

## **A 2013 Profile of the Evolving North American Collision Repair Marketplace**

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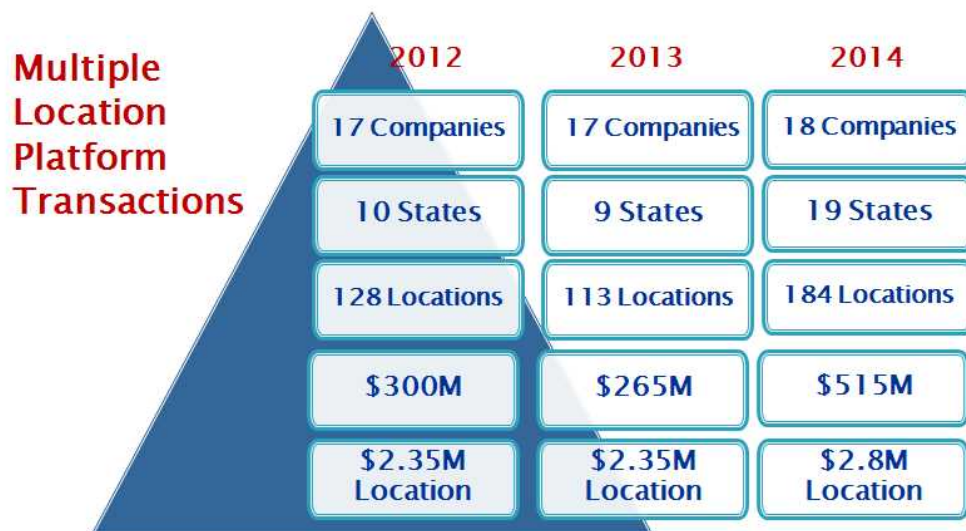
It has been six years since the U.S. recession set off the beginning of what has now evolved as ongoing structural market changes that continue to impact the entire auto physical damage ecosystem. These structural changes, coupled with the confluence of a growing number of prevailing local, regional, national, and global market conditions impacting North America, accentuate the ongoing risks and opportunities associated with industry dynamics involving consolidation, contraction, convergence, and constructive transformation.

### **United States**

In 2013, U.S. MSO consolidator acquisition activity for multiple-location platform transactions took place in 9 states and involved 17 independent collision repair organizations with 113 locations. These platform transactions shifted approximately \$265 million in revenue during 2013 with average revenue transferred of \$2.35 million per location.

Through September 2014, MSO consolidator merger and acquisition activity within the collision repair industry has accelerated, representing nearly twice the revenue of 2013.

### **Multiple Location Transactions 2012-14**



Through September 2014, ABRA entered four new markets in North Carolina, Illinois, Ohio, and Missouri while Service King entered multiple new markets with its Sterling Autobody platform acquisition from Allstate Insurance Company. Gerber's transactions were all in existing markets. These MLOs also had a number of single-location acquisitions in 2013 and 2014 in addition to Brownfield and Greenfield locations which expanded their existing markets and brought them into new ones.

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, especially private equity's continued interest in the U.S. collision repair industry. Private equity investment in MSO organizations through September 2014 is reflected in the following chart.

<b>MLO</b>	<b>Equity Source</b>
ABRA	Palladium Equity Partners
Caliber	OMERS
CARSTAR	Champlain Capital
Kadels	KCB Management
Driven Brands/Maaco	Harvest Partners
Service King	Blackstone & Carlyle Group

Historically, private equity investment in an organization involved a five-to-ten-year investment cycle. Since 2008, in the U.S. collision repair market, we see a trend toward a shorter investment cycle as has been experienced by the top three consolidators with their respective private equity investor timeframes.

#### **ABRA**

- 2006 - Prudential
- 2011 - Palladium Equity Partners
- 2014 - Hellman and Friedman

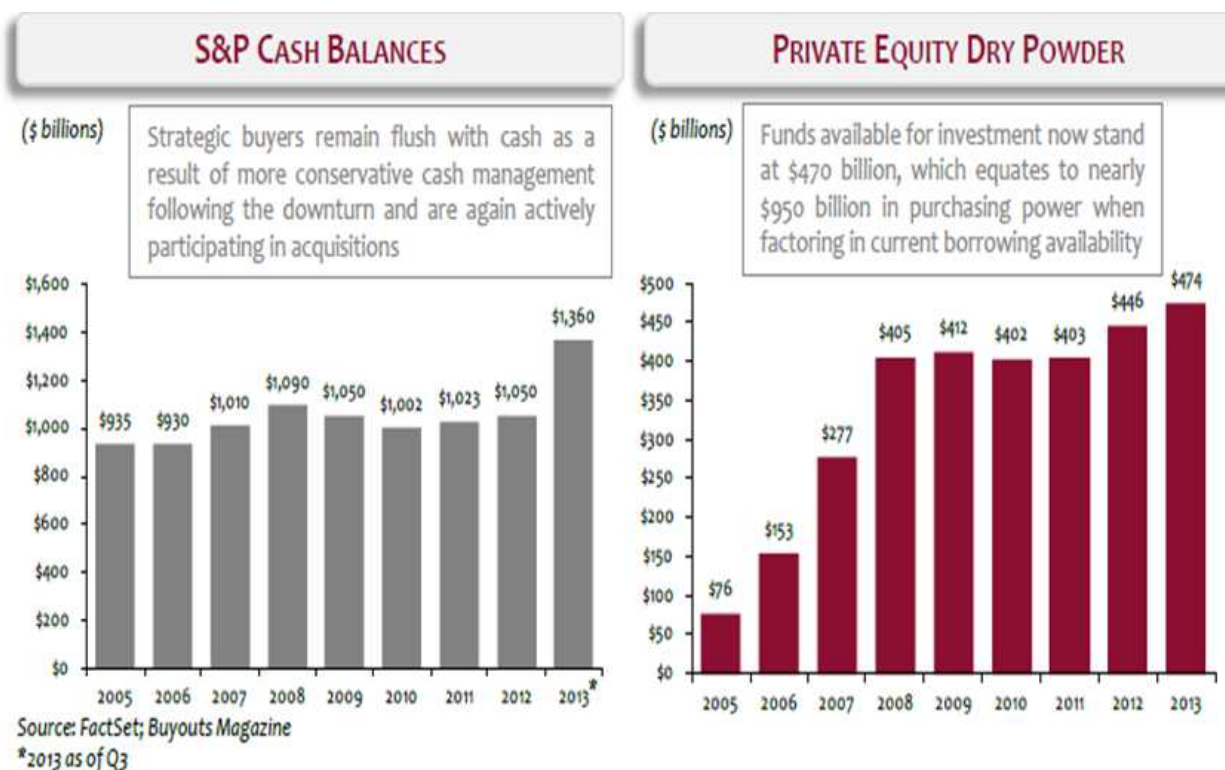
#### **Caliber**

- 2008 - ONCAP
- 2013 - OMERS

#### **Service King**

- 2012 - Carlyle
- 2014 - Blackstone

There are a number of factors that might come into play regarding these shorter time frames including the aggressive acquisition growth mode demonstrated by the four MSO consolidators both prior to and following their purchase by a private equity investor, MSO operational and financial performance driving accelerated rate-of-return objectives, concern around the timing of the risk associated with rising interest rates, and the tremendous amount of strategic and private equity cash seeking investment opportunities ultimately driving higher valuations.



### **United States ≥\$10 Million MLO Profile**

Our profile of the ≥\$20 million and \$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

- Multiple-location networks (MLNs) that include collision repair conversion and multi-segment customer-focused franchisor Maaco along with franchise consolidator network MSOs CARSTAR, ABRA and Fix Auto. These organizations represent an important market segment within the collision repair industry and independent franchise segment.
- Professionally-managed MLO operators providing performance-based, brand-recognized and competitively-differentiated collision repair services
- Companies focused on achieving top-tier, self-managed, and customer-required top-ranked 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 and marketing, and technology as a minimum foundation for their business platform
- Companies that have leveraged technology with intent to further incorporate enabling technologies in the future

Both the  $\geq \$20M$  MLO and the \$10 to \$20M MLO collision repair profiles used for this analysis *exclude* repair facilities that focus exclusively or primarily on expedited paint and cosmollision, paint-less dent removal , glass repair, 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.

