F&I Products Industry

Acquisitions and Investment Activity Accelerate

The F&I products industry is attracting significant interest as the macro drivers are compelling and the industry demonstrates high growth and margins. The F&I products industry totals $77 billion at retail and comprises a significant and valuable part of the U.S. automotive industry. The value chain includes administrators, F&I agencies, direct-to-consumer marketers, payment plan providers and specialty insurance carriers. Since 2011, more than 30 companies in the F&I products industry have changed ownership, and we expect sellers to continue to benefit from strong demand among financial investors and strategic buyers for well-run businesses in the sector.

The F&I products industry is benefitting from compelling macro trends:

- New cars sales reached another record in 2015 and are forecast to increase through 2017. F&I product sales on new vehicles remain strong.
- Used cars, the sales of which are continuing to grow, typically outlive their OEM warranties and have higher maintenance needs, creating demand among consumers that are increasingly accustomed to buying vehicle protection products.
- Consumer acceptance and adoption of F&I products have increased, motivated by the increased average age of vehicles and the lengthening of vehicle ownership, which is partially driven by the lengthening of auto loan terms.
- Dealership margins remain under pressure, and F&I products provide incremental profitability.

The pace of acquisitions and investments in the F&I products industry is increasing, driven by demand from financial and strategic investors, low interest rates and availability of capital. Private equity firms have been attracted to the industry by the high margins, strong cash flow, fragmentation and growth of the industry. Private equity firms are making platform and add-on acquisitions to existing portfolio companies. Administrators, seeking to grow revenues and improve margins, are evaluating acquisitions to increase product distribution, improve scale and capture more of the value chain. Insurance companies, looking to preserve books of business or enter the industry, seek the acquisition of administrators. Strong demand for well-run companies in this industry is expected to continue.

F&I Products

Consumers purchase vehicle protection products to cover potentially costly repairs and provide peace of mind. F&I products vary in price and coverage depending on the vehicle make and model, the age of the vehicle, product features, the length of coverage and the mark-up to the consumer. The table below lists the most common F&I products sold.

Colonnade Advisors LLC • 125 South Wacker Drive • Suite 3020 • Chicago, IL • 60606
www.ColAdv.com

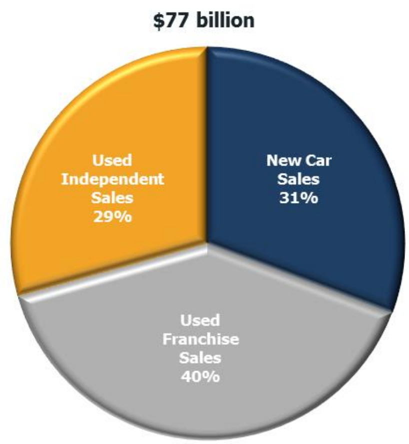
F&I Product	Description	Typical Contract Cost to Consumer	Typical Retail Cost to Repair without Contract
Vehicle Service Contracts (VSCs)	Agreement between an administrator and a vehicle owner under which the administrator agrees to replace or repair, for a specific coverage period, designated vehicle parts in the event of a mechanical breakdown. VSCs supplement manufacturers' original warranties and provide a broad array of coverage options.	$1,000-$3,500	$500-$8,000
Guaranteed Asset Protection	Coverage for unpaid loan balance in the event of total loss or theft.	$600-$800	$2,000-$4,000
Tire & Wheel Protection	Replacement or repair costs for tires and/or wheels due to damage from road hazards, and includes the cost of mounting, balancing and valve stems.	$400-$600	$1,000-$3,000
Appearance Care Service Contracts	Solutions to protect a vehicle's cosmetic condition, inside and out after application of products.	$500-$800	$1,000-$1,500
Prepaid Planned Maintenance	Scheduled maintenance at a dealership; typically offered at a discount.	$500-$800	$1,000-$1,500
Theft Deterrent Systems	Protection from theft including etch, which marks the vehicle and parts for tracking, and vehicle tracking devices using cellular networks or GPS.	$200-$300	N/A
Key Replacement	Replacement of lost or stolen keys.	$450-$550	$750-$1,500
Paintless Dent Repair	Removal of minor dents from a vehicle without damage to the paint.	$200-$400	$300-$500
Lease Excess Wear and Tear	At lease end, mitigates lessee's expense associated with excess wear and tear such as excessive tire tread wear, bumper gouges, broken or cracked lamps, damaged trim, missing or broken hood ornaments, damaged vehicle insignia, etc.	$500-$750	$2,000-$3,000
Windshield Protection	Covers expenses associated with cracked or broken windshields.	$100-$200	$300-$500
Roadside Assistance	Provides towing, flat tire change, lockout service and other benefits if a failure occurs and the driver is stranded. Typically bundled with VSC or with other contracts.	$50-$350	$250-$1,000
Credit Life Insurance, Credit Disability Insurance, Involuntary Unemployment Insurance	Pays off loan in event of insured's death, long term or permanent disability or involuntary unemployment.	$1,000-$4,000	$15,000-$20,000
Warranty Products	Powertrain only, provided by dealer.	Included in vehicle selling price	$3,000-$8,000

Large Industry

The U.S. automotive industry is one of the largest sectors of the economy. U.S. consumers purchased 55.8 million new and used passenger vehicles in 2015, generating over $1 trillion of retail sales. There were an estimated 258 million cars on the road in 2015 compared to 243 million in 2005.

The F&I products market at retail is estimated by Colonnade at $77 billion and is growing due to increased adoption and penetration of F&I products and vehicle sales. The largest component of the F&I products market involves the sale of VSCs. Retail VSC sales totaled $28 billion in 2014. The F&I products market does not include the financing of the purchase of the vehicle.

F&I Products Market Size



Source: Colonnade estimates

Industry Trends Are Compelling

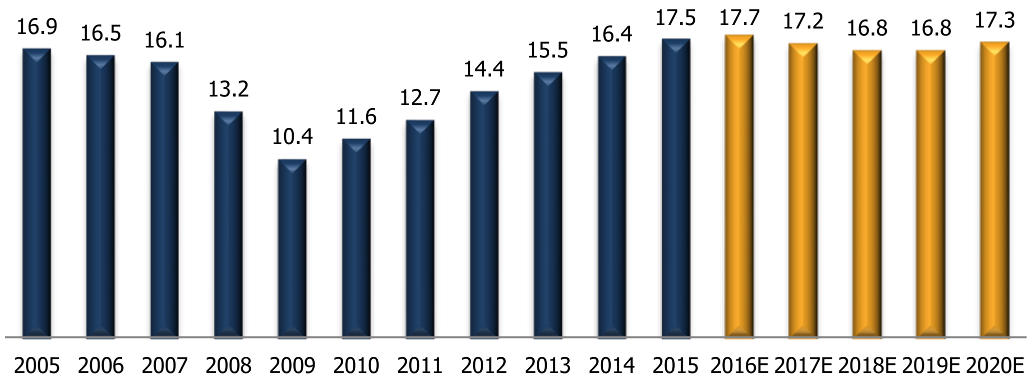
The year 2016 will be the healthiest the domestic auto industry has been in decades as demand is expected to be high due to an improving labor market, low interest rates and low cost gasoline. The $77 billion F&I products market benefits from growing new and used car sales and increasing penetration rates of F&I products resulting from improved dealership focus on F&I products and gains in consumer adoption of F&I products. A larger and aging fleet of vehicles on the road also benefits the market for the sale of F&I products. We expect these conditions to continue.

New Vehicles

Growth in new cars sales drives growth in the overall F&I products market. New car sales were 17.5 million units in 2015, a 6.3% increase over 2014, and a new record. According to NADA, growth in units sales will continue in 2016. Unit sales forecast through 2020 are expected to remain at or above peak levels before the financial crisis a decade ago.

According to the NADA, 41.9% of new vehicles sold have a VSC attached, a penetration rate that has continued to increase over the past decade.

NEW VEHICLE SALES *(units millions)*

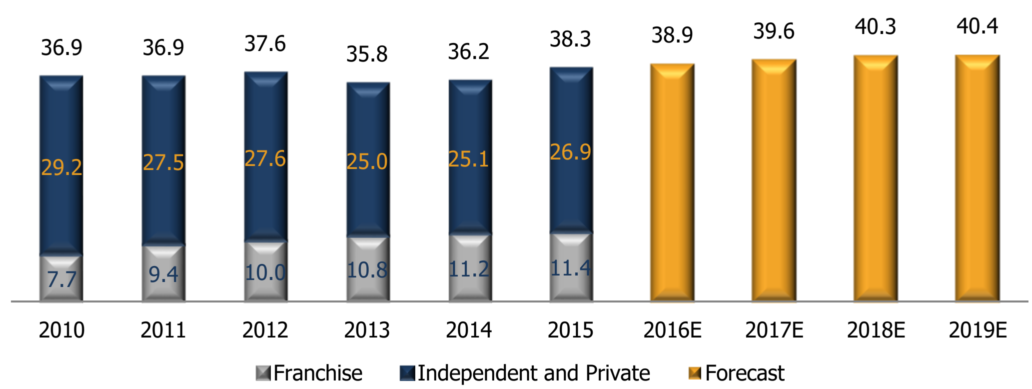


Source: NADA

Used Vehicles

Used vehicle sales are at an all-time high level and are driving the purchase of F&I products. Sales of used cars increased 5.6% in 2015 to 38.3 million and are expected to increase to 38.9 million units in 2016. The purchase of F&I products is highly correlated to the sale of used cars. Older vehicles have typically outlived OEM warranties and have higher maintenance needs, factors that have a positive impact on consumer demand for VSCs and other vehicle protection products. Colonnade estimates that 30% of used sales through a franchise dealership and 50% of used sales through an independent dealership have a VSC attached.

