



STOCKTRADES PREMIUM COMPANY SUMMARY

BOYD GROUP SERVICES

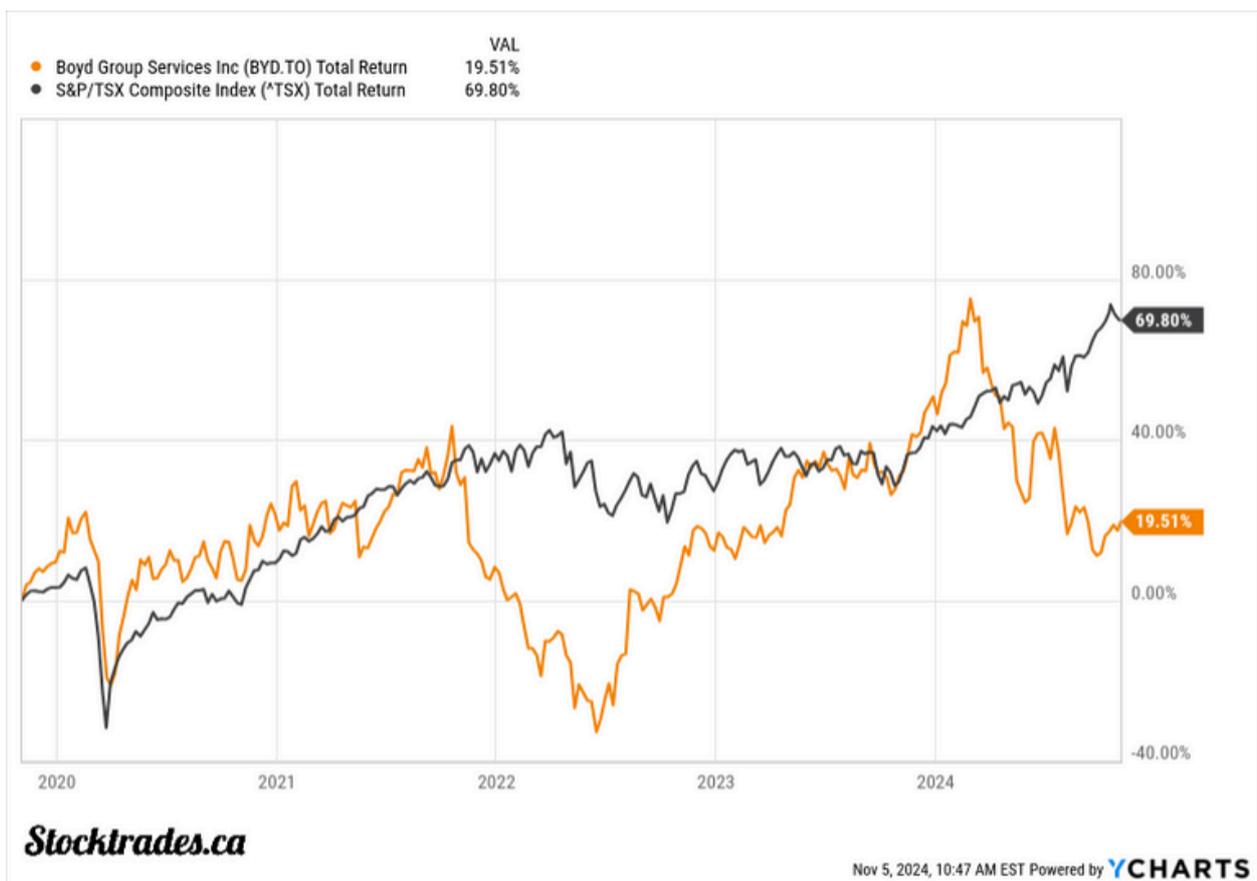
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UPDATED NOVEMBER 5, 2024

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Boyd Group Services Inc is a personal services company that provides auto body and auto glass repair services at its portfolio of facilities located across the United States and Canada. The company operates in Canada primarily under the Boyd Autobody and Glass brand name, while its most notable U.S. brand is Gerber Collision and Glass. Boyd Group is one of the largest retailers of auto glass in the United States and provides repair services to its customers both at its numerous workshop facilities and on the side of the road. The company derives the vast majority of its revenue from its activities in the United States. Nearly all of Boyd Group's revenue is contributed by a concentrated group of large insurance companies that insure its customers' automobiles.

Focus Areas	Score (0/100)	Focus Areas	Score (0/100)
Valuation	75	Dividend	48
Profitability	36	Outlook	64
Risk	40	Debt	35
Returns	42	Growth	0
Overall	45		

PROS

- Industry not prone to large economic swings
- 90% of revenue comes from insurance companies
- Company is returning to pre-pandemic growth rates
- Only publicly traded company in a highly fragmented industry
- Strong balance sheet
- 5 year growth plan has the company expecting to double the size of its business by 2025 (from 2019 levels), but could be delayed due to economic weakness
- Margin expansion continues as the company is getting a handle on labor and supply chain issues

CONS

- Company is known to miss earnings estimates
- Large amount of its revenue comes from 5 clients
- Although it is getting a handle on material costs and supply chain issues, they do still exist
- As an acquisition based company, financing costs are taking a bite out of the bottom line because of rising rates
- Soft winter conditions and falling used car valuations are impacting results temporarily

OVERALL THESIS

We like the company's business model, and because it is liquid enough to survive a crisis like COVID-19, we feel it will be able to acquire more shops and get back to pre-pandemic margins once inflation and labor headwinds subside. A recession could actually be a good thing for Boyd, as it will allow it to use its financial position to scoop up smaller, struggling shops. The company operates in a sector that, for the most part, is unscathed by economic conditions. Before COVID-19, we would have left out the "for the most part," but the pandemic made us rethink the definition of a defensive stock. Barring any future global pandemics, people need auto and glass repairs, regardless of the state of the economy. As of right now, demand is far outpacing capacity even in 2024. The company needs time to adjust to the surge in demand.

The fact that most of the company's revenue comes from insurance providers means that even during the worst of times, the company will be able to generate revenue as consumers will not have to pay out of pocket (save for deductibles) for automotive repairs. It is a positive sign that these insurers are willing to work with Boyd and increase payments, allowing Boyd to relieve some of the margin pressures. We wouldn't underestimate the growth this company can provide moving forward if it continues to execute its acquisition-based strategy as well as it has been. We like simple business models, and this is about as simple as it gets. Drive growth by acquiring mom-and-pop shops, merging them into the fold, and using the brand's strength and reputation with many insurers to drive growth.

POTENTIAL RISKS

A company that relies on growth via acquisition always runs a few risks. For one, if competition in terms of bidding enters the scene, purchasing the same properties inevitably becomes more expensive. In turn, this would drive downward pressure on Boyd's return on investment, as it would have to pay more for the same opportunity.

Another risk with Boyd is that it relies heavily on 5 major insurers in the United States. These 5 companies made up nearly 54% of the company's revenue in 2023. If Boyd were to lose one of these clients to another auto repair company, it would have a material impact on the company. As we make further

Beta	1.07
Alpha	11.22
Our Risk Rating	Mod*
Max Drawdown	53%

technological advancements, collision avoidance is at the top of many insurance and car manufacturing companies' priorities. CCC, an industry leader in estimating collision repair, forecasts that technology will reduce overall accidents by 30% over the next 30 years. This can be a long-term issue for Boyd, a company that relies on accidents to drive revenue. The company is also reporting labour, wage, and supply pressures. Although it's currently subsidizing, this has impacted EBITDA and margins negatively. The supply and labour issues are expected to be transitory, but the company must adapt to an inevitably higher wage environment. This will mean higher pay for its technicians, and it must find a way to offset costs. The longer inflation and supply chain issues persist, the longer they impact the company's margins. This is why we saw the company undergo a large drawdown in price during the worst periods of inflation.

Finally, an additional risk when it comes to acquisitions is using debt to finance those acquisitions in a high-rate environment. The impacts will be short-term but will hit the bottom line nonetheless. An acquisition-heavy company relies on its management to make prudent decisions with capital and issue/pay down debt at critical intervals to drive earnings growth in any environment. Boyd has done this thus far, but it's never guaranteed they'll continue to do so.

*Our Risk Rating: Our opinion of the overall risk an investment presents. Can be shown as Defensive (DEF), Moderate (MOD), or Aggressive (AGG). By no means is this an indication of future potential gains or lower volatility.

VALUATION

	TTM	5 Year Average	Industry Average
P/E	57	81	N/A
P/S	1.1	1.61	N/A
P/B	3.9	4.98	N/A
P/FCF	14	15.92	N/A
PEG Ratio (FWD)	1	N/A	N/A

Considering the highly fragmented nature of the industry, combined with the fact that Boyd generates a large amount of revenue from sources that are unlikely to be impacted by poor economic conditions, it has often traded at a premium valuation relative to its growth. Combine this with the fact that the company is still trying to work its way through difficulties regarding margins and weather related headwinds, and on the surface, we have a company that looks expensive.

However, when we look to earnings on a forward basis, Boyd starts to become more reasonably priced, trading at 30 times forward earnings. On a price-to-free-cash-flow basis, it sits at only 14x trailing cash flow. Why the large valuation discrepancy from earnings to cash flow? Primarily because the company has a large amount of depreciation and amortization on the income statement due to its acquisition strategy. These are taken off the net income of the company, resulting in lower earnings per share. However, from a cash flow basis, they don't impact cash flows in that year, so the P/FCF multiple will be lower.

Overall, valuing Boyd on a free cash flow basis is a better valuation measure. From this point of valuation it is trading at a double digit discount to its historical valuations, and the bulk of this is due to the fact the company is facing some temporary issues we've mentioned numerous times in this report.

The valuation gap had certainly closed prior to this recent correction due to soft results. We viewed the company as a GARP (Growth At a Reasonable Price) play, but it's now bordering on value. Cash flow generation is strong, margins are improving, and this should be able to drive growth.

COMPETITOR ANALYSIS

Boyd has no publicly traded competitors, so there isn't much need for a competitor analysis table. Its primary competition would be private autobody and auto glass shops across Canada and the United States.

DIVIDEND ANALYSIS

Annual Dividend	FCF Payout Ratio	5 Year Dividend Growth %	Dividend Growth Streak
\$0.6	3.88%	3.35%	17

Boyd is a Canadian Dividend Aristocrat with 17 consecutive years of dividend growth. However, it will not be appealing from an income standpoint as the company only yields around 0.2% at the time of the update. There is also little growth from this company.

Despite having a 17-year dividend growth streak, the 5-year dividend growth rate is only 3.35%. Instead, it chooses to use excess capital to buy up autobody shops to fuel shareholders' growth. Considering the industry is so fragmented, we'd expect this to be Boyd's strategy for the foreseeable future. Expect low, single-digit dividend growth from Boyd as it continues to utilize capital to grow the business internally.

RECENT EARNINGS

Earnings Estimates	2024	2025	2026
EPS	\$2.87	\$6.45	\$8.50
Revenue	\$4.3B	\$4.8B	\$5.3B
EBITDA	\$487M	\$621M	\$733M
EBITDA Margins	11.8%	13.2%	13.6%

Boyd continues to report soft quarters amidst economic weakness and falling used automobile prices. Revenue of \$1.041B CAD came in slightly ahead of analyst expectations. Earnings per share of \$0.21 CAD came in well below expectations of \$0.61. Boyd is well known for missing earnings expectations by a wide margin, so I'm not overly concerned with the large miss.

When we look to the industry overall, repairable claims fell by 12.6% on the quarter. Boyd, on the other hand, reported same-store sales declines of only 3.5%. Acquisitions helped boost the top line by around 2% year-over-year. However, economic headwinds are hitting the company relatively hard.

As used automobile prices continue to fall, more and more insurance companies are choosing to write off vehicles rather than get them repaired. As a result, demand for repair is falling.

In addition, lower claim volumes and deferred repairs due to weaker economic conditions are impacting sales and hitting margins.

The company has consistently stated that its outlook will stay intact, with plans to double the size of its business by 2025. This guidance was made at the end of 2019. The company stated for the first time that there may be slight delays in its growth objectives due to the weakness in overall demand.

The company has added over 41 locations this year, which is historically a low number. It stated it has scaled back acquisition activity this year to focus on the core business, an attempt to stabilize margins and keep its core business model running as efficiently as possible.

Overall, the message is still the same from me here. The company is facing some temporary headwinds that are impacting 2024 results materially. If we look to the chart above, we can see that the company's earnings are expected to rebound in a big way next year and the year after. I'm continuing to average into this company on a regular basis with a long-term view in mind.



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