A Profile of the Evolving Collision Repair Marketplace

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The following represents the results of our third annual white paper on trends, market share and size of the collision repair industry relative to collision repairers that generate greater than $20 million annually in auto collision repair revenue. There are many collision repair businesses of significant size 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.

Our profile for $20 million multiple-location collision repair organizations includes independent, dealership and insurance company owned and managed, with one or more locations in single, multiple or widely dispersed geographic markets. 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 for collision repair business including property and casualty insurance, automotive dealer, accident management, rental car, and direct pay consumers within the United States.

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. These organizations are identified in a variety of ways such as consolidators, multiple shop operators (MSOs), and networks; we continue to refer to them as multiple location operators, or MLOs.

The $20 million collision repair profile used for this analysis excludes repair facilities that focus exclusively or primarily on expedited paint and cosmolition, small dent, glass repair only, mechanical only, and collision repair related primarily to auction vehicles.

We do recognize that within this segment some companies are in various stages of strategic growth, transformation and transition to business models approaching that of an insurance company DRP wholesale or a diversified customer segment platform which may cause us to include them in the future.

The various non-MLO networks that promote performance improvement, brand identification, personnel training and development, and technical improvement programs such as conversion franchise organizations, OEM certification, value-added services, co-op buying and outsourced claims management and repair services are not included in our analysis. Some examples of these networks include FIX Auto, PPG's CertifiedFirst and Claims Expert International (CEI). We do recognize that these networks provide important collision repair and claims management solutions and services for their members, providers and customers. As such, they will be profiled in an upcoming article on the various brick and mortar and virtual networks that they and others represent operating within the collision repair, property and casualty auto insurance, OEM, and other auto damage physical repair industries.

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.

Source: The Romans Group LLC

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:

Source: The Romans Group LLC

[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 $20million MLOs represent 2.3% of the estimated 41,500 collision repair facilities nationally, they process 10.7% of the $30 billion in insurance and customer-pay collision repair revenue. In other words, MLO's have 2.3% of the doors and 10.7% 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 represent and operate in the $10.0 million to $20.0 million segment.

While this paper 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

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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 with at least one location in that region.

● Over half of the 54 MLO organizations have chosen to compete in the west.

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% of all $20 million MLO production locations and 53.7% 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.

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.

Comparing the top ten independent and dealer group $20 million MLOs, the independents have 68% more locations producing 16.7% 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%. This group's share of all $20 million MLO revenue has increased by 5.1 percentage points over the past two years.

In 2008, 36% of dealerships operated collision repair facilities versus 37% in 2007

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and 41% 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% 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 graph, the number of dealerships operating

Dealerships Operating On-Site Body Shops

Source: NADA Industry Analysis Division

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 NADA, revenue derived from collision repair work performed by dealerships declined significantly over the past year, down 23.2%, with body labor declining 32.8% and body parts down 3.5%.

Source: NADA, The Romans Group LLC

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.

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

There was a 3.3% decline in the number of new car dealerships from year-end 2007 to year-end 2008 along with a 5.9% 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

Total Dealership Body Shop Sales

Source: NADA Industry Analysis Division

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.

We continue 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 and adoption 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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