THE BLUE SKY REPORT®

A KERRIGAN QUARTERLY

2021 Annual Report

April 2022

KERRIGAN ADVISORS

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“We are very grateful to the Kerrigan Advisors team for their hard work to ensure this sale was a success.”

The 23rd Largest US Dealership Group
Two Dealerships Sold in Las Vegas, NV
Two Dealerships Sold in Phoenix, AZ

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 founding, we have represented on auto retail’s largest transactions, including more of the Top 150 Dealership Groups than any other firm in the industry.

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

DEALERSHIP ACQUISITION ACTIVITY

Auto retail experienced a “black swan” moment in 2020, the results of which continued to transform the industry throughout 2021. The pandemic was a catalyst on every front, altering the dealership business model from an overabundance of discounted inventory to a scarcity of premium-priced products. 2021 demonstrated the auto industry’s exposure to increased competition for high-demand microchips and the limitations of a global supply chain. Dealers found themselves with shrinking new vehicle inventories and rising consumer demand, resulting in one of the most extreme supply/demand imbalances in auto retail history. With a scarcity of products, dealers leveraged their newfound pricing power, while also reducing expenses and enhancing employee productivity, resulting in record dealerships profits and dramatically increased operational efficiency.

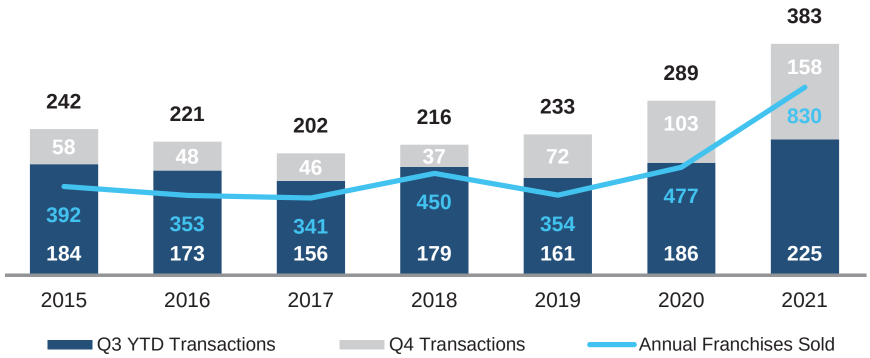
> *“In economic life and history more generally, just about everything of consequence comes from black swans; ordinary events have paltry effects in the long term.”*
>
> ***Nassim Nicholas Taleb, Author of The Black Swan***
> ***“Learning to Love Volatility” in The Wall Street Journal, November 16, 2012***

The events of 2020 also expedited auto retail’s systemic transition from a local to a national marketplace, the consequences of which will be long lasting, particularly for private, family-run dealerships. COVID-19 supercharged digital retailing and brought forward the largest retailers’ plans for a national, digital retail platform not defined by an OEM’s designated areas of influence. The move to electrification and Tesla’s proven success with its virtual sales model fast-forwarded auto retail’s shift to a digital sales model—one less reliant on human capital. As a result of the pandemic, the once “impossible” online vehicle sale became the “possible”.

> *“We’ve all learned to adjust our business model. It’s prepared the company and dealer body to do things that maybe three years ago we’d think were impossible.”*
>
> ***Tim Hovik, Ford National Dealer Council Chairman***
> ***“Ford EV, ICE Split Will Mean Big Changes for Dealers” in Automotive News, March 4, 2022***

These dramatic industry changes accelerated dealership consolidation. The number of completed transactions in 2021 increased 32.5% from 2020’s prior record. 158 transactions closed during the fourth quarter, more than three times the pre-pandemic fourth quarter average of 51 (see Chart 1 on the following page). The 383 transactions completed in 2021 represented 830 franchises, more than in any prior year.

Chart 1 | Total Number of Completed Dealership Transactions



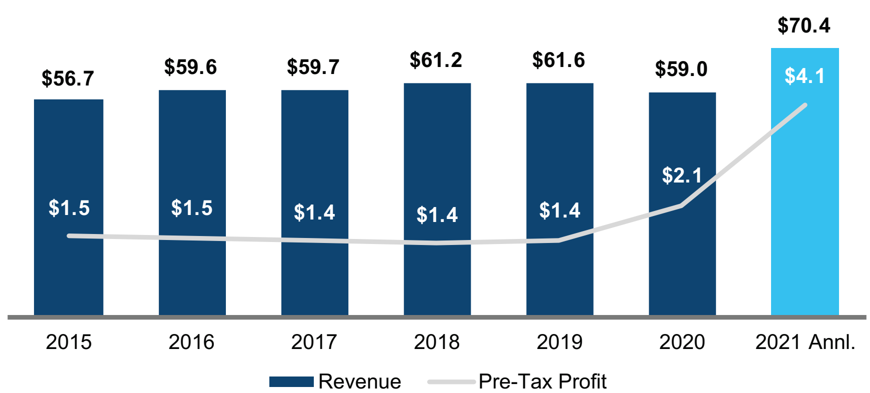
Source: The Banks Report, Automotive News, Kerrigan Advisors' Research
Note: A transaction can include multiple franchises and is defined as one buyer and one seller.

In 2021, a record 383 dealership buy/sell transactions, representing 830 franchises, were completed. An incredible 158 transactions closed in the fourth quarter alone, over three times the pre-pandemic average for that period.

As an accelerant for industry consolidation, the pandemic further bifurcated the dealer body into the buyer or seller camp. Few believe the steady-state is a plausible strategy for the evolving auto retail market. Kerrigan Advisors finds the majority of dealers are planning for meaningful expansion. That said, a growing minority is preparing for an exit, prompted by industry change expedited by the pandemic, record blue sky values, and the absence of a viable succession plan.

Most buyers expect 2022 to be another record year for earnings with no end in sight to the inventory supply/demand imbalance. Dealers in the buyer camp are allocating their record profits (see Chart 2) to grow their organization, actively seeking acquisitions in their existing geographies and new markets. Many plan to reinvest today's elevated earnings to enhance scale and expand the reach of their digital footprint. Whereas prior to the pandemic $500 million in revenue seemed an adequate size for a dealership group, today $1 billion in revenue is increasingly considered the minimum to ensure future success.

Chart 2 | Average Dealership Revenue vs. Pre-Tax Profit, $ in Millions

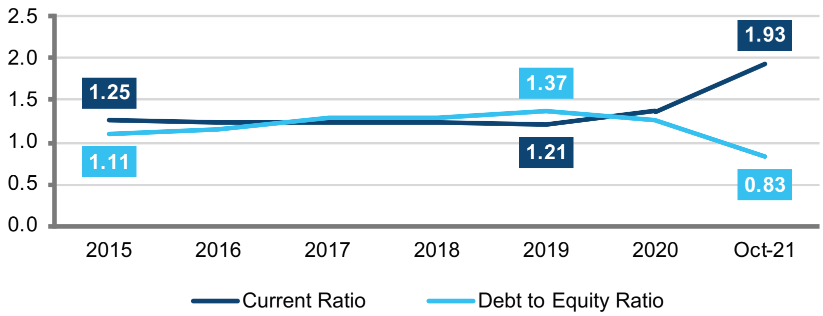


Source: NADA Industry Analysis
Note: 2021 results are annualized using October 2021 YTD data from NADA, the last month the NADA data was released.

2021 was another record earnings year for dealers with average revenue of $70.4 million and pre-tax profits almost doubling from $2.1 million in 2020 to an impressive $4.1 million in 2021.

Today's buyers are also benefiting from the deleveraging of their balance sheets as a result of higher inventory turns and tremendous increases in cash flow from operations. In 2021, most dealers paid down their debt to historically low levels, improving their leverage ratios (see Chart 3) and enhancing their acquisition financing capacity. Whereas prior to the pandemic, few buyers were comfortable utilizing high levels of debt financing and making sizable, multi-dealership acquisitions, in 2022 most buyers plan to do so, particularly while interest rates remain at historically low levels.

Chart 3 | Average Dealership Debt to Equity Ratio vs. Current Ratio



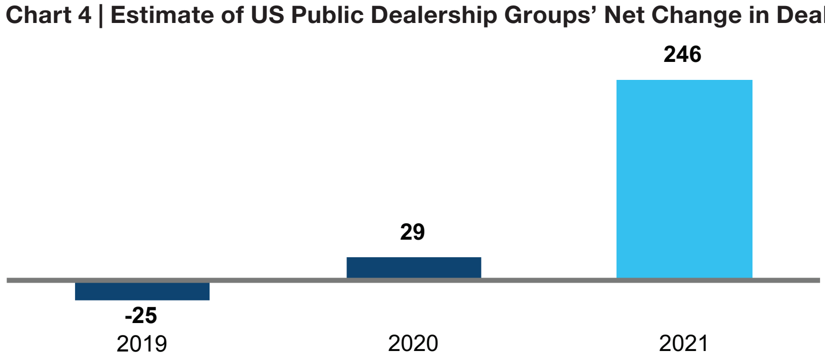
Source: NADA Industry Analysis
Note: 2021 results use October data, the last month the NADA data was released.

With increased cash flow, dealers significantly deleveraged their balance sheets in 2021. The average dealership's debt to equity ratio decreased from 1.37 in 2019 to .83 in 2021, the lowest level on record, while the average current ratio skyrocketed to 1.93 in 2021.

> *"We have the capacity to easily add $1 billion of revenue per year."*
>
> ***Earl Hesterberg, President & CEO, Group 1 Automotive***
> ***Q4 2021 Earnings Call***

Perhaps the most notable move in the 2021 buyer pool was the acquisition activity of the public consolidators. In 2021, the publics jettisoned their years of contraction and increased their dealership count by a notable 246 (see Chart 4), a dramatic about-face and a new record for these companies. The pandemic made clear that scale and a national platform will be a differentiator for auto retailers in the future, particularly with their digital platforms. As a result, these companies shifted their focus from incremental "tuck-in" investments to major group expansion that meaningfully enhanced their geographic reach and added billions in revenue to their topline.

Chart 4 | Estimate of US Public Dealership Groups' Net Change in Dealerships



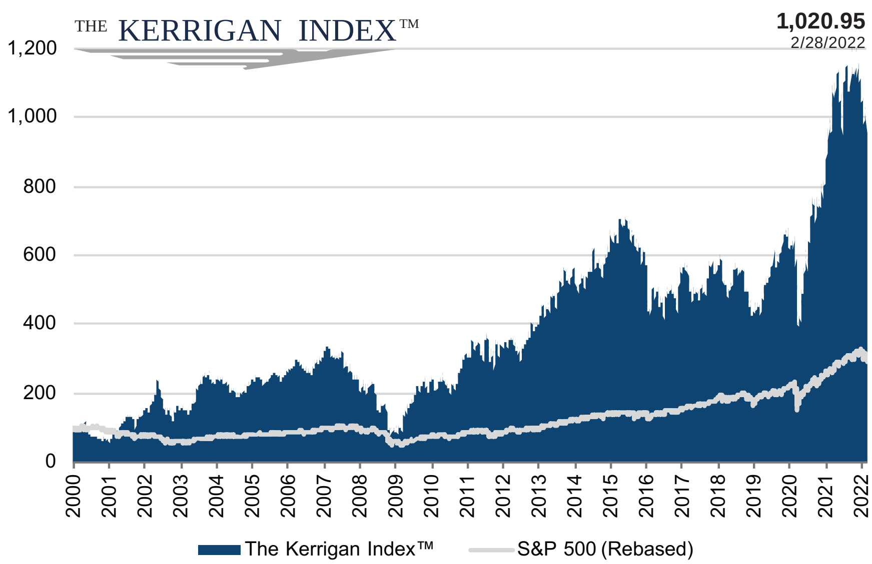
Source: SEC Filings for Asbury, AutoNation, Group 1, Lithia, Penske and Sonic

US public dealership groups increased their dealership count by 246 in 2021 from 29 in 2020, demonstrating a dramatic shift in the publics' focus toward major expansion through acquisition.

> *"In addition to being cash flow positive and highly accretive to EPS at inception, acquired businesses support Driveway's in-home solutions, enabling faster delivery, after-sales experiences, quicker turnaround times for reconditioning, lower logistics costs, and a higher proportion of sales with no shipping fees."*
>
> ***Bryan DeBoer, President & CEO, Lithia & Driveway***
> ***Fourth Quarter 2021 Earnings Call***

In 2021, Wall Street took note of the publics' record earnings and revenue growth through accretive acquisitions. The Kerrigan Index™ of the seven largest publicly traded auto retailers surpassed the 1,000 mark for the first time on March 5, 2021, and has remained in this record territory into 2022 (see Chart 5). Since March 2020, the Kerrigan Index has outperformed the S&P 500 by 154.8%, demonstrating investors' support for the publics' profitable acquisition strategy and their longer-term earnings growth opportunities as a result of enhanced scale.

Chart 5 | The Kerrigan Index™ vs. S&P 500 (Benchmarked at 100 on 1/3/2000), January 2000 – February 2022



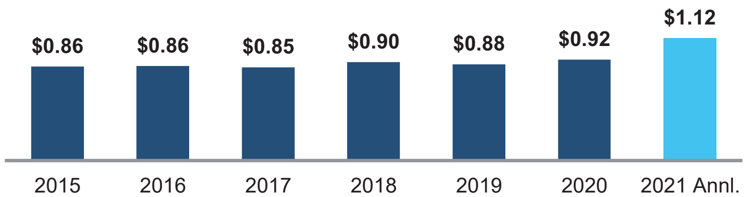
	Change Since March 2020 Low
The Kerrigan Index™	243.3%
S&P 500	95.5%
The Kerrigan Index™ vs. S&P 500 Change	154.8%

The Kerrigan Index™ surpassed the 1,000 mark in March 2021 and continued in record territory in 2022. Since March 2020, the Kerrigan Index has outperformed the S&P 500 by 154.8%, demonstrating investor support for the publics' profitable growth strategy.

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 & Driveway, 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 also expects these companies will sustain today's new and improved dealership business model going forward. Auto retail has demonstrated its ability to dramatically improve profitability in a very short period of time from higher inventory turns and improved dealership economics. Enhanced operational efficiencies, demonstrated by increased revenue per employee, reduced sales, general and administrative ("SG&A") expenses, and lower advertising expenses are contributing factors to rising profits (see Charts 6-8 on the following page). Investors expect the industry will have additional opportunities to improve efficiency with the rise in digital retailing, furthering reducing the industry's reliance on human capital in the sale process. Ultimately, Wall Street projects these structural improvements will be long-lasting, particularly for the largest auto retailers.

Chart 6 | Average Dealership Revenue per Employee, $ in Millions



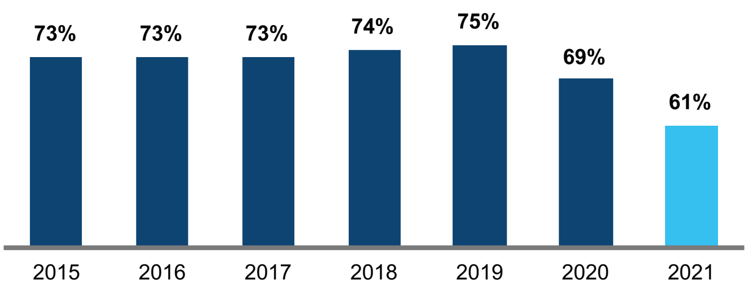
Source: NADA Industry Analysis
Note: 2021 results are annualized using First Half 2021 data from NADA.

Average dealership revenue per employee rose to over $1 million in 2021, an indication of enhanced operational efficiencies in the dealership business model and improved employee productivity with the increased utilization of technology.

"If you look at compensation, the deployment of digital tools and training has allowed us to operate on a same-store basis with 3,000 fewer associates than we had prior to pandemic."

Joe Lower, EVP & CFO, AutoNation
Fourth Quarter 2021 Earnings Call

Chart 7 | US Public Dealership Groups' SG&A Expense as a Percentage of Gross Profit



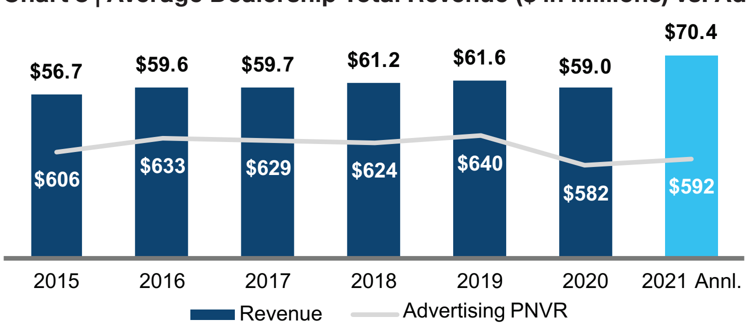
Source: SEC Filings for Asbury, AutoNation, Group 1, Lithia, Penske and Sonic

The publics' sales, general and administrative expenses ("SG&A") as a percentage of gross profit dropped to 61% in 2021, driving record public profitability. Investors expect digital retailing to further reduce these expenses, as these companies become less reliant on human capital to grow sales and gross profit.

"We continue to see benefits from the steps we took in both 2020 and 2021 to permanently reduce our expense structure, enhancing operating efficiency throughout the organization."

David Smith, CEO & Director, Sonic Automotive
Fourth Quarter 2021 Earnings Call

Chart 8 | Average Dealership Total Revenue ($ in Millions) vs. Advertising per New Vehicle Retailed (PNVR)



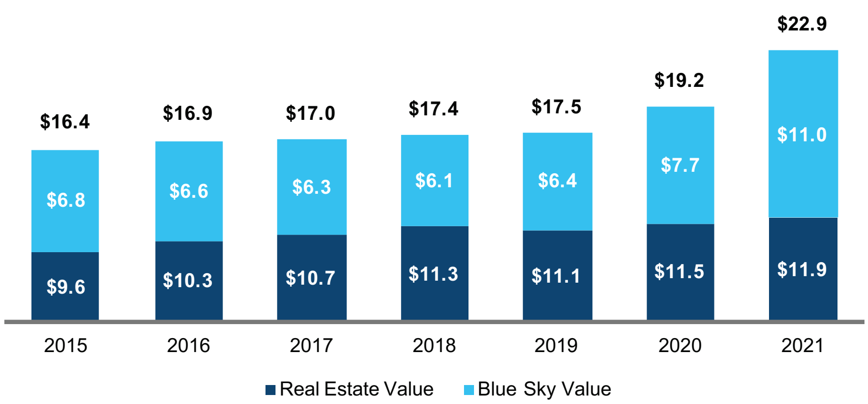
Source: NADA Industry Analysis
Note: 2021 results are annualized using October 2021 YTD data from NADA, the last month the NADA data was released.

Average dealership total revenue increased from $59 million in 2020 to $70.4 million in 2021, while advertising per new vehicle retailed remained almost flat from 2020, and significantly lower than 2019's $640, contributing to increased profits.

> *"No increase in advertising spend in 2021, yet obviously significant increases in overall volume, is reflective of the digital tools that are allowing us to deploy those dollars much more effectively."*
>
> ***Joe Lower, EVP & CFO, AutoNation***
> ***Fourth Quarter 2021 Earnings Call***

While most dealers are squarely in the buyer camp, Kerrigan Advisors saw an uptick in dealers considering a sale at the end of 2021 and entering 2022. The litmus test for some dealers is the blue sky prices on dealership acquisitions they are considering for their group. Losing out on transactions due to record high prices (see Chart 9) has shifted some dealers from the buyer to the seller camp. While these dealers are certainly enjoying today's tremendous profits, many expect a trend towards historical margins will eventually bring profits down when vehicle supply meets demand, especially as interest rates rise. For those without a clear succession plan or who are most focused on preserving their family's high levels of accumulated wealth, planning for a sale while valuations are at record levels is a rational course of action.

Chart 9 | Average Dealership Blue Sky and Real Estate Value, $ in Millions



Source: NADA Industry Analysis, Kerrigan Advisors' Analysis

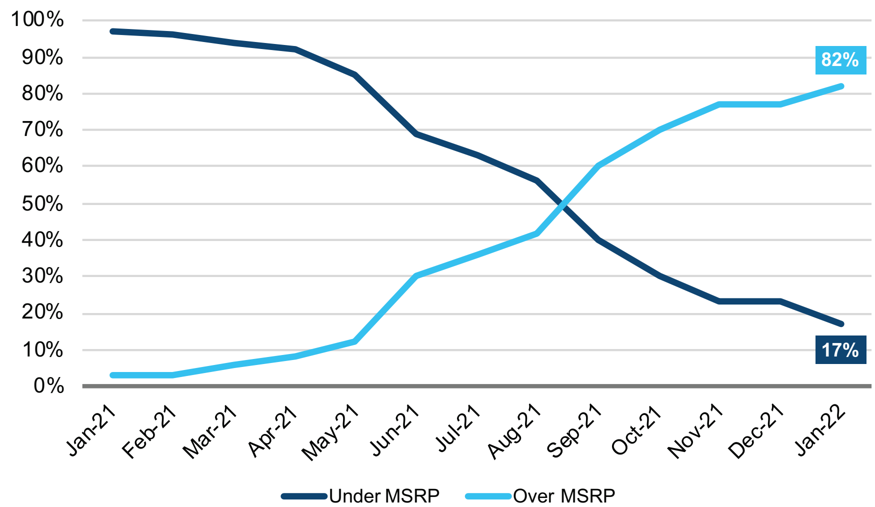
Average dealership blue sky and real estate values increased to $22.9 million in 2021, from $19.2 million in 2020. These record high valuations spurred an uptick in the number of dealers considering a sale as they entered 2022.

> *"We attempted to acquire two different stores in 2020 and realized, based on the final purchase price of those transactions, prices were much higher than what we were willing to pay…As the business got extremely good at the end of 2020 and the beginning of 2021, we decided to test the market and sell if we could achieve the number that we wanted."*
>
> ***Marc Cohen, Vice President, Priority 1 Automotive, a Kerrigan Advisors' Client***
> ***Automotive News Q&A with Kerrigan Advisors, February 21, 2022***

Announcements by OEMs about their plans to shake up the legacy auto retail business model have also fueled a rise in dealers considering a sale. The most recent announcement by Ford of its plan for a new electric vehicle franchise network has highlighted near-term changes some OEMs are planning. Distrust of OEMs' plans is exacerbated by rising public discontent with new vehicle pricing and OEMs' calls to penalize dealers who price vehicles over MSRP (over 80% of the market in January 2022, see Chart 10). If public displeasure with the retailing experience sways politicians, states could re-examine the protections afforded dealers under the current franchise laws, enabling OEMs to dismantle key aspects of the legacy franchise system. Changes to states' franchise laws would most impact smaller, private dealers who disproportionately benefit from their legislated dominance in their primary market area.

> *"Our legacy organization has been holding us back. We had to change."*
>
> ***Jim Farley, CEO, Ford Motor Company***
> ***Ford News Conference, March 2, 2022***

Chart 10 | Monthly Share of Light Vehicles Sold Under or Over the Manufacturers' Suggested Retail Price (MSRP)

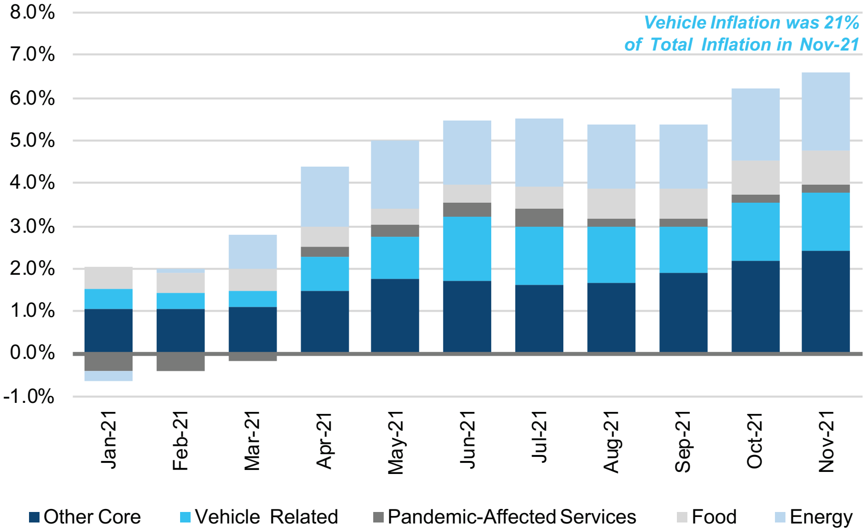


Source: Edmunds

In reaction to extreme inventory shortages in January 2022, dealers priced over 80% of new vehicles over MSRP, causing consumer outcries over price premiums after decades of discounting. Some OEMs have threatened allocation if dealers continue the practice, despite new vehicle inventory remaining a near-term challenge.

Both buyers and sellers are also focused on the material risks of 2022. The war in Ukraine, coupled with rising inflation, record gas prices, and interest rate hikes are top of mind for many industry participants, though their effects on auto sales and the buy/sell market are not yet clear. Given auto retail's significant contribution to the current inflationary environment (see Chart 11 on the following page), inflation and interest rates will be an important trend to watch in 2022, particularly because of the record levels of debt currently used to fund new vehicle purchases (see Chart 12 on the following page).

Chart 11 | Contributors to Year-Over-Year Headline CPI Inflation

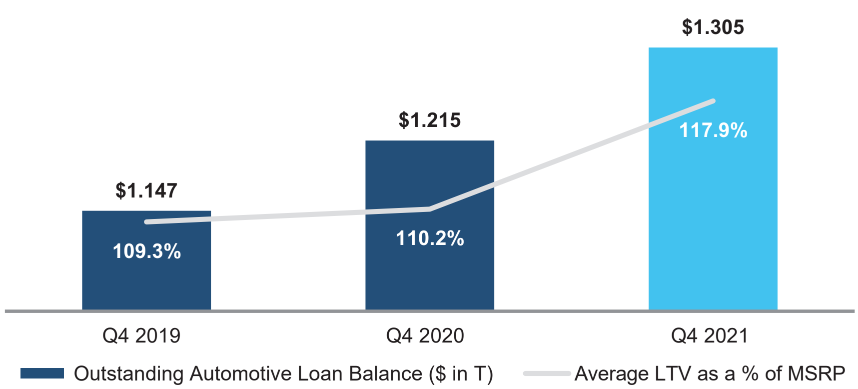


Source: Bureau of Labor Statistics, Counsel of Economic Advisors Analysis

Auto retail is a significant contributor to the current inflationary environment in the US, representing 21% of CPI inflation in November 2021. Dealers are carefully watching this economic trend for potential risks, particularly related to interest rates.

> *"But there's no doubt that inflation is here and there's going to be some interest rate increases too."*
>
> ***Earl Hesterberg, President & CEO, Group 1 Automotive***
> ***Fourth Quarter 2021 Earnings Call***

Chart 12 | Outstanding Automotive Loan Balance ($ in Trillions) vs. Average Loan-to-Value (LTV) as a Percentage of MSRP



Source: Experian

Outstanding automotive loan balances rose to a record $1.3 trillion in 2021, while average loan-to-value (LTV) as a percentage of MSRP rose to a record 117.9%. This level of new vehicle financing adds to concerns about rising interest rates and the potential effect on future sales if negative vehicle equity continues to grow, particularly if used vehicle prices retreat.

With this background on the 2021 buy/sell market, Kerrigan Advisors has identified the following three important trends which we expect to meaningfully impact the market in 2022.

- **Buyers base blue sky on projected future earnings, rather than historical norms**
- **OEM electrification plans not factored into 2022 dealership valuations**
- **Expected changes to the legacy auto retail business model drive more sellers to market**

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. Since our founding, Kerrigan Advisors has had the distinct honor of representing the industry's largest transactions, including more Top 150 Dealership Groups than any 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 professional sale process has led *to the highest sale price per transaction of any firm over the last six years*. 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' advisory services.

To have a confidential conversation with our managing directors, please contact us. We look forward to connecting with you.

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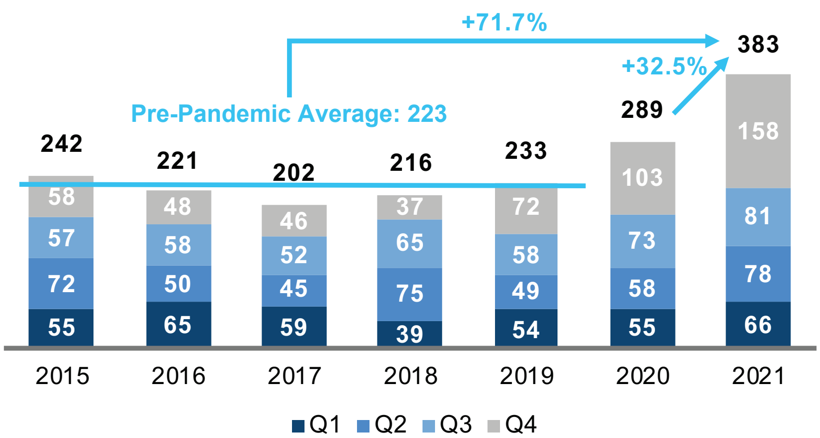
TOTAL ACQUISITION ACTIVITY

There were 383 dealership buy/sell transactions in 2021 (see Chart 13), a remarkable 32.5% increase over 2020's prior record and a 71.7% increase over the 2015-2019 pre-pandemic average of 223. As the year progressed, the pace of buy/sell activity accelerated. In the fourth quarter of 2021, an impressive 158 transactions were completed, the most on record for a single quarter. Increased transaction momentum throughout the year was further propelled by tax planning, which created a financial incentive to close a sale by the end of the calendar year before a potential tax increase in 2022.

Chart 13 | Total Number of Completed Dealership Transactions

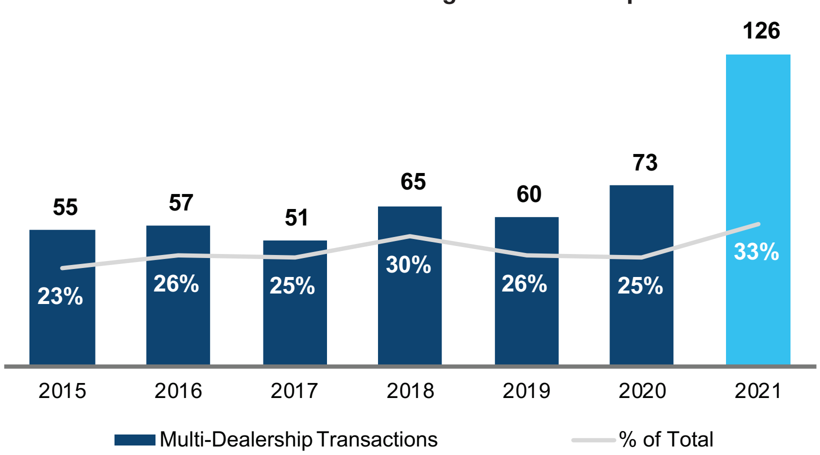


Source: The Banks Report, Automotive News, Kerrigan Advisors' Research

The 383 dealership buy/sell transactions completed in 2021 represent a 32.5% increase over 2020 and a 71.7% increase over the 2015-2019 pre-pandemic average.

A notable characteristic of 2021's acquisition activity was the high number of multi-dealership transactions completed. There were a record 126 multi-dealership transactions last year, representing an impressive 33% of the buy/sell market (see Chart 14). These transactions included the sale of eight top 150 dealership groups, more than in any prior year in the industry's history.

Chart 14 | Total Number of Multi-Dealership Completed Transactions vs. Number of Multi-Dealership Transactions as a Percentage of Total Completed Dealership Transactions

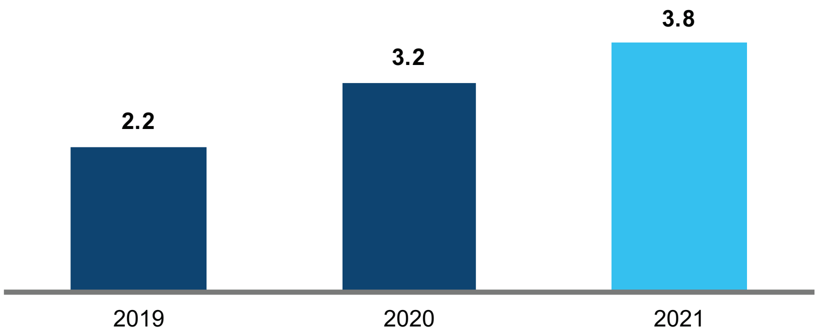


Source: The Banks Report, Automotive News, Kerrigan Advisors' Research

A record 126 multi-dealership transactions were completed in 2021, representing 33% of the total market, almost double 2020's 73 multi-dealership transactions.

The average number of franchises sold per multi-dealership transaction also increased last year (see Chart 15). Kerrigan Advisors expects continued growth in larger multi-dealership transactions in 2022, as buyers seek transformative scale in order to differentiate themselves as the industry evolves. In 2021, the number of dealers with five or fewer dealerships declined, while those with 11 or more increased 109% compared to 2010 (see Chart 16).

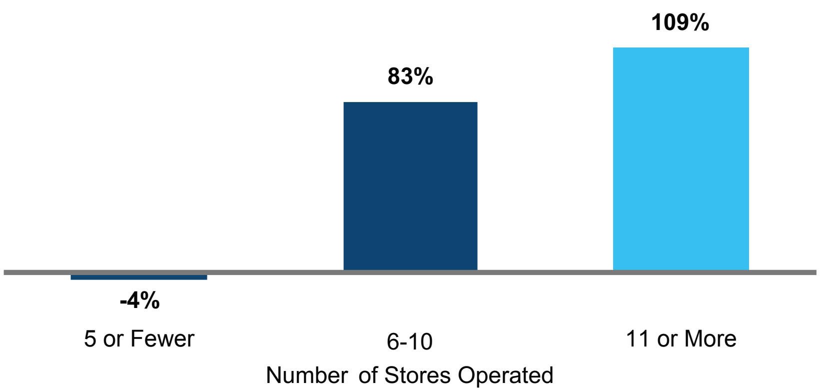
Chart 15 | Average Number of Franchises Sold per Multi-Dealership Transaction



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

The average number of franchises sold per multi-dealership transaction rose from 3.2 in 2020 to 3.8 in 2021. Kerrigan Advisors expects this growth in multi-dealership transactions to continue as larger groups decide the time is right for a sale.

Chart 16 | Change in Share of Dealer Owners by Number of Stores Operated, 2010 vs. 2021

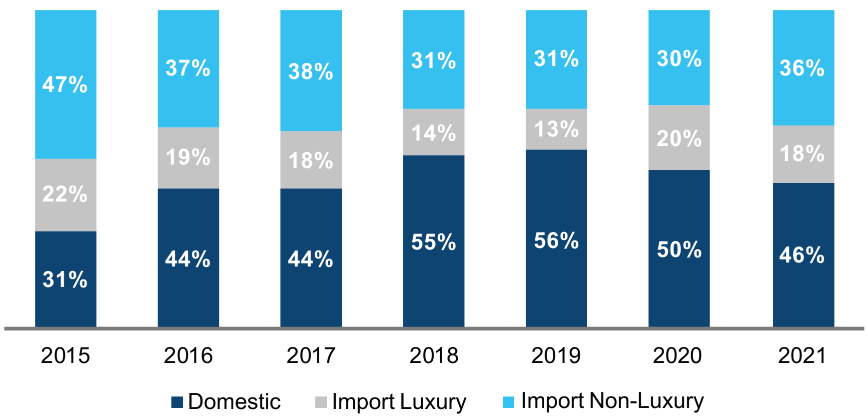


Source: NADA Industry Analysis

The number of dealers with 11 or more dealerships has increased by 109% since 2010, while the number of dealers with 5 or fewer continues to decline. As scale becomes a strategic differentiator, dealers believe they need more than 10 dealerships to succeed.

Among the franchises acquired in 2021, import non-luxury franchises substantially increased their buy/sell market share, reverting to levels not seen since 2017 (see Chart 17 on the following page). Domestics by contrast reduced their share to 46%, substantially below their franchise market share of 66%. Kerrigan Advisors believes the domestics' buy/sell market share decline reflects the challenges these companies experienced due to chip shortages, resulting in reduced market share. Also, fewer domestic dealers sought an exit in 2021 given record high profits relative to the valuations they would have received based on normalized earnings.

Chart 17 | Buy/Sell Market Share by Type of Franchise

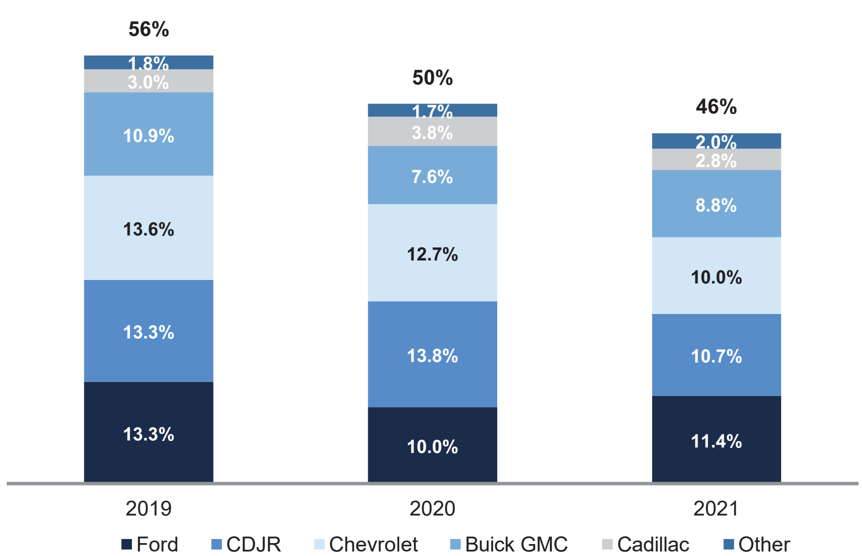


Source: The Banks Report, Automotive News, Kerrigan Advisors' Research

Import non-luxury franchises increased their buy/sell market share to 36% in 2021, primarily at the expense of domestic franchises, which were disproportionately affected by the chip crisis and saw their sales decline at a higher rate than their import counterparts.

As it relates to domestic franchises, Ford surpassed Chrysler Jeep Dodge Ram (CDJR) in buy/sell market share to become the most traded franchise of 2021 (see Chart 18). Kerrigan Advisors attributes Ford's higher buy/sell market share last year to the convergence of improved buyer demand with well-received product launches, and a soaring stock price (surpassing GM for the first time in more than five years). The shift in Ford's buy/sell market share is consistent with the results of the 2021 Kerrigan Dealer Survey. Ford had the highest expected rise in valuation of the domestics. It is important to note, however, that these results do not reflect Ford's recent announcements regarding its new electric vehicle dealer network. Kerrigan Advisors expects the recently announced changes to the Ford retail business model to dampen demand for Ford franchises in 2022.

Chart 18 | Domestic Buy/Sell Market Share

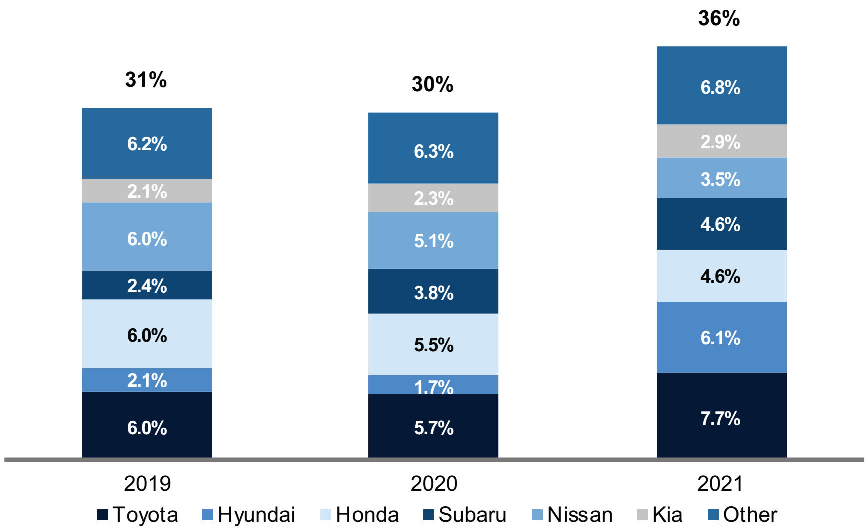


Source: The Banks Report, Automotive News, Kerrigan Advisors' Research

Ford had the highest buy/sell market share of the domestics in 2021 at 11.4%; however, Kerrigan Advisors cautions that Ford's electric vehicle dealer network and agency model could dampen demand for Ford franchises in 2022.

Among the import non-luxury franchises, Toyota retained its top position with an impressive 7.7% share of the buy/sell market (see Chart 19), 98% more than its franchise market share and the most ever recorded for an import franchise. Buyer demand for Toyota franchises is the highest in the industry, limited only by the supply available for purchase. Most of 2021's mega-transactions, including Kerrigan Advisors' client Denver, Colorado-based Stevinson Automotive, included a substantial number of Toyota franchises. As auto retail enters a period of evolution, buyers have greater trust in Toyota due to the OEM's partnership business model with its dealers. Interestingly, Honda dropped two spots and was surpassed by Hyundai and Subaru in 2021.

Chart 19 | Import Non-Luxury Buy/Sell Market Share

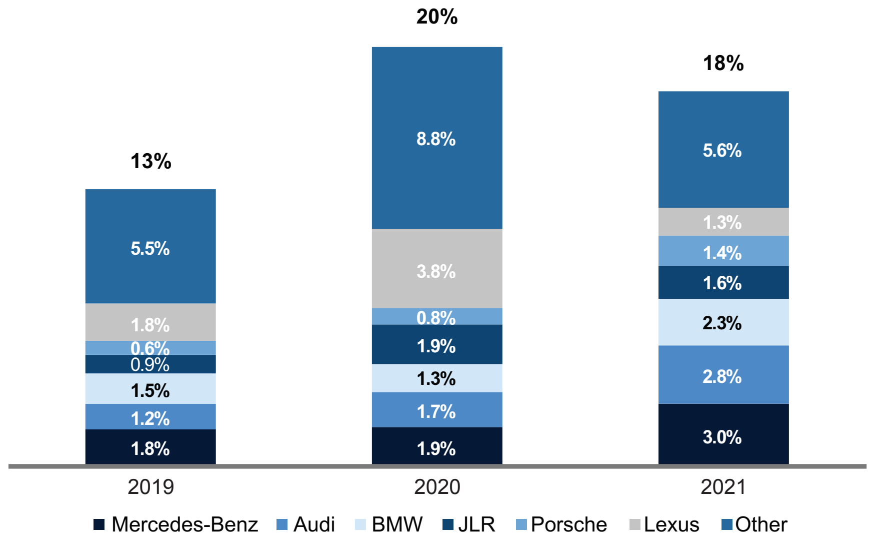


Source: The Banks Report, Automotive News, Kerrigan Advisors' Research

In 2021, Toyota continued to have the highest import non-luxury buy/sell market share at 7.7%, the most ever recorded for an import franchise, as demand for the franchise continues to rise.

In terms of the import luxury franchises, Audi and BMW surpassed Lexus, ranking first and second in buy/sell market share, respectively (See Chart 20 on the following page). The decline in Lexus's buy/sell market share is primarily due to the limitations Lexus places on franchise ownership (6 franchises and 2 companion points). These limits reduce the number of buyers able to acquire Lexus franchises with several of the publics at their maximum number. By contrast, Audi and BMW do not maintain such limits, enabling large consolidators to acquire more of these franchises.

Chart 20 | Import Luxury Buy/Sell Market Share

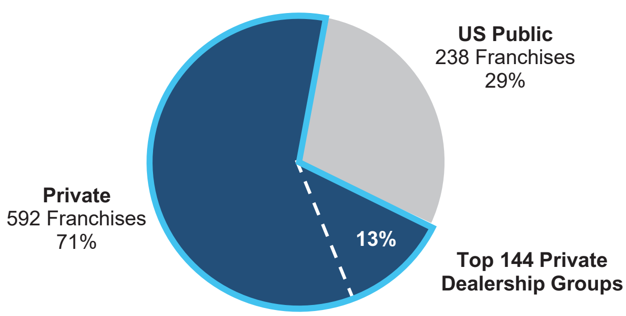


In 2021, Mercedes-Benz and Audi ranked first and second in luxury import buy/sell market share at 3.0% and 2.8%, respectively. Lexus' buy/sell market share declined from 3.8% in 2020 to 1.3% in 2021 as a result of limitations Lexus places on franchise ownership.

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

Among the acquirers, private buyers continue to lead industry consolidation, acquiring 71% of the franchises sold in 2021 (see Chart 21), with 13% of the acquisitions being completed by the top private groups, and 29% completed by the six largest public consolidators. The publics' market share of the buy/sell market was significantly higher in 2021, as these companies refocused their energies on large acquisitions.

Chart 21 | Percentage of US Franchise Acquisitions by Buyer Type, 2021



The largest public dealership groups grew their buy/sell market share to 29% in 2021, a dramatic increase from prior years. That said, private buyers continue to dominate the buy/sell market with 71% market share. Kerrigan Advisors expects the top 144 private dealership groups to increase their buy/sell market share in 2022, as they seek to deploy more capital to major expansion.

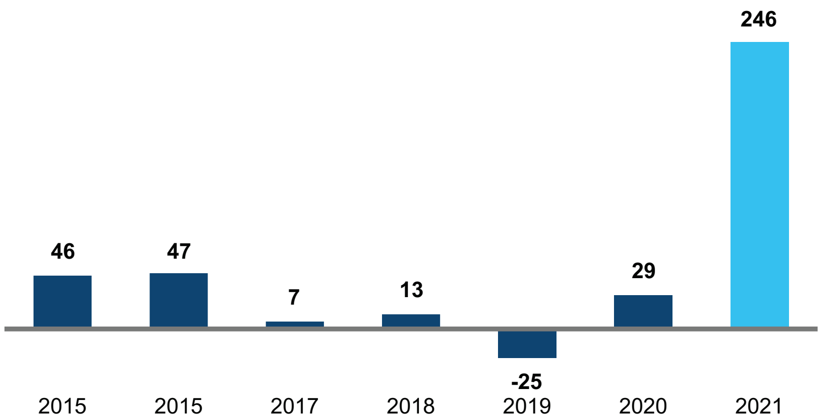
Source: The Banks Report, Automotive News, Kerrigan Advisors' Research
Note: This chart reflects franchises, not dealerships. CDJR is counted as one franchise for this analysis.

While the publics acquired more than double the number of franchises as the top 144 private groups in 2021, Kerrigan Advisors sees this trend potentially reversing in 2022. Today, the largest private groups have unprecedented access to capital from their own balance sheets, as well as access to the capital markets. By way of example, Morgan Auto Group, #11 on Automotive News' 2020 Top 150 Dealership Group list, successfully raised $700 million of debt through a bond offering in May 2021 at a rate of 4.85%. Furthermore, large private groups have fewer OEM framework limitations and thus fewer limits on the franchises they can acquire. As such, while the six largest new car publics clearly dominated the mega transaction market in 2021, the largest private groups are expected to substantially increase their acquisition activity in 2022 and will likely complete very sizable transactions, resulting in an increase in their buy/sell market share in the coming year.

US Public Acquisition Activity

2021 was a transformational year for the largest public consolidators. After contracting their franchise count in 2019 and adding an estimated 29 dealerships in 2020, the publics dramatically reversed course in 2021, adding 246 dealerships to their networks (see Chart 22). All six of the largest public consolidators made sizeable acquisitions in 2021. By contrast, only Lithia and Asbury acquired dealerships in 2020. This shift from contraction to substantial growth marks an inflection point in industry consolidation, pointing to an acceleration of consolidation in the years to come.

Chart 22 | US Public Dealership Groups' Acquisitions, Net of Divestitures

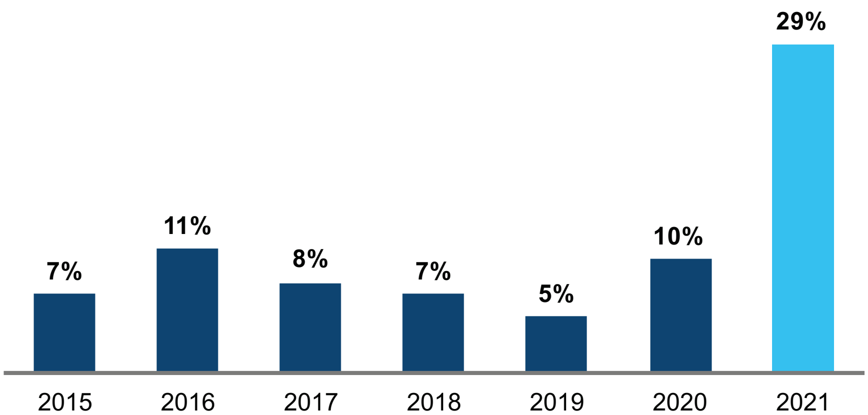


Source: SEC Filings for Asbury, AutoNation, Group 1, Lithia, Penske & Sonic

The publics added 246 dealerships in 2021, compared to just 29 in 2020. Kerrigan Advisors believes this shift by the largest auto retailers indicates an acceleration of industry consolidation in the coming years.

The publics acquired an impressive 29% of franchises sold in 2021, after representing less than 11% of the buy/sell market in the six years prior (see Chart 23 on the following page). By completing mega acquisitions of some of the industry's largest private dealership groups, including Asbury's acquisition of Larry H. Miller Dealerships and Stevinson Automotive, Lithia's acquisition of the Suburban Collection and Pfaff Automotive Group, Group 1's acquisition of Prime Automotive Group, Sonic's acquisition of RFJ Auto Partners and AutoNation's acquisition of Priority 1 Automotive, these companies demonstrated their renewed intention to meaningfully consolidate auto retail. Primary drivers of their renewed interest in acquisitions included increased levels of cash due to the industry's explosive profitability, historically low-cost acquisition financing, a desire to add scale and new geographies, and record stock prices, which made most acquisitions accretive to earnings.

Chart 23 | US Public Dealership Groups' Share of the Buy/Sell Market

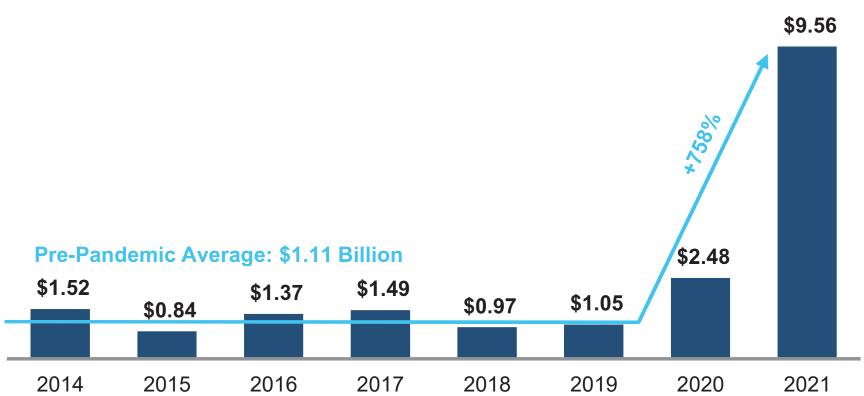


The publics acquired 29% of franchises sold in 2021 versus 10% in 2020. Record profits, low-cost acquisition financing, a desire to add scale and record stock prices drove these companies to increase acquisition spending in 2021.

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

In total, the publics spent a record $9.56 billion on acquisitions in 2021, nearly four times their prior record in 2020 and 758% more than their pre-pandemic average (see Chart 24). The publics' 2021 acquisitions are expected to generate $21 billion in additional revenue, 19% of their collective 2021 revenue. As the industry enters a period of accelerated consolidation and change, the publics demonstrated their ability to capitalize on their size and dominate the acquisition market for the largest dealership groups.

Chart 24 | US Public Dealership Groups' Acquisition Spending, $ in Billions

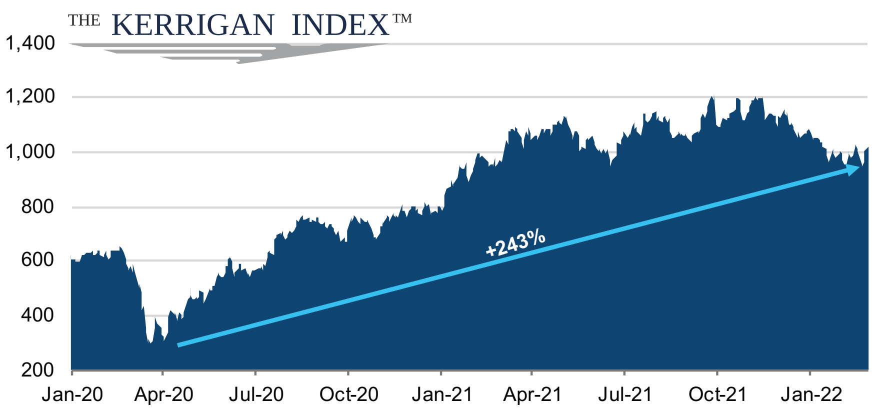


The publics spent a record $9.56 billion on dealership acquisitions in 2021, 758% more than their pre-pandemic average.

Source: SEC Filings for Asbury, AutoNation, Group 1, Lithia, Penske & Sonic

Wall Street is rewarding the public auto retailers' ability to grow earnings by profitably acquiring dealerships. The Kerrigan Index™, comprised of the seven largest publicly-traded auto retailers, rose 243% from March 2020 to February 2022 (see Chart 25 on the following page). Each public hit an all-time record high stock price in 2021 and the Kerrigan Index traded above 1,000 for 201 of 252 trading days last year. With the publics' stock prices at these elevated levels, more acquisitions are accretive to earnings.

Chart 25 | The Kerrigan Index™, January 2020 – February 2022

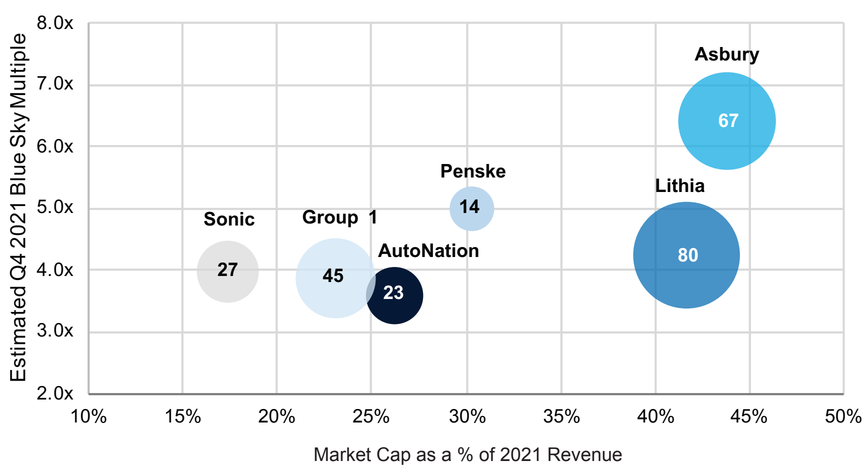


The Kerrigan Index rose 243% from March 2020 to February 2022, with each of the public companies in the Index reaching a record stock price last year. Wall Street rewarded the publics' ability to grow earnings by profitably acquiring dealerships in 2021.

Source: Yahoo Finance, Microsoft Finance, Kerrigan Advisors' Analysis
Note: See Methodology on page 4

It is not surprising to see the industry's most acquisitive publics trade at higher valuation metrics. In a consolidating, transforming industry, Wall Street rewards companies who successfully grow their top lines. Lithia and Asbury have led industry acquisitions since 2020 and acquired 80 and 67 dealerships in 2021, respectively (see Chart 26). Given Lithia's and Asbury's superior valuation metrics, the other publics started to follow their lead in 2021 with sizable acquisitions.

Chart 26 | US Public Dealership Groups' Estimated Q4 2021 Blue Sky Multiple vs. Market Capitalization as of Feb 18, 2022 as a Percentage of 2021 Revenue vs. Number of Total Dealerships Acquired in 2021

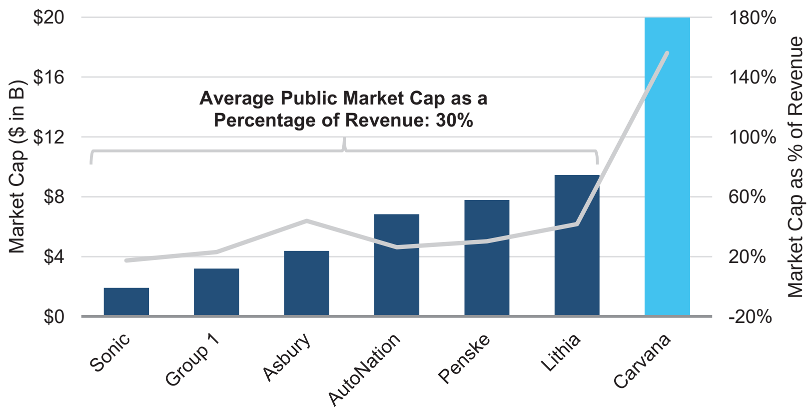


Lithia and Asbury acquired 80 and 67 dealerships in 2021, respectively, more than their competing publics. Lithia's and Asbury's market capitalizations as a percentage of 2021 revenue reflect a market that values growth through acquisition.

Source: Microsoft Finance and SEC Filings for Asbury, AutoNation, Group 1, Lithia, Penske & Sonic

Many of the publics are also being influenced by Carvana's tremendous valuation. Despite a loss of $180 million in the fourth quarter, Carvana's market capitalization on March 11, 2022 was $19.99B, more than double that of Lithia and nearly three times Penske and AutoNation (see Chart 27 on the following page). Carvana's superior valuation reflects investors' belief that this high-growth company will meaningfully transform and potentially disrupt the used car marketplace as we know it. Wall Street is enamored by Carvana's demonstrated ability to grow revenue and take share in the 40 million+ used car market, thus driving up the company's stock price. This has ultimately allowed the company to raise a tremendous amount of capital, both debt and equity, despite being unprofitable.

Chart 27 | Market Capitalization as of March 11, 2022 ($ in Billions) vs. Market Capitalization as a Percentage of 2021 Revenue



Source: Yahoo Finance, YCharts

Carvana's market capitalization as a percentage of revenue of 156% is more than 4.1x that of the public new car retailers, which average just 30%.

Most recently, Carvana announced its planned acquisition of ADESA's US physical auction business for $2.2 billion, bringing an additional $800 million in revenue and $100 million in EBITDA to the company (see Chart 28). The ADESA acquisition will strategically add a new business segment, enhance Carvana's reconditioning capacity, increase access to used car inventory, and expand its brick and motor footprint with 56 new locations. With ADESA, Carvana will increase the company's national reach to 70% of the US population within a 100-mile radius. Impressively, Carvana's lenders agreed to finance the entire acquisition with debt and also provide an additional billion dollars of financing for future capital expenditures, bringing the total lending facility offered to $3.3 billion and eliminating the need for any equity investment in the acquisition. The structure of Carvana's ADESA purchase demonstrates the power of the company's high market valuation and the opportunities it creates for meaningful expansion and potential market dominance due to the company's extraordinary access to capital.

Chart 28 | Carvana's Acquisition of ADESA, $ in Millions

Total Purchase Price	$2,200
Estimated Future CapEx	$1,000
Committed Financing*	$3,300
Financing Offered as a % of Purchase Price	**150%**
ADESA 2021 Financial Performance	
Revenue	$800
EBITDA	$100

Source: SEC Filings for Carvana
** Note: Per company filing*

Carvana's acquisition of ADESA for $2.2 billion, 100% financed with debt, with an additional $1 billion of financing for future capital expenditures, demonstrates the company's extraordinary access to capital as a result of its high market capitalization.

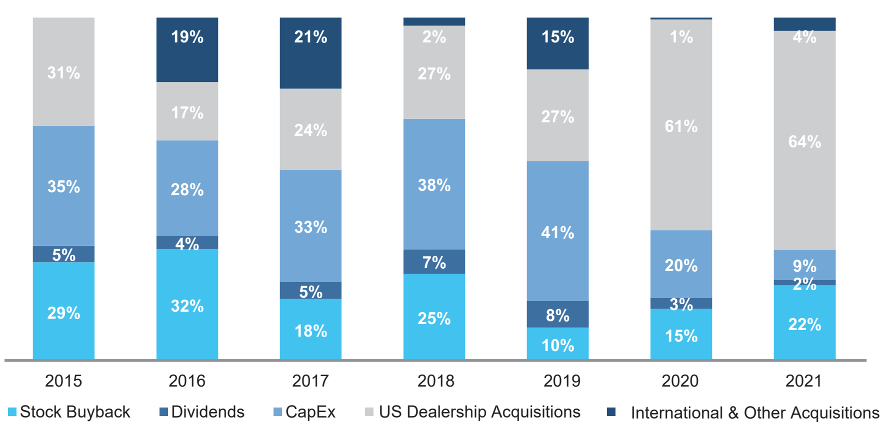
Following Carvana's lead, the traditional public retailers are also seeking to diversify their revenue streams and vertically integrate their businesses. As the public auto retailers grow the size of their network and reach across the nation, they are increasingly reassessing their business models and seeking expansion into different business verticals and horizontals. These can include adding a captive finance company (see AutoNation quote on the following page), insurance companies, private label F&I products, charging networks, online sales platforms, used car superstores, as well as horizontal investments such as commercial trucking, construction vehicles, farm equipment and power sports dealerships.

> *"I think it's important for the largest automotive retailer in the country to be able to offer finance through a captive where we can tailor make services, where we can make sure that the relationships that we build with our customers are deep, where we can be flexible to make sure that we account for different cycles, different changes in buying habits."*
>
> ***Mike Manley, CEO, AutoNation***
> ***Fourth Quarter 2021 Earnings Call***

While dealership acquisitions continue to be highly attractive to the public auto retailers, these companies have options for their capital even beyond alternative vertical and horizontal investments. In 2021, the publics increased their stock buybacks by $2.4 billion as compared to 2020 (see Chart 29), demonstrating their bullish outlook on their own companies' future success and earnings growth potential. Additionally, as blue sky values continue to rise, some of the publics see their own stock as more attractively priced than the acquisition opportunities available.

> *"We had excess cash generated from our 2021 performance and saw an opportunity with the returns generated from repurchasing our stock, which has no integration risk and exceeded the return hurdle rate ranges for acquisitions."*
>
> ***Tina Miller, CFO, Lithia & Driveway***
> ***Fourth Quarter 2021 Earnings Call***

Chart 29 | US Public Dealership Groups' Capital Allocation



At 22% of capital allocation, stock buybacks demonstrate the publics' bullish outlook on their earnings growth potential.

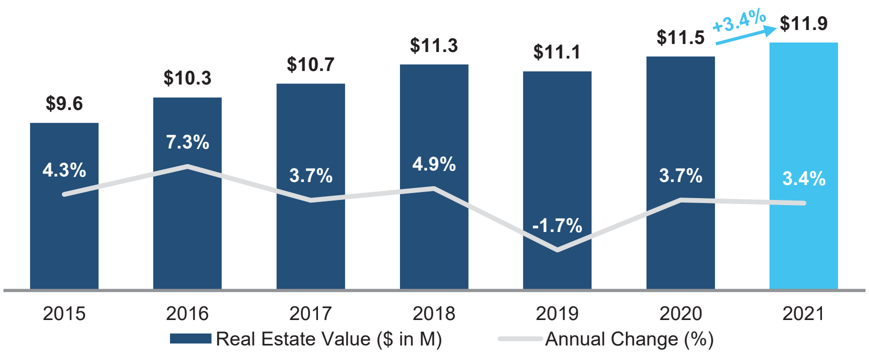
Source: SEC Filings for Asbury, AutoNation, Group 1, Lithia, Penske & Sonic

As auto retail continues to transform over the next decade, Kerrigan Advisors expects the largest public consolidators will lead the industry's evolution. These companies have an increasingly national footprint which provides them with a unique position to transition auto retail beyond its local primary market area to a national area of influence, leveraging their digital technology with their brick and mortar infrastructure. The publics' increasing scale, both physical and digital, will become an important differentiator to their future success.

DEALERSHIP REAL ESTATE

Dealership real estate values rose on average 3.4% in 2021 as compared to 2020 (see Chart 30). The value of auto dealership real estate as a single-purpose property is directly tied to the industry's attractive credit profile and financial strength. Further evidence of the attractiveness of dealership real estate is the recent acquisition of Capital Automotive REIT for $3.8 billion by Los Angeles, California-based Ares Management Corp. This transaction is one of the largest in the industry's history and surpasses the value of all of the real estate purchased by the publics in 2021.

Chart 30 | Kerrigan Advisors' Estimated Average Dealership Real Estate Value ($ in Millions) vs. Annual Change (%)

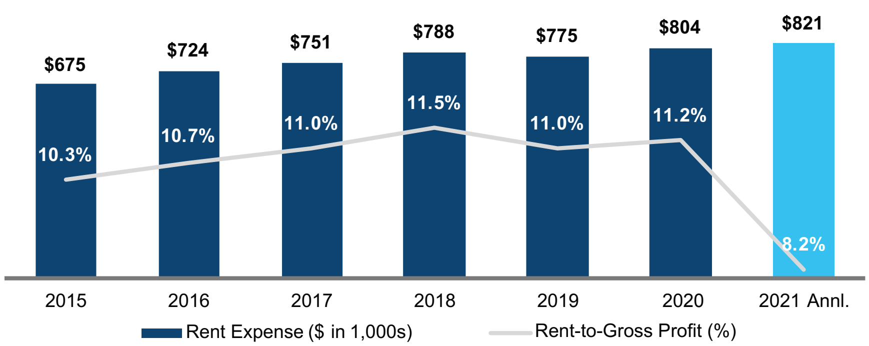


Source: NADA Industry Analysis, Kerrigan Advisors' Analysis

Dealership real estate values rose 3.4% in 2021 to $11.9 million compared to $11.5 million in 2020, an increase directly tied to the industry's financial strength and continued investment by dealers in their facilities.

The increase in the average dealership real estate value in 2021 is also a reflection of continued investment by dealers in their facilities, including image upgrades required by their OEMs and incremental electrification costs. These costs led to a rise in dealership rents last year. The average dealership rent expense reached nearly $821,000 in 2021, a new record (see Chart 31). While higher rent payments added fixed expense to the dealership business model, the industry's record gross profit levels resulted in an overall decline in the rent-to-gross profit margin, demonstrating auto retail's ability to absorb higher expenses.

Chart 31 | Average Dealership Rent Expense ($ in 1,000s) vs. Rent Expense as a Percentage of Gross Profit (%)

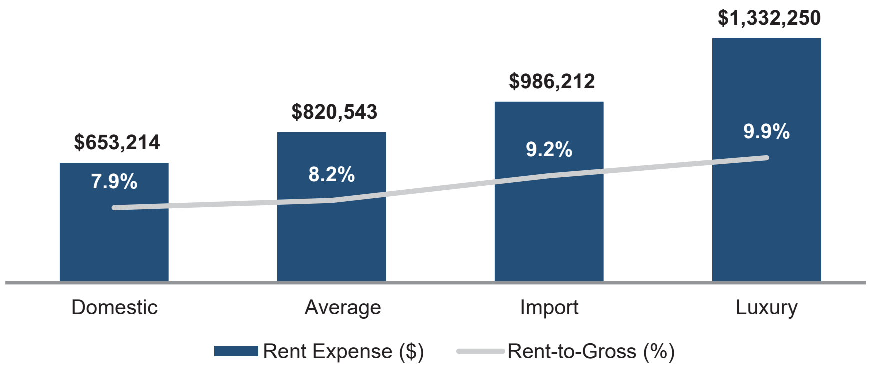


Source: NADA Industry Analysis
Note: 2021 results are annualized using October 2021 YTD data from NADA, the last month the NADA data was released.

Higher real estate values meant that the average dealership rent expense rose to $821 thousand, on average, in 2021; however, higher gross profits meant a decline in rent-to-gross profit margins from 11.2% in 2020 to 8.2% in 2021.

After years of increased rent expense, Kerrigan Advisors finds dealers are increasingly pushing back on major real estate investments given the expected rise in digital retailing and changes to facility requirements as a result of electrification. With the highest rent expense (see Chart 32), luxury dealers are particularly hesitant to make additional investments in facilities knowing that the retail model could change dramatically in the coming years. They note that Tesla successfully captured significant market share in 2021 relative to the top luxury OEMs (see Chart 33) with minimal investment in brick and mortar.

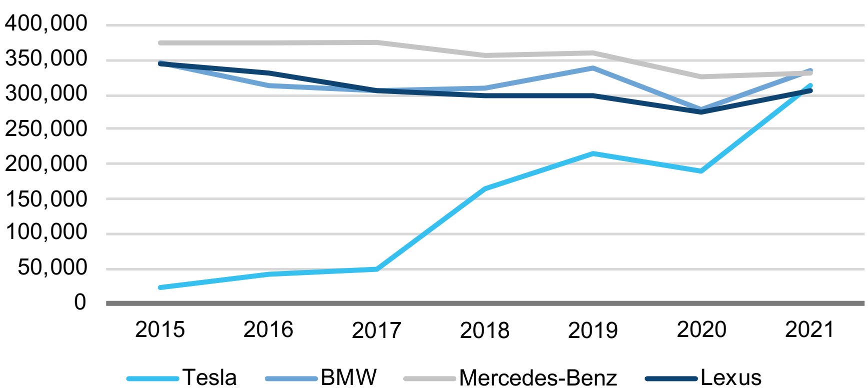
Chart 32 | Rent Expense vs. Rent Expense as a Percentage of Gross Profit (%) by Dealership Type, October 2021 YTD Annualized



Luxury dealers have the highest rent expense at $1,332,250, more than double the domestic rate. Luxury dealers are increasingly pushing back on expensive image programs or considering a sale to avoid the investment.

Source: NADA Industry Analysis
Note: 2021 results are annualized using October 2021 YTD data from NADA, the last month the NADA data was released.

Chart 33 | Annual US Light Vehicle Sales



Tesla, with minimal investment in brick and mortar, captured significant market share in 2021 relative to the top luxury brands.

Source: Automotive News

BUY/SELL TRENDS

Kerrigan Advisors' sell-side advisory work across the US, as well as our experience providing strategic consulting services to growing dealership groups, provides our firm with a unique view into the trends affecting today's auto retail buy/sell market. For 2022, we identified the following three trends that we expect to meaningfully shape the buy/sell market.

- **Buyers base blue sky on projected future earnings, rather than historical norms**
- **OEM electrification plans not factored into 2022 dealership valuations**
- **Expected changes to the legacy auto retail business model drive more sellers to market**

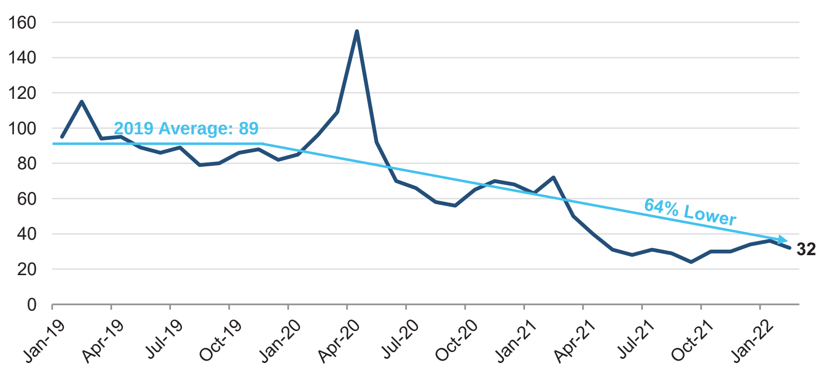
Buyers Base Blue Sky on Projected Future Earnings, Rather than Historical Norms

Buyers historically priced blue sky values based on the seller's adjusted trailing twelve-month earnings, applying a blue sky multiple to those earnings to determine valuation. If a buyer believed they could improve the financial performance of the acquired dealership, that upside was reflected in the multiple they were willing to pay on historical earnings; however, the basis of valuation was still derived from the seller's historical financial performance, not the buyer's projected future earnings.

The unforeseen changes in auto retail since March 2020 have called into question auto retail's legacy valuation methodology. Many dealers believe the past is no longer a prologue for the future. US dealerships experienced a "black swan" moment in 2020 which systematically altered the future of the industry. The pandemic caused a chain reaction in auto retail, expediting comprehensive industry change.

The most dramatic and visible of these changes relate to new vehicle inventory levels. Never before has auto retail operated with such low inventory during a period of such high consumer demand. The economic effect of shifting from oversupplied to undersupplied inventories has radically altered the operations and profitability of auto dealerships. Many believe the industry will never fully return to prior days supply levels (see Chart 34). This is particularly the case if OEMs successfully shift from ICE to electric vehicle production by 2030 with the expectation that electric vehicles will most likely be sold through an online order system.

Chart 34 | Days Supply of New Vehicle Inventory on Dealers' Lots



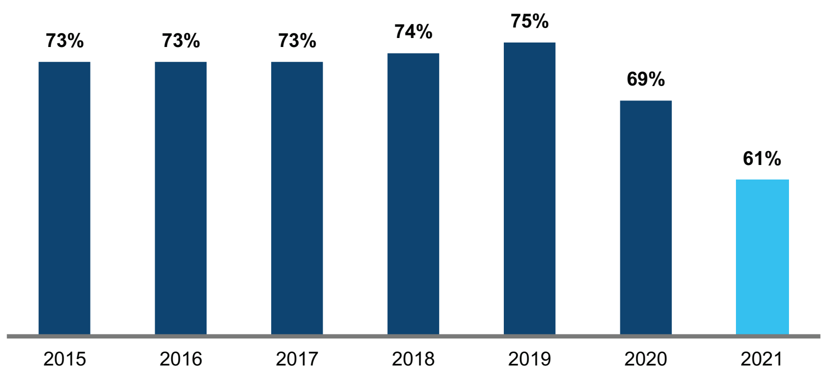
Continuing inventory issues dropped the days supply of new vehicles by 64% from an average of 89 days in 2019 to 32 in January 2022.

Source: Cox Automotive, Wolfstreet.com, Kerrigan Advisors' Analysis

> *"I don't think new car supply is going to come back ever to where it was prior to the pandemic."*
>
> ***Jeff Dyke, President & Director, Sonic Automotive***
> ***Fourth Quarter 2021 Earnings Call***

Along with new car inventory, the other dramatic structural change to auto retail is reduced operating costs (see Chart 35). As noted in the Executive Summary of this report, the pandemic initiated a shift in auto retail efficiency and historical operating rules of thumb. The industry today is operating with fewer employees and those employees are producing more revenue and significantly more profits. Forward-thinking groups are re-engineering their business model for the future, leveraging technology and a digital sale process to cement today's efficiencies into their business model. Few dealers plan to return to the low productivity levels that were standard pre-pandemic.

Chart 35 | Average US Public Dealership Groups' SG&A Expense as a Percentage of Gross Profit



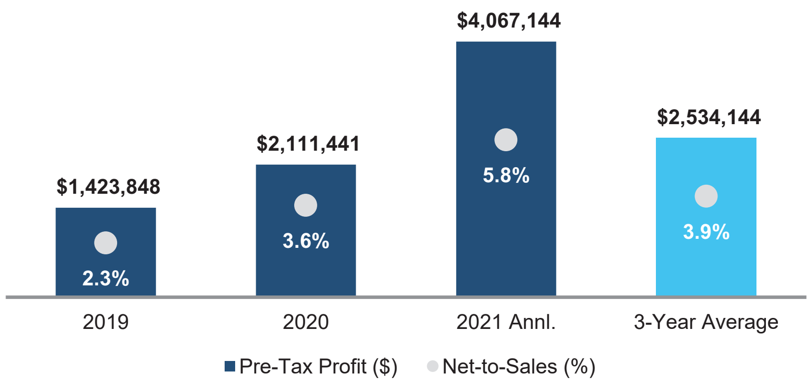
Source: SEC Filings for Asbury, AutoNation, Group 1, Lithia, Penske & Sonic

Efficiencies set off by the pandemic continued in 2021: operating costs (SG&A expense) for the publics dropped from 75% of gross profit in 2019 to 61% in 2021. Kerrigan Advisors does not expect pre-pandemic low productivity levels to return.

> *"It's clear to me that some are mistakenly discounting all of the improvements in performance as totally temporary. And they're preferring to rely on 2019 as a more reliable baseline…I think this is wrong. Because now, you can see there are clearly structural improvements that should translate into long-term value."*
>
> ***Mike Manley, CEO, AutoNation***
> ***Fourth Quarter 2021 Earnings Call***

With this in mind, Kerrigan Advisors finds that blue sky values are being based on expectations for the future, rather than the past. While few buyers believe today's superior new vehicle gross profit margins are sustainable once supply meets demand, many expect the structural changes to their operations to continue, along with more balanced new vehicle inventory levels in the 30 to 45 days supply range, resulting in margins significantly higher than pre-pandemic averages. As a result, Kerrigan Advisors finds most transactions are being priced based on an expectation of higher dealership profit margins going forward, likely in the 4.0% range (currently the average for the last three years of earnings—see Chart 36 on the following page), rather than the pre-pandemic norm of 2.5%.

Chart 36 | Average Dealership Pre-Tax Profit ($) vs. Pre-Tax Profit as a Percentage of Revenue (%)



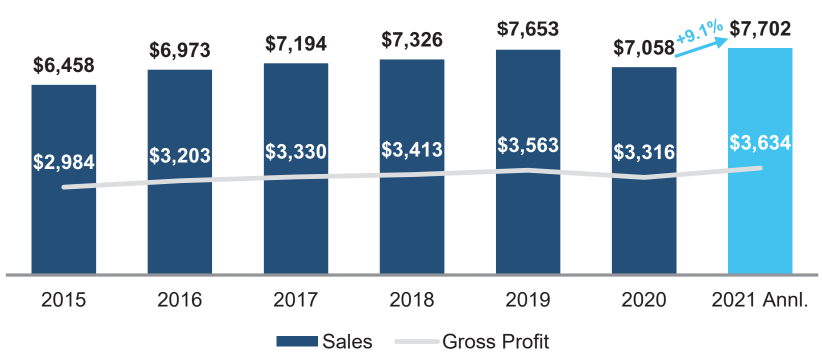
Today, most dealerships are being valued based on projected future profits once inventory levels normalize. Many buyers are averaging the last three years of earnings as a proxy for future profits, assuming ~4% net-to-sales becomes the new normal.

Source: NADA Industry Analysis
Note: 2021 results are annualized using October 2021 YTD data from NADA, the last month the NADA data was released.

> *"I just don't see margins going back to pre-pandemic levels ever."*
>
> ***Jeff Dyke, President & Director, Sonic Automotive***
> ***Fourth Quarter 2021 Earnings Call***

In addition to the structural improvements driving buyers' earnings expectations, the tremendous rebound in fixed operations, the highest margin segment of auto retail, is also supporting higher projected earnings. 2021's fixed operations sales are up 9.1% from 2020 (see Chart 37). This impressive rise is driven by a turnaround in miles driven as consumers return to daily life, a backlog in service deferred during the peak of the pandemic, and the aging of the vehicle fleet. In many regards, the growth of fixed operations today is a reminder of the strength of auto retail's legacy business model. With a limited supply of new vehicles, consumers retain their vehicles and turn to the dealership service and parts departments to keep them running. Thus, a decline in new vehicle sales is more than offset by a rise in fixed operations revenue.

Chart 37 | Average Dealership Fixed Operations Sales vs. Gross Profit, $ in 1,000s



Fixed operations rebounded in 2021, with average sales rising to $7.7 million, up 9.1% from 2020, resulting in record department gross profit.

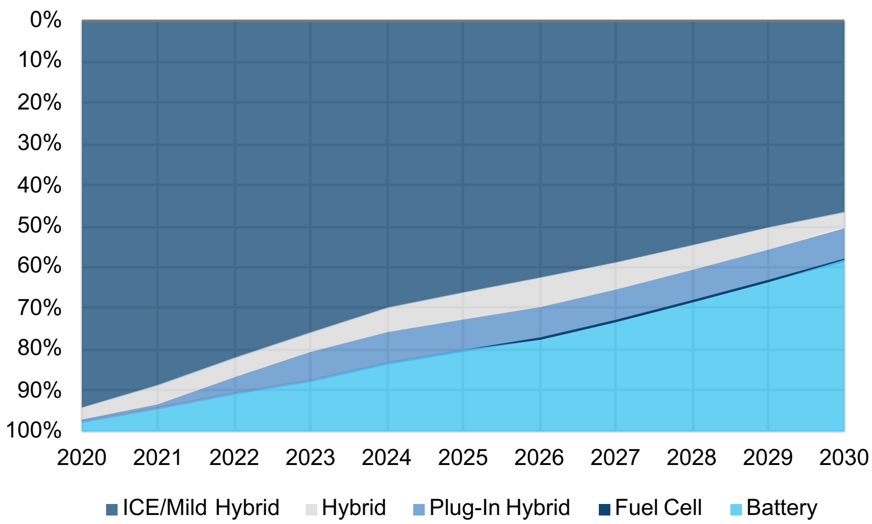
Source: NADA Industry Analysis
Note: 2021 results are annualized using October 2021 YTD data from NADA, the last month the NADA data was released.

> *"Customers are coming back on the road, miles driven is increasing, the age of vehicles is at record levels. I think it sets us up nicely for a good tailwind for 2022 and beyond."*
>
> ***Chris Holzshu, EVP & COO, Lithia & Driveway***
> ***Fourth Quarter 2021 Earnings Call***

OEM Electrification Plans Not Factoring into 2022 Dealership Valuations

In 2021, every major OEM announced aggressive plans to electrify their fleet. What started as a pre-pandemic concept became a post-pandemic expectation. For most OEMs, 2030 is the target date when a meaningful portion of their vehicles will be electrified in some form or fashion. McKinsey estimates that by 2030, 50% of new vehicles sold globally will be electric (see Chart 38).

Chart 38 | Projected US Light Vehicle Sales by Vehicle Engine Type



Electric vehicle sales continued to rise in 2021 and, per McKinsey, are projected to reach 50% of new vehicles sold globally by 2030.

Source: McKinsey, EV-Volumes.com, HIS Markit, International Council on Clean Transportation,
Note: Electric vehicle scenario assumptions include battery-pack prices of $125 per kilowatt hour (kWh) for 2020, $94/kWH for 2025, and $84/kWh for 2030. Assumed fuel consumption targets are 47 miles per gallon (mpg) for 2020, 50 mpg for 2025, and 63 mpg for 2030.

There is no question the electrification of vehicles will have a significant impact on the current auto retail business model. Many OEMs are suggesting their electric vehicles will be sold in a different manner than their ICE vehicles. Some are proposing an agency model with their franchisees, enamored by Tesla's success selling directly to consumers at a set price. Others, such as Ford, are considering the creation of a smaller electric vehicle dealer network, limited in size, pricing power, and inventory, as well as real estate requirements.

In addition to changes in retailing, the service and parts requirements of these vehicles will differ greatly from traditional ICE vehicles. Much of what the fixed operations department currently does will become obsolete as the industry electrifies. The service functions required by electric vehicle will be distinct (other than tires and brakes) and dealers will need to rethink their service departments to accommodate new product technology. Furthermore, while service retention is expected to be higher for electric vehicles, service dollars per vehicle could be lower, particularly with over-the-air updates to operating systems.

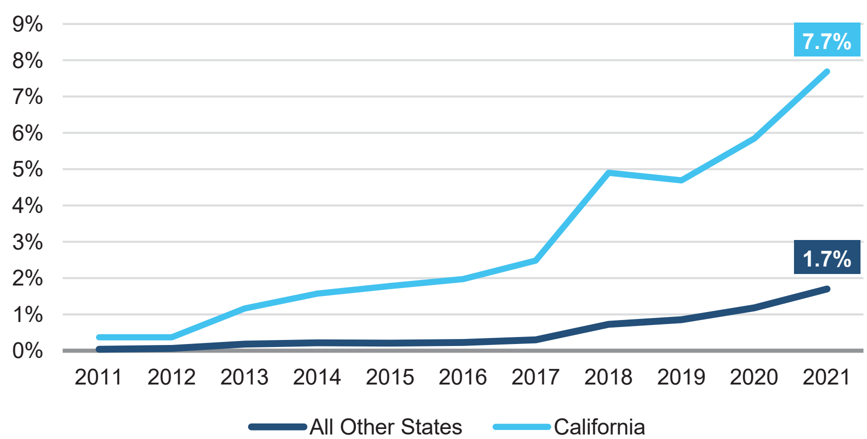
> *"EVs will probably generate up to 40% less aftermarket spending when compared with similarly aged ICE vehicles."*
>
> ***"A Turning Point for US Auto Dealers: The Unstoppable Electric Car"***
> ***McKinsey, September 2021***

Despite the significant impact of the proposed transition to electric vehicles, Kerrigan Advisors finds electrification is not being priced into today's blue sky values. Rather, buyers' proformas are largely based on the industry's legacy business model. Though dealers are increasingly required to make significant capital investments in preparation for an electric vehicle fleet, including installing expensive charging stations, most buyers are not handicapping their valuations as a result of these investments.

> *"75% of our stores will have full electrified charging capabilities before the end of this year [2022]."*
>
> ***Mike Manley, CEO, AutoNation***
> ***Fourth Quarter 2021 Earnings Call***

Kerrigan Advisors believes there are two primary reasons electrification is not priced into today's blue sky values. The first is skepticism regarding the speed with which electric vehicles will dominate the industry. While California has seen a significant rise in electric vehicle market share, the remainder of the country is well below 2% (see Chart 39). Adoption of this new technology in the US is clearly lagging other countries. According to a survey by Deloitte, consumer vehicle preference for electric vehicles in the US is far behind the rest of the industrialized world (see Chart 40 on the following page). Many are also doubtful the US will expedite the infrastructure required for electric vehicles at a rate that can support the OEMs' announced timelines. EV affordability also remains a real question, particularly as natural resource prices, including lithium, soar.

Chart 39 | Electric Vehicle Market Share

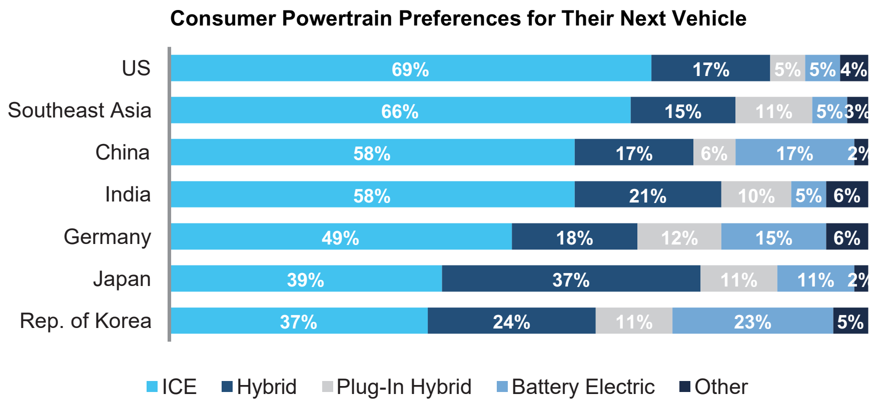


With the exception of California, US market share of electric vehicles was less than 2% in 2021. Many dealers are skeptical of OEM projections regarding future market share for electric vehicles, particularly given the lack of infrastructure in the US.

Source: Experian

> *"I think the infrastructure is still a key problem, how much is going to be subsidized by the government from the standpoint of the U.S. market…Overall, I think it's going to take time. And I think we'll see ICE engines here for quite a while."*
>
> ***Roger Penske, Chairman & CEO, Penske Automotive Group***
> ***Fourth Quarter 2021 Earnings Call***

Chart 40 | 2022 Global Automotive Consumer Study by Deloitte



Expected US consumer adoption of electric vehicles lags the rest of the world with 69% of US consumers still preferring gasoline/diesel power for their next vehicle.

Source: Deloitte

The second reason Kerrigan Advisors believes electrification is not being priced into blue sky values is because the full impact on the dealership business model remains unknown. While many expect a decline in service revenue from electric vehicles, some of the publics are currently reporting higher service revenue per electric vehicle as compared to their ICE counterparts. This is due in part to more frequent and costly visits. Furthermore, while a transformed retailing model could eliminate negotiations and minimize vehicle margins, it could also reduce the number of employees required for a sale, potentially increasing a dealer's bottom line.

> *"Once you get out to 2024, I know a lot of people like to pretend they can predict that, but this is a dynamic business."*
>
> ***Earl Hesterberg, CEO & President, Group 1 Automotive***
> ***Fourth Quarter 2021 Earnings Call***

The fact that electrification is not being priced into blue sky highlights the uncertainty regarding consumer adoption, the viability of the OEMs' rollout plans, and the impact on auto retail earnings. With no clear view into the future of electrification and its impact on dealership earnings, buyers are sticking with the legacy ICE model when pricing blue sky. Kerrigan Advisors does not expect this to change in the near future.

Expected Changes to the Legacy Auto Retail Business Model Drive More Sellers to Market

Despite skepticism regarding the timing of electrification, Kerrigan Advisors finds more dealers, particularly second and third generation owners, are coming to market due to the expected changes to the dealership business model in the future. These families think in terms of generations, not decades, and are considering the impact on the next generation if the dealership business model is dramatically altered.

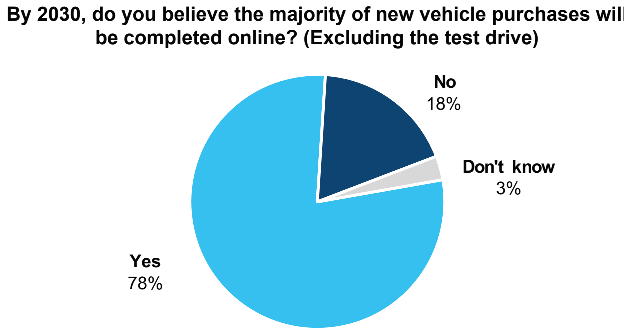
An increasing number of private dealers have concluded the scale required to succeed in the future is beyond the level to which their family is willing or able to grow and invest. Some have taken note of the recent sale of the largest private groups. The most prominent of these groups is the Larry H. Miller Group, formerly the 2nd largest private group in the US with 54 new car dealerships in six states. Despite the Miller group's size, Steve Starks, the CEO, cited the need for greater scale and a more robust digital platform as the reason for the sale.

> *"What it came down to is feeling like we had grown the business about as large as we could without a national footprint and without having an over-the-top digital retail strategy."*
>
> ***Steve Starks, CEO, Larry H. Miller Group of Companies***
> ***Interview with Automotive News – October 2021***

Some dealers realize the auto retail playing field is starting to transition from a local, in-person marketplace to a national, digital one. As the largest consolidators develop their proprietary online platforms, including vertically integrated services, the areas of influence and boundaries of the franchise model are beginning to blur, upending the traditional expectations of a primary market area ("PMA") and rendering the "pump-in/pump-out" equation obsolete. Some dealers who are planning for a sale realize many of their assumptions about their business may no longer apply in an increasingly digital world (see Chart 41 on the following page).

> *"Though we believe we could benefit from the removal of franchise laws, we view the model's future evolution being driven by removing friction and creating a more seamless experience from build to driveways for consumers."*
>
> ***Bryan DeBoer, President & CEO, Lithia & Driveway***
> ***Fourth Quarter 2021 Earnings Call***

Chart 41 | 22nd Annual Global Automotive Executive Survey 2021 by KPMG

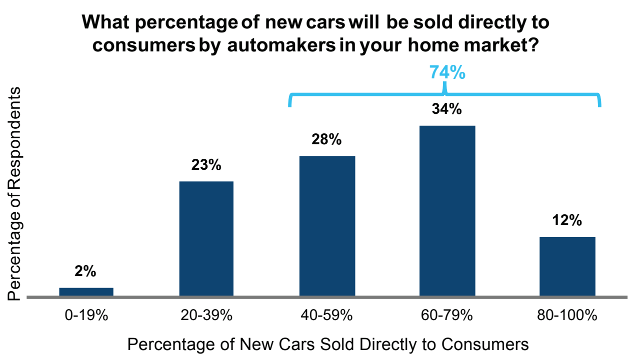


Source: KPMG

78% of auto executives surveyed by KPMG believe that by 2030 the majority of new vehicle purchases will be completed online (excluding test drive), pointing to a near term change in the legacy auto retailing model.

Furthermore, more dealers are concerned about the plethora of OEM announcements regarding changes to the retailing model in the near future, including plans to supplant the legacy model with an agency model or ultimately control the sale process (see Chart 42). Some dealers expect these changes will ultimately be to their detriment. With each announcement, Kerrigan Advisors finds more dealers who have never contemplated a sale of their business reaching out to discuss valuation. As 2022 progresses, we expect more OEM announcements will come and with those announcements, more dealers will reassess their plans for succession and a potential exit.

Chart 42 | 22nd Annual Global Automotive Executive Survey 2021 by KPMG



Source: KPMG

74% of auto executives surveyed believe that 40% or more of new vehicles will be sold directly to consumers by automakers in 2030.

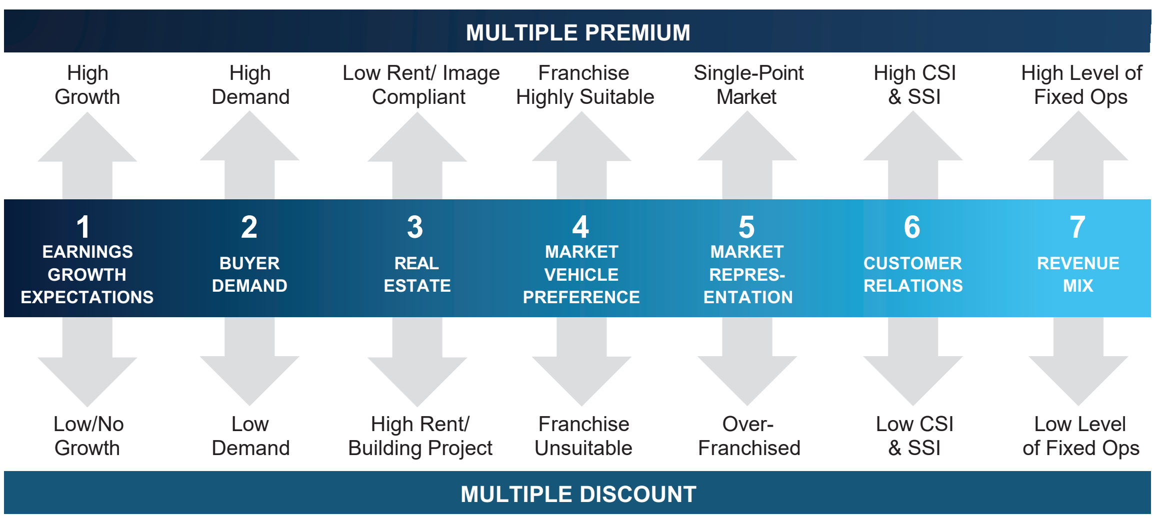
> *"I think everybody recognizes the industry will go through a significant transformation. And that's not just in terms of product and powertrain, but in many other ways as well. When COVID is behind us, we'll see the emergence of additional mobility models and choices. We'll see changes in the way customers approach vehicle ownership and usage. And we will progressively see changes in how dealers and OEMs have traditionally competed."*
>
> ***Mike Manley, CEO, AutoNation***
> ***Fourth Quarter 2021 Earnings Call***

KERRIGAN ADVISORS' BLUE SKY MULTIPLES

Kerrigan Advisors' blue sky multiples and accompanying analysis outline the high, average, and low blue sky multiples for each franchise in the luxury and non-luxury segments. To determine blue sky value, Kerrigan Advisors' blue sky multiples are currently being applied to expected future profits of an acquisition, assuming new vehicle inventories eventually stabilize and structural performance improvements are retained by a target acquisition. As a proxy for future profits, buyers are averaging the last three years of earnings, resulting in a proforma net-to-sales margin in the ~4.0% range, the expected new normal once supply meets demand.

Kerrigan Advisors' blue sky multiples are based on our view of franchise values in the current buy/sell market. Each dealership has its own unique valuation drivers and significant analysis needs to be done to determine the market-clearing price for a dealership's blue sky. The high, average and low blue sky multiples in the following charts reflect the variability in franchise values, depending on specific circumstances and situations. The combination of these seven factors, detailed in Chart 43, determines the blue sky multiple a buyer is ultimately willing to pay for a franchise. Most dealerships are valued based on their assets plus blue sky, excluding working capital.

Chart 43 | Franchise Blue Sky Multiple Drivers



Source: Kerrigan Advisors

Factor One—Earnings Growth Expectations: Underperforming dealerships, particularly those in high growth markets, often command higher multiples, while overperforming dealerships often command lower multiples.

Factor Two—Buyer Demand: High buyer demand in high population growth markets, such as Florida and Texas, drives up a blue sky multiple, while low buyer demand in contracting markets results in discounted multiples.

Factor Three—Real Estate: Dealerships that require major real estate investments or have high rent command lower multiples, as do dealerships on leased property. By contrast, dealerships that recently became image compliant with well-priced real estate can sell for a price premium.

***Factor Four—Market Vehicle Preference**:* Franchises that are highly suitable for a market receive higher multiples, while franchises that are unsuitable for a market receive lower multiples. For example, a top luxury franchise in a small metro with few high income wage earners will receive a discounted multiple, as compared to a luxury franchise in a major metro, which likely receives a price premium.

***Factor Five—Franchise Market Representation**:* A franchise with no like-franchise competition in its market will often sell at a higher multiple than a franchise that competes with one or more like-franchises. By contrast, markets with too many like-franchises (over-dealered markets) command much lower multiples.

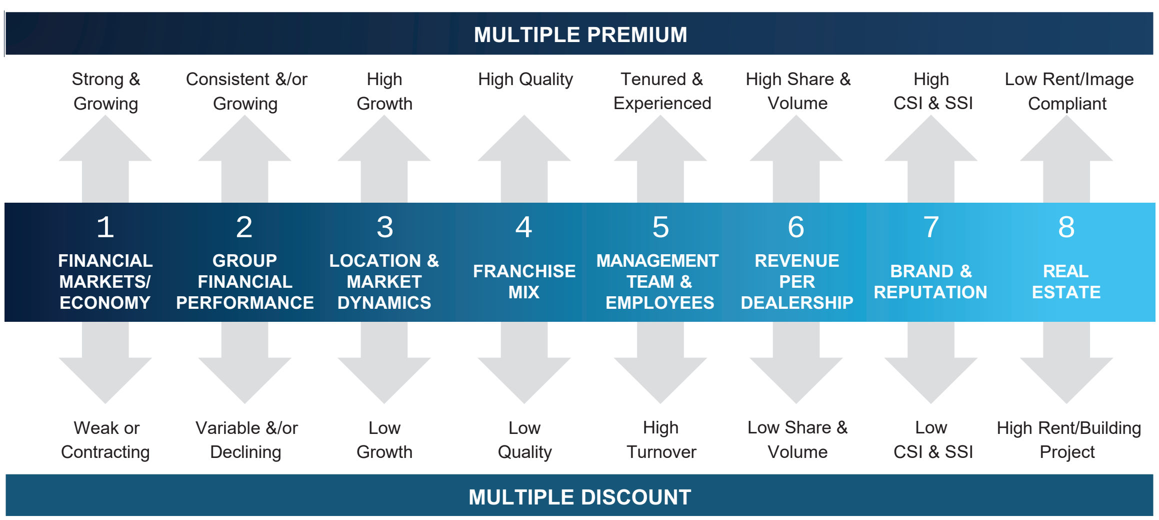
***Factor Six—Customer Relations**:* Dealerships with high customer retention rates and exceptional customer relations will command higher multiples, as the profits associated with those businesses are more sustainable. Dealerships with poor online reputations, coupled with low CSI and SSI, receive lower blue sky multiples.

***Factor Seven—Revenue Mix**:* Fixed operations is the highest margin, most consistent revenue stream associated with the dealership business model. Dealerships with strong fixed operations trade at higher multiples, while dealerships with low fixed operations revenue trade at lower multiples.

As noted in our third quarter 2021 report, Kerrigan Advisors finds the valuation drivers for dealership groups differ considerably from an individual franchise. While individual franchise multiples that make up a group still inform a group's blended blue sky multiple, the premium or discount applied is often determined by the entire group's operations, rather than each individual dealership's performance. In other words, group valuations are not necessarily based on the sum of the parts and are rather determined by the performance of the whole enterprise.

With this in mind, Kerrigan Advisors outlines the drivers that determine the blue sky multiple for a group in Chart 44. As you will see, this valuation framework differs considerably from the single franchise drivers detailed in Chart 43 on the previous page.

Chart 44 | Dealership Group Blue Sky Multiple Drivers



Source: Kerrigan Advisors

***Group Factor One—Financial Markets/Economy**:* Larger transactions are more sensitive to the economic environment in which they are completed and the state of the capital markets. Many of the largest group acquisitions are completed by public companies, most of whom raise capital through Wall Street. As a result, group valuations (premiums and/or discounts) are often determined by the health of the stock and bond markets from which these acquisitions are financed, as well as investor return expectations relative to alternative investment opportunities. The larger the transaction, the more sensitive it is to interest rates and the current valuation multiples of the public consolidators.

***Group Factor Two—Group Financial Performance**:* Because large groups often involve more debt financing, buyers of larger groups are usually more sensitive to an acquisition's historical financial performance. This is because lenders often rely on the target's past financial performance to determine the amount of the acquisition they are willing to finance. As a result, a dealership group with a consistent history of strong earnings and growth will often command a premium valuation, as a lender may be willing to finance more of the purchase price, reducing the equity required by the buyer. By contrast, a group with highly variable earnings or inconsistent historical earnings growth will usually trade at a discount.

It is important to note that, unlike a single-point acquisition, underperforming dealership groups do not customarily trade at a premium blue sky multiple. Buyers of large groups are usually looking for consistent cash flow rather than a turnaround opportunity. Underperforming large groups are considered riskier investments because the re-engineering of a sizable organization is a significant undertaking and one with more execution risk post-transaction.

***Group Factor Three–Location & Market Dynamics**:* Similar to single-point dealership valuations, dealership groups located in high growth, business-friendly markets usually trade at a premium. Dealership groups that lack regional concentration, or that have dealerships located in disparate markets without obvious synergies or scale, tend to trade at a discount relative to groups with a significant presence in a single market. Kerrigan Advisors finds that groups with meaningful market share in their MSA or region are often valued at a premium by buyers.

***Group Factor Four—Franchise Mix**:* Dealership groups that include top luxury and non-luxury franchises often trade at a premium. In some cases, the inclusion of a single high demand, limited supply franchise, such as Porsche, can lift the valuation multiple of an entire group. By contrast, if a group only includes weaker franchises, its overall blue sky multiple can suffer. Kerrigan Advisors finds that size does not typically overcome a weak franchise mix. Buyers seeking to deploy large amounts of capital to sizable acquisitions tend to be more sensitive to franchise mix and more focused on the top franchises when buying groups.

***Group Factor Five—Management Team & Employees**:* With groups, the management team and staff are often key ingredients in determining the valuation. Most buyers of sizable groups will need to rely on the existing executive team to lead the group post-transaction. Groups with impressive management teams often trade at a premium, whereas groups with high employee turnover and short-tenured managers tend to trade at a discount.

***Group Factor Six—Revenue per Dealership**:* Groups made up of mostly high-volume dealerships trade at a premium relative to groups made up of mostly low-volume dealerships. By way of example, a group that averages over $100 million in revenue per dealership will trade at a significant premium to one that averages less than $50 million in revenue per dealership, even if the two groups have the same total revenue and earnings. In general, higher volume dealerships are easier to manage and have less earnings volatility/risk, thus buyers prefer groups with high sales volume per dealership.

Group Factor Seven—Brand & Reputation*:* Dealership groups with exceptional brands in their market and strong reputations often trade at a premium, whereas those with poor reputations or no brand equity trade at a discount. Also, if a seller is unwilling to include the name of their group in a sale, perhaps because it is their family name, this can reduce the valuation of the group. The dealership group brand is often of significant value to a buyer, particularly if the buyer is entering a new market and the group has a strong reputation and long history in the area.

Group Factor Eight—Real Estate*:* Dealership groups with minimal real estate improvement requirements or relocations often trade at a premium. Similarly, dealership groups which own most of their property and are willing to sell that property as part of a transaction also tend to trade at a premium. By contrast, groups with significant facility upgrade requirements or leased property usually trade at a discount. This trend is similar to the valuation trend for a single-point dealership.

In general, buyers of groups are more focused on valuing the entire enterprise, rather than each franchise. For those groups looking to expand, it is important to understand these drivers to ensure their acquisition strategy is value-enhancing, rather than detracting. As with all investing, executing on a strategic plan to increase the value of a business starts with understanding the valuation drivers and where best to allocate capital.

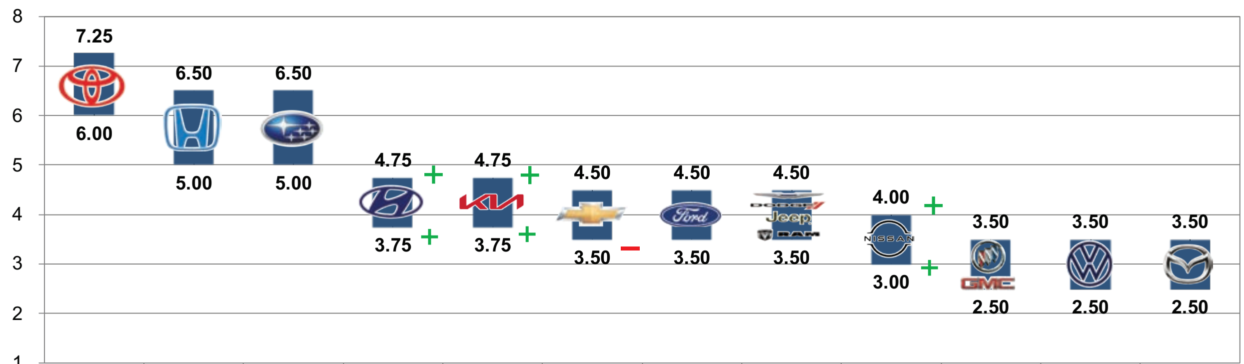
Fourth Quarter 2021 Blue Sky Multiple Adjustments

Given the tremendous transformation in auto retail in 2021 and expectations for future changes with electrification and digital retailing, Kerrigan Advisors made several adjustments to our blue sky multiples and multiple outlooks this quarter as detailed in our annual franchise review. It should be noted that uncertainty generally creates greater volatility in a business' valuation. The more uncertain buyers are regarding a franchise's future earnings, the lower the blue sky multiple they are willing to pay. With this in mind, Kerrigan Advisors downgraded our multiple outlooks for Chevrolet, Ford and Buick GMC franchises to negative from steady, as these domestics are flirting with new business models for their vast dealer networks. While these models may prove beneficial in the long term, the unknown associated with these changes is adding a level of risk to their proforma earnings, which may reduce their multiples in the future. In addition to these domestics' multiple outlook adjustment, we made the following changes to the fourth quarter 2021 blue sky multiples, the details of which are discussed in each franchise review.

- Reduced Chevrolet's low-end multiple from 3.75 to 3.5, in line with its domestic competitors
- Increased Hyundai's and Kia's low-end multiples from 3.5 to 3.75 and high-end multiples from 4.5 to 4.75
- Increased Nissan's low-end multiple from 2.5 to 3 and high-end multiple from 3.5 to 4
- Increased Porsche's low-end multiple from 7.5 to 8
- Increased Lexus' low-end multiple from 7 to 7.5
- Decreased Audi's low-end multiple from 7.0 to 6.75 and high-end multiple from 8.0 to 7.5

This summarizes Kerrigan Advisors' changes to our blue sky multiples for the fourth quarter of 2021. In the next section of this report, we provide our annual franchise review, including a discussion of buyer demand, franchise profitability, product pipeline, electrification of the vehicle fleet, and our multiple outlook for each franchise in 2022.

Chart 45 | Kerrigan Advisors' Fourth Quarter 2021 Blue Sky Multiples & Analysis: Non-Luxury



	Toyota	Honda	Subaru	Hyundai	Kia	Chevrolet	Ford	CDJR	Nissan	Buick GMC	VW	Mazda
High	7.25	6.50	6.50	4.75	4.75	4.50	4.50	4.50	4.00	3.50	3.50	3.50
Average	6.63	5.75	5.75	4.25	4.25	4.00	4.00	4.00	3.50	3.00	3.00	3.00
Low	6.00	5.00	5.00	3.75	3.75	3.50	3.50	3.50	3.00	2.50	2.50	2.50

Franchise	Buyer Demand	Change in Sales* 2021 vs. 2020	Sales Per Franchise** 2021	Average Dealership Profitability Last Three Years	Buy/Sell Market Share** 2021	Moody's Credit Rating	Multiple Outlook
TOYOTA	Highest	+10.3%	1,638	Consistently High	7.7%	A1	Positive
HONDA	High	+8.2%	1,227	Consistently High	4.6%	A3	Steady
SUBARU	High	-4.6%	921	Consistently High	4.6%	Not Rated	Steady
HYUNDAI	Improving	+18.6%	892	Variable	6.1%	Baa1	Steady
KIA	Improving	+19.7%	905	Variable	2.9%	Baa1	Steady
CHEVROLET	Average	-17.7%	490	Variable	10.0%	Baa3	Negative
Ford	Average	-6.5%	602	Variable	11.4%	Ba2	Negative
CHRYSLER DODGE Jeep RAM	Average	-2.3%	713	Variable	10.7%	Baa3	Steady
NISSAN	Improving	+12.1%	854	Variable	3.5%	Baa3	Steady
BUICK GMC	Low	-2.3%	337	Variable	8.8%	Baa3	Negative
VW	Low	+15.1%	588	Variable	3.9%	A3	Steady
mazda	Low	+19.2%	614	Variable	1.3%	Not Rated	Steady

Source: Kerrigan Advisors' Analysis, Automotive News, Moody's, The Banks Report
**Green = overperformance of industry average; red = underperformance of industry average*
***Green = improvement as compared to 2020; red = decline as compared to 2020*

TOYOTA

Toyota remains the most sought-after non-luxury franchise in the US with nearly every buyer in Kerrigan Advisors' Buyer Database indicating an interest in the franchise. High buyer demand can be attributed to Toyota's partnership business model with its dealers and excellent dealer relations. Despite the expected changes coming to the auto retail market with digital retailing and electrification, dealers feel confident Toyota will ensure these changes are mutually beneficial to their dealers and the OEM. Thus, an investment in a Toyota franchise is expected to mitigate the risks inherent in auto retail's future. In Kerrigan Advisors' 2021 Dealer Survey, 97% of respondents expect the value of the Toyota franchise to increase or remain the same, the highest in the survey. In 2021, Toyota grew its US market share to become the top US manufacturer for the first time in its history, surpassing General Motors. Toyota's market share gains in 2021 can be attributed to its strong performance in the light truck and SUV segments with unit sales in these segments up 11.9% for the year. Toyota also attributes its strong performance in 2021 to its careful management of the microchip crisis and stockpiling early in 2021 when it became clear consumer demand was on the rise. Toyota's unit sales increased by 10.3% for the year; however, in the fourth quarter of 2021, unit sales decreased by 28.0% when compared to the fourth quarter of 2020, trailing the industry's decline of 21.4% due to decreased production caused by parts shortages. For fiscal year-end March 31, 2022, Toyota expects full-year production to be 8.5 million units globally, under its original target of 9 million. Despite production and unit sales declines, Toyota dealerships remain the most consistently profitable in the industry. This is in large part due to the limited size of the OEM's dealer network, which results in the highest sales and UIO count per franchise in the industry. Toyota's dealer relations are also the best in the industry, ranking as the #1 non-luxury brand in NADA's Fall and Winter 2021 Dealer Attitude Survey. Toyota made gains in J.D. Power's Initial Quality Study in 2021, now ranking above the industry average and won five model-level awards, the second most of any manufacturer behind Hyundai. Toyota also rated high in J.D. Power's 2022 Vehicle Dependability Study, ranking 3rd amongst non-luxury brands behind Kia and Hyundai. In the 2021 US Automotive Social Intelligence Update, Toyota was one of the most discussed brands on social media with an audience of 6.73 billion and ranking 1st in Customer Satisfaction. In 2021, Toyota announced its plan to spend $70 billion in electrification technology, including $13.5 billion in battery technology while unveiling the Toyota bZ series, a complete global line-up of thirty new battery-electric models by 2030, departing from its previous focus on hybrid powertrains. Toyota also announced a goal of 3.5 million battery electric vehicles and 70% of its vehicles sold to have some form of electric powertrain by 2030. Toyota remains committed to manufacturing vehicles in the US, choosing North Carolina as its location for a new $1.29 billion automotive battery manufacturing plant and announcing a $461 million investment in its Kentucky plant. Toyota expects to post record annual operating profits for fiscal year-end March 31, 2022 of $24.33 billion, although operating profits for the third quarter ending December 31, 2021 were down 21% due to decreased production. The OEM is very well positioned to continue its legacy as the most sought-after, non-luxury franchise in the US. Kerrigan Advisors is maintaining Toyota's blue sky multiple range and our outlook remains positive.

Kerrigan Advisors Blue Sky Multiple: 6.0 – 7.25 Multiple Outlook: Positive

HONDA

Honda remains one of the most sought-after non-luxury franchises due to its high customer loyalty, strong sales per franchise, consistent fixed operations, and good dealer relations. In Kerrigan Advisors' 2021 Dealer Survey, 93% of respondents indicated the value of the Honda franchise would either increase or remain the same, the second highest of any franchise, tied with Hyundai, Kia, Subaru and Lexus, and up from 88% in 2020. Honda also ranked as the #2 non-luxury brand in NADA's Summer 2021 Dealer Attitude Survey, behind Toyota, and #3 non-luxury brand in the Winter 2021 Dealer Attitude Survey, as most of its dealers remain highly satisfied with the franchise. Despite dealers' satisfaction with the franchise, Honda introduced a completely new image program in 2021, distinctly different from its prior image, and is requiring its dealers to upgrade older facilities to meet its new image standards, particularly after a buy/sell. This new program could reduce blue sky value as the real estate investments are expected to be significant. In 2021, Honda's US market share increased 39 basis points to 8.7% due to a year-over-year increase in new unit sales of 8.2%. Honda has not seen this level of market share increase since 2013. Its stronger performance in 2021 can be attributed to a shift in its product mix to SUVs from sedans, posting a record 800,000+ SUV sales in 2021. Despite a shift to SUV's, Honda continues to build some of the best sedans in the market with the Civic retaining the #1 spot for America's best-selling retail passenger car for its 6th straight year and winning the 2022 North American Car of the Year Award. With gas prices at record levels, Honda is expected to benefit from its more fuel-efficient sedan line-up in 2022. Honda ranks highly in residual value, recognized as the top Mass Market Brand in J.D. Power's 2022 US ALG Residual Value Awards. Honda is also one of the most popular brands on Instagram, with Uswitch ranking Honda #3 overall and #1 in the non-luxury segment with over 46 million hashtags. Honda dealers can expect inventories in 2022 to remain tight as American Honda Motor Company's CEO, Dave Gardner, expects sales in 2022 to fall below 2021 due to inventory constraints. Honda has adjusted its financing and leasing incentives to customers, guaranteeing promotions at the time of purchase, even though promotions may not be available once the vehicle is delivered. Honda has announced a more cautious approach to electrification, targeting 100% of vehicles to be battery-electric or fuel cell electric vehicles by 2040. Honda expects these vehicles will make up 40% of all sales by 2030 and 80% by 2035. Despite discontinuing the plug-in hybrid and fuel-cell Clarity Sedan in 2021, Honda announced that between 2025 and 2030, the company will launch a new series of EV models, first being introduced in North America. Honda continues to work with General Motors on the strategic alliance in sharing an electric vehicle platform and is currently developing two large-sized EV models, including the Prologue Crossover, expected to be introduced in 2024. In March 2022, Honda also announced its plan to create a joint venture with Sony to develop and sell high value-added battery EVs and mobility services. Honda expects to post an operating profit of $6.95 billion for fiscal year-end March 31, 2022, a 21% increase over fiscal year-end March 2021. Lower incentive spending on US vehicles has helped improve profitability. Kerrigan Advisors is maintaining Honda's blue sky multiple and our outlook remains steady.

Kerrigan Advisors Blue Sky Multiple: 5.0 – 6.5 Multiple Outlook: Steady

SUBARU

Buyer demand for Subaru dealerships remains strong due to high customer loyalty and an attractively-sized dealer network. In Kerrigan Advisors' 2021 Dealer Survey, 93% of respondents indicated the value of the Subaru franchise would increase or remain the same, the second highest of any franchise, tied with Hyundai, Kia, Honda and Lexus, and up from 88% in 2020. In 2021, Subaru's market share decreased, the first time in the last ten years, by 32 basis points to 3.9%. Subaru commenced 2021 with the tightest inventory of all major manufacturers. Combining an already short supply of vehicles with significant production delays due to the microchip shortage caused Subaru to underperform the industry in sales and lose market share in 2021. Subaru inventory dropped to 5 days supply in December 2021 while orders for Subaru products soared. In the fourth quarter of 2021, unit sales decreased by 31.0% when compared to the fourth quarter of 2020, trailing the industry's decline by over 45%. Despite Subaru's lackluster performance in 2021, Subaru ranked the #3 non-luxury brand in NADA's Summer 2021 Dealer Attitude Survey and attained the #2 spot in the Winter 2021 survey, behind only Toyota. The OEM ranked below the industry average in J.D. Power's 2021 US Vehicle Dependability Study and J.D. Power's 2021 Initial Quality Study. Notwithstanding Subaru's quality challenges, the brand still has the highest loyalty in the non-luxury segment, once again ranking #1 in J.D. Power's 2021 Brand Loyalty Study and is the #1 brand in Consumer Reports' 2022 Brand Report Card. Subaru's WRX and Forester models also achieved top spots in J.D. Power's 2022 US ALG Residual Value Award for compact SUV and sportscar, respectively. Subaru's CEO Tomomi Nakamura's predicted it would take a year to recover from the current microchip shortage before inventory levels can normalize. In 2021, Subaru, in conjunction with its partnership with Toyota, announced its first joint product, the Solterra crossover EV, a twin to the Toyota bZ4x. Solterra is expected to go on sale in mid-2022. Subaru has followed other manufacturers in direct-to-consumer reservations, beginning with the Solterra, but has indicated that final orders, including pricing, financing, and availability will be between the consumer and the dealer. Subaru's commitment to battery electric is slower than other OEMs; however, the manufacturer has not changed its expectations of 40% of sales in 2030 to be electric vehicles. Subaru expects to post an operating profit of $868.9 million for fiscal year-end March 31, 2022, down 2.4% over fiscal year-end March 2021. Despite the manufacturer struggling to produce sufficient vehicles to meet demand, Subaru dealerships remain in high demand given Subaru's appropriately sized, highly profitable dealer network. Kerrigan Advisors is maintaining Subaru's blue sky multiple and our outlook is being reduced to steady from positive due to supply limitations.

Kerrigan Advisors Blue Sky Multiple: 5.0 – 6.5 Multiple Outlook: Steady

Buyer demand for Hyundai dealerships continues to rise as the franchise gains market share in the US. In Kerrigan Advisors' 2021 Dealer Survey, Hyundai had the 2nd highest expected valuation gain, with 48% of dealers expecting the franchise to increase in value, behind Toyota and tied with Kia, up from 24% in Kerrigan Advisors' 2020 Dealer Survey. The franchise also saw an impressive 17-percentage point reduction in those who expected the franchise value to decline. In 2021, Hyundai outperformed the overall industry once again, with an impressive increase in unit sales of 14.8%, despite the overall industry being up only 3.3%. Hyundai increased market share by 63 basis points to 4.9%, the highest level of market share the franchise has seen since 2011. In the fourth quarter of 2021, Hyundai continued to outperform, down 14.8% in unit sales when the overall industry was down 21.4%. Hyundai dealers remain optimistic with its 2022 sales prospects as Hyundai's parent company, Hyundai Motor Company, announced a 20% increase in forecasted North American sales in 2022. Hyundai, like its sister brand Kia, ranks highly in reliability, 3rd overall, behind Kia and Buick, in J.D. Power's 2022 Vehicle Dependability Study. Hyundai also ranks highly in residual value, with three top models (the most of any OEM), namely Kona EV, Kona, and Accent. Globally, Hyundai Motor Company plans to sell 1.7 million EVs in 2026, an increase of 700,000 units above its previous goal of 1 million EVs in 2025. Hyundai announced a $7.4 billion investment in an EV factory in the US and the manufacturer also plans to introduce a new global EV platform that will support 13 battery-electric models. Hyundai's first vehicle on the electric-only E-GMP platform, Ioniq 5, arrived in showrooms in early 2022; however, initial reports indicate that, unlike Kia's EV6, the Ioniq 5 is only available in 19 states, and not all Hyundai dealers in those states qualify to sell the EV, causing some dealer dissatisfaction. In efforts to combat the global shortage of microchips, Hyundai Motor North America President and CEO, José Muñoz, announced the manufacturer is exploring developing its own microchips. Hyundai Motor Company posted a record full-year operating profit of $5.59 billion for fiscal year-end December 31, 2021, a 179% increase over fiscal year-end December 31, 2020. Kerrigan Advisors is increasing Hyundai's blue sky multiple range this quarter by .25 due to rising buyer demand and its outlook is steady with this multiple change.

Kerrigan Advisors Blue Sky Multiple: 3.75 – 4.75 Multiple Outlook: Steady

Buyer demand for Kia dealerships rose considerably in 2021. In Kerrigan Advisors' 2021 Dealer Survey, Kia had the second highest expected valuation gain, with 48% of dealers expecting the franchise to increase in value, behind Toyota and tied with Hyundai, up from 22% in Kerrigan Advisors' 2020 Dealer Survey. Kia's 26-percentage point increase from 2020 was the highest increase of any franchise. The franchise also saw an impressive 16-percentage point reduction in those who expected the franchise value to decline. In 2021, Kia outperformed the overall industry once again with an impressive increase in unit sales of 19.7%, despite the overall industry being up only 3.3%. Kia increased market share by an impressive 64 basis points to 4.7%, the highest level of market share for the franchise on record. In the fourth quarter of 2021, Kia continued to outperform, down 7.5% in unit sales when the overall industry was down 21.4%. In 2021 Kia maintained its impressive shift in product mix to crossovers, with crossovers representing 53% of its sales. Kia dealers remain optimistic with its 2022 sales prospects as Kia's parent company, Hyundai Motor Company, announced a 20% increase in forecasted North American sales in 2022. Kia retained its #1 spot in J.D. Power's Vehicle Dependability Study for 2022 and Kia K5 and Telluride also reigned the top spots in J.D. Power's 2022 US ALG Residual Value Award for Midsize and Midsize 3-Row Seating, respectively. Kia's UIO counts per franchise continue to improve, but remain one of the lowest UIO counts per franchise, resulting in weaker service and parts sales, and greater exposure to the cyclicality of the new car market when compared to higher-value non-luxury brands. This remains the primary reason Kia franchises are valued below the leading import franchises despite high quality and attractively designed vehicles. With continued market share and sales gains, Kia dealers' fixed operations business should continue to improve. In 2021, Kia experienced strong growth in hybrid and battery-electric sales, up 97% from 2020. Kia's first vehicle on the electric-only E-GMP platform, EV6, arrived in showrooms in early 2022 and the recently unveiled EV9 concept (a large battery-electric crossover larger than Telluride) is expected to be the next vehicle to arrive on the E-GMP platform. Initial reports indicate that Kia dealers in the US are well-positioned to retail EVs, with 94% of Kia dealers having installed the necessary charging infrastructure. Kerrigan Advisors is increasing Kia's blue sky multiple range this quarter by .25 due to rising buyer demand for the franchise and its outlook is steady with this multiple change.

Kerrigan Advisors Blue Sky Multiple: 3.75 – 4.75 Multiple Outlook: Steady

Buyer demand for Chevrolet dealerships declined in the fourth quarter of 2021 in reaction to GM's rollout of several direct-to-consumer initiatives, including CarBravo, its online used car platform, an online parts sales program on its website, and announcements of future cloud revenue streams derived directly from the consumer. Dealers are increasingly skeptical about GM's plans for the future of their franchise model and concerned that earnings will decline as the OEM seeks to develop a direct-to-consumer model. In Kerrigan Advisors' 2021 Dealer Survey, Chevrolet again ranked behind Ford with only 31% of respondents expecting the value of Chevrolet to increase in 2022, compared to 38% for Ford. Chevrolet's market share decreased by 240 basis points to 9.4% in 2021, with unit sales down 17.7% when the overall industry was up 3.3%. Chevrolet's market share has decreased by 450 basis points over the last ten years. In the fourth quarter of 2021, Chevrolet's performance declined even further, down 45.2% in unit sales when the overall industry was down 21.4%. Chevrolet now has the lowest market share of the big-three domestic franchises. Chevrolet's poor sales performance in 2021 can be attributed to production cuts due to mismanagement of the microchip shortages. Equinox and Silverado unit sales, which have historically accounted for over 50% of total Chevrolet sales, were down by over 172,000 units. In AutoForecast Solutions' top ten microchip shortage volume impacted models, Chevrolet had two, the Equinox and the Malibu. Chevrolet's Tahoe took the top spot in J.D. Power's 2022 US ALG Residual Value Awards in the full-size SUV segment; however, the Tahoe, as well as the top-selling Suburban, face increasing competition in the full-size SUV segment from both domestic and import manufacturers. In 2021, General Motors announced its plans to increase its investment in electric vehicle technology by 75% to $35 billion through 2025, expecting to launch 30 EV models through 2025, including three electric Chevrolet and GMC crossovers. General Motors also announced a $7 billion investment into converting its assembly plant in Orion Township, Michigan to build the electric GMC Sierra and electric Chevrolet Silverado. In early 2022, Chevrolet announced it would introduce an all-electric Equinox, based on General Motor's Ultium platform. General Motors also announced a partnership with LG Energy Solution to build a new Ultium battery plant in Lansing, Michigan, positioning the manufacturer to develop over 1 million EVs through 2025 and 600,000 full-size pickup trucks. Despite significant setbacks in market share and below-average sales performance, General Motors posted a record full-year profit of nearly $10 billion, a 57.5% increase from 2020. Profits increased due to the production of higher-margin vehicles in 2021 and less incentive spending. Despite this increase, GM's market capitalization was surpassed by Ford for the first time in five years in 2021. Kerrigan Advisors is reducing Chevrolet's blue sky multiple to be in line with Ford's & CDJR's multiples and the brand's outlook is reduced to negative due to uncertainty regarding the future business model for the franchise.

Kerrigan Advisors Blue Sky Multiple: 3.5 – 4.5 Multiple Outlook: Negative

Buyer demand for Ford dealerships improved in 2021; however, recently declined with the announcement of Ford's planned electric vehicle dealer network based upon an agency model, as well as the new requirement to finance with Ford Motor Credit in order to receive floorplan credits in the future. These announcements coupled with dealer discontent over the Express Buy program and alarming recent remarks by CEO, Jim Farley, about the legacy franchise model holding back the company's success, have called into question the future of the franchise model at Ford. Ford also announced it would reduce vehicle allocation to dealers who price over MSRP, another challenge for dealers given Ford's production levels in 2022. In Kerrigan Advisors' 2021 Dealer Survey, Ford was the top domestic franchise with 38% of dealers expecting the franchise to increase in value, though 15% of respondents also believed the franchise would decrease in value, a higher percentage than Chevrolet at 13%. Ford's market share decreased by 125 basis points to 12% in 2021, with unit sales down 6.5% when the overall industry was up 3.3%. 2021 marks the fourth consecutive year of market share declines for the brand. In the fourth quarter of 2021, Ford's performance improved dramatically, outperforming the industry, down 4.8% in unit sales when the overall industry was down 21.4%. Ford's strong fourth-quarter performance can be primarily attributed to its wildly successful and recently introduced Bronco and Bronco Sport models. In J.D. Power's 2022 U.S. ALG Residual Value Awards, Ford Bronco achieved the top spot in its Off-Road Utility Segment. Ford Bronco also won 2022's North American Utility Vehicle of the Year Award and Maverick, Ford's new compact pickup, won the 2022 North American Truck of the Year Award. Ford's F-series truck remains the #1 sold vehicle in the US for the 40th year in a row; however, the microchip shortage severely impacted F-series sales with AutoForecast Solutions ranking it the most impacted model. Ford also had four other models in the top ten most affected in AutoForecast Solution's ranking, indicating Ford has been one of the hardest-hit manufacturers in the industry by the microchip shortage (Recently, Ford announced no new vehicle allocation until May 2022). Ford's strong SUV and truck lineup includes the much-anticipated battery-electric F-150 Lightning. The manufacturer was forced to cap retail orders for Lightning, even after expanding its retail production volume from 150,000 to 200,000 units by mid-2023. The F-150 lightning will be the first affordable electric pick-up on the market and Ford's CEO, Jim Farley, indicated that 70% of the retail orders are from customers new to the brand and to pickups. Ford announced its plans to become the second-largest manufacturer of EV's in the U.S. by the end of 2023, behind Tesla, and expects an EV production capacity of 600,000 units globally during the same period. This announcement comes while Ford canceled its plans to jointly develop an EV with Rivian Automotive, despite owning 12% of the manufacturer. Ford's electrification plan includes a $30 billion investment through 2025 and expects 40% of its vehicles sold will be electrified by 2030. Despite losing market share in 2021, Ford posted a profit of $17.9 billion in 2021, up from a $1.3 billion loss in 2020 (including an $8.2 billion gain on its Rivian investment). 2021 earnings included a $7.4 billion profit in North America, its best performance since 2017. Ford dealers remain concerned with the manufacturer's commitment to Ford Express Buy, an online-only order-based purchasing system (the only way to purchase a Mustang Mach-E). Ford announced it expects to roll out this system to more of its models, potentially bypassing the dealer. Despite strong demand for Ford trucks, Ford announced a flurry of plant closures in early 2022 due to continued struggles with microchip shortages. Kerrigan Advisors is maintaining Ford's blue sky multiple and the brand's outlook is being downgraded to negative due to the uncertainty surrounding the future franchise model.

Kerrigan Advisors Blue Sky Multiple: 3.5 – 4.5 Multiple Outlook: Negative

Buyer demand for CDJR franchises remained steady in 2021. In Kerrigan Advisors' 2021 Dealer Survey, CDJR saw improvement, with 27% of respondents indicating the value of the CDJR franchises would increase in value, up from 17% in 2020, though trailing Ford and Chevrolet. The franchise also saw an impressive 15 percentage point reduction in those who expected the franchise value to decline. Despite the more positive outlook on valuation, CDJR's market share decreased by 67 basis points to 11.7% in 2021, with unit sales down 2.3% when the overall industry was up 3.3%. 2021 marks the 3rd consecutive year of market share declines for the brand, though CDJR did outperform Ford and Chevrolet's market share declines last year. In the fourth quarter of 2021, CDJR's performance improved slightly, down 17.3% in unit sales when the overall industry was down 21.4%. CDJR, like the other domestic brands, was one of the hardest hit from the microchip shortage in 2021, with three of the top 10 most affected models (Cherokee, Compass & Voyager) on AutoForecast's list of most impacted models. CDJR's parent company, Stellantis, announced it lost 30% of its production volume due to the chip shortage. CDJR is a mixed bag when it comes to quality with Ram ranking #1 in J.D. Power's 2021 US Initial Quality Study, and Chrysler ranking last amongst all brands. In Consumer Reports 2022 Brand Ranking, Jeep ranked poorly, taking last place out of 32 brands. Dodge and Chrysler also rank poorly in Loyalty, taking the bottom two spots in J.D. Power's 2021 US Brand Loyalty Study amongst non-luxury franchises. Stellantis continues its plan to take the Jeep brand upmarket, announcing larger, more luxurious versions of the Jeep Wagoneer and Grand Wagoneer, while also requiring additional facility investments by dealers to attain allocation. Dodge announced a new 2-year business plan named Never Lift, a plan to debut a new product every 3 months, and also introduced Power Brokers, a dealer certification program to sell exclusive upgrades and parts for its products. Stellantis is investing heavily in the electrification of its vehicles, announcing a $35.6 billion investment plan through 2025 in electrification technologies and alliances with Amazon and Foxconn to accelerate the development of software and semiconductors for future connected vehicles. The manufacturer expects 40% of its sales in the US will be low emission vehicles by 2030. Stellantis posted a profit of $15.2 billion in 2021, tripling previous earnings and revenue increased 14% to $172.4 billion. Stellantis also completed its acquisition of First Investors for $285M, its first step in creating a US captive finance company for the US. Kerrigan Advisors is maintaining CDJR's blue sky multiple range, and the brand's outlook is downgraded from positive to steady due to CDJR's continued decline in market share.

Kerrigan Advisors Blue Sky Multiple: 3.5 – 4.5 Multiple Outlook: Steady

Buyer demand for Nissan dealerships improved dramatically in 2021 after years of declines. In Kerrigan Advisors' 2021 Dealer Survey, 22% of respondents indicated they expect the value of the Nissan franchise to increase in value, a significant increase from a mere 8% of respondents in 2020. Dealer sentiment towards the brand is improving, with the brand making strides in NADA's Winter 2021 Dealer Attitude Survey, ranking 15th, a 10-place improvement from Winter 2020. In 2021, Nissan's market share increased by 48 basis points to 6.1%, a positive sign for the brand. In 2021, Nissan unit sales were up 12.1% when the overall industry was down 3.3%. Nissan's sales per franchise rose to 857, approaching Hyundai's and Kia's 2021 sales per franchise, a dramatic improvement from 763 in 2020. Globally, Nissan announced Nissan Ambition 2030, a long-term plan to invest $18 billion in the next five years into battery electric vehicles. The brand expects 15 new electric vehicles by 2030, the development of a solid-state battery by 2028, and 40% of Nissan vehicles sold in the US to be battery-electric by 2031. As part of Nissan's long-term EV plan, Nissan expects to manufacture two new electric sedans in its Canton, Mississippi plant by 2025. Nissan announced a $500 million investment to transform the Canton, Mississippi plant to an EV center for manufacturing and technology. Nissan plans to begin taking preorders for its battery-electric Ariya crossover in the fall of 2022, although pricing and dealer involvement in the sale process has not yet been announced. Nissan Motor Company expects an operating profit of $1.82 billion in its fiscal year ending March 2022 compared to an operating loss of $1.38 billion in 2020. Nissan dealers report a dramatic improvement in sales incentive programs, rising profitability, and enhanced dealer relations. Kerrigan Advisors is increasing Nissan's blue sky multiple range this quarter and the brand's outlook is moved to steady.

Kerrigan Advisors Blue Sky Multiple: 3.0 – 4.0 Multiple Outlook: Steady

Buyer demand for Buick GMC dealerships remains low due to uncertainty surrounding GM's plans for direct-to-consumer sales as demonstrated by its recent launch of online parts sales and CarBravo, GM's used car online platform. In Kerrigan Advisors' 2021 Dealer Survey, 23% of respondents indicated the value of Buick GMC franchises would increase, below the industry average of 31%. In 2021, the combined franchises on average sold 335 vehicles per dealership, the lowest of the non-luxury franchises. Buick GMC's market share decreased by 14 basis points to 4.5% in 2021, with unit sales down 2.3% when the overall industry was up 3.3%. In the fourth quarter of 2021, Buick GMC's performance declined even further, down 37.1% in unit sales when the overall industry was down 21.4%. These sales declines are attributed primarily to the chip shortage, which dramatically reduced Buick GMC inventories. Buick's products rank highly in reliability, 2nd overall, behind only Kia in J.D. Power's 2022 Vehicle Dependability Study. In J.D. Power's 2022 US ALG Residual Value Awards, GMC's Sierra HD received the top spot in full-size heavy-duty pickups. Even with high residual values in GMC's best-selling product, GMC ranked second to last in Consumer Reports 2022 Brand Report Card. Buick GMC dealers are cautiously optimistic for the introduction of the all-electric GMC Hummer EV Pickup, which is expected to go on sale in 2022, and the GMC Hummer EV SUV to follow in 2023; however, as dealers are skeptical regarding the proposed online order system. In 2021, General Motors announced plans to increase its investment in electric vehicle technology by 75% to $35 billion through 2025, expecting to launch 30 EV models through 2025, including electric GMC crossovers. Kerrigan Advisors is maintaining its current blue sky multiples for Buick GMC and downgrading the brand's outlook to negative from positive due to low buyer demand as a result of the uncertainty surrounding GM's future plans for its franchise business model.

Kerrigan Advisors Blue Sky Multiple: 2.5 – 3.5 Multiple Outlook: Negative

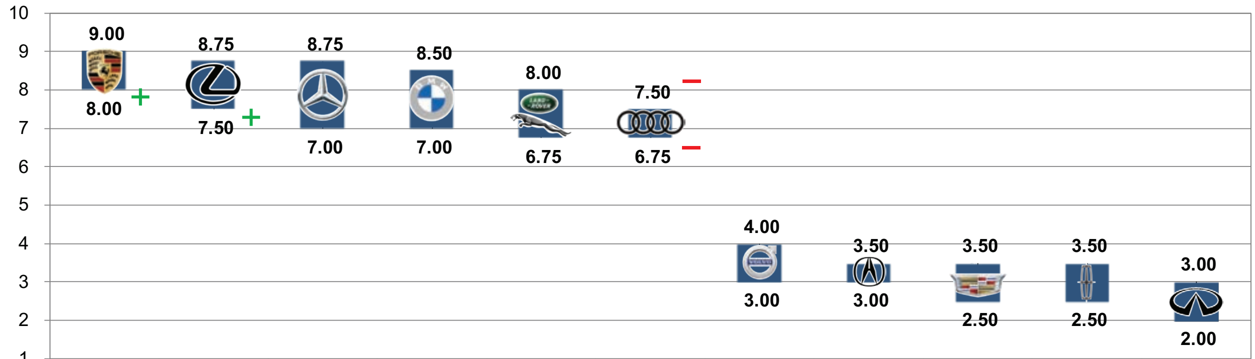
Buyer demand for Volkswagen (VW) dealerships remains low. In Kerrigan Advisors' 2021 Dealer Survey, 24% of respondents indicated the value of the VW franchise would increase, below the market average. VW also has the 3rd highest negative outlook of all non-luxury franchises in Kerrigan Advisors 2021 Dealer Survey with 16% of respondents expecting a decline in value in 2022. In 2021, VW outperformed the overall industry once again, with an impressive increase in unit sales of 15.1%, despite the overall industry being up only 3.3%. VW increased market share by 26 basis points to 2.5%, the highest level of market share seen since 2013 with 2021 marking its 5th consecutive year of increasing market share. In the fourth quarter of 2021, VW continued to outperform, down 10.6% in unit sales when the overall industry was down 21.4%. VW's market share gains in 2021 can be attributed to its strong performance with Taos, a newly introduced small crossover, and ID4, its first battery-electric vehicle built in Tennessee. Even with improved market share, VW's sales per franchise remains one of the lowest amongst the non-luxury franchises, resulting in weak fixed operations revenue and highly variable dealership profitability. The brand continues to struggle with quality issues, ranking second to last in J.D. Power's 2021 US Initial Quality Study. VW's highly anticipated ID Buzz, a retro-styled battery-electric microbus, is expected to arrive in 2023 and its commitment to a battery-electric vehicle future is evident by its plan to invest over $100 billion in battery electric technology over the next five years. VW expects 50% of its vehicles will be battery-electric by 2030 and nearly 100% will be zero-emissions by 2040 in major markets. Despite improved sales in 2021, VW expects inventory availability to remain challenged in 2022 due to supply disruption from the war in Ukraine, limited chip availability, and the recent sinking of a large container ship. Kerrigan Advisors is maintaining VW's blue sky multiples this quarter and our outlook remains steady.

Kerrigan Advisors Blue Sky Multiple: 2.5 – 3.5 Multiple Outlook: Steady

Buyer demand for the Mazda franchise remains low due to the franchise's lower sales per franchise and UIO count per dealership resulting in low fixed operations revenue. This coupled with its expensive facility requirements results in less buyer interest for the franchise. In Kerrigan Advisors' 2021 Dealer Survey, only 23% of respondents expect the value of the Mazda franchise to increase, below the industry's average. Mazda still has the 2nd highest negative outlook of all non-luxury franchises in Kerrigan Advisors 2021 Dealer Survey with 23% of respondents expecting the franchise to decline in value in 2022. Despite weak valuation expectations, Mazda outperformed the overall industry once again in 2021, with an impressive increase in unit sales of 19.2%. Mazda increased market share by 29 basis points to 2.2%, the highest level of market share seen in more than 14 years. In the fourth quarter of 2021, Mazda's performance was in-line with the industry, down 21.7% in unit sales when the overall industry was down 21.4%. The increase in unit sales in 2021 can be attributed to a full year of sales of the CX-30, a crossover version of the top-selling Mazda 3. For 2022, Mazda expects continued strong performance with its introduction of the CX-50, a midsize crossover specifically designed for the US market. Production of the CX-50 commenced in January 2022 in Mazda's Huntsville, Alabama assembly plant, where the company has partnered with Toyota. In addition to the CX-50, Mazda also announced four additional large crossovers, CX-60, CX-70, CX-80, and CX-90, all of which are expected to be introduced within the next two years. In Consumer Reports' 2022 Brand Report Card, Mazda ranked 2nd overall and 1st in Reliability. In 2021, Mazda announced its plan to have some form of electrification in all of its vehicles by 2030 and expects to introduce 10 new hybrid and plug-in hybrid models as well as three battery electric vehicles in the next three years. Mazda MX-30 will be the brand's first plug-in hybrid and battery electric model arriving in 2022. Mazda Motor Corporation expects to post an operating profit of $738 million for fiscal year-end March 31, 2022, an 830% increase over fiscal year-end March 2021. Kerrigan Advisors is maintaining its current blue sky multiple for Mazda and the brand's outlook remains steady.

Kerrigan Advisors Blue Sky Multiple: 2.5 – 3.5 Multiple Outlook: Steady

Chart 46 | Kerrigan Advisors' Fourth Quarter 2021 Blue Sky Multiples & Analysis: Luxury



	Porsche	Lexus	Mercedes-Benz	BMW	Jaguar Land Rover	Audi	Volvo	Acura	Cadillac	Lincoln	Infiniti
High	9.00	8.75	8.75	8.50	8.00	7.50	4.00	3.50	3.50	3.50	3.00
Average	8.50	8.13	7.88	7.75	7.38	7.13	3.50	3.25	3.00	3.00	2.50
Low	8.00	7.50	7.00	7.00	6.75	6.75	3.00	3.00	2.50	2.50	2.00

Franchise	Buyer Demand	Change in Sales* 2021 vs. 2020	Sales Per Franchise** 2021	Average Dealership Profitability Last Three Years	Buy/Sell Market Share** 2021	Moody's Credit Rating	Multiple Outlook
PORSCHE	High	+22.2%	361	Highest in Industry	1.4%	A3	Steady
LEXUS	High	+10.7%	1,253	Consistently High	1.3%	A1	Steady
Mercedes-Benz	High	+1.1%	861	Consistently High	3.0%	A3	Steady
BMW	High	+20.8%	959	Consistently High	2.3%	A2	Positive
LAND ROVER JAGUAR	High	LR +13.7% Jag -21.9%	LR 467 Jag 91	Consistently High	1.6%	B1	Steady
Audi	Average	+5.0%	645	Variable	2.8%	A3	Steady
VOLVO	Low	+10.9%	435	Improving	0.8%	A2	Steady
ACURA	Low	+14.9%	583	Improving	0.7%	A3	Steady
Cadillac	Low	-8.6%	211	Consistently Low	2.8%	Baa3	Steady
LINCOLN	Low	-17.5%	127	Consistently Low	1.8%	Ba2	Steady
INFINITI	Low	-26.4%	290	Consistently Low	0.4%	Baa3	Negative

Source: Kerrigan Advisors' Analysis, Automotive News, Moody's, The Banks Report
**Green = overperformance of industry average; red = underperformance of industry average*
***Green = improvement as compared to 2020; red = decline as compared to 2020*

PORSCHE

Porsche remains the most sought-after luxury franchise in the US and continues to command record valuations in 2021. In Kerrigan Advisors' 2021 Dealer Survey, 40% of dealers surveyed expect the franchise to increase in value, the 2nd strongest outlook of any luxury franchise, behind Lexus. This is despite the franchise already being the most highly valued in the industry. The limited number of Porsche franchises in the US (194) along with the OEM's historical inventory discipline results in consistently profitable and valuable franchises. In 2021, Porsche outperformed the overall industry once again, with an impressive increase in unit sales of 22.2%, despite the overall industry being up only 3.3%. Porsche increased market share by an impressive 7 basis points to 0.46%, the highest level of market share the franchise has ever seen. In the fourth quarter of 2021, Porsche continued to significantly outperform, up 4.8% in unit sales when the overall industry was down 21.4%. Porsche ranks very high in loyalty, taking the #2 spot in J.D. Power's 2021 US Automotive Brand Loyalty Study and also receives high marks in reliability, ranking #2 amongst luxury brands in J.D. Power's 2022 Vehicle Dependability Study. In J.D. Power's 2022 US ALG Residual Value Awards, the 911 Carrera received the top spot in the Premium Sportscar segment. Dealers remain pleased with the franchise, ranking as the 2nd highest luxury brand in NADA's Summer and Winter 2021 Dealer Attitude Survey. In 2021, Porsche announced its intention to appeal to younger consumers by adding boutique retail locations throughout its dealer network, labeled Porsche Studios. Porsche Studios will be in high-traffic, high-end retail locations, staffed by product specialists, not salespeople. Porsche continues to expand its electric vehicle product offerings after great success with the Taycan, which accounted for 13.5% of total Porsche vehicles sold in 2021. Porsche plans to launch the electric Macan in late 2022 with the electric 718 Cayman and 718 Boxster to follow. Porsche's electric Macan will be its first model to use its new Premium Platform Electric (PPE), which will be shared with Audi. In early 2021, Porsche announced plans to invest $18.1 billion in electric vehicle technology over the next five years and expects 80% of Porsche vehicles sold by 2030 to be either electric-only or a hybrid variant. Porsche also announced a joint-venture with Cellforce Group GmbH in Germany to develop and produce high-performance battery cells at Porsche's Weissach Development Centre. Porsche is one of a few manufacturers that will continue to develop internal combustion engines, believing their customers appreciate the legacy technology. VW Group, Porsche's parent company, announced it has entered into a framework agreement to explore a possible IPO of Porsche, offering 25% of the company's preferred stock, which could happen in the fourth quarter of 2022. Bloomberg Intelligence estimated the value of Porsche at as much as $95.3 billion. In early 2022, Porsche announced to its dealers it will allow dealers with limited space to add satellite service centers, as the brand attempts to expand service capacity given its strong growth in recent years. While Porsche's unit sales only account for 3% of total vehicles sold by VW Group, one-third of VW Group's 2021 profits were derived from Porsche. During the first 9 months of 2021, Porsche posted a profit of $3.96 billion, a 78.4% increase from $2.2 billion during the same period in 2020. Kerrigan Advisors is increasing Porsche's blue sky multiple this quarter and our outlook for the franchise remains steady.

Kerrigan Advisors Blue Sky Multiple: 8.0 – 9.0 Multiple Outlook: Steady

LEXUS

Buyer demand for Lexus remains high. Lexus is one of the most sought after and valuable franchises in the industry in large part due to Toyota's partnership business model with its dealer network. Lexus dealerships have the highest sales per franchise and UIO counts of all luxury franchises. This is due to its low franchise count (243), which renders Lexus dealerships consistently profitable with high fixed operations revenue. In Kerrigan Advisors' 2021 Dealer Survey, 43% of dealers surveyed expect the Lexus franchise to increase in value, the strongest outlook of any luxury franchise. The franchise also has one of the lowest negative outlooks with only 7% of dealers expecting the franchise to decrease in value, down from 16% in 2020. In 2021, Lexus outperformed the overall industry once again, with an impressive increase in unit sales of 10.7%, despite the overall industry being up only 3.3%. Lexus increased market share by an impressive 13 basis points to 2.02%, the highest level of market share since 2009. Despite the strong full year performance, Lexus trailed the industry's performance in the fourth quarter of 2021, down 29.4% in unit sales when the overall industry was down 21.4%. While Lexus remains the 3rd highest-selling luxury brand in the US, behind BMW and Tesla, the brand has the most satisfied dealers and is the most supportive OEM of its dealer network. Lexus retained its #1 ranking in NADA's 2021 Dealer Attitude Survey, maintaining the top spot in both the summer and winter surveys. Lexus also has the highest brand loyalty in the luxury segment, maintaining the top spot in J.D. Power's 2021 Brand Loyalty Study. The franchise also ranks high in residual values and reliability, earning the #1 Premium brand in J.D. Power's 2022 US ALG Residual Value Awards and the 2nd highest ranking amongst luxury brands in J.D. Power's 2022 Vehicle Dependability Study. Lexus is also the 2nd highest ranked luxury brand in Consumer Reports' 2022 Brand Report Card. In 2021, Toyota Motor Company, Lexus's parent company, announced its plan to spend $70 billion in electrification technology. In 2021, Toyota Motor Company CEO, Akio Toyoda, announced that Lexus's plan is to have a full lineup of battery electric vehicles by 2030, and battery electric vehicles will make up 100% of global sales by 2035. Toyota Motor Company expects to post record annual operating profits for fiscal year-end March 31, 2022 of $24.33 billion. Lexus is very well positioned to continue its legacy as one of the most sought after luxury franchises in the US and is expected to weather the supply chain challenge better than most franchises in 2022. Kerrigan Advisors is improving Lexus' low-end blue sky multiple from 7.0 to 7.5 and, with this change, our outlook remains steady.

Kerrigan Advisors Blue Sky Multiple: 7.5 – 8.75 Multiple Outlook: Steady

Mercedes-Benz

Mercedes-Benz dealerships remain in high demand, despite a more challenging year due to the significant impact of the chip crisis on Mercedes' US sales in 2021. In Kerrigan Advisors' 2021 Dealer Survey, 38% of dealers expect the value of the Mercedes franchise to increase in 2022 compared to 26% in 2020. In 2021, Mercedes-Benz's unit sales were up 1.1%, despite the overall industry being up 3.3%. As a result, Mercedes's market share decreased by 5 basis points last year to 2.2% and the franchise dropped from the 2nd highest volume luxury brand in 2020 to the 4th in 2021, behind Tesla, Lexus, and BMW. In the fourth quarter of 2021, Mercedes' performance improved slightly, outperforming the industry with a unit sales decline of 20.2% when the overall industry was down 21.4%. Despite unit sales being down in the fourth quarter, Mercedes expects luxury sales to increase 10% globally as it works through its microchip supply challenges and improves inventory availability. Mercedes ranks high in loyalty, taking the #3 spot in J.D. Power's 2021 US Automotive Brand Loyalty Study. In J.D. Power's 2022 US ALG Residual Value Awards, Mercedes-Benz AMG GT 4-Door and Mercedes-Benz Metris received the top spots in the Premium Executive and Commercial Van segments. In 2021, Mercedes lost its #1 spot as the most valuable luxury car brand to Tesla, according to BrandZ Top 100 Most Valuable Global Brands. That said, Mercedes is one of the most discussed luxury brands on social media with an audience of 6.98 billion, the 2nd highest audience behind Tesla, and ranked 2nd (behind Tesla) amongst luxury brands in the 2021 US Automotive Social Intelligence Update. In 2021, Mercedes introduced its flagship electric vehicle, EQS. The EQS is the first vehicle on Mercedes-Benz's new electric-vehicle platform, EVA2, which will also underpin the EQS SUV and the smaller EQE and EQE SUV. Mercedes's next-generation electric-vehicle platform, MMA, is already underway as the manufacturer has announced that after 2025 all newly launched vehicle platforms will be electric-only, and customers will also have an electric-only option for every legacy model available. In late 2021, Mercedes announced a $68 billion investment plan through 2026 for electrification of its vehicle fleet. Mercedes-Benz Group posted a $14.2 billion EBIT from continuing operations for fiscal-year end December 31, 2021, up 162% from 2020. Kerrigan Advisors is maintaining Mercedes-Benz's blue sky multiple range and our outlook for the brand remains steady.

Kerrigan Advisors Blue Sky Multiple: 7.0 – 8.75 Multiple Outlook: Steady

Buyer demand for BMW franchises remains high as the franchise outperformed the luxury market in 2021. In Kerrigan Advisors' 2021 Dealer Survey, BMW's positive outlook was strong, with 38% of dealers expecting the value of the franchise to increase in value, compared to 22% in 2020. The franchise also has one of the lowest negative outlooks with only 7% of dealers expecting the franchise to decrease in value, down from 15% in 2020. In 2021, BMW outperformed the overall industry, with an impressive increase in unit sales of 20.8%, despite the overall industry being up only 3.3%, facilitating an increase in market share of an impressive 32 basis points to 2.24%, the highest level of market share the franchise has ever seen. In the fourth quarter of 2021, BMW continued to outperform, down 5.8% in unit sales when the overall industry was down 21.4%. In 2021, BMW managed to fend-off Tesla, retaining the #1 spot for the best-selling luxury brand in the US and outselling Tesla by approximately 23,000 units. That being said, if Tesla continues to grow at its current growth rate, it will outsell BMW in 2022 and obtain the luxury sales crown. BMW continues to rank highly in loyalty, taking the #3 spot in J.D. Power's 2021 US Automotive Brand Loyalty Study. In J.D. Power's 2022 US ALG Residual Value Awards, BMW's 2 Series received the top spot in the Premium Compact segment. BMW remains one of the most desirable luxury brands, taking the #1 spot amongst luxury brands in Consumer Reports' 2022 Brand Report Card, ahead of Lexus.

BMW is one of the most discussed luxury brands on social media with an audience of 5.01 billion, the 3rd highest audience behind Tesla and Mercedes. BMW is one of the few manufacturers that has yet to announce specific spending levels on electrification. Despite this, BMW announced its plans to double its battery-electric vehicle sales in 2022 and announced it will release a fully electric 7 series and X1 with 5-series added in 2023. The manufacturer expects to have a battery-electric option in 90% of its current market segments by 2023. BMW raised its earnings guidance for the full year 2021 and its profit margin forecast to between 9.5% and 10.5%, from its previous expectations of between 7% and 9%, stating that improved margins have offset reduced global unit sales caused by microchip shortages. Kerrigan Advisors is maintaining BMW's blue sky multiple and our outlook has changed from steady to positive due to the brand's strong performance in 2021.

Kerrigan Advisors Blue Sky Multiple: 7.0 – 8.5 Multiple Outlook: Positive

Buyer demand for Jaguar Land Rover (JLR) remains strong. That said, dealers are frustrated by JLR's lack of near-term product for Jaguar and the company's abrupt decision to put its image program on hold after requiring most of the network to build one of the most expensive image facilities in the industry. In Kerrigan Advisors' 2021 Dealer Survey, 23% of dealers indicated the value of the franchise would increase, up from 13% in 2020. However, the franchise still has a relatively high negative valuation outlook, with 23% of dealers indicating the value of the franchise would decrease, down only slightly from 27% in 2020. In 2021, JLR outperformed the overall industry, with an increase in unit sales of 6.1%, despite the overall industry being up only 3.3%. JLR increased market share by 2 basis points to 0.73%. In the fourth quarter of 2021, JLR continued to significantly outperform the market, up 8.3% in unit sales when the overall industry was down 21.4%. The franchise's strong 2021 sales performance can be attributed exclusively to Land Rover unit sales, up 13.7% as compared to Jaguar's decline of 21.9%. JLR continues to have significant reliability issues with Land Rover once again ranking last in J.D. Power's 2022 Vehicle Dependability Study. Land Rover also ranked as the worst luxury brand in Consumer Reports' 2022 Brand Report Card, 29th out of 32 brands overall. Despite continued reliability issues and a poor Consumer Report ranking, Land Rover products remain in high demand due to styling and luxury appeal. In J.D. Power's 2022 US ALG Residual Value Awards, Land Rover's Range Rover Velar and Discovery models received the top spots in the Premium Midsize Utility 2-Row Seating and Premium Midsize Utility 3-Row Seating segments, respectively. Land Rover announced the next-generation Range Rover will be moving even further upmarket, competing with exotic brand SUVs and the manufacturer will launch an even bigger Defender, 3-row Defender 130. In early 2021, JLR announced it will be spending $3.5 billion annually on electrification and related technologies and expects Jaguar will become an electric-only brand as early as 2025. Land Rover is set to launch six fully electric vehicles in the next five years, with its first electric vehicle debuting in 2024, and has plans to be fully electric by 2030. Land Rover vehicles continue to command some of the highest gross profits per vehicle in the industry and JLR dealerships benefit from very strong service absorption due to a high level of warranty work, resulting in consistently high dealership profitability. Jaguar Land Rover's corporate profitability trailed the industry, with the manufacturer posting a $11.8 million pre-tax loss in the three months ending December 31, 2021, compared to a $577 million pre-tax profit for the same period in 2020. JLR attributes the loss to the microchip shortage, which is restricting profitability due to a decline in global retail sales, down 36.6% in the three months ending December 31, 2021, compared to the same period in 2020. Kerrigan Advisors is maintaining JLR's blue sky multiple range this quarter and its multiple outlook remains steady.

Kerrigan Advisors Blue Sky Multiple: 6.75 – 8.0 Multiple Outlook: Steady

Buyer demand for Audi remains below the top luxury franchises. In Kerrigan Advisors' 2021 Dealer Survey, Audi ranked 5th amongst the luxury franchises in terms of expected increases in value in 2022, below the luxury average, and had the second highest negative value expectations (13% of respondents expect the value of the Audi franchise to decline in 2022). In 2021, Audi outperformed the overall industry with an increase in unit sales of 5.0%, despite the overall industry being up only 3.3%. That said, in the fourth quarter of 2021, Audi's sales performance severely underperformed the industry, down 46.9% when the overall industry was down 21.4%. This decline is attributed to extreme supply chain challenges due to microchip shortages. Audi continues to have significant quality issues, ranking last amongst luxury brands in J.D. Power's 2021 US Initial Quality Study. Despite weak performance in quality, Audi retained its brand loyalty ranking as the #5 luxury brand in J.D. Power's 2021 Brand Loyalty. Audi also ranked high in Consumer Reports 2022 Brand Report Card, taking

3rd place amongst luxury brands. Residual values for Audi also fared well, with the A6 Allroad and Q3 models receiving the top spots in the Premium Fullsize and Premium Subcompact Utility segments, respectively, in J.D. Power's 2022 US ALG Residual Value Awards. In early 2021, Audi set a target of 30 electrified vehicles by 2025, with 20 being electric-only. Audi currently offers three electric vehicles, e-tron, e-tron Sportback and e-tron GT. Two additional models, Q4 e-tron and Q4 e-tron Sportback, are expected to arrive later in 2022 and will be based on VW Group's new MEB platform, an electric vehicle platform it shares with VW. Audi also announced it will introduce A6 Avant e-tron, its first model to use its new Premium Platform Electric (PPE), which will be shared with Porsche. Kerrigan Advisors reduced Audi's low-end multiple from 7.0 to 6.75 and high-end multiple from 8.0 to 7.5, and with this change, our outlook for the brand is steady.
Kerrigan Advisors Blue Sky Multiple: 6.75 – 7.5 Multiple Outlook: Steady

Buyer demand for Volvo franchises is low given its planned move to an online-only, one-price sales model in the near future and its low sales per franchise. In Kerrigan Advisors' 2021 Dealer Survey, 29% of dealers indicated the value of the Volvo franchise would decrease in 2022, the fifth-highest negative outlook of all brands and tied with Cadillac. In Kerrigan Advisors' 2021 Dealer Survey, 20% of respondents indicated they expect the value of the Volvo franchise to increase, below the industry average. In 2021, Volvo outperformed the industry with unit sales up 10.9%, while the industry was up 3.3%. Volvo's market share increased by 6 basis points in 2021 to 0.81%, the highest market share for the franchise in at least 13 years. Volvo's improved 2021 sales performance can be attributed to the strong performance of Volvo SUVs, with the XC60 posting an annual sales increase of 29.6%. Regardless of Volvo's solid full year 2021 sales performance, in the fourth quarter of 2021, Volvo unit sales were down 26.6% when the overall industry was down 21.4%. Volvo continues to struggle with production given the microchip shortage. Despite the strong performance in its SUV lineup, Volvo ranks at the bottom of the pack in reliability and quality, coming in 2nd to last amongst luxury brands in both J.D. Power's 2022 Vehicle Dependability Study and J.D. Power's 2021 Initial Quality Study. Volvo was one of the first manufacturers to announce its intent to exclusively produce electric vehicles and plans to achieve this goal by 2030. The brand plans to introduce five battery-electric and two plug-in hybrids over the next five years and told dealers to expect throughput to double to 800 vehicles annually per dealership. The manufacturer also announced it will experiment with a "central stock" distribution model, whereby Volvo would deliver customer-ordered vehicles to its dealers. This initiative was initially planned for the 2022 XC40 Recharge; however, due to inventory shortages, the initiative has been delayed until the 2023 model year or later. In 2021, Volvo quietly began shifting its all-electric Polestar brand from a manufacturer direct model to a traditional dealer model, though the company continues to discuss a future agency model for its products, which concerns dealers. Volvo posted a record operating profit of $2.2 billion in 2021, up 283% from 2020. Kerrigan Advisors is maintaining Volvo's blue sky multiple and the brand's outlook remains steady.
Kerrigan Advisors Blue Sky Multiple: 3.0 – 4.0 Multiple Outlook: Steady

Buyer demand for Acura remains low due to the brand's low sales per franchise and new image facility demands. In Kerrigan Advisors' 2021 Dealer Survey, 36% of dealers indicated the value of the Acura franchise will decline in 2022, the second-highest negative outlook of all brands. Only 12% of dealers in Kerrigan Advisors' 2021 Dealer Survey indicated the value of the franchise would increase, the 2nd lowest positive outlook of all brands, although up from 5% in 2020. In 2021, Acura outperformed the industry with unit sales up 14.9%, while the industry was up 3.3%. Acura's market share increased by 11 basis points in 2021 to 1.05%, the highest market share since 2013. Acura's improved 2021 sales performance can be attributed to strong performance in SUV sales with the redesigned 2022 MDX posting an annual sales record of over 60,000 units. Despite a strong full year 2021 sales performance, in the fourth quarter of 2021, Acura unit sales were down 26.3% when the overall industry was down 21.4%, as Acura struggles with production given the microchip shortage. In 2021, Acura announced the re-introduction of the Integra nameplate after a 20-year absence. Acura's parent company, Honda Motor Co., has announced a more cautious approach to electrification, targeting 100% of vehicles will either be battery-electric or fuel cell electric by 2040. Acura expects these vehicles will make up more than 50% of all sales by 2030 and may exceed 60%. In 2021, Honda Motor Co. announced that beginning in the second half of the 2020 decade, the company will launch a new series of electric vehicle models with the first ones being introduced in North America. Honda Motor Co. continues to work with General Motors on the strategic alliance in sharing an electric vehicle platform and is currently developing two large-sized EV models, including the ADX crossover, Acura's version of the Honda Prologue, expected to be introduced in 2024. Kerrigan Advisors is maintaining Acura's blue sky multiple range and the brand's outlook remains steady.

Kerrigan Advisors Blue Sky Multiple: 3.0 – 3.5 Multiple Outlook: Steady

Buyer demand for Cadillac franchises remains low due to the franchise's continued decline in market share and low sales per franchise—still one of the lowest in the industry despite the decline in franchise count. Cadillac's new image program is also a drag on the franchise's value, as most dealers view a facility investment in Cadillac as uneconomic. In Kerrigan Advisors' 2021 Dealer Survey, 21% of respondents indicated they expect the value of the Cadillac franchise to increase in value, a significant improvement from 2020; however, below the industry average. Despite this improvement, Cadillac still has a high negative outlook with 29% of dealers indicating the value of the Cadillac franchise would decrease in 2022, the 5th highest negative outlook of all brands and tied with Volvo. In 2021, Cadillac unit sales were down 8.6%, despite the overall industry being up 3.3%. Cadillac's market share decreased by 10 basis points in 2021 to 0.79%. 2021 marks the 3rd consecutive year of unit sales declines. In the fourth quarter of 2021, Cadillac's performance declined even further, down 47.8% in unit sales when the overall industry was down 21.4%. Cadillac's only model that increased in sales in 2021 is its recently redesigned Escalade, which accounted for 34.2% of Cadillac's total volume and experienced a sales increase of 65.0% year-over-year. Cadillac intends to capitalize on its success with the Escalade, recently announcing the Escalade-V, a performance version of the Escalade, and the Escalade-IQ, a fully-electric version. The Escalade-V is expected to arrive in 2023 and the Escalade-IQ in 2024. In addition to Escalade-IQ, in early 2022 Cadillac released its first electric vehicle, the Lyriq crossover, and announced it will introduce a "hand-built" flagship sedan, Celestiq, in 2023. Cadillac's dealer network continues to shrink with a total franchise count of 562, down 35.7% from the beginning of 2021, as the brand prepares for its shift to electric vehicle sales. In 2021, Cadillac's parent company, General Motors, announced it would be increasing its investment in electric vehicle technology by 75% to $35 billion through 2025, expecting to launch 30 electric vehicle models through 2025 and Cadillac to be electric-only by 2030. Kerrigan Advisors is maintaining Cadillac's blue sky multiple and the brand's outlook is downgraded from positive to steady due to uncertainty around the future franchise model for all GM dealers.

Kerrigan Advisors Blue Sky Multiple: 2.5 – 3.5 Multiple Outlook: Steady

Buyer demand for Lincoln remains low given its very low sales per franchise (lowest amongst the franchises tracked by Kerrigan Advisors) and expensive facility requirements. In Kerrigan Advisors' 2021 Dealer Survey, 33% of dealers indicated the value of the Lincoln franchise will decline in 2022, the 4th highest negative outlook of all brands. Only 14% of dealers in Kerrigan Advisors' 2021 Dealer Survey indicated the value of the franchise would increase, the 3rd lowest positive outlook of all brands, although up from 13% in 2020. In 2021, Lincoln unit sales were down 17.5%, despite the overall industry being up 3.3%. Lincoln's market share decreased by 15 basis points in 2021 to 0.58%. In the fourth quarter of 2021, Lincoln's performance declined even further, down 32.4% when the overall industry was down 21.4%. Ford Motor Company, Lincoln's parent company, expects to transform the brand to a mostly electric franchise, planning to introduce four electric models through 2026, including replacements for Corsair, Nautilus, Aviator, and Navigator models. In 2022, Lincoln expects to introduce its first electric vehicle, Aviator EV, which will arrive in showrooms in 2023. The brand also announced it will introduce a large new crossover EV, expected to begin production by 2025. Lincoln's electrification plans are part of Ford Motor Company's $30 billion investment in electric vehicles and batteries by 2030. Despite Lincoln's poor sales performance in 2021, Ford Motor Company posted a profit of $17.9 billion in 2021, up from a $1.3 billion loss in 2020. Kerrigan Advisors is maintaining Lincoln's blue sky multiple and the brands outlook remains steady.

Kerrigan Advisors Blue Sky Multiple: 2.5 – 3.5 Multiple Outlook: Steady

Buyer demand for Infiniti dealerships is the lowest across all brands and its blue sky multiple remains the lowest of both luxury and non-luxury franchises. In Kerrigan Advisors' 2021 Dealer Survey, 50% of dealers indicated the value of the Infiniti franchise would decrease in 2022, the highest negative outlook of all brands. Only 9% of dealers in Kerrigan Advisors' 2021 Dealer Survey indicated the value of the franchise would increase, the lowest positive outlook of all brands, although up from 3% in 2020. In 2021, Infiniti unit sales were down 26.4%, despite the overall industry being up 3.3%. Infiniti's market share decreased by 16 basis points in 2021 to 0.39%, the lowest market share for the brand in over 13 years. 2021 marks the 4th consecutive year of unit sales declines with 2021 sales volume representing just 39.2% of 2018 sales volume. In the fourth quarter of 2021, Infiniti's performance declined even further, down 46.5% when the overall industry was down 21.4%. The brand continues to suffer from poor dealer relations, as well as weak customer loyalty. Infiniti ranks 3rd to last amongst luxury franchises in the J.D. Power 2021 Brand Loyalty Study. In Canada, Infiniti's poor performance and pressure from its dealers has caused the manufacturer to allow the franchise to be dualed with Nissan, no longer requiring stand-alone facilities. At this juncture, there is no indication dualing will be allowed in the US. Infiniti lags the competition in bringing an electric vehicle to market, although it has announced that most of its future lineup will be electrified by 2030. Infiniti is relying on its redesigned QX60 three-row crossover for a turnaround and has enlisted various influencers and celebrities to create a following. Despite Infiniti's weak 2021 sales performance, its parent company, Nissan Motor Company, expects a strong fiscal year-end March 31, 2022, with operating profit forecasted at $1.82 billion, its first full-year operating profit since 2019. Kerrigan Advisors is maintaining Infiniti's blue sky multiple and the brand's outlook remains negative.

Kerrigan Advisors Blue Sky Multiple: 2.0 – 3.0 **Multiple Outlook: Negative**

KERRIGAN ADVISORS' UPCOMING SPEAKING EVENTS

Strategic Source Webinar
April 21, 2022
www.StrategicSource.com

AIADA's 2022 Washington, D.C. Fly-In
May 24-25, 2022
Washington, D.C.
www.AIADA.org

2022 NADC Annual Member Conference
April 24-26, 2022
Scottsdale, Arizona
www.DealerCounsel.com

AIADA Webinar
June 2022
www.AIADA.org

Kerrigan Advisors' NADA 2022 Workshop Recording is Available at www.NADAPostShow.org

In closing, we hope The Blue Sky Report® is helpful to you as you lead your organizations through this historic period in auto retail. Please do not hesitate to contact our firm if you have any questions regarding the information presented herein or if we can assist you in any way.

Kerrigan Advisors is a leading advisory firm to growing dealership groups across the US, working as a thought partner to owners as they consider their expansion strategies. Our firm's mission is to add value to dealers as they grow, operate and monetize their businesses. We are honored to be the leading sell-side advisor to owners of higher value dealerships and dealership groups nationwide. Our customized sales approach is extremely successful and has led to the highest sale price per transaction of any firm in the industry. Since our founding, we have advised on many of the most valuable transactions in the industry, including more of the Top 150 Dealership Groups than any other firm.

Kerrigan Advisors has had the honor of working with auto retail's leading dealers in determining the right time to sell and the most appropriate buyer for their dealerships. We do not take listings, or maintain an inventory of sell-side clients, rather we focus on a select number of higher value transactions, devoting our team's time and energy to ensure the sale process is a success. In our view, *dealerships are far too valuable to be advised any other way.*

We look forward to scheduling a confidential conversation about how we can assist you as you navigate the ever-changing auto retail environment.

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