

# AFTERMARKET ANALYST

A publication focused on mergers, acquisitions & corporate finance in the automotive aftermarket industry



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We want your feedback. To discuss and receive more information on automotive aftermarket transactions, as well as the capital markets as they relate to the Automotive Aftermarket Industry, please contact us.

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## Top 10 Reasons to Tap the Private Equity Capital Markets Now

Many auto aftermarket companies have been taking advantage of the abundant supply of private equity capital seeking a home in the industry lately. Some of the most compelling reasons business owners and executives are finding to partner with private equity groups include the following:

**1. Private equity groups outbidding strategic buyers.** Theoretically, strategic or industry buyers should outbid their financial rivals because operating synergies allow them to pay a premium for most businesses. However, we have seen private equity groups willing to accept lower rates of return in order to win competitive auctions against strategic buyers. It seems to be a sign of the times because the private equity field has grown increasingly crowded in recent years. Consequently, the industry is not quite the racket it used to be when a few elite buyout houses shared the spoils of 50 percent plus internal rates of return. Another factor contributing to private

equity's relative strength is the apparent financial weakness and lack of confidence of many strategic buyers.

**2. Capital for growth and acquisitions.** Most closely-held companies face severe growth constraints because they lack reliable external capital sources and must finance all growth internally. Private equity groups are designed to help such businesses overcome this problem. As a result, private equity groups are usually more than willing to spend big dollars on sales and marketing, product development, management talent, capital expenditure, and acquisitions to unlock a company's full potential.

**3. Risk reduction.** With most business owners, the vast majority of their net worth is tied up in their own companies — an illiquid and risky asset. As a result, they face a tremendous amount of personal exposure to the various operating and financial risks associated with their businesses. Recapitalizing with a

private equity group allows an owner to realize some liquidity immediately while maintaining ownership in the company going forward. This strategy can be the best of both worlds for owners who believe in their company's' future prospects but do not want to face all of the risk alone.

**4. Gain new expertise, talents, and resources.** Private equity groups pride themselves on being more than just deep pockets. In fact, the best ones have strong networks with management and board level talent, relationships with financial institutions, and other influential contacts. Also, many of these firms have significant expertise in international trade financing, accounting and tax issues, sourcing, and risk management. Many companies have benefited handsomely from the resources and expertise these investors provide.

*(Continued on page 3, See "10 Reasons")*



## RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor	Target	Target Description
3/4/2005	Hicklin Engineering, L.C.	SuperFlow Corp.	Manufactures wide range of engine and chassis dynamometers
2/28/2005	Remy International, Inc.	Unit Parts Company	Supplier of new and remanufactured starters and alternators
2/28/2005	Parts Depot	Tropical International Corp.	Auto parts distributor
2/21/2005	Uni-Select USA	Motor Parts Warehouse	Auto parts distributor
2/10/2005	Freudenberg-NOK	Gates AirSprings, a division of Denver, Colo.-based Gates Corp.	Manufacturer of air spring systems for SUVs and light trucks
2/7/2005	Investcorp	American Tire Distributors, Inc.	Distributor of tires to the replacement tire market in the United States
2/2/2005	Tenneco Automotive	Gabilan Manufacturing, Inc.	Manufactures motorcycle exhaust systems
2/1/2005	LKQ Corporation	Bodymaster Auto Parts, Inc.	Distributor of aftermarket collision automotive replacement parts
1/31/2005	Gryphon Investors (MSD Ignition)	Superchips Inc.	Manufacturer of performance programmers and chips for late model production cars and trucks
1/19/2005	Custom Accessories	Chic Accessories	Manufacturer of air freshener products
1/19/2005	East Penn Manufacturing Co.	Douglas Battery Manufacturing Co.'s Automotive Battery Division	Manufactures automotive batteries
1/14/2005	Independent Auto Parts of America	Parts Plus	Distributes auto parts
1/13/2005	Magna International Inc.	Decoma International Inc.	Manufacturer of automotive exterior components and systems
1/5/2005	Illinois Tool Works Inc.	Permatex, Inc.	Manufacturer and distributor of premium branded specialty-chemical products
1/5/2005	Morgenthaler Partners	Phillips & Temro Industries	Manufactures emissions control products for both engine and motor vehicle OEM and aftermarket segments
1/5/2005	Thayer Capital Partners	Qualitor Inc.	Manufacturer of auto aftermarket parts
1/4/2005	Illinois Tool Works Inc.	Wynn Oil automotive specialty chemicals business unit of Parker Hannifin Corporation	Develops and manufactures chemical car care products and maintenance equipment for the automotive industry
12/28/2004	Accuride Corp.	Transportation Technologies Industries Inc.	Manufactures truck components



(10 Reasons, Continued from page 1)

### 5. **Succession planning and exit strategy.**

With Baby Boomers rapidly approaching retirement age, the next several years will see a large increase in the number of companies dealing with succession issues. Private equity is an ideal way to overcome the challenges of succession. These firms allow an owner to receive fair value for his life's work while not having to worry about "junior" putting the company "in the tank." A wise man once said, "the best time to sell is when you have a buyer." There are many available now.

### 6. **Flexibility in deal structuring.**

Most business owners reluctant to partner with private equity groups are wary of ceding control of their businesses. Fortunately, private equity groups have become increasingly willing to make investments of every shape and size to accommodate the preferences of all types of business owners. In fact, we have recently seen well-known firms who previously made only control investments publicly advertise their willingness to be minority investors in some deals. We believe the competition for investing in quality

businesses has become so fierce that these firms now have no choice but to invest their capital in virtually any way they can.

### 7. **Ability to attract the best possible financing.**

The importance of financing in deal making cannot be understated since it affects so many aspects of the process including investor returns, management compensation, financial and operating flexibility, purchase price, and certainty of closure. Private equity groups usually obtain more favorable borrowing terms than their strategic counterparts because they tend to put more equity in their deals, have better relationships with lenders, and be better financial engineers overall.

### 8. **Large private equity capital overhang remains.**

Recent figures from Thomson Venture Economics show a capital overhang (the difference between capital committed to private equity groups and what they have already invested) of about \$99 billion for the buyout and mezzanine markets. Also, the overall private equity industry (which includes venture capital and other sub-asset classes) is currently estimated to have a \$206 billion overhang. Consequently, the

supply of private investment capital greatly exceeds demand — making this one of the best seller's markets in recent memory.

### 9. **Industry consolidation.**

The auto aftermarket is currently experiencing a rapid consolidation trend as companies are merging, acquiring, and going out-of-business at faster rates than ever before. Only the strongest and most defensible companies will survive over the next 10 years. Partnering with a private equity group and using its capital and resources is one of the best ways to ensure prosperity during this traumatic phase of the industry's life cycle.

### 10. **Favorable economic environment.**

One of the reasons private equity groups have been as active as they are is because the US economy is currently in very good shape. After growing 4.4 percent in 2004 (biggest annual gain since 1999), US gross domestic product is expected to average 3.6 percent growth in 2005. Inflation is expected to average 2.3 percent in 2005 and 2006, well within the 2 to 3 percent target set by most economists. Analysts forecast the unemployment rate will average 5.2 percent in 2005, and will fall to an annual average of 5.0

percent in 2006. By almost any standard, these are excellent economic statistics. While the economy remains healthy, we believe private equity groups will continue to deploy their capital at a rapid rate. Should the economy take a turn for the worse, there is more than a good chance that private equity groups will become more tight-fisted.

#### **ABOUT THE PUBLISHER:**

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 first hand knowledge of starting, operating, growing, and selling middle market companies.



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

Company	Enterprise Value					Last Twelve Months (LTM)			
	Price as of 3/17/05	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
<b>Manufacturers</b>									
Tenneco Automotive Inc.	13.74	582.8	1,423.0	203.0	1,870.6	10/31/04	4,079.0	369.0	33.2
Decoma International Inc.	10.07	840.9	497.9	73.3	1,243.1	9/30/04	2,636.8	237.8	70.1
Standard Motor Products, Inc.	11.71	231.6	226.1	16.9	441.8	9/30/04	805.8	45.1	9.9
Aftermarket Technology Corp.	15.27	324.8	109.9	18.1	420.4	12/31/04	395.6	63.7	29.3
R&B, Inc.	26.85	240.6	34.8	7.2	277.5	12/25/04	249.5	34.2	17.1
Transpro, Inc.	6.60	46.9	44.0	0.5	91.6	9/30/04	256.2	11.7	1.4
Motorcar Parts of America, Inc.	10.65	87.1	1.5	10.7	83.7	6/30/04	156.7	12.5	5.9
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	\$43.28	\$7,561.8	\$501.0	\$134.9	\$8,050.9	12/31/04	\$9,097.3	\$698.1	\$395.6
TBC Corporation	29.25	651.3	300.6	3.2	987.4	9/30/04	1,737.5	94.2	36.3
LKQ Corporation	19.58	403.7	50.3	1.6	484.5	12/31/04	424.8	41.8	20.6
Keystone Automotive Industries, Inc.	22.99	359.0	1.5	4.2	366.9	10/1/04	534.9	33.2	17.3
The Coast Distribution System, Inc.	6.48	29.9	22.5	1.2	53.1	9/30/04	169.9	9.7	4.6
<b>Retailers</b>									
Autozone, Inc.	\$87.00	\$6,927.0	\$1,901.5	\$80.1	\$9,121.1	2/12/05	\$5,686.0	\$1,069.7	\$544.8
Advance Auto Parts, Inc.	49.80	3,661.8	386.8	27.5	4,194.5	10/9/04	3,742.8	447.4	195.7
O'Reilly Automotive, Inc.	49.91	2,766.1	100.9	69.0	2,799.9	12/31/04	1,721.2	244.8	117.7
The Pep Boys - Manny, Moe & Jack	18.00	989.8	477.4	35.2	1,456.6	10/30/04	2,248.4	154.1	34.8
CSK Auto Corporation	16.80	755.9	501.3	54.7	1,212.4	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	9.6x	5.1x	8.0x	56.3x	17.5	16.1%	9.0%	0.8%
Decoma International Inc.	0.5x	8.9x	5.2x	8.4x	17.7x	12.0	13.4%	9.0%	2.7%
Standard Motor Products, Inc.	0.5x	16.5x	9.8x	12.2x	44.8x	23.5	25.3%	5.6%	1.2%
Aftermarket Technology Corp.	1.1x	8.4x	6.6x	8.0x	14.4x	11.1	25.8%	16.1%	7.4%
R&B, Inc.	1.1x	9.4x	8.1x	13.0x	16.2x	14.1	37.1%	13.7%	6.8%
Transpro, Inc.	0.4x	16.0x	7.8x	15.1x	65.3x	33.4	18.1%	4.6%	0.5%
Motorcar Parts of America, Inc.	0.5x	8.2x	6.7x	6.7x	14.2x	14.8	14.5%	8.0%	3.8%
<b>Mean</b>	<b>0.6x</b>	<b>11.0x</b>	<b>7.1x</b>	<b>10.2x</b>	<b>32.7x</b>	<b>18.1x</b>	<b>21.5%</b>	<b>9.4%</b>	<b>3.3%</b>
<b>Median</b>	<b>0.5x</b>	<b>9.4x</b>	<b>6.7x</b>	<b>8.4x</b>	<b>17.7x</b>	<b>14.8x</b>	<b>18.1%</b>	<b>9.0%</b>	<b>2.7%</b>
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	0.9x	12.7x	11.5x	12.9x	20.4x	19.1	31.1%	7.7%	4.3%
TBC Corporation	0.6x	14.2x	10.5x	14.2x	27.2x	17.9	37.3%	5.4%	2.1%
LKQ Corporation	1.1x	13.9x	11.6x	30.1x	23.5x	19.6	44.9%	9.8%	4.8%
Keystone Automotive Industries, Inc.	0.7x	14.1x	11.1x	16.5x	21.2x	20.8	43.6%	6.2%	3.2%
The Coast Distribution System, Inc.	0.3x	6.1x	5.5x	5.9x	11.5x	6.4	19.0%	5.7%	2.7%
<b>Mean</b>	<b>0.7x</b>	<b>12.2x</b>	<b>10.0x</b>	<b>15.9x</b>	<b>20.8x</b>	<b>16.8x</b>	<b>35.2%</b>	<b>7.0%</b>	<b>3.4%</b>
<b>Median</b>	<b>0.7x</b>	<b>13.9x</b>	<b>11.1x</b>	<b>14.2x</b>	<b>21.2x</b>	<b>19.1x</b>	<b>37.3%</b>	<b>6.2%</b>	<b>3.2%</b>
<b>Retailers</b>									
Autozone, Inc.	1.6x	9.7x	8.5x	10.9x	16.7x	12.7	48.9%	18.8%	9.6%
Advance Auto Parts, Inc.	1.1x	12.4x	9.4x	14.4x	21.4x	18.7	46.3%	12.0%	5.2%
O'Reilly Automotive, Inc.	1.6x	14.7x	11.4x	39.3x	23.8x	23.5	43.2%	14.2%	6.8%
The Pep Boys - Manny, Moe & Jack	0.6x	16.8x	9.5x	16.0x	41.8x	28.4	28.2%	6.9%	1.5%
CSK Auto Corporation	0.8x	9.8x	7.6x	8.8x	22.2x	13.8	48.0%	10.1%	3.5%
<b>Mean</b>	<b>1.2x</b>	<b>12.7x</b>	<b>9.3x</b>	<b>17.9x</b>	<b>25.2x</b>	<b>19.4x</b>	<b>42.9%</b>	<b>12.4%</b>	<b>5.3%</b>
<b>Median</b>	<b>1.1x</b>	<b>12.4x</b>	<b>9.4x</b>	<b>14.4x</b>	<b>22.2x</b>	<b>18.7x</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

