

the aftermarket analyst

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

Selected Public Company Capitalization and Operating Figures (\$ in millions, except per share data)									
Company	Enterprise Value				Last Twelve Months (LTM)				
	Price as of 2/28/07	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
Manufacturers									
Tenneco Automotive Inc.	\$24.30	\$1,112.2	\$1,378.0	\$202.0	\$2,359.7	12/31/06	\$4,685.0	\$382.0	\$51.0
Aftermarket Technology Corp.	22.38	488.8	17.8	7.8	505.6	12/31/06	498.0	63.8	28.9
Directed Electronics, Inc.	8.79	217.7	306.0	16.3	507.4	9/30/06	363.0	31.0	2.9
Standard Motor Products, Inc.	15.38	285.3	256.2	15.0	528.6	9/30/06	815.1	46.7	5.9
Dorman Products, Inc.	11.42	202.2	31.0	5.0	237.1	9/30/06	292.4	35.5	15.0
Milemarker International Inc.	1.80	17.9	5.4	0.2	23.2	9/30/06	21.9	3.1	1.4
Wholesalers & Distributors									
Genuine Parts Company	\$48.73	\$8,308.0	\$500.0	\$136.0	\$8,816.3	12/31/06	\$10,457.9	\$870.1	\$475.4
LKQ Corporation	21.72	1,157.9	100.1	4.0	1,348.7	12/31/06	789.4	89.3	44.4
Keystone Automotive Industries, Inc.	33.05	539.8	0.2	6.5	537.5	12/29/06	693.7	53.9	26.4
The Coast Distribution System, Inc.	8.31	37.0	21.3	0.8	58.9	9/30/06	181.9	8.9	3.8
Retailers									
Autozone, Inc.	\$125.46	\$8,867.1	\$1,858.9	\$73.4	\$10,826.7	11/18/06	\$6,003.3	\$1,171.8	\$578.8
Advance Auto Parts, Inc.	37.65	3,978.4	477.2	11.1	4,505.1	12/31/06	4,616.5	542.8	230.7
O'Reilly Automotive, Inc.	34.43	3,924.4	110.5	29.9	4,095.6	12/31/06	2,283.2	347.3	178.1
The Pep Boys - Manny, Moe & Jack	15.14	823.5	646.1	22.5	1,447.2	10/28/06	2,233.7	82.1	(34.9)
CSK Auto Corporation	17.27	756.7	395.1	19.3	1,146.0	10/30/05	1,594.5	121.9	31.3
US Auto Parts Network, Inc.	11.60	346.1	34.9	3.3	385.9	9/30/06	99.2	12.3	6.1

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	11.9x	6.2x	11.5x	46.3x	21.8	14.2%	8.2%	1.1%
Aftermarket Technology Corp.	1.0x	10.1x	7.9x	9.7x	17.5x	16.9	21.0%	12.8%	5.8%
Directed Electronics, Inc.	1.4x	20.4x	16.4x	17.6x	NM	75.7	30.1%	8.5%	0.8%
Standard Motor Products, Inc.	0.6x	17.4x	11.3x	14.6x	89.9x	48.6	24.4%	5.7%	0.7%
Dorman Products, Inc.	0.8x	8.2x	6.7x	7.9x	15.8x	13.4	35.2%	12.1%	5.1%
Milemarker International Inc.	1.1x	8.5x	7.6x	8.3x	16.2x	12.5	42.3%	13.9%	6.5%
Mean	0.9x	12.8x	9.3x	11.6x	37.1x	31.5x	27.9%	10.2%	3.3%
Median	0.9x	11.0x	7.8x	10.6x	17.5x	19.4x	27.2%	10.3%	3.1%
Wholesalers & Distributors									
Genuine Parts Company	0.8x	11.1x	10.1x	11.8x	18.5x	17.5	31.3%	8.3%	4.5%
LKQ Corporation	1.7x	17.5x	15.1x	25.4x	30.4x	26.1	45.3%	11.3%	5.6%
Keystone Automotive Industries, Inc.	0.8x	12.4x	10.0x	13.7x	20.4x	20.4	44.7%	7.8%	3.8%
The Coast Distribution System, Inc.	0.3x	7.2x	6.6x	7.6x	15.6x	9.8	19.2%	4.9%	2.1%
Mean	0.9x	12.0x	10.4x	14.6x	21.2x	18.4x	35.1%	8.1%	4.0%
Median	0.8x	11.7x	10.1x	12.8x	19.5x	19.0x	38.0%	8.0%	4.2%
Retailers									
Autozone, Inc.	1.8x	10.5x	9.2x	11.8x	18.7x	15.3	49.4%	19.5%	9.6%
Advance Auto Parts, Inc.	1.0x	11.2x	8.3x	15.9x	19.5x	17.2	47.7%	11.8%	5.0%
O'Reilly Automotive, Inc.	1.8x	14.5x	11.8x	34.6x	23.0x	22.0	44.1%	15.2%	7.8%
The Pep Boys - Manny, Moe & Jack	0.6x	NM	17.6x	42.4x	NM	NM	24.0%	3.7%	NM
CSK Auto Corporation	0.7x	13.4x	9.4x	12.7x	36.6x	24.2	45.4%	7.6%	2.0%
US Auto Parts Network, Inc.	3.9x	53.8x	31.4x	35.4x	63.1x	56.6	36.8%	12.4%	6.2%
Mean	1.2x	12.4x	14.6x	23.5x	24.5x	27.1x	41.2%	11.7%	6.1%
Median	1.0x	12.3x	10.6x	15.9x	21.3x	19.6x	45.4%	11.8%	6.4%

(1) Enterprise Value equals market cap, plus debt, minus cash
(2) Free Cash Flow equals EBITDA less capital expenditure
"NM" is not meaningful

EBITDA Multiples and the Need for Thorough Analysis

By far, the most prevalent question investment bankers are asked by company owners is, "What multiples are you seeing these days?" Of course, the question relates to the multiple of EBITDA (earnings before interest, taxes, depreciation and amortization) that is used to value a company. The fact is that this multiple is derived only after an Internal Rate of Return and resultant purchase price are computed, not vice versa.

When buyers analyze a business, they are, of course, interested in the company's history, but only as it relates to its potential, particularly in terms of its growth potential under new ownership. To ascertain a company's future growth potential, buyers look at a myriad of items, including:

- historical sales and trends;
- level and sustainability of margins;
- number and types of distribution channels;
- product and customer concentrations;
- percentage of products manufactured in-house;
- ability to introduce new products;
- intellectual property;
- necessary working capital levels;
- amount of Shareholders Equity;
- consolidation trends in the industry; and
- growth opportunities.

To illustrate the point that many factors need to be considered, let's look at US Auto Parts Network (PRTS) in comparison to its retail peers: AutoZone (AZO), Advanced Auto Parts (AAP), and O'Reilly's (ORLY). On February 9, 2007, US Auto Parts Network successfully launched its IPO at the lower end of its initial \$10-12 price range. The Company is a leading online provider of aftermarket auto parts, including body parts, engine parts, performance parts and accessories. Their websites provide customers with a comprehensive selection of approximately 550,000 SKUs. By the end of the month, the stock was trading up at \$11.64. As of December 31, 2006, the margins for the aforementioned companies were:

(% of sales)	PRTS	AZO	AAP	ORLY
Gross Margins	36.8%	49.4%	47.7%	44.1%
EBITDA Margins	12.4%	19.5%	11.8%	15.2%
Net Margins	6.2%	9.6%	5.0%	7.8%

Using solely the margin analysis, AutoZone (with 49.4% gross margins and 19.5% EBITDA margins) would be deemed the most valuable in relation to this peer group, while U.S. Auto Parts Network (with 36.8% gross margins and 12.4% EBITDA margins) would be deemed the least valuable of the group.

However, we have only looked at one facet of each of the businesses. Next are the Enterprise Value to EBITDA multiples for the companies:

