CollisionWeek

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Vantage Points

A Profile of the Evolving Collision Repair Marketplace

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The Romans Group

An examination of the largest shop groups in the industry, their growing market share, and an analysis of the numbers.

In this three part series, we will examine industry trends, market share and size of the industry with a specific focus on multiple location collision operators that generate greater than $20 million annually in repair revenue.

There are many collision repair businesses of significant size in the United States processing under $20 million annually throughout the United States today; however, our focus is on the $20 million and larger independent and dealership collision repair segments.

Who is an MLO?

Our profile for $20 million multiple-location collision repair operators (MLOs) includes independent, dealer and insurance owned businesses. They are professionally-managed operators providing performance-based, brand-recognized and competitively-differentiated collision repair services focused on achieving top-tier metric results, customer satisfaction and quality repair. They tend to pursue multiple customer segments including property and casualty insurance, automotive dealer, accident management, rental car, and direct pay consumers within the US.

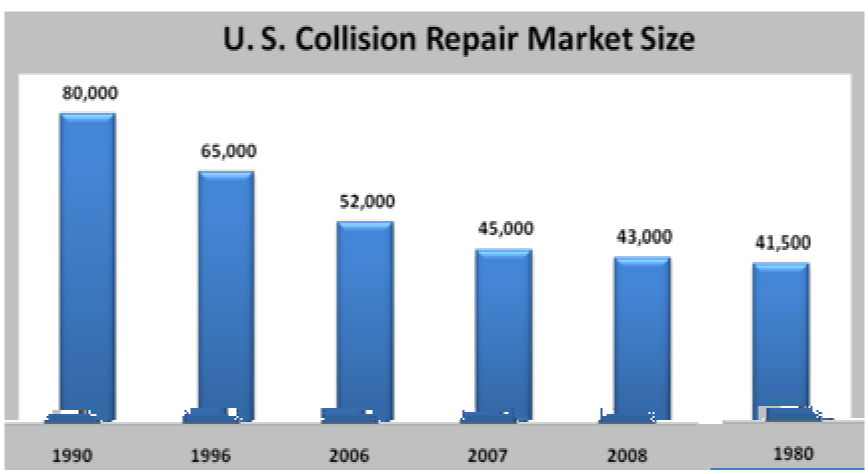
For this article, our collision repair profile excludes facilities that focus primarily on expedited paint, small dent and glass repair, cosmolition, and off-lease and auction vehicles. Companies like MAACO, Manheim Auto's auction-only locations, Dent Wizard, and Safelite are examples of these types of companies.

Additionally, our focus does not include the various networks that primarily promote brand or technical programs such as conversion franchise organizations, OEM certification, value-added services, cooperative-buying benefits, or outsourced claims management. Some examples of these networks include FIX Auto, PPG's CertifiedFirst, Assured Performance, LYNX, and CEI

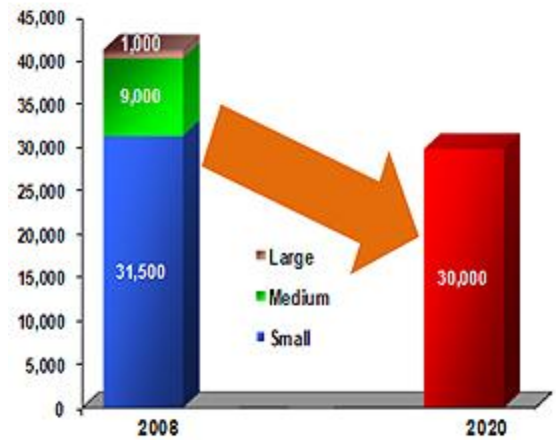
We believe that the $20 million-plus segment will continue to grow its share relatively faster than other segments of the collision repair market. This growth will be driven by the segment's local and multi-market footprint, insurance company direct repair revenue, economies of scale, access to capital, and their integrated approach to consumer, insurance, and fleet brand recognition, reputation and performance.

