



AFTERMARKET ANALYST

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

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“You can't build a reputation on what you're going to do.”

- Henry Ford

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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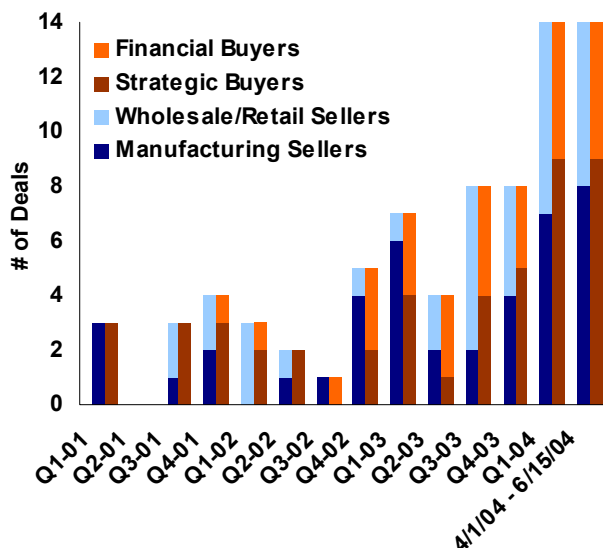
M&A VOLUME SOARS IN FIRST HALF OF '04

Although a strong consolidation trend in the aftermarket has been underway for a couple of years now, it has been taken to a whole new level in 2004. In fact, aftermarket dealmakers have been on a tear so far this year, racking up 28 transactions through the first five and a half months.

The 14 transactions posted in each of the first two quarters of this year are nearly double the eight deals done in each of the last two quarters of 2003. Furthermore, with more than six months left to go in the year, the aftermarket is expected to easily eclipse last year's record setting total of 28 transactions.

To date, aftermarket manufacturers, wholesalers, and retailers alike have benefited from the increased deal volume. However, consolidation among these aftermarket participants is taking place for somewhat different reasons. Of course,

Quarterly Announced Aftermarket Deals by Type of Buyer and Seller: 2001 – 6/15/04
(Source: Capstone)



much of this is due to the industry's unique structure.

For example, consolidation among manufacturers is being driven by their struggle for survival in an increasingly

competitive and pressured market environment where they have little bargaining power or leverage compared to

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SHARE YOUR THOUGHTS ON THE AFTERMARKET'S DISTRIBUTION DILEMMA

Over the last few weeks, we have heard many concerns voiced throughout the industry regarding demands on manufacturers by large WD's and retailers. We have seen many manufacturers trying to alter their distribution in order to sell around these outlets. Specifically, we have been inundated with programs in which manufacturers are attempting to sell directly to automobile dealers

and installation shops. Though this practice is not new, we have seen changes in the methods and urgency of this distribution.

While some retailers are becoming more realistic, others are not. We understand that Wal-Mart is now asking manufacturers if they can survive while selling to Wal-Mart at their current unit pricing. But other retailers are still forcing unrealistic

inventory financing demands upon small manufacturers which can't afford them.

So where is all this headed? We would like to hear your comments in this informal survey, and we will publish the results anonymously in our next newsletter. Please forward your thoughts, comments, frustrations, etc. to Dan Smith at dansmith@capfg.com.



RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer	Target	Target Description
6/14/2004	LKQ Corp.	Albert Lea Auto Salvage, Inc.	Operates a recycled OEM automotive replacement parts facility
6/10/2004	Ron Storer	Go Rhino	Manufacturer of truck accessories, including grill guards, side steps, and hitch steps
6/7/2004	Automotive Cooling Products	Quad Cities Distributing and Discount Radiator Warehouse	Specialty distributor of heating and cooling products
6/2/2004	Hartford Group	Quest Industries	Manufacturer of performance lighting and accessories
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	American Capital Strategies Ltd.	Cottman Transmission Systems LLC	Auto repair shop chain
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

PITFALLS IN PRIVATE DEALMAKING

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WEEKLY NEWS – There's no SEC filing requirements, no financial statements to disclose, no set-best practices in corporate governance, and true values are often difficult to determine. Welcome to the world of the private company, and the minefield of the private dealmaker. In Corporate Acquisitions' latest roundtable, we spoke with five dealmakers, all well-versed in different aspects of the art of the private deal, to find out what pitfalls they are most cognizant of and what lengths they go to avoid them.

Q: FACTSET MERGERSTAT: So, what is the most common pitfall from your experiences in working with private sellers?

A: DAN SMITH, president of Capstone Financial Group:

Most of our deals are seller representation and I learned a long time ago that even if the seller is the most honest guy in the world, he's not going to tell you things that are bad about the company because sometimes he doesn't even think they're bad. He may have had margin erosion, a lot of Asian knock-offs, some customer attrition; things that he does not think are detrimental to value. Because all of our clients are private, we're relying on the company and its information and what they give us to get to the point where we can come up with a valuation before we come to market.

A: COBY SONENSHINE, president of RSM EquiCo: Our focus being the private middle market, the single biggest pitfall, in my opinion, is the lack of a committed seller. Is this owner truly committed to parting control or a significant portion of the business, if not all of it? We take clients to market only when we are sure that they are a committed

seller.

Q: FACTSET MERGERSTAT: How do you address these problems?

A: SMITH: We go through analyzing the company during our due diligence period to ascertain not only where the value is, but where the pitfalls are so we can address those before a buyer comes in. We want to make sure our idea of value concurs with the sellers, because if it doesn't we're both wasting our time. So that's the big thing, just making sure that we uncover everything from the seller that could possibly be a problem and emphasizing that right up front so that when the buyer gets in they know not only the good stuff that the seller wants to tell you, but also the bad stuff so we can get to a quick decision.

A: SONENSHINE: What we try to do is figure out what are the issues precluding that client from being a seller today at a particular price or terms, and work with them over a period of time to enhance their value

or bridge those gaps to enable a deal to get done. Our process here at RSM EquiCo allows a business owner to make an informed decision about the time to go to market in terms of what value they should expect, what kind of structure they might expect in the deal terms. Our client is the one with the ask, we can effect that more than we can effect the bid, at least in going to market. As such, when we take that client to market and begin presenting offers to them, there are hardly ever surprises. Once we're in the marketplace our job is to get that bid as high as possible and maximize value for our clients.

Q: FACTSET MERGERSTAT: What do you watch for in dealing with buyers of private companies?

A: TOM KELSO, managing director for Matrix Capital Markets Group: Since our work is primarily with privately held middle-market companies, my key is to be sure that I have financially capable buyers

(Continued on page 4, see "Pitfalls")

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

Company	Enterprise Value					Last Twelve Months (LTM)			Net Income
	Price as of 6/10/04	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	
Manufacturers									
Dana Corporation	\$20.54	\$3,061.0	\$2,949.0	\$546.0	\$5,582.7	3/31/04	\$8,387.0	\$702.0	\$189.0
Tenneco Automotive Inc.	13.15	550.9	1,426.0	149.0	1,868.1	3/31/04	3,879.0	348.0	24.2
Decoma International Inc.	9.63	804.1	432.9	75.2	1,240.7	3/31/04	2,497.1	268.6	91.8
Standard Motor Products, Inc.	13.85	273.7	244.6	17.9	502.0	3/31/04	747.8	40.2	4.4
Aftermarket Technology Corp.	15.02	312.8	128.8	0.5	450.5	3/31/04	363.0	49.6	20.2
R&B, Inc.	19.15	168.9	43.8	10.3	206.2	3/27/04	227.8	38.2	22.4
Transpro, Inc.	5.55	39.4	44.1	0.5	83.8	3/31/04	237.2	9.3	0.0
Edelbrock Corporation	14.88	81.6	0.2	5.9	77.8	3/25/04	120.6	10.4	3.1
Motorcar Parts of America, Inc.	8.03	64.9	4.9	9.6	65.3	12/31/03	153.7	8.8	7.6
Universal Automotive Industries, Inc.	0.99	11.0	30.4	1.1	40.8	3/31/04	67.6	(1.6)	(1.2)
Wholesalers & Distributors									
Genuine Parts Company	\$39.22	\$6,841.6	\$661.9	\$28.1	\$7,590.8	3/31/04	\$8,624.4	\$657.1	\$365.4
TBC Corporation	25.06	554.6	288.4	5.7	866.9	3/31/04	1,495.8	84.0	33.9
Keystone Automotive Industries, Inc.	27.72	428.3	10.0	3.2	450.8	3/26/04	501.1	33.9	17.7
LKQ Corporation	18.43	365.7	34.4	3.7	430.3	3/31/04	348.8	34.5	16.3
The Coast Distribution System, Inc.	6.46	29.4	33.6	0.8	64.0	3/31/04	164.5	7.2	3.1
Retailers									
Autozone, Inc.	\$89.18	\$7,414.4	\$1,798.9	\$6.8	\$9,593.0	5/8/04	\$5,630.6	\$1,099.1	\$561.2
Advance Auto Parts, Inc.	42.95	3,184.8	406.9	12.9	3,715.1	4/24/04	3,610.6	418.6	161.0
O'Reilly Automotive, Inc.	44.45	2,435.2	101.7	45.3	2,566.3	3/31/04	1,511.8	207.6	100.1
The Pep Boys - Manny, Moe & Jack	24.46	1,414.7	450.1	98.8	1,986.2	5/1/04	2,189.5	121.8	12.1
CSK Auto Corporation	17.50	814.0	505.3	37.2	1,293.1	2/1/04	1,578.1	167.5	48.7

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									
Dana Corporation	0.7x	17.6x	8.0x	14.2x	29.5x	16.2	10.0%	8.4%	2.3%
Tenneco Automotive Inc.	0.5x	10.4x	5.4x	8.5x	77.1x	22.7	16.2%	9.0%	0.6%
Decoma International Inc.	0.5x	7.1x	4.6x	7.6x	13.5x	8.8	15.3%	10.8%	3.7%
Standard Motor Products, Inc.	0.7x	22.3x	12.5x	16.2x	113.2x	61.7	25.6%	5.4%	0.6%
Aftermarket Technology Corp.	1.2x	12.3x	9.1x	13.3x	22.3x	15.5	25.3%	13.7%	5.6%
R&B, Inc.	0.9x	6.1x	5.4x	6.5x	9.2x	7.5	40.5%	16.8%	9.8%
Transpro, Inc.	0.4x	24.7x	9.0x	22.1x	NM	NM	17.3%	3.9%	0.0%
Edelbrock Corporation	0.6x	17.2x	7.5x	14.1x	25.1x	26.3	35.6%	8.6%	2.6%
Motorcar Parts of America, Inc.	0.4x	10.1x	7.4x	9.1x	8.6x	8.5	12.0%	5.7%	4.9%
Universal Automotive Industries, Inc.	0.6x	NM	NM	NM	NM	NM	12.4%	NM	NM
Mean	0.6x	14.2x	7.6x	12.4x	37.3x	20.9x	21.0%	9.1%	3.3%
Median	0.6x	12.3x	7.5x	13.3x	23.7x	15.8x	16.8%	8.6%	2.6%
Wholesalers & Distributors									
Genuine Parts Company	0.9x	12.9x	11.6x	12.7x	20.8x	18.7	31.0%	7.6%	4.2%
TBC Corporation	0.6x	13.9x	10.3x	14.8x	25.6x	16.4	34.7%	5.6%	2.3%
Keystone Automotive Industries, Inc.	0.9x	16.5x	13.3x	20.5x	25.4x	24.2	43.7%	6.8%	3.5%
LKQ Corporation	1.2x	14.9x	12.5x	21.3x	26.4x	22.5	45.2%	9.9%	4.7%
The Coast Distribution System, Inc.	0.4x	10.2x	8.9x	9.4x	20.9x	9.6	18.2%	4.4%	1.9%
Mean	0.8x	13.7x	11.3x	15.8x	23.8x	18.3x	34.6%	6.9%	3.3%
Median	0.9x	13.9x	11.6x	14.8x	25.4x	18.7x	34.7%	6.8%	3.5%
Retailers									
Autozone, Inc.	1.7x	9.7x	8.7x	10.6x	17.1x	13.2	48.3%	19.5%	10.0%
Advance Auto Parts, Inc.	1.0x	11.8x	8.9x	11.8x	23.1x	19.8	46.0%	11.6%	4.5%
O'Reilly Automotive, Inc.	1.7x	15.5x	12.4x	36.1x	25.6x	24.3	42.2%	13.7%	6.6%
The Pep Boys - Manny, Moe & Jack	0.9x	37.3x	16.3x	25.0x	NM	116.7	27.6%	5.6%	0.6%
CSK Auto Corporation	0.8x	10.0x	7.7x	8.5x	26.5x	16.7	47.4%	10.6%	3.1%
Mean	1.2x	16.8x	10.8x	18.4x	23.1x	38.2x	42.3%	12.2%	4.9%
Median	1.0x	11.8x	8.9x	11.8x	24.4x	19.8x	46.0%	11.6%	4.5%

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful

Pitfalls (Continued from page 2)

(both strategic and financial) on my buyer list. While it is easy to gauge the capabilities of financial buyers, it is more difficult with privately held strategic buyers. The second key is to make sure we have done a complete assessment of our client's business to be sure we are structuring the offering in a manner that will maximize the value for the shareholders. This may involve selling various components of the company to different buyers. The biggest pitfall is to expose a business to market without knowing there are financially capable buyers who would be likely buyers.

Q: FACTSET MERGERSTAT: How do you avoid this pitfall?

A: KELSO: Before we terminate a sale or auction process we make sure we know the buyer has the capacity to close the transaction. In addition, I want to make sure that I am dealing with a buyer who has clear intent to complete the transaction outlined in a Letter of Intent and not a buyer that wants to 'retrade' the deal constantly.

Q: FACTSET MERGERSTAT: As a buyer of private companies, what are the keys to avoiding deal breakdowns

and will anything change in 2004 in terms of how you conduct negotiations?

A: BROOKE ABLON, partner at The Riverside Company: I wouldn't say right now there's anything specific that wouldn't be there in 2003. It's always a very delicate dance for buyer and seller in any transaction. For us, if you can create a good working relationship through the process, that's probably the most important thing. In any sale, being the buyer or seller, there will be bumps in the road of some variety, and if you have a good relationship, you can get through them in a way that works for both parties. That's always been true. I think the key is being very even-handed in terms of your reaction to things. Doing what you say you're going to do is important. Where there's a lot of tension is when one side or the other feels like they're being inappropriately disadvantaged in the process. One of the things at Riverside that we take very seriously is that if we say we're going to pay 'X' for a company, that is what we intend to do barring something dramatic. That has played well in the market because you get a good relationship with the seller, you get a good relationship with the investment banker, and at

the end of the day everyone feels that the process went relatively smoothly and everyone got what they bargained for. That will mean you get good references, which ultimately leads to more business.

Q: FACTSET MERGERSTAT: What issues arise in cross-border sales?

A: THOMAS EASTLING, managing director for Morgen, Evan & Company in Tokyo: Cross-border M&A has all the features of domestic transactions, but with the added complication of typically dealing with two separate business cultures. Even when both parties say they understand, they almost certainly don't. This difference in cultures can magnify any obstacles that occur during a deal, whether for regulatory, accounting or legal issues. One specific area in which we must always be extra sensitive is regarding valuations. While concepts such as discounted cash flow are now widely accepted and utilized in the Japanese market, many senior executives remain less than familiar or comfortable with using these methods to value a business or operation. Extra attention must be provided to ensure that the participants clearly understand the

valuation methods utilized in order to avoid significant problems and headaches in the negotiations stages.

A: SMITH: If you are a manufacturer in this country and you are importing from Asia or really any foreign country. You are certainly subject to knock-offs in that country where the manufacturing is being done. And also a lot of due diligence issues relate to possible payouts to foreign officials and things like that. That's a very big due diligence issue these days that ten years ago we never heard of.

Q: FACTSET MERGERSTAT: Do you have to watch for environmental issues in the deals you work on?

A: KELSO: Because we deal in a multi-site retail environment, we always have some form of environmental issues to deal with. I think sellers of multi-site retail businesses are well served by bankers who have done a lot of similar transactions because we have seen many different solutions on how to apportion risk between buyer and seller and how to use insurance products to benefit the deal.

M&A Volume (Continued from page 1)

the wholesalers and retailers that distribute their products. This should come as no surprise to close industry observers who know that manufacturers have increasingly gotten the short end of the stick when it comes to dealing with their distributors.

AutoZone's recent announcement that it reduced inventory by over \$60 million through its pay-on-scan (POS) initiative is only the most recent example of a number of setbacks manufacturers have faced. The upshot of this

announcement, of course, is that aftermarket manufacturers sold \$60 million less in the first quarter of this year. And with AutoZone planning to aggressively ramp up its POS program in the coming quarters, manufacturer sales to the company will only erode at a more rapid rate.

For anyone doubting the degree of AutoZone's commitment to POS, look no further than its ousting of aftermarket stalwart, Dana Corp., from its shelves. The company decided to end its relationship with the long time industry player for failing to come on board with its POS program. It seems

doubtful that the split was anything less than acrimonious since it will not make it any easier for Dana to divest its aftermarket business. The company has had this division on the block for some time now and this recent development will make it that much more difficult to sell.

As a result of these types of events, manufacturers are increasingly realizing that mergers and acquisitions may be their only hope for survival in the long run.

Aftermarket wholesaler and retailer consolidation is being driven by their need to maintain market share and profitability. Furthermore, in

direct contrast to their manufacturer counterparts, strong strategic buyers exist with the financial resources to make deals happen.

Smart distributors understand that embattled manufacturers are constantly seeking new ways to sell around them. Therefore, in order for the Keystones of the world to maintain their market share, they must continue to add distribution capability.

Some of the more active and notable strategic acquirers among aftermarket retailers and wholesalers so far this year have been AutoZone, LKQ, and Keystone Automotive Operations.