

Consolidation in Automotive Services Set to Accelerate with COVID-19

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The COVID-19 pandemic has drastically altered the way people behave and how businesses operate. As part of those changes, society has also altered the way it moves. More specifically, in the post-COVID world, there is an increasing reliance on automobiles as airplanes and other forms of mass transportation fall out of favor as personal health and social distancing increase in priority.

We see COVID-19 related changes having contrasting impacts on the core demand drivers for automotive services (e.g., collision, car wash, maintenance, repair, etc.) in the short- and medium-term. In the short-term, the country's adherence to stay-at-home guidelines has significantly reduced miles driven, thus decreasing the demand for automotive services. However, the medium- to long-term impact of changes in consumer behavior bode well for automotive service demand:

Increased Miles Driven and Increase of Vehicles in Use:

People will choose to drive vs. other modes of transportation (e.g., planes, trains, buses, ride-sharing, etc.). In fact, a recent poll by the International Air Transport Association shows that even after the virus is contained,

28% of travelers said they would wait six months or so before flying again

and half indicated they would wait a month or two.

Increased Average Vehicle Age:

Economic uncertainty will lead more people to keep their existing vehicles and delay (if not forego) new vehicle purchases, driving up average vehicle age. Age of vehicles on the road reached an all time high in 2019,

with an average of **11.8 years**

according to research firm IHS Markit.

The above factors will contribute to increased vehicle wear and tear and unfortunately, accidents. These increases will in turn drive increased vehicle maintenance and repair service needs. The personal automobile will undoubtedly become an even more critical part of society and the service industry that supports this new way of life will become even more essential.

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Despite immediate COVID-related headwinds, the broader impact of changes in consumer behavior will benefit automotive services and promote continued industry consolidation. The level of fragmentation combined with the benefits of consolidation, have led strategics, especially private-equity backed businesses, to aggressively transform the industry landscape.

As an example, since A&M Capital's investment in Crash Champions less than a year ago, the company has successfully completed three acquisitions increasing its total locations from 11 at the time of acquisition to 39 today making it one of the largest collision MSOs in the U.S.

STRATEGIC RATIONALE FOR INDUSTRY CONSOLIDATION:

Highly fragmented market: 75% of businesses comprised of only one or two locations

Network effects: Direct Repair Programs with insurers make scale critical in the collision sector

Other scale-driven benefits: providing consistent consumer experiences, centralized purchasing efficiencies, brand recognition and marketing efficiencies, increased ability to attract, retain and train talent

Access to capital: investments in equipment to service the latest OEM standards, leveraging technology to automate processes where appropriate, and funding strategic tuck-in acquisitions

The combination of the current environment, along with existing industry trends, make it critical for owners to prepare their business to be in pole position once M&A activity accelerates.

LINCOLN'S PLAYBOOK FOR ARTICULATING & SUPPORTING YOUR COVID-19 RESPONSE

COVID-19 has presented investors with unanticipated and unimaginable circumstances and its impact on companies will be a source of dialogue between investors and management teams for the foreseeable future. [Contact us to obtain a copy of the playbook.](#)

Playbook contents include:

- **Financial Impact & Adjustment Considerations**
- **Revenue / Demand Considerations** | *One-time Revenue Impacts, Sales Database Trends, Backlog, Sales Pipeline, Customer Dynamics, Pricing, Competitive Landscape*
- **Cost / Operational Considerations** | *Personnel, Facility Disruption, Capital Expenditures, Supply Chain, Continued New Product / Service Development, Cyber-Security, Other Administrative Dynamics*
- **Net Working Capital Considerations** | *Accounts Receivable, Inventory, Accounts Payable, Accrued Expenses*

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