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the aftermarket analyst

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

Q: "What's the multiple these days?"
A: "There's not one."

By far, the most prevalent question investment bankers are asked by company owners is, "What multiples are you seeing these days?" Of course, the question relates to the multiple of EBITDA (earnings before interest, taxes, depreciation and amortization) that is used to value a company. However, the fact is that this multiple is derived from a variety of factors and cannot be quoted universally.

When buyers analyze a business, they are, of course, interested in its history, but only as it relates to the company's growth potential under new ownership. In order to ascertain a company's future growth potential, buyers look at the following items:

- historical sales and trends;
- industry and segment growth;
- level and sustainability of Gross Margins;
- number and types of distribution channels;
- product and customer concentrations;
- percentage of products manufactured in-house;
- ability to introduce new products;
- intellectual property;
- necessary working capital levels;
- amount of Shareholders Equity;
- consolidation trends in the industry; and
- new growth opportunities.

Once these factors are analyzed, a buyer will estimate the company's growth potential for the next four or five years. This is important because it is the company's future, not its past, that determines the new owner's cash stream.

After finalizing the projections, a buyer will generally use one of two financial modeling methods to determine a justifiable purchase price. Most industrial (strategic) buyers will use a Discounted Cash Flow Model to derive a valuation. The basis of this financial model is the buyer's Weighted Average Cost of Capital (WACC), which is determined by calculating the after tax cost of its debt and equity capital.

The buyer uses this WACC and the acquisition target's projected growth to determine an affordable price. An EBITDA multiple can be calculated at this point by dividing the determined purchase price by the company's EBITDA.

Interestingly, one reason that many industry buyers are losing deals to Private Equity Groups (PEGs) these days is that industry buyers are using a WACC that is much too high. PEGs realized this fact some time ago and have since won competitive auctions at an historically disproportionate rate.

Most PEGs analyze a deal using a Leveraged

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RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor(s)	Target	Target Description	Firm Value ($mil.)	FV / Rev.	FV / EBITDA
7/27/2006	Dubin Clark & Co.	Featherlite Inc.	Aluminum trailer and container maker	$108.6	227.1 0.48x	11.9 9.12x
7/26/2006	General Parts Inc.	Worldwide Auto Parts	Supplier of new and remanufactured parts for vehicles	—	—	—
7/25/2006	AVM Industries LLC	ArvinMeritor’s light-weight vehicle division	Producer of gas springs and vacuum actuators	—	—	—
7/25/2006	Transition Capital Partners	Continental Commercial Products' manufacturing division	Manufactures aluminum and steel powder coated work-boxes that are used in pick-up trucks and on job sites, as well as liquid-storage tanks used primarily by industry and agriculture	—	—	—
7/23/2006	UAP Inc (subsidiary of Genuine Parts Co.)	Pieces d’autos Paul Lavigne Inc	Operates 3 east-Montreal stores of auto-aftermarket parts	—	11.0	—
7/18/2006	Code Hennessy & Simmons LLC	TruckPro Inc.	After-market distributor of heavy-duty truck and trailer parts	—	—	—
7/14/2006	ITW Performance Polymers	QMI/Ever-wear	Manufacturer of automotive and industrial maintenance fluids	—	—	—
7/14/2006	BWP Distributors	Maynard Auto Supply	Operates 12 auto parts stores in Vermont and one in New Hampshire	—	—	—
7/13/2006	Century Park Capital Partners	Specialty Manufacturing Co.	N.C.-based supplier of safety components, lighting systems and accessories to the school and transit bus markets	—	—	—
7/13/2006	Century Park Capital Partners	Eckler's Enterprises, Inc.	Multi-title catalog and Internet marketing of classic and enthusiast auto aftermarket parts for Corvette and other classic Chevy automobiles	—	—	—
7/10/2006	LKQ Corporation	several recycled parts businesses	Two facilities in Houston, Texas with a total footprint of approximately 46 acres, a 10 acre facility in Aurora, Colorado (a suburb of Denver) and a 12 acre facility in Daytona Beach, Florida	—	—	—
7/10/2006	Auto-Wares Group of Companies, Inc.	Certified Automotive and Lee Parts Stores	Distributors of auto parts	—	—	—
6/30/2006	GenTek Inc.	Precision Engine Products Corp.	Manufactures hydraulic lash adjusters and die cast aluminum rocker arm assemblies utilized in valve train systems for both OEM and after market applications to the global automotive and light duty truck markets	25.0	—	—
6/30/2006	groups of private investors	Neapco, Inc. and Pioneer, Inc. business units.	Manufacturers of automotive hard parts	36.0	—	—
6/27/2006	Atlantis Holding Corp	Eagle Automotive Group, Inc.	Offers automotive aftermarket product lines, including interior seat products, seat covers, interior organizers, consoles, cup holders, etc.	—	—	—
6/23/2006	Oshkosh Truck Corp	AK Specialty Vehicles	Designs, engineers, and constructs mobilized medial broadcast, and special purpose vehicles and technologies	140.0	—	—
6/23/2006	Industrial Enterprises of America	Undisclosed	Specialty blender, packager and distributor of motor and lube oils and related auto aftermarket products	—	—	—
6/22/2006	Pidilite Industries	Cyclo Industries	Manufacturer of car care chemicals	—	—	—
6/20/2006	Uni-Select Inc.	Red Rooster Auto Stores, LLC	Six stores that serve both retail and professional service dealer customers	—	11.5	—
6/20/2006	Control Systems Group Limited	Gabriel South Africa	Maker of light vehicle aftermarket ride control systems	12.0	—	—

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Buyout (LBO) Model. Once the company's projections are finalized, the PEG is able to calculate an Internal Rate of Return (IRR) based upon a certain purchase price.

PEGs usually have standard IRR hurdles for most deals, but this rate can vary based upon the risk and reward perceived in a specific transaction. Because most PEGs use funds with a finite life (usually five to seven years), they must be very specific about a company's projections and the estimated time at which they will exit the investment.

Once PEGs have decided upon a necessary IRR, the LBO model determines the relevant purchase price. Again, it is after the completion of this analysis that the EBITDA multiple is derived.

It is worth noting that required IRRs have dropped precipitously over the last few years. Five years ago, many deals were modeled in the 50% range, but these hurdle rates have dropped into the low 20s and high teens.

In summary, there is no such thing as "the multiple." A company's purchase price is usually derived by analyzing the aforementioned growth factors and using an appropriate financial model. An EBITDA multiple can then be inferred from the results of various valuation methodologies. Furthermore, purchase price multiples have certainly risen in recent years due to several market factors including lower interest rates, more available equity and buyers' willingness to accept a lower rate of return.

About Capstone

Capstone Financial Group is an investment banking firm which assists 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.

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

Company	Price as of 7/28/06	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
	Enterprise Value					Last Twelve Months (LTM)			
Manufacturers									
Tenneco Automotive Inc.	$23.12	$1,046.1	$1,384.0	$96.0	$2,421.7	3/31/06	$4,472.0	$386.0	$59.8
Aftermarket Technology Corp.	21.48	467.0	55.3	4.6	528.9	3/31/06	473.4	68.2	33.9
Directed Electronics, Inc.	11.54	285.8	166.2	30.2	421.8	3/31/06	326.8	30.7	(0.1)
Standard Motor Products, Inc.	7.70	142.2	291.5	14.0	419.7	3/31/06	833.2	39.4	2.8
Dorman Products, Inc.	11.67	207.0	36.2	2.5	247.7	4/1/06	285.8	35.8	17.0
Milemarker Interrnational Inc.	2.50	24.9	4.4	0.3	29.1	3/31/06	24.6	5.1	2.9
Wholesalers & Distributors									
Genuine Parts Company	$42.03	$7,257.7	$500.0	$150.2	$7,728.6	3/31/06	$9,994.4	$787.4	$444.8
LKQ Corporation	22.18	1,169.4	82.9	4.0	1,364.6	3/31/06	605.7	68.2	34.6
Keystone Automotive Industries, Inc.	42.27	688.6	0.0	4.7	696.9	3/31/06	628.3	44.7	22.3
The Coast Distribution System, Inc.	8.50	37.5	34.3	0.6	73.4	3/31/06	178.0	8.8	3.9
Retailers									
Autozone, Inc.	$87.15	$6,474.8	$1,825.1	$84.0	$8,308.5	5/6/06	$5,789.9	$1,102.9	$567.7
Advance Auto Parts, Inc.	30.52	3,234.4	452.5	55.4	3,674.7	4/22/06	4,399.6	540.0	240.2
O'Reilly Automotive, Inc.	28.04	3,174.1	100.6	55.3	3,281.3	3/31/06	2,115.6	321.1	171.6
The Pep Boys - Manny, Moe & Jack	10.89	590.8	581.0	51.7	1,120.1	4/29/06	2,227.6	74.6	(34.2)
CSK Auto Corporation	12.16	532.8	395.1	19.3	913.1	10/30/05	1,594.5	121.9	31.3

