Consolidation in the United States: what it might mean for the rest of the world

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Fond memories from
a brutal winter

AGENDA

I. Overview

II. BB&T Capital Markets Snapshot

III. Collision Consolidation in the United States

IV. Forces Driving Consolidation

V. Impact on the Rest of the World

VI. Q&A

OVERVIEW

OVERVIEW

- The story of the consolidation of the collision repair industry in the United States has largely been written
  - There is a chapter or two yet to be published, but for all intents and purposes, the conclusion is clear
- Within ten years roughly two-thirds of the revenues from the $30 billion industry will be captured by the four consolidators (or their successors if they merge), and eventually, they will do virtually all of the carrier-paid repairs
- Since the consolidators have a little more than 10% of the market today my prediction might seem aggressive
  - However, the market forces driving consolidation in the U.S. are simply unstoppable, and it is those forces that should be of keen interest to this audience
- Consolidation of this magnitude may not take hold around the rest of the world, but if it doesn't, it will because of regulatory, legal or cultural constraints that defy economics

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BB&T CAPITAL MARKETS SNAPSHOT

INTEGRATED, FULL-SERVICE FINANCIAL FIRM

- Headquartered in North Carolina and member of the S&P 500 (NYSE: BBT)
- One of the ten largest U.S. bank holding companies with total assets of approximately $207 billion
- Equity market capitalization of approximately $28 billion
- Full service platform
  - Capital Markets
  - Insurance
  - Trust
  - Retail Brokerage
  - Corporate Banking
  - Treasury Services
  - International Services
  - Investment services
- Industry group focus
  - Automotive Aftermarket
  - Commercial & Industrial
  - Defense & Govt. Services
  - Financial Services
  - Food & Agribusiness
  - Logistics & Transportation
  - Real Estate
  - Retail & Consumer

UNIQUELY FOCUSED ON THE ENTIRE CHANNEL

- We view the $300 billion automotive aftermarket as everything to do with a vehicle once it rolls off the new dealer lot, from suppliers to distributors, to retailers, to dealers and independent service providers

The Automotive Aftermarket Channel

Suppliers

- Accessories
- Appearance
- Collision Parts
- Heavy Duty
- Performance
- Recreational Vehicles
- Remanufacturers
- Specialty Chemicals & Lubricants
- Specialty Products
- Systems Technology Providers
- Tires / Wheels
- Tools & Equipment
- Traditional Hard Parts

Distributors

- Accessories
- Broadline WD's / Jobbers
- Collision (PBE)
- Commercial Distributors (DIFM)
- Heavy Duty
- Marine
- OES Distributors
- Performance
- Recreation
- Specialty Chemicals & Lubricants
- Specialty Distributors
- Tire / Wheel Distributors
- Tools & Equipment
- Whole Car / Salvage Vehicle Auctions

Retailers

- Accessories
- Catalog / Direct Marketers
- Mass Merchants
- New Car Dealers
- On-line Retailers
- Performance
- Recreational Vehicles
- Traditional Auto Parts
- Used Car Dealers

Independent Service Providers & Dealers

- Accessories
- Collision Repair
- Franchisors
- Heavy Duty Service
- Large Franchisee Groups
- New Car Dealers (OES)
- Paint & Body Work
- Performance
- Quick Lube
- Repair / Maintenance
- Tire Retailers
- Transmission Repair
- Used Car Dealers
- Warehouse Club

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EXTENSIVE COLLISION TRANSACTION EXPERIENCE

Collision M&A Experience

CALIBER COLLISION
a portfolio company of
ONCAP
has been acquired by
OMERS Private Equity
2013

ServiceKing
has been acquired by
THE CARLYLE GROUP
2012

The Boyd Group
has acquired
Cars Collision Center
2011

TRUE2FORM Collision Repair Centers
a portfolio company of
MIDOCEAN PARTNERS
has been acquired by
The Boyd Group
2010

CARSTAR
a portfolio company of
Equity South Advisors
has been acquired by
CHAMPLAIN CAPITAL PARTNERS LP
2008

Collision Underwriting Experience

FENIX PARTS
Co-Manager
Initial Public Offering
2015

AXALTA
Co-Manager
Initial Public Offering
2014
Secondary Offering
2015

KAR AUCTION SERVICES
Initial Public Offering
2009
Secondary Offering
2012
2013

LKQ
OEM Recycled • Aftermarket by Keystone
Secondary Offering
2007

COLLISION INDUSTRY CONSOLIDATION IN THE U.S.

A SNAPSHOT OF THE INDUSTRY

- There are roughly 34,000 dealer and non-dealer repair locations
- On aggregate, these locations generate roughly $30 billion in revenue (without glass)
- Average sales per location are approximately $912,000, which is up from $666,000 per location in 2006 when there were 11,000 more locations
- In 2013 there were 13.4 million covered accidents, 10.25 million of which were repairable
- Average severity was $2,750 resulting in $28.2 billion in insurance paid industry revenue

Source: The Romans Group

COLLISION INDUSTRY CONSOLIDATION IN THE U.S.

THE BIG DEAL PEAK IS PAST

- The timeline displays acquisitions in the last 15 years involving targets with 20 or more locations (upper portion), and smaller acquisitions with at least three locations (lower portion)

2001 // 2004 // 2007 — 2008 — 2009 — 2010 — 2011 — 2012 — 2013 — 2014 — 2015

2004
Gerber Collision (16)

2007
Kadel's Auto Body (12)

2009
Xpress Collision (3)
Big Sky Autobody (4)
D&D Collision (3)

2011
Alamo Body and Paint (8)
911 Collision Centers (7)
B&B Paint & Body (5)

2012
Collision Plus (3)
Autocrafters (14)
The Recovery Room (11)
Auto Body World (8)
Pearl Auto Body (6)
Holmes Body Shop (6)
Master Collision (8)

2013
Accurate Autobody (10)
Sprayglo USA (8)
Golden State (12)
Hayes Brothers (4)
Hank's Auto Body (3)
Greulich's (3)
Hi-Tech Collision (10)

2014
Craftsman (13)
Pohanka (12)
Kirmac (12)
Car West (7)
Marco's Collision (7)
Champs (7)
Holmes Body Shop (6)
True Quality (12)
Haddock (5)
Classic Collision (4)
Collex (16)
Wilburn (13)
Collision Authority (6)

2015
Craftmaster (6)
Barrett's Collision Center (6)
Collision Experts (7)
Central Collision Centers (7)
Keenan Auto Body (12)
Cherner Collision Centers (7)

THE 'FOUR HORSEMEN' OF THE CONSOLIDATION

OUR PREDICTIONS KEEP FALLING SHORT

- In 2011, we predicted that in ten years, there would be two to four national chains of bodyshop operators controlling 20 – 40% of the market….in substantially all the major metropolitan markets in North America
- In 2013, we examined our prediction and refined it with more analysis

($ in millions)

Company	2011YTD Stores	2013YTD Stores	*2011-2013 CAGR*	2013E Sales	*2013-2023 CAGR*	2023P Stores	2023P Sales
Boyd	173	253	*20.9%*				
ABRA	114	175	*23.9%*				
Caliber	83	144	*31.7%*				
Service King	48	89	*36.2%*				
Total	**418**	**661**	***25.8%***	**$1,850**	***15.0%***	**2,675**	**$7,890**
					20.0%	**4,093**	**$12,075**

30 – 40% of 2023 expected collision market

2015 UPDATE

- If the Four Horseman had continued to grow at the same rate they had been back in 2013, today they would have had a little more than 900 stores collectively

Company	Nov - 2011 Stores	Nov - 2013 Stores	*2011 - 2013 CAGR*	Apr - 2015 Proj. Stores
Boyd	173	253	*20.9%*	331
ABRA	114	175	*23.9%*	237
Caliber	83	144	*31.7%*	213
Service King	48	89	*36.2%*	138
Total	**418**	**661**	***25.8%***	**919**

2015 UPDATE: ACCELERATING GROWTH

- But they did not keep growing at that pace; they exploded
- From 2013 – 2015 the Four Horseman collectively grew their locations at a 48.6% annual rate, increasing the rate of growth by 89%!
- Now, without increasing the long-term growth rate, we believe the Four Horseman will have well over 50% of the market in ten years

Company	Nov - 2011 Stores	Nov - 2013 Stores	*2011 - 2013 CAGR*	Apr - 2015 Proj. Stores	Apr - 2015 Actual Stores	2013 - 2015 CAGR	% Higher
Boyd	173	253	*20.9%*	331	342	*23.7%*	*13.3%*
ABRA	114	175	*23.9%*	237	299	*46.0%*	*92.3%*
Caliber	83	144	*31.7%*	213	279	*59.5%*	*87.6%*
Service King	48	89	*36.2%*	138	239	*100.8%*	*178.8%*
Total	**418**	**661**	***25.8%***	**919**	**1,159**	***48.6%***	***88.9%***

($ in millions)

Company	2013 Sales	2015E Sales	*CAGR*	*2015-2025 CAGR*	2025P Stores	2025P Sales
Boyd						
ABRA						
Caliber						
Service King						
Total	**$1,850**	**$3,500**	***37.5%***	***15.0%***	**4,700**	**$13,800**
				20.0%	**7,200**	**$21,200**

40 – 70% of 2025 expected collision market

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HIGH GROWTH RETAILER LOCATION GROWTH

- High growth retailers support a 10-year compound annual growth rate ('CAGR') of 15%

Company	10-yr CAGR
Advance Auto Parts	16.2%
Aéropostale	24.3%
Buffalo Wild Wings	16.9%
Chipotle	20.7%
Citi Trends	15.8%
CVS	13.9%
Dick's Sporting Goods	18.6%
Dollar General	13.4%
Dollar Tree	16.6%
GameStop	30.7%
hhgregg	17.7%
Life Time Fitness	19.0%
Lululemon Athletica	35.2%
Lumber Liquidators	20.3%
Texas Roadhouse	22.4%
Ulta Salon	17.8%
Zumiez	19.6%
Total	**17.3%**

WHERE ARE THE FRANCHISE NETWORKS?

- Franchise networks offer a very viable alternative 'consolidation' play in the industry
  - If operated correctly, they could surely bring the same benefits of scale to insurance carriers and customers that a company-owned chain does
  - However, the trick is in that caveat: 'if operated correctly'
- All franchise operators in any industry strike a balance between central control and local 'entrepreneurial' management
  - Within the automotive aftermarket broadly, there are many, many examples of successful franchise operators
  - The commitment to the customer from the owner-operator is particularly successful in car repair and maintenance
- The dynamics in the collision industry are unique
  - Role of insurance carrier makes the business model as much 'business to business' as 'business to consumer'
    - Consistency of service is more important given effective customer concentration
  - The ongoing demands for investment in technology is order-of-magnitudes higher than for other aftermarket services
  - In collision, the more central control the more likely franchise networks are to successfully participate in the long–term consolidation
- The large franchise networks have not grown nearly as fast in North America as the Four Horsemen have
  - Consolidation is a land-grab to be won by the bold

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FORCES DRIVING CONSOLIDATION

THE THREE DRIVERS OF THE CONSOLIDATION

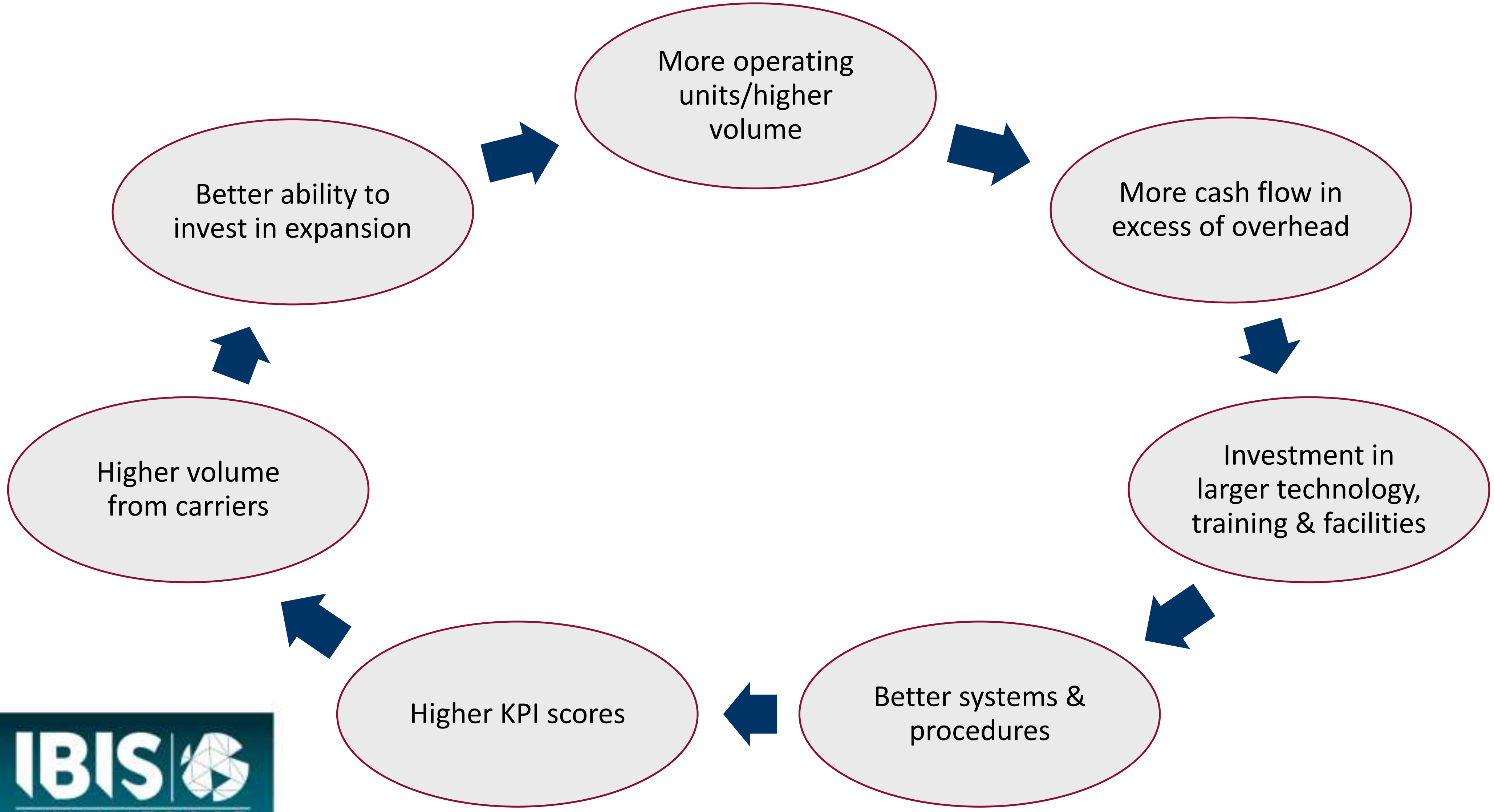
- Scale economics
- Industry forces
- Very aggressive sources of capital

SCALE ECONOMICS

- Size matters…..a lot
  - All consolidators of fragmented industries benefit from economies of scale
    - More than just purchasing power or spreading overhead over more units
    - Scale enables a better product or service
  - The role of carriers in the industry amplifies the power of scale economies
    - Their role in dictating volume and their ability to accurately measure product quality adds fuel to the normal fire of consolidation

FORCES DRIVING CONSOLIDATION

THE VIRTUOUS CIRCLE OF THE COLLISION CONSOLIDATOR



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RELENTLESS INDUSTRY FORCES

- Ever increasing investment required to meet the carriers' demands for better, faster, more comprehensive self-managed, performance-based 'large-MSO-style' DRPs
- While DRPs still account for 'only' about 50% of insured repairs in the U.S., that is likely to grow more rapidly as carriers respond to the benefits of large-MSO-style DRP programs and reduced regional field staffs
- Policy-holders will get used to cleaner, better appointed facilities where employees are trained in communication skills and utilize state-of-the-art technology
- Increasingly complex repairs requiring more training and more equipment investment
- Increasingly scarce quality technicians
- The OEs and dealers will leverage telematics and certification programs

THE ADVANTAGES OF THE CONSOLIDATORS

- The scale to make investments
    - Better able to absorb pressure on severity
    - Large-MSO-style DRPs are believed to save hundreds in loss adjustment expenses per claim
    - Customer satisfaction depends on soft factors as much as a good repair
    - Increasingly favorable supplier terms
    - The ability to pay more, train more, and offer more attractive career paths for the increasingly scarce location managers, repair writers, and technicians
- An increasing ability to automatically have their new locations placed on DRPs and to be high on the referral list
- The ability to arbitrage their growth investment options across multiple geographies and expansion options

CAPITAL IS FLOWING TO COLLISION

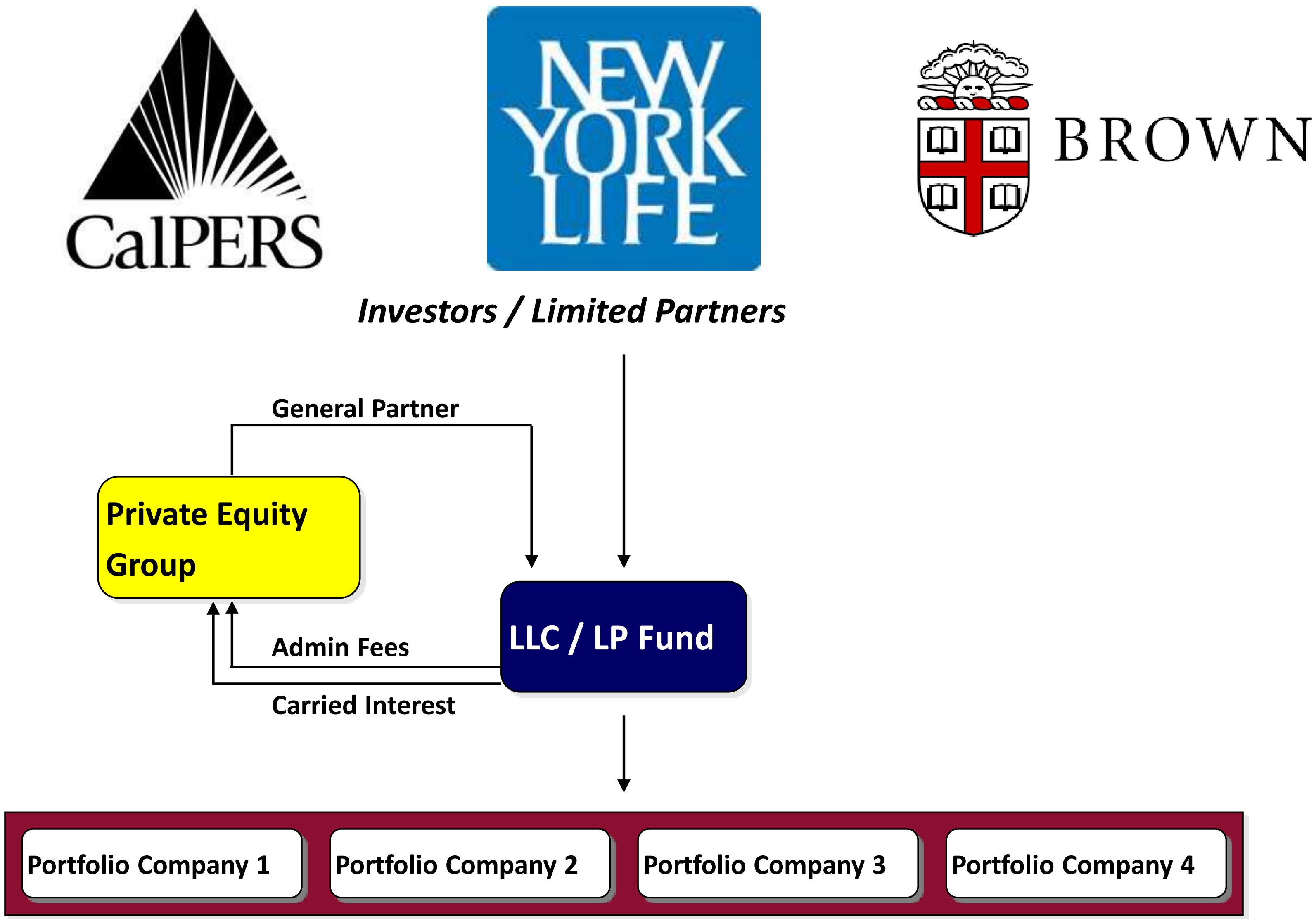
- Almost as important as scale economics and industry forces has been the availability of capital and the aggressiveness of that capital

- Private equity has enabled and accelerated the rate of consolidation

- Capital has been widely available for the collision repair industry for almost the last 20 years

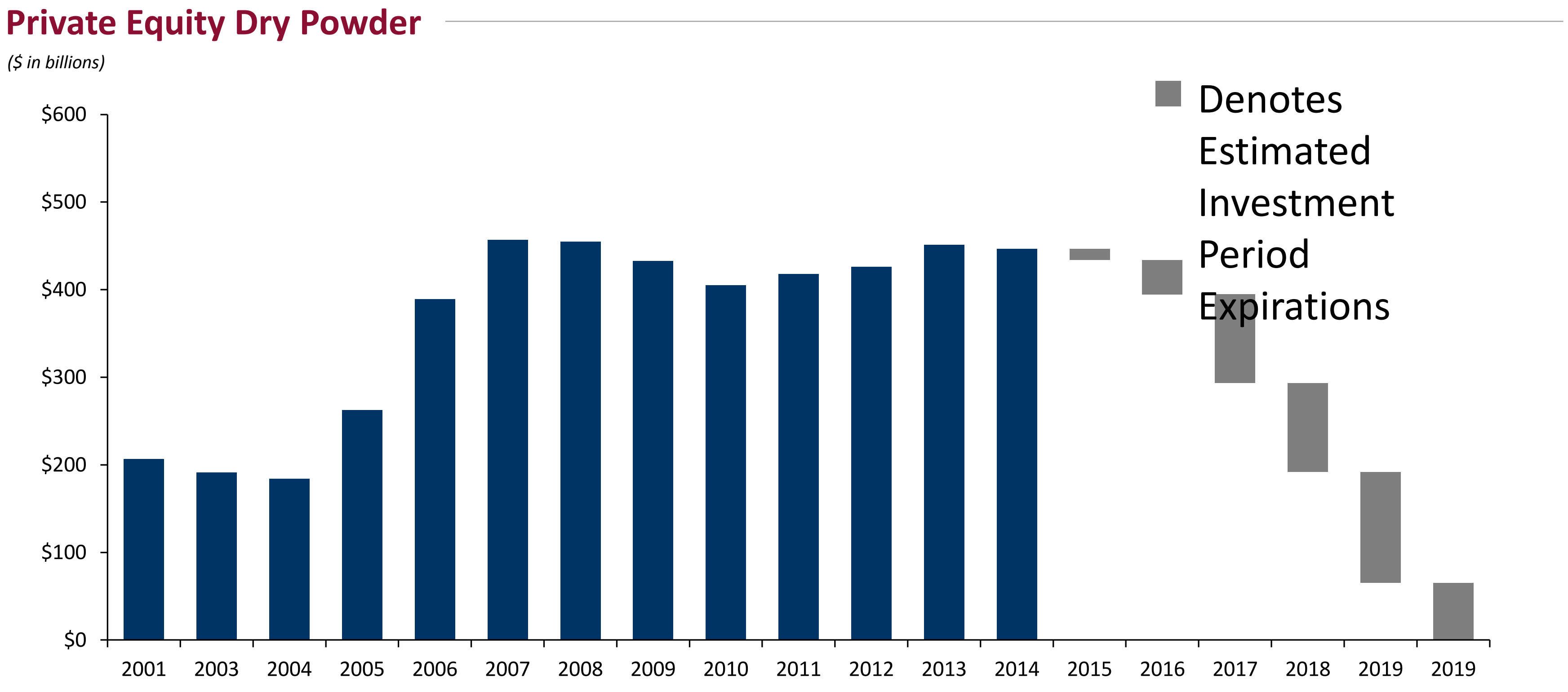
  – However, only in the past five years or so have all three forces been pulling in the same direction: up!

PRIVATE EQUITY 101



PRIVATE EQUITY – PRESSURE TO INVEST

- Significant dry powder
- Favorable credit markets
- Firms with pressing fund dynamics (i.e., behind their investment pace) are chasing deal multiples even higher



Source: Pitchbook

PRIVATE EQUITY IN COLLISION TODAY

Company	Ownership
ABRA Auto Body & Glass	Hellman & Freidman
Caliber Collision Centers	OMERS
CARSTAR Quality Collision Service	Champlain Capital
CCC Information Services Inc.	Leonard Green & Partners
Joe Hudson's Collision Center	Carousal Capital
Kadel's Auto Body	KCB Management
Maaco America's Bodyshop	Roark Capital
mitchell	Aurora Capital
PartsChannel Inc. Automotive Replacement Parts Specialist	Prudential Capital
Service King	Blackstone / Carlyle

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IMPACT ON THE REST OF THE WORLD

AMERICAN STYLE CONSOLIDATION COMING TO A MARKET NEAR YOU?

- Is U.S. style consolidation going to take hold to take hold in Europe, Asia, or elsewhere?
  - Carlyle's purchase of Nationwide may be a sign of what is to come
  - How relevant are the drivers of consolidation in the U.S.?
    - Scale economics
    - Industry forces
    - Aggressive sources of capital
- If so, what will it mean for industry participants?

THE BENEFITS TO INSURANCE CARRIERS & CUSTOMERS OF CONSOLIDATION KNOW NO BORDERS

- Scale economies only need large markets to be realized
  - Leveraging technology and customer satisfaction investments over greater cash flow from more locations works every time
- Insurance carriers everywhere want lower cost and high customer satisfaction
  - The results being realized in the U.S. have surely been recognized by carriers everywhere
- Capital markets are efficient and investors seek high return regardless of domicile

WHO IS IMPACTED?

- Bodyshops
  - Consolidating chains
  - Bodyshops open to being acquired / join franchise networks
  - Stubborn holdouts
- Insurance carriers
  - Lower repair and operating costs; higher customer satisfaction
  - Cede some control and pricing leverage to their repairer partners
  - Benefits greatly outweigh the costs
    - They can focus exclusively on underwriting and selling
- Vendors (paint, parts, systems)
  - In the long run, the best gain share and grow as bodyshops become both more discerning and larger
    - The not-so-best clearly lose
  - In the long-run, margin suffers

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