

A 2012 Profile of the Evolving Collision Repair Marketplace

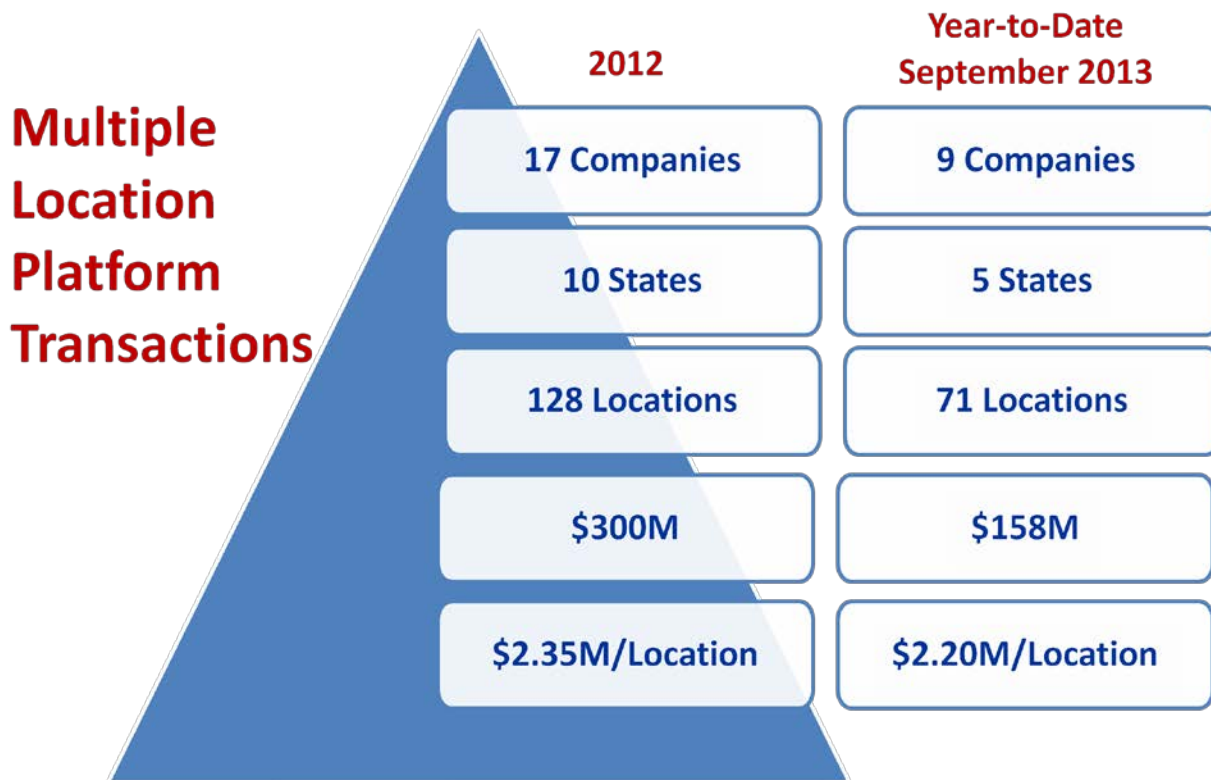
By Vincent J. Romans and Mary Jane Kurowski, The Romans Group

The impact of globalization is increasingly evident with the emergence and migration of new and hybrid auto physical damage models that exist in other countries throughout the world; some of which are finding their way to the United States. There has also been an increase in U.S. and foreign trans-border investments involving various segments within the collision repair, property and casualty auto insurance and the automotive aftermarket ecosystem. In light of this, we have expanded our annual analysis and profile of the U.S. collision repair marketplace to include Canada.

United States

In 2012, U.S. merger and acquisition activity for multiple-location platform transactions took place in 10 states and involved 17 independent collision repair organizations with 128 locations as compared to 48 locations in 2011. These platform transactions shifted approximately \$300 million in revenue during 2012 with average revenue transferred of \$2.35 million per location.

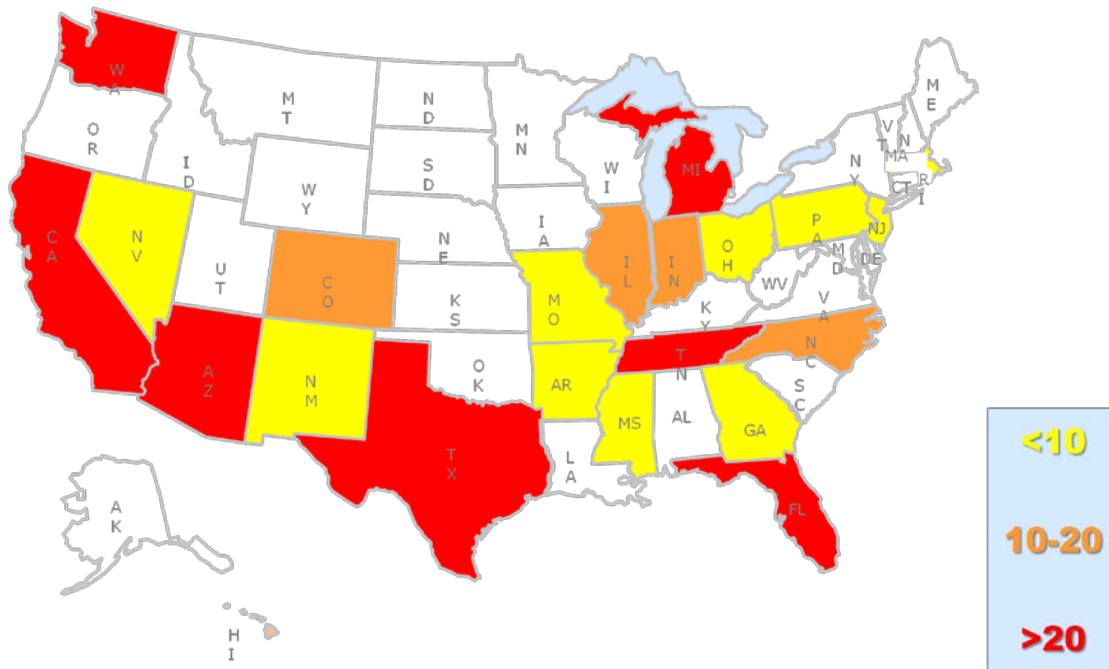
Year to date through September 2013, we see slower M&A activity within the collision repair industry as reflected in the following chart. The 2013 YTD acquisition activity for multiple-location platform transactions took place in 5 states and involved 9 independent collision repair organizations with 59 locations. These platform transactions have shifted approximately \$158 million in revenue to date during 2013 with average revenue transferred of \$2.2 million per location.



Through September 2013, ABRA entered two new markets, Washington and Indianapolis, while Caliber and Service King’s transactions were in existing markets. Boyd/Gerber entered the Michigan market with its Hansen Collision platform transaction. These MLOs also had a number of single-location acquisitions in 2012 and 2013 along with Brownfield and Greenfield locations which built out their respective markets.

The following map indicates which states had the most independent multiple-location platform merger and acquisition activity from 2010 through 2013.

2010-13 Multiple-Location Operator Transaction Activity



Despite the slowdown in merger and acquisition activity thus far in 2013, multiple-location operators, and the collision repair industry in general, continue to move through what we have identified as *Contraction, Consolidation and Convergence*.

We believe that *Constructive Transformation*, the inevitable and necessary heavy lifting associated with the integration of different organizations and their business platforms, is one of the main reasons consolidation momentum has tapered down. Other factors, such as higher valuations and more complex transactions requiring longer periods for due diligence, also contribute to this temporary respite.

We continue to see three main active expansion strategies shaping the collision repair industry. One strategy is being driven by independent and dealership regional MLOs which are focusing their expansion within existing and/or contiguous markets. Another strategy of national independent consolidators, such as Boyd/Gerber, ABRA and Caliber, is the continued focus of activity

primarily within existing markets through clustering and leap-frogging into new regions and markets using platform acquisitions to gain entry.

Unlike these larger, multi-region MLO companies, there have been few regional MLO consolidators venturing into new platform markets. The northeast markets continue to be absent of any significant MSO market entry.

The third strategy is aggressive expansion by franchise consolidator MLOs such as CARSTAR and ABRA. ABRA is onboarding both dealer and independent franchisees in second- and third-tier markets. CARSTAR is targeting growth with independent repairers in specific targeted markets with some market penetration in the northeast. Fix continues its two-pronged strategy of building out its franchise model in target markets while maintaining and growing its banner network across a broader U.S. marketplace. These acquisitions, Brownfield and Greenfield, and franchise conversions 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.

The ≥\$20 million U.S. collision repair segment continues to grow their market share and brand relatively faster than other segments of the collision repair industry. This growth is being driven by an increasing number of variables.

- Private equity’s continued interest in the collision repair industry
 - U.S. MSO organizations with private equity financing and support include the following:

MLO	Equity Source
ABRA	Palladium Equity Partners
Caliber	OnCap
CARSTAR	Champlain Capital
Kadels	KCB Management
Driven Brands/Maaco	Harvest Partners
Service King	Carlyle Group

- MLO access to various private and strategic partner capital for business, 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, higher daily touch time, increased throughput, lower cycle time, and shorter length of rental
- Business service differentiation, market segmentation and brand recognition/reputation
- MLO market leadership through sustainable, top-tier, competitive performance results
- Expanded business hours of operation including multiple daily shifts, weekends and hybrid work shifts
- Insurance DRP focus that drives single point of contact, operational conformity, predictable and sustained repair quality, and competitively ranked repairer 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

United States ≥\$20 Million MLO and the \$10 to \$20 Million Segments

In the past, we have reviewed and profiled the ≥\$20 million MLO segment. The 2012 U.S. profile has been expanded to include our work on the \$10 to \$20 million multiple-location operator segment. This profile of the ≥\$20 million and the \$10 to \$20 million multiple-location collision repair operators includes:

- Independent and dealership MLO collision repair operators processing ≥\$20 million or more in revenue annually within the U.S. market
- Independent and dealership MLO collision repair operators processing \$10 to \$20 million 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
- Organizations typically incorporating strategic planning as part of their proactive approach to their business, market development and growth
- Operators practicing 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

Both the \geq \$20M MLO and the \$10 to \$20M MLO collision repair profile used for this analysis excludes repair facilities that focus exclusively or primarily on expedited paint and cosmollision, paintless dent removal , glass repair, and mechanical only; and collision repair related primarily to auction vehicles. We do recognize that within these segments some companies continue to be in various stages of strategic growth, transformation and transition to business models approaching that of an insurance company DRP or diversified customer collision repair segment platform.

Portions of this report contain a specific segment of multiple-location networks (MLNs) that include collision repair conversion and multi-segment customer-focused franchisor Maaco along with franchise consolidator networks CARSTAR and ABRA. Fix Auto, currently a hybrid model which includes both franchise members and non-franchise repairers participating in Fix's franchise brand and its 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, Safelite and LYNX APD, accident management firms such as The CEI Group, cooperative marketing, consumer advocacy and management networks like Assured Performance, and peer performance groups including The Everest Partners, PPG's Par Kaizen and the Coyote Group. Nevertheless, we do

understand the value and growing importance these organizations have among their customers and constituents in providing solutions and supporting their needs.

Key Findings for the 2012 U.S. ≥ \$20M MLO Market Segment

- The 68 ≥\$20M MLO organizations:
 - Processed 14.7 percent of the \$30.7 billion in collision repair revenue nationally
 - Represent \$4,504 billion in revenue, up 65 percent from 2006
 - Represent 3.9 percent of the 35,200 collision repair locations
- When combining the ≥\$20M MLO organizations and the four franchise branded consolidator MLN networks:
 - They represent \$5.8 billion or 19.1 percent of the \$30.7 billion collision repair market
- When the ≥\$20M MLO organizations are combined with the MLN networks and the \$10m to \$20M MLO segment:
 - These combined three segments represent \$7.2 billion or 23.5% of the \$30.7 billion collision repair market
- Within the top ten ≥\$20M MLOs, five are independent and five are dealer groups
 - These top ten organizations account for 55.9 percent of all ≥\$20M MLO production locations
 - They represent 54.1 percent of all ≥\$20M MLO revenue
- On average, the ≥\$20M MLOs process \$3.2 million per production location, over four times more than the average annual revenue for <\$20M MLO repairers of \$775,718.
- Revenue for the top ten independent and dealership MLOs was \$2.4 billion, an increase of \$1.1 billion over 2006's revenue of \$1.3 billion

Key Findings for the 2012 U.S. \$10 to \$20M MLO Market Segment

As indicated earlier, this group of MLOs represents the next level segment being tracked as part of the broader U.S. market. These MLOs compete not only on a local market basis, but also with the regional and larger multi-platform MLOs. They each bring an entrepreneurial and customized approach to how they succeed and compete. They continue to grow their businesses both organically

and through new locations in order to remain competitive or position themselves as merger or acquisition candidates.

- The 107 \$10 to \$20M MLO organizations:
 - Represent \$1.4 billion in revenue
 - Processed 4.5 percent of the \$30.7 billion in collision repair revenue nationally
 - Represent 530 or 1.5 percent of the 35,200 collision repair locations
- The top 25 processed \$409M revenue and have 140 locations while the top 50 represent \$745M, over 50% of this segments revenue, with 272 locations.

2012 U.S. Collision Repair Market

The three market segments, ≥ \$20M MLO, \$10 to \$20M MLO, and multiple-location networks, MLNs, roll up to a marketplace profile as reflected in the following chart.

2012 U.S. Market Segments	Annual Revenue
≥\$20.0M MLO	\$4.5 B
Multiple Location Networks – MLN/MSO	\$1.3 B
\$10.0-\$20.0M MLO/MSO	\$1.4 B
Total	\$7.2 B

The \$7.2 billion total for these three segments represents 23.5 percent of the annual collision repair revenue processed for 2012, indicating a fragmented collision repair industry with much upside for further consolidation.

Our estimated U.S. market size for the number of independent and dealer collision repair locations at year end 2012 is 35,200. This estimate continues to reflect the long-term decline which began in the late 1980s.

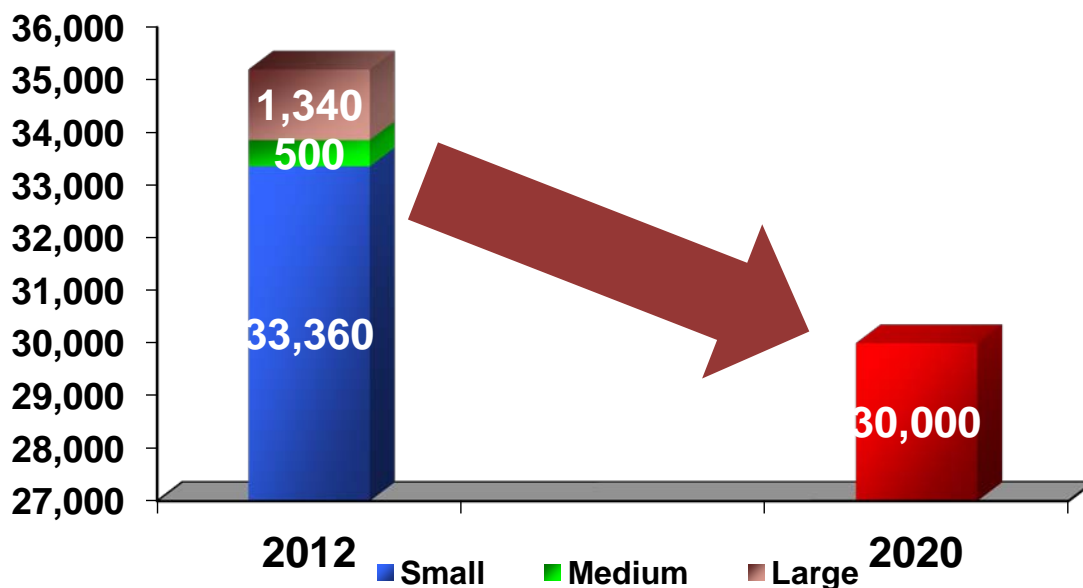
The number of independent and dealership collision repair facilities in the U.S. has declined by 56 percent over the past 30 years, with the sharp decline we have witnessed since 1990 tapering off. Since 2006, we have seen a reduction of approximately 9,800 independent and dealer-operated collision repair facilities within the United States, a 22 percent decline.

Over the next decade, we believe that market share will continue to shift to the \geq \$20M MLOs, the \$10 to \$20M MLOs, and to the franchise multiple-location networks, MLNs. This market share shift will eventually move the industry toward a less fragmented and capacity-normalized model.



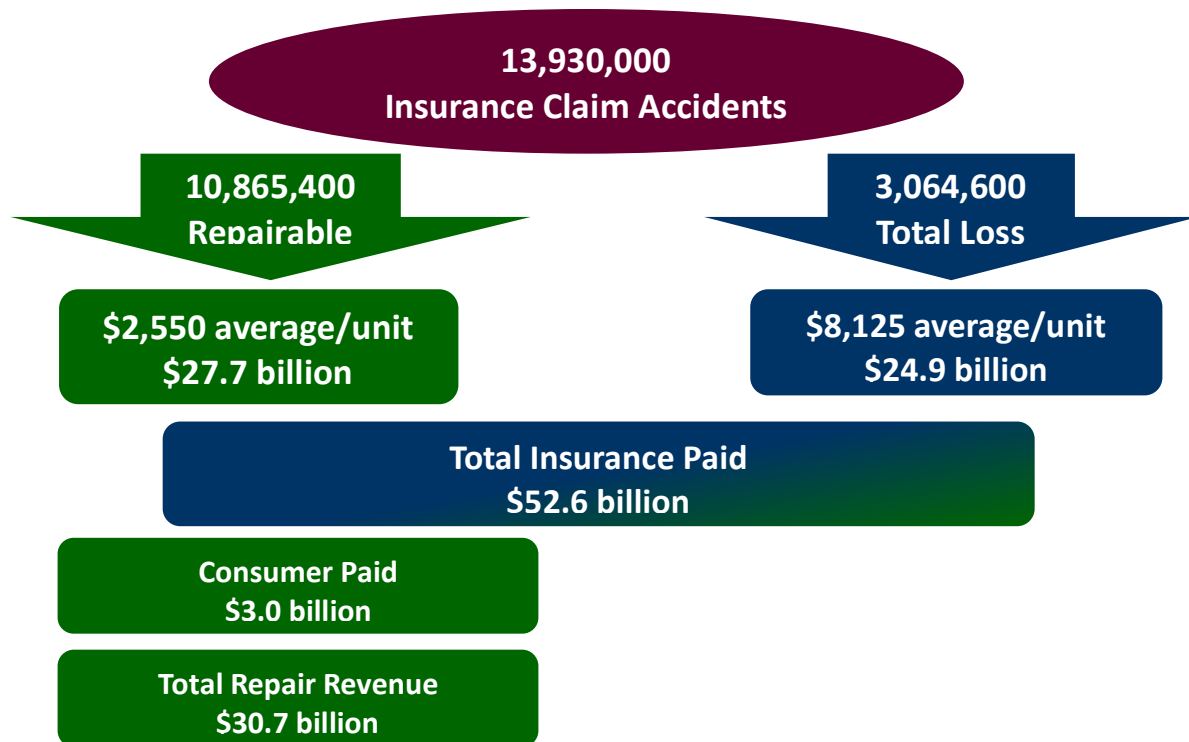
Source: The Romans Group LLC

As we approach 2020 and the trend in industry contraction and consolidation continues, the number of repair locations will move closer to the 30,000 level.



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.

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. Our best-efforts proprietary approach yielded an estimate for insurance-paid repairable claims expenditures for 2012 of \$27.7 billion with a conservative approximation of consumer-paid repairs at \$3.0 billion, resulting in combined insurance and consumer-paid claims for MLO’s targeted repairable vehicle market segment for 2012 of approximately \$30.7 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 technology associated with claims processing such as estimate and repair order auditing, capacity scheduling, planning and utilization, call center, and data mining and analysis of key performance metrics results will be the collision repair providers last standing and preferred by insurance and other claims-generating companies.

Our summary findings concluded that in 2012 there were 68 independent and dealership collision repair \geq \$20M MLOs processing \$4.5 billion annually through 1,363 production locations.

While these \geq \$20M MLOs represent 3.9 percent of the estimated 35,200 collision repair facilities nationally, they process 14.7 percent of the \$30.7 billion in insurance and customer-pay collision repair revenue.

On average, the ≥\$20M MLOs process \$3.3 million per production location, over four times more than the average annual revenue for <\$20M MLO repairers of \$775,718.

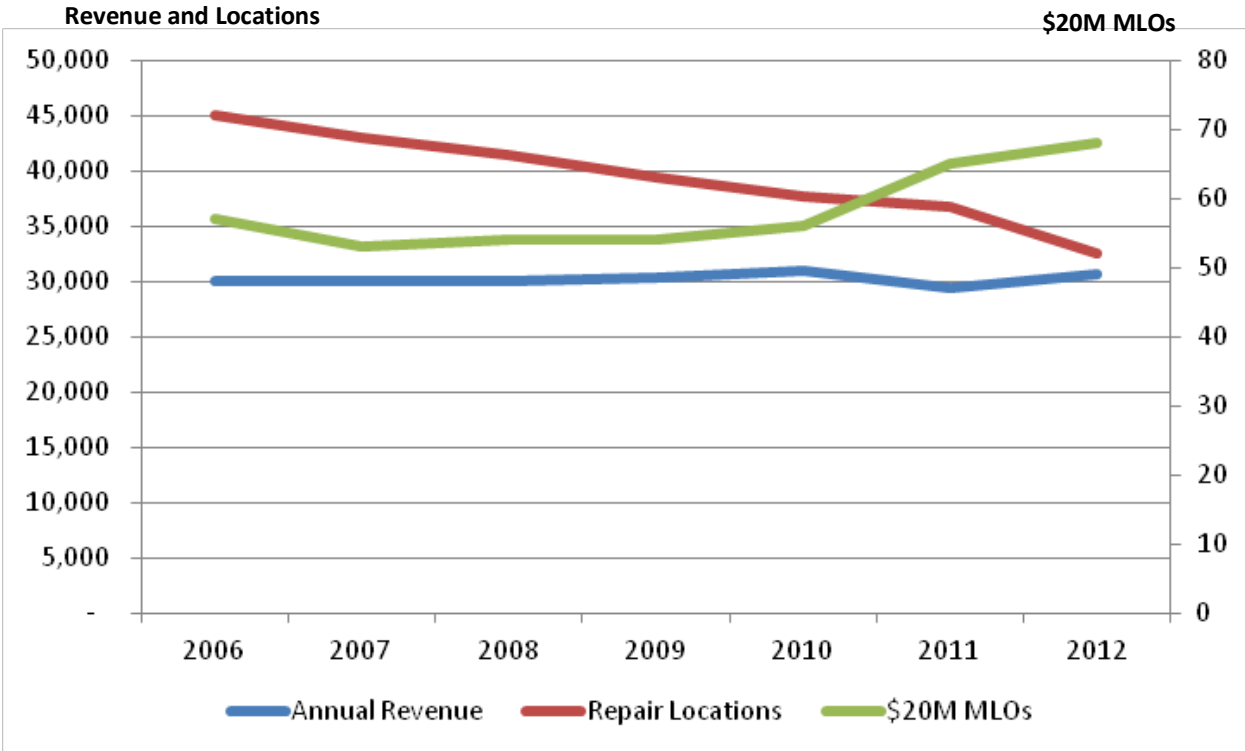
There are many smaller independent and dealer non-MLO repairers that achieve greater-than-the-industry average annual revenue, especially those who represent and operate in the \$10.0 million to \$20.0 million segment.

U. S. Collision Repair Market			
Dollars in Millions			
	<u>2012</u>	<u>2006</u>	<u>Change</u>
Total Collision Repair Locations	35,200	45,000	-9,800
Total Collision Repair Revenue	\$30,700	\$30,000	700
Total Number of \$20M MLOs	68	57	11
<u>≥ \$20M MLO Locations</u>			
Total MLO Locations	1,430	959	457
Total MLO Production Locations	1,363	898	451
% of MLO Production Locations to 35,200 Collision Repair Locations	3.9%	2.0%	1.8%
<u>MLO Revenue</u>			
Total ≥\$20M MLO Revenue	\$4,504	\$2,728	\$1,776
≥\$20M MLO Share of Total Collision Repair Revenue	14.7%	9.1%	5.6%

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

- The repairable vehicle revenue market moved upward slightly for 2012
- The downward trend for the number of collision repair facilities continues
- The number of \geq \$20M MLO repair organizations trended up slightly for 2012

2006-2012 U. S. \geq \$20M MLO Revenue, Location and Organization Trends



Source: The Romans Group

Key Findings for the 2012 Multiple-Location Network Operators (MLNs)

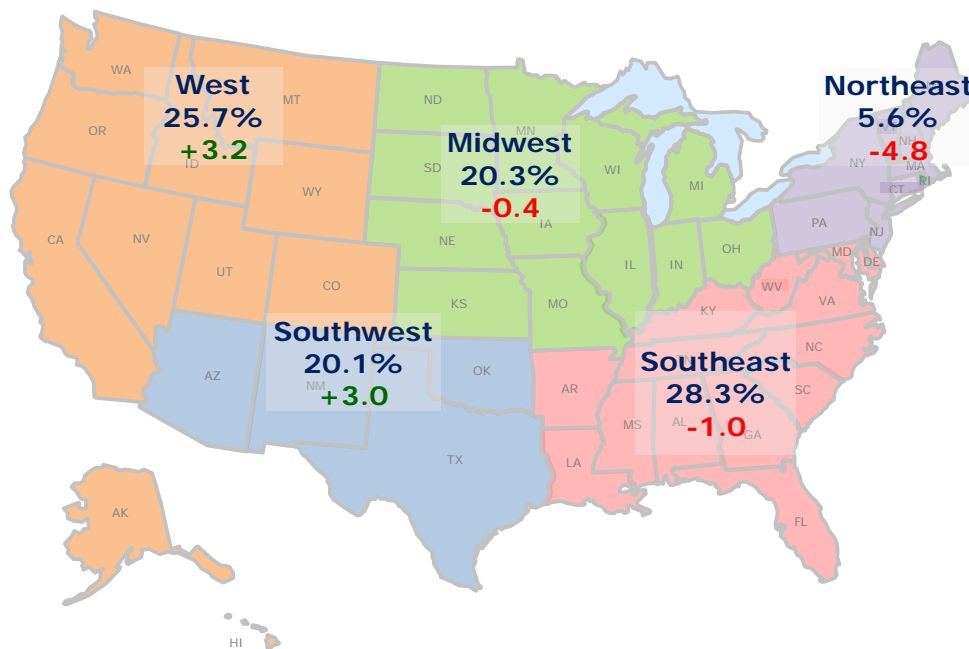
- ABRA, CARSTAR and Maaco, all franchise organizations, and Fix Auto U.S.A., a franchise and brand banner network, are all included as part of our multiple-location network segment for 2012.
- Combined they represent a total of 922 locations generating approximately \$1.3 billion in vehicle repair revenue or 4.4% of the U.S. repairable market
- As a group, they have been relatively flat for both total number of locations and revenue for the last three years

- CARSTAR now squarely positions itself as North America's largest MSO/MLN of independently-owned collision repair facilities
- ABRA markets and includes its franchise operator segment as part of its MLO platform of independent, multi-region collision repair facilities.
- Fix Auto, a franchise and extended brand network, represents that it is 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.
- Maaco positions itself as a collision, auto body repair and auto painting franchise organization.
- We continue to see interest on the part of single-location and smaller multiple-location collision repairers to investigate and consider the benefits of joining multiple-location franchisor and banner networks.

U. S. Collision Repair Market – 2012	
Including Franchise and Branded Network (FBN)	
Dollars in Millions	
Total Collision Repair Locations	35,200
Total Collision Repair Revenue	\$30,700
<i>Production Locations</i>	
Total Franchise and Branded Networks	922
Total ≥\$20M MLO Production Locations Including FBN	2,285
Share of ≥\$20M MLO Production Locations, Including FBN, to 35,200 Collision Repair Locations	6.5%
<i>Revenue</i>	
Total Franchise and Branded Networks	\$ 1,351
Total ≥\$20M MLO Including FBN	\$5,855
Share of ≥\$20M MLO Including FBN to Total Collision Repair Revenue	19.1%

Our geographic market representation for the \geq \$20 million MLOs is highest in the Southeast at 28.3 percent. In 2008, the West was the dominant region with a 25.4 percent share; it now represents 25.7 percent of the market. The lowest \geq \$20M MLO representation continues to be in the Northeast at 5.6 percent which is down 4.8 percentage points from their 2006 share of 10.4 percent.

2012 Market Share and Change versus 2006



- Of the 68 \geq \$20M MLO organizations, 40 do business in only one state. Of those 40 organizations, 33 are independents and 7 are dealers.
- Within the top ten rankings, only three independent and two dealer MLO organizations strategically positioned themselves in only one state at the end of 2012.
- The West has the highest number of \geq \$20M MLOs with at least one location in that region; 28 MLOs are present which represents 41.2 percent of MLOs.

≥\$20M Multiple Location Operator Regional Representation					
	West	Southwest	Midwest	Northeast	Southeast
Number of ≥\$20M MLO Repairer Organizations Represented in Region	28	17	23	12	29
Percent of ≥\$20M MLO Repairer Organizations Represented in Region	41.2%	25.0%	33.8%	17.6%	42.6%

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. We do see significant share growth and higher ranking with Caliber, Boyd and Service King relative to the other top ten MLOs since 2006.

Within the top ten ≥\$20M MLOs, five are independent and five are dealer groups. These ten organizations account for 56.1 percent of all ≥\$20M MLO production locations and 54.1 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 U.S. ≥\$20M Multiple Location Operators

Dollars in Millions

<u>MLO</u>	<u>2012 Rank</u>	<u>2006 Rank</u>	<u>Type</u>
Caliber Collision	1	1	Independent
Boyd/Gerber U.S.	2	8	Independent
Service King	3	11	Independent
ABRA Corp.	4	2	Independent
AutoNation	5	3	Dealer
Sterling Auto Body	6	4	Independent/Insurance
Van Tuyl	7	5	Dealer
Penske	8	9	Dealer
Hendricks	9	-	Dealer
Asbury	10	10	Dealer

	<u>2012</u>	<u>2006</u>	<u>Change</u>
<i>Production Locations</i>			
Top 10	762	461	294
% of All Collision Repair Locations	2.2%	1.0%	1.1
% of all ≥\$20M MLO Prod. Locations	55.9%	51.6%	4.5
<i>Revenue</i>			
Top 10	\$2,435	\$1,292	\$1,143
% of All Collision Repair Revenue	7.9%	4.3%	3.6
% of All ≥\$20M MLO Revenue	54.1%	47.4%	6.7
<i>Average Revenue per Production Location</i>			
Top 10	\$3.2	\$2.8	\$0.3
All Collision Repairers	\$0.9	\$0.7	\$0.2
All ≥\$20M MLOs	\$3.1	\$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 \$3.2 million versus \$775,718; more than four times greater average revenue per location.

Top ten dealer \geq \$20M MLO performance also exceeds their smaller and non-MLO counterparts at a repairs-processed average of \$3.9 million per location versus \$1.0 million per location for smaller and non-MLO dealer repairers; about four 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 \geq \$20M MLOs, the independents have 118 percent more locations producing 71 percent more revenue than dealer repair organizations. However, in 2012 the top ten dealer repairers manage \$3.9 million in average revenue per location versus \$3.0 million per location for top ten independent organizations.

The average revenue per location for the \$10M to \$20M segment is \$2.6M as compared to the \geq \$20.0M segment where average revenue per location was \$3.2M.

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

2012 U.S. Top 10 Multiple-Location \geq \$20.0M Operators



The number of production locations within the top ten independent \geq \$20M MLO group has slowly but steadily been on the rise since 2006. The total number of production locations has increased along with their representative share of all \geq \$20M MLO locations to 44.8 percent from 40.5 percent in 2006. This group's share of all \geq \$20M MLO revenue has increased to 42.9 percent, up 8.9 percentage points from 34.0 percent in 2006.

Top 10 U.S. Independent \geq\$20M MLOs			
Dollars in Millions			
Rank	2012	2006	
1	Caliber Collision	Caliber Collision	
2	Boyd / Gerber U.S.	ABRA	
3	Service King	Sterling Auto Body	
4	ABRA Corp.	Boyd / Gerber U.S.	
5	Sterling Auto Body	Service King	
6	Cook's Collision	True2Form	
7	Collision Revision	Cars Collision	
8	Kadels	Collision Revision	
9	Wilburn's	Cook's Collision	
10	Classic Collision	Kadels	
	2012	2006	Change
<i>Production Locations</i>			
Top 10	641	388	246
% of All Collision Repair Locations	1.8%	0.9%	0.9
% of All Independent Locations	2.2%	1.1%	1.1
% of All \geq \$20M MLO Locations	44.8%	40.5%	4.3
<i>Revenue</i>			
Top 10	\$1,931	\$927	\$1,004
% of All Collision Repair Revenue	6.3%	3.1%	3.2
% of All Independents	8.1%	6.3%	1.8
% of All \geq \$20M MLO Revenue	42.9%	34.0%	8.9
<i>Average Revenue per Location</i>			
Top 10 Independent	\$3.0	\$2.4	\$0.6
All Collision Repair	\$0.9	\$0.7	\$0.2
All Independents	\$0.8	\$0.5	\$0.3
All \geq \$20M MLO	\$3.2	\$2.6	\$0.6

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

2012 Top 10 Independent \geq \$20.0M MLOs



The following chart reflects our estimate of approximately 107 MLO repair organizations that process between \$10M and \$20M in revenue annually through approximately 530 production locations. Their combined total annual repair revenue is \$1,370M or 4.5% of our total collision repair industry market size.

U.S. Collision Repair Market - \$10-\$20M	
Dollars in Millions	
	<u>2012</u>
Total Collision Repair Locations	35,200
Total Collision Repair Revenue	\$30,700
Total Number of \$10-\$20M MLOs	107
<u>\$10-\$20M MLO Locations</u>	
Total MLO Locations	530
% of MLO Production Locations to 35,200 Collision Repair Locations	1.5%
<u>MLO Revenue</u>	
Total \$10-\$20M MLO Revenue	\$1,370
\$10-\$20M MLO Share of Total Collision Repair Revenue	4.5%

The National Automobile Dealers Association, NADA, estimates that 5,996 dealers processed \$6.9 billion in collision repair revenue in 2012 versus \$6.8 billion in 2011. The balance of \$23.8 billion is being processed by approximately 29,204 independent collision repair locations. The trend in the number of dealerships operating collision repair facilities has declined since 2006, when 41 percent had repair locations, down to 34 percent in 2012. Both the number of new car dealerships and the number of dealers operating collision repair facilities have declined significantly since 2006.

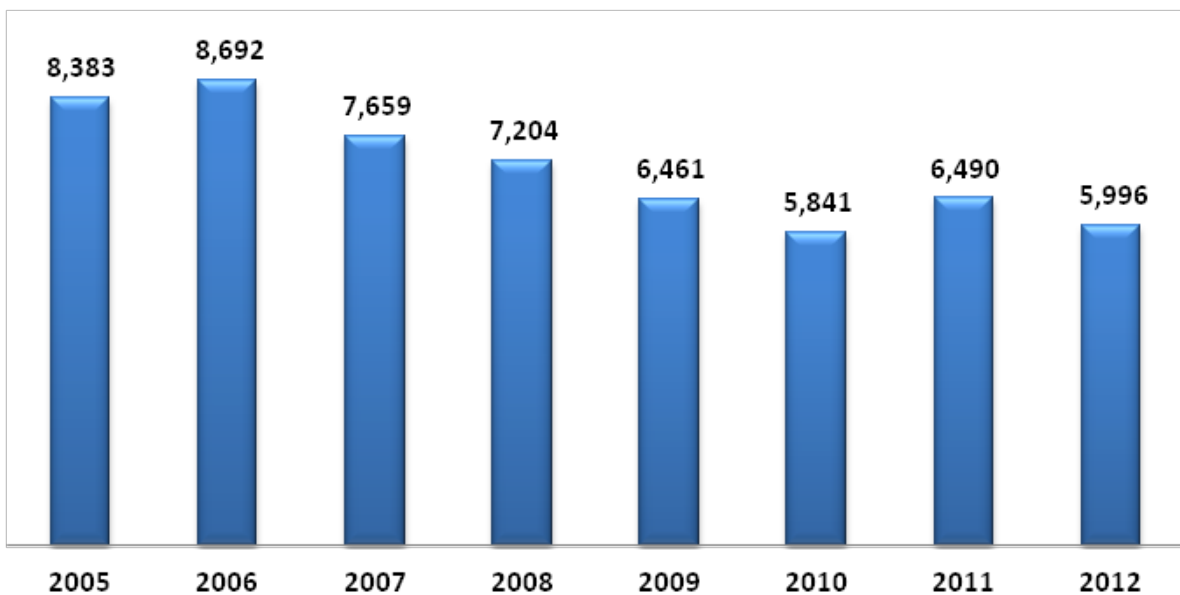
U.S. Dealers Operating On-Site Body Shops

	2012	2011	2010	2009	2008	2007
Total Dealers	17,635	17,540	17,700	18,460	20,010	20,770
Dealers Operating On-Site Body Shops	34%	36%	33%	35%	36%	37%
Estimated Number of Dealer Body Shops	5,996	6,314	5,841	6,461	7,204	7,685
Dealer Body Shop Revenue (billions)	\$6.9	\$6.8	\$6.4	\$6.6	\$7.3	\$9.5
Estimated Average Revenue (thous.ands)	\$1,151	\$1,077	\$1,096	\$1,021	\$1,016	\$1,236

Source: NADA, The Romans Group LLC

Using NADA's reported total of 17,635 dealers at the end of 2012, this represents an estimated 5,996 dealer-operated collision repair facilities, a decline of 31 percent or 2,696 fewer dealer collision repair operators from 2006 when there were 8,692 dealer-operated collision repair facilities.

U. S. Dealer-Operated Collision Repair Facilities



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 34 percent in 2012, an 18 point drop over 18 years.

U.S. Dealerships Operating On-Site Body Shops



Source: NADA Industry Analysis Division

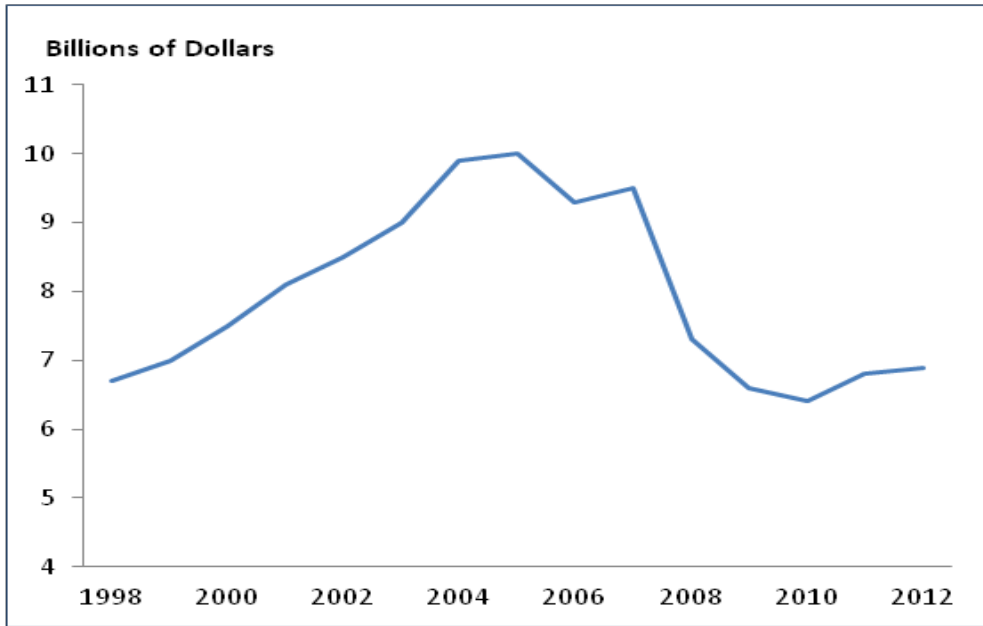
Looking at the dealership share of the collision repair marketplace, and according to NADA, revenue derived from collision repair work performed by dealerships has declined to \$6.9 billion in 2012, down 27.4 percent from \$9.5 billion in 2007.



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, showing a slight increase in the past two years.

Total U.S. Dealership Body Shop Sales



Source: NADA Industry Analysis Division

While there was a slight increase in the number of new car dealerships from year-end 2011 to year-end 2012, there was a 5 percent decline in the number of dealerships offering collision repair services. The significant decline in the number of dealerships since 2007 has stabilized and actually increased slightly in 2012. About 3,135 dealerships have been lost since 2007.

Within the top ten dealer group, there has been some minor shifting since 2006. For those dealers, average revenue per location has increased since 2006 by \$0.5M to \$3.9M.

**Top 10 U. S. Dealer ≥\$20M MLOs
Dollars in Millions**

<u>Rank</u>	<u>2012</u>	<u>2006</u>	
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	Carl Sewell Group	Bill Heard	
9	MileOne	Lithia	
10	DARCARS	DARCARS	

	<u>2012</u>	<u>2006</u>	<u>Change</u>
<i>Production Locations</i>			
Top 10	294	253	40
% of All Collision Repair Locations	0.8%	0.6%	0.2
% of All Dealer Locations	4.9%	3.0%	1.9
% of All ≥\$20M MLO Production Locations	21.8%	28.4%	-6.6
<i>Revenue</i>			
Top 10	\$1,131	\$851	\$280
% of All Collision Repair Revenue	3.7%	2.8%	0.9
% of All Dealers	16.4%	6.8%	9.6
% of All ≥\$20M MLO Revenue	25.1%	31.2%	-6.1
<i>Average Revenue per Location</i>			
Top 10 Dealer	\$3.9	\$3.4	\$0.5
All Collision Repair	\$0.9	\$0.7	\$0.2
All Dealers	\$1.2	\$1.2	\$0.0
All ≥\$20M MLO	\$3.3	\$2.6	\$0.7

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

2012 U.S. Top 10 Dealer MLOs



The following summary chart reflects the revenue identified for our three analyzed MLO and MLN segments, \geq \$20M, \$10M to \$20M and MLNs, reflecting total segmented annual revenue of \$7.4B or 24% of our collision repair industry market size. Based on this segmented market share, the collision repair industry remains fragmented with a high probability of further consolidation and MLO growth and market expansion.

2012 US Market Segments	Annual Revenue
\geq \$20.0M MLO	\$4.5 B
Multiple Location Networks – MLN/MSO	\$1.3 B
\$10.0-\$20.0M MLO/MSO	\$1.4 B
Total	\$7.2 B

Canada

Ten Canadian provinces and three territories make Canada the world's second largest country in geographic area as compared to the U.S. which is ranked third, just slightly behind Canada. Canada's collision repair and property and casualty insurance industries have a number of similar marketplace dynamics when compared to the U.S. such as:

- Collision repair industry contraction and consolidation
- Excess repair capacity
- Professionally-managed collision repair operators providing performance-based, brand-recognized and competitively-differentiated collision repair services
- Collision repairers increased brand marketing through various traditional, evolving and emerging internet and social media channels
- Lean production and operations excellence, leading to enterprise and operational competitive advantages
- Increasing market share gains within the largest MLOs, franchise and banner networks
- Increasing use of business processes and technology
- Increasing technician competency requirements and technical skills needed to meet new vehicle designs and repair standards
- Insurance industry consolidation and significant premium market share concentration among the top ten insurers
- Insurance company direct repair programs (DRP) and evolving hybrid claims management and repair programs
- Insurers working with a more limited number of single and multiple-location operators
- Insurers managing, measuring and ranking repairers' DRP performance with defined metrics
- Insurance companies increasing adoption of the multiple-location operator business model and single point of contact
- DRP and preferred-provider programs influencing larger repair volumes to emerging end-game winners
- Insurance company focus on managing severity and reducing loss costs through staff involvement, MSO contracts and new hybrid claims management initiatives

- Insurers' growing procurement influence with vehicle repair impacting process, technology and the aftermarket supply chain ecosystem

Along with the many similarities between the two country markets, there are also several market differences specific to Canada.

- Government-owned auto insurance companies in three provinces
 - Manitoba; insurer MPI
 - British Columbia; insurer ICBC and five private insurers
 - Saskatchewan; insurer SGI
- Negotiated collision repair rates in government provinces
- Government provinces operate under an accreditation agreement with repairers that is both negotiated and imposed
- The three government-owned insurers have historically managed very low severity by maintaining low labor rates within the collision repair industry and through what some have described as restrictive and onerous procurement models. The model is sometimes described as "bonus/malice" where insureds are not penalized for making claims while the insurer aggressively controls costs with very low severity.
- Recently, a long-term study conducted in Manitoba resulted in an agreement for increases in labor rates that will take place periodically over the next few years.
- No preferred collision repair provider programs exist with government insurers in Manitoba and Saskatchewan where appraisals are written at government-owned, drive-in appraisal centers.
 - The insured can have his car repaired at any collision repair facility of his choice.
 - There tends to be a high supplement rate associated with this model.
- In British Columbia, government insurer ICBC offers both drive-in appraisal centers and a Valet Express Repair program option.
 - Repairers are ranked by performance against KPIs.
 - Based on the repairer's performance ranking, different labor rates would apply ranging from a base rate through to a valet express rate.
 - Those repairers meeting the minimum requirement KPI performance level receive significantly higher hourly rates for body/paint, frame and mechanical work.

- This model has two “Earned Authority Tiers” where different levels of estimates can be written; Tier One with a limit of \$1,500 and Tier Two with a higher limit of \$2500. There is also a “parts autonomy” element with the Tier Two level repairers which allows for a more flexible approach to parts procurement.
- Nascent interest in the European coating company alignment model exists on the part of some insurance companies.
- Glass repair is dominated by one provider with significant countrywide leverage
- Alternative parts utilization is approximately 5 points less than in the U.S. according to Greg Horn of Mitchell International. The ability to secure alternative parts and the utilization of these parts is impacted by several factors.
 - Long distances between the highly-concentrated populations in major cities (about 90 percent of Canadians live within 160 kilometers of the U.S. border) and the distance of rural markets within Provinces
 - The rural repairers’ operating independence
 - The strong rebuilder market in some Provinces
 - Parts being shipped overseas
- Four insurers are working with repairers where no estimates are written
- The largest insurer is purchasing parts on behalf of the collision repairer
- Early stage adopters are experimenting with mobile repairs

The franchise, banner/MLN and MLO segments in Canada represent a significant 55% share of the private insurer repairable vehicle market. The following chart reflects the \geq \$20M and the \$10-\$20M MLO independent and dealer segments as well as the franchise and banner network segment.

Canada	Revenue (millions)	Locations
Total ≥ \$20M Canada	\$ 297	152
Total \$10-\$20M Canada	\$ 120	75
Total MLO Canada	\$ 417	227
Total Banners/Networks Canada	\$ 1,136	867
Total >\$10M MLO/Banners/Networks	\$1,553	1,094
TOTAL CANADA	\$2,800	6,000

Within the traditional MLO segment, the top 10 repairers include eight independent operators and two dealers. These top 10 operators account for over 12 percent of total Canadian repair revenue, or \$0.4M from private insurers through only 3 percent of the total repair locations. Average revenue per location for these operators is nearly four times that of the average Canadian repairer.

Top 10 Canada Independent-Dealer Multiple Location Operators
Dollars in Millions (000)

<u>2012</u>	<u>Rank</u>	<u>Type</u>
Boyd Autobody & Glass	1	Independent
Assured Automotive	2	Independent
Craftsman	3	Independent
ACG Atlantic	4	Independent
Hammer Group	5	Independent
Herbert's	6	Independent
Gabriel	7	Dealer
Birchwood	8	Dealer
Colorworks	9	Independent
Kirmac	10	Independent

	<u>2012</u>
<u>Production Locations</u>	
Top 10	185
% of CA 6M Collision Repair Locations	3.1%
<u>Revenue</u>	
Top 10	\$346
% of CA \$2.8M Collision Repair Revenue	12.3%
<u>Average Revenue per Location</u>	
Top 10	\$1.9
All CA Collision Repair	\$0.5

The top five franchise and banner networks represent \$1.1B in annual revenue.

- Collision Solutions Network and CarrXpert – banners
- CARSTAR, Fix Auto and Maaco – franchise

When included in the top ten, franchise and banner networks increase the market share of these larger organizations from 12.3 percent for independents and dealers alone, to 49.5 percent for all formats.

Top 10 Canada Multiple Location Operators
Dollars in Millions (000)

<u>2012</u>	<u>Rank</u>	<u>Type</u>
Collision Solutions Network	1	Banner
CarrXpert	2	Banner
Carstar	3	Franchise
Fix Auto	4	Franchise
Boyd Autobody & Glass	5	Independent
Assured Automotive	6	Independent
Craftsman	7	Independent
ACG Atlantic	8	Independent
Maaco	9	Franchise
Hammer Group	10	Independent

	<u>2012</u>
<u>Production Locations</u>	
Top 10	1,006
% of CA 6M Collision Repair Locations	16.8%
<u>Revenue</u>	
Top 10	\$1,387
% of CA \$2.8M Collision Repair Revenue	49.5%
<u>Average Revenue per Location</u>	
Top 10	\$1.4
All CA Collision Repair	\$0.5

U.S. and Canada Consolidated

There are few surprises with respect to the differences in each country's size and relative order of magnitude regarding the collision repair market and the private property and casualty insurance industries. Certain Canadian marketplace dynamics are different than the U.S., especially as they relate to insurance in the three government-owned provinces; including how insurance is acquired and claims processed within the provinces. There are, of course, governmental, cultural and language differences (Quebec Province) that impact legislation. Insurance and collision repair industries and consumer rights also differ from the U.S., but these topics were not the focus of our research and discovery. The following chart demonstrates some of these key national marketplace differences.

	U.S.	Canada
Private P&C insurance company premiums	\$425.0B	\$43.0B
Private P&C insurance company auto premiums	\$164.0B	\$20.0B
P&C insurance companies	259	220 private, 3 government
Top 10 private insurance company premium market share	70%	76%
Collision repair market size	\$30.7B	\$2.8B
Collision repair shop population	35,200	6,000

Following is an annual revenue comparison of the U.S. and Canada for the different market segments. Within the U.S. market, independent and dealer MLOs are the foremost business model. In Canada, however, it is the franchise and banner networks that dominate the market. Canada can be viewed as a more consolidated market, where the total MLO/Franchise/Banner/MLN segment represents 55 percent of Canada's private insurers and consumer-paid vehicle repairable market size as compared to 22 percent in the U.S.

The Franchise/Banner/MLNs in the U.S. and Canada represent approximately the same revenue at \$1.4B and 1.1B respectively. In Canada, this segment is a significant 73 percent share of Canada's total MLO/Franchise/Banner/MLN revenue; whereas the MLN share of the U.S. MLO/Franchise/Banner/MLN segment is a considerably smaller 18.7 percent.

U.S. and Canada MLO/Franchise/Banner Network Revenue Comparison

	U.S.	Canada
Total ≥\$20M MLO	\$4,504.0B	\$297.0B
Total \$10-20M MLO	\$1,370.0B	\$120.0B
Total ≥\$20M and \$10-\$20M MLO	\$5,874.0B	\$417.0B
Total Franchise /Banner Networks	\$1,351.0B	\$1,136.0B
Total MLO/Franchise/Banner Networks	\$7,225.0B	\$1,553.0B
Total MLO/Franchise/Banner Networks Percent of Total Collision Repair Market	22%	55%

The \$8,778B combined MLO/Franchise/Banner/MLN repair revenue in the U.S. and Canada represents 26 percent of the combined U.S. and Canadian private insurer market of \$33,500M.

We looked at combining these markets in two ways; MLOs as individual entities operating in either the U.S. or Canadian market, and as consolidated country segments where companies with operations in both markets were consolidated to represent the total of their U.S./Canadian market share.

Looking first at a consolidated U.S./Canada market, the top ten consolidated U.S. and Canada MLO/Franchise/Banner/MLN market size is \$4,280M, representing about 49 percent of the combined U.S. and Canada vehicle repair revenue of \$8,778B. The top three repairers all belong to the dominant Canadian Franchise/Banner/MLN segment. There were no dealer groups from Canada that made the top ten consolidated U.S. and Canada ranking and one dealer, AutoNation, in the U.S. The dealer segment in the U.S. is considerably larger than in Canada.

Top 10 U.S.-Canada Consolidated

Dollars in Millions

<u>Company</u>	<u>2012 Rank</u>	<u>Location</u>	<u>Type</u>
CARSTAR	1	US-CA	Franchise
Fix Network	2	US-CA	Franchise & Banner
Maaco	3	US-CA	Franchise
Caliber	4	US	Independent
Boyd/Gerber	5	US-CA	Independent
Collision Solutions Network	6	CA	Banner
ABRA	7	US	Independent & Franchise
Service King	8	US	Independent
Auto Nation	9	US	Dealer
CarrXpert	10	CA	Banner

<i>Production Locations</i>	
Top 10	2,429
% of \geq \$10M Companies	62.4%
% of US-CA Collision Repair Locations	5.9%
<i>Revenue</i>	
Top 10	\$4,280
% of \geq \$10M Companies	48.8%
% of US-CA Collision Repair Revenue	12.8%

When looking at the companies individually, without cross-border consolidation, 8 of the top 10 operators are located in the U.S.

Top 10 U.S.-Canada Multiple Location Operators
Dollars in Millions

<u>2012</u>	<u>Rank</u>	<u>Location</u>	<u>Type</u>
Caliber Collision	1	US	Independent
Maaco	2	US	Franchise
Fix Network	3	US	Franchise & Banner
Collision Solutions Network	4	CA	Banner
CARSTAR	5	US	Franchise
Boyd/Gerber	6	US	Independent
Service King	7	US	Independent
ABRA Corporate	8	US	Independent
CarrXpert	9	CA	Banner
AutoNation	10	US	Dealer

	<u>2012</u>
<u>Production Locations</u>	
Top 10	1,967
% of US-CA Collision Repair Locations	4.8%
<u>Revenue</u>	
Top 10	\$3,646
% of US-CA Collision Repair Revenue	10.9%
<u>Average Revenue per Location</u>	
Top 10 Independent	\$1.8
All US-CA Collision Repair	\$0.8

Key Findings for Combined U.S. and Canada

- The ≥ \$10M Franchise/Banner/MLN segment in the U.S. and Canada represents 28 percent of the combined ≥ \$10M MLO/MLN revenue of \$8,778M.
- The ≥ \$20M segment in the U.S. for independent and dealers is significantly larger at \$4,504M when compared to Canada where this segment represents \$297M.
- The ≥\$10M MLO segment in Canada reflects a 15 percent market share as compared to the U.S. where it has a 19 percent market share.

- When all MLO segments are combined, the total \geq \$10M MLO/Banners/Networks in Canada have a 55 percent share of the repairable vehicle market as compared to the U.S. where they represent a 23 percent share.
- The MLO banner and franchise networks in Canada have significantly stronger market share than the \geq \$10M independent and dealer MLOs. Conversely, the \geq \$10M independent and dealer MLOs in the U.S. have significant more market share as compared to the franchise and banner network segment in the U.S.

The following chart reflects the consolidated U.S. and Canada macro overview of 2012 repair revenue processed in our three identified segments within a consolidated country market size of \$33.5B.

2012 US-Canada Market Segments			
Market Segment	U.S.	Canada	Total Revenue
\geq\$20.0M MLO	\$4.5B	\$0.3B	\$4.8B
Multiple Location Networks	\$1.3B	\$1.1B	\$2.4B
\$10.0-\$20.0M MLO/MSO	\$1.4B	\$0.1B	\$1.5B
Total	\$7.2B	\$1.5B	\$8.7B

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