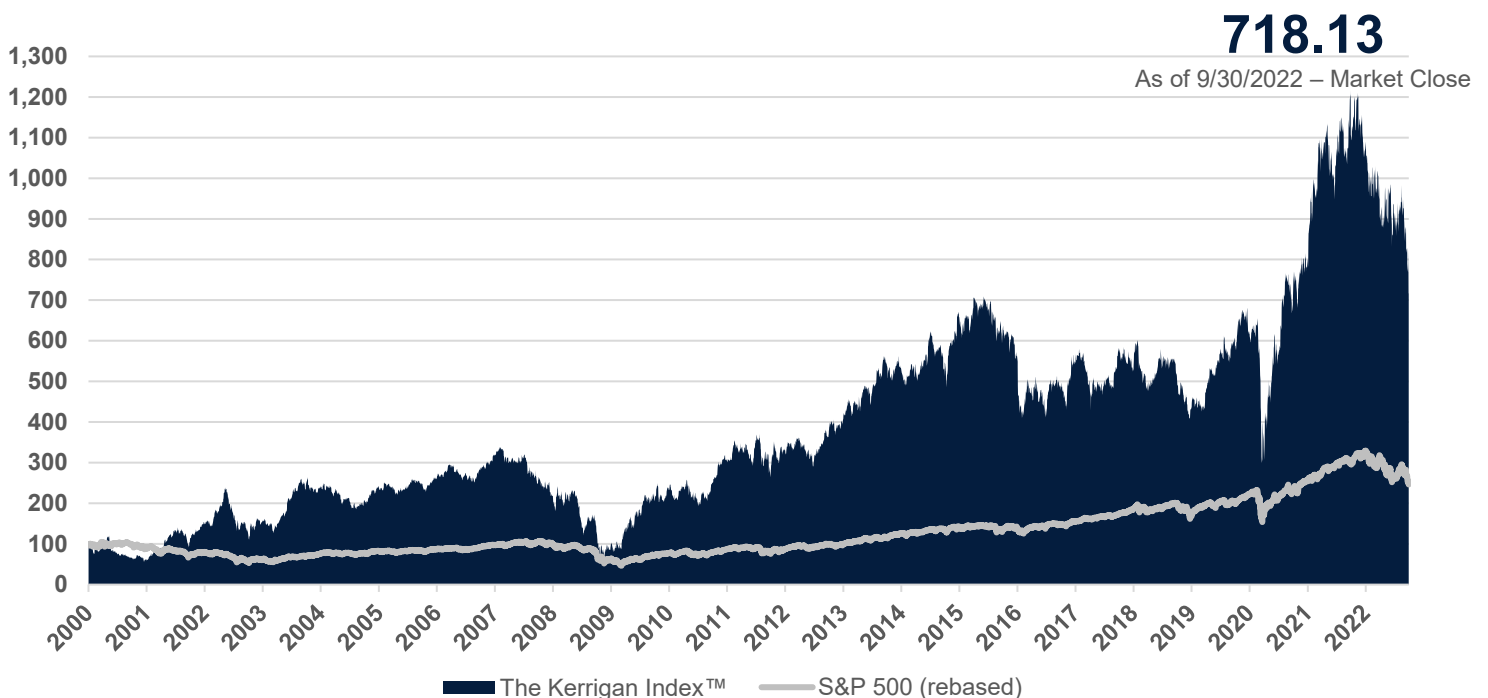
The Kerrigan Index™ is composed of the seven largest publicly traded auto retail companies with operations focused on the US market. While the auto retail industry remains highly fragmented and is influenced by thousands of small and mid-sized private companies, the publicly traded auto retail stocks 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	9/30/2022 Stock Price	9/30/2022 Market Cap.	YTD Change Through Sept-22
KMX	CarMax	\$66.02	\$10.51B	-50.2%
PAG	Penske Automotive Group	\$98.43	\$7.30B	-13.0%
LAD	Lithia & Driveway	\$214.55	\$5.91B	-34.3%
AN	AutoNation	\$101.87	\$5.70B	-25.5%
ABG	Asbury Automotive Group	\$151.10	\$3.34B	-16.3%
GPI	Group 1 Automotive	\$142.87	\$2.26B	-36.2%
SAH	Sonic Automotive	\$43.30	\$1.70B	-16.7%



Public Auto Stocks Discounted by Rising Interest Rates

The Kerrigan Index™ ended September 2022 at **718.13**. The Index was down significantly, 20.05%, for the month, while the S&P 500 Index was down 9.34%. Year-to-date, The Kerrigan Index has fallen 34.11%, underperforming the S&P 500 Index which is down 24.77% for the year.

