



# AFTERMARKET ANALYST

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

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### \*\*\*ATTENTION\*\*\*

#### SEMA WEBINAR RESCHEDULED

Capstone's "Serious Capital for Serious Companies: Increasing the Value of Your Business With Other Peoples' Money" web-based presentation, will now take place Tuesday, May 18th at 10:00AM (PDT). See page 4 for more details.

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](mailto:jon@capfg.com).

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## WHEN IS THE RIGHT TIME TO SELL?

When is the right time to sell? The short answer is simple: when you have a buyer.

However, the timing of the sale of a company is a critical consideration often overlooked by most company owners. Many times, these owners wait too long (e.g., until the company is embroiled in an operational bind). Alternatively, they may try to sell prematurely.

As a result, sale price and value to the owner are not maximized, and time and effort are wasted. Consulting an investment banker is the best way to understand how to prepare your company for sale and how to know when to sell.

The right time to sell a

business is when the sale price can be maximized. Of course, this is easier said than done. However, there are some rough rules of thumb to follow.

For example, companies below a certain size can be very difficult to sell because most buyers are not interested in companies that have limited profitability or no critical mass. Generally speaking, middle market Private Equity Groups do not consider companies with less than \$2 million in EBITDA and 10% EBITDA margins.

For larger companies, a favorable break point occurs at \$10 million in EBITDA due to the increased availability of cash flow financing. This type of lending effectively increases

the multiples that buyers can pay for companies because leverage has a positive effect on equity returns.

Beyond size and profitability issues, certain macroeconomic and business-specific factors need to be considered.

Answers to the following questions highlight some of the more important factors:

What is the overall M&A climate?

Where is your segment heading?

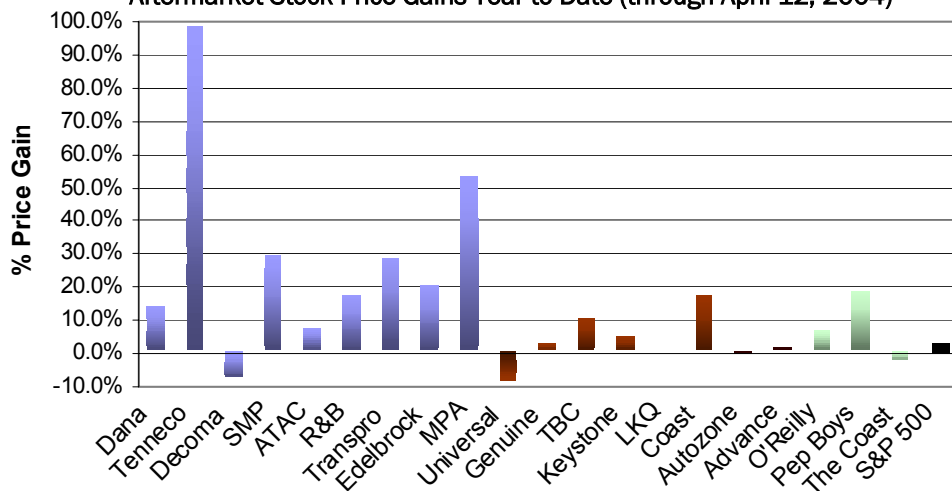
Where is your business heading?

Are there personal issues or other intangibles at play?

How prepared is my business for sale?

## FIRST QUARTER STOCK PERFORMANCE

Aftermarket Stock Price Gains Year-to-Date (through April 12, 2004)



Automotive aftermarket manufacturer stocks have significantly outperformed those of their retailer and wholesaler counterparts year-to-date. Through April 12th,

manufacturers posted a 25.0 percent average gain, considerably higher than the 6.8 percent and 4.3 percent gains of aftermarket retailers and wholesalers, respectively.

In addition, relative to the S&P 500 index increase of only 3.3 percent, aftermarket participants on the whole outperformed the market.

## RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer	Target	Target Description
4/14/2004	Autozone, Inc.	ABC Discount Auto Parts	Retailer of auto parts
4/8/2004	Gryphon Investors, Inc.	Autotronic Controls Corporation (MSD Ignition)	Manufactures high-performance automotive ignition components
3/4/2004	Replacement Parts Inc.	Dimmick Supply Co.	Distributes auto parts
3/4/2004	First Atlantic Capital Ltd.	Prestolite Electric Holding Inc.	Manufactures alternators and starter motors
3/1/2004	Wetherill Associates Inc.	Transpo Inc.	Manufacturer of automotive electronics for the automotive electric aftermarket
2/23/2004	LKQ Corporation	Global Trade Alliance, Inc.	Supplier of aftermarket collision automotive replacement parts
2/20/2004	General Parts Inc.	Strafco (a.k.a. Straus-Frank Co.)	Distributes auto parts
2/10/2004	Monro Muffler Brake Inc.	Mr. Tire Division (Mile One Automotive)	Tire and automotive repair stations
2/9/2004	General Parts Inc.	Automotive Communications Link Inc.	Provides business management software used by automotive repair companies and parts distributors.
2/9/2004	Graham Partners	Dynojet Research Inc.	Makes engine-performance products and diagnostic equipment
2/3/2004	Standard Motor Products	Dana's Canadian Engine Management Business	Manufactures engine and related parts
1/30/2004	Heartland Industrial Partners	Theodore Bargman Company	Manufactures lighting, electrical accessories, access doors, locks and latches for RVs
1/28/2004	LKQ Corp.	Metro East Salvage Inc.	Provider of recycled OEM replacement parts
1/13/2004	Keystone Automotive Industries	Quinte Bumper & Fender	Distributor of automobile collision replacement parts
1/12/2004	Universal Automotive Industries	Kelsey-Hayes Company	Manufactures brake disc pads and shoes and remanufactures premium brake calipers
1/6/2004	Advanced Engine Management	DC Sports Inc.	Manufactures specialty performance parts
1/2/2004	The Riverside Company	Harmon AutoGlass	Retail auto replacement glass business
12/22/2003	Champion Parts, Inc.	Beacon Sales & Distribution	Distributes air conditioning accumulators and driers
12/9/2003	Keystone Automotive Industries	Sam's Bumper Service	Distributes recycled bumpers
12/9/2003	QA1 Precision Products, Inc.	Carrera Shocks	Manufactures performance shocks
12/3/2003	The Harbour Group	Master Concepts	Manufactures auxiliary braking systems
10/31/2003	Carroll Shelby International, Inc.	Allen Engine Development Inc.	Manufactures and develops auto superchargers
10/8/2003	The Riverside Company	Stylin' Concepts Corp.	Supplies accessories for SUVs and trucks

## HOW CAN SMALL RETAIL VENDORS HOPE TO SURVIVE?

Small aftermarket manufacturers that sell through retail channels face tremendous obstacles in today's business environment. These obstacles include retail policies and practices that raise their cost of doing business, making it difficult for them to survive. Examples of such include the following:

**1) Liberal return policies.** With a receipt in hand, most consumers know that mega-retailers like Wal-Mart and AutoZone are more than willing to offer refunds on just about any product sold in their stores. Unfortunately, vendors are the ones who get left holding the bag when this happens. The end result is large credits against receivables. Furthermore, with retail customers happy and vendors "waiting in line" to sell through these retail

behemoths, small vendors have little leverage.

**2) Category captains.** Growing out of category management programs in the mid-1990s, category captains pay retailers for the privilege to advise them on how to manage individual product categories or aisles in their stores. These large, select vendors wield tremendous power and influence in determining pricing and shelf placement on all products within their purview.

As a result, category captains represent major competitive concerns due to their ability to exclude rival vendors or significantly increase their cost of doing business. Furthermore, one could argue that they have the ability to facilitate collusion among competing category manufacturers or retailers.

Engaging in these kinds of shenanigans might be tempting for category captains, given that they often have access to competitors' confidential pricing data, product development plans, and other sensitive information.

**3) Pay on scan (POS).** POS promises more efficient use of route and store labor, greater concentration by vendors on retail sell-through, elimination of back office costs through improved transaction accuracy, stock-out reduction and improved service.

However, due to established industry receivable payment terms, the benefits of POS implementation could accrue primarily to the retailers at the expense of vendors.

As a result, POS might reduce traditional vendor funding availability by up to 65

percent (or even more if the vendor has margins that are higher than industry standard). In addition, POS adversely affects sales accounting via delayed sale recognition, and it increases administrative and state tax costs.

**4) Radio frequency identification technology (RFID).** This revolutionary technology is perceived as the future of retailing. Bar codes and scanners are expected to go the way of the dinosaur as RFID will enable goods to be tracked throughout the entire distribution chain, provide quick feedback on sales of new products, and eliminate entirely the need for cashiers as products can be tracked once removed from store shelves and billed automatically to customer accounts.

(Continued on page 4, see "Retail")

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

Company	Enterprise Value					Last Twelve Months (LTM)			
	Price as of 4/8/04	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
<b>Manufacturers</b>									
Dana Corporation	\$20.85	\$3,101.9	\$3,098.0	\$731.0	\$5,588.8	12/31/03	\$8,067.0	\$696.0	\$175.0
Tenneco Automotive Inc.	13.47	557.5	1,430.0	145.0	1,907.7	12/31/03	3,766.0	341.0	28.2
Decoma International Inc.	9.34	780.0	335.1	93.5	1,100.8	12/31/03	2,355.8	264.9	91.7
Standard Motor Products, Inc.	16.00	315.8	307.8	19.6	606.6	12/31/03	678.8	38.6	3.7
Aftermarket Technology Corp.	14.77	303.5	127.4	59.6	380.4	12/31/03	367.1	58.3	25.6
R&B, Inc.	18.50	163.0	43.8	25.1	194.4	12/27/03	222.1	28.7	13.3
Transpro, Inc.	5.75	40.9	50.9	0.2	92.4	12/31/03	228.7	5.5	(3.6)
Edelbrock Corporation	13.30	72.6	0.2	4.7	69.2	12/25/03	117.7	9.5	2.6
Motorcar Parts of America, Inc.	8.45	68.3	4.9	9.6	69.1	12/31/03	153.7	8.8	7.6
Universal Automotive Industries, Inc.	1.22	10.4	15.9	0.1	29.1	9/30/03	61.6	0.2	(1.9)
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	\$33.06	\$5,761.6	\$677.6	\$15.4	\$6,492.8	12/31/03	\$8,449.3	\$640.8	\$353.6
TBC Corporation	30.06	658.5	277.9	2.6	974.2	12/31/03	1,318.5	77.9	33.4
Keystone Automotive Industries, Inc.	26.57	403.6	21.6	3.1	445.0	12/26/03	483.8	30.3	16.3
LKQ Corporation	17.85	353.3	4.0	16.1	372.9	12/31/03	328.0	31.5	14.6
The Coast Distribution System, Inc.	6.65	30.2	23.8	1.0	55.1	12/31/03	156.5	6.2	2.4
<b>Retailers</b>									
Autozone, Inc.	\$84.90	\$7,152.4	\$1,786.9	\$6.7	\$9,292.3	2/14/04	\$5,559.1	\$1,069.9	\$543.8
Advance Auto Parts, Inc.	41.10	3,038.0	476.1	11.5	3,628.8	1/3/04	3,493.7	404.5	160.3
O'Reilly Automotive, Inc.	41.06	2,244.9	121.9	21.1	2,408.6	12/31/03	1,511.8	207.6	100.1
The Pep Boys - Manny, Moe & Jack	27.77	1,464.3	534.1	33.8	2,220.9	11/1/03	2,145.5	98.9	(8.1)
CSK Auto Corporation	18.48	858.4	507.1	46.9	1,341.1	11/2/03	1,555.5	161.0	42.1

**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
<b>Manufacturers</b>									
Dana Corporation	0.7x	18.5x	8.0x	14.3x	31.9x	17.7	10.2%	8.6%	2.2%
Tenneco Automotive Inc.	0.5x	10.7x	5.6x	9.0x	67.6x	19.8	16.2%	9.1%	0.7%
Decoma International Inc.	0.5x	6.3x	4.2x	6.7x	12.0x	8.5	15.9%	11.2%	3.9%
Standard Motor Products, Inc.	0.9x	28.3x	15.7x	20.5x	NM	86.0	25.7%	5.7%	0.5%
Aftermarket Technology Corp.	1.0x	8.4x	6.5x	8.7x	14.8x	11.8	27.4%	15.9%	7.0%
R&B, Inc.	0.9x	8.1x	6.8x	8.4x	14.6x	12.3	37.0%	12.9%	6.0%
Transpro, Inc.	0.4x	NM	16.7x	NM	NM	NM	16.5%	2.4%	NM
Edelbrock Corporation	0.6x	18.6x	7.2x	14.5x	26.7x	28.0	35.5%	8.1%	2.2%
Motorcar Parts of America, Inc.	0.4x	10.7x	7.8x	9.7x	9.1x	9.0	12.0%	5.7%	4.9%
Universal Automotive Industries, Inc.	0.5x	NM	NM	NM	NM	NM	13.3%	0.3%	NM
<b>Mean</b>	<b>0.6x</b>	<b>13.7x</b>	<b>8.7x</b>	<b>11.5x</b>	<b>25.3x</b>	<b>24.1x</b>	<b>21.0%</b>	<b>8.0%</b>	<b>3.4%</b>
<b>Median</b>	<b>0.5x</b>	<b>10.7x</b>	<b>7.2x</b>	<b>9.4x</b>	<b>14.8x</b>	<b>15.0x</b>	<b>16.3%</b>	<b>8.4%</b>	<b>3.0%</b>
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	0.8x	11.4x	10.1x	11.5x	18.4x	16.3	31.0%	7.6%	4.2%
TBC Corporation	0.7x	16.3x	12.5x	17.1x	29.2x	19.7	32.9%	5.9%	2.5%
Keystone Automotive Industries, Inc.	0.9x	17.7x	14.7x	22.9x	27.3x	24.7	43.6%	6.3%	3.4%
LKQ Corporation	1.1x	14.3x	11.8x	16.6x	25.6x	24.2	45.2%	9.6%	4.4%
The Coast Distribution System, Inc.	0.4x	10.4x	8.8x	9.8x	22.5x	12.4	17.5%	4.0%	1.6%
<b>Mean</b>	<b>0.8x</b>	<b>14.0x</b>	<b>11.6x</b>	<b>15.6x</b>	<b>24.6x</b>	<b>19.5x</b>	<b>34.0%</b>	<b>6.7%</b>	<b>3.2%</b>
<b>Median</b>	<b>0.8x</b>	<b>14.3x</b>	<b>11.8x</b>	<b>16.6x</b>	<b>25.6x</b>	<b>19.7x</b>	<b>32.9%</b>	<b>6.3%</b>	<b>3.4%</b>
<b>Retailers</b>									
Autozone, Inc.	1.7x	9.7x	8.7x	10.6x	17.1x	13.2	47.6%	19.2%	9.8%
Advance Auto Parts, Inc.	1.0x	12.2x	9.0x	12.0x	22.6x	19.0	45.9%	11.6%	4.6%
O'Reilly Automotive, Inc.	1.6x	14.6x	11.6x	33.9x	24.1x	22.4	42.2%	13.7%	6.6%
The Pep Boys - Manny, Moe & Jack	1.0x	91.3x	22.5x	49.2x	NM	NM	27.4%	4.6%	NM
CSK Auto Corporation	0.9x	11.0x	8.3x	9.1x	31.9x	20.4	47.1%	10.4%	2.7%
<b>Mean</b>	<b>1.2x</b>	<b>27.7x</b>	<b>12.0x</b>	<b>22.9x</b>	<b>23.9x</b>	<b>18.7x</b>	<b>42.0%</b>	<b>11.9%</b>	<b>5.9%</b>
<b>Median</b>	<b>1.0x</b>	<b>12.2x</b>	<b>9.0x</b>	<b>12.0x</b>	<b>23.4x</b>	<b>19.7x</b>	<b>45.9%</b>	<b>11.6%</b>	<b>5.6%</b>

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful

## COST ACCOUNTING 301: REDUCING COSTS WITH KAIZEN COSTING

Last month we discussed target costing, a critical means of managing costs during new product design and development. We will now focus on cost accounting for products already in the production phase. In particular, we will discuss the use of Kaizen costing within this context.

Kaizen costing, an alternative to activities-based costing, supports continuous improvement activities in the manufacturing phase. Kaizen costing involves all employees within an organization working in concert to make improvements without large capital investments. Traditionally, the American or Western approach to productivity has been to seek breakthrough improvements through innovation using high technology, massive capital investments and highly trained engineers.

The Kaizen path to productivity is to involve both workers and managers in order to focus an organization's attention to small, low-cost but significant details in the production process. Kaizen typically starts with studying the way workers perform their jobs. The aim of

this analysis is to help production personnel recognize and make incremental improvements that could be made on a daily basis by those involved with the production process.

The Kaizen process is comprised of three principles: elimination of waste, good housekeeping, and standardization of procedures.

**1) Elimination of waste.** In this case, waste means all non-value-adding operations. Examples of waste are transportation, inspection, scrap, overproduction, waiting and excessive inventory. As waste is effectively reduced, product quality, productivity, efficiency, and customer satisfaction can increase substantially. In order to effectively eliminate waste, company leaders need to go to where the work is being performed, observe what is going on, recognize waste and take steps to eliminate it.

**2) Good housekeeping.** To simplify the workplace and increase production, Kaizen uses five steps for good housekeeping. The steps are commonly referred to as the "Five S's". These steps are as follows:

- Sort: Separate out all

procedures that are unnecessary and eliminate them.

- Straighten: Put essential tools and procedures in order so they can be easily accessed.
- Scrub: Clean workspace and tools and eliminate sources of dirt and dust.
- Systematize: Document and clarify all procedures.
- Sustain: Make the previous four steps part of the daily routine.

**3) Standardization of procedures.** In order for Kaizen to be effective, there must be agreement on standards, and those standards must be maintained and continuously improved. This means not only adhering to current technological, managerial and operating standards, but also improving current processes in order to elevate current standards to higher levels. With proper standardization, regular checking and improvement becomes an inseparable part of everyone's job. To be effective, standards must hold to these common sense principles:

- describe the best, easiest and safest way to do a job;
- preserve knowledge and

expertise from worker to worker;

- measure performance;
- demonstrate the link between cause and effect;
- allow for maintenance and improvement;
- establish objectives;
- provide the basis for training; and
- furnish a structure to minimize variability and prevent future errors.

The reason Kaizen is so effective is that it involves all levels of employees. Shop floor employees begin talking about value-added and non-value-added operations. They learn how to gather, analyze and use data from the shop floor. As a result, they learn how to use root-cause problem solving techniques.

Companies that have embraced Kaizen costing programs have exhibited dramatic improvements in quality, delivery, cost, morale, safety, and productivity. Companies looking to significantly increase performance in these areas might consider implementing a Kaizen costing program.

## CAPSTONE TO HOST SEMA WEBINAR MAY 18TH

Capstone will host a SEMA sponsored webinar on Tuesday, May 18th at 10:00AM (PDT). This web enabled seminar presentation, entitled "*Serious Capital for Serious Companies: Increasing the Value of Your Business with Other People's Money,*" will cover the following topics:

- How capital markets support business growth;
- Key players in capital markets, including types of buyers and investors;
- Current capital market trends and developments;
- How to value a business;

- Capital market transaction process; and
- Common transaction pitfalls.

Anyone interested in learning more about these topics within the context of the automotive aftermarket is encouraged to participate. Participation is free, anonymous, and does not require you to leave your office. In order to participate in the webinar, simply do the following:

- 1) Log on to [www.sema.org/webinars](http://www.sema.org/webinars) shortly before 10:00AM

(PDT) on May 18th;

- 2) Click on the presentation link for "*Serious Capital for Serious Companies: Increasing the Value of Your Business with Other People's Money;*" and
- 3) Dial the toll free number and PIN to listen live.

The 45 minute presentation will be followed by a 15 minute question and answer period. Should you have any questions or desire more information regarding the webinar, please contact Jon Taylor at 843-689-6450 or [jon@capfg.com](mailto:jon@capfg.com).

### **Retail** (Continued from page 2)

Although not yet widely implemented, mega-retailers like Wal-Mart are leading the charge. Unfortunately, retail vendors are expected to end up shouldering much of the cost of implementing RFID. With volume tag costs in the 18 to 35 cent range, RFID is not expected to provide rapid return on investment for vendors. This is especially true for small vendors for whom the cost of implementing such programs might be cost prohibitive.