Direct-to-Consumer Vehicle Service Contract Sales
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DIRECT-TO-CONSUMER IS THE FASTEST-GROWING SEGMENT OF THE AUTOMOTIVE F&I INDUSTRY

The direct-to-consumer (DTC) vehicle service contract (VSC) market is the fastest-growing segment of the automotive F&I industry, expanding at 12.3% CAGR[1]. Structural tailwinds—rising repair costs, aging vehicles, and declining affordability—are driving sustained demand. The addressable market remains significant, particularly within the core "sweet spot" of vehicles under 16 years old, where coverage is most relevant. A large portion of this segment remains without VSC coverage, representing a meaningful opportunity for direct marketers.

The industry profile is attractive: high gross margins, strong recurring cash flow from installment-based payment structures, significant fragmentation, and durable growth. Capital intensity is low and the business model scales efficiently with marketing investment.

Historically, M&A activity in automotive F&I was concentrated in the dealership channel. DTC companies, while growing, lacked the scale to attract serious institutional attention. Now, as leading operators have built out significant infrastructure and operations, the DTC sector has become a legitimate acquisition target for both strategic acquirers and financial sponsors.

DIRECT-TO-CONSUMER MARKET SIZE[1]

($ in billions)

Vehicle Service Contracts (VSCs)

- VSCs are purchased by vehicle owners to pay for mechanical failures and breakdowns for covered repairs
- Sold in dealerships at time of vehicle purchase and direct-to-consumer
- VSCs supplement manufacturers' original warranties (OEM) as they will cover mechanical failures not covered by the OEM warranty
- VSCs cover vehicles when OEM warranties do not: the average OEM warranty is -3 years while the average car on the road is 12.8 years old[2]
- VSCs often include other protections such as roadside assistance, reimbursement for a rental car

[1]Colonnade estimates

[2]The Zebra

DIRECT-TO-CONSUMER VSC OVERVIEW

The VSC product sold through the DTC channel and the product sold at the dealership are substantively the same. Consumers who do not purchase a VSC at the time of vehicle purchase can obtain coverage through a direct marketer. DTC companies identify vehicle owners through registration data and reach them via direct mail, email, internet advertising, television, and radio.

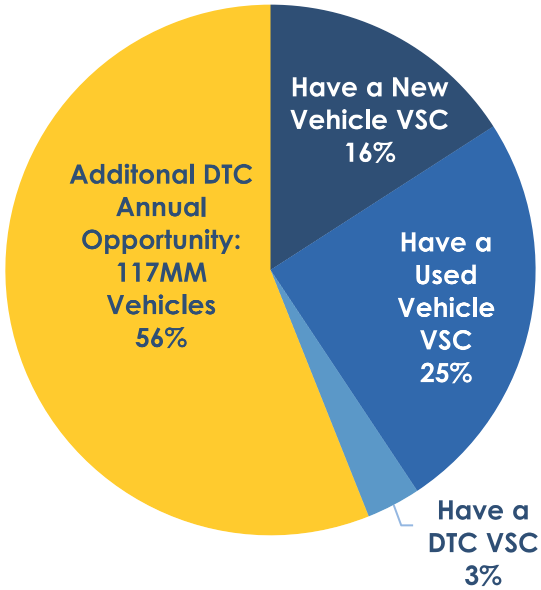
Direct mail is particularly effective in this category. VSCs are complex, infrequently purchased, and relatively high-priced—characteristics that favor detailed, targeted communication over digital advertising. Industry data shows direct mail, with return on investment of 112%, surpasses text, email, and other digital channels[3].

A typical VSC is priced between $3,500 and $4,000 for five years of coverage. When purchased at the dealership, the VSC is rolled into the auto loan and absorbed into the monthly payment. When purchased through a direct marketer, consumers may pay in full or through installment plans that carry no interest. These plans improve affordability and expand the addressable market.

DTC VSC payments appear as discrete line items on monthly statements, giving consumers greater visibility than a bundled auto loan. This transparency is consumer-friendly but drives higher cancellation rates in the DTC channel relative to dealership sales—a key operational variable for direct marketers.

There are approximately 296.5 million passenger vehicles on the road in the U.S.[4], roughly 70% of which are less than 16 years old. Of those vehicles, only 44% carry any VSC coverage, leaving 56% as an underpenetrated opportunity for direct marketers[5].

208.7 MILLION VEHICLES IN OPERATION LESS THAN 16 YEARS OLD[4]



[3]ANA Response Rate Report
[4]Experian
[5]Colonnade estimates based on data from NADA, Cox, and StoneEagle

DIRECT-TO-CONSUMER VSC ECOSYSTEM

DIRECT-TO-CONSUMER MARKETERS

At least 90 DTC VSC marketing companies operate in the U.S. Direct-to-consumer VSCs are sold mainly through direct mail, but also email, internet advertising, tv, and radio. DTC marketers typically have the highest margins in the industry.

ADMINISTRATORS

Administrators design the VSC, adjudicate claims, and are often the obligor for claims.

INSURERS

Insurers backstop VSC obligors against excess losses beyond the claims reserve coverage through a contractual liability insurance policy ("CLIP"). In some cases, the insurer may also manage the claims reserve on behalf of the administrator.

PAYMENT PLAN COMPANIES

Payment plan providers enable consumers to pay for a 60-month VSC in installments, typically over 18 to 4 months. The product is not a loan. Payment plan providers generate high yielding, short term receivables .

LEAD PROVIDERS, DATA ANALYTICS & FULFILLMENT COMPANIES

Lead providers and data analytics companies enable DTC marketers to optimize leads. Fulfillment companies send out direct mail marketing and copies of the VSC.

FIVE KEY TRENDS ARE DRIVING THE GROWTH IN DIRECT-TO-CONSUMER VEHICLE SERVICE CONTRACT SALES

1. Financial Reality For Many Vehicle Owners
2. Automotive Repair Inflation
3. Consumers are Keeping their Cars Longer
4. Dealer Second Chance Programs

1 FINANCIAL REALITY FOR MANY VEHICLE OWNERS

CONSUMERS NEED VEHICLE SERVICE CONTRACTS

5% Of Americans with auto loans are delinquent on at least one account[9]

58% Of vehicle owners could not afford an unexpected repair bill of more than $1,000[7]

40% Of drivers say they delay getting maintenance done even after they know it is due[7]

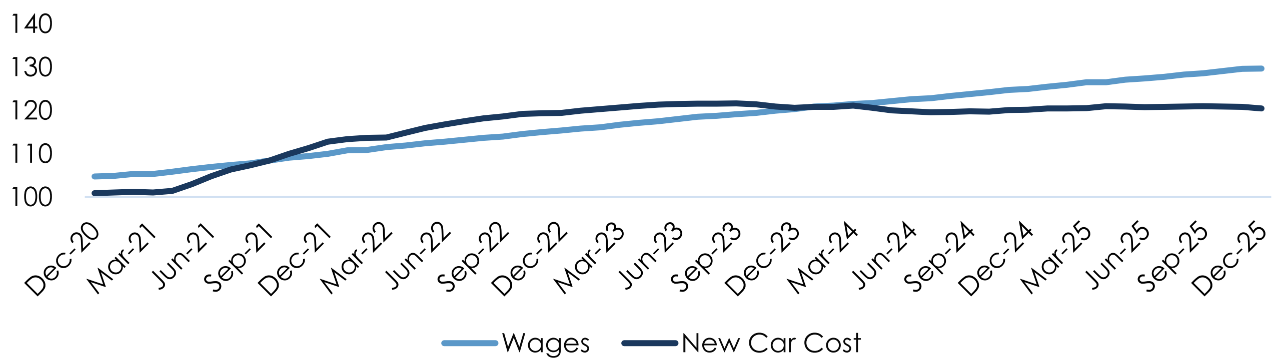
2x As likely To experience roadside breakdowns if a car is 10+ years old[10]

Vehicle ownership is near-universal—more than 90% of U.S. households have access to a car[6]—but the financial burden of ownership is growing. Approximately 58% of vehicle owners cannot afford a repair bill exceeding $1,000[7]. Many common repairs, from transmission replacements to engine component failures, routinely exceed that threshold.

Since 2020, wages have grown 30% and vehicle prices 20%, but auto maintenance and repair costs have grown 46%[8]. For the average vehicle owner, the cost of maintaining a car is consuming an increasing share of their budget.

Vehicle owners have limited alternatives. The absence of viable public transportation across most of the country makes vehicle repair non-discretionary: when a car breaks down, it must be fixed. This dependency creates inelastic demand for vehicle repair and, by extension, for products that make those costs predictable and manageable. VSCs convert a potentially catastrophic variable expense into a fixed monthly payment—a compelling value proposition for most vehicle owners who carry little financial cushion.

NEW CAR PRICE VS. WAGE GROWTH[8]



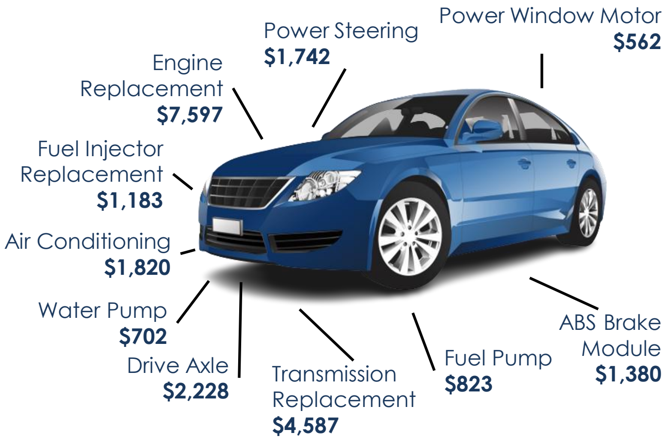
[6] United States Census Bureau
[7] FinanceBuzz
[8] Federal Reserve Bank of St. Louis (FRED)
[9] LendingTree
[10] AAA

2 AUTOMOTIVE REPAIR INFLATION

Car repair has become consumers' top financial concern, outranking healthcare costs[11]. Since August 2022, vehicle repair costs have risen 13.9% and maintenance costs 10.9%, compared to 5.6% for general inflation[12]. These increases reflect structural changes in the economics of automotive service.

Modern vehicles are more complex. The proliferation of electronic systems, advanced driver assistance technology, and hybrid and electric drivetrains have increased both diagnostic time and the cost of replacement components. A repair that was straightforward on an older vehicle may now require specialized equipment, proprietary software, and extensively trained technicians.

COMMON REPAIR EXPENSES

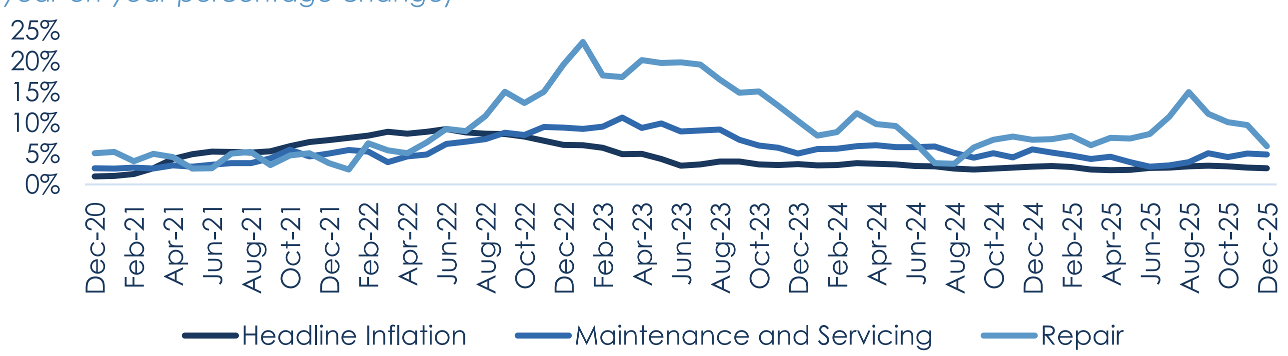


The labor market has compounded cost pressures. Technician wages have risen more than 41% since 01 due to a persistent workforce shortage that is expected to intensify[13]. Parts availability has also been constrained by supply chain disruptions and production limitations.

The cumulative effect is that some owners defer maintenance to manage short-term costs—a rational response that typically leads to more expensive failures down the road. This dynamic reinforces the value of VSCs for consumers who recognize the risk but need a structured mechanism to manage it.

AUTOMOTIVE MAINTENANCE AND REPAIR INFLATION[12]

(year-on-year percentage change)



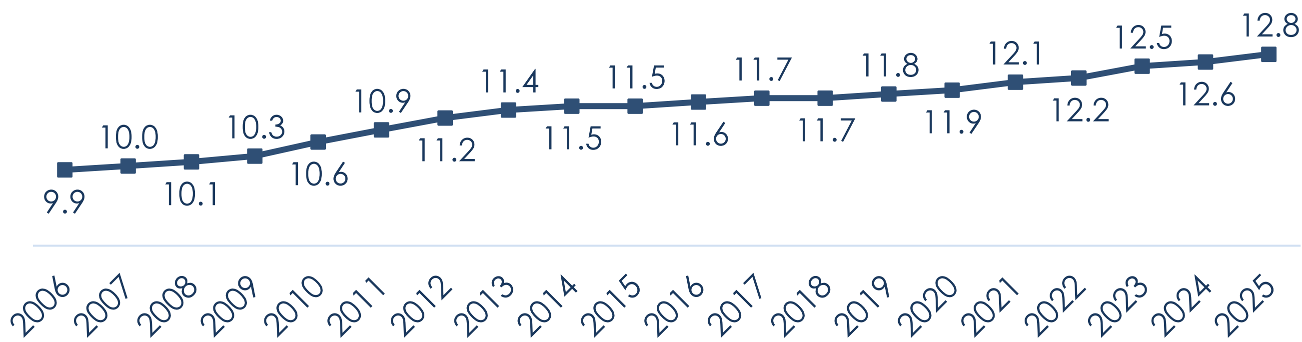
[11]Minneapolis Fed
[12]Federal Reserve Bank of St. Louis (FRED)
[13]U.S. Bureau of Labor Statistics

3 CONSUMERS ARE KEEPING THEIR CARS LONGER

As new vehicles have become less accessible, consumers are holding onto their cars longer. The average vehicle age in the U.S. is now 12.8 years old[14]. Older, higher-mileage vehicles often need more frequent and more expensive repairs.

AVERAGE AGE OF VEHICLES ON THE ROAD[14]

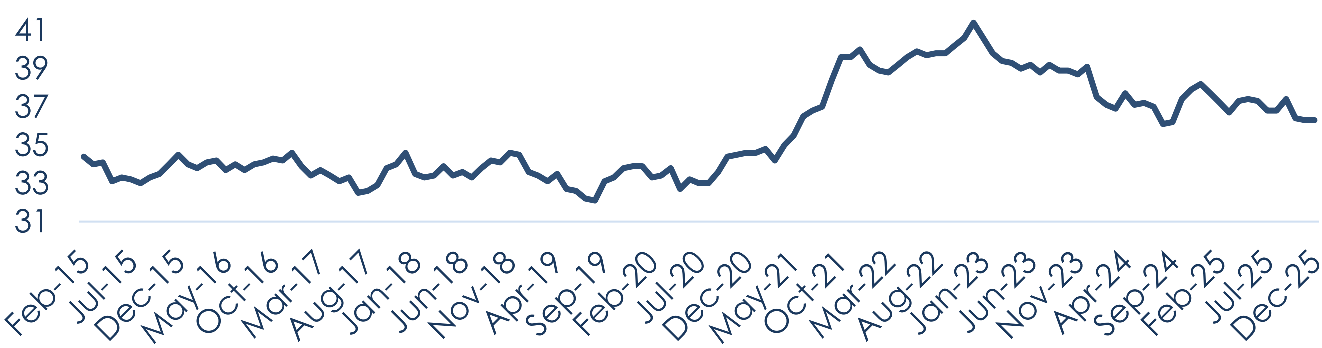
(years)



The Cox Automotive Affordability Index, which measures weeks of median income required to purchase an average new vehicle, reached 36 weeks as of December 2025—more than 8% above the historical average of 33.6 weeks recorded between 2012 and 2020. New and used vehicle prices have increased at a 4% compounded annual rate since 2019[15].

COX AFFORDABILITY INDEX[14]

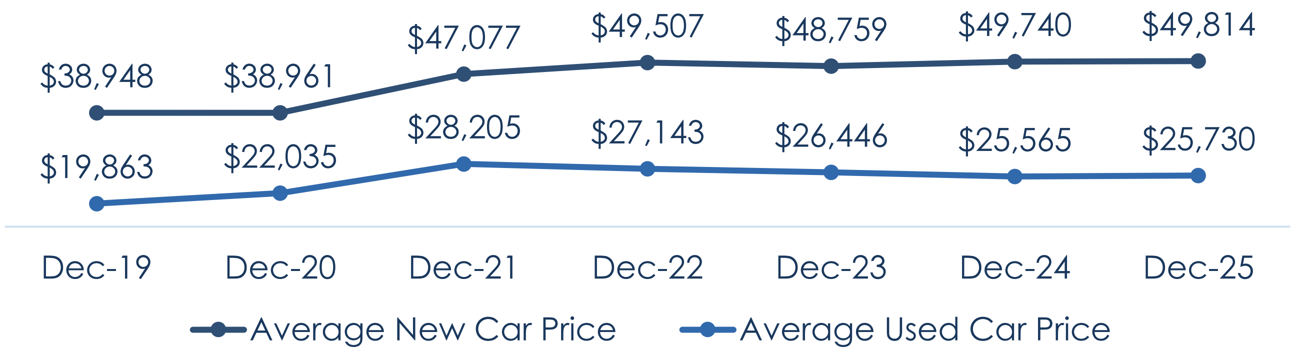
(weeks of income to purchase a new vehicle)



[14]The Zebra
[15]Cox Automotive

AVERAGE VEHICLE PRICE[16]

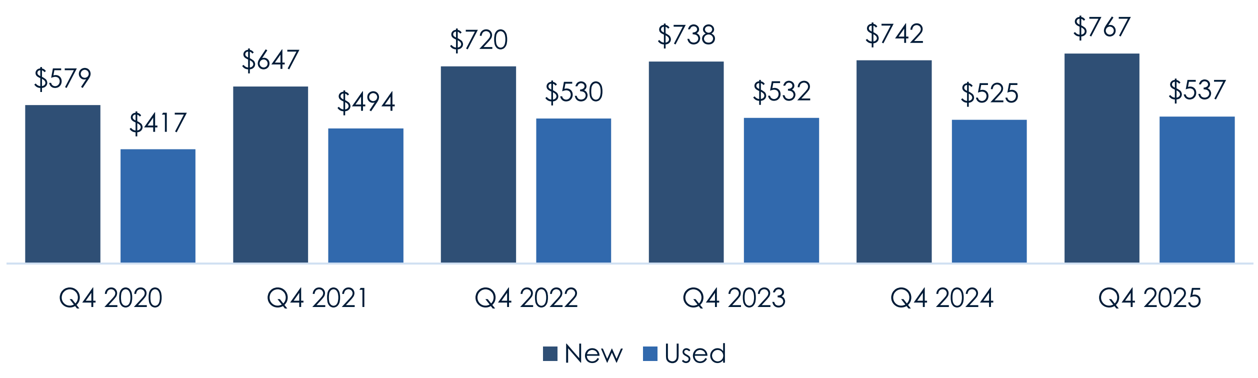
($ in actuals)



Financing has also become more burdensome. The average used vehicle loan term extended from 64 months in 2018 to 69 months in 2025[17]. Since Q4 2020, wages have grown 4.4% compounded annually[18] while used car payments have grown 5.2% and new car payments 5.8%[17]. The average vehicle owner now spends approximately 18% of monthly income on car-related expenses, including financing, insurance, and operating costs[19].

For many consumers, a new vehicle is simply not an option. Instead, they keep their existing cars longer, increasing exposure to rising maintenance costs and unexpected repair events. Extended vehicle tenure is one of the most direct structural drivers of VSC demand.

MONTHLY LOAN PAYMENT[17]



[16]Kelly Blue Book
[17]Experian
[18]U.S. Bureau of Labor Statistics
[19]MarketWatch

4 Growth in Dealer VSC Remarketing Programs

F&I revenue represents approximately 26% of average dealership gross profit[20], but only 45% of new car buyers purchase a VSC at the point of sale[21]—a significant revenue gap for the industry.

Dealer remarketing programs directly address this missed opportunity. In a typical arrangement, a DTC marketer accesses a dealership's customer database and markets VSCs to those customers using the dealership's brand identity. The marketer manages outreach via direct mail, outbound calling, and email, books the sale, and shares revenue or profit with the dealer. The arrangement combines DTC marketing infrastructure with the trust of an established dealership relationship, producing stronger response rates than cold-market outreach.

For dealers, remarketing generates incremental F&I revenue without additional headcount. It also drives VSC holders back to the service lane for covered repairs—a meaningful second-order benefit given that service represents approximately 45% of total dealership profitability[20]. For DTC operators, dealership partnerships provide access to a well-identified, high-quality prospect pool with known vehicle data and an established trust relationship—lowering customer acquisition costs and improving the lifetime economics of resulting contracts.

The growth of these programs reflects the broader maturation of the DTC VSC sector. Leading operators have built the compliance frameworks, customer service infrastructure, and operational depth required to credibly represent dealer brands at scale.

DEALER VSC REMARKETING PROGRAMS

New and Used Retail Customers

- The F&I office did not offer a VSC
- The buyer did not want to spend any more time in the dealership
- The buyer wanted to wait until the end of the original warranty or when the vehicle is older

Service Department Customers

- Accesses service department records to get contact info
- Many service department customers did not buy their vehicle from the dealership

Customers with Expiring VSCs

- Highest response and closing rate as customer has product experience

[20]Based on Q4 2025 SEC filings from AutoNation, Asbury, Group 1, Lithia, Penske, and Sonic Automotive
[21]StoneEagle

COLONNADE IS A LEADING ADVISOR TO THE AUTOMOTIVE SERVICES INDUSTRY

Mavsign was sold to 1876 Partners — COLONNADE

crystalfusion was sold to APCO Holdings — COLONNADE

Reynolds & Reynolds acquired Xzilon — COLONNADE

Reynolds & Reynolds acquired AGWS — COLONNADE

SkyAuto Protection was sold to Fortegra — COLONNADE

PMC Protect My Car was sold to Crestview — COLONNADE

Endurance was sold to TRP Capital Partners — COLONNADE

AutoAssure Extended Repair Coverage was sold to Endurance — COLONNADE

VSC Marketer was sold to Strategic — COLONNADE

Caltex was sold to Spectrum Automotive Holdings — COLONNADE

Milestone Marketing Solutions was sold to Spectrum Automotive Holdings — COLONNADE

smart autocare was sold to Tiptree Inc. — COLONNADE

openroad Lending was sold to Clarion Capital Partners, LLC — COLONNADE

APC Integrated Services Group was sold to Southfield — COLONNADE

Mepco was sold to Seabury Capital Group — COLONNADE

Streamline Recon was sold to SolutionWorks — COLONNADE

Southfield acquired Vanguard Dealer Services — COLONNADE

Automotive Development Group was sold to APCO Automobile Protection Corporation — COLONNADE

Omnisure was sold to Fortress — COLONNADE

PACCO Preferred Automobile Credit Co. was sold to AFS Acceptance Subprime Automobile Financing — COLONNADE

PWI Preferred Warranties Inc. was sold to KAR Auction Services — COLONNADE

PayLink Direct was sold to Oxford Financial Group, Ltd — COLONNADE

Mepco insurance premium financing was sold to Independent Bank — COLONNADE

Automotive Digital Marketer was sold to Private Party — COLONNADE

For more information on the Automotive Services industry, please contact:

Gina
Cocking
Managing Director
312.425.8145
gcocking@coladv.com

Jeff
Guylay
Managing Director
847.452.8315
jguylay@coladv.com

Derek
Spies
Senior Vice President
312.544.8541
dspies@coladv.com

Greg
Makoid
Vice President
312.870.6203
gmakoid@coladv.com

Jack
Collins
Vice President
312.544.8543
jcollins@coladv.com

Austin
Cambas
Associate
312.584.4252
acambas@coladv.com

COLONNADE

Colonnade Advisors LLC • 600 Cleveland Street • Suite 272
Clearwater, FL • 33755
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Sources: ANA Response Rate Report, Experian, NADA, Cox Automotive, StoneEagle, United States Census Bureau, FinanceBuzz, Federal Reserve Bank of St. Louis (FRED), LendingTree, Minneapolis Fed, U.S. Bureau of Labor Statistics, The Zebra, Kelly Blue Book, MarketWatch, public company financials, and Colonnade research