



# AFTERMARKET ANALYST

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

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Happy Holidays  
to All

And our best  
wishes for a  
healthy and  
prosperous  
New Year

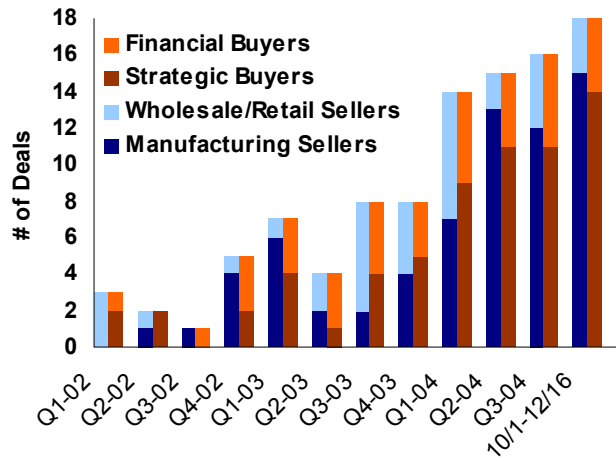
If you would like to receive an electronic or hard copy of the *Aftermarket Analyst* or more information on the capital markets as they relate to the *Automotive Aftermarket*, please contact Jon Taylor, Senior Associate, Capstone Financial Group at (843) 689-6450 or jon@capfg.com.

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## AFTERMARKET DEALMAKING SURGE CONTINUES

The auto aftermarket has seen a steady increase in mergers and acquisitions throughout the year. Through mid-December, 63 deals have been transacted, a nearly 2.5 fold increase over last year's record setting volume of 27 transactions.

Although private equity groups are still very active in the industry, strategic buyers have ratcheted things up in a big way this year, completing 44 deals so far in 2004 – nearly triple what they did in 2003.



Not surprisingly, the number of manufacturer sellers moved in tandem with manufacturer buyers, swelling from 14 in 2003 to 47 in 2004.

## 10 TURNAROUND STRATEGIES FOR REBUILDING CORPORATE VALUE

There are numerous pitfalls in how distressed companies approach the process of repairing their broken businesses. Here are 10 strategies that can help businesses avoid problems and rebuild corporate value:

**1) Plan Ahead**  
A company should set a specific course of action before running off to Bankruptcy Court. An agenda of what the bankruptcy filing should accomplish and how those goals will be achieved should be prepared. Before a petition commencing a Chapter 11 case is filed, a Plan of Reorganization should be drafted. Although this first draft is unlikely to be acceptable to a company's

creditors, it serves as a good starting point and will improve the efficiency of the bankruptcy case. Planning a company's exit from Chapter 11 before filing puts a debtor in a better position to reduce the time spent in bankruptcy and minimizes the costs of the process.

**2) Seek Help Early**  
Too often, distressed businesses file Chapter 11 before determining whether the costs and risks associated with the process outweigh other options, such as negotiating an arrangement with creditors outside of court or even closing the company. Business owners are frequently in denial regarding

the status of their companies and delay seeking critical assistance.

Often, the result of such a delay is that by the time management accepts that it needs outside help, it is too late to save the company. Management must understand that just as it is appropriate to seek a second opinion on medical advice, it is sound to seek second opinions on business advice. If a company is not performing as management believes it should, it should seek help promptly—before it is too late.

**3) Minimize Expenses**  
Professional fees quickly

(Continued on page 3, See "Turnaround")



## RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce	Acquirer/Investor	Target	Target Description
12/10/2004	JH Partners LLC	Bell Automotive Products Inc.	Maker of automotive air fresheners, drink holders, cargo racks, cell phone accessories and license plate frames among other items
12/1/2004	The Carlyle Group	Rhythm Corp.	Manufacturer of auto parts
12/1/2004	PartSource	Diamond Auto Parts	Retailer of auto parts and accessories
11/30/2004	American Capital Strategies Ltd.	BBB Industries Inc.	Remanufacturer of starters and alternators for the automotive aftermarket
11/23/2004	Quantum Fuel Systems Technologies Worldwide Inc.	Starcraft Corporation	Supplier OEM and auto aftermarket parts and accessories
11/16/2004	Keystone Automotive Industries, Inc.	Chambers Parts Distributors	Distributor of collision auto parts
11/15/2004	Kevin Kalkhoven and Gerald Forsythe	Cosworth Racing, Inc.	Manufacturer of automotive racing engines and components
11/11/2004	Octagon Holdings	Manik Motors	Manufacturer of off-road accessories
11/8/2004	The Henkel Group	Orbseal, LLC	Manufacturer of automotive adhesives and sealants
11/8/2004	Truck Accessory Group (J.B. Poindexter & Co.)	Pace Edwards Company	Manufacturer and marketer of retractable tonneau covers for use on pick-up trucks
11/8/2004	VIS Racing	Wings West	Manufacturer of auto aftermarket aerodynamics
11/4/2004	BorgWarner Inc.	Beru AG	Supplier of diesel cold start technology, ignition technology, electronics and sensors
11/4/2004	Cash Technologies	Tomco Auto Products	Manufacturer of fuel system components
11/2/2004	SPX Corp.	AutoXray	Manufacturer of automotive testing equipment and instrumentation
11/1/2004	Kohlweiss Auto Parts	Dealers' Truck Parts	Internet and mail order retailer of light- and medium-duty auto parts
10/29/2004	Transpro Inc.	Modine Manufacturing Co.'s aftermarket business	Manufactures replacement radiators, heaters, air conditioning components and other products for automotive, truck and industrial applications
10/29/2004	Modine Manufacturing Co.	Transpro's heavy-duty original equipment business	Manufactures heat exchangers for the heavy-duty truck and industrial original equipment markets
10/27/2004	Candover	Thule AB	Manufacturer of car racks and boxes
9/29/2004	Core Molding Technologies, Inc.	Keystone Restyling Products, Inc.	Manufacturer and distributor of fiberglass reinforced products for the automotive aftermarket industry
9/20/2004	Cravey, Green & Wahlen	TruckPro, Inc.	Distributor of aftermarket parts for heavy duty trucks

## Turnaround

(Continued from page 1)

accumulate over the course of a bankruptcy case. The costs for attorneys, accountants and others are often a drain on limited resources of the company these professionals are attempting to revitalize. While the services of such professionals are vital in facilitating a recovery, it is crucial that their costs do not outweigh the benefits of using them.

Too often, clients consume enormous amounts of a professional's time, only to be truly surprised at how costs have escalated. Both the professionals and clients involved must remain sensitive to these issues. While it is important to maintain full and open dialogue, it is also important to remember that the dialogue must bring value to the process.

### 4) Evaluate The Corporate Structure

No aspect of the corporate structure is immune from a complete productivity review, especially the management team. Even if the top executive is the founder of the business, it does not mean the founder's vision should prevail in the current circumstances.

Effective owner-managers must remain open to the idea of stepping aside if that is best for the company. Similarly, a company must evaluate its employees, especially middle managers, to determine if they are truly necessary. Excess payroll often is a key issue that prevents a floundering company from resuscitating.

**5) Pick Battles Carefully**  
A troubled company should fight only those battles that, if successful, result in real gains. For example, why expend resources to

challenge a particular creditor's claim when the overall amount available to divide among creditors is a fixed sum? Often, it is more cost-effective to pay an obligation that a company may not believe it owes because the cost in terms of legal expenses and the potential drain on the business' resources cannot be justified.

In the end, the attorneys, accountants and restructuring professionals for a distressed company are its best advisors for identifying battles that must be fought and those that should be avoided. If these professionals are not on board with the company's litigation strategy, the business should either change how it approaches a situation or find new advisors.

### 6) Dispose Of Excess Baggage

After a business has been evaluated and a new plan and objectives have been formulated, it is time for decisive action. Unneeded assets should be sold at the highest achievable price using all available methods. A company in Chapter 11 should take advantage of its ability to reject contracts to shed its burdens under unfavorable executory agreements. A company also should consider whether it can take advantage of economies of scale and scope through restructuring. The manpower, intellect, skills, and tools are similar and the cost of expanding one business is less than that for having two distinct corporations handle similar tasks. Although they may appear to be similar, some businesses may not fit well together. The roots of a business' distress may even be overexpansion and a failure to meld acquired businesses to work as a

unit. While a merger might help a struggling company to right itself, so too might a divestiture.

### 7) Control The Budget

While there is no steadfast approach to budgeting, once a company has filed for bankruptcy protection, it is no longer being operated for the benefit of shareholders. Instead, an insolvent company is operated for the benefit of creditors.