USED VEHICLE SALES *(units millions)*



Source: Edmunds, NADA and Colonnade estimates

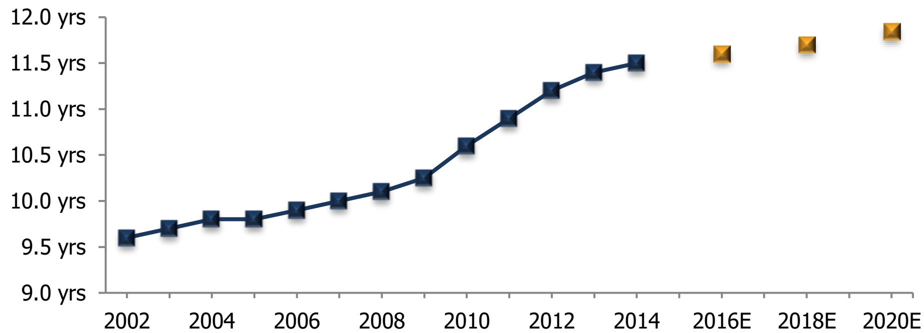
Age of Vehicles and Length of Ownership are Increasing Demand for F&I Products

There has been an increase in consumer acceptance and adoption of F&I products, motivated by the increased average age of vehicles and the lengthening of vehicle ownership, which is partially driven by extending auto loan terms. As older, higher mileage vehicles have heightened maintenance needs, consumers have a higher potential demand for F&I products.

Colonnade Advisors LLC • 125 South Wacker Drive • Suite 3020 • Chicago, IL • 60606
www.ColAdv.com

The average age of passenger vehicles on the road was 11.5 years at the end of 2015, up from 9.6 years in 2002. One of the reasons for the increase was the 40% drop in new vehicle sales in 2008 and 2009. The record number of new vehicles purchased in 2015 and 2016 will slow the rate of increase, resulting in an average estimated age of 11.8 years in 2020, according to IHS Automotive.

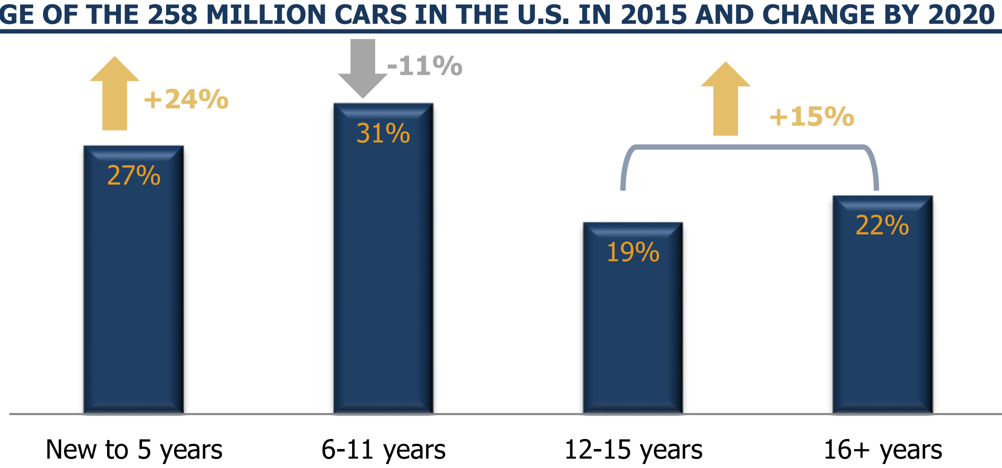
AVERAGE AGE OF PASSENGER VEHICLES



Source: IHS Automotive

Currently, 106 million vehicles on the road, or 41%, are older than 11 years, and that percentage will increase 15% by 2020. The recent years of record new vehicle sales and forecasted continued high levels will change the the age mix of cars on the road. According to IHS Automotive, by 2020, the fleet of vehicles new to five years old will grow 24%, and vehicles 12-plus years old will grow 15%. By 2020, there will be an estimated 76 million cars on the road older than 15 years compared to just 35 million in 2002. Meanwhile, vehicles in the six to eleven years range will decline 11%. The growth in the oldest category of vehicles will increase opportunties for F&I products.

