

the aftermarket analyst

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

A “Shift” In History: B&M Racing Reaches Another Milestone, Sells to LBO Firm

The world’s leading manufacturer of transmission shifters has completed another important milestone in its illustrious history. B&M Racing and Performance Products of Chatsworth, CA has been sold to an affiliate of Dubin Clark & Company, a private equity investment firm based in Greenwich, CT.

For more than 50 years, B&M has been a leading designer, manufacturer, and marketer of automotive performance and racing drive train products and accessories including automatic and manual shifters, torque converters, high performance automatic transmissions, coolers, and performance transmission fluid. The company’s products are used worldwide by professional racers and automotive enthusiasts for both street and track applications.

B&M has a long and distinguished automotive racing heritage. Founded in 1953 by Bob Spar and Mort Schuman, B&M is one of only four original SEMA founding members and has been family operated for most of its history. In 1955, Bob’s brother Don joined B&M, and the two brothers remained the controlling shareholders until the sale to Dubin Clark.

The company produced the only patented 4-speed automatic racing transmission, known as the famous B&M Hydro Stick, which *Hot Rod* magazine recently called one of the 20 most important innovations in drag racing. In 1965, Frank Cannon made the first 200 MPH Top Fuel run using a B&M TorkMaster Transmission. In 1969, B&M teamed up with Andy Granatelli and Plymouth to develop the only automatic transmission ever for Indy Car racing.

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Top Six M&A Deal Pitfalls For Sellers

Quality merger and acquisition deals go bad all the time, even when the parties involved are acting in good faith. When this occurs, money and valuable time are lost and relationships can be tarnished forever. In order to minimize the chances of this happening, it is important to be aware of the most common and dangerous pitfalls sellers face during the process of selling their companies. These include the following:

- (1) **Loss of control.** Without a disciplined approach and careful management, a sale process can quickly spiral out of control. In order to prevent this, it is crucial not to allow the prospective acquirer to drive the sale process and schedule. Also, exclusivity should not be granted early on and lines of communication need to be limited. Unilateral offeror situations can be particularly dangerous because the seller has limited leverage, and exploitation and abuse by the buyer is common.
- (2) **Bad timing.** This can take several forms, including not assigning drop dead dates to various steps of the process and trying to “outsmart” the market. Many sellers wait for “next year’s growth,” only to have it never materialize — leaving them in a poor position to sell the company for a good price.
- (3) **Weak documentation.** It takes significant commitment and effort to get all of the documentation that will be carefully reviewed by prospective buyers. Companies must have, among other things, accurate and detailed “normalized” financial statements, projections, intellectual property records, and customer data. Furthermore, the company’s offering memorandum must strike a delicate balance between providing enough information to allow a prospective buyer to analyze the

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RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor	Target	Target Description	Firm Value (\$mil.)	Rev. FV / Rev.	EBITDA FV / EBITDA
7/21/2005	Platinum Equity	American Racing Equipment Inc.	leading manufacturer of high-performance automotive wheels to aftermarket customers in North America	—	—	—
7/7/2005	Dubin Clark & Company	B&M Racing and Performance Products, LLC	Manufacturer of performance drivetrain products and accessories	—	—	—
7/5/2005	International Truck and Engine Corporation (International Corporation)	Workhorse Custom Chassis, LLC and Uptime Parts, LLC (subsidiaries of GVW Holdings Corporation)	Workhorse is a major manufacturer of chassis for Class A motor homes, buses and walk-in trucks. Uptime Parts supplies replacement and aftermarket parts for the RV, truck and bus markets Workhorse serves	—	\$480.0	—
7/1/2005	Johnson Controls	Delphi Corp.'s battery product line	Includes Delphi's global starting, lighting, and ignition lead-acid battery operations	202.5	600.0 0.34x	—
6/30/2005	Eaton Corp.	Morestana	Mexico-based manufacturer of hydraulic lifters for automotive engine manufacturers and the auto aftermarket	8.0	13.0 0.62x	—
6/23/2005	Into Great Brands	Dura Lube	Manufacturer of Advanced Engine Treatment, Advanced Fuel System Treatment, Dura Shine and other chemical and lubricant additives	3.0	5.0 0.60x	—
6/20/2005	Industrial Enterprises of America	Unifide Industries	Makes specialty automotive chemicals and additives	3.8	—	—
6/20/2005	Hopkins Manufacturing Company (Friend Skoler & Co.)	DesignTech International	Manufacturer of remote car starters, halogen backup bulbs, beepers, keyless entry systems, car security systems, automatic headlight control systems, car paging systems and universal alarm bypass modules	—	—	—
6/15/2005	Allied Capital Corp.	Meineke Car Care Centers (1)	Automotive repair and service outlets	127.0	—	—
6/9/2005	Industrial Enterprises of America, Inc.	Unifide Industries LLC	Marketer and seller of automotive chemicals and additives	—	—	—
6/9/2005	J.B. Poindexter & Company Inc.	Federal Coach LLC	Manufacturer and marketer of funeral coaches, limousines and midsized buses	12.6	40.0 0.32x	—
6/9/2005	World Imports International	Liteglow Industries	Manufacturer of neon and Lighting products	—	—	—
6/9/2005	Thule Group (Candover Investments)	Omnister Accessories NV	Belgium-based supplier of European aftermarket accessories for recreational vehicles	—	—	—
5/31/2005	Leonard Green & Partners LP	The Tire Rack	Mail-order and online tire retailer	—	—	—
5/23/2005	Keystone Automotive Operations, Inc.	Blacksmith Distributing, Inc.	Automotive aftermarket accessory distributor	—	—	—
5/14/2005	Fred Jones Enterprises	Global Parts Distribution	Distributor of automotive air conditioning parts to the aftermarket	—	—	—
5/4/2005	Valvoline, a division of Ashland Inc.	Car Brite	Distributor of interior and exterior cleaners, paint restorers and protectants and final detail dressings, paints and dyes	—	—	—
5/2/2005	O'Reilly Automotive, Inc.	Midwest Auto Parts Distributors, Inc.	Operates 71 auto parts stores	61.0	98.7 0.62x	—

(1) Firm value represents amount of capital invested

(B&M Racing, Continued from page 1)

Capstone Financial Group was contacted by B&M last year to discuss strategic alternatives which would allow for a divestiture of the shareholders' interests while keeping the company's talented professional management team intact. This team includes Brian Appelgate, former SEMA Chairman and 1995 Person of the Year, Jim Cozzie, the current SEMA Chairman Elect, and Steve Potter, B&M's experienced CFO.

Due to the heightened interest in the performance segment of the auto aftermarket industry, Capstone entertained several bids for the purchase of B&M from a variety of domestic and international prospective purchasers, both financial and strategic. Dubin Clark & Company emerged as the winning bidder during final rounds of negotiations and subsequently completed a purchase of substantially all of B&M's assets.

This transaction is further evidence of the "changing of the guard" throughout the auto aftermarket industry, particularly as it relates to the immense amount of dollars invested in the industry by private equity firms. Many of the original owner operated companies such as B&M have morphed from purely entrepreneurial enterprises to organizations that are professionally managed, sophisticated, and now backed by institutional investors with an emphasis on maximizing shareholder value.

As the automotive aftermarket continues to rapidly consolidate, transactions like this one will only become more common. Companies that want to thrive in the increasingly competitive marketplace will have to undergo changes similar to B&M's.

Dubin Clark & Company, founded in 1984, is a private equity investment firm which buys and builds businesses in partnership with their management teams. The firm's other investments include Universal Trailer Corporation, Classic Party Rentals, and CompUSA. Dubin Clark enlisted the services of another former SEMA Chairman, Nate Shelton, to assist in B&M's significant growth objectives.

(Pitfalls, Continued from page 1)

- opportunity thoroughly, but not include all of the company's proprietary information.
- (4) **Unlimited access.** Prospective buyers should not be granted more access to company management and personnel than is reasonable at any given time in the sale process. For example, multiple management presentations and site visits should not be allowed prior to the receipt of a Letter of Intent. Also, buyers should not be allowed to speak with management without the presence of a financial advisor and all management meetings must be "scripted" appropriately.
 - (5) **Not maximizing pricing/value.** There are many factors that can prevent shareholders from receiving maximum value for their ownership interest. These include creating too many economic and non-economic conditions to a transaction; not obtaining value for non-compete agreements, employment contracts, and board seats; and not soliciting enough buyers or the "right" buyers. Confidentiality concerns often lead sellers to limit their marketing efforts, even though there is usually less downside to public disclosure of a sale process than most buyers believe. What is most certain is that limiting the field of prospective buyers substantially reduces the price a seller may ultimately realize. Creating a competitive environment, instilling a sense of urgency, and achieving certainty of execution are all critical components here.
 - (6) **Going it alone.** Due to the numerous items that must be negotiated during the sale process and their respective complexity, company owners rarely accomplish a favorable sale alone. All too often, deals fall apart or close at less than advantageous terms because unaided sellers have difficulty carefully working through all of the "pressure points" that can be traded off with buyers to maximize realized value. Investment bankers can help mitigate these concerns and provide a buffer between the buyer and seller, keeping potentially damaging emotionally driven missteps and unfiltered communications out of the process.

About Capstone

Capstone Financial Group is an investment banking firm assisting owners of middle market companies with their financial needs - including mergers and acquisitions, recapitalizations, private placements, divestitures, and other financial advisory services. Capstone is backed by a highly experienced and knowledgeable team of financial professionals with firsthand knowledge of starting, operating, growing, and selling middle market companies. Visit us online at www.capfg.com.

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

Company	Enterprise Value					Last Twelve Months (LTM)			
	Price as of 7/21/05	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
Manufacturers									
Tenneco Automotive Inc.	\$18.72	\$816.3	\$1,408.0	\$68.0	\$2,237.1	3/31/05	\$4,281.0	\$361.0	\$22.6
Standard Motor Products, Inc.	13.17	261.2	351.1	8.8	604.1	3/31/05	951.3	41.7	8.2
Aftermarket Technology Corp.	16.50	351.6	107.3	9.2	454.6	3/31/05	404.5	65.7	30.5
R&B, Inc.	13.65	244.7	34.8	5.6	277.4	3/26/05	254.8	34.5	17.2
Transpro, Inc.	6.19	44.0	37.9	0.4	82.7	3/31/05	267.0	14.5	4.4
Wholesalers & Distributors									
Genuine Parts Company	\$45.26	\$7,895.6	\$500.9	\$157.8	\$8,373.9	3/31/05	\$9,242.5	\$708.8	\$402.0
TBC Corporation	27.03	606.7	265.7	1.4	899.6	3/31/05	1,887.9	101.3	38.3
LKQ Corporation	27.40	568.1	59.1	4.2	686.2	3/31/05	458.5	46.8	23.3
Keystone Automotive Industries, Inc.	25.96	411.2	0.0	4.1	415.3	4/1/05	557.7	29.2	14.3
The Coast Distribution System, Inc.	5.00	23.4	33.6	0.3	57.5	3/31/05	173.0	8.7	3.9
Retailers									
Autozone, Inc.	\$98.36	\$7,596.9	\$1,914.5	\$77.4	\$9,878.3	5/7/05	\$5,664.4	\$1,119.0	\$573.8
Advance Auto Parts, Inc.	66.35	4,753.0	483.7	131.7	5,294.0	4/23/05	3,905.7	468.6	207.2
O'Reilly Automotive, Inc.	30.82	3,427.5	100.8	89.3	3,439.0	3/31/05	1,784.2	254.3	123.6
The Pep Boys - Manny, Moe & Jack	13.76	761.7	504.2	84.3	1,183.2	4/30/05	2,271.0	122.4	8.2
CSK Auto Corporation	18.11	817.8	495.7	97.7	1,230.9	5/1/05	1,577.6	127.3	34.1

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
Manufacturers									
Tenneco Automotive Inc.	0.5x	12.2x	6.2x	10.0x	98.9x	36.1	15.7%	8.4%	0.5%
Standard Motor Products, Inc.	0.6x	28.1x	14.5x	18.9x	73.7x	31.9	23.6%	4.4%	0.9%
Aftermarket Technology Corp.	1.1x	8.8x	6.9x	8.1x	14.9x	11.5	25.7%	16.3%	7.5%
R&B, Inc.	1.1x	9.3x	8.0x	13.0x	16.1x	14.2	37.1%	13.6%	6.8%
Transpro, Inc.	0.3x	9.6x	5.7x	10.6x	18.6x	9.9	19.8%	5.4%	1.7%
Mean	0.7x	13.6x	8.3x	12.1x	44.5x	20.7x	24.4%	9.6%	3.5%
Median	0.6x	9.6x	6.9x	10.6x	18.6x	14.2x	23.6%	8.4%	1.7%
Wholesalers & Distributors									
Genuine Parts Company	0.9x	13.0x	11.8x	13.3x	20.8x	19.6	31.2%	7.7%	4.3%
TBC Corporation	0.5x	12.2x	8.9x	8.8x	23.5x	15.8	37.4%	5.4%	2.0%
LKQ Corporation	1.5x	17.4x	14.7x	27.6x	29.4x	24.3	44.9%	10.2%	5.1%
Keystone Automotive Industries, Inc.	0.7x	19.8x	14.2x	19.9x	29.1x	28.8	43.6%	5.2%	2.6%
The Coast Distribution System, Inc.	0.3x	7.4x	6.6x	7.1x	14.7x	6.0	18.9%	5.0%	2.3%
Mean	0.8x	14.0x	11.2x	15.3x	23.5x	18.9x	35.2%	6.7%	3.3%
Median	0.7x	13.0x	11.8x	13.3x	23.5x	19.6x	37.4%	5.4%	2.6%
Retailers									
Autozone, Inc.	1.7x	10.0x	8.8x	11.5x	17.2x	13.2	49.1%	19.8%	10.1%
Advance Auto Parts, Inc.	1.4x	14.7x	11.3x	20.3x	25.6x	22.9	46.9%	12.0%	5.3%
O'Reilly Automotive, Inc.	1.9x	17.2x	13.5x	45.6x	27.8x	27.7	43.1%	14.3%	6.9%
The Pep Boys - Manny, Moe & Jack	0.5x	25.8x	9.7x	52.2x	144.3x	92.9	26.4%	5.4%	0.4%
CSK Auto Corporation	0.8x	13.6x	9.7x	12.4x	36.1x	24.0	46.0%	8.1%	2.2%
Mean	1.3x	16.3x	10.6x	28.4x	50.2x	36.2x	42.3%	11.9%	5.0%
Median	1.4x	14.7x	9.7x	20.3x	27.8x	24.0x	46.0%	12.0%	5.3%

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful



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