There are various types of multiple-location networks, MLNs, that are not specifically identified in this paper such as integrated and outsourced auto physical damage and glass networks, Safelite and LYNX APD, accident management firms such as The CEI Group and Innovation Group, cooperative marketing groups, consumer advocacy and management networks like Assured Performance, and peer performance groups including PPG's Para Kaizen, Vision

One Group and the Coyote Performance Group. However, much, if not all, of their customer base revenue is included in our market sizing through the segment profiles we have already established and profiled. Nevertheless, we do understand the value and ongoing importance these organizations have among their customers and constituents in providing auto physical damage solutions to the marketplace. They also offer solutions to specialty auto repair and niche markets.

### **2013 U.S. ≥ \$20M MLO Market Segment Key Findings**

- The 68 ≥\$20M MLO organizations:
  - Processed 15.5 percent of the \$31.4 billion in collision repair revenue nationally for insurance and customer pay
  - This represents \$4.9 billion in annual revenue, an increase of \$400M from 2012
  - Represents 4.1 percent of the 34,400 collision repair locations
  - On average, the ≥\$20M MLOs process \$3.5 million per production location, over four times the average annual revenue for <\$20M MLO repairers of \$793,529
- When combining the ≥\$20M MLO organizations and the four franchise branded consolidator MLN networks:
  - They represent \$5.9 billion or 19 percent of the \$31.4 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 \$7.4 billion or 23.6 percent of the \$31.4 billion collision repair market
- Within the top ten ≥\$20M MLOs, six are independent and four are dealers
  - These top ten MLO organizations account for 58.7 percent of all ≥\$20M MLO production locations
  - They represent 56.1 percent of all ≥\$20M MLO revenue or \$2.8 billion; about 9 percent of the \$31.4 billion market.
- The top ten dealer MLOs represent \$1.2B, 3.7 percent, of revenue and 233, 0.7 percent, of the total number of locations within the ≥\$20M segment.
  - There are 21 dealer MLOs with 333 locations processing \$1.5 billion in revenue with average revenue per location of \$4.5 million.
  - These 21 dealer MLOs represent about 4.8 percent of the total U.S. repair market revenue

### **U.S. Collision Repair Market**

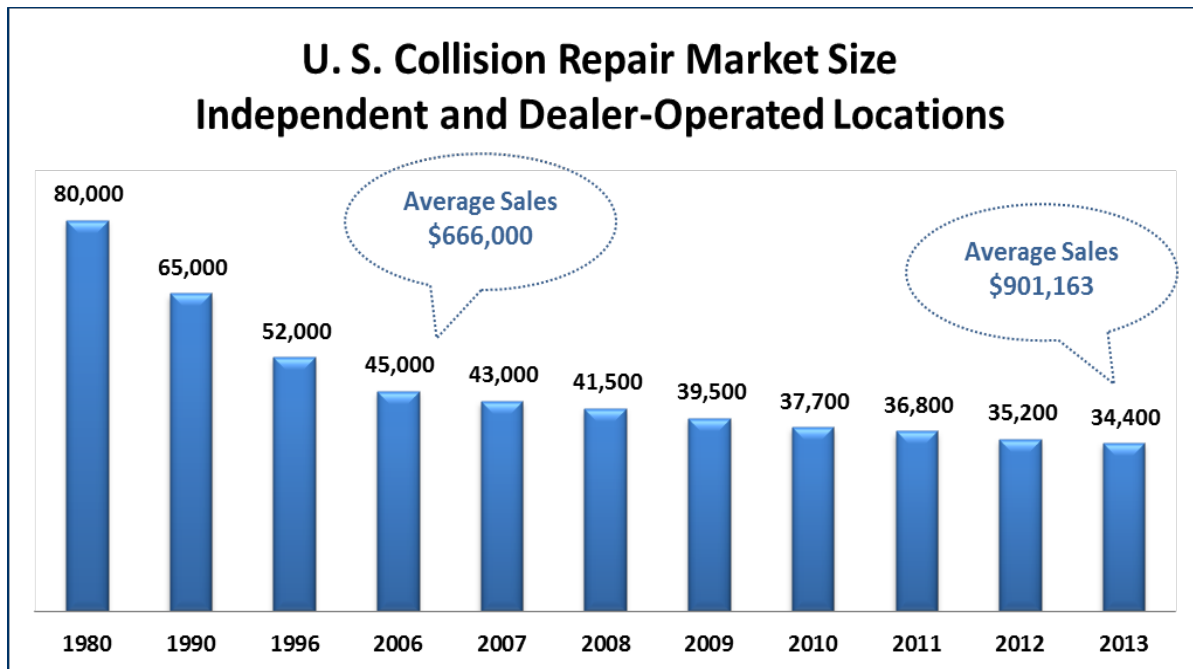
The three market segments,  $\geq \$20\text{M}$  MLO,  $\$10$  to  $\$20\text{M}$  MLO, and the franchise multiple-location networks (MLNs), roll up to a marketplace profile as reflected in the following chart.

U.S. 2013 Market Segments	Annual Revenue
$\geq \$20.0\text{M}$ MLO	\$4.9 B
Multiple Location Networks – MLN/MSO	\$1.0 B
\$10.0-\$20.0M MLO/MSO	\$1.5 B
Total	\$7.4 B

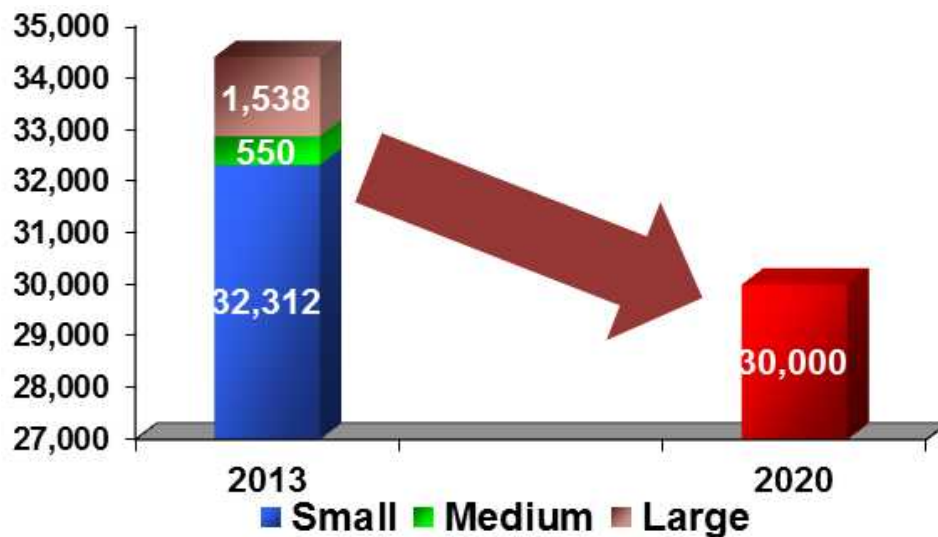
The \$7.4 billion total for these three segments represents 23.6 percent of the annual collision repair revenue processed for 2013, indicating a still-fragmented collision repair industry with more upside for further consolidation and contraction. Our estimated U.S. market size for the number of independent and dealer collision repair locations at year end 2013 is 34,400. 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 57 percent over the past 30 years. Since the beginning of the U.S. recession in 2008, we have seen a reduction of approximately 7,100 independent and dealer-operated collision repair facilities within the United States, a 17 percent decline.

Over the next decade, we believe that market share will continue to shift to the  $\geq \$20\text{M}$  MLOs, to the  $\$10$  to  $\$20\text{M}$  MLOs, and to the franchise multiple-location networks. However, as can be seen in other industries where consolidation has taken place such as the home building and hardware, and drug store/pharmacy industries, there will be successfully-operated specialty, micro-market and home town collision repair facilities in markets separate from and within MLO markets. This market share shift will eventually move the industry toward a less fragmented and capacity-normalized model.



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.

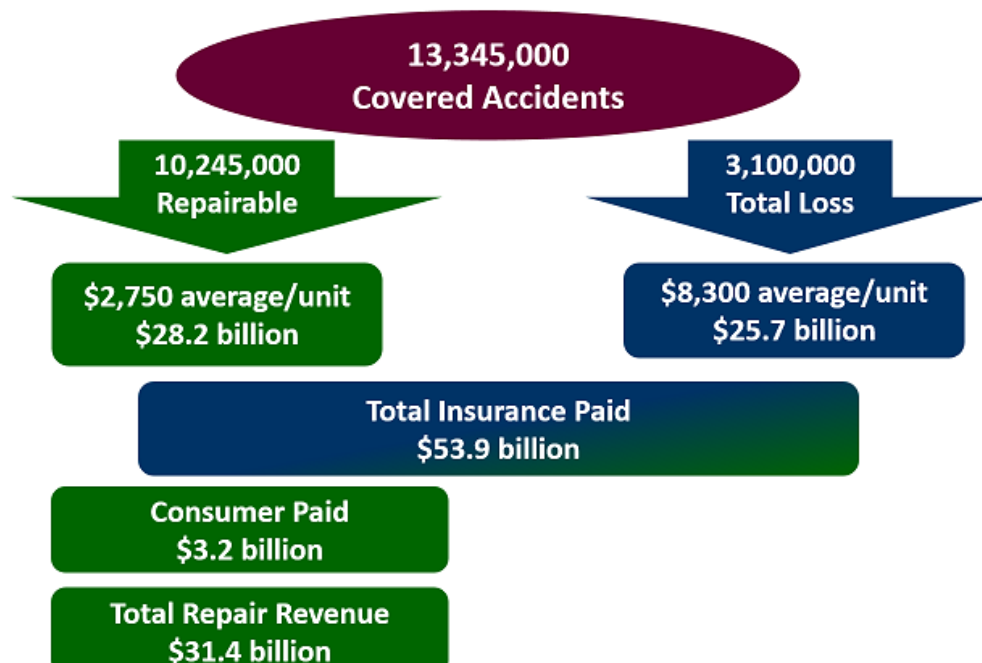




Based on our longitudinal research and analysis involving published third-party industry sources, property and casualty insurance, private sector, government sources, and industry knowledgeable and experienced professionals; we continue to ascertain that there is no one certain number that is universally 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 used in determining a meaningful and relevant collision repair market size. Additionally, many numbers that are reported to the various agencies are not inclusive of all potential contributors. Some examples include insurance companies opting out of Insurance Services Office, ISO, and Property Casualty Insurers, PCI, data information providers which only represent a percent of market share in their databases, and data that is reported several years in arrears by government agencies. Our best-efforts proprietary approach yielded an estimate for insurance-paid, repairable claims expenditures for 2013 of \$28.2 billion with a conservative approximation of consumer-paid repairs at \$3.2 billion, resulting in combined insurance and consumer-paid claims for the repairable vehicle market segment of approximately \$31.4 billion repair revenue.

## Annual Auto Accident Outcomes - 2013



The market size has been relatively flat since 2006 when we started tracking our data. While accident frequency is flat to trending downward, the cost to repair vehicles has risen steadily and gradually over the last few years. This intersection of downward frequency and increased cost has resulted in a relatively flat trend line for total market size. We believe the downward accident trend will continue, supported by a number of variables not conducive to major increases in accident frequency such as demographic shifts away from driving cars, safety and accident avoidance technology, and telematics just to name a few. Nevertheless, the potential for future success is considerable for those repairers who can sustain and capture market share.

The following chart shows the profile and change in the U.S. collision repair market and the ≥\$20 million segment since 2006. This MLO segment now represents almost 16 percent of the revenue of the U.S. market, up from 9.1 percent in 2006.

U. S. Collision Repair Market			
Dollars in Millions			
	<u>2013</u>	<u>2006</u>	<u>Change</u>
Total Collision Repair Locations	34,400	45,000	-10,600
Total Collision Repair Revenue	\$31,400	\$30,000	1,400
Total Number of ≥\$20M MLOs	68	57	11
<u>≥ \$20M MLO Locations</u>			
Total MLO Locations	1,485	959	526
Total MLO Production Locations	1,397	898	499
% of MLO Production Locations to 34,400 Collision Repair Locations	4.1%	2.0%	2.1%
<u>MLO Revenue</u>			
Total ≥\$20M MLO Revenue	\$4,881	\$2,728	\$2,153
≥\$20M MLO Share of Total Collision Repair Revenue	15.5%	9.1%	6.6%

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  $\geq$ \$20M MLOs, the average repair revenue per location significantly surpasses that of their smaller and non-MLO counterparts at \$3.2 million versus \$793,529; a little over four times average revenue per location.

U.S. - Top 10 $\geq$ \$20M Multiple Location Operators			
Dollars in Millions			
<u>MLO</u>	<b>2013 Rank</b>	<b>2006 Rank</b>	<b>Type</b>
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
Van Tuyl	7	5	Dealer
Penske	8	9	Dealer
Cook's	9	-	Independent
Hendricks	10	-	Dealer
	<b>2013</b>	<b>2006</b>	<b>Change</b>
<b><u>Production Locations</u></b>			
Top 10	850	461	389
% of All Collision Repair Locations	2.5%	1.0%	1.5
% of all $\geq$ \$20M MLO Prod. Locations	58.7%	51.6%	7.1
<b><u>Revenue</u></b>			
Top 10	\$2,759	\$1,292	\$1,467
% of All Collision Repair Revenue	8.8%	4.3%	4.5
% of All $\geq$ \$20M MLO Revenue	56.1%	47.4%	8.7
<b><u>Average Revenue per Production Location</u></b>			
Top 10	\$3.2	\$2.8	\$0.4
All Collision Repairers	\$0.9	\$0.7	\$0.2
All $\geq$ \$20M MLOs	\$3.3	\$2.6	\$0.7

At the time of writing this article, three of the top ten MSOs, Sterling, Collision Revision and Wilburn's Auto, had recently been acquired and will impact the 2014  $\geq$ \$20M segment analysis and ranking.

U.S. - Top 10 Independent $\geq$ \$20M MLOs Dollars in Millions			
<u>Rank</u>	<u>2013</u>	<u>2006</u>	
1	Caliber Collision	Caliber Collision	
2	Boyd / Gerber (US)	ABRA	
3	Service King	Sterling Auto Body	
4	ABRA Corp.	Boyd / Gerber (US)	
5	Sterling Auto Body	Service King	
6	Cook's Collision	True2Form	
7	Kadels	Cars Collision	
8	Collision Revision	Collision Revision	
9	Wilburn's Auto Body	Cook's Collision	
10	Classic Collision	Kadels	

	<u>2013</u>	<u>2006</u>	<u>Change</u>
<b><u>Production Locations</u></b>			
Top 10	781	388	393
% of All Collision Repair Locations	2.3%	0.9%	1.4
% of All Independent Locations	2.8%	1.1%	1.7
% of All $\geq$ \$20M MLO Locations	52.6%	40.5%	12.1
<b><u>Revenue</u></b>			
Top 10	\$2,270	\$927	\$1,343
% of All Collision Repair Revenue	7.2%	3.1%	4.1
% of All Independents	9.5%	6.3%	3.2
% of All $\geq$ \$20M MLO Revenue	46.5%	34.0%	12.5
<b><u>Average Revenue per Location</u></b>			
Top 10 Independent	\$2.9	\$2.4	\$0.5
All Collision Repair	\$0.9	\$0.7	\$0.2
All Independents	\$0.8	\$0.5	\$0.3
All $\geq$ \$20M MLO	\$3.3	\$2.6	\$0.7

The National Automobile Dealers Association, NADA, estimates that 6,359 dealers processed \$7.0 billion in collision repair revenue in 2013 versus \$6.9 billion in 2012. The balance of \$24 billion is being processed by approximately 28,041 independent collision repair locations. The formerly downward trend in the number of dealerships operating collision repair facilities has ticked up in 2012 and 2013. However, despite the recent upward trends, the total number of new car dealerships operating collision repair facilities, and the associated body shop revenue, has declined significantly since 2006.

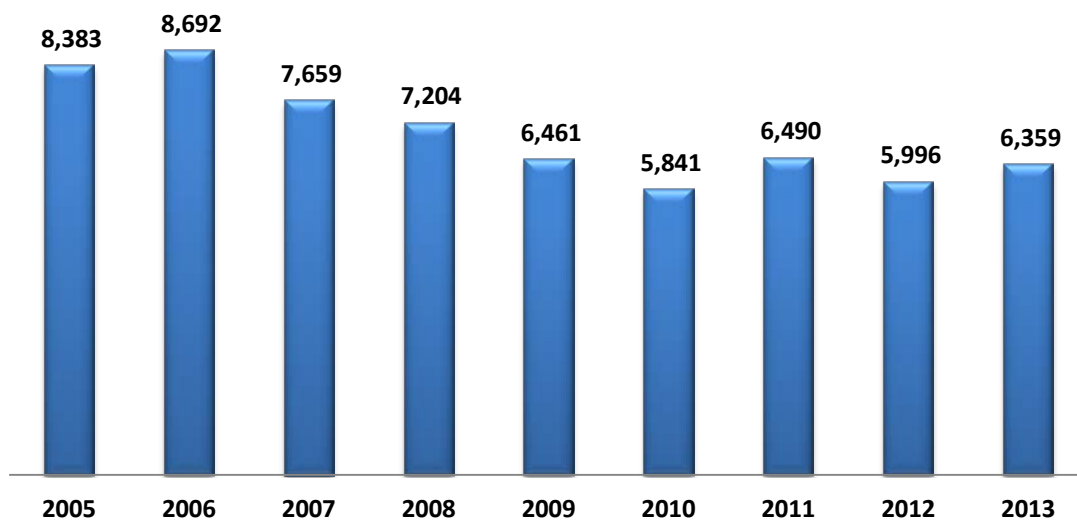
### U. S. Dealers Operating On-Site Body Shops

	2013	2012	2011	2010	2009	2008	2007
<b>Total Dealers</b>	17,665	17,635	17,540	17,700	18,460	20,010	20,770
<b>Dealers Operating On-Site Body Shops</b>	36%	34%	36%	33%	35%	36%	37%
<b>Estimated Number of Dealer Body Shops</b>	6,359	5,996	6,314	5,841	6,461	7,204	7,685
<b>Dealer Body Shop Revenue (billions)</b>	\$7.0	\$6.9	\$6.8	\$6.4	\$6.6	\$7.3	\$9.5
<b>Estimated Average Revenue (thousands)</b>	\$1,101	\$1,151	\$1,077	\$1,096	\$1,021	\$1,016	\$1,236

Source: NADA

Using NADA's estimated 6,359 dealer-operated collision repair facilities at the end of 2013; this represents a decline of 27 percent or 2,333 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

Looking at the dealership share of the collision repair marketplace, and according to NADA, revenue derived from collision repair work performed by dealerships has increased slightly to \$7.0 billion from \$6.9 billion in 2012, but is down \$2.5 billion, or 26.3 percent, since 2007.



Source: NADA

Top ten dealer  $\geq$ \$20M MLO performance also exceeds their smaller and non-MLO counterparts at a repairs-processed average of \$5 million per location versus \$0.9 million per location for smaller and non-MLO dealer repairers; almost 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. While Auto Nation and Van Tuyl continue to hold the top two positions since 2006, there have been a number of changes within the top ten ranking among the other eight dealer MLOs. Penske has moved from 5<sup>th</sup> to 3<sup>rd</sup> place while Sonic and Group 1 have moved down in this ranking.

U.S. - Top 10 Dealer ≥\$20M MLOs Dollars in Millions			
<u>Rank</u>	<u>2013</u>	<u>2006</u>	
1	Auto Nation	Auto Nation	
2	Van Tuyl	Van Tuyl	
3	Penske	Sonic	
4	Hendricks	Group 1	
5	Sonic	Penske	
6	Asbury	Asbury	
7	Group 1	Carl Sewell Group	
8	Carl Sewell Group	Bill Heard	
9	MileOne	Lithia	
10	Mike Rose	DARCARS	

	<u>2013</u>	<u>2006</u>	<u>Change</u>
<b><u>Production Locations</u></b>			
Top 10	233	253	-20
% of All Collision Repair Locations	0.7%	0.6%	0.1
% of All Dealer Locations	3.7%	3.0%	0.7
% of All ≥\$20M MLO Production Locations	15.7%	28.4%	-12.7
<b><u>Revenue</u></b>			
Top 10	\$1,163	\$851	\$312
% of All Collision Repair Revenue	3.7%	2.8%	0.9
% of All Dealers	16.6%	6.8%	9.8
% of All ≥\$20M MLO Revenue	23.8%	31.2%	-7.4
<b><u>Average Revenue per Location</u></b>			
Top 10 Dealer	\$5.0	\$3.4	\$1.6
All Collision Repair	\$0.9	\$0.7	\$0.2
All Dealers	\$1.1	\$1.2	-\$0.1
All ≥\$20M MLO	\$3.3	\$2.6	\$0.7

The following chart ranks the top ten MLOs within their respective category segments. Caliber secured the number one ranking in the all repairers and independent segments, with Auto Nation holding its number one ranking in the dealer category.

All Repairers	Independents	Dealers
Caliber	Caliber	Auto Nation
Boyd/Gerber	Boyd/Gerber	Van Tuyl
Service King	Service King	Penske
ABRA Corporate	ABRA Corporate	Hendricks
Auto Nation	Sterling	Sonic
Sterling	Cook's Collision	Asbury
Van Tuyl	Kadels	Group 1
Penske	Collision Revision	Carl Sewell
Cook's Collision	Wilburn's Auto Body	Mile One
Hendricks	Classic Collision	DARCARS

The top ten MSO revenue ranking, when including the franchise MSO model, reflects ABRA corporate and franchise locations combined in second place and CARSTAR in fourth place within the U.S. market.

All Repairers	Independents	Dealers
Caliber	Caliber	Auto Nation
ABRA Corp/Fran	ABRA Corp/Fran	Van Tuyl
Boyd/Gerber	Boyd/Gerber	Penske
CARSTAR	CARSTAR	Hendricks
Service King	Service King	Sonic
Auto Nation	Sterling	Asbury
Sterling	Cook's Collision	Group 1
Van Tuyl	Kadels	Carl Sewell
Penske	Collision Revision	MileOne
Cook's Collision	Wilburn's Auto Body	DARCARS



### **U.S. Franchise Market Segment Key Findings**

When combined, the ≥\$20 million and franchise MLO segments, including ABRA, CARSTAR, Fix Auto, Maaco, represent the following:

- These two segments have combined revenue of \$5.9 billion, or 18.8 percent of the industry market
- The franchise-only segment has revenue of \$1.0 billion which has been relatively flat over the last few years
- The combined segments represent 2,258 locations, or 6.6 percent of the industry's 34,400 locations
- Maaco has the broadest national coverage with locations in more states than the other three franchisors. There are a number of locations that are DRP capable within the larger network offering auto body repair and cosmetic car repair and paint.
- ABRA's franchise network is part of a strategy that builds out primarily second and third-tier cities that support existing markets or are early entrants for new or expanding markets. ABRA is the only independent MSO that goes to market with a combined independently-owned and franchise-owned multiple-region, multiple-market platform.
- CARSTAR remains the largest of the U.S. MSO franchise organizations based on annual repair revenue.
- As a franchise organization, Fix Auto competes in the MSO/MLO segment with its franchise network. Fix's Collision Repair Experts, CRX, is positioned as separate from its fully-branded, franchised locations and network.

<b>U. S. Collision Repair Market – 2013</b> <b>≥\$20M Franchise Networks</b> <b>Dollars in Millions</b>	
Total Collision Repair Locations	34,400
Total Collision Repair Revenue	\$31,400
<b><u>Production Locations</u></b>	
Total Franchise Networks	773
Total ≥\$20M MLO Production Locations Including Franchise Networks	2,258
Share of ≥\$20M MLO Production Locations, Including Franchise Networks, to 34,400 Collision Repair Locations	6.6%
<b><u>Revenue</u></b>	
Total Franchise Networks	\$1,032
Total ≥\$20M MLO Including Franchise Networks	\$5,913
Share of ≥\$20M MLO Including Franchise Networks to \$31,400M Collision Repair Revenue	18.8%

### **U.S. \$10 to \$20M MLO Market Key Findings**

This group of MLOs represents the next level segment being tracked as part of the broader U.S. market. A number of MLOs from this segment have grown and moved into the ≥\$20M group since our tracking started in 2006. 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 approached 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.

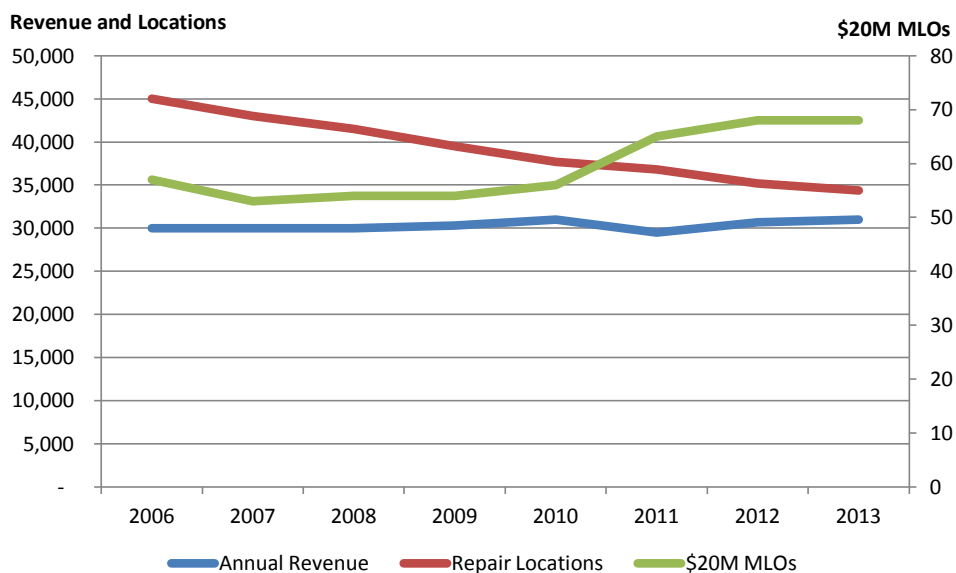
- The 111 \$10 to \$20M MLO organizations:
  - Represent \$1.5 billion in revenue which is 4.6 percent of the \$31.4 billion in collision repair revenue nationally
  - Represent 550, or 1.6 percent, of the 34,400 collision repair locations
  - Average \$2.7 million per location compared to average revenue for the ≥\$20 million segment of \$3.3 million per location and the ≥\$20 million dealer average revenue of \$4.5 million

- The top 50 represent \$766 million, 52.7 percent of this segment's revenue, with 258 locations

The following chart reflects an eight-year trend for the total number of  $\geq \$20$  million MLO organizations, the number of collision repair facilities, and the market size for collision repair revenue.

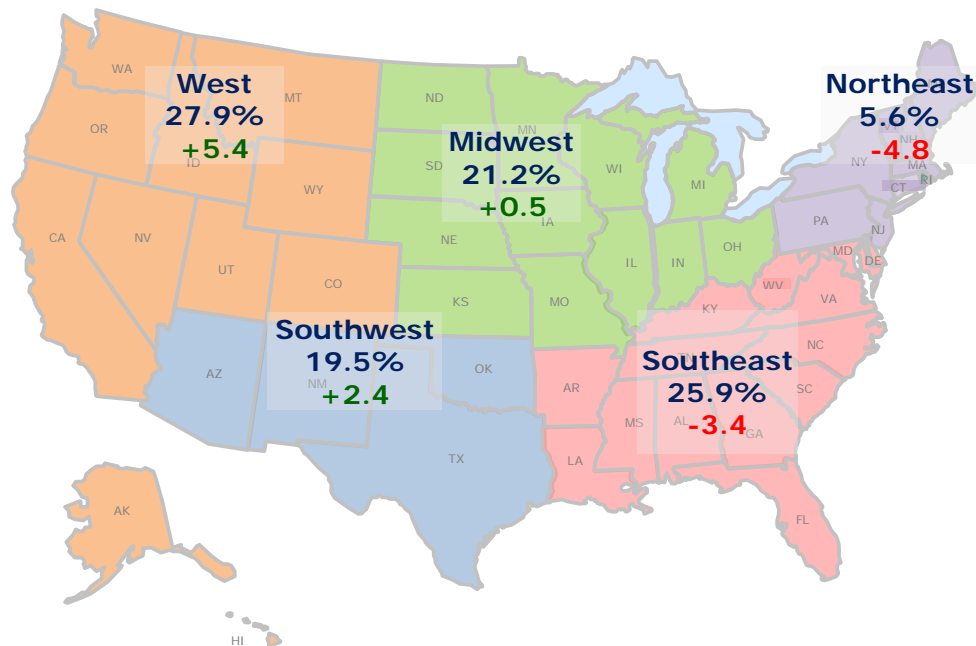
- Repairable vehicle industry revenue moved up slightly for 2013, reflecting the current intersection of slightly lower accident frequency and repairable claims with an upward trend in severity
- The clear downward trend for the number of collision repair facilities continues
- The number of  $\geq \$20$ M MLO repair organizations was flat at 68 for 2013. We expect this number to decrease for 2014 due to the number of MSO consolidator acquisitions

**U. S. 2006-2013  $\geq \$20$ M MLO Revenue, Location and Organization Trends**



Our geographic market representation for the  $\geq \$20$  million MLOs is highest in the West at 27.9 percent. In 2008, the West was the dominant region with a 25.4 percent share; it bowed to the Southeast for a time and in 2013 regained its larger share of the market. The lowest  $\geq \$20$  MLO representation continues to be in the Northeast at 5.6 percent which is down 4.8 percentage points from its 2006 share of 10.4 percent.

### 2013 Market Share and Change versus 2006



$\geq \$20$ M Multiple Location Operator Regional Representation					
	West	Southwest	Midwest	Northeast	Southeast
Number of $\geq \$20$ M MLO Repairer Organizations Represented in Region	29	17	24	12	26
Percent of $\geq \$20$ M MLO Repairer Organizations Represented in Region	42.6%	25.0%	35.3%	17.6%	38.2%

- Of the 68 ≥\$20M MLO organizations, 39 do business in only one state. Of those 39 organizations, 31 are independents and 8 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 2013.
- The West has the highest number of ≥\$20M MLOs with at least one location in that region; 29 MLOs are present which represents 42.6 percent of MLOs.

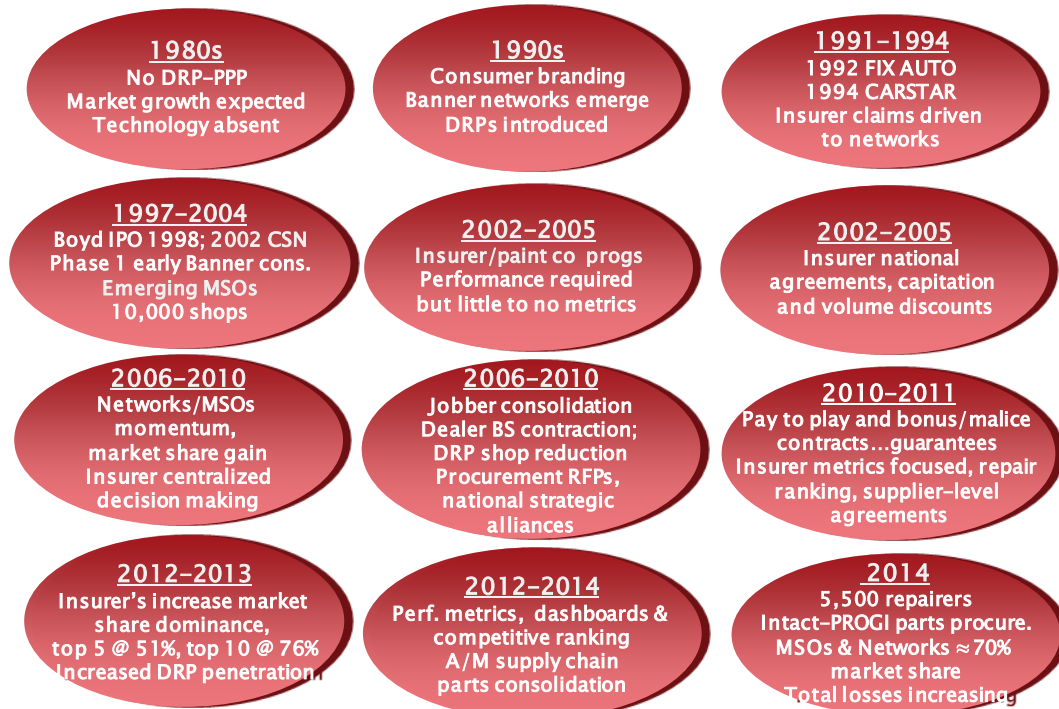
The companies represented within the top ten MLO organizations have not changed substantially since 2006. However, revenue and the number of locations among this group has been increasing year over year in total as well as per location. Relative to the other top ten MLOs since 2006, we do see market share growth and higher revenue ranking with the MSO consolidators ABRA, Caliber, Boyd, and Service King. At their current pace of acquisitions, and coupled with their Greenfield and Brownfield expansion, we expect that one or two of the MSO consolidators will reach the billion dollar mark in revenue by 2016. A strategic acquisition before then by any one of them would immediately create a billion-dollar-plus business.

## **Canada**

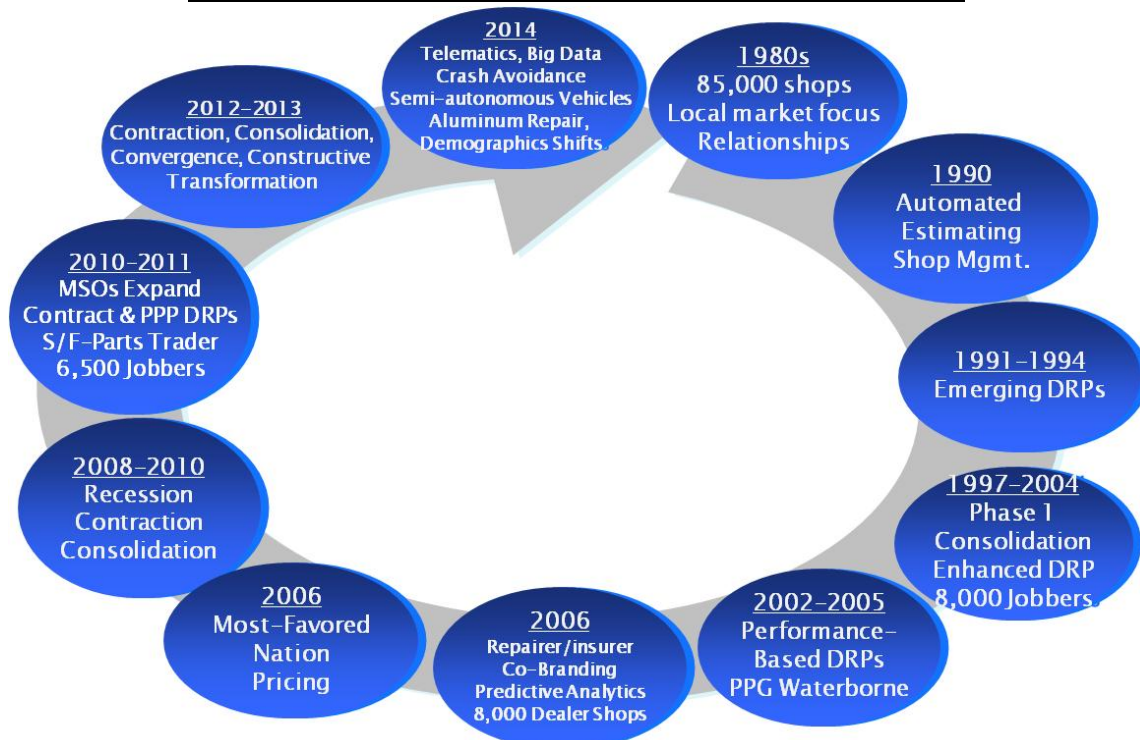
When compared with the United States, Canada's collision repair industry evolution over the last 34 years has many similarities with respect to industry-changing events that altered the collision repair markets. These changes frequently appeared in the Canadian market typically three to five years earlier than they did in the U.S., although in most cases the U.S. market eventually did experience them.

The following two charts reflect some of the more influential industry structural change caused by business, market or strategic initiative innovation, disruption, disintermediation, technology adoption, and process change that occurred during this transformational period throughout all segments impacting the auto physical damage ecosystem.

## Canadian Collision Repair Industry Evolution



## U.S. Collision Repair Industry Evolution



Some of the more notable differences and similarities over this 30-year span of auto physical damage evolution between Canada and the U.S. include:

- Some of Canada's most prominent MSOs are the franchise and banner organizations which started their dominant growth and development earlier as compared with the U.S. franchisors. Today, they compete head on with the top independent and dealer MSOs.
- The top ten property and casualty insurers in Canada are more consolidated with 76.2% of the auto insurance market share versus the U.S. auto insurance carriers with 70.6%.
- Private equity investment in the U.S. collision repair industry is very active and aggressive today with little to no private equity investment in the Canadian collision repair marketplace heretofore.
- Canadian private equity and pension fund investors ONCAP and Omers have invested and placed their bets consecutively on the largest independent MSO in the U.S., Caliber.
- LKQ remains the dominant alternative parts supplier in both the U.S. and Canada
- The parts industry in the U.S. continues to reflect a more fragmented segment than Canada's with many more disparate providers all competing for a broader customer base and greater market share in parts sourcing, procurement and management landscape.
- Canada was first to have its leading market share auto insurer Intak introduce its parts procurement software and model with Progi. Subsequently, we saw State Farm introduce Parts Trader in the U.S. in 2013.
- The 2008 U.S. recession implications were different in Canada which was not impacted to the same degree as the U.S. collision repair, insurance, and the PBE industries. Contraction and consolidation were well underway in Canada at that time. The recession accelerated the contraction and consolidation dynamics in the U.S., providing an opening and alternative to the Private Equity investment community seeking to leverage their growing dry powder into what is now a consolidating collision repair community.
- Boyd/Gerber remains the only publicly-traded collision repair and auto glass business in either country
- There are many similar and simultaneous current and future market trends and dynamics that are in play which are expected to influence and impact both countries concurrently over the near term. They include but are not limited to telematics, crash avoidance technology, semi-autonomous

driving vehicles, demographic attitudes toward vehicle ownership and driving, big data and predictive analytics, CAFE standards, changing vehicle materials, and technician resource availability.

