

Seeking Alpha^α

Transcripts

Consumer

Driven Brands Holdings Inc. (DRVN) Presents at Morgan Stanley Global Consumer & Retail Conference 2025 Transcript

Dec 03, 2025, 5:43 PM ET | **Driven Brands Holdings Inc. (DRVN) Stock**

**SA Transcripts**

159.45K Followers



Driven Brands Holdings Inc. ([DRVN](#)) Morgan Stanley Global Consumer & Retail Conference 2025 December 3, 2025 3:00 PM EST

Company Participants

Daniel Rivera - President, CEO & Director

Michael Diamond - CFO & Executive VP

Conference Call Participants

Simeon Gutman - Morgan Stanley, Research Division

Presentation

Simeon Gutman

Morgan Stanley, Research Division

Hi, everyone. It's Simeon Gutman. I'm Morgan Stanley's hardline, broadline and food retail analyst. We're in the home stretch and we get treated by Driven Brands, represented by Danny Rivera, President and CEO; Mike Diamond, Executive VP and CFO.

I'm just going to grab my disclosures real quick. I'm going to read disclosures, make a very quick introduction and then ask the first question. For important disclosures, please see the Morgan Stanley research disclosure website at www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley sales representative.

This -- I guess it's rare where companies have transformation almost at this conference. This is an example of a minor but important transformation that I think the market has been waiting for a cluster of brands that are all leading in their subsegments. There was some growth challenges in one part of this business, and it actually led to a little bit of maybe a bloated balance sheet, which has been slowly getting cleaned up, and this feels like the last step. So without taking the thunder, I want to talk about the announcement you made today and then I'll sit down and ask the first question.

Daniel Rivera

President, CEO & Director

Thank you. Yes. So to Simeon's point, he was -- well, first and foremost, thank you for the invite. Mike and I love being here talking about Driven. So yes, we sold our U.S. -- our international car wash business. And I think -- so if you take several steps back, right, what we've been saying about Driven for a long time is Driven, growth in cash. And so we are at our best, ultimately, when we operate within that framework, right? And if you look at the U.S. car wash business and the international car wash business, both of which we sold over the course of the last year, neither one of those businesses neatly fit into either one of those buckets, right?

Neither one rightly was a growth business. Neither one rightly was a cash business. You can make an argument that CWI, the international car wash business may be more neatly fit into a cash business. It's a good business. It has a nice margin profile to that business. But contextually, when you compare that business to our franchise businesses, it really doesn't align. You're talking margins that are north of 60%.

The second thing is we used to say that the international car wash business was a franchise-like business, and that's fairly accurate. However, it is not asset-light. So that is -- those are our buildings. We do have to deploy our capital. And so ultimately, again, if you go back to growth in cash, that's what we want to center driven around. That's what we've been talking about. These moves, combined with things like the resegmentation that we did earlier in the year, just take the strategy and take the portfolio. It takes how we manifest the business in terms of reporting and aligns into that strategy and lets us focus our attention and our capital on our core.

Question-and-Answer Session

Simeon Gutman

Morgan Stanley, Research Division

Can we do a very fast forward to capital structure then in leverage because this piece, I don't know if it culminates in where you want to get the leverage of the business down to, but can you talk about it?

Michael Diamond

CFO & Executive VP

Yes, absolutely. So I mean, I would start with a couple of things. We remain committed to getting down to 3x net leverage by the end of 2026. This obviously helps accelerate that. We were going to get that regardless of this deal, but this helps accelerate it. We estimate the pro forma impact about 0.3x from a leverage perspective once this deal is finally closed.

One of the many advantages, Danny mentioned the strategic, I think always good to have the cash on the balance sheet. We will use that to pay down debt. We've got some outstanding revolver and some upcoming securitization maturities that we'll use once we have the cash in hand. First and foremost, we're going to get down to 3x. We recognize that's an important metric for many investors. We think it's important to demonstrate with credibility that we will do what we say in terms of getting down there.

Danny and I are having active conversations now around what happens once we get there. But we don't want to confuse the message. Like this helps us accelerate the path there. We remain committed to getting down to 3x. And as we get much closer to that 3x, we'll start sharing kind of what we think we're going to do from a capital allocation perspective after.

Simeon Gutman*Morgan Stanley, Research Division*

And since you sold the U.S. car wash. Danny, you've been spending a lot of time on international or this was already somewhat put aside.

Daniel Rivera*President, CEO & Director*

So international actually funnily enough rolled up on Mike. So Mike got the pleasure of working with that business.

Michael Diamond*CFO & Executive VP*

So again, it's a great business. I don't mind going to Europe occasionally. So it's fun to go over there. It is a good business with a good management team that -- well run, kind of being able to run by itself, which is why it's a perfect transition to a financial buyer. But it's good for all of us to be able to focus our attention on our core North American nondiscretionary services that, as Danny mentioned, fits more closely into the growth in cash framework.

Simeon Gutman*Morgan Stanley, Research Division*

So growth in cash framework, can you -- so since we last spoke or met on this stage, leadership transitions, there's been some additional under you. And obviously, we had asset sales. We just culminated with the big one. So can you talk about, I guess, besides growth and cash vision for the brand, structure of the business?

Daniel Rivera*President, CEO & Director*

Yes. I mean -- but I think it's important. So the vision for the brand is anchored in growth in cash, right, maybe to unpack that for a second. So growth for us is Take 5. Amazing oil change business. To give some historical context, we bought that business back in 2016. At the time, it was 40-ish units, mostly outside of New Orleans or around New Orleans, 100% company-owned business. You fast-forward 9 years. You're talking 1,350-ish locations, 40% of which are franchised, just an amazing scaled, rapidly growing business. So growth is all around just continuing to take this amazing asset that is Take 5 and continuing to blow it out and grow the way that we have been.

And then cash is all about our franchise businesses, right? So as Mike alluded to, so you're talking about North American iconic scaled franchise locations across a couple of different industries that have been around some of them. I mean if you look at Meineke and Maaco have been around for over 55 years at this point. So these are businesses that are very steady -- we have an amazing group of franchisees. And so when you think about the vision of driven, it's really returning to what got us where we are, which is we are operators of simple, great businesses in North America, and it's all about that kind of growth and cash perspective.

Simeon Gutman

Morgan Stanley, Research Division

If we have the timing right, you've been CEO for now 1.5. What has surprised you. I think your priorities are clear, but in case we missed any of the priorities within that, if you can reiterate.

Daniel Rivera

President, CEO & Director

Yes. It hasn't been 1.5 years yet. It hasn't been a year yet. But the more important thing is, look, I've been with the business for, gosh, over 13 years at this point. I ran the Meineke business personally. I ran the Take 5 business personally. I had all the segments reporting up to me when I was COO. So after 13 years, I mean, very little is going to surprise me at this point about Driven. I mean, I bleed red, yellow and black, which is our colors. So very little is going to surprise me.

What I would say is what continues to energize me as we have an amazing team, talented group of individuals, both at the corporate side and then we have amazing franchisees that we work with, right? So it's just a really, really good group of people.

As far as the priorities, the priorities for me really haven't changed, and I'm going to say growth in cash over and over again because it is what we're centered on, right? So priority #1 is to continue to deliver growth in cash. Take 5, we've committed to growing that business. We are growing that business. We'll continue to open 150-plus locations a year. We're going to continue to grow 4-wall EBITDA. We're going to continue to grow in terms of sales, whether it's car count, whether it's check, so we'll continue to grow that business. continuing to grow our franchise portfolio, that should be ultimately low single-digit grower. Margins need to be in excess of 60%, which we've talked about, and we'll continue to do that.

So that's priority number one, growth in cash. Priority number 2, as Mike already alluded to a second ago is delevering the balance sheet, which we've been doing.

Simeon Gutman

Morgan Stanley, Research Division

So the business has generated a 19th consecutive quarter of positive comp growth. Can you talk about the continuity of that? Talked a little bit about what the growth engines are, but how do the stable of businesses together continue to let that be positive?

Michael Diamond

CFO & Executive VP

Yes. And I think not only 19 overall, but Take 5 is on its 21st quarter of same-store sales growth. So it's a combination of both the overall business and just the powerhouse of Take 5. I think, look, it speaks to the benefit of being in a nondiscretionary category and the fact that we serve an asset, someone's car that is really important to them and critical to them, kind of independent of the overall economic cycles.

If you think about Take 5, we've got tremendous tailwinds across both the ticket and the traffic. From a ticket perspective, increased premiumization of oil the additional non-oil change services now north of 25%. We just rolled out another service differentials, attachment rates are still low for that service, and we have a pipeline of other services we can add over time that provide natural tailwinds.

From a traffic perspective, we continue to see new unit ramps over the first 3 years that provide continued tailwinds. And as the business continues to grow, we add units, we have mid-single-digit comps. We have a bigger marketing fund that helps us drive increased awareness and both kind of big level awareness and then small level activation to get people into the shops.

For the rest of the business, I think it speaks to the nature of the diversified portfolio. You think about like the Meinekes, which have done really well. And then even some of our other brands that have been under pressure over the last year in the Maacos or the Collision World. Maaco as a category of one. It's very well differentiated with a strong market recognition. And even Collision, we're one of the market leaders, and so we outperformed the overall market. And so you put it all together, and I think not only with the growth in cash, we're able to drive growth from many of our brands. And then with that, by making sure we're really focused on how we spend our capital. We generate a lot of CapEx -- sorry, a lot of cash flow given the modest CapEx, which helps us continue to delever the balance sheet.

Simeon Gutman

Morgan Stanley, Research Division

On the near term, the word choppy was used a handful of times on the prior conference call. Can you describe if you can, what you're seeing in the quarter, whether that top line choppiness is persisting? I had just come from a panel of a data provider, and we're talking about Black Friday, which apparently was a little weaker overall, but they said the one standout category was tire stores because the weather got cold somewhat quickly.

Daniel Rivera

President, CEO & Director

Yes, we did -- so I'd say, first and foremost, so we did mention on the last call, I would say, look, we had a great Q3. So Q3 was a strong quarter for us. Take 5 was up 7%. Our franchise segment was up 1%. So it was a good quarter. It's been a dynamic year overall. So the comment out Q4 and the choppiness that we we're seeing was -- Q4 was a little bit unique compared to the rest of the year where it's just -- I mean it's just the plain English definition of the word, up and down, right? I mean we -- if we look out a few Sundays ago, we had one of our best Sundays of the year. So we've had some really good days, but we've equally had some really bad days in terms of how the fourth quarter has looked.

It's a little hard sitting here today figuring out root cause, what happened in Q4 as of that call, right? There's a few new variables that got introduced, so you had a prolonged government shutdown, you have furloughed government employees, you've got at least the threat of income disruption for a bunch of Americans in terms of SNAP and programs like that. You put that all in the blender all at the same time, a likely outcome is going to be choppiness, right, as people start to think about maybe prolonging or putting off decisions.

The really nice thing when you take a step back and you go to Driven is, at the end of the day, this is need-based nondiscretionary services, right? So you may put off an oil change for a week, 2 weeks, 3 weeks, depending on certain macroeconomic events that are going on. But that oil lights still on, you still need that oil change. If your car doesn't start, you're going to need to do something about that. So we continue to see choppiness. The other good thing, I guess, is, as Mike and I reissued guidance for the quarter, we put all that choppiness into the blender when we looked at the numbers pretty long and hard, and we feel good about the guidance that we've put out.

Simeon Gutman

Morgan Stanley, Research Division

Take 5, that's been the standout, the shiny object for this business. Can you talk about the growth aspirations, long-term unit growth, end goal? And then is there anything changing about the level of oil changers within the industry? I don't want to say the word saturation. It's not a Take 5 issue but an industry issue.

Daniel Rivera

President, CEO & Director

Yes. So nothing has changed in terms of our conviction around the business. If anything, there's more conviction around the business. It's an amazing business. As we think about number of units, our North Star has been for some time, and that hasn't changed is 2,500 units, right? So we think 2,500 units for Take 5 is ultimately doable. We think it's a matter of when, not if. And nothing has changed in that. We publicly stated we'll continue to open 150-plus locations a year, we opened 170 this last year. We'll continue down that trajectory. And so yes, it continues to just be a great business that we continue to put capital behind quite happily because the 4-wall economics are fantastic.

As we look at the overall industry, at the end of the day, there are a few players in the space. There are some really nice competitors out there that do a nice job. And I think about an industry where it's not a zero-sum game. I think there's plenty of white space for all of us to grow. We're in a meeting earlier today, and Mike probably said it like there's -- we'll be eating for a long time to come. We run a great business. It's a great model, and there's plenty of white space for everybody to play in the same sandbox.

Simeon Gutman

Morgan Stanley, Research Division

You mentioned the maturation curve immature is a part of the growth equation, especially from Take 5. But there is a maturity slowing or deceleration over time as well. Can you put that any -- well, how significant does that mean like after the 3 years of ramp? And then you teed up a couple of initiatives. I'm going to get to some of these add-ons as well. But what can you do to offset that?