One traditional baseline data point for this analysis, especially for determining market share, has been the estimated number of collision repair operators in the United States. Based on our extensive research of published third-party industry sources, primary and secondary research, and industry experts, we continue to ascertain that there is no one certain number that is universally recognized or accepted as being the "correct" number of collision repairers in the U.S. today; rather, there continues to be a wide range of opinions and uncertainty around determining a meaningful and relevant collision repair market size. This is especially true in light of the current recession and macro-economic conditions which appear to be accelerating the loss of both dealership and independent collision repair operators.

With the parameters outlined above, our estimated U.S. market size for the number of collision repairers through year end 2008 is 41,500. This estimate continues to reflect the long-term decline which began in the late 1980s. As seen in the chart below, the number of collision repair facilities in the U.S. has declined by almost 50 percent over the past 28 years.



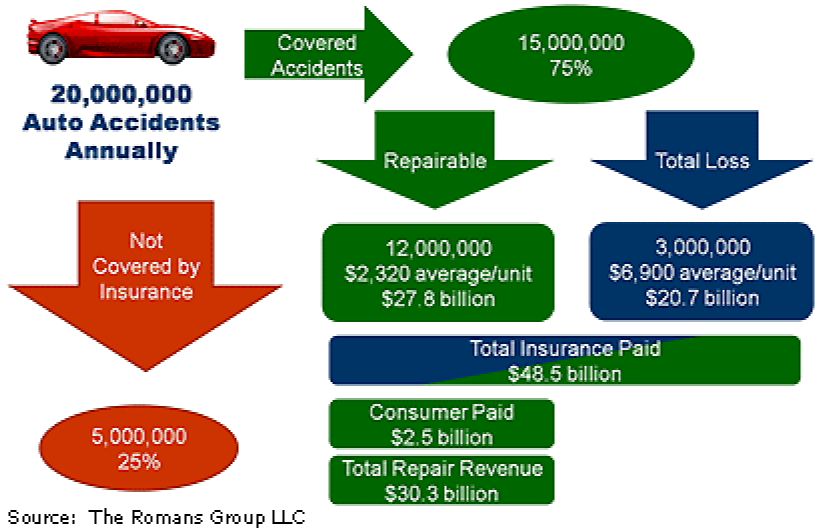
We forecast the sustained contraction of collision repair operators in what is viewed by many as an over-capacity and still somewhat fragmented industry. This contraction will continue over the next five to ten years with increased market share continuing to shift to the MLOs and other growth-oriented collision repairers who deliver consistent and sustained repair performance, have strong insurance and consumer brand recognition and reputation, and adapt quickly to market, consumer and insurance needs through innovative solutions and services. During that time, we believe that the industry will move toward a less fragmented and capacity-normalized model.



Profiling $20 million multiple location operators based on revenue and number of production locations raises another area of consideration regarding how collision industry market size should be viewed or profiled. There is a growing sentiment, and somewhat of a quandary, within the collision repair and property and casualty insurance industries about what a normalized and relevant number of repairers operating within an environment of decreasing accident frequency, claims and number of repairable vehicles should be for the future. With that in mind, we have expanded our analysis of MLO production location market share to include three primary market definitions:

The traditional total number of collision repairer locations
Locations utilizing collision damage estimating software
Locations utilizing shop management software

Our market share findings can be viewed as an equation with two parts. One half of the equation is the revenue derived from insurance and consumer auto repair claims expenditures. Insurance-paid repairable claims expenditures have been relatively stable at around $28 billion over the last few years due to steadily increasing severity despite a recent downward trend in accidents and cars repaired. Additionally, consumer-paid claims have remained relatively flat over a longer period of time at approximately $2.5 billion. We estimate that the combined insurance and consumer-paid claims for repairable vehicles for 2008 was approximately $30 billion.



For the second half of the equation, utilizing the traditional data point of the total number of collision repairers within the United States continues to have value. However, there is a belief by property and casualty insurance companies that those repairers who employ collision damage estimating and shop management software, and leverage other claims processing and management technology, will eventually be the collision repair providers they prefer and who will transact the majority of the repairable accidents. We will incorporate all three collision repair market size data points in our analysis of multiple location operator market share.

Values for these market size data points are:

U. S. Collision Repair Facility & Transaction Processing Software Profile Independent and Dealer		
Traditional Collision Repair Market Size	Total Locations with a Minimum of One Collision Damage Estimating Software Installation[1]	Total Management Systems[2]
41,500	**29,000**	**9,000**
[1] May be more than one installation per location. Includes both communicating and non-communicating systems.		
[2] Assumes one per location		

Our research results focus on $20 million multiple location operator 2008 repair revenue, total collision repair locations, estimating and management software installations, and markets served nationally and regionally for both dealership and independent collision repairers. Based on the minimum of $20 million in revenue from vehicles processed and repaired annually, our findings concluded that in 2008 there were 54 independent and dealership collision repair $20million MLOs processing $3.2

billion through 938 production locations.

We used our best efforts to identify non-production estimating and drop-off locations and base our market share on production locations only. While these $20 million MLOs represent 2.3 percent of the estimated 41,500 collision repair facilities nationally, they process 10.7 percent of the $30 billion in insurance and customer-pay collision repair revenue. In other words, MLO's have 2.3 percent of the doors and 10.7 percent of the revenue.

The National Automobile Dealers Association, NADA, estimates that 7,204 dealers processed $7.3 billion in repair revenue in 2008; the balance of $22.7 billion is being processed by approximately 34,296 independent repairers. On average, the $20 million MLOs process $3.2 million per location, nearly five times more than the average annual revenue for non-MLO repairers of $669,383. There are many smaller independent and dealer non-MLO repairers that achieve greater than the industry average annual revenue, especially those who operate in the $10.0 million to $20.0 million segment.

In part two of this article we will take a specific look at the Top 10 MLOs in the US and which regions of the country are seeing the most growth in MLO organizations.

U. S. Collision Repair Market
Dollars in Millions

	2008	**2007**	**2006**	**2-Year Change**
Total Collision Repair Locations	41,500	43,000	45,000	-3,500
Total Collision Repair Revenue	$30,000	$30,000	$30,000	--
Total Number of $20M MLOs	54	53	57	-4
$20M MLO Locations				
Total MLO Locations	999	923	959	32
Total MLO Production Locations	938	890	898	34
% of MLO Production Locations to 41,500 Collision Repair Locations	2.3%	2.1%	2.0%	0.2%
% of MLO Production Locations to 29,000 Estimating Locations	3.2%	3.1%	3.1%	0.1%
% of MLO Production Locations to 9,000 Management Locations	10.4%	9.9%	10.0%	0.4%
MLO Revenue				
Total $20M MLO Revenue	$3,224	$3,048	$2,728	$474
$20M MLO Share of Total Collision Repair Revenue	10.7%	10.2%	9.1%	1.6%

Part Two

In part two, we consider the franchise model and the look at the top ten largest MLOs in the country.

While this article is focused on independent and dealership multiple location operators, we think it is important to recognize the continued interest in other operator models with growing competitive, service offering and value proposition influence. There are two primary franchise models within the industry today; one is a full-service collision repair conversion model while the other focuses primarily on production paint and cosmolition.

Within the full service collision repair market, CARSTAR and ABRA remain the primary franchisors. Both of these organizations continue to experience growth momentum, location conversion and development and competitive impact within their markets served and within the US collision repair industry today. Together they represent a total of 365 locations repairing approximately $700M in vehicle revenue. This is an increase from 360 locations and $678 processed in 2007. We see continued interest on the part of collision repairers, in light of the recession and decreasing accident and claims frequency, to investigate and consider the benefits of a conversion franchise model organization.

The independent-brand model, historically believed by many repairers to be the most desirable way to successfully maintain and grow their business, may now be seen by a growing number of collision repair providers as possibly more risky than being associated with a network franchise model, especially in current macroeconomic, market and competitive conditions.

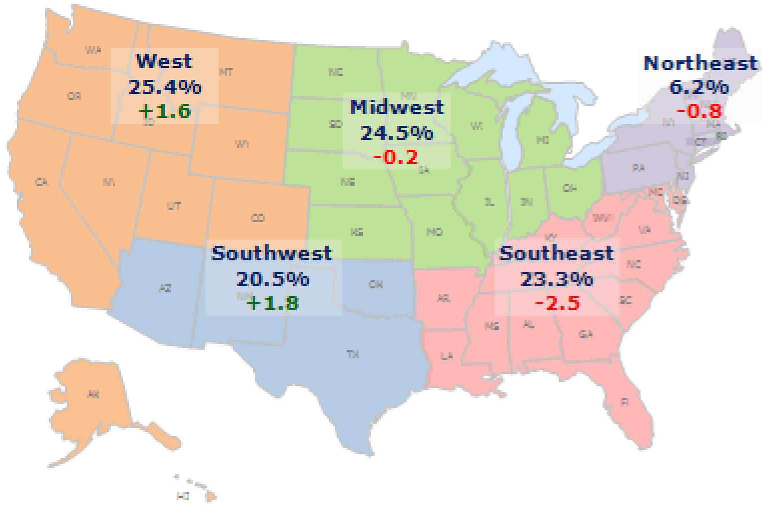
Some repairers see the opportunity to adopt and integrate franchise member benefits as a potentially better way to better sustain and grow their business through:

- Leveraging the conversion franchise value proposition, brand association and customer affiliation
- Franchisee performance tools for business and customer analysis, benchmarking and peer ranking
- Personnel, operational and general business training and development
- Standardized processes and procedures
- Utilization and integration of a technology platform
- DRP insurance relationships and business considerations not previously available due to franchisor multiple-level marketing

Another segment that we believe merits attention is the production paint and cosmolition repair franchise model. The most recognized nationally branded company in this space is Maaco which was recently acquired by Driven Brands of Charlotte, North Carolina, a franchise holding company. This model historically has been focused on cash-pay customers seeking only paint and smaller repair options. As the consumer shifts to price and service options including more cash pay and deferred and partial collision repairs, this model is receiving increased interest from both consumer and wholesale buying segments. Additionally, a number of Maaco franchisees have, as an extension of their service options, expanded their capabilities to offer insurance DRP-centric collision repairs. There is growing interest by insurance companies in how this model and repair process could be integrated into their claims process, consumer choice and repair management value proposition.

U. S. Collision Repair Market - 2008	
Including Conversion Franchise, Production Paint and Cosmolition (CFPPC)	
Dollars in Millions	
Total Collision Repair Locations	41,500
Total Collision Repair Revenue	$30,000
Production Locations	
Total Conversion Franchise, Production Paint and Cosmolition (CFPPC)	733
Total $20M MLO Production Locations Including CFPPC	1,671
Share of $20M MLO Production Locations, Including CFPPC, to 41,500 Collision Repair Locations	4.0%
Share of $20M MLO Production Locations, Including CFPPC, to 29,000 Estimating Software Locations	5.8%
Share of $20M MLO Production Locations, Including CFPPC, to 9,000 Management System Installations	18.6%
Revenue	
Total Conversion Franchise, Production Paint and Cosmolition (CFPPC)	$890
Total $20M MLO Including CFPPC	$4,114
Share of $20M MLO Including CFPPC to Total Collision Repair Revenue	13.7%

Looking at these $20 million MLOs regionally, representation of locations is highest in the West at 25.4 percent. In 2007 the Southeast was the dominant region with a 25.8 percent share; it now represents 23.3 percent of the market. The lowest $20 million MLO representation continues to be in the Northeast at 6.2 percent which is down 3.9 percentage points from their 2006 share of 10.1 percent.



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

Of the 54 $20 million MLO organizations, 29 do business in only one state. Of those 29, 21 are independents and 8 are dealers.
Within the top 10 rankings, only two independent and two dealer MLO organizations strategically position themselves in only one state.
The west has the highest number of MLOs with at least one location in that region.
Over half of the 54 MLO organizations have chosen to compete in the west.

$20M Multiple Location Operator Regional Representation					
	West	Southwest	Midwest	Northeast	Southeast
Number of $20M MLO Repairers Represented in Region	29	19	20	10	19
% of Repairers Represented in Region	53.7%	35.2%	37.0%	18.5%	35.2%

The companies represented within the top ten MLO organizations have not changed since 2007 and have only lost one member,
Group 1, since 2006. While their share of all collision repair locations has been relatively constant, revenue among this group has increased year over year in total as well as per location.

Within the top ten $20 million MLOs, five are independent and five are dealer groups. These ten organizations account for 48.5 percent of all $20 million MLO production locations and 53.7 percent of all $20 million MLO revenue. These top ten MLOs display trends similar to the total $20 million MLO group; higher revenue produced through fewer production locations.

Top 10 $20M Multiple Location Operators				
Dollars in Millions				
	2008	2007	2006	
MLO	Rank	Rank	Rank	Type
AutoNation	1	1	3	Dealer
Caliber Collision	2	2	1	Independent
ABRA	3	3	2	Independent
Sterling Auto Body	4	4	4	Ind/ Insurance
Van Tuyl	5	5	5	Dealer
Boyd/Gerber U.S.	6	6	8	Independent
Penske	7	8	9	Dealer
Sonic	8	7	6	Dealer
Service King	9	10	11	Independent
Asbury	10	9	10	Dealer
	2008	**2007**	**2006**	**2-Year Change**
Production Locations				
Top 10	455	443	461	-6
% of All Collision Repair Locations	1.1%	1.0%	1.0%	0.1
% of all $20M MLO Prod. Locations	48.5%	49.8%	51.6%	-3.1
Revenue				
Top 10	$1,732	$1,616	$1,292	$440
% of All Collision Repair Revenue	5.8%	5.4%	4.3%	1.5
% of All $20M MLO Revenue	53.7%	53.0%	47.4%	6.3
Average Revenue per				
Production Location				
Top 10	$3.8	$3.6	$2.8	$1.00
All Collision Repair Average	$0.7	$0.7	$0.7	$0.00
All $20M MLO Average	$3.4	$3.4	$3.1	$0.30

Smaller and non-MLO repairers, those with total collision repair revenue below $20 million annually, vary widely in claims processed per location. For independent $20 million MLOs, the average repair revenue per location significantly surpasses that of their smaller and non-MLO counterparts at $2.9 million versus $619,817, nearly five times more average revenue per location. Dealer $20 million MLO performance also exceeds their smaller and non-MLO counterparts at a repairs-processed average of $3.8 million per location versus $863,875 per location for smaller and non-MLO dealer repairers; over four times more.

In part three we will look at the Top 10 Independent MLOs with the Top 10 Dealership MLOs.

Part Three

Our analysis concludes with a look at the top ten dealer and independent multi-location operators in the country.

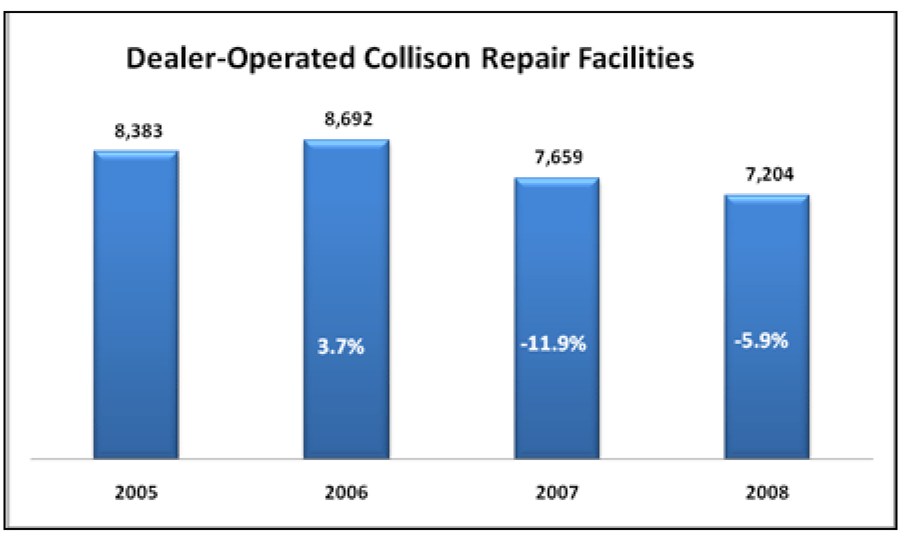
Comparing the top ten independent and dealer group $20 million MLOs, the independents have 68 percent more locations producing 16.7 percent more revenue than dealer repair organizations. However, the top 10 dealer repairers manage $3.8 million in average revenue per location versus $3.1 million per location for independent organizations.

Within the Top 10 Independent $20 million MLO group, the ranking has remained unchanged over the past two years. The total number of production locations has increased along with their representative share of all $20 million MLO locations at 43.1 percent. This group's share of all $20 million MLO revenue has increased by 5.1 percentage points over the past two years.

Top 10 Independent $20M MLOs				
Dollars in Millions				
Rank	**2008**	**2007**	**2006**	
1	Caliber	Caliber	Caliber	
2	ABRA	ABRA	ABRA	
3	Sterling	Sterling	Sterling	
4	Boyd / Gerber (US)	Boyd / Gerber (US)	Boyd / Gerber (US)	
5	Service King	Service King	Service King	
6	True2Form	True2Form	True2Form	
7	Cars	Cars	Cars	
8	Collision Revision	Collision Revision	Collision Revision	
9	Cook's Collision	Cook's Collision	Cook's Collision	
10	Kadels	Kadels	Kadels	
	2008	**2007**	**2006**	**2-Year Change**
Production Locations				
Top 10	402	380	388	14
% of All Collision Repair Locations	1.0%	0.9%	0.9%	0.1

% of All Independent Locations	1.2%	1.1%	1.1%	0.1
% of all $20M MLO Locations	43.1%	42.7%	40.5%	2.6
Revenue				
Top 10	$1,253	$1,121	$927	$326
% of All Collision Repair Revenue	4.2%	3.7%	3.1%	1.1
% of All Independents	5.5%	5.3%	6.3%	-0.8
% of All $20M MLO Revenue	39.1%	36.8%	34.0%	5.1
Average Revenue per Location				
Top 10 Independent	$3.1	$3.0	$2.4	$0.7
All Collision Repair	$0.7	$0.7	$0.7	$0.0
All Independents	$0.7	$0.	$0.5	$0.2
All $20M MLO	$3.2	$3.3	$2.6	$0.6

In 2008, 36 percent of dealerships operated collision repair facilities versus 37 percent in 2007 and 41 percent in 2006. Both the number of new car dealerships and the number of dealers operating collision repair facilities are declining. Many larger dealers are purchasing smaller, lower-volume dealers to increase their reach as manufacturers continue in their efforts to reduce or freeze their number of dealership points. Some larger dealerships have also ceased doing business altogether. Using NADA's reported total of 20,010 dealers at the end of 2008, this represents an estimated, 7,204 dealers operating collision repair facilities, a decline of 17.1 percent from 2006 when there were 8,692 dealers operating collision repair facilities.



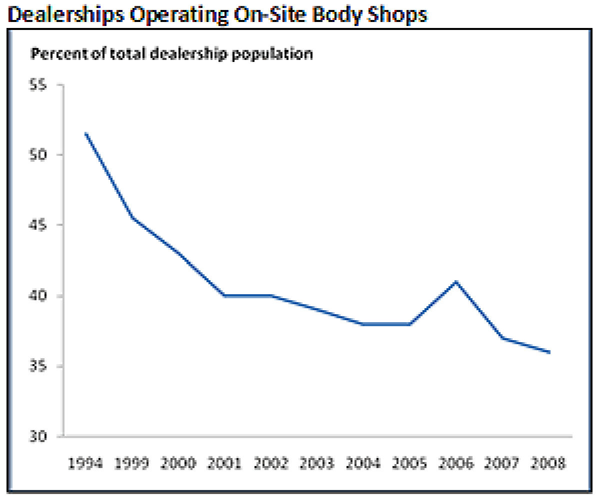
Source: NADA, The Romans Group LLC

As can be seen in the following chart, the number of dealerships operating on-site body shops since 1994 has dropped dramatically from a high of 52 percent to a low of 36 percent in 2008.

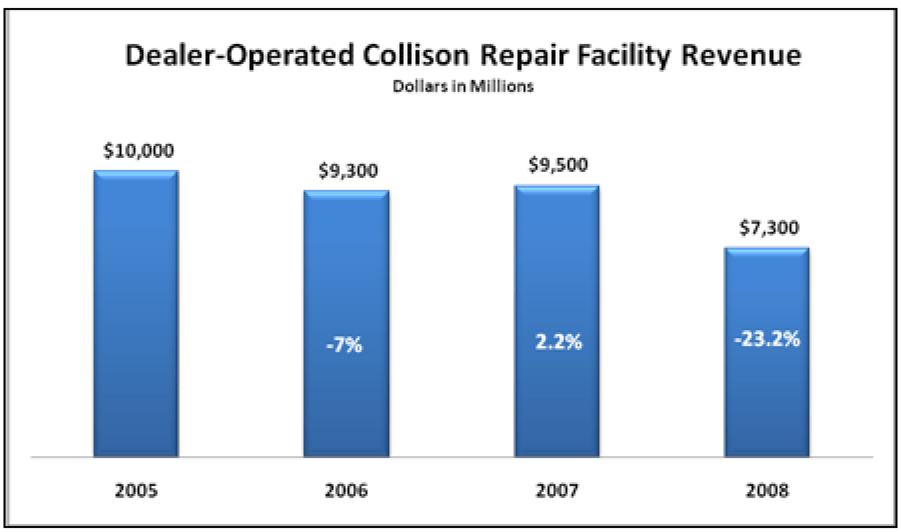
Looking at the dealership share of the collision repair marketplace, and according to the National Automobile Dealers Association (NADA), revenue derived from collision repair work performed by dealerships declined significantly over the past year, down 23.2 percent, with body labor declining 32.8 percent and body parts down 3.5 percent.

During the past 20 years, dealerships had seen their body shop revenue steadily increase until around 2005 when sales dollars began to decline to what are now nearly 1998 levels.

Dealerships Operating On-Site Body Shops



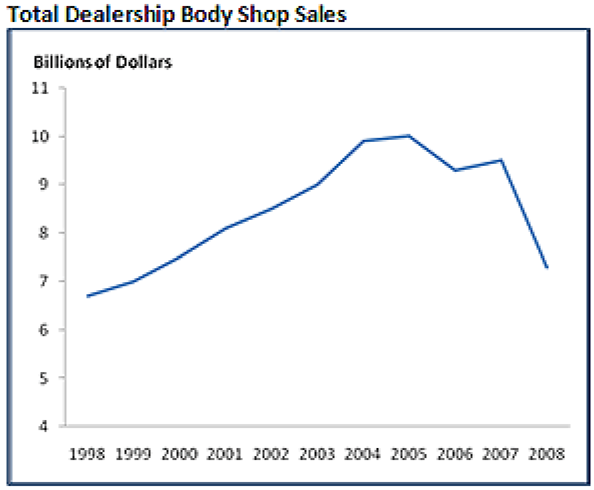
Source: NADA Industry Analysis Division



Source: NADA, The Romans Group LLC

We continue to expect original equipment manufacturers to support and influence dealership owned and operated collision repair facilities through the further development and expansion of collision repair certification programs. We believe that OEMs and dealerships with a collision repair presence are committed to expanding their influence and involvement in the collision repair industry, especially in light of

Total Dealership Body Shop Sales



Source: NADA Industry Analysis Division

the recent macroeconomic conditions and the focus on developing revenue alternatives through collision repair.

There was a 3.3 percent decline in the number of new car dealerships from year-end 2007 to year-end 2008 along with a 5.9 percent decline in the number of dealerships offering collision repair services. This downturn is being felt by both large and small dealerships as evidenced by the closing of Bill Heard in September 2008. Bill Heard had been one of the top 10 MLO dealers in both 2006 and 2007 and was the world's top-selling Chevrolet dealership with 13 locations and over $2.13 billion in sales for 2007.

Within the top 10 dealer group, there has been some minor shifting as the closing of Bill Heard made room for Faulkner. For those dealers continuing to offer collision repair, average revenue per location has declined $600,000 over the last year although it remains $400,000 better than in 2006.

Top 10 Dealer $20M MLOs				
Dollars in Millions				
Rank	**2008**	**2007**	**2006**	
1	Auto Nation	Auto Nation	Auto Nation	
2	Van Tuyl	Van Tuyl	Van Tuyl	
3	Sonic	Sonic	Sonic	
4	Penske	Penske	Group 1	
5	Asbury	Asbury	Penske	
6	Group 1	Group 1	Asbury	
7	MileOne	MileOne	Carl Sewell	
8	Carl Sewell	DarCars	Bill Heard	
9	DarCars	Bill Heard	Lithia	
10	Faulkner	Carl Sewell	DarCars	
	2008	**2007**	**2006**	**2-Year Change**
Production Locations				
Top 10	239	246	253	-14
% of All Collision Repair Locations	0.6%	0.5%	0.6%	0
% of All Dealer Locations	3.3%	2.8%	3.0%	0.3
% of all $20M MLO Production Locations	25.6%	27.6%	28.4%	-2.8
Revenue				
Top 10	$1,074	$1,081	$851	$223
% of All Collision Repair Revenue	3.6%	3.6%	2.8%	0.8
% of All Dealers	14.8%	12.4%	6.8%	8
% of All $20M MLO Revenue	33.5%	35.5%	31.2%	2.3
Average Revenue per Location				

Top 10 Dealer	$3.8	$4.4	$3.4	$0.4
All Collision Repair	$0.7	$0.7	$0.7	$0.0
All Dealers	$1.0	$1.0	$1.2	($0.2)
All $20M MLO	$3.2	$3.3	$2.6	$0.6

The Romans Group continues to believe that the collision repair industry will evolve and change at an accelerated pace over the next five years; more so than it did over the last ten. We expect that the evolving landscape will be the result of a number of industry-specific and macro-economic conditions likely impacting an increase in acquisitions, collision repairers exiting the business, business failures, MLO consolidation, and new innovative partnerships and strategic alliances. Some of the prevailing conditions include:

- Insurance companies working with a more limited number of single and multiple location operators
  - DRP utilization is expected to increase over the next five years
  - Performance management results will drive utilization and influence to top-tier performers
  - DRPs and preferred provider programs are influencing larger repair volumes to emerging end-game winners
  - Insurance companies increased adoption of the multiple operator business model
- Fewer accidents and a decline in the number of repairable claims due to:
  - Consumers driving less and spending less on repairing collision-damaged vehicles due to the economy
  - Proliferation of accident avoidance and safety systems
  - Insurance company safe driving programs and car policy safe driving incentives
- The negative impact of the current macroeconomic and business conditions and their influence on collision repairers remaining in business or deciding to exit their business
- Acceleration of aggressive repairer selling, marketing and branding of their competitive value propositions and performance to current and prospective wholesale and consumer segments
- Development, marketing and implementation of new and innovative services that many repairers will not have the ability or the inclination to pursue with their customer base
- Lean production and its business benefits leading to competitive advantage and long-term business sustainability for some repairers compared to their competition
- Hybrid claims management and process models that not all repairers are willing or able to accept, adopt or maintain

The good news is that there is still much opportunity within the collision repair industry for those who adapt to the changing conditions and leverage their business, market, financial, and strategic competencies and capabilities for growth and future success.

This information will be updated periodically, tracking and trending any changes to repairer organizations and to the collision repair revenue they are processing.

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