

THE KERRIGAN DEALER SURVEY

2022



**The Premier Sell-Side Advisor and
Thought Partner to Auto Dealers**

KERRIGAN ADVISORS



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Methodology

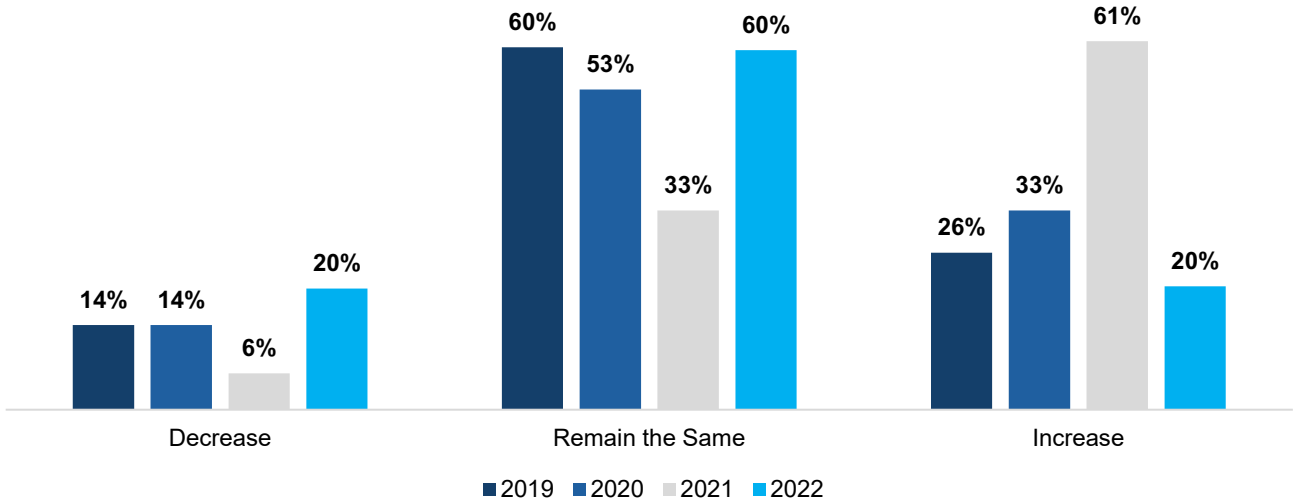
The data for The Kerrigan Dealer Survey was gathered from Kerrigan Advisors' annual survey of auto dealers in conjunction with the issuance of The Blue Sky Report®. The Kerrigan Dealer Survey is based on over 600 responses from franchised auto dealers in Kerrigan Advisors' proprietary dealer database. Responses were collected from June 2022 to October 2022.

2022 Kerrigan Dealer Survey Results

Kerrigan Advisors' fourth annual Dealer Survey was designed to gauge dealer sentiment about the future value of their businesses and their acquisition plans, as well as their perspective on specific franchise valuations and future industry earnings.

The results of this year's survey found the majority of dealers have a largely positive outlook on valuation over the next 12 months with 60% projecting 2022's record valuations will sustain into 2023. That said, the changes in expectations for valuation increases and decreases are notable compared to prior years, particularly 2021. Specifically, only 20% of dealers expect valuations to increase in the next 12 months, down from 61% in 2021 and the lowest level reported since 2019. Likewise, 20% of dealers expect a decline in valuation in the next 12 months, a 233% increase from 2021 when just 6% projected a decline. This is also the highest rate of expected decline reported since 2019.

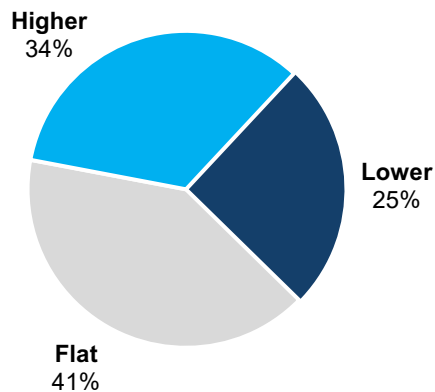
How do you expect the value of your dealership/dealership group to change in the next 12 months?



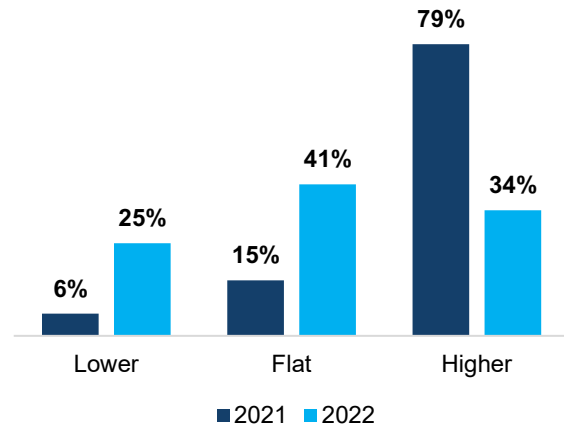
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The flattening of valuation expectations is consistent with dealers' views on their future profitability. Only 34% of surveyed dealers project a rise in profits in the next 12 months, while 25% expect a decline, and 41% project earnings to stay the same. This is a significant about-face from 2021 when 79% of dealers surveyed expected a rise in profits and just 6% projected a decline. These survey results likely reflect the negative economic impact of rising interest rates, lower consumer sentiment and high inflation, which may negatively effect future dealership earnings.

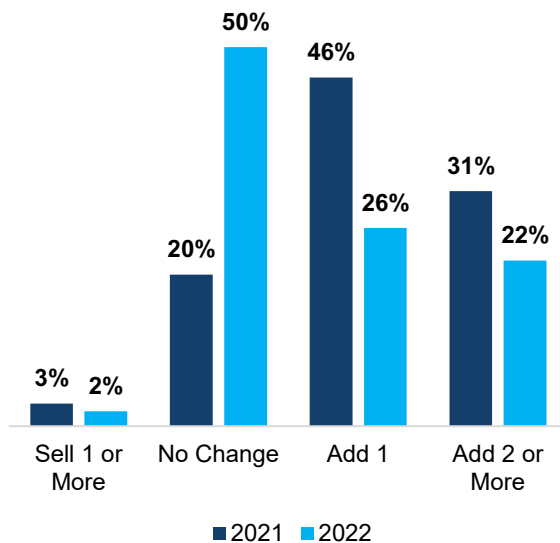
What are your profit expectations for your dealerships over the next 12 months?



Fewer dealers expect earnings to rise over the next 12 months, as compared to 2021.



How many dealerships do you plan to add or subtract over the next 12 months?



Despite the more negative sentiment on future profitability, Kerrigan Advisors found few dealers plan to sell dealerships over the next 12 months. In fact, nearly half of dealers surveyed expect to acquire dealerships, consistent with industry consolidation trends and the high level of buy/sell activity reported in The Blue Sky Report. The industry's focus on expansion is systemic of the scale required to succeed in the dynamic and ever-evolving auto retail marketplace. As a disproportionate number of dealers plan for growth rather than exit, Kerrigan Advisors expects today's sellers' market to persist into 2023. This dealership supply/demand imbalance will likely sustain current valuations over the next 12 months.

2022 Kerrigan Dealer Survey Results by Franchise

The majority of dealers surveyed believe individual franchises will either increase in value or remain the same over the next 12 months, with a minority projecting a decline. That said, nearly every franchise saw a reduction in the percentage of dealers projecting an increase in value as compared to 2021 and most franchises saw an increase in the percentage of dealers expecting a decline in value.

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

Highest Expected Valuation Gains:

Kia, Hyundai, Toyota

- Over 40% of surveyed dealers expect an increase in these three franchise values over the next 12 months.
- This marks the second year Kia and Hyundai are on this list and the first time these franchises have surpassed Toyota and topped the survey results.
- Notably, last year, four more franchises met this criteria, namely Subaru, Honda, Lexus and Porsche.

Least Likely to Decline in Value:

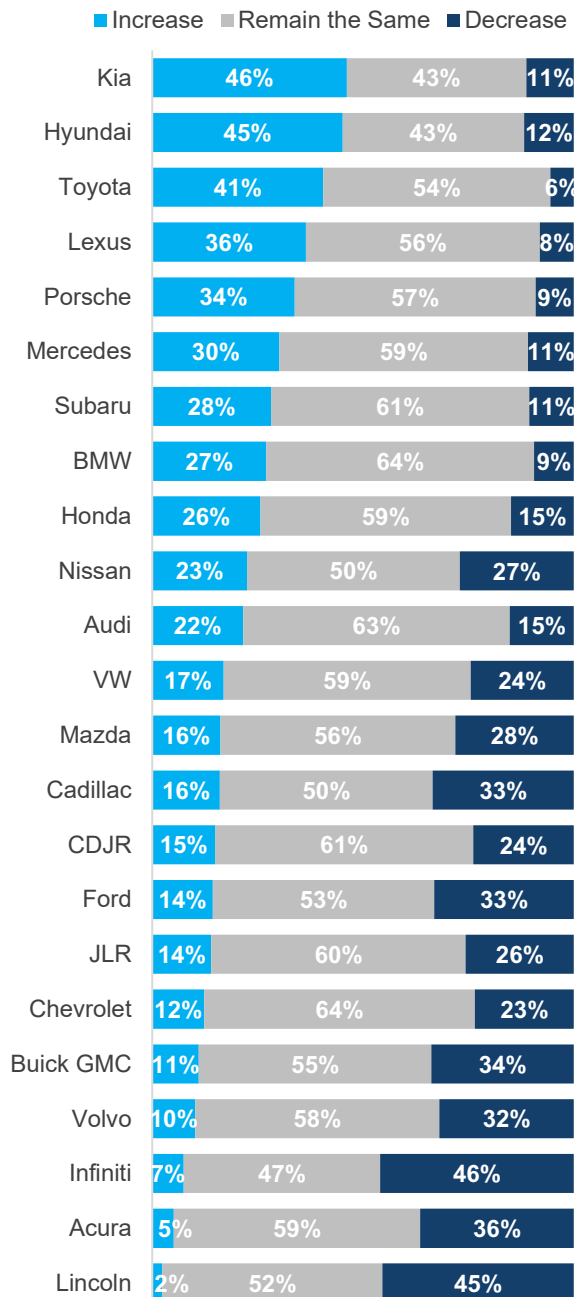
Toyota, Lexus, Porsche, BMW

- Over 90% of surveyed dealers expect these franchise values to either increase or remain the same over the next 12 months.
- Notably, last year, five more franchises met this criteria, namely Hyundai, Kia, Subaru, Honda, and Mercedes-Benz.

Highest Expected Valuation Declines:

Infiniti, Lincoln, Acura, Buick GMC, Cadillac, Ford, Volvo

- 30% or more of surveyed dealers expect these franchises to decline in value in the next 12 months.
- Last year, Cadillac, Ford, Volvo and Buick GMC were not on this list, while Nissan was.



Notable Changes for Specific Franchises (2022 versus 2021)

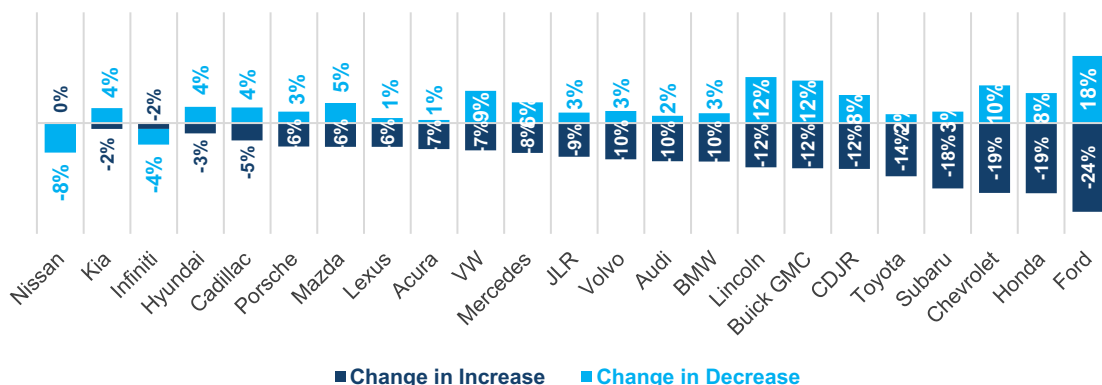
Kia & Hyundai – These franchises surpassed Toyota for the first time to become the franchises most expected to increase in value over the next 12 months, sustaining their improved results from 2021. Perhaps most impressive is the change in Kia and Hyundai’s valuation expectations since 2019, when just 19% of dealers surveyed projected their valuations to increase, over a 26-percentage point difference from today. This dramatic improvement is consistent with Kerrigan Advisors’ positive outlook for Kia and Hyundai’s blue sky multiples in our Second Quarter 2022 Blue Sky Report and the expectation that their multiples will continue to rise over the next 12 months, having already increased 42% since 2020.

Ford – After 2021’s 17-percentage point improvement in the number of dealers expecting Ford’s franchise value to increase, the franchise’s results swung significantly negative in 2022. In fact, Ford saw the largest increase in dealers expecting the franchise to decline in value (18 percentage points) and the biggest drop in the percentage of dealers projecting an increase in value (24 percentage points). Ford also became one of the franchises most expected to decline in value, with over 30% of dealers surveyed projecting a decline. These results are consistent with Kerrigan Advisors’ negative outlook on Ford’s blue sky multiple and dealer concerns about the future profitability of the franchise with electrification. Kerrigan Advisors finds smaller dealers are the most negative on Ford, while larger groups are less negative and in select cases positive about Ford’s future.

Honda – The most surprising data from the 2022 Dealer Survey was the negative results for the Honda franchise. Honda was just behind Ford in percentage point decline in dealers projecting an increase in value and had an eight-percentage point increase in the number of dealers expecting a reduction in value, a 53% decline from 2021 when just 7% of dealers expected a decline. Kerrigan Advisors believes this negative sentiment is primarily a result of Honda’s market share loss due to significant sales declines, particularly relative to Kia and Hyundai.

Nissan – Nissan was one of the only franchises to see a significant improvement over its 2021 results. The franchise had an eight-percentage point decrease in the number of dealers expecting the franchise to decline in value and no change in the number of dealers projecting an increase compared to 2021, thus sustaining Nissan’s 2021 12-percentage point improvement. These survey results are consistent with Kerrigan Advisors’ increase in Nissan’s blue sky multiple in 2022, up 33% since 2021.

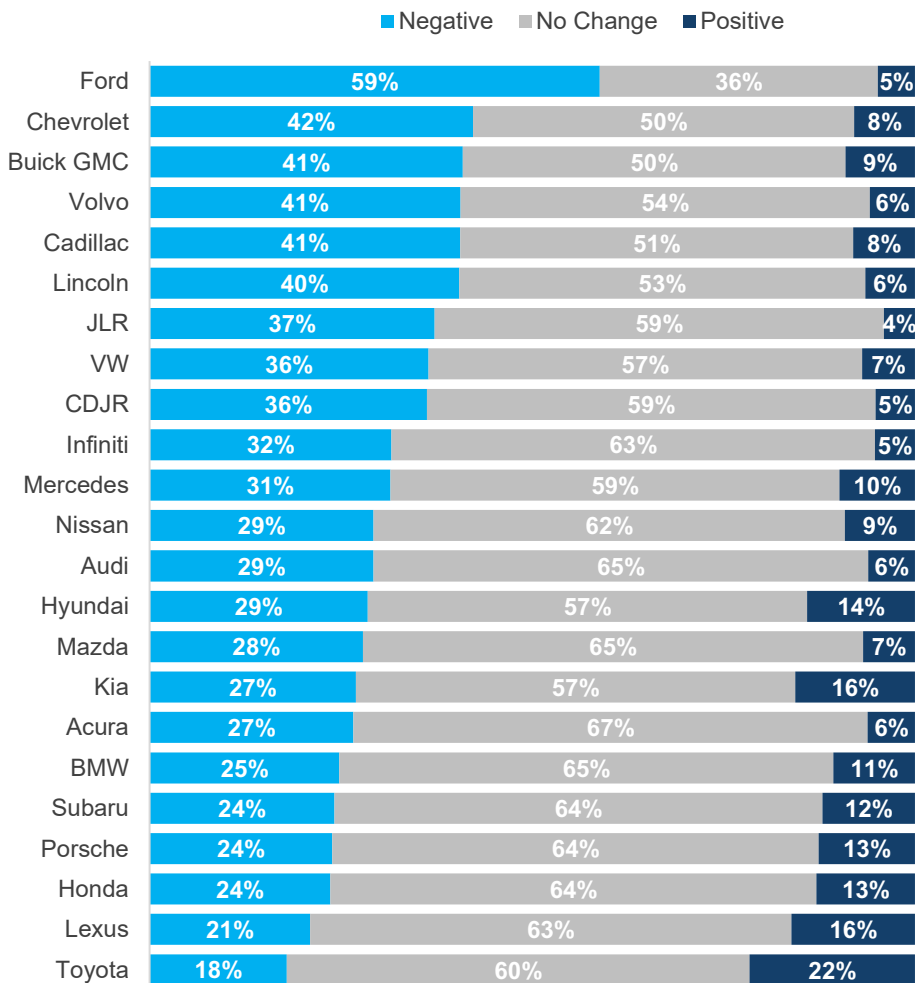
Percentage Point Change in Valuation Expectations 2022 versus 2021



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Kerrigan Advisors also queried dealers regarding the expected impact of OEM planned changes to the dealer model on future profitability. Except in the case of Ford, the majority of dealers project these changes will not impact future profitability, though few expect they will improve profits. Notably, the most negative expectations are with certain domestic franchises, namely Ford, Chevrolet, Buick GMC, Cadillac and Lincoln, as well as Volvo, while the most positive expectations are with Toyota.

How do you expect OEM planned changes to their dealer model (i.e. agency model, over-the-air updates, lower days supply, etc.) to impact future franchise profitability?



The results of the 2022 Kerrigan Dealer Survey demonstrate the changing auto retail environment and economy. The majority of dealers project profits and valuations will remain at or rise above record levels over the next 12 months, though a rising minority have a more negative outlook. Based on these results, Kerrigan Advisors believes there is slightly more risk to valuations and the buy/sell market going into 2023, though we expect transaction activity will remain elevated as dealers seek to add scale to their business and seem unfazed by potential OEM changes to the auto retail model.

At Kerrigan Advisors, we pride ourselves on our singular focus—working with dealers and their families throughout the US to enhance the value of their enterprise. From growth through exit, our firm supports generations of dealers through the lifecycle of owning and operating their businesses. We hope for the opportunity to work with you as you chart your course in the evolving auto retail landscape.

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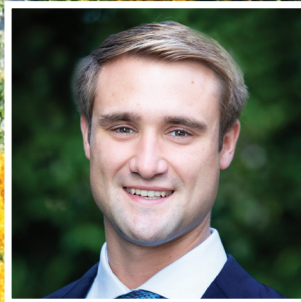
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