As close geographic neighbors and part of the broader continent of North America, the lines of clear demarcation are getting thinner and fading quickly when it comes to the broader auto physical damage trans-border economy.



Courtesy of PPG Industries

This map shows about 30 different auto physical damage organizations that are either headquartered in or conduct business in both countries. These companies are just one example of how Canada and the U.S. are tethered together as trans-border trading countries.

Following are some recent examples of transactions demonstrating how companies in the U.S. and Canada are expanding through trans-border acquisition and influencing both countries.



**Parts**

- LKQ acquires Max Auto
- LKQ acquires Sunshine
- LKQ acquires Cross Canada
- LKQ acquires Pro Body Parts Canada

**PBE Distribution**

- UniSelect acquires FinishMaster, J.K. Distributors, Metro Paint Lakeland Auto Paint and Supply, Metro Paint Supply, J. K. Distributors

**Collision Repair, Fleet**

- OnCap acquires Caliber
- OMERS acquires Caliber
- Boyd makes numerous U.S. MSO and glass acquisitions
- Fix Auto Canada acquires all Fix master franchises
- Element Financial acquires PHH Arval

**Insurance**

- TD Insurance acquires Liberty Mutual Canada
- Travelers Insurance U.S. acquires Dominion Insurance Canada
- Desjardins acquires State Farm Canada
- Hub International acquires St. Andrews Insurance Brokers and Essex Insurance Brokerage
- ING acquires Alliance
- ING becomes Intact with acquisition of Dutch held ING by private and institutional investors

**Technology, Data, Software**

- Hellman & Friedman U.S. invests in CarProof Canada
- Quindell acquires iter8 Inc., marks entry into North American insurance market
- KKR acquires Mitchell International

The Canadian franchise, banner, multiple-location network segments in Canada represent a significant 48.8 percent share of the private insurer repairable vehicle market, quite different than the U.S. where the franchise segment represents only 4.8 percent of the market. When the  $\geq \$10\text{M}$  dealer and independent MLOs are combined with the banners and franchise networks, they represent 66.7 percent of Canada's private insurer repairable vehicle revenue.

Canadian Market	2013 Revenue (millions)	2013 Locations
Total $\geq \$20\text{M}$	\$353	155
Total \$10-\$20M	\$150	82
Total $> \$10\text{M}$ MLO	\$503	237
Total Banners/Networks	\$1,365	926
Total $> \$10\text{M}$ MLO/Banners/Networks	\$1,868	1,163
TOTAL CANADA	\$2,800	5,500

Within the top ten  $\geq \$20\text{M}$  MLO independent and dealer segments, including the franchise and banner network segment, there are four independents, three franchise, two banners, and one dealer organization represented. Together they repair \$1.6 billion in revenue through 1,048 production locations.

Canada - Top 10 MLO/Franchise & Banner Networks			
Dollars in Millions			
<u>Rank</u>	<u>2013</u>	<u>Type</u>	<u>2012</u>
1	Collision Solutions Network	Banner	Collision Solutions Network
2	Fix Auto	Franchise	CarrXpert
3	CarrXpert	Banner	Carstar
4	Carstar	Franchise	Fix Auto
5	Assured Automotive	Independent	Boyd Autobody & Glass
6	Boyd Autobody & Glass	Independent	Assured Automotive
7	Craftsman	Independent	Craftsman
8	Auto Canada	Dealer	ACG Atlantic
9	ACG Atlantic	Independent	Maaco
10	Maaco	Franchise	Hammer Group
	<u>2013</u>	<u>2012</u>	<u>Change</u>
<b><u>Production Locations</u></b>			
Top 10	1,048	1,006	42
% of CA 5.5M Locations	19.1%	16.8%	2.3
<b><u>Revenue</u></b>			
Top 10	\$1,638	\$1,387	251
% of CA \$2.8M Revenue	58.5%	49.5%	9.0
<b><u>Average Revenue per Location</u></b>			
Top 10	\$1.6	\$1.4	0.2
All CA Collision Repair	\$0.5	\$0.5	-

Within the  $\geq$ \$10 million independent and dealer MLO segment, the top 10 repairers include seven independent operators and three dealers. These top 10 operators account for \$387 million, or 13.8 percent of total Canadian repair revenue, through only 3.2 percent of repair locations.

Canada - Top 10 >\$10M MLO			
Dollars in Millions			
<u>Company</u>	<u>2013 Rank</u>	<u>2012 Rank</u>	<u>Type</u>
Assured Automotive	1	1	Independent
Boyd	2	2	Independent
Craftsman	3	3	Independent
Auto Canada	4	4	Dealer
ACG Atlantic Auto Body	5	5	Independent
Hammer Group	6	6	Independent
Gabriel	7	8	Dealer
Herbert's	8	7	Independent
Birchwood	9	9	Dealer
Kirmac	10	10	Independent
			<u>Change</u>
<b><u>Production Locations</u></b>			
Top 10	177	165	12
% of ≥\$10M Companies	74.7%	77.1%	-2.4
% of Canadian Collision Repair Locations	3.2%	2.8%	0.4
<b><u>Revenue</u></b>			
Top 10	\$387	\$331	56
% of ≥\$10M Companies	76.9%	78.8%	-1.9
% of Canadian Collision Repair Revenue	13.8%	11.8%	2.0
<b><u>Average Revenue per Location</u></b>			
Top 10	\$2.2	\$2.0	0.2
All CA Collision Repair	\$0.5	\$0.5	-

The top five franchise and banner networks represent \$1.35 million in annual revenue; the largest single repair segment within Canada at 48.2 percent of the private passenger auto market and 72.2 percent market share of the ≥\$10 million franchise and banner segments.

- Banners - Collision Solutions Network and CarrXpert
- Franchisors - CARSTAR, Fix Auto and Maaco

Canada - Top 5 Franchise & Banner Networks			
Dollars in Millions			
<u>Company</u>	<u>2013 Rank</u>	<u>Type</u>	
Collision Solutions Network	1	Banner	
Fix Auto	2	Franchise	
CarrXpert	3	Banner	
CARSTAR	4	Franchise	
Maaco	5	Franchise	
	<b>2013</b>	<b>2012</b>	<b>Change</b>
<b><u>Production Locations</u></b>			
Top 5	913	867	46
% of ≥\$10M MLO/Fran/Banner/Network	78.5%	80.2%	-1.7
% of Canadian Collision Repair Locations	16.6%	14.7%	1.9
<b><u>Revenue</u></b>			
Top 5	\$1,350	\$1,136	214
% of ≥\$10M MLO/Fran/Banner/Network	72.2%	73.0%	-0.8
% of Canadian Collision Repair Revenue	48.2%	40.6%	7.6
<b><u>Average Revenue per Location</u></b>			
Top 5	\$1.5	\$1.3	0.2
All CA Collision Repair	\$0.5	\$0.5	-

Within the dealer group, the top nine represent \$152 million with average revenue of \$2.4 million through 63 production locations.

Canada - Top Dealers ≥\$20M MLOs Dollars in Millions			
<u>Rank</u>	<u>2013</u>	<u>2012</u>	
1	Auto Canada	Auto Canada	
2	Gabriel	Wheaton Group	
3	Birchwood	Gabriel	
4	Kaizen	Murray Group	
5	Wheaton Group	Dilarwi Group	
6	Dilarwi Group	Priestner	
7	Murray Group	Steele Group	
8	Priestner	Birchwood	
9	Steele Group		

	<u>2013</u>	<u>2012</u>	<u>Change</u>
<b><u>Production Locations</u></b>			
Top 10	63	45	18
% of All Collision Repair Locations	1.1%	0.1%	1.0
% of All Dealer Locations	70.8%	91.8%	-21.0
% of All ≥\$20M MLO Locations	40.6%	29.6%	11.0
<b><u>Revenue</u></b>			
Top 10	\$152	\$137	\$15
% of All Collision Repair Revenue	5.4%	4.9%	0.5
% of All Dealers	70.7%	-	-
% of All ≥\$20M MLO Revenue	43.0%	46.1%	-3.1
<b><u>Average Revenue per Location</u></b>			
Top 10 Dealer	\$2.4	\$3.0	-0.6
All Collision Repair	\$0.5	\$0.5	-
All Dealers	\$2.4	\$2.0	0.4
All ≥\$20M MLO	\$2.2	\$2.0	0.2

When the MSO organizations are viewed together Collision Solutions Network has the number one position in the All Repair and Franchisor and Banner categories while Assured Automotive ranks first in the Independent and Dealer category.

Canada – 2013 Top Ranked Repairers		
All Repairers	Franchisors & Banners	Independents & Dealers
Collision Solutions	Collision Solutions	Assured
Fix Auto	Fix Auto	Boyd
CarrXpert	CarrXpert	Craftsman
Carstar	Carstar	Auto Canada
Assured	Maaco	ACG Atlantic
Boyd		Hammer
Craftsman		Gabriel
Auto Canada		Herberts
ACG Atlantic		Birchwood
Maaco		Kirmac

### U.S. and Canada Consolidated

The following comparative chart reflects the property and casualty insurance and auto industry, top ten insurers' market share, the collision repair industry shop population and market size for Canada and the U.S. The U.S. collision repair market size remains approximately ten times the Canadian market size when combining both Canada's private and government auto insurers.

	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 auto insurance companies	259	83, 3 government
Top 10 private insurance company premium market share	70.6%	76.2%
Collision repair market size	\$31.4B	\$2.8B*
Collision repair shop population	34,400	5,500

\*Private, non-Government Insurers

Although the U.S. has seen an increase in its consolidation within the MLO segments, Canada remains significantly more consolidated at 67 percent of the total collision repair market versus 24 percent for the U.S. The combined revenue of \$9.2 billion is 27 percent of the combined private auto insurer and consumer paid market size for Canada and the U.S.

<b>U.S. and Canada MLO, Franchise &amp; Banner Network Revenue</b> (Dollars in Billions)			
	<b>U.S.</b>	<b>Canada</b>	<b>Total</b>
<b>Total ≥\$20M MLO</b>	\$4,881	\$353	\$5,234
<b>Total \$10-20M MLO</b>	\$1,453	\$150	\$1,603
<b>Total ≥\$20M and \$10-\$20M MLO</b>	\$6,334	\$503	\$6,837
<b>Total Franchise /Banner Networks</b>	\$1,032	\$1,365	\$2,397
<b>Total MLO/Franchise/Banner Networks</b>	\$7,366	\$1,868	\$9,234
<b>Total Collision Repair Market</b>	\$31,400	\$2,800	\$34,200
<b>Total MLO/Franchise/Banner Networks Percent of Total Collision Repair Market</b>	23%	67%	27%

Within the U.S. market, independent and dealer MLOs are the foremost business model. In Canada, the franchise and banner networks continue to dominate the market. The Franchise/Banner/MLNs in the U.S. and Canada represent approximately the same revenue at \$1,032 billion and \$1.365 billion 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 considerably smaller at 14 percent.

The \$9,234M combined MLO/Franchise/Banner/MLN repair revenue in the U.S. and Canada represents 27 percent of the combined qualified U.S. and Canadian collision repair market of \$34,200 million.



When viewed as one consolidated North American market, the top ten consolidated U.S. and Canada MLO/Franchise/Banner/MLN market size is \$4,468 billion, representing 48.4 percent of the ≥\$10 million segment and 13.1 percent of the North America vehicle repair market of \$34.2 billion. Based on consolidated revenue, CARSTAR maintains its first place ranking. In this top ten group, there are 3 franchise, 3 independent, 2 banner, 1 dealer and 1 independent/franchise organizations.

U.S. & Canada – 2013 Top 10 Consolidated		
Repairers	Location	Type
CARSTAR	US – CA	Franchise
Caliber	US	Independent
Boyd/Gerber	US – CA	Independent
Collision Solutions	CA	Banner
ABRA	US	Independent & Franchise
Maaco	UA – CA	Franchise
Fix Network	UA – CA	Franchise & Banner
Service King	US	Independent
CarXpert	CA	Banner
Auto Nation	US	Dealer

When looking at the top MLO organizations individually by country, without cross-border consolidation, three of the top ten operators are located in Canada and include two banners and one franchise. Caliber Collision has the first position in this category. These top ten repair organizations represent \$3,895million or 11.4 percent of North American collision repair market revenue processed through 2,062 production locations, just 5.3 percent of this market.

U.S.-Canada - Top 10 Multiple Location Operators			
Dollars in Millions			
<u>2013</u>	<u>Rank</u>	<u>Location</u>	<u>Type</u>
Caliber Collision	1	US	Independent
Collision Solutions Network	2	Canada	Banner
Boyd/Gerber	3	US	Independent
Maaco	4	US	Franchise
CARSTAR	5	US	Franchise
Service King	6	US	Independent
ABRA Corporate	7	US	Independent
Fix Network	8	Canada	Franchise
CarrXpert	9	Canada	Banner
AutoNation	10	US	Dealer

	<u>2013</u>	<u>2012</u>	<u>Change</u>
<b><u>Production Locations</u></b>			
Top 10	2,062	1,967	95
% of US-CA Collision Repair Locations	5.3%	4.8%	0.5
<b><u>Revenue</u></b>			
Top 10	\$3,895	\$3,415	480
% of US-CA Collision Repair Revenue	11.4%	10.9%	0.5
<b><u>Average Revenue per Location</u></b>			
Top 10	\$1.9	\$1.7	0.2
All US-CA Collision Repair	\$0.9	\$0.8	0.1

The following chart reflects the consolidated U.S. and Canada macro overview of 2013 collision repair revenue processed of \$9.2 million in our three analyzed segments within a consolidated North America, market size of \$34.2 billion.

2013 US-Canada Market Segments			
Market Segment	U.S.	Canada	Total Revenue
≥\$20.0M MLO	\$4.9B	\$0.3B	\$5.2B
Multiple Location Networks	\$1.0B	\$1.4B	\$2.4B
\$10.0-\$20.0M MLO/MSO	\$1.5B	\$0.1B	\$1.6B
<b>Total</b>	<b>\$7.4B</b>	<b>\$1.8B</b>	<b>\$9.2B</b>

Looking forward, we expect a confluence of prevailing conditions to influence ongoing innovation, disruption, transformation and disintermediation across all auto physical damage segments within North America.

By themselves, any of these individual business, market or strategic conditions would create certain risks and opportunities, but as part of an ongoing confluence of conditions, we believe the impact, at any given time, will be exponential and not just linear in their cause and effect. Here are a few conditions that we see as having a higher probability to influence the North American auto physical damage ecosystem in the next 12 to 36 months.

- Telematics and its growing influence on an integrated electronic claims process....the connected car
- Repair segmentation including aluminum repair
- Big data and predictive analytics; recommended/suggested pricing
- Vehicle technology and material advances
- Private equity investment in various APD segments
- Crash avoidance; semi-autonomous vehbots
- Sourcing and retaining technicians
- Technical Tsunami's impact on technician's training requirements
- Demographic diversity, mobility and millennials

- Parts procurement process....final frontier or just beginning
- Digital convergence and smart phone claims reporting
- OEMs increasing influence and involvement in claims process
- OEMs certification process
- Hybrid claims solution models
- Google, Wal-Mart, Overstock.com and insurance channel redistribution
- Globalization and specifically Canada and U.S. trans-border activity
- MSOs' growing influence and dominance: insurers strategically aligned, strategic preferred provider DRP contracts, executing and delivering metrics, brand value and differentiation
- Flat to downward trend in accident frequency
- Consolidation = industry structural change

Because of this confluence of prevailing conditions affecting both countries, we see the North American auto physical damage market as more homogenous and porous then separate, independent or insulated from each other.

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