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Private's Equity's Influence on Consolidation Predicted to Continue Amidst COVID-19 Disruption, Structural Change

by **Vincent Romans**, as told to **Stacey Phillips**

During the MSO Symposium in November, **Vincent Romans**, managing partner of The Romans Group, presented a macro-level view of the evolving U.S. collision repair industry.

Following the virtual show, Romans shared further insight from The Romans Group industry research with *Autobody News* contributor **Stacey Phillips**, following trends on consolidation, private equity (PE) and the auto physical damage landscape.

In the following article, Romans discusses the impact of COVID-19 on the collision repair industry and examines how PE continues to influence structural change with consolidation.

2020 will forever be seen and remembered as a generational foundation year of significant disruption and structural change for the world with far-reaching economic, social and political implications.

At the Romans Group, we have discussed and profiled the ongoing disruption taking place during the last five decades as part of our study

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COVID-19 Hits FCA Workers: 2 From Warren Truck, 1 From Sterling Heights Dead

by **Eric D. Lawrence**, Detroit Free Press

COVID-19 is hitting autoworkers at Fiat Chrysler Automobiles once again.

Two workers at Warren Truck Assembly have died recently, according to the company.

That follows the death last month of a forklift operator who worked at the Sterling Heights Assembly Plant. The man's death followed a month-long battle with COVID-19, according to his obituary.

The deaths of the Warren Truck workers elevate a grim toll connected to the plant. Although it's not clear where the workers contracted the virus, six workers from the plant have died since the start of the pandemic. FCA said it believes the exposure of the latest Warren workers happened elsewhere.

"FCA was saddened to learn of the recent deaths of two employees from our Warren Truck Assembly Plant and one employee from our Sterling Heights Assembly Plant. Based on our aggressive contact tracing protocols, we believe that these positive cases did not come from exposure inside the plants. In fact, one

See **FCA Workers**, Page 3

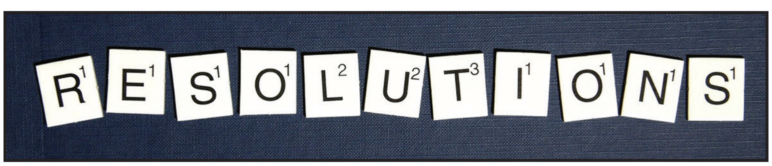
Collision Repair Industry Associations Make 2021 New Year's Resolutions

by **Chasidy Rae Sisk**

On New Year's Eve, people typically enjoy reflecting on the ending year, but 2020 has been a little chaotic, to say the least.

New Year's resolutions.

Collision repair industry associations are optimistic about the upcoming year and graciously agreed to share their 2021 New Year's resolutions with Autobody News.



While no one seems particularly sad to say goodbye to 2020, there's still excitement and hope for the incoming year, expressed by making

Because 2020 has contained so many unprecedented events and situations, many associations' resolutions

See **New Year's Resolutions**, Page 14

Distracted Driving Skyrocketing During the Pandemic

by **Kea Wilson**, StreetsBlog USA

A new study of COVID-era car crashes finds that a shocking 27% of all drivers were using their cell phones within 60 seconds of impact—and transaportation safety leaders are doing almost nothing to stop it, despite a preponderance of proven strategies that can compel us to put down our devices when we're behind the wheel.

In an analysis of 86,000 collisions that took place on U.S. roads in 2020, mobility analysis firm Zendrive found our country's record-setting crash rates in the lockdown months usually involved dangerous distracted driving behaviors like texting behind the wheel, which is illegal in 41 states.

Alarmingly, 16.8% of drivers the company studied were using their cell phones in the five seconds immediately prior to impact—and the problem got increasingly worse as the year wore on, and more and more cars returned to the road and rates of other dangerous behaviors, like speeding, dropped.

Zendrive's technology works in the background of a wide range of cell phone apps, from e-taxi software to navigation services countless Americans use every day, so the dangerous phenomenon cuts across both commercial and civilian driving.

Those early days of COVID-19, of course, were an exceptional time for U.S. transportation. But experts reiterated that distracted driving long predates the pandemic, and the recent upheaval in travel patterns only underscores a long-standing problem.

"Distracted driving is a needless crisis, and now as we navigate increased health risks in our day-to-day, we need to prioritize safety on the road," said **Jonathan Matus**, Zendrive CEO and co-founder. "We hope that sharing this data demonstrates the urgency here, and sheds light on a key to keeping our communities safer."

Of course, we know exactly how to stop drivers from scroll-

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of the longitudinal evolution within the collision repair industry, and its auto physical damage ecosystem's multi-segment structural transformation.

We entered 2020 with one of the best business and economic environments ever by all comparative standards. We were then unexpectedly hit by a confluence of external events impacting near and longer term visibility overshadowed by continued uncertainty.

These include COVID 19's uncertain impact; a slow, hobbling, uneven healing economy; social unrest in the U.S.; presidential election results; and tensions between the U.S., China and Russia.

The recent disruption caused by the pandemic will accelerate change in ways that make it difficult to predict what the effects will be throughout the broader auto physical damage ecosystem.

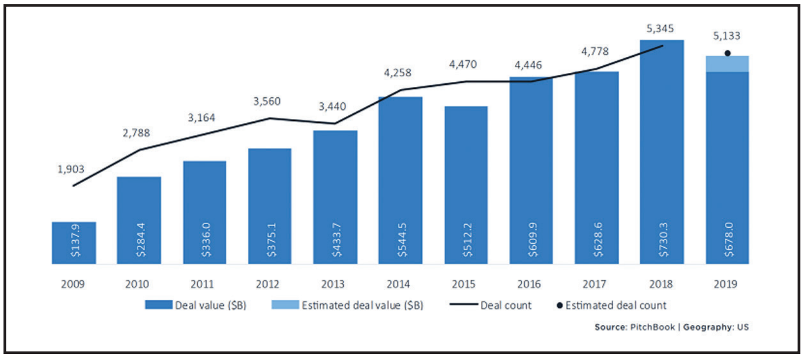

Fig. 1

There are many industry constructs laying the foundation for change, opportunity and uncertainty as we transition to 2021. However, we expect to emerge from 2020 with stronger nascent and legacy-leading businesses that were well-capitalized with strong balance sheets pre-COVID, as well as emerging disrupters who were at the right place and time with new norm solutions that became opportunities for success and competitive advantages.

We have seen many repair organizations able to not only maintain their operational and financial well-being, but also to be profitable during the pandemic.

A combination of the Federal Reserve's periodic economic intervention, the collision repair industry's designation as an essential business, available PPP loans and early reductions in labor force actions initiated by repairers all helped contribute to many repairer's positively navigating the pandemic.

Since February, we have seen a number of market dynamic changes that seem to be at the top of the more influential and impactful near-term confluence of prevailing industry conditions during and post-pandemic:

- Drastic decrease in miles driven, accidents and claims processed compared to the same period in 2019
- A reduction in the collision repair addressable market, Total Available Market (TAM), in 2020, yet to be determined
- Increased vehicle repair complexity due to growing penetration of embedded ADAS technology and calibration requirements
- Continued acceptance and adoption of OEM certification programs
- Technician shortage mitigated in the short-term due to furloughed and terminated technicians, but sourcing, recruitment and retention continues.
- Technicians and collision repair owners are now even more selective regarding hiring and retaining the best
- Evolution of business segmentation strategies with the largest consolidators marketing to insurers their unique "one national shop model/platform." This is further segmented with collision repair locations providing specific capabilities including glass installation, express-, same- or next-day service, non-drive/total loss processing and disposition, OEM certification, advanced material and/or mechanical repair, and diagnostic services including pre- and post-repair scanning and calibration
- Artificial intelligence, machine learning and computer vision geared to the development and adoption of collision repair estimating eventually impacting shorter claims processing and estimate accuracy
- Accelerated digital transformation including acceptance of virtual claims photo processing and financial payments

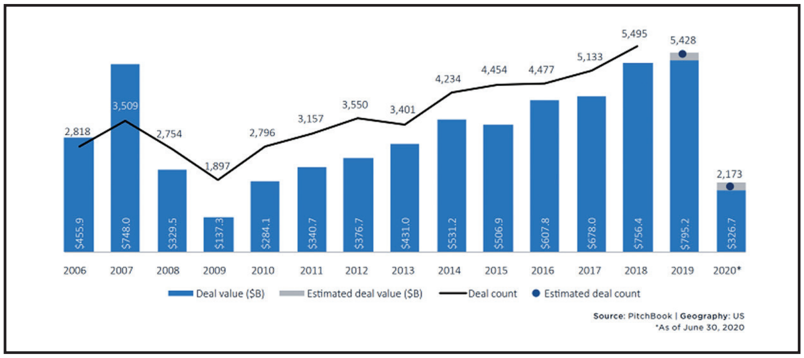

Fig. 2

- Private equity's continued interest and activity in actively seeking out investments throughout the auto physical damage ecosystem and collision repair consolidation

Impact of Private Equity on Industry Consolidation

It's no secret the collision repair industry has experienced and will continue to reflect significant consolidation, both in terms of the number of repair locations acquired and the transfer of ownership.

The number of repair organizations has decreased considerably since 2000, while consolidator and larger multi-shop operators (MSOs) have created multi-location, multi-regional and national MSOs that now represent 42% of the collision repair industry's TAM.

With ever-increasing PE funds and record levels of "dry powder"—unallocated capital on hand—it is anticipated that transactions within the collision repair industry and broader auto physical damage landscape will continue at a constant pace.

PE organizations continue to be attracted to collision repair for several reasons: the healthy and growing industry TAM, strong positive cash flow, the view that collision repair is somewhat recession resistant as reflected in the 2007-2008 recession downturn economic cycle and the government's current designation that collision repair is an essential business.

Most repairers remain open even though business was slashed by 50% to 60% in the early COVID-19 days, when repairers took actions to cut costs, accepted PPP money from the government, furloughed personnel and, in some cases, shuttered their doors for some of the early days of the health crisis.

Overall, U.S. PE deal-making activity registered another healthy showing in 2019, though fell shy of the record-setting pace of 2018. *(See Fig. 1)*

Despite the strong rising U.S. investment theme, seen in the chart above, the amount of unspent PE cash continues at its all-time high.

Investors such as pension funds, sovereign wealth funds and insurance companies continue to direct money into private markets in the hopes of achieving higher returns in

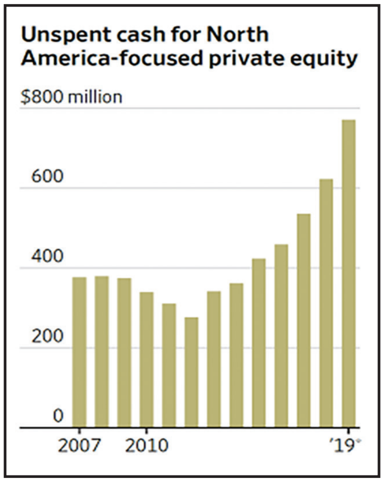

Fig. 3. Source: Pequin

industries like collision repair than offered by traditional stocks and bonds in an era of continued low interest rates.

PE investments and relatively inexpensive debt have provided the enormous pools of capital required to enable collision repair industry consolidation. *(See Fig. 2)*

The high velocity of PE deal-making diminished in Q2 2020 as dealmakers felt the impact of the COVID-19 pandemic. Q2 2020 was the first full quarter in which global economies had to slog through the pandemic, and the slowdown in U.S. PE deal activity became more apparent.

According to Pequin, PE fund-raising momentum has slowed from 2019's record-setting pace, although it will likely remain healthy. *(See Fig. 3)*

PE's interest in the collision repair industry in 2020 remains strong. Since the beginning of 2020, we have experienced a growth of PE firm activity scouring the collision repair industry for possible investments in MSOs.

Current Private Equity/Strategic Investors with U.S. and Canadian MSOs: *(See Fig. 4)*

There are now 15 private equity and strategic investor firms in the U.S. and Canada that represent 28.5% or $10.92 billion of the nation's revenue output TAM, and 19.8% or $575 million for a total North America share of 27.9% or $11.5 billion in revenue co-managed by private equity and collision repair owner teams.

Multiple-Location Operators	Private Equity/Strategic Investor
Caliber	Hellman & Friedman, Omers, Leonard Green Partners
Driven Brands Maaco/CARSTAR/FIX	Roark Capital
Service King	Blackstone & Carlyle Group
Joe Hudson	TSG Consumer Partners
BHA-Van Tuyl	Berkshire Hathaway
ProCare	Kinderhook
Lift Auto	Canadian Business Growth Fund
Fix Auto World	Caisse de Depot et Placement Quebec
Crash Champions	A&M Capital
Classic Collision	New Mountain Capital
Brandywine Coach Works Quality Collision Group	Susquehanna Capital
CollisionRight	CenterOak Partners

Fig. 4

In November, CenterOak Partners became the most recent private equity firm to announce its entrance into the collision repair industry, by acquiring several MSOs totaling 21 locations and $51 million in revenue, with a target of $75 million by year end.

Prior to CenterOak, the four most recent MSO private equity acquisitions involved A&M Capital and Crash Champions; New Mountain Capital adding to its $20 billion portfolio with a 34-shop Classic Collision acquisition; Roark Capital/Driven Brands acquiring the FIX Auto franchise and the 10-shop Southern California MSO Auto Center Auto Body (ACAB); and Susquehanna Capital acquiring Brandywine Coach Works, with four locations in Pennsylvania.

These acquisitions indicate potential investors continue to see potential in the collision repair industry.

The transactions reflect how small- to medium-size MSOs are partnering with PE companies to help accelerate their expansion and growth, creating nascent models where small to medium aggressive MSO consolidators are now competing as they build their regional and super-regional platforms to compete with the larger legacy consolidator MSOs like Caliber and Boyd/Gerber. *(See Fig. 5)*

There continues to be private equity firms such as Frontenac, in Chicago, IL, reaching out to court smaller-to medium-size MSOs interested in partnering with them to grow their business to a regional or super-regional MSO.

Despite these PE deals and continued MSO acquisitions, there currently remain 40 independent MSOs

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Catalytic Converter Thefts Soar in Kansas; Police Push for Stronger Laws

by **Greg Miller**, KAKE News

Barney Lehnerr, owner of Transitions Group, Inc., in Wichita, KS, typically uses big loading trucks to deliver furniture rentals for various clients across the region. Right now, those trucks are sitting quietly on his lot, because the catalytic converters were stolen. "They scaled the fence down there by the auto body shop," he said. "They cut the locks and stole three catalytic converters." It's a familiar problem he's heard about from plenty of other people. And the price tag to replace them is high—roughly $57,000. "Our repair guy that we use has told us there's such demand on converters because of the thefts," he said. "They're probably three weeks back-ordered." Catalytic converter thefts have increased dramatically and this year the reports are the highest they've been in a decade.

Wichita police released these figures for numbers of catalytic converter thefts:

2016: 64 reports
2017: 32 reports
2018: 21 reports
2019: 191 reports
2020: 451 reports

"These economic times are tough for people," said Sgt. **Trevor McDonald**. "I constantly have people calling me and telling me 'I've lost a $1,200 catalytic converter.'"

Police say existing laws aren't strong enough to properly arrest and prosecute these thefts. In 2018, KAKE News Investigates talked with WPD about the need for a scrap metal database. They'd hoped it would make tracing sales and thefts faster. The problem? It hasn't stopped thieves. "There's not only businesses not complying with the mandate, but there are 30-plus private individuals offering to buy catalytic converters," said Deputy Chief **Jose Salcido**. "Because there's a lot of money in it." Salcido urges the public to contact their lawmakers to push for stronger legislation against these thefts, before they find their vehicle victim. "If people think they're going to be talking to a judge, they're less apt to not follow the rules," he said.

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with $20 million in annual revenue. There are 31 independent existing MSO organizations with between $15 million and 19 million in annual revenue that can easily grow into this meaningful PE targeted $20 million segment.

	Revenue ($ in millions)	Private Equity/Strategic/Pension Fund Investors
U.S.		
Caliber		Helman & Freeman, Omers, Lenard Green Partners
Boyd Gerber		Public
Service King		Blackstone and Carlyle
Driven Brands		Roark Capital
Joe Hudson		TSG Partners
BHA - Van Tuyl		Berkshire Hathaway
Classic Collision		New Mountain Capital
Pro Care		Kinderhook
Crash Champions		A&M Capital
Brandywine Coach Works Quality Collision Group		Susquehanna Capital
CollisionRight		CenterOak Partners
U.S. Total	$10,920	Market Share 28.5%
Canada		
Mondofix Canada		Caisse de Depot Quebec
Lyft Auto		Canadian Business Growth Fund
Canada Total USD	$575	Market Share 19.8
Total U.S. and Canada	$11,495	Market Share 27.9

Fig. 5

We expect 2020 and 2021 to be years of ongoing consolidation within the collision repair industry, especially with the large number of indepen-dent$10 million multiple-location operators still operating that could turn into acquisitions. This activity can be viewed as a proxy for what will continue as we enter the next decade within the collision repair industry.

This is an excerpt from The Romans Group annual report, A 2019 Profile of the Evolving U.S. and Canada Collision Repair Marketplace, now available. The report contains the complete results of their research and analysis for 2019, including more than 65 charts and graphs throughout more than 80 pages, with historical trends and a view of the future.

To purchase the report, contact Mary Jane Kurowski of The Romans Group LLC at maryjane@romans-group.com.

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FCA Workers

"Our thoughts are with the families and coworkers during this very difficult time. It's important that we all redouble our efforts to make sure we, our families and our co-workers follow protocols both at the worksite and outside of work."

The World Socialist website reported earlier on the deaths.

FCA was the hardest hit among the Detroit Three automakers during the initial months of the pandemic in terms of reported fatalities. After a production shutdown affecting all automakers ended in the spring, the companies went to great lengths to emphasize its safety and cleaning protocols, but in recent weeks, reports from concerned workers to the Free Press have been increasing.

The Free Press also spoke with the widow of the Sterling Heights worker on Dec. 8. **Mark Bianchi**, 56, of Shelby Township, died in November. He drove a Hi-Lo at the plant.

He came home from work Oct.

*See **FCA Workers**, Page 18*