Michael Diamond

CFO & Executive VP

Yes. I mean, I would say some of it is just math. And so I don't know if you offset -- I think it's actually a feature, not a bug that we go from 900,000 AUV in year 1 to 1.4 million in year 3, if we can find a business that does that for the next 15 years, we probably should all go home and invest in that business. I think as you get to maturation, the beauty of our model, the oil change in general model is there are these tailwinds that are going to happen. When you think about premiumization, additional attach rate, I think the key on the new store maturation is we continue to see it even as we grow more stores, even as we get more scale. We continue to see this build from the 900,000 year 1 AUV to the 1.4 million.

The fact that once you get to year 3, you're mature isn't a problem because there still is this mid-single-digit growth potential both through increased marketing and awareness as we drive that forward as well as the other ticket, not even necessarily price, but ticket drivers related to the premiumization and the increased services.

Simeon Gutman

Morgan Stanley, Research Division

Differential fluid services, can you talk about attach rates? How do you not harm the customer experience while driving that business?

Daniel Rivera*President, CEO & Director*

Yes. So we recently rolled out differentials. We've been into it now for less -- at least nationally for less than 6 months. I'd say the rollout is going extremely well. The team is doing a phenomenal job from an execution perspective, not just the company-owned team but the franchisees as well and their teams just continue to do a great job.

From a cannibalization perspective, there's nothing material that we're seeing. It's operating as we would expect it to. NPS scores remain high. They remain steady, which means the customers ultimately like the service, number one; they want the service, number two; they're happy with the service that they're getting. So all in all, as we look at the rollout of differentials, I'd say it's going fantastically well.

The more important thing for me as I think about differentials is what differential stands for. It's not so much the service itself. The rollout is going great. We're happy with it. It's proof point that there are multiple growth levers to this business that we can pull, right?

So we've talked about net unit growth. We'll continue to open units, 150 plus, as we've already mentioned. We've proven historically that we can take the existing basket of services and we can continue to grow our attachment rates. When we bought the business, again, back in 2016, attachment rates were in the mid-30s. A few years ago, we're talking kind of low 40s, mid-40s, sitting here today, our attachment rates are in the low 50s. So we've continuously grown attachment, and we've proven that, that's another growth lever for the business. This now proves a third growth lever, which is not only can we grow the existing basket of services but we can successfully add a new service and grow that as well.

Simeon Gutman*Morgan Stanley, Research Division*

What is then the long-term vision for attachment rate and then the incremental revenue it could add to the model?

Daniel Rivera*President, CEO & Director*

Yes. So look, I'm not going to sign a number to it. I would say, if you step back and you think about it, first and foremost, in terms of through the lens of the consumer through the lens of how we go to market, for me, it all starts there, right? So Take 5 is the home of the stay in your car 10 Minute Oil Change. That statement is both a promise to the consumer about how we're going to go to market and why they should consider us. But it's also a framework that governs the services that you can provide, right? So if you say you're going to be stay in your car to a minute oil change, well, you're not going to do brakes. Like in my lifetime, we're not going to do brakes because I ran the Meineke business, and you can't do brakes in a stay in your car 10 minute environment, right? That's a 45-minute to an hour to 1.5 hours kind of environment.

So how we go to market and the promise we've made puts a logical kind of ceiling on what the business can do. Now that being said, we offer 6 services today. Will we offer a seventh? Yes. An eighth, a 10th? Yes. There are more service that we will introduce over time. We have a pipeline of services. And so we will continue to I would say, methodically roll those services out. So you'll see us add services over time but there is a bit of logic that at the end of the day, governs what we do.

Simeon Gutman

Morgan Stanley, Research Division

And are the largest attachments, so the #1 attachment, whatever, that is still #1 that has not lost #1 even as you rolled out additional?

Daniel Rivera

President, CEO & Director

That has not changed. No, the placement hasn't really changed. Technically, one of them has changed towards the lower end. We don't have to get into that level of detail. But generally speaking, what you're seeing is the same placement, it's just more attachment happening and then we're introducing you. So obviously, if you look at differential which is the newest, that's the lowest attachment. If nothing else, it's a brand new service for us.

Simeon Gutman

Morgan Stanley, Research Division

We haven't gotten a question on electric vehicle in a while. I don't think new car dealers really care to sell them that much. But what is there -- is there an attach for that? And is that something you can address within your lane?

Daniel Rivera*President, CEO & Director*

So the way I'd probably take several steps back, right? So if we're going to talk to EV for a second, First and foremost, now I have to talk about Driven, and I have to talk about the fact that we're a diversified portfolio. And so is -- if you're talking pure EV, is that super relevant to Take 5? No, obviously, it's not, but it's very relevant to Meineke, it's very relevant to the rest of our businesses, right? That's number one.

Number two, I mean, very little talk these days about pure EV. If you're talking hybrid, now we're talking, again, Take 5 world, you need to get your oil change and nothing really changes as far as what we've been talking about. But I mean, I know you remember when we IPO-ed, Mike and I talked about it. He wasn't here, but we would kind of talk about what happened in those days. I mean every other question was EV and the sentiment behind the question was kind of like EV is going to take over the world tomorrow. And so what are you guys going to do? It was a little lonely at the time sitting there saying like, I'm not sure that, that's exactly how things are going to play out.

And by the way, it felt a little defensive at the time, right? But we've seen that, that's not necessarily how things are going to play out.

There is a consumer out there that wants EV. That's great. There's also a consumer out there that wants a Porsche, neither one of which are a core customer for Take 5. So we look at the business, we've modeled it out every which way from Sunday. We will have a very lucrative profitable business for a long time to come.

Simeon Gutman*Morgan Stanley, Research Division*

EBITDA for Take 5. EBITDA margins have been steady around 35% in the last few quarters. What are the top margin drivers say, now and into '26, if you can't talk about '26, we'll use the now?

Michael Diamond*CFO & Executive VP*

Yes. I'll start with the boiler plate if I'm not going to give you any specifics on '26. We're still working through that ourselves. Look, I think I would start with we feel good with the overall EBITDA margin profile of Take 5. We think a mid-30s business is exactly where we want to be. There's a little bit of choppiness quarter-over-quarter as you think about timing, et cetera. But in general, mid-30s which is where we have been, we feel really good about that business.

I think as we continue to come back to some of the service things I've talked about, increased premiumization, higher quality oil, additional attach rate and just in general, efficiency through the box. There are opportunities to grow that margin further. Each of these attachments does drive additional margin through the same box, and so that's helpful. But in general, we feel really good with where we are, and we feel really good with the mid-single-digit growth we feel like over the long term for that business. And now there's an opportunity to translate that growth into EBITDA margin.

Simeon Gutman

Morgan Stanley, Research Division

Want to skip to glass. And it's got -- it's a new segment now, a new division, partly recognition, I guess, some other things happening in the business. But from a glass stand-alone perspective, there's been some evolution in how you approach M&A versus pausing internal execution. So can you talk about how that division stands up and then how we should think about its own growth rate.

Daniel Rivera

President, CEO & Director

Yes. So maybe take a step back and look at kind of the historical context, right? So first and foremost, we decided to get into the space for a lot of the same reasons that we decided to get into the space with Take 5 and Quick Lube, right? So you've got fragmentation, great white space, fairly simple business to operate, great kind of labor perspective on that business and really nice unit level economics. So the decision to get in was grounded in a framework that I'd say was sitting behind the Quick Lube business, which led to a very kind of lucrative Quick Lube business that we're able to grow. Nothing there has changed, right?

The way to get into that business was we wanted to very quickly build up a #2 position from nothing. And the way that we did that was through a series of 13 acquisitions of call them regional players but ultimately, 13 different businesses, different owners, slightly different models, some similarity, but largely just different businesses and different cultures and different models, everything from how -- if you break out the revenue, some are more retail oriented, some are more commercial, some are more insurance, et cetera, et cetera. So we made 13 acquisitions.

You now have to take these 13 different businesses and you have to make them act and operate and look and go to market as one business. And so we decided to go under the auto glass now umbrella, and we went through this period of about 2 years of integration. Integration is a fancy word that covers all manner of sins. It's everything from how do you pay people, point-of-sale systems, all sorts of detailed operator stuff that most folks don't really care about, but it's real work that has to happen, so you can actually go to market consistently. All of that's kind of come to fruition now.

What's been happening over the last, call it, 12 to 18 months is we've been steadily growing that business from a top line perspective, while making it operationally better. And what we've said is our priority is we're going to grow top line revenue. Specifically, we really want to lean in on insurance and commercial and that's what we've been doing. So we'll break it out now as its own segment. You will see, as we break that out, the numbers have been growing. It's a profitable business. The sales have been growing as well. And it's as a result of we have been landing. We announced some early deals. We're not going to announce every quarter, every deal that we get. But we've been landing both insurance and commercial deals, and that's been growing the business steadily.

The interesting thing with that business over time is, look, we're big believers in the business. We think it's a great space, and we're clearly the #2 player at this point. That business will not be a linear straight into the right kind of business because it doesn't lend itself to that kind of a model. This will be a step-change business. We will land a big insurance carrier. I'm not going to name any of them because I don't people to take read of anything into that. But at some point, we will land a big insurance carrier and you're going to see a step unit change to the business.

And then it may plateau for a little bit. I mean, we'll continue to grow it, but kind of your mid-single-digit growth. And then you'll get another one and you'll get another one. So that business will step change over time. It won't be straight and to the right but it has been growing, and it is a -- nothing has changed fundamentally and why we got into that business and our belief into the business.

Simeon Gutman

Morgan Stanley, Research Division

Does landing an insurance carrier move you to first in line as a provider or it puts you into the network and then you have to win the business based on quotes?

Michael Diamond

CFO & Executive VP

So a little bit of both, I guess. So if you look at it, when we say land a national insurance provider, what we mean is that they're TPA, right? So the way the industry works is you can land the TPA deal, you're now taking the calls the first notice of loss from the customers and you're directing that work. Where that work ultimately lands is up to the consumer or up -- well, it's up to the consumer ultimately, right? So that process. We sitting here today already get work from national insurers, from all the national insurers because we do, in fact, have locations out there. And so if a consumer calls in, even if they're going through pickup State Farm, I'm going to claim it on my insurance. If they say they want to go to auto glass now, well, they're going to auto glass. Now we'll get that work.

But what we mean is really landing that TPA work where you have now that firm contractual commitment with a carrier for a series of years.

Simeon Gutman

Morgan Stanley, Research Division

Does it go without saying that you're organizationally and operationally ready to handle the largest insurance providers as an advertisement for...

Daniel Rivera

President, CEO & Director

The short answer is yes. I mean interestingly, and some of the stuff the theory comes off the page over time, right? 2 years ago, we wouldn't even get invited to these meetings, right? And rightly so. I mean, at the end of the day, we're nascent, we just bought 13 different businesses. We're integrating them. If pick your insurance provider of choice, if they're going to RFP the work, we're not getting invited to that conversation. Even though through our collision businesses, we've been working with all the major insurance carriers for a long, long time.

Sitting here today, as work comes up for RFP and every carrier has a different calendar to that, some do it annually, so maybe every 3 years, so on, et cetera, we are in those rooms, we're participating in those RFPs, and we are competing for the business.

Simeon Gutman

Morgan Stanley, Research Division

That's a great transition to collision. Thank you. So that industry has been facing some headwinds from claim avoidance, I think repairable claims declining. Low-income consumer, maybe the cash pay decision not there. How would you characterize the backdrop? And Mike, how would you think about growth for '26?

Daniel Rivera

President, CEO & Director

I'll give the backdrop and you can give the -- It's been a dynamic year for that industry, right? So at the end of the day, inflation obviously is a thing that's no surprise to anybody. If you double-click within inflation and you look at inflation specifically in the automotive insurance space, it's been particularly hit hard, right? So when you look at consumers and you look at the effect on consumer on consumers vis-a-vis premiums vis-a-vis deductibles, that's been, let's just say, an issue, right? You've got that going on.

At the same time, you've got total loss rates you're kind of at historical highs. So you put both of those things in the blender at the same time and what we've seen and what we've talked about pretty openly is that and our competitors have as well, is that the collision industry overall is down, first quarter, second quarter, about 10%-ish year-over-year.

We saw a little bit of improvement for the industry as a whole we've made the argument we certainly said at our last call that we think that, that will moderate down into Q4. Q4 will be moderated down, not continue to go linearly up into the right. If you take a step back from a Driven perspective, the important thing there is, number one, we continue to take share. So we've said all along, although the collision industry overall is down, we are taking share in that industry. We see the industry metrics. We obviously see our metrics, and we continue to take share.

In Q3, as the industry went up, we also kind of went up with that. So we continue to take share, and we went up with the industry. And we think for the foreseeable future, we like our position in the space. We are one of the big consolidators. We're the only big consolidator that its franchise in nature. I do believe that, that business model lends itself to an owner-operator being on the ground managing that business day in and day out. That is a very skilled labor pool. That skilled labor pool is diminishing over time.

It is really important that you keep those folks there energized and wanting to work for you, and there is no substitute for having the owner-operator on the ground to try to make that happen.

Simeon Gutman

Morgan Stanley, Research Division

The structural growth outlook, forget about '26, but these headwinds of cars going to total losses quicker, if that's the case, if that's not the right premise, how do you think about the growth of the industry outside of market share?

Michael Diamond

CFO & Executive VP

So I mean, look, I think there are some pressures as we talk about, just in general, the more sophistication of the cars and the balance longer term of total loss versus actually getting it repaired. I also think as you take a step back, cyclically, we are probably at a cyclical high of that happening. And so I think it will be a sign curve kind of regardless of what direction that sign curve is moving. And as Danny has mentioned, we have reason to believe that over the medium term, the business -- we have -- the industry has a chance to get better even if the longer term is a little bit questionable.

I would go back to what Danny said, which is we're one of the market leaders. And to the extent there is share to be had, we are a place when the industry is in trouble, people like to have the shingle of a CARSTAR or an ABRA or a Fix. We provide relationships with the DRPs with the insurers. And so there are several good market leaders in the collision space. We respect all of them. But in particular, if you're an independent, we are a safe port in the storm for example, because we have the access to the DRPs in a way that if you're a mom-and-pop independent you may not be able to have.

So like I think, in general, we see we see an ability to continue to take share in this category. I think there's a lot of different moving pieces, some of which will be positive, some of which may be negative. The trends are trending back better. That will be inconsistent as well, as we mentioned on the Q3 call, just because Q3 was a little better, and it doesn't necessarily mean Q4 will improve linearly, but we feel good about our position in that industry.

Simeon Gutman

Morgan Stanley, Research Division

Why was Q3 better industry, your share? Was it weather? I don't think.

Daniel Rivera

President, CEO & Director

I'm not sure that -- I'm not sure that I can answer that question. Like if you look at the overall numbers, claims were just better on a year-over-year basis. Did anything -- so the 2 things that I pointed to as far as inflation and the effects of that and total loss rates, did that change materially? No. So I'm not sure that I can answer that question.

Simeon Gutman

Morgan Stanley, Research Division

The mix of franchise versus company-owned, structurally, where should that be in the next 3 to 5 years? And then any outliers in terms of the stable of brands and companies that you own?

Michael Diamond

CFO & Executive VP

So let me take a step back. In a driven perspective, I really do think you have to separate it out. Our franchise brands are 99.9% franchised, and we expect that to remain 99.9% franchised, right?

AGN is 100% company-owned. I think in the near term, that will be 100% company-owned. Our focus there is mainly top of the funnel, sales generation with our insurance, commercial and retail partners.

Take 5, which is where I think the question is probably has its most meat is currently 60% company-owned, 3% franchised. This year, we will probably open a few more company-owned stores than franchise. If we talked on our Q3 call, 170 total units, of which 90 are company-owned, 80 are going to be franchised. That's not because I necessarily think 90 out of 170 is the right answer. In general, our target right now is probably 50-50 in the short term. However, the unit economics are so strong that when we get opportunistic good company-owned stores that have some 3-year paybacks, very low net investment. I don't want to be dogmatic on a particular hard percentage when I can drive shareholder value by putting capital to work in an efficient manner.

Over time, we feel very good about our franchise pipeline. We feel very good about our overall pipeline. We feel really good about our franchisee pipeline. I think one of the strong suits of Take 5 is our diversified, well-capitalized franchisee pipeline. We've got a lot of franchisees who are eager to grow, many of whom are on their second or third ADAs many of whom are growing in their second or third geographical area as well.

They started somewhere near our origins in the Sunbelt and have since taken on other responsibilities elsewhere in the U.S. and are having tremendous success. And so I think you'll continue to see a blend. The company-owned unit economics, EBITDA margins in the 30s, if not higher, is so compelling. It's hard for me even as the CFO to say, "No, don't spend any of that capital. We are generating such good EBITDA."

That said, part of the power of the franchise network is the ability to, one, deliver entrepreneurial ownership of a great endeavor but also accelerate use of capital to grow out the base even further. And so I would see us continue to do that over the near term, probably over time, drifting more towards franchise ownership than corporate ownership in terms of the new units. But we'll get to 50-50 as an overall portfolio and then kind of figure out, I think, where we need to go from there.

Simeon Gutman

Morgan Stanley, Research Division

A couple of follow-ups. The economics to the Take 5 division from the increasing franchise mix does what? And then how does that roll into the enterprise?

Michael Diamond*CFO & Executive VP*

Yes. I mean I think in the short to immediate term, like we feel good with the -- I'm going to come back to it. We feel good at the mid-30s because there are several different levers that move there. Obviously, a royalty rate, as you think about it, is a much higher EBITDA margin percentage, some of the procurement revenue and sales we get there is good dollars but a little bit of a lower percentage, which is why that mid-30s, I see sticking even as the franchisees come through because of the several different levers that happen.

You get really good company store economics, obviously, get really good franchisee economics from the royalty. You get good EBITDA dollars as we continue to serve as kind of a sourcing mechanism given our scale and everything, but the percentage is there may be a little lower just given how much oil costs and the margin you take from that.

Simeon Gutman*Morgan Stanley, Research Division*

And for either of you, the 2 to 3 per franchise, you're starting to move in that direction. Is there a law of gravity a limit that you're recognizing. What's the biggest franchisee in the network? And have you seen this in the franchise business over the years, there's a certain breaking point for individual business owners?

Daniel Rivera*President, CEO & Director*

I mean the way I'd probably answer that, so we had the luxury when we bought the business, there was no franchising component, right? So we built the franchise business from the ground up. And we took at the time in the room, there's probably 100 years of franchising experience between myself and Jonathan at the time and other executives, right? And we really were able to blueprint out exactly how we want this franchising business to work, right? One of the things that we took into consideration is, and because I've been part of the system, as has Mike, where you get the 2 big to fail kind of franchisees, and we consciously built it up where that's not the case, right? So there is a limit. I'm not going to share it publicly, but there are numbers where franchisees get to where it will be a hard not for me to say, no, the growth stops there.

They've got that size of business that's amazing, let's go continue to grow with either other franchisees or with new franchisees because I don't want to create a system consciously where the tail can wag the dog.

Simeon Gutman

Morgan Stanley, Research Division

And then getting to 2,500, if that's the right long-term goal, is that to proficiently mapped out across the United States, roughly where each of these locations will end up over the next, call it, 10 years?

Daniel Rivera

President, CEO & Director

Yes. I mean the short answer is yes. So we do have a statistical model. So every single piece of dirt that we approve, whether it's at the micro level, like we're looking at a site in highly, or Florida or something like that, two, we're talking about nationwide 2,500 locations and what can we do there? We do have a statistical model that plays all that out for us. So yes, we know theoretically, 2,500 locations loosely would go here, all the way down to this location specifically should produce -- we think it's going to produce this range of sales and therefore, this range of EBITDA, et cetera, et cetera.

Simeon Gutman

Morgan Stanley, Research Division

Maybe to close, I'm going to try to talk to Mike one more time about '26.

Daniel Rivera

President, CEO & Director

Good luck.

Simeon Gutman

Morgan Stanley, Research Division

In this context of looking at what we're lapping in '25 if there's been any unusual good guys, bad guys that were unique to 2025.

Michael Diamond

CFO & Executive VP

I mean I think the biggest one would have been with our international car wash business, given the strength in Q1 and Q2 of that business. But I think, no. I think the beauty of our model is the nondiscretionary nature I think to frame it slightly differently and maybe a little light on how the business looks post divestiture, we still expect it to be a heavy free cash flow world.

Obviously, we're losing about \$80 million of EBITDA from the international car wash business, but we're also losing some CapEx from that business as well. Hence, in the press release, we talked about 6.5% to 7% this year pro forma. Interest should come down as we use the cash to pay off debt. And so we feel really good about the free cash flow potential of this business going forward.

I think as you break apart the components of the business, AGN continues to grow. Take 5 is a growth engine, both from a comp perspective as well as the new units. And franchise Brands is doing exactly what it needs to, which is topping along, modestly growing and generating a lot of cash with very limited CapEx.

Simeon Gutman

Morgan Stanley, Research Division

Appreciate it. Congratulations on replatforming. It's been a quick replatformization and path to getting the leverage in place. So congratulations. Have a great end of '25. Good luck in 2026.

Michael Diamond

CFO & Executive VP

Appreciate it.

Daniel Rivera

President, CEO & Director

Thank you.

Simeon Gutman

Morgan Stanley, Research Division

Thank you.

Read more current DRVN [analysis and news](#)

View all [earnings call transcripts](#)

Comments

Sort by

Newest



If you type a company or ETF ticker symbol in capital letters we will automatically link to the symbol page. You can remove the link by deleting the \$ in the comment.