The Index is now trading off 41% from its 52-week high.

All seven component stocks posted losses in September. CarMax registered the largest loss of 25.4%, followed by Group 1 Automotive (-21.5%), Lithia & Driveway (-19.2%), Sonic Automotive (-18.6%), AutoNation (-18.2%), Penske Automotive Group (-16.5%) and Asbury Automotive Group (-13.4%).

Notwithstanding continued record profits, auto retail stocks tumbled again in September, and are now down over 40% from record valuations posted just 12 months ago. The FOMC consensus for the federal funds rates now projects the key interest rate will rise to 4.6% in 2023, up from the current range of 3% to 3.25%. Continued increases in the federal funds rate will push up auto loan interest rates, which are now estimated at a national average of 5.7%, already up 25% over the last year. As observed by TrueCar analyst, Zack Krelle, "With increasing interest rates, affordability is being tested. We're seeing consumers faced with the reality that to afford the same vehicle at the same monthly payment as last year, they are forced to increase their down payment, which is creating new affordability challenges. We are paying close attention to how the industry will react to these concerns. Perhaps there will be more incentives, longer finance terms, or a combination of these."

In addition to the direct impact on consumer loans, rising interest rates will effect auto retailers' cost structure, particularly flooring lines, which are generally tied to floating rates and are projected to increase as interest rates rise and inventory levels normalize.

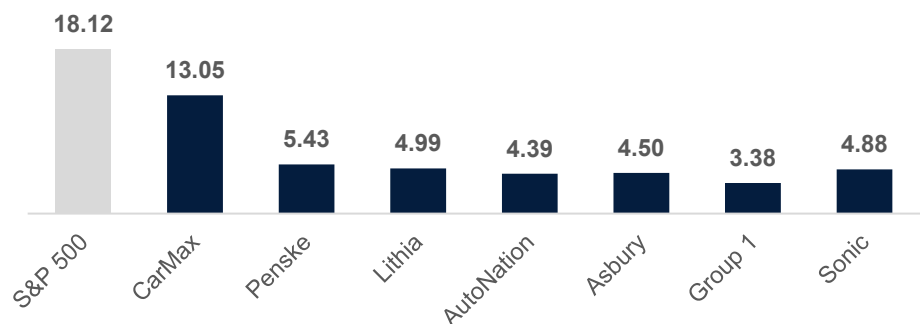
The combination of record profitability and sagging stock prices has resulted in historically low P/E (price/earnings) ratios for all six component new car auto retail companies, now ranging between 3.3 and 5.5. By contrast, the broader S&P 500 Index is trading above 18, or a 235% to 435% premium over the auto retailers.

Inventory levels remain below historical standards but continue to climb slowly towards a 60 days supply metric, long considered a guidepost in the industry. Total inventory was up 41% year over year in September, an increase of 350,000 vehicles. According to Cox Automotive, Kia, Toyota, Subaru, Honda, Lexus, Hyundai, Acura, BMW, Porsche, Land Rover, Mini and Mazda had the leanest supplies last month, while Volvo, Ram, Dodge, Jeep, Lincoln, Jaguar, Audi, Buick, Chrysler and Cadillac had the highest stockpiles.

The Kerrigan Index



Price to Earnings Ratio
As of Sep. 30, 2022 & TTM Earnings



Other significant industry data include:

- Per J.D. Power, spending on new vehicles is expected to be \$43.7 billion in the month of September. September 2022's consumer spending on new vehicles is up \$4.7 billion from September 2021.
- September's average new vehicle retail transaction price is expected to be \$45,622, 6.3% lower than September 2021's level.
- Trucks and SUVs are expected to account for 77.9% of September's new vehicle retail sales.
- Fleet sales are estimated to have risen 75% from September 2021 on a selling day adjusted basis. Fleet sales are expected to be 161,300 units for the month, representing 14% of total light vehicle sales, up from 9% a year ago.
- In September, incentive spending as a percentage of the average MSRP is expected to fall to 2.0%, down 2.0 percentage points from a year ago.
- New vehicle loans' average interest rates are expected to have risen 169 basis points from a year ago to 5.71%.
- In September, just 16% of new vehicle retail sales will be leased. This is down 44.8% from September 2019, when leasing accounted for 29% of new vehicle retail sales.

Sources: Automotive News, J.D. Power & LMC Automotive, Yahoo Finance, Longtermtrends, Microsoft Finance, SEC Filings, Kerrigan Advisors' Research & Analysis

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. Since our firm's founding, we have represented on auto retail's largest transactions, including several 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.

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