

the aftermarket analyst

A PUBLICATION FOCUSED ON MERGERS, ACQUISITIONS AND CORPORATE FINANCE IN THE AUTOMOTIVE AFTERMARKET INDUSTRY

Hint to Strategic Buyers: Capital is Cheap

Private equity firms know something most other companies don't: capital is very cheap right now. Most companies would do well to revisit their cost of capital assumptions in order to more effectively compete with private equity firms in acquisitions.

A firm's cost of capital is typically understood to be the weighted-average cost of its debt and equity obligations. Cost of capital assumptions are very important for companies in assessing the viability of new projects such as acquisitions. The cheaper the capital, the more a firm can afford to pay to make a deal happen.

The U.S. government's cost of capital is near all-time lows with the 10-year bond yielding 4.5 percent. When year-over-year headline inflation of 4.3 percent is factored in, real interest rates are close to zero.

Leveraged bank loan and high yield bond rates currently stand at 6.26 percent and 7.90 percent, respectively. These rates represent very tight credit spreads by historical standards.

Some economists have postulated that these amazingly low interest rates have been caused by a global savings glut and foreigners' willingness to finance America's trade deficit.

Whatever the reason, most private equity firms figured out some time ago that the capital they manage is relatively cheap to raise. Consequently, these firms have adjusted their acquisition pricing by paying higher prices for companies and accepting lower rates of return on their

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Capstone President to Speak on State of M&A and Financing at SEMA Show

Dan Smith, Capstone's President and Founder, will speak at the SEMA Show next month in an educational seminar entitled, "The State of Mergers, Acquisitions, and Financing in the Automotive Aftermarket."

During the presentation, Dan will address the following topics:

- Demographic and economic trends affecting deal making in the industry;
- Hot aftermarket segments and why investors are chasing them;
- What buyers and investors are looking for; and
- Recent developments in financing, including bank debt and mezzanine debt.

Dan's presentation this year will be significantly different from last year's as he delves more deeply into "real life" examples of recent deals done in the industry. Furthermore, he will share insights from conversations he has had with literally dozens of private equity investors who are currently looking to buy a company in the industry.

Anyone who wants to know what's going on in corporate finance and M&A in the automotive aftermarket is encouraged to attend.

The event will take place Thursday, November 3rd from 2:00PM to 3:30PM in the Las Vegas Convention Center in room N253.

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RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

An- nounce	Acquirer/Investor(s)	Target	Target Description	Firm Value (\$mil.)	Rev. FV / Rev.	EBITDA FV / EBITDA
10/17/2005	ArvinMeritor	Carlisle Braking Products	Manufacturer of off-highway brakes	39.0	—	—
10/17/2005	Blue Magic	North American Oil Co.	Manufacturer of automotive specialty chemicals including cleaners, tire care, and performance products	—	—	—
10/7/2005	White Oak Capital, and M.P.Gilles & Associates	Comptech	Manufacturer of Honda and Acura performance parts	—	—	—
10/5/2005	The Parts House (TPH Acquisition)	Automotive Parts and Machine	Seven-store wholesale distributor of auto parts to the professional installer	—	—	—
10/3/2005	Pick-N-Pull Auto Dismantlers (Schnitzer Steel)	GreenLeaf Auto Recyclers	Auto dismantling and recycling business that sells reclaimed auto parts to collision and mechanical repair shops	22.5	—	—
9/30/2005	Jordan Automotive Aftermarket Inc.	Coolstar	Manufactures automotive, heavy truck, off-road, agricultural, aircraft and military air conditioning evaporators and hose assemblies	—	—	—
9/30/2005	Illinois Tool Works	Auto Wax Co.	Manufacturer of professional automotive reconditioning and refinishing products marketed under the Auto Magic, Clay Magic, and Body Magic brands	—	—	—
9/23/2005	The Carlyle Group	AxleTech International Corp.	Manufacturer of heavy-duty axles, brakes, and after-market parts	350.0	—	38.9 9.00x
9/20/2005	Sumitomo Corporation	TBC Corporation	Marketers of automotive replacement tires in the U.S.	1,100.0	1913.8 0.57x	105.3 10.45x
9/19/2005	Allied Lube, Inc.	68 Jiffy Lube International-owned service centers in the greater Houston, Dallas - Fort Worth and San Antonio	Fast oil-change service provider	—	—	—
9/15/2005	Advance Auto Parts, Inc.	Autopart International, Inc.	Provides replacement automotive parts to the growing do-it-for-me commercial market, as well as to warehouse distributors and jobbers	—	90.0	—
9/14/2005	The Anderson Group	Hastings Manufacturing	Manufacturer of piston rings	—	—	—
9/7/2005	Parker Hannifin Corp.	Filtran Aftermarket Products Inc.	Supplier of aftermarket components used in the rebuilding of automotive transmissions	—	33.0	—
9/2/2005	LKQ Corp.	Independent Auto Parts and Mid-State Aftermarket Parts	Provide collision automotive replacement parts	13.7	16.6 0.80x	—
9/1/2005	A team of Autospecialty executives	Power Stop line of performance brake products	Manufacturer of performance friction, rotors, caliper, and ceramic brake pads	—	—	—
9/1/2005	Fisher Auto Parts	Cap's Auto Parts	Distributor of auto parts with over 300 locations	—	—	—
9/1/2005	Linsalata Capital Partners	Transtar Industries	Distributor of aftermarket transmission repair parts and a manufacturer of automotive refinishing products	—	250.0 —	—
8/23/2005	Graham Partners and Allied Capital Corp.	Line-X Spray-On Bed Liners	Manufacturer of spay-on truck bed liners	—	—	—
8/22/2005	Terry Seikel and Crystal Ridge Partners	A.R.E., Inc. (minority investment)	Manufacturer of fiberglass truck caps and hard tonneau covers	—	—	—
8/15/2005	Eaton Corp.	Tractech Holdings Inc	Manufactures highly specialized traction-modifying differentials and centrifugal clutches for the agricultural, construction, medium- and heavy-duty truck, military, and specialty vehicle markets	54.0	43.0 1.26x	—

(Cost of Capital, Continued from page 1)

investments.

They can afford to do this because 75 percent of the capital they employ is debt, which offers significant tax efficiencies — reducing their blended cost of capital.

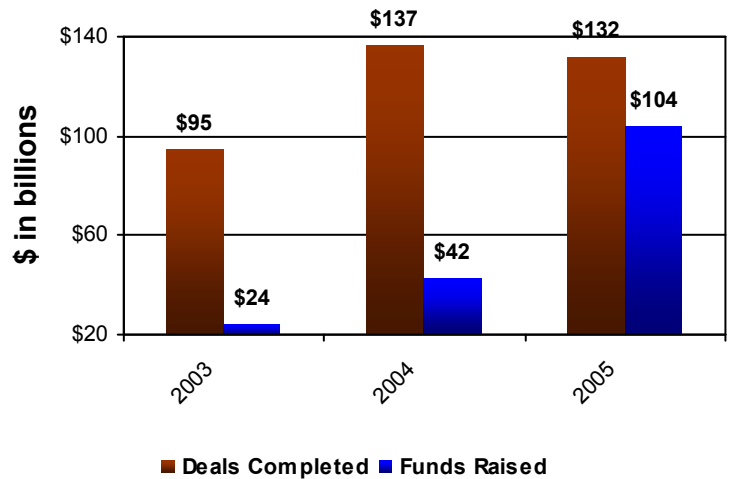
Strategic buyers, however, have yet to catch on and have been losing competitive auctions much more often than they have in the past.

Presently, most companies are fixated on a cost of capital of 10 percent. However, the figure they should be using is closer to 6 or 7 percent.

With many corporate balance sheets as strong as they've been in decades, companies can afford to take on more debt and reduce their after tax cost of capital to the 6 to 7 percent range — making them more competitive with private equity firms.

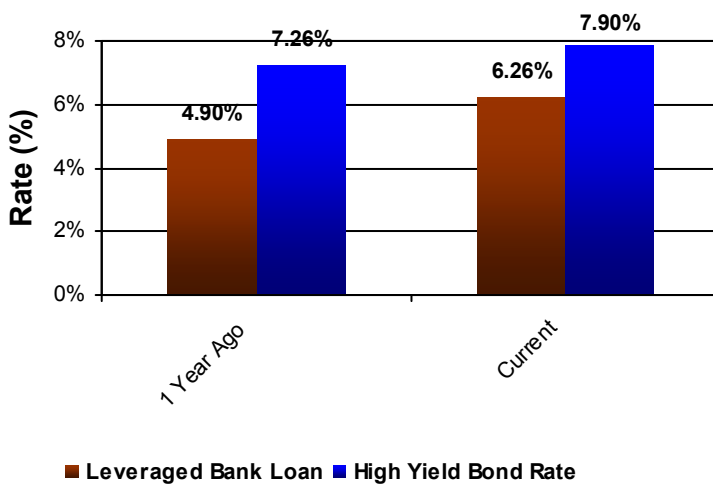
Buyout Fund Market

(Source: Buyouts)



Deal Debt Financing Rates

(Source: Portfolio Management Data)



About Capstone

Capstone Financial Group is an investment banking firm which assists owners of middle market companies with their financial needs - including mergers and acquisitions, recapitalizations, private placements, divestitures, and other financial advisory services. Capstone is backed by a highly experienced and knowledgeable team of financial professionals with firsthand knowledge of starting, operating, growing, and selling middle market companies. Visit us online at www.capfg.com.

Selected Public Company Capitalization and Operating Figures
(\$ in millions, except per share data)

Company	Enterprise Value					Last Twelve Months (LTM)			
	Price as of 10/19/05	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
Manufacturers									
Tenneco Automotive Inc.	\$17.30	\$759.9	\$1,412.0	\$66.0	\$2,176.8	6/30/05	\$4,348.0	\$369.0	\$25.6
Standard Motor Products, Inc.	8.32	165.1	293.0	6.2	451.9	6/30/05	818.3	27.2	(4.9)
Aftermarket Technology Corp.	17.10	367.5	94.0	10.1	457.1	6/30/05	411.5	65.8	30.3
R&B, Inc.	10.19	182.7	40.5	2.1	223.5	6/25/05	259.1	33.7	16.5
Proliance International, Inc.	5.00	76.3	50.7	0.3	127.3	6/30/05	265.6	14.2	3.2
Wholesalers & Distributors									
Genuine Parts Company	\$42.30	\$7,362.8	\$500.9	\$260.5	\$7,723.5	6/30/05	\$9,420.4	\$724.9	\$411.8
LKQ Corporation	28.69	609.0	56.5	2.3	731.6	6/30/05	489.6	51.8	25.6
Keystone Automotive Industries, Inc.	27.40	436.2	1.1	5.9	440.6	7/1/05	561.4	31.5	15.5
The Coast Distribution System, Inc.	6.00	27.1	28.1	0.5	55.8	6/30/05	172.6	7.9	3.4
Retailers									
Autozone, Inc.	\$81.10	\$6,263.8	\$1,914.5	\$77.4	\$8,436.7	5/7/05	\$5,664.4	\$1,119.0	\$573.8
Advance Auto Parts, Inc.	37.57	4,112.6	479.7	175.9	4,474.6	7/16/05	4,020.5	493.2	219.8
O'Reilly Automotive, Inc.	26.87	3,004.5	101.1	36.5	3,069.1	6/30/05	1,870.2	268.2	132.8
The Pep Boys - Manny, Moe & Jack	13.48	729.3	469.3	12.7	1,186.9	7/30/05	2,255.0	104.2	(4.5)
CSK Auto Corporation	14.81	668.8	495.7	97.7	1,075.5	5/1/05	1,577.6	127.3	34.1

Selected Public Company Multiples and Operating Statistics

Company	Enterprise Value /					P / E Ratio	Margins		
	Revenue	EBIT	EBITDA	Free Cash Flow (2)	Net Income		Gross Margins	EBITDA Margins	Net Margins
Manufacturers									
Tenneco Automotive Inc.	0.5x	11.4x	5.9x	9.5x	85.0x	29.7	15.5%	8.5%	0.6%
Standard Motor Products, Inc.	0.6x	53.3x	16.6x	26.5x	NM	NM	21.9%	3.3%	NM
Aftermarket Technology Corp.	1.1x	8.9x	7.0x	9.0x	15.1x	12.1	25.1%	16.0%	7.4%
R&B, Inc.	0.9x	7.8x	6.6x	10.1x	13.5x	11.1	36.5%	13.0%	6.4%
Proliance International, Inc.	0.5x	15.2x	9.0x	17.7x	39.7x	23.8	20.0%	5.3%	1.2%
Mean	0.7x	19.3x	9.0x	14.6x	38.3x	19.2x	23.8%	9.2%	3.9%
Median	0.6x	11.4x	7.0x	10.1x	27.4x	18.0x	21.9%	8.5%	3.8%
Wholesalers & Distributors									
Genuine Parts Company	0.8x	11.7x	10.7x	12.1x	18.8x	17.9	31.3%	7.7%	4.4%
LKQ Corporation	1.5x	16.6x	14.1x	20.4x	28.6x	23.8	45.1%	10.6%	5.2%
Keystone Automotive Industries, Inc.	0.8x	19.0x	14.0x	17.6x	28.5x	28.2	43.8%	5.6%	2.8%
The Coast Distribution System, Inc.	0.3x	7.9x	7.0x	7.6x	16.2x	7.9	18.6%	4.6%	2.0%
Mean	0.9x	13.8x	11.5x	14.4x	23.0x	19.4x	34.7%	7.1%	3.6%
Median	0.8x	14.1x	12.3x	14.8x	23.6x	20.8x	37.5%	6.7%	3.6%
Retailers									
Autozone, Inc.	1.5x	8.5x	7.5x	9.8x	14.7x	10.9	49.1%	19.8%	10.1%
Advance Auto Parts, Inc.	1.1x	11.8x	9.1x	15.9x	20.4x	18.7	47.1%	12.3%	5.5%
O'Reilly Automotive, Inc.	1.6x	14.3x	11.4x	41.5x	23.1x	22.6	43.3%	14.3%	7.1%
The Pep Boys - Manny, Moe & Jack	0.5x	44.4x	11.4x	NM	NM	NM	25.6%	4.6%	NM
CSK Auto Corporation	0.7x	11.9x	8.5x	10.8x	31.6x	19.6	46.0%	8.1%	2.2%
Mean	1.1x	18.2x	9.6x	19.5x	22.4x	18.0x	42.2%	11.8%	6.2%
Median	1.1x	11.9x	9.1x	13.4x	21.7x	19.2x	46.0%	12.3%	6.3%

(1) Enterprise Value equals market cap, plus debt, minus cash

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful