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An Insider's Look at Consolidation

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Statistically speaking, consolidation within the collision repair industry has slowed in recent months.

But is that a sign of a growing trend, or is a storm gathering on the horizon?

Aside from the seismic, wintertime merger of Caliber Collision and ABRA—which created a more than 1,000-shop national multi-shop operation—2019 has been somewhat quiet on the consolidation front. Yet, more than one industry expert will tell you that energy appears to be gathering, calling for a potential flurry of activity in the months ahead.

"I think we're getting ready to enter a period where we are going to see some more activity here," says Joe Conner, an executive with Harris Williams and Company, a firm that's work includes assisting in collision repair mergers and acquisitions.

Consultant and advisor Vincent Romans, who studies market trends exhaustively, notes, "MSO consolidators in general continue to pursue their market development and growth strategies, through the acquisitions of various-sized MLOs [multi-location operators], to enter new markets and enhance their market positions in existing markets … with a degree of scale that allows for rapid market entry and expansion and anticipated improved operating efficiencies."

Major consolidators, regional MSOs, and private equity firms all appear capable of altering the collision repair landscape—and sooner, rather than later.

Here's a look at the major forces that could factor into big changes.

CONSOLIDATORS LYING IN WAIT

"The velocity of change for collision repair consolidation within the U.S. collision repair industry has moderated somewhat over the past three years. … We expect 2019 to grow again for [the] top 10 segment, reinforcing consolidation among the top segments we track."— Vincent Romans

Jon Davidson's family found themselves on the edge of a battleground.

The collision repair industry in upstate New York was in upheaval, leaving the owners of Davidson Collision unsure of what to do with their three locations. They were certain of one thing, though: they needed to react quickly.

"It seemed to be that our market, and New York state, was this last proving ground for the consolidators," says Davidson, the collision repair company's president. "We started seeing a lot of consolidation. Carubba Collision out of Buffalo started expanding east, and it shook a lot of us. … And Carubba turned around and sold all these shops they just bought to Gerber" Collision & Glass.

Davidson, 38, was helping operate a family business with several longtime, trustworthy employees—some of whom were there the day he was born. He wanted those employees to continue to earn solid paychecks. He wanted to pivot his business model.

So, early last spring, Davidson Collision became CARSTAR Davidson.

Davidson's partnership with a national brand came about due to the family's desire to position itself for long-term survival in a changing industry.

“We understand,” Jon Davidson says, “that, to survive and grow, you need to find partners that can give you the leverage to compete on that scale.”

According to Romans, as of 2018 the top five independent and dealer-only collision repair companies—Caliber, Boyd-Gerber, Service King, AutoNation, and Berkshire Hathaway—represent a combined $6.2 billion in revenue. And, the industry insider says those five powerful entities made up 15.5 percent of the market. Romans considers CARSTAR to now be among the top four U.S. collision repair franchisors.

Davidson felt CARSTAR could help his facilities with regard to insurance relationships, more than anything.

“I think, as the industry changes,” Davidson says, “being able to leverage people that are much higher-level conversations than you could ever get at the ground level is important. … [And] CARSTAR gives you a seat at the table that’s much higher.”

Davidson’s facilities were appealing to CARSTAR because the national brand viewed New York state as an area of potential, company officials say. And, these days, the national franchisor is interested in partnering with small-to-medium-sized MSOs.

Davidson feels body shop owners like himself need to align themselves with strong alliances to survive an uncertain future within the industry.

“For an independent, or even for an MSO, how do we compete when someone with very large, deep pockets comes to town?” the New Yorker asks aloud. “It’s by having good partners, and [our] move was strategically set up to do that.”

SHOP OWNERS SELLING

“The trend to acquire small to medium MSOs by larger consolidators has picked up somewhat since 2016, primarily with Caliber and Boyd-Gerber. … Caliber and Boyd-Gerber have had an active 2019, acquiring a total of 10 large, medium and small MSOs.”—Vincent Romans

In recent years, the Price family, which had long operated Price’s Collision Centers (PCC) around the Nashville area, shared many of the same concerns the Davidsons had in upstate New York.

Then, the reverberations of CEO Bobby Price’s 2017 death were felt around Price’s Collision Centers for months.

“It was a huge emotional blow,” Marc Sizemore says. “And, in a way, Price’s lost the heartbeat that really made it work.”

Eventually, the surviving members of the Price family took a step that many shop operators have recently: they sold to a consolidator.

PCC's management felt Caliber offered the scale, training possibilities, unique employee benefits, and proven track record to lead its employees into a new era. So, back in April, PCC's 10 locations were rebranded as Caliber facilities.

Just like that, an era was over. Yet, Sizemore, who had been appointed PCC's chief operations officer, says the transition has gone surprisingly smoothly.

"Caliber will bring Price's into a better future more aligned with today's business reality," says Sizemore, a well-traveled veteran of the industry. "The MSOs and the scale they provide, they provide a lot more access to training that's [appealing to] insurers."

Sizemore spent roughly a full year helping PCC reorganize in preparation for its sale to a major consolidator that now operates more than 1,000 locations across the U.S. On the advisement of Sizemore, the company eliminated most non-essential expenses, like a $108,000-per-year suite at Nashville's Nissan Stadium for local National Football League games.

Sizemore insists selling a collision repair business doesn't need to be a melancholy experience. After all, nowadays, there is serious money to be made when selling to consolidators.

"For the independent shop owner," Sizemore says, "who has done the work, taken the risk, survived and thrived and is looking at the challenges ahead—certification, investment in equipment and training and competing against consolidators with scale … when you balance that against a great offer, and you've worked 40 years to build a wonderful company, selling is the American dream."

Sizemore also feels the private equity money, and consolidators, plus the large companies they have created, results in companies that have access to capital that independents can rarely compete with.

"Independents have to have the will to compete or it'll be pretty tough," Sizemore says, assessing the foreseeable future of collision repair. "They can't maintain their status quo and compete with [large consolidators]—and those guys are going to keep growing; The thing about having private equity behind you is, those guys want a return on investment, and to do that they need to keep growing. Every 5-7 years they want their money back. And you have to keep growing to do that, revenue-wise, store-wise, and market-wise."

REGIONAL MSO GROWTH

"Other independent and dealer MLOs, such as AutoNation with a multi-state footprint, Classic Collision in Georgia, and Crash Champions in Illinois, are actively expanding. … It's really about expanding their current operational capabilities and scale in order to compete in today's marketplace, and knowing that that's what is required on a multi-regional and national scale." —Vincent Romans

Jake Nossaman pridefully recalls his roots in collision repair.

The Oklahoman started his professional career out of his garage at the age of 19, in the mid-1990s, working on the occasional wrecked BMW 3 Series. By 2001, he had opened his first Collision Works facility, in Oklahoma City.

"Being an entrepreneur is hard," he says. "But it's a blast."

In a span of 15 years, Nossaman's business grew exponentially. It's reach cut a swath through much of Oklahoma and Kansas.

When a Collision Works was added in suburban Kansas City in early 2019, it marked Nossaman's 21st shop.

"I wanted to chase the American dream, and see how big I could build" the business, explains Nossaman, who says he has plans to add more stores in the next 18 months.

Collision Works' growth mirrors that of many regional MSOs these days.

Nossaman says growing as a regional MSO simply makes solid business sense. He feels attempting to dominate a region is a relatively safe business decision, even given the substantial financial figures at stake.

"You know your area and the demographics," the president and CEO of Collision Works explains. "And, it's easier to relocate key people closer distances to home."

Nossaman takes great pride in watching many of his longtime employees grow at Collision Works shops, which boast an average CSI score of 98.

"Watching people grow, and the ability to promote from within and change people's lives, there is no stopping as long as I can do that," he says.

The Oklahoman still feels there's a place for independent shop owners in the collision repair industry. That said, he also feels those single-shop operators will need to continue to evolve to compete in a rapidly changing industry.

In general, Nossaman suggests most shop operators should consider expanding their business reach with the addition of locations, as similarly-sized MSOs like Crash Champions have done (Crash Champions acquired multiple Chicago-area locations in August, for instance).

"Cash is king, and you need a lot of it; The deal has to make sense," Nossaman says, in regard to adding shop locations. "But don't be afraid to grow. Growth is healthy."

PRIVATE EQUITY FIRMS EMERGE

"Consolidators like Joe Hudson and ProCare, both backed by private equity, are also expanding. …

I see private equity continuing to have an interest in investing in the collision repair industry. And the newest trend seems to be private equity interest in smaller to medium-sized collision repairers versus the larger ones that, historically, private equity has focused on. "—Vincent Romans

Joe Conner has forged a career out of sourcing, leading, and executing merger and acquisition assignments.

And, lately, business is percolating.

Conner is an executive with Harris Williams and Company, an investment banking firm that specializes in mergers and acquisitions. A managing director in the firm's transportation and logistics group, he often assists body shop owners—typically MSO owners that operate at least 10 locations—looking to sell to private equity firms. For instance, his firm assisted Caliber when it was sold to private equity firm OMERS.

"There's going to be continuing consolidation in this market," Conner says. "I think there will be an opportunity for others to jump in to find a partner, to consolidate the market … and build sizable platforms."

Conner feels the next five years will feature significant consolidation among body shop businesses, namely because collision repair is viewed as a reliable revenue producer by private equity firms.

Collision repair "is recession resistant," he says, "and it has been pretty steady through economic cycles over time, so that's item one. And then, two, it's a big industry—you're talking about a $40 billion-plus industry."

In short, the process of an MSO being sold to a private equity group works like this:

Shop owners have initial conversations with investment firms like Harris Williams and Company, explaining their goals for their business.

A shop owner is connected with a private equity firm.

Typically, the sale process takes 6 months, start to finish, Conner notes.

The typical hold period for such an investment is 5 years.

Private equity firms then back a purchased MSO's management team and provide it with capital to help it grow the business

Despite the collision repair industry's large mergers in recent years, such as Caliber absorbing the ABRA brand, there are plenty of potential mergers and acquisitions that could yet take place and benefit shop operators, Conner notes.

"There are some who are [shop] owners who are looking to retire and are trying to monetize 30 or 40 years worth of work," he notes. "There are some who are just getting started, but are watching the consolidation happening in the industry and trying to find an equity partner who can back them.

"It's interesting," he adds. "For all the news over the last few years in terms of consolidation in the industry, if you look at the top four [consolidators] in terms of locations, it's still about 6 percent of the market. The big guys have all added a number of locations, but they're still very small relative to the rest of the industry."

Private equity firms are looking to back body shop operators who have a solid bottom line, a proven track record of forging solid working relationships with insurers, and the ability to grow their business, Conner says. And plenty of those still exist, from the Atlantic to the Pacific.

"You still see a market that's very fragmented, and there's opportunity still," Conner says. "I think that's going to continue to drive interest in the [collision repair] space.

"It's a huge market opportunity."