	PRTS	AZO	AAP	ORLY
Firm Value/EBITDA	31.4x	9.2x	8.3x	11.8x

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RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor	Target	Target Description	Firm Value (\$mil.)	Rev. FV / Rev.	EBITDA FV / EBITDA
2/23/2007	Amalfe Brothers Inc.	AutoPartSource	supplier of filters, brakes, clutches, drums/rotors and related products to warehouse distributors in the automotive aftermarket	—	—	—
2/21/2007	Pilot Automotive	(certain assets of) American Products Company (APC)	distributor of a wide variety of Aftermarket Automotive products.	—	—	—
2/8/2007	Primedia	Modified Automotive Group	publisher of Modified Magazine, Modified Luxury and Exotics Magazine, Modified Mustangs Magazine, and their related event partnerships and websites.	—	—	—
2/5/2007	Semcan, Inc.	Ken-Co Industries	distributor of auto parts based in Burlington, ON.	\$6.3	—	—
1/30/2007	Caterpillar, Inc.	Franklin Power Products, Inc. and International Fuel Systems, subsidiaries of Remy International.	Franklin Power is a remanufacturer of on-highway light- and medium-duty truck diesel engines and engine components. International Fuel is a provider of remanufactured diesel engine components such as high pressure fuel pumps, fuel injectors and turbochargers	150.0	—	—
1/29/2007	Harco Manufacturing Group LLC	Delphi Corp's Brake Hose business	manufacturer of brake hose fittings and hoses	9.8	—	—
1/29/2007	Atlas Copco	Rodcraft	supplier of pneumatic tools and workshop equipment to the automotive aftermarket industry	—	29.7	—
1/19/2007	Randall-Reilly Publishing	Kona Communications	publisher of <i>Truck Parts & Service</i> and <i>Successful Dealer Magazines</i>	—	—	—
1/17/2007	B&M Companies	Hurst Shifter (from Mr. Gasket)	supplier of performance shifters and accessories	—	—	—
1/10/2007	EMTA Holdings	Dyson Properties	manufacturer of synthetic motor lubricants under the Synergyn Racing name.	2.1	—	—
1/8/2007	Edgewater Capital Partners	Turbonetics	Turbonetics manufactures turbochargers, heat exchangers, contols and related forced-induction performance items.	—	—	—
1/4/2007	Sunair Products	Euromotoren (a.k.a. EMN Air)	sole distributor for Sunair compressor remanufacturing parts, tools, chemicals and components to the compressor remanufacturing aftermarket in Europe	—	—	—
12/27/2006	Nidec Corporation	Valeo S.A.'s Motors & Actuators business unit	manufactures automotive motors and actuators	185.0	—	—
12/22/2006	Kelso & Co., GS Capital Partners, ValueAct Capital and Parthenon Capital	ADESA Inc.	provider of wholesale vehicle auctions and related vehicle redistribution services for the automotive industry in North America.	3,700.0	3.5x	13.5x
12/22/2006	Actuant Corporation	Maxima Technologies	electronics company specializing in custom-engineered and standard vehicle instrumentation, controls, components, and systems for low-to-medium volume applications	91.0	1.4x	—
12/22/2006	Saw Mill Capital Partners	Hawk Corp.'s Precision Components Group	supplies friction materials for brakes, clutches and transmissions	90.1	—	—
12/20/2006	Lumiere International Corp.	Air Temp de Mexico	designs and manufactures heat exchangers, radiators, condensers, evaporators, heaters and coolers	—	—	—
12/15/2006	Friend Skoler & Co.	Accessories Marketing Inc.	makers of Slime tire sealant and tire care products	—	—	—

("Multiples", Continued from page 1)

The least attractive business based on our margin analysis has, by far the highest multiple. How can this be? Again, we've only looked at one facet of the business. Let's review the companies Compound Annual Growth Rates (CAGR) for sales, operating income and EBITDA over the past 3 years:

	PRTS	AZO	AAP	ORLY
Net Revenue	37.3%	2.7%	10.7%	15.2%
EBIT (Oper. Income)	23.7%	0.6%	10.8%	21.7%
EBITDA (Cash Flow)	39.3%	2.0%	11.7%	19.1%

This provides a very different picture of the business. US Auto Parts Network is growing its EBITDA roughly 40% annually, which is twice that of O'Reilly's, almost four times greater than Advanced and twenty times greater than Autozone. In this particular case, the growth rates are a larger value driver than the margin analysis. This can be seen through the correlation between the growth rates and EBITDA multiples. However, the growth rate alone does not account for the EBITDA multiples as Advanced would be expected to have a higher multiple than Autozone. The key is to thoroughly analyze the business and not rely on a few items that can significantly skew the real value of the enterprise.

In summary, there is no such thing as "the multiple." A company's purchase price is usually derived by analyzing all of the aforementioned growth factors and using an appropriate financial model. An EBITDA multiple can then be imputed based on the results of these models. It is imperative to perform thorough due diligence and not focus on a particular item in determining the enterprise value of an entity.

About Capstone

Capstone Financial Group is an investment banking firm assisting 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.

**Company Spotlight:
U.S. Auto Parts Network, Inc. (Nasdaq: PRTS)**

Capstone has decided to include U.S. Auto Parts Network in its "Public Company Capitalization and Operating Figures" appearing later in the newsletter. As such, we have provided the following additional information from the "Overview" section of the Company's Registration Statement filed with the Securities and Exchange Commission:

"Our online sales channel and relationships with suppliers enable us to eliminate several intermediaries in the traditional auto parts supply chain, allowing us to acquire many of our products directly from manufacturers and sell them to our customers. Additionally, as an online retailer, we do not incur many of the costs associated with operating brick and mortar stores. We believe that our ability to disintermediate the auto parts supply chain, combined with our efficient e-commerce platform, enables us to sell products at competitive prices while achieving higher operating margins and return on invested capital than many traditional automotive parts retailers.

Our business has grown consistently since we launched our first website in 2000. Net sales increased to \$59.7 million and \$83.5 million for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively, from \$40.7 million and \$44.0 million for the year ended December 31, 2004 and the nine months ended September 30, 2005, respectively. Net income decreased slightly to \$6.8 million and \$3.6 million for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively, from \$7.1 million and \$4.8 million for the year ended December 31, 2004 and the nine months ended September 30, 2005, respectively. Our Adjusted EBITDA increased to \$8.8 million and \$10.3 million for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively, from \$8.0 million and \$6.1 million for the year ended December 31, 2004 and the nine months ended September 30, 2005, respectively."