



M&A Activity In P&C Insurance Claims & Technology Ecosystem: Consolidation Of Claims Supply Chain And Information Providers

One of the most active sectors of mergers and acquisitions activity (M&A) today is the insurance claims and technology sector. An unprecedented number of powerful forces are converging to drive M&A activity in the North American Property & Casualty (P&C) insurance claims and technology “ecosystem” to historically high levels, including:

- Claims supply chain rationalization and consolidation
- Rising adoption and deployment of big data and analytics solutions
- Insurance product commoditization and the resulting business transformation
- An influx of private equity capital (already raised and seeking to be deployed in the sector)
- Expectations of a continuation of a steadily improving economy with the prospect of lingering low interest rates

We expect these forces to amplify and further increase competition among well capitalized strategic players and private equity participants who seek to create scalable and defensible positions in the industry. The implications for smaller, less capitalized, regional or technology-challenged competitors are meaningful.

Claims Supply Chain Consolidation

The area in which we expect the greatest potential for increased activity in 2H 2014 and 2015 is within the claims supply chain. The P&C claims ecosystem is comprised of thousands of small, local, independent firms, as well as larger regional, national, and global vendors and business partners who provide mission-critical products and services to the claims operations of the P&C insurance industry, including:

- Insurance technology and IT services, system integrators, core system and claims management software solutions, and database and information providers, including communication, repair estimating, and body shop management systems
- Claims technology vendors (document management, compliance, data quality, payment systems, etc.)
- Collision and auto glass repairers
- Collision repair parts suppliers
- Insurance replacement rental car providers
- Third party administrators and claims business process outsourcing firms
- Claim services including independent auto and property adjusters and appraisers and catastrophe services

- Insurance defense attorneys
- Auto and casualty claims management solution providers
- Salvage vehicle auctioneers and towing services
- Insurance staffing firms
- Insurance claims investigation firms

One of the subsectors most impacted by these factors is the highly fragmented and inefficient collision repair and parts business. Many of these are local, privately-owned shops with limited technology capabilities and management talent. National consolidation, often driven by private equity, can lead to expense rationalization, upgraded information technology systems, improved management, the ability to respond to upstream customer pressure and improved pricing.

- In the collision repair consolidator space, the largest participants include Boyd/Gerber Collision and Glass (over 300 U.S. and Canadian locations, owned by Canadian publicly traded Boyd Group Income Trust); ABRA Auto Body and Glass (234 locations, acquired in August by Hellman & Friedman in an auction conducted by former PE owner Palladium Equity Partners); Service King (177 locations including the 62-store Sterling Collision Repair Centers acquired from Allstate Insurance, and which recently changed hands from The Carlyle Group to Blackstone Group); and Caliber Collision (168 U.S. locations, recently acquired by OMERS Private Equity from ONCAP, both Canadian private equity funds).
- Franchisor repair consolidation is being led by CARSTAR (410 U.S. and Canadian locations, funded by Champlain Capital), Driven Brands/Maaco (500 U.S. and Canadian locations, owned by Harvest Partners) and Fix Auto (345 locations). The companies continue to implement their growth strategy through a combination of franchising and building a banner network.
- Since its founding in 1998, LKQ Corporation (NASDAQ: LKQ) has consolidated the automotive repair alternative parts market in North America and elsewhere to become the largest provider of alternative collision replacement parts and a leading provider of recycled engines and transmission with annual revenues exceeding \$6 billion. In 2014 LKQ acquired Keystone Automotive, a leading distributor of aftermarket parts and equipment.

Over the next twelve months, we expect to see further consolidation within the collision repair industry. This could include the combination of two or more of the largest consolidators or the simultaneous aggregation of multiple regional operators, resulting in the industry's first truly national collision repair network.

Additionally, one of the other important trends is the development of an electronic parts procurement and ecommerce solution for the large (~\$15B), and still highly-fragmented and inefficient, North American auto repair parts supply chain. Within the next year we expect that a significant open market solution will emerge from among the many existing electronic parts procurement providers.

Claims Information Provider Expansion and Consolidation

North American insurance industry auto and property claims operations, including their auto, collision repair, and property partners, primarily utilize the products and services of three claims information providers, each of whom have expanded their offerings into automotive claims-related markets:


- Private equity-backed CCC Information Services (Leonard Green & Partners plus TPG Capital), a database, software, analytics, and solutions provider to the auto insurance claims and collision repair markets, recently acquired Auto Injury Solutions, a provider of auto injury medical review solutions. This follows their earlier acquisition of Injury Sciences who provide insurance carriers with scientifically based analytic tools to help identify fraudulent and exaggerated injury claims associated with automobile accidents.
- The ongoing series of U.S. and foreign automotive service industry and data acquisitions by Solera Inc. (NYSE:SLH), includes the Insurance and Services Division of PPG (including Lynx, GTS & Glaxis), AutoPoint (U.S.) and AutoSoft (Italy) in 2014, HyperQuest (U.S.) in 2013, and Distribution Services Technologies Inc., Services Repair Solutions Inc., Serinfo (Chile), Pusula Otomotiv (Turkey), EziWorks/CarQuote (Australia), and APU Solutions in 2012. Since its initial public offering in 2007 (originally backed by private equity firm GTCR), Solera has completed more than 25 acquisitions globally and grown its revenue to over \$1 billion.
- Mitchell International, a provider of technology, connectivity, and information solutions to the P&C claims and collision repair industries, recently acquired FAIRPAY Solutions. FAIRPAY’s service offering includes workers’ compensation, liability, and auto cost containment and payment integrity services, which will expand Mitchell’s solution suite of bill review and out-of-network negotiation services and complements its acquisition of National Health Quest in 2012. Mitchell was acquired in 2013 by KKR & Co.(NYSE:KKR).


Over the next twelve months, we expect these information providers to expand in several directions through internal product development supplemented by strategic acquisitions. This expansion will likely include:


- (i) deeper integration with claims management core systems,
- (ii) introduction of new tools and services utilizing advanced analytics-for-use cases across the entire auto and property claims process,
- (iii) deeper and wider integration with third party companies in the auto and property claims supply chain, specifically including collision repair parts procurement,
- (iv) further development of auto casualty and workers’ compensation medical management networks and services and cost containment solutions.



For smaller providers in the claims supply chain, now may be the time to consider combining with a larger, better capitalized player, especially given the trend towards vendor management by insurance companies. A “going it alone” strategy will be increasingly risky as larger, national players will garner more market share by offering better pricing, superior technology solutions, and greater geographic coverage than “mom and pop” operations.

If you are interested in discussing your strategic alternatives, please feel free to contact StoneRidge Advisors. Our transaction experience and in-depth knowledge of the claims sector make us the ideal financial advisor for the owners / entrepreneurs operating in this sector.

Alamo Claim Service
and
KD Consulting & Appraisal Group, LLC
have been sold to

The undersigned acted as financial advisor to Alamo and KDC
STONERIDGE
ADVISORS, LLC
December 2012


has acquired
TURCO Claim Services, Inc.
The undersigned acted as financial advisor to NCA Group, Inc.
STONERIDGE
ADVISORS, LLC
August 2013


has acquired
Woodland Claim Service, Inc.
The undersigned acted as financial advisor to NCA Group, Inc.
STONERIDGE
ADVISORS, LLC
January 2014


has been acquired by

The undersigned acted as financial advisor to Totura & Company
STONERIDGE
ADVISORS, LLC
March 2014

About StoneRidge Advisors

StoneRidge Advisors is an investment banking firm that specializes in the insurance industry. Our clients include property & casualty and life & health insurance companies, reinsurance companies, insurance brokerage, managing general agency, claims management and other related insurance service and technology companies. Our firm combines extensive experience and best practices to help our clients achieve their strategic goals and financial objectives.

Services

StoneRidge Advisors provides services related to all aspects of an M&A transaction, including identification, valuation, negotiation, structuring, and financing. In addition, we assist companies in developing and executing upon capital raising initiatives.

Mergers & Acquisitions

- Buy-Side Advisory
- Sell-Side Advisory

Capital Raising

Consulting Services

Financial Advisory

- Business Valuations
- Fairness Opinions
- Consulting Services

Contacts

Stephen Applebaum

312-854-2910

sapplebaum@stoneridgeadvisors.com

Jay Poorman

312-854-2911

jpoorman@stoneridgeadvisors.com

Rocky Golem

312-854-2912

rgolem@stoneridgeadvisors.com

Peter North

312-854-2914

pnorth@stoneridgeadvisors.com

Patrick O'Hara

312-854-2913

pohara@stoneridgeadvisors.com

120 South LaSalle Street

Suite 1300

Chicago, IL 60603

Doug Tegen

212-626-6796

dtegen@stoneridgeadvisors.com

David Gaebler

212-626-6791

dgaebler@stoneridgeadvisors.com

Jeffrey Cohen

212-626-6795

jchohen@stoneridgeadvisors.com

1120 Avenue of the Americas

Suite 4003

New York, NY 10036

www.stoneridgeadvisors.com