



# AFTERMARKET ANALYST

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

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"The market, like the Lord, helps those who help themselves. But unlike the Lord, the market does not forgive those who know not what they do."

- Warren Buffett

*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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## AFTERMARKET TRANSACTION BRIEFS

The last few weeks have seen a flurry of deal activity, culminating in one of the biggest months in aftermarket M&A activity so far this year.

Some of the more noteworthy recent transactions include the recapitalization of Directed Electronics, the take private of Edelbrock, an agreement for an equity investment in Street Glow, and the sale of Trenz and Dana's automotive aftermarket group.

**American Capital Strategies recapitalizes Directed Electronics.** American Capital has been

very active in the automotive aftermarket lately. The company purchased ESCORT, Inc., a manufacturer of automotive security products in August of 2003 and pulled the trigger on Directed Electronics late last month. Between the two companies, American Capital now boasts some of the most coveted mobile electronics properties in the world.

Trivest, the private equity firm that owns Directed Electronics, should be very pleased with the results of the

transaction. With the \$74 million debt infusion, the firm recoups all of its initial investment in Directed and maintains a 70 percent stake going forward.

American Capital's investment in Directed took the form of subordinated debt.

**Edelbrock Corporation goes private.** Public since 1994, Edelbrock has failed to gain significant traction in the public markets. For example, over its nearly ten year period as a public company, it has realized a meager 18.3 percent stock price increase. In addition,

*(Continued on page 3, see "Briefs")*

## "THEY DO IT BECAUSE THEY CAN"

The response to our informal survey on the front page of last month's issue was overwhelming — and striking in its unanimity. When discussing the reasons why large warehouse-distributors (WDs) and retailers employ their heavy-handed tactics, the vast majority of manufacturers said, "They do it because they can."

Almost without exception, respondents throughout North America stridently complained about their treatment at the hands of their WD and

retail customers.

One manufacturer believes a lack of anti-trust oversight and enforcement over the last thirty years has fomented a market environment tilted in favor of large WDs and retailers.

This may, in fact, be the case since the aftermarket is perhaps the only industry in the world with such a large disparity in market power between manufacturers and distributors.

Furthermore, this disparity seems to be growing as many chains now have international

presences and threaten manufacturers with eviction from stores in every country worldwide should they fail to comply with their onerous terms.

Many respondents voiced their disdain for the payment terms demanded by their customers through Pay-On-Scan and "Pay-After-Scan."

Currently, these large WDs and retailers are asking manufacturers to: 1) finance the distribution chain; 2) take back large amounts of merchandise; and 3) give huge

*(Continued on page 3, see "They Can")*

## RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce	Acquirer/Investor	Target	Target Description
7/12/2004	Michael DeHaas	KC Hilites	Manufactures fog, driving, and high-powered off-road lighting and related equipment
7/8/2004	The Cypress Group	Dana's Automotive Aftermarket Group	Manufactures replacement auto parts
7/6/2004	Lear Corporation	GHW Grote & Hartmann GmbH	Manufacturer of electrical components for the auto industry
6/25/2004	American Capital Strategies, Ltd.	Directed Electronics Inc.	Designer and marketer of consumer branded vehicle security and convenience systems
6/25/2004	Lund International, Inc.	Trenz	Manufacturer of grills and billet aluminum accessories
6/25/2004	O. Victor Edelbrock, Jr.	Edelbrock Corporation	Manufacturer and distributor of performance replacement parts for the automotive and motorcycle aftermarkets
6/21/2004	Chinese investment group called Street Glow (Hong Kong), Ltd.	Street Glow, Inc.	Manufacturer of automotive performance lighting
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
4/21/2004	Performance Accessories	Trailmaster	Manufactures suspension lift systems for light trucks and SUVs
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.

**They Can** (Continued from page 1)

incentives to convert customers to their brand.

If manufacturers concede these terms, they risk huge losses because they simply do not have enough margin and borrowing capacity to do so. As one manufacturer pointed out, these kinds of pressure tactics are no different from the retro-active price rollbacks OEMs implemented earlier this year.

For several years, many manufacturers have had problems with their asset-based lenders because of their customer concentration levels. We have seen concentrations

as high as 70 percent for a single customer, and it's not unusual to have 60 percent of sales in just three accounts. These financing problems are exacerbated by programs such as POS.

The survey showed that most companies that have agreed to POS are 1) new companies with only two or three SKUs; 2) those that are anxious to get new products into this channel; or 3) those with rapid product turnover.

Many manufacturers, wary of product returns, are now refusing to sell to the big chains and describe their former customers as "starving for new product." These

manufacturers have also slashed product development. Others are seeking forms of agreement different from what they now use with the chains.

Two of the problems seem to be the retail chains' belief that they are not vulnerable and their lack of understanding of the geographical regionalization of product demand. For example, some chains often test market specific products which may only sell well in certain regions. The chain then rolls this product out nationwide where it often fails to sell as anticipated. The end result is millions of dollars in product

returns to the manufacturer.

We also heard from manufacturers who are setting up new distribution channels and selling directly to auto dealers, installation shops, and consumers. Many operate on thin margins and can't withstand product returns, and others set their margins high enough so they are able to absorb these returns.

One respondent, speaking of the continuous siege manufacturers have been facing from their distributors said, "It will stop only when all this stuff destroys the manufacturing base."

**Briefs** (Continued from page 1)

Edelbrock's market capitalization currently stands at just \$81 million.

Unfortunately, many companies with less than a billion dollars in market cap have a hard time getting attention from investors and Wall Street analysts. With thousands of stocks for investors to choose from, these attention starved companies' stocks often languish for years.

The Sarbanes-Oxley Act is another reason many public companies are going private. It is estimated that Sarbanes-Oxley costs public companies an extra \$1 million annually due to the onerous reporting requirements and additional accountability. In fact, since the law was enacted, there has been a 30 percent upsurge in

companies going private.

**Street Glow agrees to sell equity to Chinese investment group.** Street Glow's main Asian supplier is part of a group that has signed a Letter of Intent to acquire ownership in the company. The deal is expected to close the middle of the third quarter of this year.

The company also announced the departure of its president, Lou Merz, a forty year automotive industry veteran who held leadership positions with Delphi and MascoTech. Mr. Merz was brought on board in June of 2003 to drive Street Glow's auto-neon and performance lighting products to new heights. He told Capstone last November that he was "increasing the infrastructure and would be looking for acquisitions soon." After announcing Mr. Merz's departure, the

company reaffirmed that it may look at "accretive acquisitions in the automotive aftermarket and mobile electronics segments."

**The Cypress Group buys Dana's Automotive Aftermarket Group.** The sale of Dana's aftermarket business was long anticipated, as it has been shedding Echlin assets since Dana purchased the company in 1998. The \$1.1 billion raised in the sale (approximately 6.3x trailing twelve months EBITDA), allowed Dana to reduce its net debt from \$2.8 to \$1.8 billion, paving the way for it to gain investment-grade credit status.

The Cypress Group, a private equity firm with more than \$3.5 billion in committed capital, competed with the likes of The Carlyle Group, Bain Capital, Heartland

Industrial Partners, and Texas Pacific Group in successfully bidding for the business.

Instrumental in winning the auction were two former Echlin executives, Larry McCurdy and Joe Onorato, who agreed to serve as directors of the new investment.

The Cypress Group's automotive experience includes the purchase and subsequent public offering of Lear Corporation.

**Lund purchases Trenz.** Lund's purchase of Trenz is a signal that restyling and the sport compact phenomenon is more than an ephemeral fad. The truck accessory leader snatched the billet aluminum accessory manufacturer out of bankruptcy in a hotly contested auction in June.

Capstone advised Trenz in the sale of the company.

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

Company	Enterprise Value					Last Twelve Months (LTM)			
	Price as of 7/15/04	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
<b>Manufacturers</b>									
Tenneco Automotive Inc.	12.35	517.4	1,426.0	149.0	1,829.9	3/31/04	3,879.0	348.0	24.2
Decoma International Inc.	9.33	779.1	432.9	75.2	1,215.7	3/31/04	2,497.1	268.6	91.8
Standard Motor Products, Inc.	13.88	274.3	244.6	17.9	502.6	3/31/04	747.8	40.2	4.4
Aftermarket Technology Corp.	15.97	332.6	128.8	0.5	471.6	3/31/04	363.0	49.6	20.2
R&B, Inc.	19.75	174.2	43.8	10.3	211.9	3/27/04	227.8	38.2	22.4
Transpro, Inc.	5.99	42.6	44.1	0.5	87.1	3/31/04	237.2	9.3	0.0
Motorcar Parts of America, Inc.	9.00	73.0	4.7	7.9	74.3	3/31/04	152.6	13.3	6.5
Universal Automotive Industries, Inc.	0.74	8.2	30.4	1.1	37.6	3/31/04	67.6	(1.6)	(1.2)
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	\$37.90	\$6,611.4	\$661.9	\$28.1	\$7,351.3	3/31/04	\$8,624.4	\$657.1	\$365.4
TBC Corporation	22.60	500.1	288.4	5.7	807.1	3/31/04	1,495.8	84.0	33.9
Keystone Automotive Industries, Inc.	27.51	425.0	10.0	3.2	447.3	3/26/04	501.1	33.9	17.7
LKQ Corporation	18.37	364.5	34.4	3.7	428.9	3/31/04	348.8	34.5	16.3
The Coast Distribution System, Inc.	7.34	33.4	33.6	0.8	68.5	3/31/04	164.5	7.2	3.1
<b>Retailers</b>									
Autozone, Inc.	\$76.72	\$6,378.5	\$1,798.9	\$6.8	\$8,478.8	5/8/04	\$5,630.6	\$1,099.1	\$561.2
Advance Auto Parts, Inc.	37.83	2,805.1	406.9	12.9	3,307.7	4/24/04	3,610.6	418.6	161.0
O'Reilly Automotive, Inc.	41.20	2,257.1	101.7	45.3	2,376.8	3/31/04	1,511.8	207.6	100.1
The Pep Boys - Manny, Moe & Jack	22.45	1,298.4	450.1	98.8	1,846.6	5/1/04	2,189.5	121.8	12.1
CSK Auto Corporation	14.27	663.8	505.3	37.2	1,138.2	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
<b>Manufacturers</b>									
Tenneco Automotive Inc.	0.5x	10.2x	5.3x	8.4x	75.6x	21.4	16.2%	9.0%	0.6%
Decoma International Inc.	0.5x	6.9x	4.5x	7.4x	13.2x	8.5	15.3%	10.8%	3.7%
Standard Motor Products, Inc.	0.7x	22.3x	12.5x	16.2x	113.4x	61.9	25.6%	5.4%	0.6%
Aftermarket Technology Corp.	1.3x	12.9x	9.5x	13.9x	23.3x	16.4	25.3%	13.7%	5.6%
R&B, Inc.	0.9x	6.3x	5.5x	6.7x	9.5x	7.8	40.5%	16.8%	9.8%
Transpro, Inc.	0.4x	25.7x	9.4x	22.9x	NM	NM	17.3%	3.9%	0.0%
Motorcar Parts of America, Inc.	0.5x	6.8x	5.6x	5.7x	11.5x	11.3	15.2%	8.7%	4.2%
Universal Automotive Industries, Inc.	0.6x	NM	NM	NM	NM	NM	12.4%	NM	NM
<b>Mean</b>	<b>0.7x</b>	<b>13.0x</b>	<b>7.5x</b>	<b>11.6x</b>	<b>41.1x</b>	<b>21.2x</b>	<b>21.0%</b>	<b>9.7%</b>	<b>3.5%</b>
<b>Median</b>	<b>0.5x</b>	<b>10.2x</b>	<b>5.6x</b>	<b>8.4x</b>	<b>18.3x</b>	<b>13.9x</b>	<b>16.8%</b>	<b>9.0%</b>	<b>3.7%</b>
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	0.9x	12.5x	11.2x	12.3x	20.1x	18.1	31.0%	7.6%	4.2%
TBC Corporation	0.5x	12.9x	9.6x	13.8x	23.8x	14.8	34.7%	5.6%	2.3%
Keystone Automotive Industries, Inc.	0.9x	16.4x	13.2x	20.3x	25.2x	24.0	43.7%	6.8%	3.5%
LKQ Corporation	1.2x	14.8x	12.4x	21.3x	26.4x	22.4	45.2%	9.9%	4.7%
The Coast Distribution System, Inc.	0.4x	10.9x	9.5x	10.1x	22.3x	10.9	18.2%	4.4%	1.9%
<b>Mean</b>	<b>0.8x</b>	<b>13.5x</b>	<b>11.2x</b>	<b>15.6x</b>	<b>23.6x</b>	<b>18.0x</b>	<b>34.6%</b>	<b>6.9%</b>	<b>3.3%</b>
<b>Median</b>	<b>0.9x</b>	<b>12.9x</b>	<b>11.2x</b>	<b>13.8x</b>	<b>23.8x</b>	<b>18.1x</b>	<b>34.7%</b>	<b>6.8%</b>	<b>3.5%</b>
<b>Retailers</b>									
Autozone, Inc.	1.5x	8.5x	7.7x	9.4x	15.1x	11.4	48.3%	19.5%	10.0%
Advance Auto Parts, Inc.	0.9x	10.5x	7.9x	10.5x	20.5x	17.4	46.0%	11.6%	4.5%
O'Reilly Automotive, Inc.	1.6x	14.4x	11.4x	33.4x	23.7x	22.6	42.2%	13.7%	6.6%
The Pep Boys - Manny, Moe & Jack	0.8x	34.6x	15.2x	23.2x	NM	107.1	27.6%	5.6%	0.6%
CSK Auto Corporation	0.7x	8.8x	6.8x	7.5x	23.4x	13.6	47.4%	10.6%	3.1%
<b>Mean</b>	<b>1.1x</b>	<b>15.4x</b>	<b>9.8x</b>	<b>16.8x</b>	<b>20.7x</b>	<b>34.4x</b>	<b>42.3%</b>	<b>12.2%</b>	<b>4.9%</b>
<b>Median</b>	<b>0.9x</b>	<b>10.5x</b>	<b>7.9x</b>	<b>10.5x</b>	<b>22.0x</b>	<b>17.4x</b>	<b>46.0%</b>	<b>11.6%</b>	<b>4.5%</b>

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful