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CAPSTONE FINANCIAL GROUP

AFTERMARKET ANALYST

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

INSIDE THIS ISSUE:

MSD IGNITION TRANSACTION FUELS PERFORMANCE BUYOUT FEVER

Gryphon Investors' acquisition of Autotronic Controls Corporation (MSD Ignition) last month is easily the aftermarket's most significant transaction year-to-date and perhaps one of the most important ever.

The deal is certain to trigger an avalanche of automotive performance and related buyouts as many in the private equity community have recognized the merits of investing in the performance segment for some time now and are actively courting prospective platforms.

The high degree of interest in this segment can be attributed to NASCAR's legendary popularity, a vigorous performance hobbyist customer culture, and fragmented industry structure. These characteristics, among others, have kept the segment growing at a seven to eight percent annual clip.

However, for all of the buzz surrounding automotive performance in the past year, MSD is the first buyout of a bona fide industry player since Kohlberg & Company's purchase of Holley Performance Products in 1998. In addition, unlike some recent high profile transactions involving somewhat dubious auto aftermarket participants, MSD is a highly respected, long time industry stalwart with a commanding 70 percent share

(Continued on page 4, see "MSD")

INTELLECTUAL PROPERTY: A KEY BUSINESS VALUE DRIVER

Maximizing shareholder value is one of chief concerns of any serious business owner. Although many factors affect a firm's value, some are more important than others and deserve greater attention. One of these key business value drivers is intellectual property.

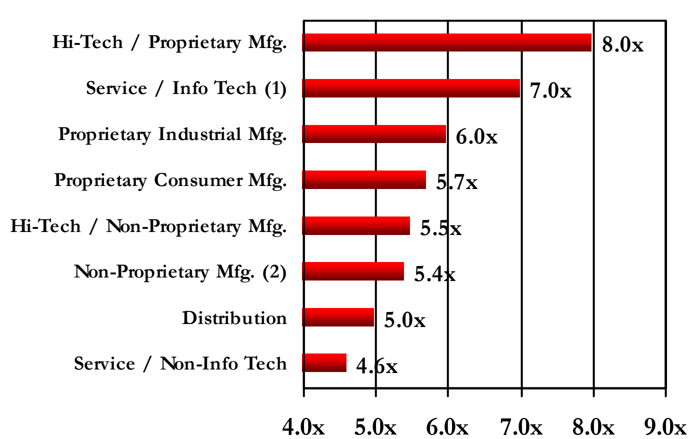
Intellectual property can take many forms including patents, trademarks, and copyrights. In the manufacturing environment, patented products and proprietary manufacturing processes and technologies make businesses more valuable because they give them advantages over competitors and new upstarts. They also provide them bargaining power with customers. These advantages allow greater profitability and growth potential.

Therefore, it should come as no surprise that firms which

(Continued on page 4, see "IP")

2003 Median Acquisition EBIT Multiple by Company Type

(Source: IMAP)



(1) IT consulting, integration, software development, IT staffing

(2) Contract manufacturers (e.g., stampers, molders, production fabricators)

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.

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Recently Announced Automotive Aftermarket Transactions

Announce Date	Acquirer	Target	Target Description
5/13/2004	Corteco	Precision Automotive Industries	Supplier of bearings and seals
5/6/2004	Littelfuse, Inc.	Heinrich Industrie AG	Manufactures fuse products for the automotive aftermarket
4/30/2004	The Riverside Company	Vulsay Industries Ltd.	Packager and blender of petroleum-based products and liquid chemicals.
4/30/2004	Reliable Automotive	Add-On Distributing, Inc.	Specialty automotive wholesale distributor
4/29/2004	New World Friction Corp.	Madeco, ULC d/b/a Novatek	Manufacturer of brake pads
4/29/2004	AutoPartSource, LLC	Qualitee International Limited Partnership	Manufactures undercar parts
4/19/2004	Pickups Plus, Inc.	Automotive International's Automotive Preservation Division	Provides auto dealers with new vehicle preparation, environmental protection packages, pickup truck and SUV accessories, and detail and reconditioning products and services
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

It's Auto Part Heaven For Private Equity Firms

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Inside the "old-boy network" of the US automotive aftermarket industry there is a peculiar consolidation brewing. After talking with some of the "in-crowd" of this fragmented industry, Corporate Acquisitions found out that private equity firms may be the only ones reading the consolidation opportunities.

One of those on the inside is Dan Smith, president and founder of Capstone Financial Group. He says his firm "sort of stumbled on" the industry in 1989 and hasn't left since. Currently, 70 percent of Capstone's advisory work is in the automotive aftermarket where Smith says, "both buyers and sellers come to us for trends and analysis."

From his insider perspective, Smith says this industry is ripe for consolidation. One only needs to visit a trade show to notice the plethora of small manufacturers who are "selling similar products through the same distributions," which, Smith notes, doesn't make sense because in this industry "the large mature customers, mainly the retailers and distributors, are looking for fewer and fewer vendors with more stock keeping units." He adds that buyers are starting to catch wind of this industry and "the smart money is chasing a lot of these companies because they understand the consolidation possibilities."

The interesting thing about the automotive aftermarket industry is that consolidation is taking place in the absence of natural consolidators. "There haven't been any really active American industry buyers," says Smith, "That's why most of the deals in the last few years have actually been done by private equity firms. There are just a lot of possibilities for private equity groups to place money in this industry and buy two, three, or five of these companies at one time to really piece together a sizeable platform operation."

One of the more active private equity participants is New York-based The Riverside Company. Partner Brooke Ablon says The Riverside Company currently owns eight businesses in the automotive aftermarket industry where they have been investing since 1996. Most recently, on January 30, the firm sold Theodore Bargman Co, a maker of lighting, doors, and locks for RV's with annual sales of $12.8 million, for an undisclosed amount to TriMas Corp, a subsidiary of Heartland Industrial Partners LP. Ablon characterizes the industry as one of opportunity for private equity firms in particular: "It is highly fragmented and I think you are seeing consolidation.

(Continued on page 4, see "Heaven!")

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

	Enterprise Value					Last Twelve Months (LTM)			
Company	Price as of 5/11/04	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
Manufacturers									
Dana Corporation	$18.88	$2,813.6	$2,949.0	$546.0	$5,324.9	3/31/04	$8,387.0	$702.0	$189.0
Tenneco Automotive Inc.	12.80	536.2	1,426.0	149.0	1,851.4	3/31/04	3,879.0	348.0	24.2
Decoma International Inc.	8.97	749.1	432.9	75.2	1,185.7	3/31/04	2,497.1	268.6	91.8
Standard Motor Products, Inc.	13.19	260.3	307.8	19.6	549.9	12/31/03	678.8	38.6	3.7
Aftermarket Technology Corp.	14.68	305.7	128.8	0.5	443.0	3/31/04	363.0	49.6	20.2
R&B, Inc.	18.00	158.6	43.8	25.1	189.6	12/27/03	222.1	28.7	13.3
Transpro, Inc.	5.11	36.3	50.9	0.2	87.6	12/31/03	228.7	5.5	(3.6)
Edelbrock Corporation	14.85	81.5	0.2	5.9	77.6	3/25/04	120.6	10.4	3.1
Motorcar Parts of America, Inc.	8.35	67.5	4.9	9.6	68.2	12/31/03	153.7	8.8	7.6
Universal Automotive Industries, Inc.	0.95	10.3	12.1	0.6	22.4	12/31/04	59.3	(0.9)	(3.8)
Wholesalers & Distributors									
Genuine Parts Company	$35.97	$6,274.7	$661.9	$28.1	$7,001.2	3/31/04	$8,624.4	$657.1	$365.4
TBC Corporation	26.70	584.9	277.9	2.6	893.3	12/31/03	1,318.5	77.9	33.4
Keystone Automotive Industries, Inc.	26.73	406.0	21.6	3.1	447.7	12/26/03	483.8	30.3	16.3
LKQ Corporation	18.25	361.2	4.0	16.1	382.3	12/31/03	328.0	31.5	14.6
The Coast Distribution System, Inc.	6.59	30.0	23.8	1.0	54.8	12/31/03	156.5	6.2	2.4
Retailers									
Autozone, Inc.	$84.25	$7,097.7	$1,786.9	$6.7	$9,233.4	2/14/04	$5,559.1	$1,069.9	$543.8
Advance Auto Parts, Inc.	41.30	3,052.8	476.1	11.5	3,644.7	1/3/04	3,493.7	404.5	160.3
O'Reilly Automotive, Inc.	42.41	2,323.4	101.7	45.3	2,447.3	3/31/04	1,511.8	207.6	100.1
The Pep Boys - Manny, Moe & Jack	25.47	1,470.3	375.1	61.0	2,016.9	1/31/04	2,134.3	86.5	(11.4)
CSK Auto Corporation	17.67	822.0	505.3	37.2	1,301.3	2/1/04	1,578.1	167.5	48.7

Selected Public Company Multiples and Operating Statistics

	Enterprise Value /						Margins		
Company	Revenue	EBIT	EBITDA	Free Cash Flow (2)	Net Income	P / E Ratio	Gross Margins	EBITDA Margins	Net Margins
Manufacturers									
Dana Corporation	0.6x	16.7x	**7.6x**	13.5x	28.2x	14.9	10.0%	8.4%	2.3%
Tenneco Automotive Inc.	0.5x	10.3x	**5.3x**	8.5x	76.4x	22.1	16.2%	9.0%	0.6%
Decoma International Inc.	0.5x	6.8x	**4.4x**	7.2x	12.9x	8.2	15.3%	10.8%	3.7%
Standard Motor Products, Inc.	0.8x	25.6x	**14.3x**	18.6x	149.7x	70.9	25.7%	5.7%	0.5%
Aftermarket Technology Corp.	1.2x	12.1x	**8.9x**	13.0x	21.9x	15.1	25.3%	13.7%	5.6%
R&B, Inc.	0.9x	7.9x	**6.6x**	8.2x	14.2x	11.9	37.0%	12.9%	6.0%
Transpro, Inc.	0.4x	NM	**15.8x**	NM	NM	NM	16.5%	2.4%	NM
Edelbrock Corporation	0.6x	17.2x	**7.5x**	14.1x	25.0x	26.3	35.6%	8.6%	2.6%
Motorcar Parts of America, Inc.	0.4x	10.6x	**7.7x**	9.5x	9.0x	8.9	12.0%	5.7%	4.9%
Universal Automotive Industries, Inc.	0.4x	NM	**NM**	NM	NM	NM	12.7%	NM	NM
Mean	***0.6x***	***13.4x***	***8.7x***	***11.6x***	***42.2x***	***22.3x***	***20.6%***	***8.6%***	***3.3%***
Median	***0.6x***	***11.3x***	***7.6x***	***11.3x***	***23.5x***	***15.0x***	***16.3%***	***8.6%***	***3.1%***
Wholesalers & Distributors									
Genuine Parts Company	0.8x	11.9x	**10.7x**	11.7x	19.2x	17.2	31.0%	7.6%	4.2%
TBC Corporation	0.7x	15.0x	**11.5x**	15.7x	26.8x	17.5	32.9%	5.9%	2.5%
Keystone Automotive Industries, Inc.	0.9x	17.9x	**14.8x**	23.1x	27.4x	24.9	43.6%	6.3%	3.4%
LKQ Corporation	1.2x	14.7x	**12.1x**	17.1x	26.2x	24.8	45.2%	9.6%	4.4%
The Coast Distribution System, Inc.	0.3x	10.3x	**8.8x**	9.8x	22.4x	12.2	17.5%	4.0%	1.6%
Mean	***0.8x***	***13.9x***	***11.6x***	***15.5x***	***24.4x***	***19.3x***	***34.0%***	***6.7%***	***3.2%***
Median	***0.8x***	***14.7x***	***11.5x***	***15.7x***	***26.2x***	***17.5x***	***32.9%***	***6.3%***	***3.4%***
Retailers									
Autozone, Inc.	1.7x	9.6x	**8.6x**	10.5x	17.0x	13.1	47.6%	19.2%	9.8%
Advance Auto Parts, Inc.	1.0x	12.2x	**9.0x**	12.0x	22.7x	19.0	45.9%	11.6%	4.6%
O'Reilly Automotive, Inc.	1.6x	14.8x	**11.8x**	34.4x	24.5x	23.2	42.2%	13.7%	6.6%
The Pep Boys - Manny, Moe & Jack	0.9x	119.3x	**23.3x**	46.6x	NM	NM	27.5%	4.1%	NM
CSK Auto Corporation	0.8x	10.1x	**7.8x**	8.6x	26.7x	16.9	47.4%	10.6%	3.1%
Mean	***1.2x***	***33.2x***	***12.1x***	***22.4x***	***22.7x***	***18.0x***	***42.1%***	***11.8%***	***6.0%***
Median	***1.0x***	***12.2x***	***9.0x***	***12.0x***	***23.6x***	***18.0x***	***45.9%***	***11.6%***	***5.6%***

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

Heaven *(Continued from page 2)*

You can buy quality businesses at any size range, so I think that dynamic is attractive to private equity."

Another reason for private equity's affinity for the automotive aftermarket is the financing. Ablon says specifically in this space, a lender will grant "a good combination of some level of asset-base and then also some layer of cash flow financing above that." Moreover, he says that lenders are more comfortable with lending to financial buyers to do deals for automotive aftermarket companies because "it gives a good mix in terms of security to a lender because there's working capital in these businesses and some level of property, plant, and equipment."

The ability to create leverage will be important for prospective private equity buyers, because the multiples are healthy for quality companies, especially platforms. "We have seen them come up pretty significantly over the years," says Smith, "We've seen seven or eight multiples fairly steadily." Ablon agrees, noting, "Bain Capital's deal on Keystone Automotive Operations is a prime example of that [the deal was announced on September 4, 2003 for $440 million]. I think they bought that at 8.5 times." He pegs the industry trading at roughly 6 to 7.5 on a whole.

Considering the consolidation possibilities and willing lenders, where will dealflow go in 2004? Our sources indicate it will only increase. According to Smith, there were 27 deals in 2003 and there have been five already in 2004. "We've seen more activity in the last 30-45 days than we did in a good bit of last year. We certainly see it continuing. It seems like every week we have calls from one or two equity firms trying to get in the industry that have not been in it before. The more people understand the consolidation potential, the more people try to get into it."

Smith says that private equity firms Castle Harlan, the Harbor Group, Harren Equity, and you guessed it, The Riverside Company, have been, and will continue to be, very active. He sees dealflow definitely exceeding last year's mark, especially now with many private equity firms looking to grow platforms with add-on acquisitions. "Its kind of a snowball effect," says Smith, "because now there have been so many good platforms purchased you're going to see more and more acquisitions."

As for The Riverside Company, who accounted already for one of the five 2004 transactions with its purchase of Minneapolis-based Harmon Autoglass for an undisclosed amount on January 2, Ablon says they are looking all over the industry, at distribution, specialty retail, and manufacturing. "We will continue to be active in this space looking to grow the portfolio companies that we currently own," says Ablon, adding, "and if we come across good opportunities to expand on a platform basis we will do that as well."

For more information contact Dan Smith at (843) 689-6450 or at dansmith@capfg.com. Brooke Ablon may be contacted at (212) 265-6575 or at bwa@riversidecompany.com.

MSD *(Continued from page 1)*

of the high performance ignition components market.

The company's ignition controls, coils, distributors, timing accessories and spark plug wires are the choice of many top professional drivers in NHRA, IHRA, NASCAR, World of Outlaws, DIRT, SCORE, and IDBA.

One of the biggest names in the industry, MSD boasts a strong and capable management team which has inspired a tremendous corporate culture that "bleeds MSD red." These characteristics made MSD quite desirable for Gryphon, which ponied-up a purchase price in the mid-$50 million range.

Senior bank debt for the deal was provided by Antares Capital Corp and CIT Corporate Finance. The 1818 Fund, the mezzanine investment vehicle of Brown Brothers Harriman provided the mezzanine debt.

The acquisition was funded from Gryphon's 1999 vintage fund, Gryphon Partners II, L.P.

An important contextual element of the deal is Gryphon's positioning as serious and thoughtful money in a sea of "Johnny come lately aftermarket wannabes." Gryphon has recognized and proactively targeted the automotive performance segment for nearly two years now. In fact, Gryphon contacted Capstone Financial Group in July of 2003 to use some of its industry knowledge and gain further insight into the industry.

In addition, Gryphon forged a partnership with Daniel R. Gresham. Since January of 2003, Mr. Gresham, the former CEO of diagnostic testing equipment maker Dynojet Research, and Gryphon have been beating the bushes in search of the right deal.

Partnering with Mr. Gresham was a shrewd move for Gryphon. It was Gresham who provided the Midas touch in New Canaan Investors' prodigious investment in Dynojet in 1996, tripling the Company's sales under his leadership. When it was flipped to Riverside in 2000, Dan and his equity partners had achieved a 15 times return on their investment. Subsequently, Riverside flipped the company again in February of this year to Graham Partners, and it achieved an internal rate of return of 47 percent and a cash-on-cash return of 3.7 times its invested equity.

In addition to pushing the company's core products, Gryphon will actively position MSD to introduce new products. Not surprisingly, Gryphon plans to use MSD as a platform to acquire other companies in the industry.

Founded in 1995, Gryphon is one of the stronger middle-market buyout firms around. Since its formation, Gryphon has led investments in eighteen platform companies and arranged over thirty one add-on acquisitions. The firm's portfolio companies include Bright Now! Dental (dental practice management), Miller Heiman (sales training services), and Eight O'clock Coffee (branded consumer products).

IP *(Continued from page 1)*

have developed proprietary manufacturing capabilities are more valuable than those that have not. However, many business owners may not realize how great the disparity can be.

IMAP's study of 2003 acquisition EBIT (earnings before interest and taxes) multiples by company type revealed that firms possessing proprietary manufacturing capability can be worth, on average, 11 percent to 45 percent more than non-proprietary manufacturers.

The recent explosion in offshore manufacturing should serve to widen the value gap between proprietary and non-proprietary manufacturers even further. With low cost, high quality manufacturers operating offshore, domestic firms who have made no effort to develop or protect their proprietary processes and technologies will quickly find themselves unable to compete.