



DRVN

**Driven Brands Holdings Inc. (DRVN)**

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Phillip Blee

Good morning, everyone. Thank you very much for joining us. My name is Phillip Blee, I'm the consumer analyst here at William Blair covering Driven Brands. As a reminder, for a full list of disclosures, please visit our website. We're very pleased to have the Driven Brands team here today. I'd like to introduce CEO, Jonathan Fitzpatrick; Interim CFO, Joel Arnao; and COO, Danny Rivera. And so before I kick it over to Jonathan, I just want to remind everyone that we're going to have a breakout session immediately following this in Room Jenny A upstairs. All right. Jonathan, I'll pass it over to you.

Jonathan Fitzpatrick

Thanks, Phillip. Says, I'm the cheesecake factory here. So I'm not sure what's going on, but I'll try and talk about Driven. Welcome, everyone. I'm Jonathan Fitzpatrick. I'm the CEO. I've been here for almost 13 years; joined by my partner, Danny Rivera, our Chief Operating Officer, who's also been at the company for almost 13 years; Joel Arnao, who is our interim CFO, who's been here about 13 months. Anyway, so that's the team today.

So I'm going to give you a fairly high-level view of Driven, and then Danny will jump in about halfway through and sort of get into the industry and a little bit about one of our marquee brands, Take 5 Oil Change. So I'm not going to read that. Okay. So I'll start with the leadership. We talked about myself, Danny and Joel are here, Scott O'Melia. And then that's sort of the group leadership team, so the top 4 people and then we've got all of our segment leaders, the 5 various segment leaders below that. That's our entire executive team.

Obviously, been a bit of noise around CFO turnover at the business, but I will tell you that we've had massive stability and tenure at the other key positions. So a really strong management team that we've built over the last 12 years. A little bit about what Driven is today. So we operate in 4 categories. The first is what we call our maintenance division, that is anchored by a brand called Take 5 Oil Change, which Danny will talk about. We now have a 1,000 oil change locations, about 65% company stores, about 35% franchise.

We started that business in 2016 when we bought an asset called Take 5 Oil Change with less than 50 stores. So we're pretty pleased with the growth of that business from less than 50 stores to over 1,000 stores, and we have a pipeline today that supports growth to 2,000 stores over sort of the medium term. So phenomenal business. Danny will get more into that. Our second category, our segment is what we call our Paint, Collision and Glass. This is really anchored by 2 main business categories.

One is our insurance collision business. So we do over \$2 billion of system sales with insurance collision. We have 1,000 franchise collision locations. They are 95% of their revenue coming from the large insurance contracts that we have in place. It's a phenomenal business. Just to give you a perspective on insurance collision, when I started in this business almost 13 years ago, the average check and collision or the average repair order was about \$1,500 to \$1,700. That average check in that industry is now over \$4,000.

And that really becomes from the complexity of the vehicle, the ADAS equipment and the ability to really no longer repair but having to replace equipment on the vehicle. The second business we're talking about there is our Auto Glass Now business. So over the last couple of years, we did 13 acquisitions to build the second largest platform for Auto Glass repair in the United States.

It's still a nascent business, have sort of got through all the integration of those 13 businesses, and we're pretty excited about the opportunity to grow that glass space over the sort of the medium term. Our glass business is anchored on 3 different customer sets. The first is what we call retail customers, so out-of-pocket pay customers. They're typically not using their insurance coverage. The second is our commercial. So we do about 1/3 of our revenue today with large commercial customers. You can think about Avis, Enterprise, Hertz and so forth.

And then the third segment is our insurance category. And for us in our Auto Glass Now business, our focus is on what we call the regional insurance category. So there's about 3,500 regional insurance carriers in the United States. Today, we do business with a lot of them, that's our core focus is to win in that regional insurance category and the commercial category, we have a fabulous competitor, who has a very dominant position, who really focuses on the large insurance carriers, we're really playing for that commercial and regional opportunity.

Our next segment is our Car Wash segment. So we have 2 businesses within Car Wash. We have an international business called IMO. That is predominantly in the U.K. and Germany. We have about 750 locations over there. That is an independent operator model. So you can think about that as our independent operators provide all the labor. It's sort of similar to franchising, a great business that's been around since the early '70s in Europe and a very stable predictable business in our international business. We also have a domestic car wash business. So this is a company-owned business representing about 385 company-owned stores.

We got into that category about 4 years ago. And we've built that business over organic growth and acquisitions and rebranded all those stores to Take 5 Car Wash in line with our Take 5 Quick Lube to sort of slip stream of the brand equity in that business. So that's our car wash segment. And lastly, we have our segment called Platform Services, represents almost \$0.5 billion of system-wide sales LTM Q1. That really is focused on distribution and anchored by a business called 1-800-Radiator, that is a pure franchise business that sells to the automotive aftermarket and a really strong business. So that's a brief look at Driven where we are today.

If we double-click on some of those things, approaching \$6.5 billion system-wide sales, almost 5,000 stores. The nice thing about our category is it's still highly fragmented. And even though we have scale, and we're the largest scale player in the category, we still have less than 5% of total market share. Excluding 2020, we've had 15 years of consecutive same-store sales growth. As I mentioned, we have a strong franchise element to our business today, greater than 70% of our stores are either franchised or independently operated. And then you can see the 2-year same-store sales stack of 10%. So very, very good, stable, predictable business.

Really important is our customer breakdown. So at the highest level within Driven, we think of our business being very nicely balanced with about 50% of our system-wide sales coming from commercial customers. Whether that's insurance category, the fleet or commercial customers I talked about, and then about 50% coming from our retail. On the commercial side, we service over 4 million vehicles a year. We do business with all of the top

And sitting here today, we have almost 200, what we call fleet customers, again, ranging from rental car companies, fleet management companies down to the local municipalities. So a really nice, sticky commercial business. I think it's really important in the current environment where we have a little bit of softness, certainly on the low end of the consumer range to have this sticky predictable commercial business. Typically harder to win that business, but very sticky once you do win it.

On the retail side, a little bit about our customer profile. Average household income of \$70,000, 65% of our customers – retail customers are homeowners. And really importantly, the average age of their vehicle is 9 years of age. So we do have some exposure to the lower-end income customer. But again, we have a very balanced portfolio of system-wide sales across our entire platform. Talk a little bit about the platform. So as we built this business starting in 2012 when I joined, we really sort of focused on what are the key attributes that this platform gives us and we'll double click on all of these. But first of all, it's competitive advantages. We love the diversification that it brings within our business and then the strong cash flow, which comes from the platform. So a little bit of competitive advantages.

We talked about our 50% system-wide sales coming from commercial customers. Our commercial customers love the fact that we can change their oil, wash their car, do their collision, do repair and maintenance, so that's very attractive for our commercial customers. We generate over \$90 million a year in ad funds, primarily from our franchise businesses.

So that's a competitive advantage that the fragmentation of the industry doesn't have. We've got some amazing brands in our business, Maaco and Meineke, 2 iconic brands, both founded in 1972, both operating at 90-plus percent unaided brand awareness. So we've got longevity, which leads to trust within our customers. Our unit level economics are very, very good. If you look at our franchise businesses, you're seeing 4-wall EBITDA margins at the very lowest at the sort of 15% range post advertising, post royalty and then up into the mid-30% 4-wall EBITDA range with our Take 5 Oil Change business.

So very attractive fundamental unit economics. We talked about our growth. Sitting here today, we've got about 1,500 stores in our pipeline between company and franchise locations, which will sort of yield ratably over the next sort of 4 to 5 years. So a really nice store pipeline.

The little box covered in red is our new procurement platform. This is an amazing effort from the team over the last couple of years, we have built and rolled out an online marketplace, which essentially operate access an Amazon-like platform for automotive aftermarket. So today, we have 95,000 SKUs on that platform. We have 75% of our franchisees purchasing on that platform, everything from office supplies through four post lifts, all of our company stores are on that platform, Driven today makes north of \$50 million from procurement in the total enterprise. This is a scaled platform that we're pretty excited about, ideally doubling the size of that EBITDA contribution over the next sort of 3 to 5 years.

You can think about every dollar that flows through that platform, yielding about \$0.08 to \$0.10 in contribution to Driven Brands. So amazing platform that we've built there. Talked about diversification. Again, we service almost all automotive aftermarket needs between our company and franchise stores. We have this great balance between commercial and retail customers. We have very limited franchisee or geographic risk. Typically, our franchisees and our legacy franchise businesses have less than 2 stores. So we don't have any mega franchisees, which are good in good times and can be quite troublesome if you have some challenges in the business.

We like the fact that we have multiple ways to grow, whether it's our Quick Lube business, our franchise business, our glass business, multiple ways to grow. And then obviously, we're pretty pleased with some of the new

Driven Brands for the last number of years. We're currently sitting at about just under 5x levered. We have publicly committed to get that number below 3x levered by the end of 2026. Internally, we're shooting for a much faster deleveraging of that number.

But again, focus on us in terms of the cash flow generation within the business, excess cash flow will be used to delever as we continue to generate cash this year. Industry overview. I think I'm going to hand over to my partner, 12 years with the company, COO, Danny Rivera.

Daniel Rivera

Good morning, everyone. As Jonathan said, my name is Danny Rivera, Chief Operating Officer for Driven, have been with the company for 13 years. I've had the privilege of serving alongside Jonathan, taking this sleepy little business we call Driven Brands from about \$40 million, I think, when we started 13 years ago to about \$550-ish million sitting here today. So no pun-intended, but it's been pretty amazing ride. So look, let's get into the industry.

So we operate in the automotive aftermarket industry. It's an amazing industry for a variety of reasons, a lot of which are listed here today. The first is a needs-based industry. So our customers need their cars for their lives. They need their cars to get to work, to get the kids to school, baseball, softball practice, so at the end of the day, when that check engine light goes on or you need breaks or you need your windshield replaced or God forbid, you get into a collision, our customers need their cars back, they need it quickly and efficiently. This isn't something that can defer to some later time. So it's a great industry from the sense that it's a needs base industry. Jonathan touched on this, it's a highly fragmented industry. So even though we're one of the largest players the industry, our market share is less than 5%. That kind of goes hand-in-hand with the next point, which is there, significant white space. So across all of our businesses, we feel like we have significant white space. I'll touch on just one of those, our Take 5 Quick Lube business.

We operate just north of 1,000 locations today. We see no reason that we can't grow that business to over 2,000 locations in the foreseeable future. And that's just in North America, really just in the United States. And it's a very recession-resilient industry. So Jonathan mentioned already 15 years of comp sales growth in Driven Brands just kind of from our businesses perspective. Even COVID, the worst of times with the worst pandemic in recent memory, we were only down in sales for a few months and the business picked up literally within the same calendar year. So it's a very recession-resilient industry, again due to the fact that it's need space.

It has a large and growing TAM and it has some really nice industry tailwinds that I'm going to touch on here in a second. So from an industry tailwinds perspective, first and foremost, the reality is, is that cars are more expensive to repair and maintain than they were 5, 10, 15 years ago. And that bleeds into several parts of our business and it basically aligns itself to us having higher ticket size. So if you look at our Quick Lube business, as an example, more and more cars require premium oil. So think synthetic oils or synthetic blended oils, those oils are more expensive, that leads to a higher ticket.

If it's our glass business, modern cars, any car that you buy today as an example, if we replace that front windshield behind that windshield is a camera, when we replaced that windshield, that camera has to be recalibrated for that safety – for the safety equipment in the vehicle to work properly. Again, that's more ticket for us, right? If you look at our collision business, another data point, when Jonathan and I started in this business, average ticket for a collision job was sub-\$2,000.

Sitting here today, it's over \$4,000. So across the board, we've got these really nice tailwinds just became more complicated and therefore, that lends itself to just higher ticket. Some other really nice industry tailwinds, it's a ginormous industry, right? So \$390 billion that's been growing anywhere between 2% to 4% since the 1970s. So a

very stable industry and growing industry. And one of the key data points that usually force people and you tell them this, but if you look at the average car on the roads, so there's 285 million vehicles in North America, 12.5 -- or the average age of those vehicles is 12.5 years old, right? So think about that. So obviously, the older that a vehicle is, the maintenance on that vehicle becomes more expensive and the amount of repair that, that vehicle needs to stay on the road also becomes more expensive.

So some really nice industry tailwinds across the board. We've mentioned this a couple of times. It's a heavily fragmented industry. So usually, when we talk about competitors in the space, and we've been in meetings all mornings with folks such as yourselves, the big players are the ones that always come up, everybody wants to know about Valvoline and Mister and all these folks. The reality is the majority of the time, those are not the folks that we're competing with. The majority of the time, we're competing with mom-and-pop operators, independent, right, that's north of 80% of the industry are going to be fairly unsophisticated businesses, mom-and-pop serving their local communities.

And the reality is that these folks are having a harder and harder time keeping up and competing in this space for a couple of different reasons. Number one, just the complexity of the vehicle that I already mentioned. As cars get more complicated, that means you need more equipment, you need more capital. You need more training, you need better technicians. So all of that gets more and more complicated to continue to service the work that you need to service. And then there's all the complexities that comes vis-a-vis the consumer. So in today's world, and a lot of these folks have been, let's say, managing their business for 20, 30 years, all of a sudden, you have to have an app. You have to have an online presence. You have to have CRM capabilities.

Just competing and running a business today is not what it was 10, 15, 20 years ago. And it's harder and harder for these folks to keep up with sophisticated, scaled players such as Driven Brands. So I want to spend a moment and maybe come down off of the Driven Brands portfolio level and double-click into what we think is our best business, the crown jewel of our portfolio, which is Take 5 Oil Change. And I had the pleasure of running this business for over 3 years. It's an amazing business, and I want to double-click on a couple of reasons why.

So Take 5 Oil Change is the home of stay-in-your-car 10-minute oil change. We had the opportunity to design this business from the ground up to be unique and special. And in front of you, kind of this matrix lays out loosely how we thought about building out this business and how we go to market. So we started with listening to our customers and understanding what are our customers' priorities? What are they looking for? And you can see some of them listed there on the slide.

They wanted speed, obviously, it's a quick lube, so they want to be in and out quickly. They don't want to have to get an appointment. So they just want the flexibility of showing up. If I have 10, 15 minutes, I want to show up and get the work done. They want convenient hours. So again, I already mentioned our customers, they have to work. They're in the office 9 to 5 or 8 to 6. You have to be open when they're available to get the work done. They want to be easy to get to. They don't want heavy sales pressure, which is what this industry has been known for, for a long time. So they want an easy environment where they can come in and make decisions about their vehicles in a non-high-pressure situation.

And ultimately, they want trust and they want high quality. So we took all of those customer needs, and we created an internal brand positioning, which is fast, friendly and simple. So within the 4 walls of Take 5, everything that you hear us talk about if you're a corporate with us everything is run through the rubric, can we be fast, friendly and simple. That's the promise that we've made to the consumer, and that's what we try to live out every single day. So whether it's a new process, a new system, a new service offering that we're considering rolling out, the very first thing that we talk about is can we continue to be fast, friendly and simple.

If the answer is no, it's a full stop and we move on, right? And then it's not enough to just have internal brand position, kind of the marketing speak of that. You have to bring that brand positioning to life. It has to mean something you have to manifest it in the eyes of your consumer. So you can see there how we bring these 3 propositions to life in the eyes of the consumer. From a speed perspective or from a fast perspective, it's a 10-minute oil change. Frankly, it's a sub 10-minute oil change, but let's just say it's a 10-minute oil change. Delivered in a stay-in-your-car model, right?

You don't get out of your car, you don't have to get into a dirty lobby or 10 other people or anything like that, in the comfort of your vehicle you're taking care of. And there's no appointment necessary. You can just drive in any time, and we'll take care of you. We deliver friendly a few different ways. Number one is extended hours of operation. So most of our locations are going to be open 7 to 7, including we're open on Saturdays and we're open on Sundays. So we're available when our customers are available and we're able to take care of their needs.

We start every single transaction with a free bottle of water. It's a really unique way of approaching the business in a space, frankly, that doesn't have the best reputation, the automotive aftermarket. So before we've asked a consumer for one sense or recommended one service, they're greeted with a smile, free bottle of water, letting them know that this is a different experience for them. And there's no heavy selling. Frankly, our selling is kind of akin to what your child maybe goes through in Kindergarten that show until, right? So if we say that you need an air filter, we're showing you the air filter of your car. You can see it with your own eyes that your air filter's dirty, and we make the recommendation and there's no heavy sales pressure there.

And from a simplicity perspective, frankly, when you pull up to a Take 5 Oil Change, it might almost feel like McDonald's, right? So there is a menu of services. We only offer 6 services, and we're going to -- our attendant is going to walk you through that menu of service, what your car is calling for. So there's nothing hidden from you. There's no screen where you can't see the 30 things that we're trying to sell you, it's all out in the open, menu-based selling.

So why do we win? So ultimately, there's a few reasons. Number one, we have a national brand and scale. We have over 1,000 locations and an advertising budget in excess of \$60 million. So when you talk about competing against the vast majority of the folks that we compete against, which is mom-and-pop independents, we have a palpable differentiation in terms of brand and scale. We have focused service offerings with an efficient operating model. So again, we offer a stay-in-your-car 10-minute oil change. And the reality is when you look at taking share specifically from independents and from dealerships, we consistently take share because we have fundamentally better business model.

Independents are not trying to get you out in 10 minutes and they don't have to stay-in-your-car model. What they're trying to do is they use oil change as a means to tell you that you need brakes and tires and engine work and stuff like that. they're not incentivized to do a 10-minute oil change. We are. And when it comes to the dealerships, at the end of the day, the average person does not want to drive 45 minutes across town to go to their dealership to stay in what I'm sure is a lovely lobby with a Latte, but you're going to spend 4 hours trying to get that oil change when we can get you in and out in 10 minutes.

So we're consistently taking share. And look, you put all of that in the blender and ultimately, what really matters is we offer or we have best-in-class unit level economics, and we have amazing ROIs, which I'll touch on here in a second. So putting aside all the pleasant trees of the marketing stuff and how we go to market and everything else, let's get down to the nitty gritty of the numbers.

You can see the historical growth of this business as since 2017. From a comp sales perspective, 2017 was 8%. Last year, we put up 14% comp. You can see what's happened from a store growth perspective. So we had about 200 units in 2017, over 1,000 units last year. And we've taken it from basically no franchising units in 2017 to 25%.

of our portfolio is franchise-owned and operated. And revenue has just grown tremendously from about \$177 million to what we'll do about \$1 billion of system wide sales this year. So a 32% CAGR over that period, just amazing growth no matter what financial KPI you want to look at. And by the way, the way we've grown margins. I want to spend a moment and talk about Take 5 franchising and what it means to Driven Brands from a financial perspective. So every franchisee signs a franchise agreement, and that agreement is a 15-year agreement. They pay us upfront cash of \$35,000 per store as a franchise fee to have the rights to operate that business.

We charge a royalty rate of 7%. We charge an advertising fund rate of 5%. And then all of their products, the franchisees are contractually obligated to buy through driver Driven Brands, whether that's oil, their air filters, their wipers, they buy all of that through us. That's basically another 2% to 3%. So the simplest way to think about this business, if you take the franchising business and Take 5, it's basically a 10% royalty business, 7% the official royalty that we charge and then another 2% to 3% based on the spread that we make on product margin.

Let's double click on the franchisees here for a second. So we have over 350 franchise locations today, 59 franchisees. So obviously, each franchisee that we bring on, we're expecting them to operate more than one location. Usually, we're asking him to sign up for more than 8 locations for each development agreement. We have 30-plus franchisees that have signed up for a second or a third development area agreement. So I want to say that again because that is probably the single best data point that I could show you to tell you what an amazing business this is. More than half of our franchisees signed up to be franchisees, opened 1, 2, 5 locations and they decided there was such a great investment, they want to double and triple down and buy more area development agreements. So it's just a truly unique and fantastic business.

If you look at future commitments, so kind of growth and what's the pipeline of growth, so on the lower left, you can see just contractual agreements that we have with franchisees to open locations. So we have over 800 locations contractually obligated by our franchisees. If you look at the real estate pipeline, we have visibility to over 225 locations. So that's not pie in the sky pipeline. When we say pipeline, we mean at a minimum, we've identified a piece of dirt and that piece of dirt has been approved by corporate for the franchisees to walk down. So it's at least in that state all the way up to and including it's a full-blown construction. And we have over 110 active area development agreements in place today.

Okay. So let's bring it home. I'm going to take us now from Take 5 all the way back up to the Driven level and hopefully leave you with some key takeaways. So I'd say, number one, Driven has been built on a strong financial foundation, and it is a scaled portfolio; second thing, as Jonathan mentioned, we're basically focused on 2 things: growth and deleveraging; number three, we operate in an amazing and an attractive automotive aftermarket industry that has some really nice tailwinds and has a lot of fragmentation and white space; number four, our crown jewel Take 5 Oil Change is an amazing business. It's winning. Frankly, it's been winning for a long time, and we have all sorts of reasons to believe that it's going to continue to win for the foreseeable future.

And then lastly, this is all undergirded by our Driven Advantage platform, the procurement platform that Jonathan spoke about, which frankly makes every part of our business better. It makes our franchisees better and more profitable, makes our company-operated locations better and more profitable, and it makes Driven Brands ultimately better and more profitable.

So with that, on behalf of Jonathan and Joel and myself, just thank you for your time this morning. Have an amazing day.