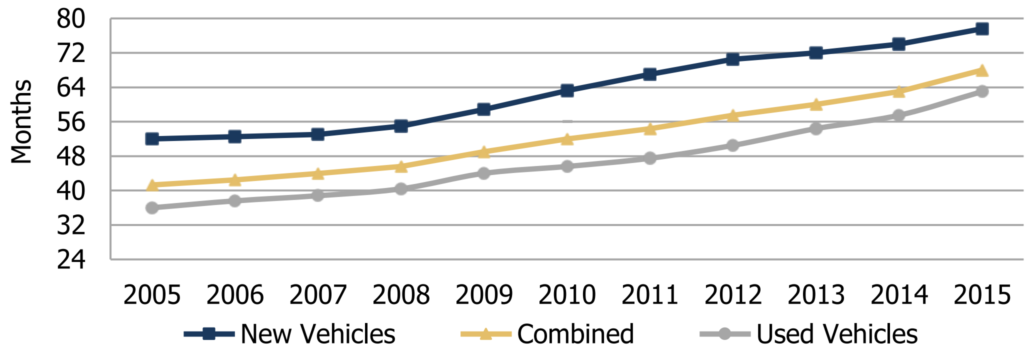
AGE OF THE 258 MILLION CARS IN THE U.S. IN 2015 AND CHANGE BY 2020



Source: IHS Automotive

U.S. consumers are holding on to their cars for longer than ever, partially due to the higher quality of vehicles. New vehicle buyers now own their vehicle for 6.5 years compared to an average of 4.3 years in 2006, according to IHS Automotive. Used vehicle buyers now own their vehicles for 5.3 years compared to an average of 3.3 years in 2006.

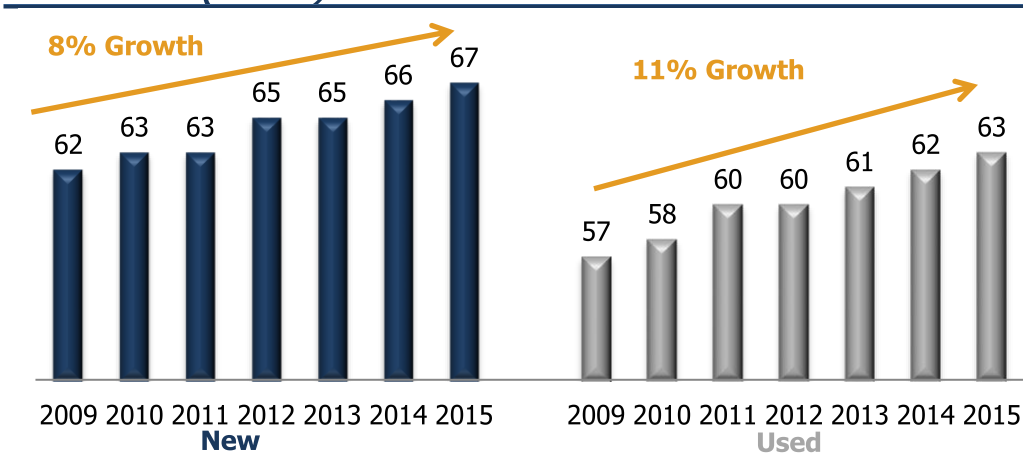
LENGTH OF VEHICLE OWNERSHIP



Source: IHS Automotive, data as of Q1

Consumers have been increasingly opting for longer-term loans to reduce monthly payments and afford higher vehicle costs. This trend creates the opportunity for higher F&I products penetration. At least 86% of new vehicle and 55% of used vehicle purchases are financed, and six to ten year loans are becoming more popular. The average loan term for new vehicle purchases was five years and seven months in Q4 2015, and 29% of loans were at a term longer than 72 months, according to Experian. The average loan term for used vehicle purchases was five years and three months, and 16% of loans were at a term longer than 72 months. As borrowers are often "underwater" on these longer-term loans in the early years, it is important for these borrowers to maintain the value of their vehicle. Many do so with F&I products.

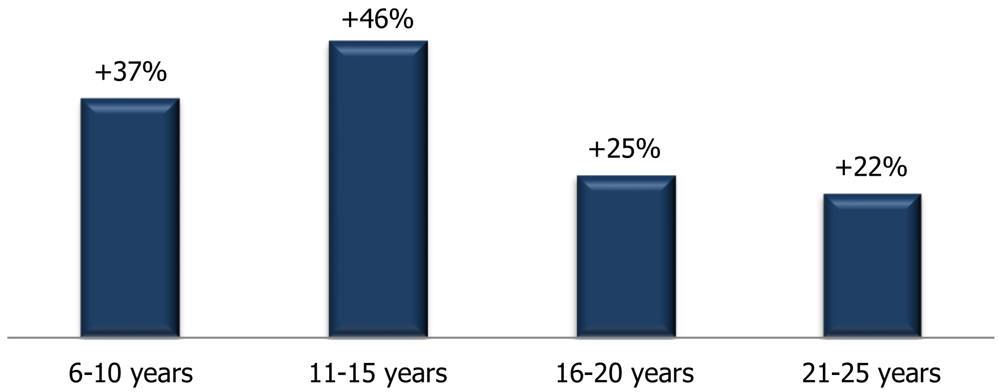
LOAN TERMS *(months)*



Source: Experian

The increasing number of older cars in the U.S. fleet is creating more vehicles that need repairs and maintenance, and the repairs generally become more expensive with age. According to the U.S. Bureau of Labor Statistics, the average annual mainenance/repair expenditure cost increases 37% for vehicles six to ten years old compared to vehicles new to five years old.

INCREASE IN ANNUAL MAINTENANCE/REPAIR EXPENDITURES OVER OWNERSHIP PERIOD FROM NEW TO 5 YEARS



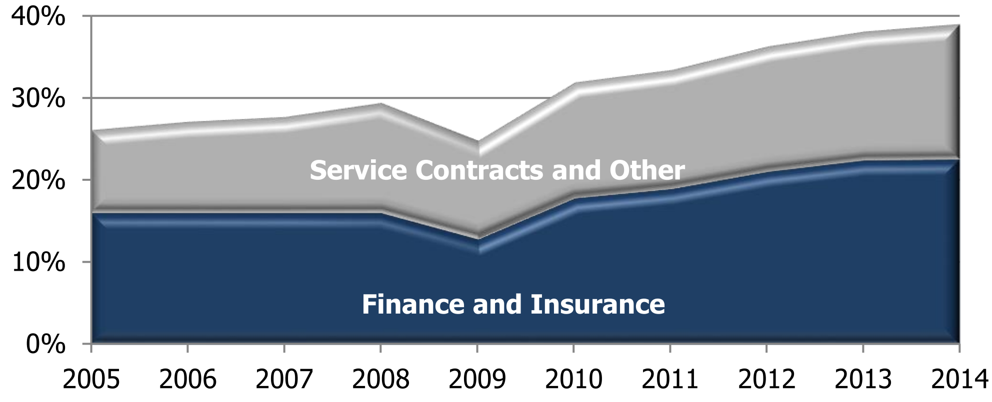
Source: US Bureau of Labor Statistics (excludes tire repairs)

Growth in the number of older vehicles is a positive trend for aftermarket repairs. However, dealerships will face strong competition for these increased repair revenues. Longer periods of ownership take consumers farther away from the selling dealership service lane. After 16 years, it is less likely that older vehicle owners will go to dealerships and more likely they will take their vehicles to less expensive non-dealership repair facilities. Dealers seek to counter this trend by selling VSCs and prepaid maintenance plans to increase the likelihood of drivers returning to the dealerships.

F&I Focus at Dealerships

Despite improved auto sales, dealership margins remain under pressure, and F&I products provide incremental profitability. Dealerships have become more dependent on finance, insurance and F&I products, as they represent almost 40% of total dealership gross profit compared to 25% in 2005. This trend will continue as dealership margins on vehicle sales may be squeezed in coming years as the NADA projects that used car prices will drop 2.5% per year through 2018. In addition to increasing profitability at the time of the vehicle sale, F&I products improve long-term profitability by enhancing customer loyalty and retention by setting the stage for future parts, accessories and routine servicing sales and subsequent car purchases at the dealership.

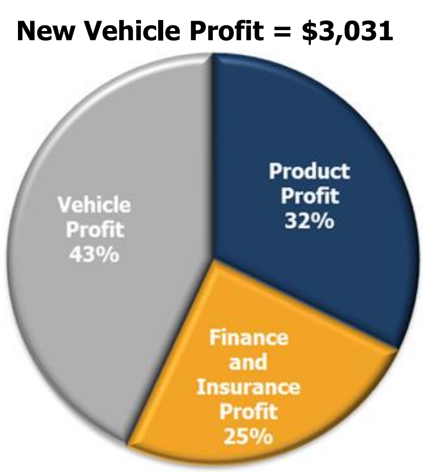
F&I DEPARTMENT CONTRIBUTION TO DEALERSHIP GROSS PROFIT



Source: NADA

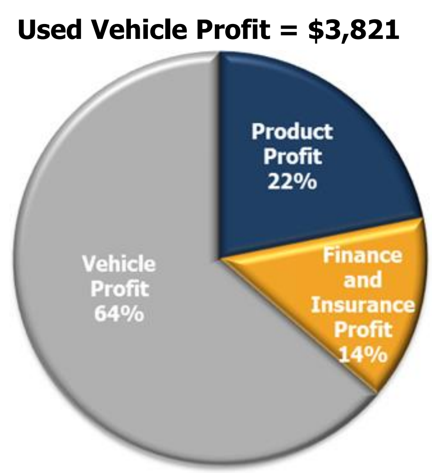
As demonstrated in the charts below, a dealership's gross profit from F&I products represents a substantial portion of the total profit on a vehicle sale and an increasing portion of total dealership profitability.

PROFIT ON A NEW VEHICLE SALE



Source: 3Q2015 DealerStrong Vehicle Sales Benchmarks Powered by ProMax Limited

PROFIT ON A USED VEHICLE SALE

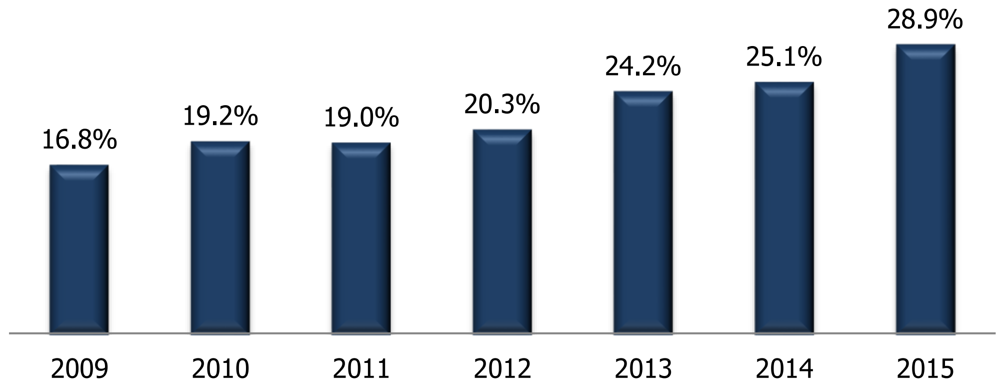


Source: 3Q2015 DealerStrong Vehicle Sales Benchmarks Powered by ProMax Limited

Leasing

Leasing of vehicles has increased dramatically over the last six years as manufacturers are struggling to offset the increasing length of vehicle ownership and consumers are choosing options to afford higher vehicle costs. Leasing accounted for 29% of all new vehicle transactions in Q4 2015, according to Experian. The industry hit a new high in the month of February 2016 when leasing accounted for almost 33% of all new vehicle transactions.

LEASING AS A PERCENT OF NEW CAR SALES IS INCREASING



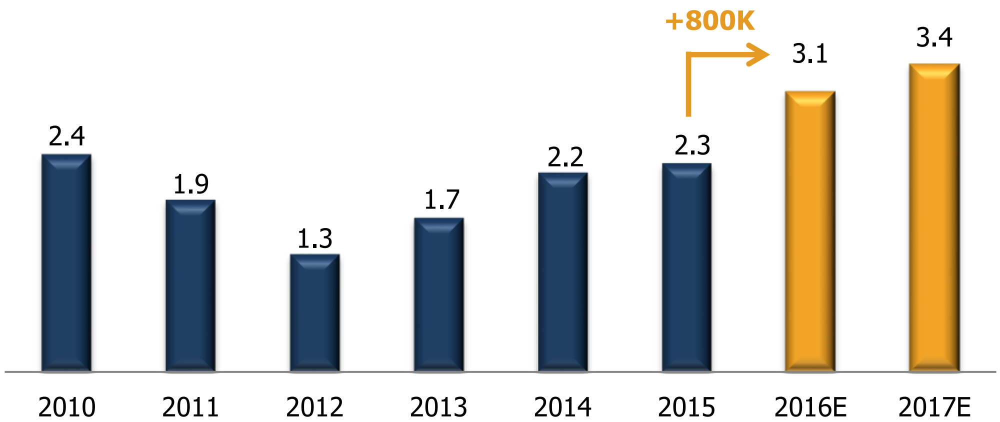
Source: Experian, data as of Q4 in each period

Historically, leasing was predominantly focused on luxury vehicles; but today there is a higher penetration among mass-market brands. Honda Civic, Honda Accord and the Toyota Camary had the three largest shares of the lease market in Q4 2015, according to Experian, and 94% of leases are on new vehicles.

Leasing customers have a different F&I product purchase motivation than cash and financed buyers of vehicles. Leasing customers do not have the need to purchase VSCs, as the term of the lease is typically equal to or less than the manufacturers warranty. In a lease, customers are responsible for the condition of the vehicle at the end of the lease. Leasing customers often purchase protection products such as excess wear and tear, prepaid plan maintenance, tire & wheel, appearance care, and paintless dent repair.

High auto lease rates in recent years are resulting in an influx of late-model off-lease vehicles returning to dealers in the near term. Lease maturities are expected to reach 3.1 million vehicles in 2016, an increase of 800,000 units or 35% from 2015. Higher inventory levels may depress prices on used vehicles and slow sales of new vehicles. However, the benefit to the F&I products industry is two-fold. First, the off-lease vehicles are older, higher mileage and outside of the manufacturers warranty, thereby increasing the need for additional coverage, such as VSCs. VSCs are the highest gross profit F&I products for dealerships and bring the consumer back to the dealer for service. Second, as vehicle sale margins remain squeezed, dealerships will seek to maintain overall margins by selling more F&I products.

INCREASING OFF-LEASE VEHICLES *(units millions)*



Source: J.D. Power PIN

Factors Driving Acquisitions and Investments in the F&I Products Industry

The pace of acquisitions and investment in the F&I products industry is increasing (see M&A activity below). Activity has been driven by positive macro trends, private equity interest in the industry, and the need of strategic buyers to accelerate growth and improve scale.

Investments and Acquisitions by Private Equity Firms

Private equity firms have been attracted to the industry by the high margins, stong cash flow, fragmentation and growth of the industry.

Platform Acquisitions: Private equity firms generally seek platform acquisitions of companies that can grow both organically and through bolt-on acquisitions. The platform companies span the F&I products industry and include administrators, direct-to-consumer marketers, F&I agencies and payment plan providers.

Add-on Acquisitions: Many private equity-backed F&I products companies are seeking acquisitions to diversify products, increase scale, vertically integrate to capture more of the value chain, and enhance distribution channels. Overall, the F&I products industry is highly fragmented with numerous administrators, hundreds of small F&I agencies and many direct-to-consumer marketers.

Acquisitions by Administrators

Administrators are seeking to grow the top line, improve margins and enhance shareholder value.

- Administrators, the majority of which do not have a significant direct sales force, are challenged to grow organically because they do not control the distribution of their products. These administrators are dependent on F&I agents and the direct-to-consumer marketers, both of which sell the products of multiple administrators. The acquisition of an F&I agency or a direct-to-consumer marketer can accelerate growth and lock-in distribution.

- Administrators are seeking margin improvement through scale and by capturing more of the value chain through vertical integration. By acquiring another administrator, administrators can absorb the overhead associated with claims infrastructure. By building a vertically integrated company through acquisition or investment with a mix of direct to dealership marketing, direct-to-consumer marketing and payment plans, an administrator can optimize margins and stablize distribution.

Acquisitions by Insurers

Insurance companies that are already in the F&I products industry have been making acquisitions. Insurers that underwrite VSCs are acquiring administrators in order to capture or preserve books of business. New entrants are evaluating administrators as a logical product extension of specialty insurance lines.

Acquisitions by Other Industry Participants

Other industry participants, such as F&I agencies, direct-to-consumer marketers and payment plan providers, are evaluating acquisition opportunities in order to accelerate growth, vertically integrate, enhance margins and improve scale.

Mergers and acquisitions activity in the F&I products industry continues to accelerate, with more than 15 deals completed since 2014. Valuation levels are strong for well-run companies of scale.

Date	Target	Buyer	Segment
Feb-16	**Automotive Development Group**	APCO	F&I Agency
Jan-16	APCO	Ontario Teachers' Pension Plan	Administrator
Dec-15	SilverRock Holdings	Cox Automotive	Administrator
Dec-15	C.A.R.S. Protection Plus	Summit Park	Administrator
Sep-15	Warranty Solutions	AmTrust Financial Services	Administrator
Sep-15	Coast To Coast Dealer Services Inc.	Assurant, Inc. (NYSE:AIZ)	Administrator
Aug-15	Vanguard Dealer Services	**Southfield Capital**	Administrator and F&I Agency
Jul-15	Vero Products (subsidiary of CU Direct)	Fidelis PPM	F&I Agency
Jun-15	Premier Dealer Services	Prairie Capital, existing owners and senior management	Administrator
Jun-15	**Endurance Warranty Services**	Transportation Resource Partners	DTC Marketer, Administrator and Payment Plan Provider
May-15	Wells Fargo Dealer Services	AmTrust Financial Services	Administrator
May-15	Auto Group Services	NFP (Madison Dearborn)	F&I Agency
Apr-15	Dent Wizard (H.I.G)	Gridiron Capital	Automotive Reconditioning
Mar-15	SouthWest Dealer Services (owns Century Administration Company)	Spencer Capital	Administrator & other F&I
Mar-15	Kingstar (Repair Defense Network)	Minority Investment by Flexpoint Ford	DTC Marketer
Dec-14	Fortegra Financial Inc.	Tiptree Financial Inc.	Administrator
Oct-14	**Omnisure Group**	Fortress Investment Group	VSC finance
Sep-14	G-W Holdings	The Portfolio Group (Frontenac)	VSC Reinsurance
Sep-14	Driven Solutions	Innovation Group	Ancillary Products
Aug-14	Warranty Group	TPG Capital	Administrator
Jul-14	PayLink Payment Plans	Milestone Partners	Payment Plan Provider
Feb-14	First Dealer Resources	IAS	Administrator & F&I Trainer
2013	David Gavin & Associates (DG&A)	Agents Management Groups (AMG)	F&I Agency
2013	Midwest Dealer Services (50% interest in South Dakota Dealer Services)	Automotive Development Group (sub of ADGCC)	F&I Agency
Dec-13	O'Neil Financial Services Agency Inc.	Brown & Brown	F&I Agency
Sep-13	Curran-EasyCare, Inc.	APCO	F&I Agency
Jun-13	**PWI Holdings**	KAR Auction Services	Administrator
Feb-13	The Portfolio Group	Frontenac	VSC Reinsurance
Feb-13	GWC Warranty	Stone Point Capital	Administrator
Jan-13	National Auto Care "NAC"	Trivest Partners	Administrator and DTC Marketer
Jan-13	Safe-Guard Products	Goldman Sachs Group	Administrator

*** Bold indicates Colonnade Clients**

Conclusion

We anticipate continued acquisition and investment activity in this sector as:

- Private equity firms seek platform and add-on acquisitions
- Strategic buyers seek to increase and stabilize distribution, accelerate growth, vertically integrate, enhance margins and improve scale

Colonnade is a Leader in M&A in the F&I Products Industry

Colonnade brings mergers and acquisitions and capital raising expertise to the F&I products industry, working with administrators, F&I agencies, direct-to-consumer marketers, payment plan providers and specialty insurance carriers.

Recent Transaction: Colonnade advises the shareholders of Automotive Development Group in its sale to APCO Holdings

APCO Holdings, LLC (APCO), a portfolio company of Ontario Teachers' Pension Plan and Stone Point Capital LLC, acquired Automotive Development Group (ADG) in February 2016.

Founded in 1992, ADG was one of the largest independent agencies in the automotive aftermarket and dealership training industry. ADG represents a full suite of F&I products, including VSCs, GAP and appearance products in the Washington D.C. metro area, North Carolina and South Carolina.

APCO, established in 1984, is a leading marketer and administrator of aftermarket benefits sold by franchised and independent auto dealers throughout the U.S. The company markets its products using the EasyCare and GWC brands, as well as other private label automobile manufacturer brands, through a network of independent agents and an internal salesforce.

ADG
AUTOMOTIVE
Development Group

has been sold to

APCO®
AUTOMOBILE PROTECTION CORPORATION

Colonnade acted as exclusive financial advisor to Automotive Development Group, LLC and The Zabel Companies

Colonnade Securities LLC

Additional F&I Products Transactions

SOUTHFIELD

has acquired with management

VANGUARD DEALER SERVICES

Colonnade acted as financial advisor to Southfield Capital

Colonnade Securities LLC

ENDURANCE

has been sold to

TRP Capital Partners

Colonnade acted as exclusive financial advisor to Endurance Warranty Services, LLC and Endurance Dealer Services, LLC

Colonnade Securities LLC

OMNISURE

has been sold to an investment group led by management and

Fortress Investment Group LLC (NYSE: FIG)

The undersigned acted as exclusive financial advisor to Omnisure Group, Lincoln Park Capital and Management

Colonnade Securities LLC

DE Shaw & Co

has sold

PayLink Payment Plans LLC

to an investment group led by

OXFORD FINANCIAL GROUP, LTD

Colonnade acted as exclusive financial advisor to D.E. Shaw and Paylink Payment Plans

Colonnade Securities LLC

HMC HARBERT MANAGEMENT CORPORATION *and* NORTHSTAR CAPITAL LLC

have sold

PREFERRED WARRANTIES INC. *to* KAR AUCTION SERVICES

The undersigned acted as exclusive financial advisor to Harbert Management Corporation, Northstar Capital LLC and mangement of Preferred Warranites Inc.

Colonnade Securities LLC

For more information on the F&I Products Industry, please contact:

Gina Cocking
Managing Director
312.425.8145
gcocking@coladv.com

Christopher Gillock
Managing Director
312.870.6212
cgillock@coladv.com

Jeff Guylay
Managing Director
208.726.0788
jguylay@coladv.com

Colonnade is an independent investment bank focused on the financial services and business services sectors. Colonnade provides expert, objective advice on mergers and acquisitions and capital raises for privately held businesses, publicly traded companies and financial sponsors. Our senior bankers bring extensive transaction experience, industry expertise, a process orientation and a sense of urgency to each engagement.

This advertisement was prepared April 18, 2016. It is not investment advice and Colonnade undertakes no obligation to update the information contained herein.

Colonnade Advisors LLC • 125 South Wacker Drive • Suite 3020 • Chicago, IL • 60606
www.ColAdv.com