Such a company should work with its creditors, not against them. Creditors will be scrutinizing the company's budget to ensure that it is not wasting assets. The Bankruptcy Court judge involved will have similar sensitivities. Management should not be greedy, keeping in mind that its budget must be used to maximize value for its creditors.

### 8) Increase Employee Productivity

A business in trouble should find ways to increase employee productivity. While they are important, employee concessions alone will not ensure a successful reorganization. Incentives, such as bonuses or even promises of continued employment once a company is back on track, must be provided to encourage employee buy-in for concessions and increased productivity.

Employees are the most valuable intangible any company has. Management should keep employees apprised of the status of the bankruptcy process. No news will often be interpreted as bad news, so regular updates are important. When there is bad news, employees should hear it first from company management, who must be sure to explain what the news means to them. Keeping employees

up to speed on the process helps ensure their buy-in for the process.

### 9) Be Realistic And Flexible

Sometimes, the best way to rebuild corporate value is to stop the bleeding and close the doors. Some companies will never be successful. Just as it may be best to dispose of burdensome assets, it may make sense to establish a strategic alliance with another company—even if that means selling the company to a competitor, a related business, or some other acquiring entity.

### 10) Rely On Turnaround Professionals

The management group that was in charge as a company deteriorated into bankruptcy is unlikely to be in a position to lead a successful recovery. It is doubtful that this group can cure the company's problems without outside help. That is not to say that prior management has no role in the future of the company—it may very well be competent and capable of operating a going concern once the business is back on track.

Fresh eyes are needed first to evaluate whether there is a business that can be saved and then determine how to go about saving it. In most instances, existing management is protective of its initiatives and defensive with respect to its errors. However, turnaround professionals bring valuable advice into these situations and provide experience in dealing successfully with the process. Without them, a company's chances of recovery diminish.

This article was written by Jeffrey A. Wurst from Ruskin, Moscou Faltischek, P.C. and is reprinted with permission from the October 2004 issue of The Journal of Corporate Renewal, © Turnaround Management Association.

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

Company	Enterprise Value					Last Twelve Months (LTM)			
	Price as of 12/17/04	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
<b>Manufacturers</b>									
Tenneco Automotive Inc.	16.60	704.2	1,423.0	203.0	2,009.0	10/31/04	4,079.0	369.0	33.2
Decoma International Inc.	11.20	935.3	497.9	73.3	1,337.4	9/30/04	2,636.8	237.8	70.1
Standard Motor Products, Inc.	15.80	312.6	226.1	16.9	524.3	9/30/04	805.8	45.1	9.9
Aftermarket Technology Corp.	16.72	349.7	112.5	8.8	465.4	9/30/04	394.6	53.0	22.2
R&B, Inc.	24.41	217.1	35.2	8.3	261.4	9/25/04	240.0	34.1	16.9
Transpro, Inc.	6.29	44.7	44.0	0.5	89.3	9/30/04	256.2	11.7	1.4
Motorcar Parts of America, Inc.	8.70	71.1	1.5	10.7	66.2	6/30/04	156.7	12.5	5.9
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	\$42.54	\$7,428.8	\$1,419.9	\$284.7	\$8,703.4	9/30/04	\$8,929.2	\$684.2	\$386.0
TBC Corporation	26.45	588.9	300.6	3.2	919.0	9/30/04	1,737.5	94.2	36.3
LKQ Corporation	20.04	405.8	36.3	3.1	478.7	9/30/04	395.2	38.5	18.5
Keystone Automotive Industries, Inc.	22.03	344.0	1.5	4.2	350.9	10/1/04	534.9	33.2	17.3
The Coast Distribution System, Inc.	6.97	32.2	22.5	1.2	55.6	9/30/04	169.9	9.7	4.6
<b>Retailers</b>									
Autozone, Inc.	\$89.25	\$7,120.9	\$0.0	\$0.0	\$7,507.9	8/28/04	\$5,637.0	\$1,105.6	\$566.2
Advance Auto Parts, Inc.	42.22	3,104.4	386.8	27.5	3,596.1	10/9/04	3,742.8	447.4	195.7
O'Reilly Automotive, Inc.	43.55	2,404.3	101.1	83.6	2,493.4	9/30/04	1,660.7	231.4	116.9
The Pep Boys - Manny, Moe & Jack	15.60	857.8	477.4	35.2	1,316.4	10/30/04	2,248.4	154.1	34.8
CSK Auto Corporation	15.37	691.6	501.3	54.7	1,146.1	10/31/04	1,579.9	159.4	54.7

**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
<b>Manufacturers</b>									
Tenneco Automotive Inc.	0.5x	10.3x	5.4x	8.5x	60.5x	21.2	16.1%	9.0%	0.8%
Decoma International Inc.	0.5x	9.6x	5.6x	9.1x	19.1x	13.3	13.4%	9.0%	2.7%
Standard Motor Products, Inc.	0.7x	19.5x	11.6x	14.5x	53.1x	31.7	25.3%	5.6%	1.2%
Aftermarket Technology Corp.	1.2x	11.7x	8.8x	12.1x	21.0x	15.7	24.1%	13.4%	5.6%
R&B, Inc.	1.1x	8.9x	7.7x	11.6x	15.5x	12.9	38.0%	14.2%	7.0%
Transpro, Inc.	0.3x	15.6x	7.6x	14.7x	63.6x	31.9	18.1%	4.6%	0.5%
Motorcar Parts of America, Inc.	0.4x	6.5x	5.3x	5.3x	11.2x	12.1	14.5%	8.0%	3.8%
<b>Mean</b>	<b>0.7x</b>	<b>11.7x</b>	<b>7.4x</b>	<b>10.8x</b>	<b>34.9x</b>	<b>19.8x</b>	<b>21.4%</b>	<b>9.1%</b>	<b>3.1%</b>
<b>Median</b>	<b>0.5x</b>	<b>10.3x</b>	<b>7.6x</b>	<b>11.6x</b>	<b>21.0x</b>	<b>15.7x</b>	<b>18.1%</b>	<b>9.0%</b>	<b>2.7%</b>
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	1.0x	14.1x	12.7x	13.9x	22.5x	19.2	30.9%	7.7%	4.3%
TBC Corporation	0.5x	13.2x	9.8x	13.2x	25.3x	16.2	37.3%	5.4%	2.1%
LKQ Corporation	1.2x	14.9x	12.4x	35.4x	25.8x	21.9	44.9%	9.7%	4.7%
Keystone Automotive Industries, Inc.	0.7x	13.5x	10.6x	15.8x	20.3x	19.9	43.6%	6.2%	3.2%
The Coast Distribution System, Inc.	0.3x	6.4x	5.8x	6.2x	12.0x	6.9	19.0%	5.7%	2.7%
<b>Mean</b>	<b>0.7x</b>	<b>12.4x</b>	<b>10.2x</b>	<b>16.9x</b>	<b>21.2x</b>	<b>16.8x</b>	<b>35.2%</b>	<b>6.9%</b>	<b>3.4%</b>
<b>Median</b>	<b>0.7x</b>	<b>13.5x</b>	<b>10.6x</b>	<b>13.9x</b>	<b>22.5x</b>	<b>19.2x</b>	<b>37.3%</b>	<b>6.2%</b>	<b>3.2%</b>
<b>Retailers</b>									
Autozone, Inc.	1.3x	7.5x	6.8x	8.2x	13.3x	12.6	48.9%	19.6%	10.0%
Advance Auto Parts, Inc.	1.0x	10.6x	8.0x	12.3x	18.4x	15.9	46.3%	12.0%	5.2%
O'Reilly Automotive, Inc.	1.5x	13.2x	10.8x	36.3x	21.3x	20.6	42.7%	13.9%	7.0%
The Pep Boys - Manny, Moe & Jack	0.6x	15.2x	8.5x	14.5x	37.8x	24.6	28.2%	6.9%	1.5%
CSK Auto Corporation	0.7x	9.3x	7.2x	8.3x	21.0x	12.7	48.0%	10.1%	3.5%
<b>Mean</b>	<b>1.0x</b>	<b>11.2x</b>	<b>8.3x</b>	<b>15.9x</b>	<b>22.3x</b>	<b>17.3x</b>	<b>42.8%</b>	<b>12.5%</b>	<b>5.5%</b>
<b>Median</b>	<b>1.0x</b>	<b>10.6x</b>	<b>8.0x</b>	<b>12.3x</b>	<b>21.0x</b>	<b>15.9x</b>	<b>46.3%</b>	<b>12.0%</b>	<b>5.2%</b>

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful