

AFTERMARKET ANALYST

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

Gryphon Exits MSD Ignition and Superchips with 2.5x Return On Invested Capital

Gryphon Investors, the San Francisco based private equity firm that purchased MSD Ignition last year and Superchips in late January, has sold its interest in both companies to ValueAct Capital.

ValueAct, a San Francisco based hedge fund

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Capstone's Founder and Other Aftermarket Leaders to Speak at Upcoming Aftermarket Financial Symposium

Top financial and investment executives from within and outside the industry are slated to address the first-ever Aftermarket Financial Symposium: "Leveraging for Growth," September 7-8, 2005 in Chicago, Ill., sponsored by the Automotive Aftermarket Industry Association (AAIA).

A partial list of speakers and their presentations include:

- **Perspectives on Key Financial Issues from the Operating Side**, Michael Archbold, Executive Vice President & CFO, AutoZone;
- **Mergers & Acquisitions**, Dan Smith, President, Capstone Financial Group; and
- **Strategic Planning**, Sam B. Rovit, Partner, Bain & Company, Inc.

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Mezzanine Debt Bridges Financing Gap

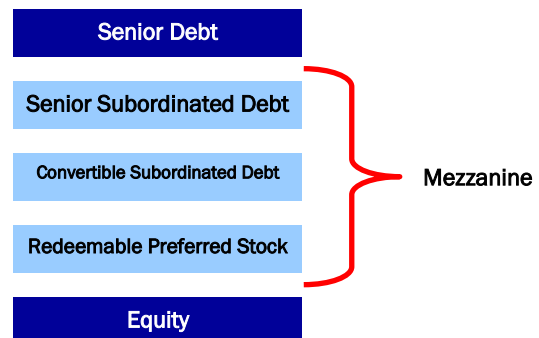
What is mezzanine financing?

Mezzanine financing is the layer of subordinated debt that sits between the senior debt and shareholders' equity on a company's balance sheet. Consequently, mezzanine debt is subordinated or "junior" to senior debt holders, but has priority claim over equity holders in a company's capital structure.

As a result, mezzanine debt is more expensive than traditional asset based debt — typically demanding coupons in the 11% to 14% range — but cheaper than equity, which can cost 30% or more.

Mezzanine debt can take many different forms including senior subordinated debt, convertible debt, and redeemable preferred stock.

Mezzanine Capital Structure



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RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor	Target	Target Description
4/18/2005	ValueAct Capital	MSD Ignition	Manufactures high-performance automotive ignition components
4/12/2005	Hopkins Manufacturing Company (Friend Skoler & Co.)	Carrand Companies, Inc.	Designer and marketer of specialty cleaning tools and accessories for the automotive aftermarket
4/5/2005	Thule	Quick-load Bike Racks division of Sportworks	Manufacturer of bicycle racks
4/4/2005	LKQ Corporation	A&R Auto Parts, Inc.	Operates a recycled OEM automotive replacement parts facility
4/4/2005	American Capital Strategies, Ltd.	Edge Products LLC	Manufacturer of high-quality performance electronics
3/31/2005	Heritage Equity Group, Inc.	Beck/Arnley Worldparts Corp.	Manufacturer of replacement auto parts
3/18/2005	Midwest Truck and Auto Parts Inc.	TICUSA, LLC	Supplies midrange and heavy duty transmission, axle assemblies and components to the Latin American drivetrain aftermarket.
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

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founded in 2000, manages \$1.7 billion in investments from institutional investors and high net worth individuals.

The transaction yielded Gryphon a cash return of 2.5 times its investment and an internal rate of return (IRR) of approximately 175%. Considering that Gryphon held this investment for a mere 12 months, these returns are extraordinary to say the least. In the private equity world, this is what is known as a “home run.”

ValueAct’s purchase of MSD represents the first investment made by a traditional hedge fund in the auto aftermarket industry — but it certainly won’t be the last.

Hedge funds, which have raised billions in investment capital in recent years, are now targeting private capital markets with equity, debt, and hybrid securities to bolster their returns. This development will have far-reaching effects on private capital market dynamics as liquidity and competition among investors are driven to dizzying new heights. Can you say “financial bonanza” for private business owners?

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Executives and partners from American Express Tax and Business Services, Lockton Companies, Massachusetts Financial Services and Grant Thornton will make presentations on risk management, perspectives from Wall Street and key accounting and tax issues.

A breakout session entitled *The Financial Benefits of Standards-based eBusiness in the Aftermarket* will be hosted by Scott Luckett, AAIA’s Vice President, Technology Standards and Solutions.

Other sessions include *Maximizing Business Values and Liquidity*, *Financing for Growth* and *Fringe Benefit Packages*.

The symposium will be held at the Hyatt Regency O’Hare in Chicago on Wednesday and Thursday, September 7 and 8. For more information, contact Susan Medick (susan.medick@aftermarket.org) or Barbara Clark (barbara.clark@aftermarket.org), or call 301-654-6664.

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Hybrid Security

Mezzanine debt is often referred to as a hybrid form of capital because it usually contains an equity component. This equity “kicker” or “sweetener” usually takes the form of warrants which can boost lender rates of return into the low twenties.

The use of payment-in-kind (PIK), which is the practice of paying interest by issuing additional debt, has become more prevalent recently as valuations have become increasingly complex and more difficult to forecast. PIK income effectively mitigates the risk implicit in the equity portion of the security while increasing investor returns.

A Growing Market

The number of mezzanine lenders and the amount of mezzanine capital raised has ballooned in recent years. Whereas mezzanine lending was dominated by insurance companies and S&Ls in the 1980’s, limited partnerships and more recently pension funds, hedge funds, and banks have gotten into the game. Consequently, the mezzanine market is now much more competitive and accessible for small and medium-sized businesses.

The Benefits of Mezzanine Financing

Mezzanine debt allows for greater total leverage. For example, if a company has completely tapped out its asset base with senior bank debt, mezzanine debt can allow the company to raise additional “unsecured” capital.

Perhaps the biggest benefit of mezzanine debt is that it reduces the amount of equity required in a transaction — usually allowing business owners to maintain control of their businesses. In contrast to traditional private equity capital, mezzanine debt might be a better fit for business owners who want additional capital but are wary of ceding control to a financial partner.

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

Company	Enterprise Value					Last Twelve Months (LTM)			
	Price as of 4/19/05	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
Manufacturers									
Tenneco Automotive Inc.	12.33	512.7	1,420.0	214.0	1,767.9	12/31/04	4,213.0	349.0	13.6
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.	6.80	48.3	44.0	0.3	93.6	12/31/04	268.1	15.6	5.2
Wholesalers & Distributors									
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	27.14	605.6	279.9	2.8	911.5	12/31/04	1,855.4	99.7	37.6
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.	21.07	332.0	2.4	4.8	338.1	12/31/04	545.2	32.6	16.8
The Coast Distribution System, Inc.	6.48	29.9	22.5	1.2	53.1	9/30/04	169.9	9.7	4.6
Retailers									
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.	51.02	3,647.8	489.5	56.3	4,200.1	1/1/05	3,770.3	434.7	190.0
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	16.42	907.7	512.6	82.8	1,344.2	1/29/05	2,272.9	151.7	25.7
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
Manufacturers									
Tenneco Automotive Inc.	0.4x	10.3x	5.1x	8.1x	129.9x	37.7	15.8%	8.3%	0.3%
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.	0.3x	9.8x	6.0x	8.8x	18.1x	9.3	19.6%	5.8%	1.9%
Mean	0.7x	10.8x	7.1x	10.0x	44.7x	19.1x	24.7%	9.9%	3.5%
Median	0.5x	9.8x	6.6x	8.8x	18.1x	14.1x	25.3%	8.3%	1.9%
Wholesalers & Distributors									
Genuine Parts Company	0.9x	12.7x	11.5x	12.9x	20.4x	19.1	31.1%	7.7%	4.3%
TBC Corporation	0.5x	12.6x	9.1x	9.3x	24.2x	16.1	37.4%	5.4%	2.0%
LKQ Corporation	1.1x	13.9x	11.6x	30.1x	23.5x	19.6	44.9%	9.8%	4.8%
Keystone Automotive Industries, Inc.	0.6x	13.4x	10.4x	14.4x	20.1x	19.8	43.6%	6.0%	3.1%
The Coast Distribution System, Inc.	0.3x	6.1x	5.5x	5.9x	11.5x	6.4	19.0%	5.7%	2.7%
Mean	0.7x	11.7x	9.6x	14.5x	19.9x	16.2x	35.2%	6.9%	3.4%
Median	0.6x	12.7x	10.4x	12.9x	20.4x	19.1x	37.4%	6.0%	3.1%
Retailers									
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	12.8x	9.7x	16.5x	22.1x	19.2	46.5%	11.5%	5.0%
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	17.9x	8.9x	21.1x	52.4x	35.4	27.4%	6.7%	1.1%
CSK Auto Corporation	0.8x	9.8x	7.6x	8.8x	22.2x	13.8	48.0%	10.1%	3.5%
Mean	1.1x	13.0x	9.2x	19.3x	27.4x	20.9x	42.8%	12.3%	5.2%
Median	1.1x	12.8x	8.9x	16.5x	22.2x	19.2x	46.5%	11.5%	5.0%

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful