

Strategic Analysis of Industry Consolidation, Valuation, and Exit Strategy

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1

Industry Overview

- Estimated U.S. towing industry revenue: \$12B–\$14B
- Thousands of independent operators
- Highly fragmented ownership
- Essential infrastructure service



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2

Industry Drivers

- Vehicle ownership growth
- Insurance roadside programs
- Municipal towing rotations
- Urban congestion




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Market Fragmentation

- Majority of companies operate 1–3 trucks
- Few companies exceed 25 trucks
- Fragmentation attracts institutional capital

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Estimated Fleet Size Distribution in the U.S. Towing Industry

Fleet Size	% of Companies	Industry Description
1–3 trucks	55–65%	Owner-operator / family businesses
4–10 trucks	25–30%	Small regional operators
11–25 trucks	7–10%	Mid-sized professional companies
25+ trucks	2–4%	Large regional operators

• IBISWorld
 • U.S. Census Bureau
 • Towing and Recovery Association of America
 • insurance underwriting data used by commercial tow-truck insurers

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5

Earnings Distribution in the U.S. Towing Industry

Fleet Size	% of Companies	% of Revenue
1–3 trucks	~60%	~25–30%
4–10 trucks	~30%	~35–40%
11–25 trucks	~8%	~20–25%
25+ trucks	~2–4%	~15–20%

This is the real reason why the towing industry is a major target for consolidation
 Consolidators can target up to 12% of the towers in the industry for control up to 45% of the \$14B industry.

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6

Why Investors Like Towing

- Essential infrastructure
- Recurring revenue
- Stable demand
- Fragmented ownership

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Essential Service

- Vehicles break down regardless of economic cycle
- Towing demand persists in recessions
- Essential services attract long-term investors


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Recurring Revenue Examples

- AAA contracts
- Insurance networks
- Municipal rotations
- Private property impounds

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Why Capital Targets Fragmented Industries

- Many small operations
- Scale advantages
- Operational efficiencies
- Centralized administration
- Technology integration
- Fragmentation creates acquisition opportunity

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10

Industries That Consolidated

- Collision repair
- HVAC services
- Veterinary clinics
- Dental practices
- Plumbing
- Logistics

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Investor Perspective

- Stable demand
- Recurring revenue
- Fragmented ownership
- Operational improvement potential

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Consolidation Lifecycle

- Fragmented market
- Private equity entry
- Platform acquisitions
- Regional roll-ups
- National networks


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Where Towing Is Today

- Early consolidation phase
- Capital beginning to study the sector
- Technology adoption increasing

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14

Industries That Followed This Pattern

- Collision repair
- HVAC
- Veterinary services
- Dental practices
- Home services
- Logistics

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Platform Acquisition Strategy

- Acquire strong regional company
- \$10M–\$50M revenue typical
- Multiple locations
- Strong contracts
- Professional management

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Add-On Acquisition Strategy

- Acquire smaller operators
- 3–20 trucks typical
- Expand geographic coverage
- Integrate operations

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Roll-Up Economics

- Centralized dispatch
- Centralized billing
- Insurance purchasing leverage
- Fleet purchasing leverage


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Private Equity Lifecycle


- Years 1–2: Platform acquisition
- Years 2–5: Add-on acquisitions
- Years 5–8: Exit or recapitalization

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19

Market Share Transformation

- Early stage: large operators ~10%
- Mid stage: 30–40%
- Mature stage: 60%+

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Industry Impact

- Pricing competition
- Technology expectations
- Labor competition
- Capital intensity

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Labor Market

- Driver shortages industry-wide
- Competition for trained operators
- Larger companies offering benefits


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Technology Transformation


- Dispatch software platforms
- Fleet telematics
- Digital billing
- Data analytics

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Future Market Structure

- Large regional networks
- Professional independents
- Lifestyle operators

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Strategic Options for Owners


- Scale and compete
- Prepare for acquisition
- Operate lifestyle business

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Enterprise Value Drivers


- Revenue scale
- Recurring contracts
- Financial transparency
- Management depth
- Fleet condition

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Valuation Mechanics


- Tow companies typically valued on EBITDA multiples
- Owner-dependent businesses trade at lower multiples

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Typical Valuation Ranges

- Owner dependent: 2–3x EBITDA
- Professional operator: 4–6x EBITDA
- Regional platform: 6–8x+ EBITDA

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Tow Company Value Scorecard


- Financial systems
- Contracts
- Fleet quality
- Management
- Technology

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Industry Consolidation Case Study


- Regional platform acquires 10 operators
- Centralizes dispatch and billing
- Improves EBITDA margins

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Roll-Up Example Economics

- Initial platform EBITDA: \$5M
- Acquire smaller companies at 3x
- Scale combined company to 6x+

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15-Year Transformation Timeline

- Fragmented market
- Regional consolidation
- National operators

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Industry Strategic Insight

- Market consolidation likely to accelerate
- Professional operators will gain market share
- Preparation improves negotiating leverage

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Impact on Independent Tow Companies

- Pricing pressure
- Technology expectations
- Contract competition
- Labor competition

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Pricing Pressure

- Large operators spread overhead
- Lower insurance costs
- Fleet purchasing leverage
- Aggressive contract bidding

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Contract Expectations Rising

- Technology integration
- Real-time reporting
- Service level agreements
- Insurance compliance

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Driver Competition

- Large operators offer benefits
- Structured scheduling
- Training programs
- Career paths

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Equipment Expectations


- Newer fleets
- Safety compliance
- Maintenance tracking

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Future Market Structure

- Large regional networks
- Professional independents
- Lifestyle operators

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Lifestyle Operator

- Remain small and owner-operated
- Focus on local relationships
- Lower growth expectations

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Strategic Opportunity

- Owners can benefit from consolidation
- Preparation increases leverage for sellers

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Scaling Strategy for Professional Independents

- Professional management
- Financial discipline
- Operational systems
- Workforce development
- Capital investment

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Why Preparation Matters

- Prepared companies receive higher valuations
- Unprepared companies struggle to sell


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Exit Preparation

- Clean financial reporting
- Contract documentation
- Operational systems
- Technological efficiencies
- Leadership team

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Preparing for Sale in 3 Years

- Professional financial data
- Risk Management Stability
- Contract optimization
- Management development

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45

KAPS Foundation



OPERATIONAL
PERFORMANCE



FINANCIAL INSIGHT

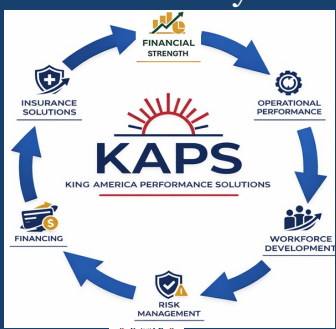


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DEVELOPMENT

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KAPS Outcome

- Increased profitability and security
- Improved operational efficiency
- Create higher enterprise value

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Financial Systems

- Monthly financial reporting
- Standardized chart of accounts
- Cost-per-call analytics
- ROI tracking
- CAPEX planning

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Operational Systems

- Dispatch analytics
- Driver performance tracking
- Standard operating procedures

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Operational Improvement Opportunity

- Financial reporting often inconsistent
- Limited margin analytics
- Dispatch data rarely analyzed
- Equipment ROI rarely calculated

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Technology Transformation

- Dispatch platforms
- Fleet telematics
- Digital billing
- Operational analytics

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Leadership Development

- Companies less dependent on the owner command higher valuations
- The dreaded earn-out

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Strategic Outcome

- Companies gain scalability
- Increase valuation
- Create exit options
- With proper planning you not only crease you EBITDA but you can increase your multiple as well
- The real magic is in the multiple


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Final Strategic Question

- Will you choose to compete with the consolidators or
- Will you take advantage of consolidation?


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55

Competing with Consolidators

- Prepare now
- Strengthen you balance sheet
- Maximize your profitability
- Streamline operations
- Improve customer relations


•If you choose to take advantage of the consolidation, prepare three years before you plan to exit.

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56

Taking Advantage of Consolidation


- Whether you go through KAPS or go the DIY route, give yourself time to prepare
- Get your systems in place that matter to consolidators
- Remove yourself from the equation to avoid the dreaded earn out

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57

The Process


- You have to decide your exit number
- You and the buyer agree your business is worth \$10M for example
- \$10M LOI –Letter of Intent =Non-binding LOI
- 60-90 day due diligence period

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The Proctologist

- Talk to your employees, they will be
- They will talk to your customers, you or the business?
- Customer base, concentration, stability
- All processes and SOP's
- How many times you get called
- Litigation and Risk Management
- Maintenance discipline
- Set and change meeting times to see if you're needed
- And EVERYTHING ELSE

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The Final Offer

- Come back with a final offer, but there's risk that they don't like so they want to update the original offer in the LOI
- It's not \$10M, it's now \$8.5M
- They come back and instead of \$10MM, they offer \$11M with an earn out
- 3-yr buyout with 3.5% growth and profitability targets

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60

The Dreaded Earn Out

- \$5MM upfront and you get the other \$6M with the earn out
- If you go three years and hit your targets, you get the full \$11M,
- If you don't make it, the deal is off and they just bought your \$10M company for \$5M
- Note: Captive insurance works much the same way


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61

Avoiding the Earn Out

- Earn out can be avoided if you don't manage
- Take time to develop management team so business can run without you
- Tie in managers with long-term incentives
- Have written policies and procedures with clearly defined objectives and authorities
- Buyer invests in the business, not in you

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62

Planning and Patience

- Consolidation is predicted to continue
- Do NOT act out of fear - FOMO
- Currently little competition, lack of competing bids
- The magic is in the multiple!
- Preparation is the key

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63


Preparation is Key

•The bottom line is to prepare for the consolidation that is coming regardless of the path you choose.

Thank you for being with us!

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