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Carousel ends year with a big deal for Driven

ADAM O'DANIEL | FINANCE EDITOR
aodaniel@bizjournals.com

Driven Brands boasts nearly 1,600 franchise locations under the Meineke brand and $900 million in annual sales.

photo KEN ELKINS

Like many Americans, Jason Schmidly hasn't bought a new car in a while. It's why he still drives a 2004 Chrysler Pacifica.

It's also why Charlotte private-equity shop Carousel Capital, where Schmidly is a managing partner, is celebrating an ahead-of-schedule exit from its investment in Charlotte-based Driven Brands Inc., the franchiser of Meineke Car Care Centers, Maaco collision-repair shops and several other automotive after-market service brands.

And that keep-the-car-you-have spirit is also why Driven Brands Chief Executive Ken Walker is happy to have a new investor willing to spend money on more growth via acquisition.

Carousel struck a deal last month to sell Driven Brands to New York private-equity firm Harvest Partners. Carousel maintains a small minority stake in the company. But Harvest is the new majority owner of the business and will provide it with capital to finance further expansion. Financial terms were not disclosed.

The deal follows three years of strong growth for Driven Brands as consumers turned to the company's franchises for auto maintenance instead of replacing aging vehicles as quickly as they did before the recession.

"Most consumers prefer to spend $200 on maintenance rather than take on thousands in new debt right now," Schmidly says. "That was the play we were thinking through, and it worked."

The recent deal is actually Carousel's second dance with Driven Brands. The investment fund was the majority owner of the company from 2003 to 2005, when it was primarily a Meineke franchiser.

Carousel purchased control of Driven Brands again in 2008 to buy Maaco and bring the venerable brand under the same roof in Charlotte as Meineke. Growth followed as recession-suffering consumers repaired and maintained aging vehicles, opening the door for more car-care centers.

The company also profited from several other after-market automotive service brands it owns, including Aero Colours, a mobile paint touch-up service, and Drive-N-Style, a mobile installer of vehicle stylings such as chrome trim and bumper upgrades.

Today, Driven Brands boasts nearly 1,600 franchise locations and $900 million in annual sales.

Schmidly admits Carousel's exit has comes sooner than the norm. Most private-equity investments last five years. But he says rapid growth gave Carousel the chance to take an early profit while also pairing Driven Brands with a partner for its next phase of expansion.

"The goal of the investment was to put (Meineke and Maaco) together and create a franchising platform across the after-market auto-servicing industry," Schmidly says. "The credit really goes to the really good management team over there. It's been a great deal for our investors twice now."

With Harvest Partners as its majority owner, Driven Brands hopes to keep growing. Walker, the CEO, says the company had nearly exhausted the capital from Carousel. To begin looking for more acquisitions, it needed deeper pockets.

"We can continue to grow organically — and we do every year — but our best option for building equity is to make acquisitions," Walker says. "Carousel has been a great partner. Harvest is just a bigger fund."

Harvest was founded in 1981. It targets equity investments of $30 million to $100 million in management buyouts, recapitalizations and growth financing of middle-market companies.

Harvest has $1.3 billion in capital under management. By comparison, Carousel has raised $600 million spread across four funds since its founding in 1996.

In a statement, Ira Kleinman, senior managing director at Harvest, says Driven Brands' "marketing approach and operational technology provides them with a distinct advantage to sustain their growth as well as take business from their competitors. We look forward to supporting Ken and the team with the financial and strategic resources that will take Driven Brands to a higher level."

Walker declines to disclose growth projections for competitive reasons. But he predicts consumers' appetite for maintaining used cars will be steady for years to come.

"I sure bet a bunch of money that it will."