

the aftermarket analyst

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

If It Were Easy, Everyone Would Be Doing It

When you consider everything that can go wrong in the course of selling or recapitalizing a company, it's a marvel that any ever makes it to closing.

While buyers have their share of shortcomings, sellers have problems as well. Below are some of the more common seller-driven issues that can deep six even the most promising transaction.

Unrealistic expectation of value. Although many business owners are highly skilled managers, product developers, and salespeople, few have an accurate idea of what a qualified investor would actually pay for their company. This is understandable because many have simply never gone through the process of selling a company themselves.

Business owners' naiveté about the business valuation process usually leads them to focus on the wrong aspects of their company when trying to derive a value. Most often, these aspects tend to give an upward bias to the valuation.

Once an owner has this arbitrary and inflated figure in their mind, it can be difficult for them to let go of it. However, if the seller is unwilling to adjust their expectations, the deal may not happen at all.

No sense of urgency. Many sellers fail to understand that their deal has a finite shelf life. They do not realize that buyers — especially private equity

groups — have short attention spans.

If a seller is slow to produce documentation, provide answers to questions, or make reasonable concessions, buyers quickly lose interest and move on to the next deal.

The fact is, most qualified buyers look at literally thousands of deals each year and pick only a handful to pursue. Companies that are "high maintenance" or require a great deal of hand holding are deemed not worth their time because there are always plenty of other deals to work on.

Lack of flexibility. In order to get the best possible deal for shareholders, flexibility is key. This is especially true when working with financial buyers who like to see management stay on post-transaction and maintain a substantial ownership stake.

Owner-managers who want to sell 100 percent of their business and leave six months later won't get the best offer from these groups. However, if owner-managers want to stay on for the foreseeable future and rollover some of their equity, financial buyers tend to be the best partners.

Type of consideration is another important area where preferences can be traded off for increased value. For example, if a seller is willing to take non-cash consideration like a note, stock, or an earnout, a higher purchase price is almost always achievable with greater certainty of closure.

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RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor(s)	Target	Target Description	Firm Value (\$mil.)	Rev. FV / Rev.	EBITDA FV / EBITDA
12/16/2005	Bear Stearns Merchant Banking	Transamerican Auto Parts Company Inc.	Retailer and distributor of specialty aftermarket parts and accessories for light trucks, Jeeps, sport utility vehicles and other four-wheel drive vehicles	100.0	—	—
12/6/2005	LKQ Corporation	A-Reliable Auto Parts	Operates from three locations, two that sell primarily into the retail market and one that sells into the professional repair market	—	26.9	—
12/1/2005	CSK Auto Corp.	Murray's Inc.	Operates 109 auto parts retail stores throughout the Midwest	170.0	235.0 1.38x	—
11/29/2005	Uni-Select USA, Inc.	The Kunz Oil Company	Operates a distribution center and three branch locations for automotive replacement parts in Minneapolis, Minnesota and adjoining suburbs	—	10.0	—
11/18/2005	Falconhead Capital LLC	ESCORT Inc.	Manufacturer of mobile electronics including radar and laser detectors	—	—	—
11/17/2005	MSD Ignition	Racepak	Manufacturer of data acquisition systems for the performance and motorsports industry	—	—	—
11/17/2005	LKQ Corporation	Advanced Auto Recycling, Inc.	Operates a recycled OEM automotive replacement parts facility	—	—	—
11/15/2005	Kohlberg Kravis Roberts & Co. LP	FL Selenia SPA	Manufacturer of automotive lubricants	—	—	—
11/15/2005	Keystone Automotive Operations, Inc.	Reliable Automotive	Distributes over 300 automotive product lines nationally to over 15,000 customers via ten warehouse facilities and seven sales offices	—	—	—
11/14/2005	Painless Performance Products	Fastrak Performance Products	Manufacturer of fuel cells and performance shifters	—	—	—
11/2/2005	Plaze Inc., a portfolio company of AEA Investors	Claire-Sprayway Inc.	Makes branded and private-label cleaning agents, disinfectants, air fresheners, adhesives, lubricants, insecticides and automotive detail products	—	—	—
11/1/2005	Parker Hannifin	TTxe	Supplier of hard parts for the automotive transmission aftermarket including Roadmaster (TM) products	—	—	—
10/31/2005	Bell Automotive Products Inc.	Victor Products, a division of Barjan Products LLC	Leader in tire repair, tire hardware and tire gauges and has a strong market position in convenience accessories, safety and emergency products, lighters, exhaust and electrical products	—	—	—
10/17/2005	Carlisle Companies Inc.	ArvinMeritor's Off-Highway Brake Operations	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 automotive reconditioning and refinishing products marketed under the Auto Magic, Clay Magic, and Body Magic brands	—	—	—

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Misalignment of owner and management interests. When the management team of a company does not have an ownership stake in the business when it is sold or recapitalized, conflicts of interest can occur because of unbalanced economic concerns between shareholders and management.

This can open up a whole host of issues that can weigh down a sales process and eventually break it. For example, management might be slow to produce certain information or fail to be completely candid with the owner in order to “save face.”

In the worst case, management might intentionally sabotage the process in order to ensure the viability of their own positions.

In any case, the best outcomes are usually achieved when owner and management incentives are as closely aligned as possible with mutual equity participation in the form of phantom or real stock.

Emotional engrossment. This can happen when the seller takes offense to a prospective buyer’s negotiation tactics or style and allows these feelings to cloud his or her judgment to their own detriment. Sellers that are inexperienced or thin skinned can easily fall into this trap.

As with any economic transaction, keeping a cool head and approaching important decisions in an emotionally detached way is the best method for achieving a favorable outcome.

An experienced financial advisor can be very helpful in guiding a seller through these types of pitfalls by

acting as a buffer between the two parties.

This is especially important since buyers and sellers often have to work together as partners post-closing.

Not fully committing to the process. As the saying goes, “it’s hard to be a little bit pregnant.” Likewise, sellers who decide to “test the market” without fully committing themselves beforehand usually end up with less than pleasing results.

By the second or third attempt, they tend to get more serious. However, by that time, a considerable amount of time, energy, and resources have been wasted.

In addition, the seller’s credibility in the marketplace can become damaged. For example, buyers who go down the road with a company only to be left at the altar can grow skeptical of a seller’s commitment to sell.

When buyers become skeptical, they simply withdraw from the bidding process, and the company’s ability to maximize shareholder value is compromised.

Happy holidays from the Capstone team. Best wishes for a prosperous New Year.

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)			Net Income	
	Price as of 12/20/05	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue		EBITDA
Manufacturers									
Tenneco Automotive Inc.	\$16.95	\$744.5	\$1,412.0	\$66.0	\$2,159.8	6/30/05	\$4,348.0	\$369.0	\$25.6
Standard Motor Products, Inc.	9.05	179.6	294.8	13.6	460.9	9/30/05	839.2	27.6	(4.8)
Aftermarket Technology Corp.	19.43	421.3	92.4	42.1	480.2	9/30/05	427.1	65.8	30.2
R&B, Inc.	9.80	175.7	34.7	3.2	209.5	9/24/05	268.7	34.4	16.7
Proliance International, Inc.	5.25	80.1	50.4	5.2	125.9	9/30/05	309.5	5.2	(7.1)
Wholesalers & Distributors									
Genuine Parts Company	\$44.52	\$7,725.2	\$500.9	\$339.5	\$8,020.8	9/30/05	\$9,626.7	\$747.9	\$424.8
LKQ Corporation	33.28	838.4	55.6	4.3	976.4	9/30/05	517.2	55.5	27.7
Keystone Automotive Industries, Inc.	29.50	472.1	0.4	6.6	476.6	9/30/05	573.2	32.5	15.9
The Coast Distribution System, Inc.	6.60	29.2	19.2	0.7	49.2	9/30/05	174.5	8.4	3.8
Retailers									
Autozone, Inc.	\$92.62	\$7,096.0	\$1,861.9	\$74.8	\$8,994.4	8/27/05	\$5,710.9	\$1,111.3	\$571.0
Advance Auto Parts, Inc.	42.10	4,554.3	470.5	112.7	4,990.6	10/8/05	4,150.1	510.8	229.1
O'Reilly Automotive, Inc.	30.96	3,470.0	100.9	51.6	3,519.3	9/30/05	1,958.0	279.7	146.8
The Pep Boys - Manny, Moe & Jack	14.16	767.0	534.0	36.5	1,266.8	10/29/05	2,241.8	80.0	(22.6)
CSK Auto Corporation	14.11	618.2	395.1	19.3	1,001.4	11/30/05	1,594.5	121.9	31.3

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	11.3x	5.9x	9.4x	84.3x	29.1	15.5%	8.5%	0.6%
Standard Motor Products, Inc.	0.5x	49.2x	16.7x	27.4x	NM	NM	20.9%	3.3%	NM
Aftermarket Technology Corp.	1.1x	9.4x	7.3x	9.6x	15.9x	13.9	24.1%	15.4%	7.1%
R&B, Inc.	0.8x	7.2x	6.1x	8.3x	12.5x	10.5	35.9%	12.8%	6.2%
Proliance International, Inc.	0.4x	NM	24.2x	NM	NM	NM	17.9%	1.7%	NM
Mean	0.7x	19.3x	12.0x	13.7x	37.6x	17.8x	22.8%	8.3%	4.6%
Median	0.5x	10.3x	7.3x	9.5x	15.9x	13.9x	20.9%	8.5%	6.2%
Wholesalers & Distributors									
Genuine Parts Company	0.8x	11.7x	10.7x	12.1x	18.9x	18.2	31.4%	7.8%	4.4%
LKQ Corporation	1.9x	20.5x	17.6x	24.3x	35.3x	30.3	45.4%	10.7%	5.3%
Keystone Automotive Industries, Inc.	0.8x	19.9x	14.7x	16.6x	29.9x	29.6	44.0%	5.7%	2.8%
The Coast Distribution System, Inc.	0.3x	6.5x	5.8x	6.3x	12.9x	7.7	18.5%	4.8%	2.2%
Mean	1.0x	14.7x	12.2x	14.8x	24.2x	21.4x	34.8%	7.3%	3.7%
Median	0.8x	15.8x	12.7x	14.3x	24.4x	23.9x	37.7%	6.7%	3.6%
Retailers									
Autozone, Inc.	1.6x	9.2x	8.1x	10.9x	15.8x	12.4	48.9%	19.5%	10.0%
Advance Auto Parts, Inc.	1.2x	12.5x	9.8x	16.7x	21.8x	19.9	47.2%	12.3%	5.5%
O'Reilly Automotive, Inc.	1.8x	15.6x	12.6x	42.5x	24.0x	23.6	43.3%	14.3%	7.5%
The Pep Boys - Manny, Moe & Jack	0.6x	NM	15.8x	NM	NM	NM	24.3%	3.6%	NM
CSK Auto Corporation	0.6x	11.7x	8.2x	11.1x	32.0x	19.8	45.4%	7.6%	2.0%
Mean	1.2x	12.3x	10.9x	20.3x	23.4x	18.9x	41.8%	11.5%	6.2%
Median	1.2x	12.1x	9.8x	13.9x	22.9x	19.8x	45.4%	12.3%	6.5%

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful