

CollisionWeek

Mon, 17 Sep 2012
Tues, 18 Sep 2012
Wed, 19 Sep 2012

The Evolving Collision Repair Marketplace

by Vincent J Romans and Mary Jane Kurowski
The Romans Group

Our annual three part series, by Vincent Romans, examining the largest shop groups in the industry, their growing market share, and an analysis of the numbers.

Last year was an active year for Multiple Location Operators, MLOs, during what we have previously identified within the collision repair industry as a period of *Contraction, Consolidation and Convergence*. This was most clearly reflected by the continuing merger, acquisition and recapitalization activity which began to gain momentum during the second half of 2010 and accelerated through 2011, even as the country began to downshift toward a less certain economy.

About a year ago, when we last published our findings, the economy was described as being in a “soft patch” with numerous, diverse views on how the year would conclude. As it turned out, 2011 was essentially flat with year-end unemployment at 8.5 percent and fourth quarter GDP at 1.3 percent. There has been little economic upturn to date with 2012 mirroring 2011 as unemployment hovers at 8.1 percent and year-end GDP is forecasted to be 1.5 to 2.0 percent. There is no current outlook for significant improvement in the near future. This economy is further complicated by the impending presidential election, the weak economic situation in Europe and China, and continuing upheavals in the Middle East and Northern Africa, leaving many to stand along the sidelines.

Despite the economic situation in 2011, there was an acceleration of acquisitions and capital infusion on the part of larger multiple-location and multiple-market operators, as well as by smaller and single-unit collision repairers seeking to gain market share. Some of the more notable 2011 transactions were:

- Boyd/Gerber acquired Master Collision Repair (Florida)
- Boyd/Gerber acquired CARS Collision Centers (Midwest, Colorado, Indiana)
- Service King acquired B&B Body and Paint and Alamo Collision (Texas)
- Caliber acquired 911 Collision Centers (Arizona)
- ABRA Autobody & Glass completed a recapitalization with Palladium Equity Partners
- Driven Brands, the franchise portfolio company that includes Maaco, recapitalized with Harvest Partners

Many of the regional MLOs/MSOs and major national consolidators made numerous individual and small multiple-location acquisitions to build out their footprint, primarily in existing markets.

Several of the same dynamic and complex U.S. and global macroeconomic variables from 2010 are continuing through 2012, contributing to and influencing fundamental structural change within our business, financial and government institutions while also impacting the collision repair industry ecosystem which includes property and casualty insurers, OEMs and the various auto physical damage segments.

Since 2010, we have seen the evolution of two main active expansion strategies begin to reshape the collision repair industry. One strategy is being driven by regional MLOs/MSOs such as CollisionMax, AutoBody America and Collision Centers of America, companies who are focusing their expansion within existing and/or contiguous markets. The other strategy, which can be seen with national consolidators such as Boyd/Gerber, ABRA and Caliber, is expansion within existing markets as well as leap-frogging into new regions and markets using “platform” acquisitions to gain entry. Unlike these large, national companies, there have been few regional MLOs/MSOs or consolidators venturing into new markets. These acquisition and merger strategies will continue to influence the direction of

consolidation and right-sizing within the collision repair industry and will result in increased MLO market share in the U.S.

From 2010 to 2012, the merger and acquisition activity for single and multiple–location operators has occurred primarily in 16 state markets, seven of which, Illinois, Colorado, Ohio, Maryland, North Carolina, Pennsylvania and Indiana, were associated with the largest platform acquisitions by Boyd/Gerber involving True2Form in 2010 and CARS in 2011. Merger and acquisition activity is noticeably absent from the upper northeast region from New Jersey to Maine.

During the second half of 2011, and now in the first half of 2012, another chapter in the evolving collision repair story begins to emerge in what we describe as *Constructive Transformation*. *Constructive Transformation* within the *Consolidating and Converging* collision repair industry involves the inevitable and necessary heavy lifting associated with the integration of different organizations and their business platforms. It also means determining the best suited estimating/management system, technology, brand, culture, personnel, and organizational structure while managing growth and expansion.

Additionally, *Constructive Transformation* also involves leading and managing with a strategic mindset; understanding that while the future is unpredictable, it can be influenced and harnessed for the organization’s benefit while it embraces and leverages market uncertainty and ambiguity.

Leadership organizations practicing strategic *Constructive Transformation* surround themselves with a myriad of partnerships as part of their business ecosystem including customers, suppliers, competitors and investors who become part of their brain trust and strategic alliance ecosystem. Together they share a commitment to co-create and change the organization and its uncertain environment for their individual and mutual benefit. Successful MLO/MSO collision repair organizations will continue their traditional, customized approach to positioning their businesses, but they will also expand and balance it to include the *Constructive Transformation* strategic mindset.

Many of the \$20M MLO leadership companies profiled in our report are navigating through the rapidly changing landscape involving three very active, parallel, industry-changing phases, *Contraction, Consolidation and Convergence*,

while incorporating *Constructive Transformation* as part of their plan to expand their leadership role within the collision repair industry.

Our profile of \$20 million-plus revenue, multiple-location collision repair operators (MLOs) continues to include:

- Independent, dealership and insurance company-owned and managed collision repair operators processing \$20 million or more in revenue annually within the U.S. market
- Professionally-managed operators providing performance-based, brand-recognized and competitively-differentiated collision repair services
- Companies focused on achieving top-tier, self-managed, and customer required performance results, high customer satisfaction, and consistent and sustainable quality repairs
- Businesses that tend to pursue multiple customer segments for collision repair revenue including property and casualty insurance DRP, automotive dealer, accident management, rental car, and direct-pay consumers
- These organizations typically incorporate strategic planning as part of their proactive approach to their business, market development and growth
- These operators tend to practice business process improvement and operations excellence; managing the organization by incorporating and integrating all functional areas such as finance, personnel, operations, sales/marketing, and technology as a minimum foundation for their business platform

The \$20 million-plus collision repair segments continue to grow their market share and brand relatively faster than other segments of the collision repair market. This growth is being driven by an increasing number of variables.

- Private equity's interest in the collision repair industry
- MLO access to capital for business and market growth, expansion and infrastructure development
- Increasing consolidation through single and multiple-location acquisitions
- The segment's local and multi-market footprint which offers greater consumer and insurance company choice
- Multi-level selling and marketing for insurer choice brand preference with access to insurance company direct repair claims

- Ongoing operational improvement, resulting in increased vehicle repair quality, daily throughput and reduced cycle time
- Business service differentiation, market segmentation and brand recognition/reputation
- Market leadership through sustainable, top-tier, competitive performance results
- Expanded business hours of operation including multiple daily shifts, hybrid work shifts and weekends
- Insurance DRP focus with single point of contact, operational conformity, predictable and sustained repair quality, and best-in-class performance outcomes
- An integrated multi-level sales and marketing approach to capturing consumer, insurance, rental, and fleet
- Expansion of new and hybrid network platforms involving MLOs

The \$20M MLO collision repair profile used for this analysis excludes repair facilities that focus exclusively or primarily on expedited paint and cosmollision, small dent, glass repair only, mechanical only, and collision repair related primarily to auction vehicles. We do recognize that within this segment some companies continue to be in various stages of strategic growth, transformation and transition to business models approaching that of an insurance company DRP wholesale or diversified customer segment platform.

Portions of this report include a specific segment of collision repair conversion and multi-segment customer-focused franchisors; Maaco, CARSTAR and ABRA. Multiple-location networks (MLNs) such as Fix Auto, currently a hybrid model which includes both franchise members and non-franchise repairers participating in FIX's brand banner network model, are also included. These organizations represent a significant market segment of the collision repair industry that warrants continued tracking and monitoring.

There are various types of multiple-location networks that are not currently included here such as integrated and outsourced auto physical damage and glass networks and accident management firms like LYNX APD, The CEI Group and the Innovation Group; cooperative, consumer advocacy and management networks such as Assured Performance; and peer performance groups like The Everest Partners. Nevertheless, we do understand the value and importance these

organizations have among their customers and constituents in providing solutions and supporting their needs.

Key findings of our 2011 \$20M MLO discovery, research and analysis include:

- The 65 \$20M MLO organizations:
 - Processed 13.4 percent of the \$29.5 billion in collision repair revenue nationally
 - Represent \$3,951 billion in revenue, up 9.1 percent from 2006
 - Represent 3.1 percent of the 36,800 collision repair locations
- When the \$20M MLO organizations are combined with the four franchise branded networks:
 - This segment represents \$5.3 billion or 18 percent of the \$29.5 billion collision repair market.
- Within the top ten \$20M MLOs, five are independent and five are dealer groups
 - These top ten organizations account for 50.0 percent of all \$20M MLO production locations
 - They represent 52.3 percent of all \$20M MLO revenue
- On average, the \$20M MLOs process \$3.2 million per location, over four times more than the average annual revenue for non-MLO repairers of \$717,874
- Revenue for the top ten independent and dealership MLOs was \$2.1 billion, an increase of \$800 million over 2006's revenue of \$1.3 billion
- Training does matter for collision repairers when maintaining and expanding the scale of their business. Our research and collaboration with I-CAR indicates that over 90 percent of the 65 \$20M MLOs have and maintain the I-CAR Gold Class Professional designation. Many of these organizations also have or are working toward increasing the number of Platinum technician designations within their employee ranks.

There continues to be a wide range of opinions, anecdotal information and various government and private sector data reporting on and determining a meaningful and relevant collision repair market size. This is especially true in light of the business, markets and financial institution restructuring caused by our last recession, the continuing weak economy, and the U.S. and international

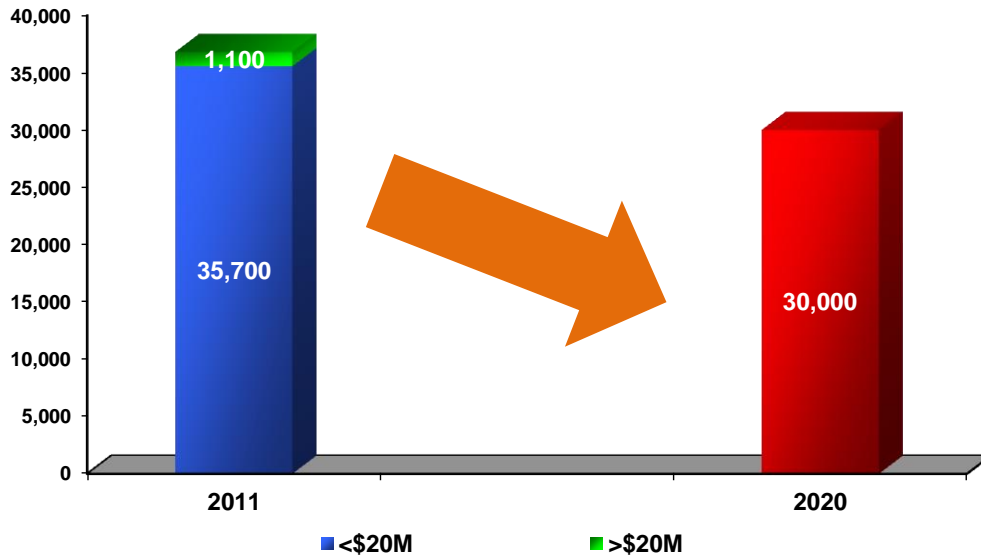
macroeconomic conditions which have influenced the changing profile of both dealership and independent collision repair operators.

Our estimated U.S. market size for the number of independent and dealer collision repairers at year end 2011 is 36,800. This estimate continues to reflect the long-term decline which began in the late 1980s. As seen in the chart below, the number of independent and dealership collision repair facilities in the U.S. has declined by 54 percent over the past 30 years. The sharp decline we have witnessed since 1990 has tapered off over the last few years. Since 2006, we see a reduction of approximately 8,200 independent and dealer-operated collision repair facilities within the United States, an 18 percent decline.



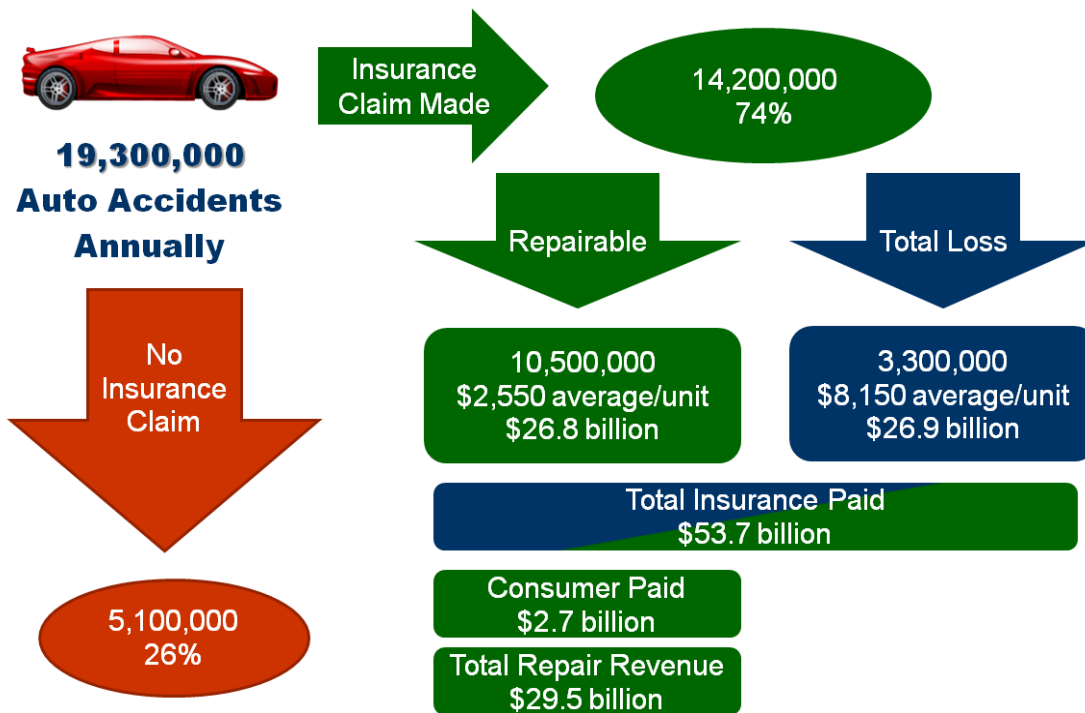
Source: The Romans Group LLC

Over the next decade, we believe that market share will continue to shift to the \$20M MLOs, the \$10 to \$20M MLOs, and to Multiple Location Networks, MLNs. Their focus will include a growth and expansion strategy where they will deliver high-quality and consistent repair performance; have strong insurance, consumer, fleet, brand recognition and reputation; and adapt quickly to market, consumer, and insurance needs through innovative solutions, technology and services. This market share shift will move the industry toward a less fragmented and capacity-normalized model.



Based on our longitudinal research and analysis involving published third-party industry sources, property and casualty insurance, private sector and government sources, and industry “knowledgeable and experienced” professionals; we continue to ascertain that there is no one certain number that is universally recognized or accepted as being the “correct” number for estimating the auto repair claims market size.

Our best-efforts approach yielded an estimate for insurance-paid repairable claims expenditures for 2011 of \$26.8 billion, down from \$28.3 billion in 2010. Consumer-paid claims were relatively stable at \$2.7 billion, resulting in combined insurance and consumer-paid claims for repairable vehicles for 2011 of approximately \$29.5 billion.



Source: The Romans Group LLC

The total number of collision repairers within the United States continues to have value as the traditional data point for calculating market share. Those repairers who operate and integrate collision damage estimating and shop management systems while leveraging other claims processing and management software such as auditing, capacity utilization, scheduling, and key performance metrics analysis will be the collision repair providers last standing and preferred by insurance and other claims production companies.

Our summary findings concluded that in 2011 there were 65 independent and dealership collision repair \$20M MLOs processing over \$3.95 billion annually through 1,125 production locations.

While these \$20M MLOs represent 3.1 percent of the estimated 36,800 collision repair facilities nationally, they process 13.4 percent of the \$29.5 billion in insurance and customer-pay collision repair revenue.

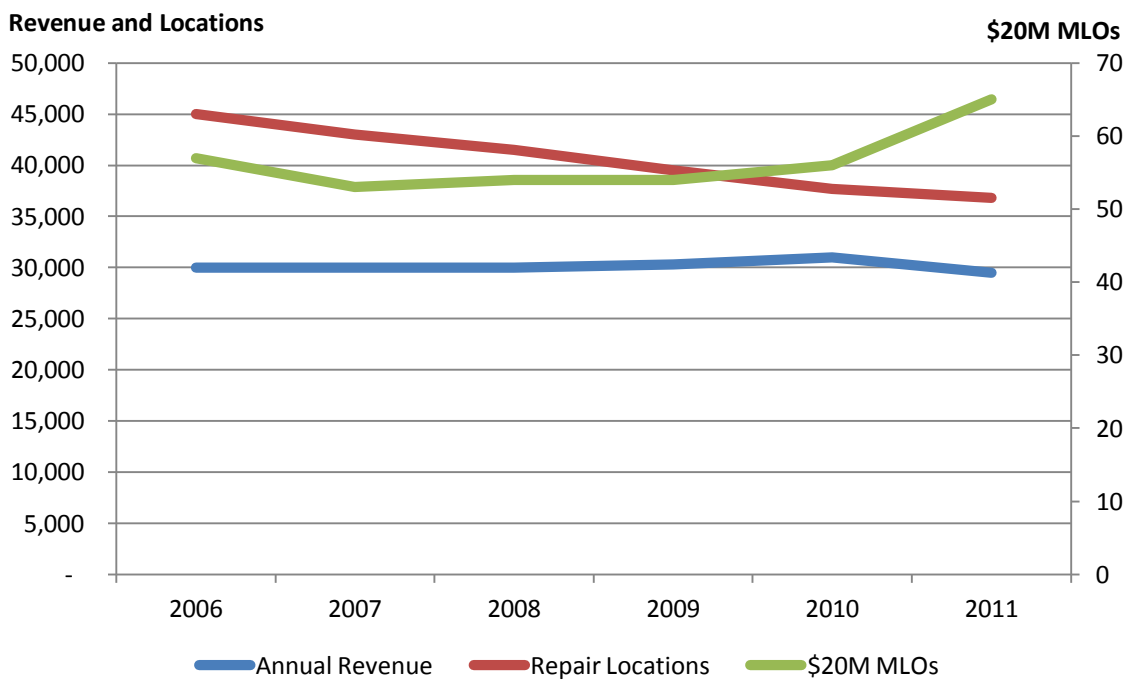
The National Automobile Dealers Association, NADA, estimates that 6,490 dealers processed \$6.8 billion in repair revenue in 2011 versus \$6.6 billion in 2010. The balance of \$22.7 billion is being processed by approximately 30,310 independent collision repair locations. On average, the \$20M MLOs process \$3.2 million per location, over four times more than the average annual revenue for non-MLO repairers of \$717,874. There are many smaller independent and dealer non-MLO repairers that achieve greater-than-the-industry average annual revenue, especially those who represent and operate in the \$10.0 million to \$20.0 million segment.

U. S. Collision Repair Market			
Dollars in Millions			
	<u>2011</u>	<u>2006</u>	<u>Change</u>
Total Collision Repair Locations	36,800	45,000	-8,200
Total Collision Repair Revenue	\$29,475	\$30,000	-525
Total Number of \$20M MLOs	65	57	8
<u>\$20M MLO Locations</u>			
Total MLO Locations	1,245	959	286
Total MLO Production Locations	1,125	898	227
% of MLO Production Locations to 36,800 Collision Repair Locations	3.1%	2.0%	1.1%
<u>MLO Revenue</u>			
Total \$20M MLO Revenue	\$3,951	\$2,728	\$1,283
\$20M MLO Share of Total Collision Repair Revenue	13.4%	9.1%	4.3%

For the \$20M MLOs, the following chart reflects six-year trends for the total number of MSO/MLO organizations, the number of collision repair facilities, and the market size for collision repair revenue.

- The repairable vehicle revenue market size has remained flat, showing a slight increase in 2010
- The downward trend for the number of collision repair facilities is evident by the red line
- The number of \$20M MLO repair organizations has been trending up

2006-2011 \$20M MLO Revenue, Location and Organization Trends



Source: The Romans Group

While this paper is focused on independent and dealership multiple-location operators, we continue to recognize other collision repair models which we previously identified as multiple-location networks or MLNs. These MLNs are growing competitively with their service offerings, insurance-preferred value proposition, and market influence. When combined, their market share for vehicle repairs processed and their local, regional and national footprint are relevant.

We have included ABRA, CARSTAR and Maaco, all franchising organizations, and Fix Auto USA, a hybrid franchisor and brand banner network, as part of our multiple-location network segment for 2011. Together they represent a total of 906 locations repairing approximately \$1.3 billion in vehicle revenue. We see interest on the part of single and smaller multiple-location collision repairers to investigate and consider the benefits of multiple-location franchisor and banner networks.

The independent-brand model, historically believed by many repairers to be the most desirable way to successfully maintain and grow their business, may now be seen by a growing number of collision repair providers as possibly more risky than being associated with an MLO or MLN, especially in light of current macroeconomic, market and competitive conditions. Some repairers see the opportunity to adopt and integrate MLN member benefits as a potentially better way to sustain and grow their business through:

- Leveraging the MLN value proposition, brand association, multi-segment customer reach, multi-level sales and marketing, and insurance company business affiliation
- Franchisee performance tools for business and customer analysis, benchmarking and peer ranking
- Personnel, operational and general business training and development
- Standardized processes and procedures
- Utilization and integration of a technology platform including ongoing support, training and education
- DRP insurance relationships and business considerations not previously available as an independent operator
- Expense reduction through large-scale supply chain management and procurement
- Franchise network and brand affiliation that allows for a strategic, competitive marketplace position and response to MSO growth and other marketplace competition.

Over the last two years we have seen the franchise MLN models morphing into competitively positioned and marketed platform models that more closely reflect the independently owned and operated MSO model and value proposition.

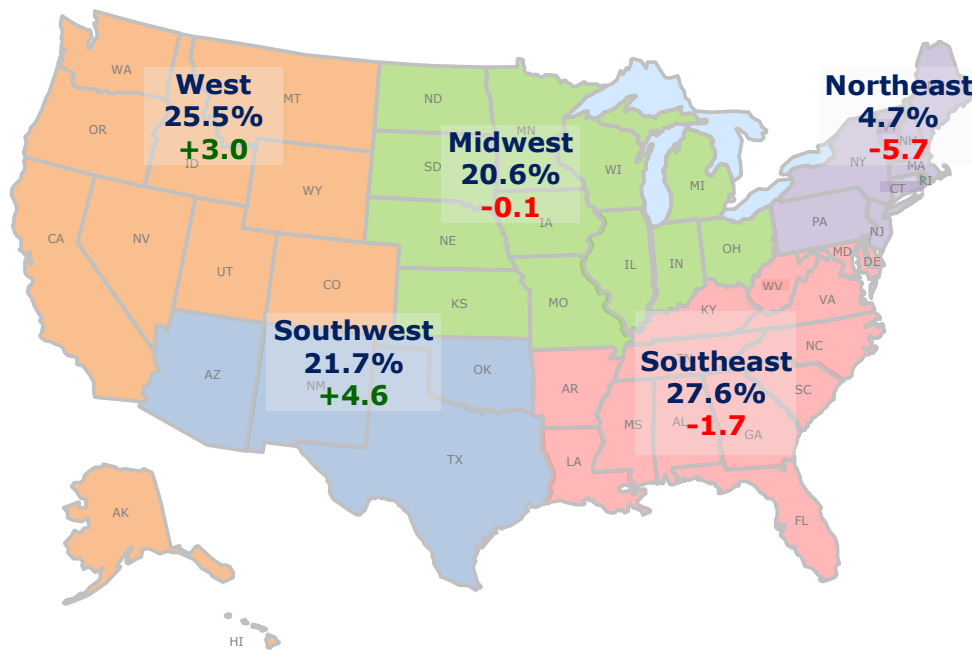
- CARSTAR now squarely positions itself as North America's largest MSO/MLN of independently-owned collision repair facilities. CARSTAR markets and competitively represents that it allows independents to compete with the same value proposition as independent and dealer MSOs while maintaining the shop ownership and the entrepreneurial advantages associated with owner-operator management. When ranked with the top ten MLOs and the top ten independent MLOs for 2011 revenue processed, CARSTAR would hold the first position.
- ABRA markets itself to include its franchise operator segment as part of its MSO platform of independent, multi-region collision repair facilities. ABRA positions its growth through single- and multiple-platform acquisitions, newly-developed centers in major markets, and franchise development in smaller markets adjacent to the major markets they currently serve. ABRA's combined independent and franchise revenue would position them as the second largest MLO.
- Maaco markets and positions its network to include various segments, such as legacy paint and production, and its group of franchisees that are ready, capable and willing to work with the property and casualty insurance industry and their DRP programs.
- FIX Auto, a hybrid franchise and extended brand network, communicates to the marketplace that is not an MSO, but rather an international network of independently-owned and operated collision repair centers whose owner-operator entrepreneurs are committed to working together to improve performance and better serve the market.

U. S. Collision Repair Market – 2011
Including Franchise and Branded Network (FBN)
Dollars in Millions

Total Collision Repair Locations	36,800
Total Collision Repair Revenue	\$29,475
<u>Production Locations</u>	
Total Franchise and Branded Networks	906
Total \$20M MLO Production Locations Including FBN	2,031
Share of \$20M MLO Production Locations, Including FBN, to 36,800 Collision Repair Locations	5.5%
<u>Revenue</u>	
Total Franchise and Branded Networks	\$ 1,342
Total \$20M MLO Including FBN	\$5,293
Share of \$20M MLO Including FBN to Total Collision Repair Revenue	18.0%

Our geographic market representation for these \$20 million MLOs is highest in the Southeast at 27.6 percent. In 2008 the West was the dominant region with a 25.4 percent share; it now represents 25.5 percent of the market. The lowest \$20M MLO representation continues to be in the Northeast at 4.7 percent which is down 5.7 percentage points from their 2006 share of 10.4 percent.

2011 Market Share and Change versus 2006



Another way to view regional representation is to assess the geographic reach of the \$20M MLO organizations. Do they tend to contain themselves in a relatively small area or do they expand their influence across many states?

- Of the 65 \$20M MLO organizations, 37 do business in only one state. Of those 37 organizations, 32 are independents and 5 are dealers.
- Within the top ten rankings, only three independent and two dealer MLO organizations strategically positioned themselves in only one state by the end of 2011. The West has the highest number of \$20M MLOs with at least one location in that region, 29 MLOs are represented which represents 44.6 percent of MLOs.

\$20M Multiple Location Operator Regional Representation					
	West	Southwest	Midwest	Northeast	Southeast
Number of \$20M MLO Repairer Organizations Represented in Region	29	18	21	9	28
Percent of \$20M MLO Repairer Organizations Represented in Region	44.6%	27.7%	32.3%	13.8%	43.1%

The companies represented within the top ten MLO organizations have not substantially changed since 2006. While their share of all collision repair locations has been relatively constant, revenue among this group has been increasing year over year in total as well as per location.

Within the top ten \$20M MLOs, five are independent and five are dealer groups. These ten organizations account for 50.0 percent of all \$20M MLO production locations and 52.3 percent of all \$20M MLO revenue. These top ten MLOs display trends similar to the total \$20M MLO group; higher revenue produced through fewer production locations.

Top 10 \$20M Multiple Location Operators			
Dollars in Millions			
<u>MLO</u>	<u>2011 Rank</u>	<u>2006 Rank</u>	<u>Type</u>
Caliber Collision	1	1	Independent
Boyd/Gerber U.S.	2	8	Independent
AutoNation	3	3	Dealer
ABRA	4	2	Independent
Service King	5	11	Independent
Sterling Auto Body	6	4	Independent/Insurance
Van Tuyl	7	5	Dealer
Penske	8	9	Dealer
Hendricks	9	-	Dealer
Asbury	10	10	Dealer
	<u>2011</u>	<u>2006</u>	<u>Change</u>
<u>Production Locations</u>			
Top 10	562	461	101
% of All Collision Repair Locations	1.5%	1.0%	.5
% of all \$20M MLO Prod. Locations	50.0%	51.6%	-1.6
<u>Revenue</u>			
Top 10	\$2,066	\$1,292	\$774
% of All Collision Repair Revenue	7.0%	4.3%	2.7
% of All \$20M MLO Revenue	52.3%	47.4%	4.9
<u>Average Revenue per Production Location</u>			
Top 10	\$3.7	\$2.8	\$0.9
All Collision Repairers	\$0.8	\$0.7	\$0.1
All \$20M MLOs	\$3.2	\$2.6	\$0.6

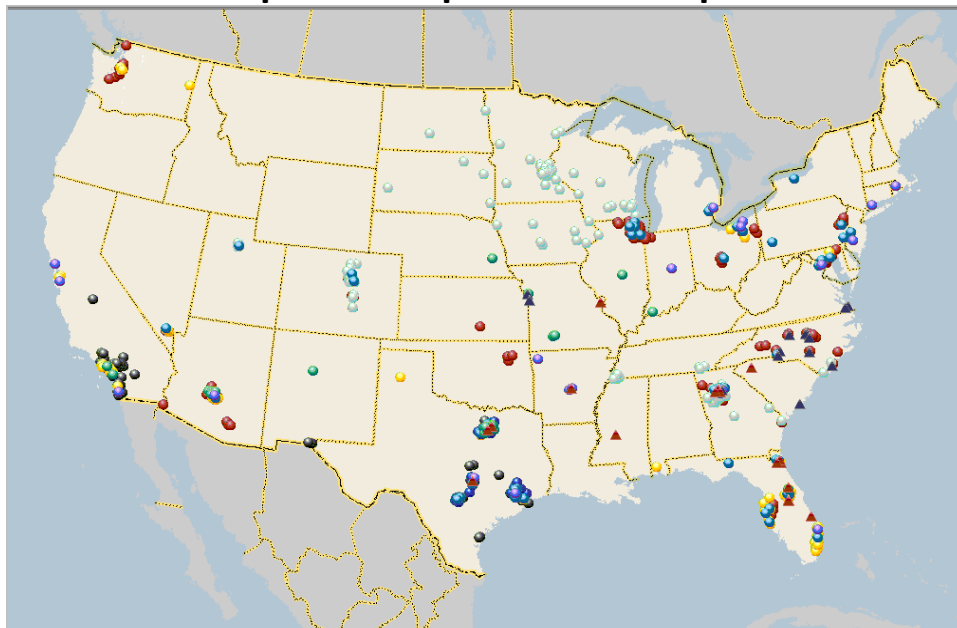
Smaller and non-MLO repairers, those with total collision repair revenue below \$20 million annually, vary widely in claims revenue processed per location. For the top ten independent \$20M MLOs, the average repair revenue per location significantly surpasses that of their smaller and non-MLO counterparts at \$3.0 million versus \$708,921; over four times more average revenue per location.

Top ten dealer \$20M MLO performance also exceeds their smaller and non-MLO counterparts at a repairs-processed average of \$5.3 million per location versus \$903,632 per location for smaller and non-MLO dealer repairers; over five times more revenue per location. The trend for both the independent and dealer groups is toward higher revenue per location in the MLO versus non-MLO segments.

Comparing the top ten independent and dealer \$20M MLOs, the independents have 142 percent more locations producing 38 percent more revenue than dealer repair organizations. However, in 2011 the top ten dealer repairers manage \$5.3 million in average revenue per location versus \$3.0 million per location for top ten independent organizations.

The following map depicts the geographic concentration of the top ten \$20M multiple-location operators.

2011 Top 10 Multiple-Location Operators

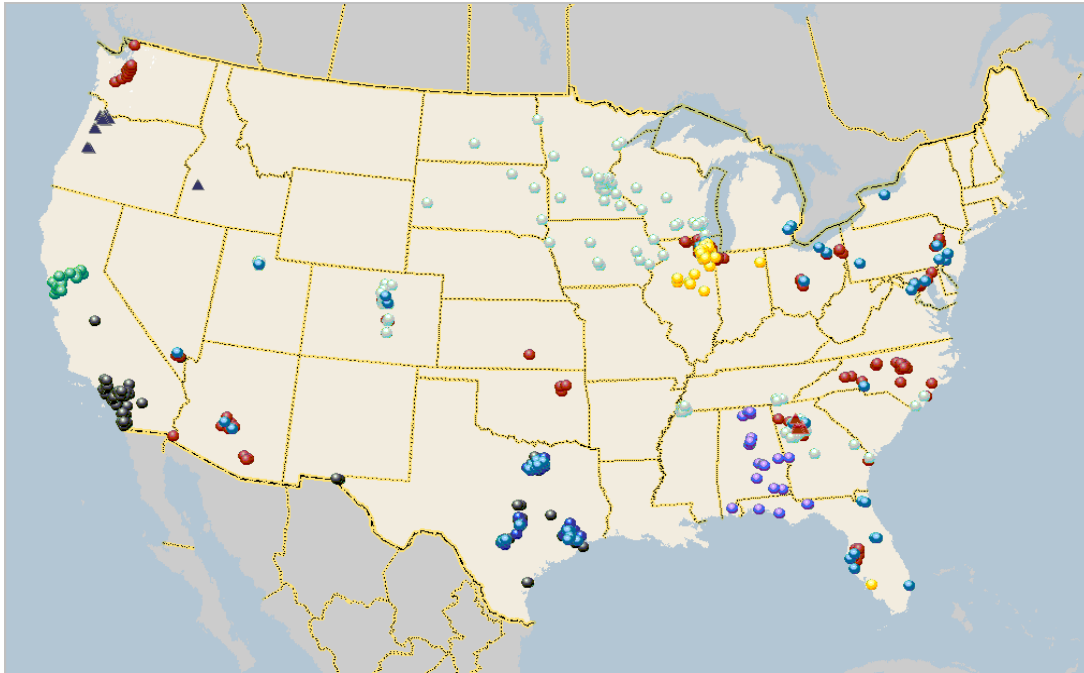


Within the top ten independent \$20M MLO group, the makeup of the group has remained fairly consistent since 2006. The total number of production locations has increased along with their representative share of all \$20M MLO locations to 41.3 percent from 40.5 percent in 2006. This group's share of all \$20M MLO revenue has increased to 39.3 percent, up 5.3 percentage points from 34.0 percent in 2006.

Top 10 Independent \$20M MLOs			
Dollars in Millions			
<u>Rank</u>	<u>2011</u>	<u>2006</u>	
1	Caliber Collision	Caliber Collision	
2	Boyd / Gerber (US)	ABRA	
3	ABRA	Sterling Auto Body	
4	Service King	Boyd / Gerber (US)	
5	Sterling Auto Body	Service King	
6	Collision Revision	True2Form	
7	Cook's Collision	Cars Collision	
8	Joe Hudson	Collision Revision	
9	Kadels	Cook's Collision	
10	Classic Collision	Kadels	
	<u>2011</u>	<u>2006</u>	<u>Change</u>
<u>Production Locations</u>			
Top 10	514	388	126
% of All Collision Repair Locations	1.4%	0.9%	0.5
% of All Independent Locations	1.7%	1.1%	0.6
% of all \$20M MLO Locations	41.3%	40.5%	0.8
<u>Revenue</u>			
Top 10	\$1,552	\$927	\$402
% of All Collision Repair Revenue	5.3%	3.1%	2.2
% of All Independents	6.8%	6.3%	0.5
% of All \$20M MLO Revenue	39.3%	34.0%	5.3
<u>Average Revenue per Location</u>			
Top 10 Independent	\$3.0	\$2.4	\$0.6
All Collision Repair	\$0.8	\$0.7	\$0.1
All Independents	\$0.7	\$0.5	\$0.2
All \$20M MLO	\$3.2	\$2.6	\$0.6

The following map depicts the geographic concentration of the top ten independent \$20M MLOs who, with the exception of the mountain region, have a fairly even distribution across the 48 states.

2011 Top 10 Independent MLOs



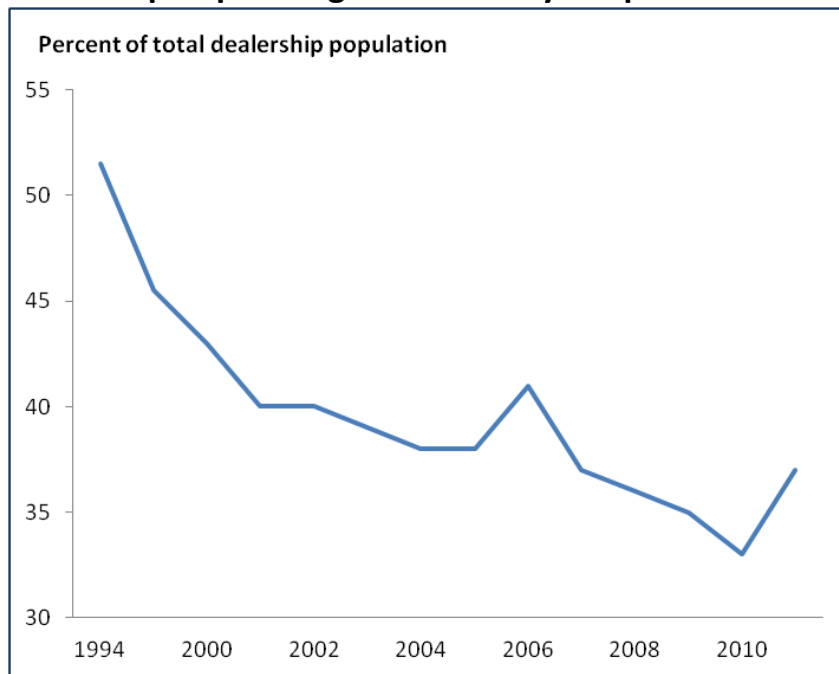
The trend in the number of dealerships operating collision repair facilities has declined since 2006, when 41 percent had repair locations, down to 37 percent in 2011. Both the number of new car dealerships and the number of dealers operating collision repair facilities have declined significantly since 2006. Using NADA's reported total of 17,540 dealers at the end of 2011, this represents an estimated 6,490 dealer-operated collision repair facilities, a decline of 25.3 percent or 2,202 fewer dealer collision repair operators from 2006 when there were 8,692 dealers operating collision repair facilities. However, we saw in 2011 the first increase in the number of dealership collision repair locations and their auto body repair revenue processed since 2006.



Source: NADA, The Romans Group LLC

As can be seen in the following chart, the number of dealerships operating on-site body shops since 1994 has dropped significantly from a high of 52 percent to 37 percent in 2011, a 15 point drop over 17 years.

Dealerships Operating On-Site Body Shops



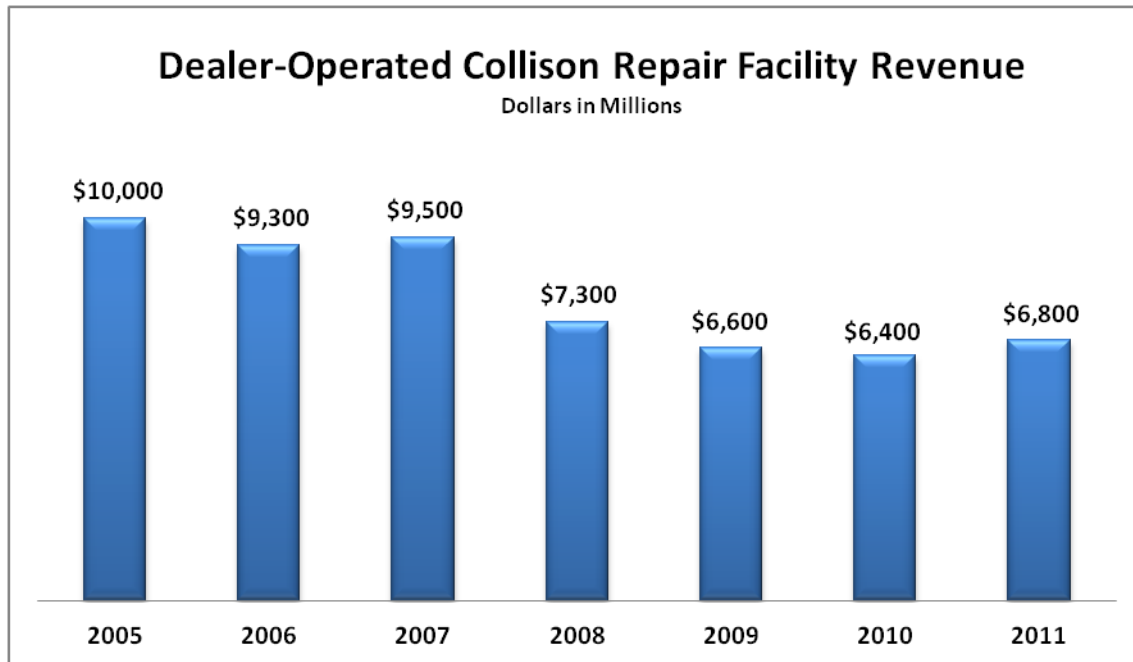
Source: NADA Industry Analysis Division

Looking at the dealership share of the collision repair marketplace, and according to NADA, revenue derived from collision repair work performed by dealerships has declined to \$6.8 billion in 2011, down 28.4 percent from \$9.5 billion in 2007.

Dealers Operating On-Site Body Shops

	2011	2010	2009	2008	2007
Total Dealers	17,540	17,700	18,460	20,010	20,770
Dealers Operating On-Site Body Shops	37%	33%	35%	36%	37%
Estimated Number of Dealer Body Shops	6,490	5,841	6,461	7,204	7,685
Dealer Body Shop Revenue (billions)	\$6.8	\$6.4	\$6.6	\$7.3	\$9.5
Estimated Average Revenue (thousands)	\$1,048	\$1,096	\$1,021	\$1,016	\$1,236

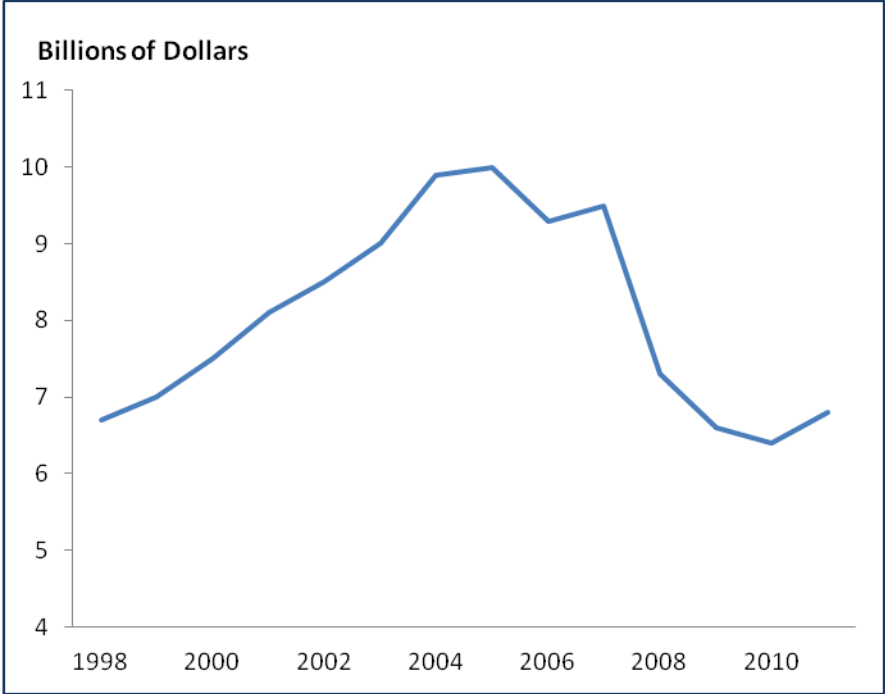
Source: NADA, The Romans Group LLC



Source: NADA, The Romans Group LLC

During the past 22 years, dealerships had seen their collision repair revenue increase steadily until around 2005 when the industry's total sales dollars began to decline to what are now levels equal to 1998. Since 2008 the revenue decline has started to taper off and showed a slight increase in 2011.

Total Dealership Body Shop Sales



Source: NADA Industry Analysis Division

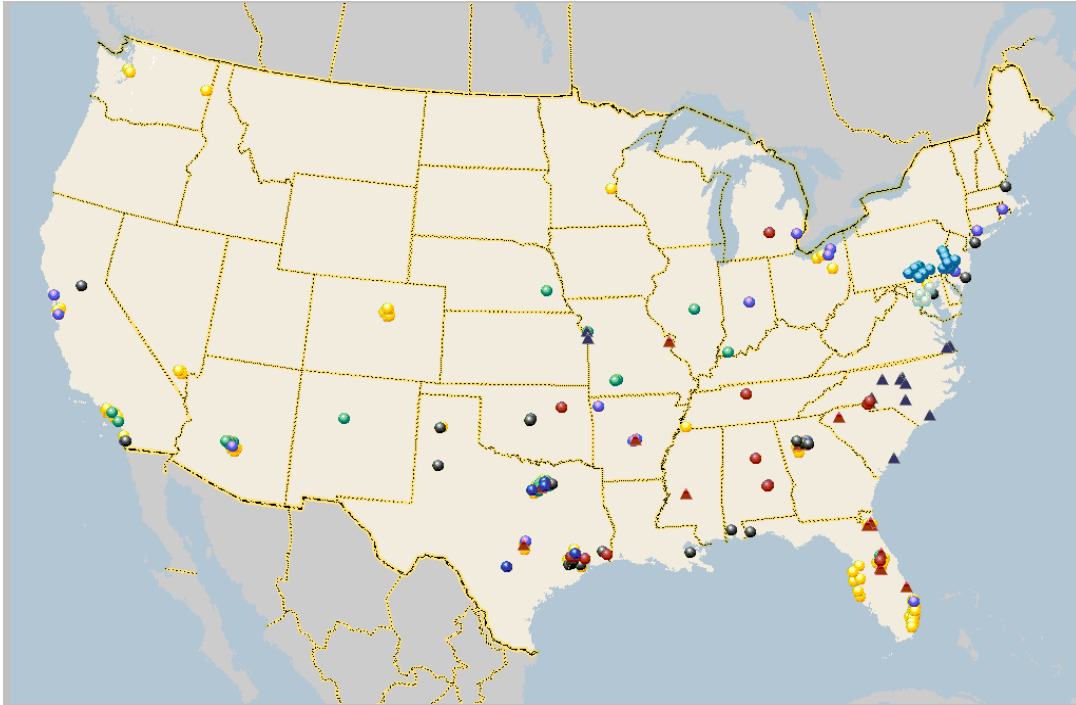
While there was a 0.9 percent decline in the number of new car dealerships from year-end 2010 to year-end 2011, there was an 11 percent increase in the number of dealerships offering collision repair services. The significant decline in the number of dealerships in 2009 and 2010 stabilized somewhat in 2011. About 3,230 dealerships have closed since 2007, leaving the dealership count at 17,540, a drop of 15.6 percent.

Within the top ten dealer group, there has been some minor shifting. For those dealers, average revenue per location has increased over the past year by \$1.9 million, a considerable swing from the \$300,000 decline in 2009.

Top 10 Dealer \$20M MLOs			
Dollars in Millions			
Rank	2011	2006	
1	Auto Nation	Auto Nation	
2	Van Tuyl	Van Tuyl	
3	Penske	Sonic	
4	Hendricks	Group 1	
5	Asbury	Penske	
6	Group 1	Asbury	
7	Sonic	Carl Sewell Group	
8	DarCars	Bill Heard	
9	Carl Sewell Group	Lithia	
10	Faulkner	DarCars	
	2011	2006	Change
<u>Production Locations</u>			
Top 10	212	253	-41
% of All Collision Repair Locations	0.6%	0.6%	0.0
% of All Dealer Locations	3.3%	3.0%	0.3
% of all \$20M MLO Production Locations	18.8%	28.4%	-9.6
<u>Revenue</u>			
Top 10	\$1,127	\$851	\$276
% of All Collision Repair Revenue	3.8%	2.8%	1.0
% of All Dealers	16.6%	6.8%	9.8
% of All \$20M MLO Revenue	28.5%	31.2%	-2.7
<u>Average Revenue per Location</u>			
Top 10 Dealer	\$5.3	\$3.4	\$1.9
All Collision Repair	\$0.8	\$0.7	\$0.1
All Dealers	\$1.0	\$1.2	-\$0.2
All \$20M MLO	\$3.2	\$2.6	\$0.6

Unlike the top ten independent MLOs, the top ten dealer geographic representation is heavily concentrated in the eastern and southeastern areas of the country.

2011 Top 10 Dealer MLOs



Nearing the end of the third quarter of 2012, we continue to see the impact and implications of the three industry-changing phases of *Consolidation, Contraction and Convergence* moving at about the same pace as in 2011. Many of the regional MLOs/MSOs and major national consolidators made numerous individual and small multiple-location acquisitions to build out their footprint, primarily in existing state markets. However, three top companies entered new state markets; Caliber entered Oklahoma, ABRA expanded through its franchise model in Indiana and Michigan, and Service King leaped-frogged to the Arizona market from Texas. Thus far in 2012, there have been approximately 30 acquisition announcements representing over 60 locations. Some of the larger MSO platform acquisitions and other industry announcement to date are:

- Cooks Collision acquired Holmes Autobody Centers and EMC Collision Center (California)
- Caliber acquired 101 Collision Centers (California)

- Boyd/Gerber acquired Master Collision Repair (Florida)
- Boyd/Gerber acquired six single locations in Washington, Florida and Illinois
- Boyd/Gerber acquired Pearl Auto (Colorado)
- Carlyle Group, along with company management, acquired/recapitalized Service King (Texas)
- Service King acquired Autobody World (Arizona)
- ABRA acquired Bradshaw Collision (Tennessee)
- The Carlyle Group is in the process of acquiring DuPont Performance Coatings for approximately \$5.0 billion

We expect that the collision repair landscape will continue to evolve as a result of a number of industry-specific and macro-economic conditions which will likely cause a continuation of collision repairers exiting the business, MLO mergers and acquisitions, market share growth and expansion, and innovative partnerships and strategic alliances. Some of the prevailing conditions include:

- Insurance companies working with a more limited number of single and multiple-location operators
- DRP claims conversion is expected to increase over the next three years
- Performance management results being used to drive DRP claims utilization and influence to top-tier collision repair performers
- DRP and preferred provider programs influencing larger repair volumes to emerging end-game winners
- Insurance companies increasing adoption of the multiple-operator business model and single point of contact
- Fluctuating and conflicting trends affecting accident frequency and the number of repairable claims
- The negative impact of the current macroeconomic and business conditions and their influence on collision repairers choosing whether to remain or to exit their businesses
- Acceleration of aggressive repairer selling, marketing and branding of their competitive value propositions and performance to current and prospective wholesale and consumer segments
- Development, marketing and implementation of new and innovative services by some repairers while many others will not have the ability or the inclination to pursue this with their customer base

- Lean production and its business benefits leading to a competitive advantage and long-term business sustainability for some repairers as compared to their competition
- Hybrid claims management and process models that not all repairers are willing or able to accept, adopt or maintain
- Insurers co-managing with repairers a growing number of their insured's collision repairs through direct repair programs
- Innovation and risk-taking by repairers who will move toward a self-managed vehicle repair model which will require less insurance company oversight, involvement and disintermediation
- Technology and its effect on the evolution and movement toward an integrated electronic claims processing model
- Continued contraction, consolidation and convergence of all industries associated with collision repair
- Globalization and the potential U.S. market entry of foreign companies in the collision repair, property and casualty insurance and auto physical damage industries
- New private equity investments in various auto physical damage segments creating both horizontal and vertical channels of distribution, influence and disintermediation for some within the collision repair and property and casualty insurance industries

For further information, contact Vincent J. Romans or Mary Jane Kurowski of The Romans Group at vincent@romans-group.com, maryjane@romans-group.com or visit www.romans-group.com.