Selected Public Company Multiples and Operating Statistics

Company	Enterprise Value / Revenue	EBIT	EBITDA	Free Cash Flow (2)	Net Income	P / E Ratio	Margins: Gross Margins	EBITDA Margins	Net Margins
Manufacturers									
Tenneco Automotive Inc.	0.5x	11.5x	**6.3x**	10.3x	40.5x	17.5	15.2%	8.6%	1.3%
Aftermarket Technology Corp.	1.1x	9.7x	**7.8x**	10.2x	15.6x	13.8	23.1%	14.4%	7.2%
Directed Electronics, Inc.	1.3x	16.8x	**13.7x**	14.8x	NM	NM	32.0%	9.4%	NM
Standard Motor Products, Inc.	0.5x	18.6x	**10.7x**	14.3x	NM	51.4	22.9%	4.7%	0.3%
Dorman Products, Inc.	0.9x	8.3x	**6.9x**	8.5x	14.5x	12.1	35.3%	12.5%	6.0%
Milemarker Interrnational Inc.	1.2x	6.0x	**5.7x**	6.0x	9.9x	8.5	44.1%	20.8%	11.9%
Mean	*0.9x*	*11.8x*	*8.5x*	*10.7x*	*20.1x*	*20.7x*	*28.8%*	*11.7%*	*5.3%*
Median	*1.0x*	*10.6x*	*7.3x*	*10.3x*	*15.1x*	*13.8x*	*27.5%*	*11.0%*	*6.0%*
Wholesalers & Distributors									
Genuine Parts Company	0.8x	10.7x	**9.8x**	11.1x	17.4x	16.3	31.3%	7.9%	4.5%
LKQ Corporation	2.3x	23.2x	**20.0x**	37.5x	39.5x	33.8	46.7%	11.3%	5.7%
Keystone Automotive Industries, Inc.	1.1x	19.6x	**15.6x**	20.3x	31.3x	30.9	44.9%	7.1%	3.5%
The Coast Distribution System, Inc.	0.4x	9.2x	**8.4x**	9.8x	18.9x	9.6	18.8%	4.9%	2.2%
Mean	*1.1x*	*15.7x*	*13.4x*	*19.7x*	*26.8x*	*22.7x*	*35.4%*	*7.8%*	*4.0%*
Median	*0.9x*	*15.2x*	*12.7x*	*15.7x*	*25.1x*	*23.6x*	*38.1%*	*7.5%*	*4.0%*
Retailers									
Autozone, Inc.	1.4x	8.6x	**7.5x**	10.1x	14.6x	11.4	48.8%	19.0%	9.8%
Advance Auto Parts, Inc.	0.8x	8.9x	**6.8x**	12.0x	15.3x	13.5	47.2%	12.3%	5.5%
O'Reilly Automotive, Inc.	1.6x	12.4x	**10.2x**	28.8x	19.1x	18.5	43.9%	15.2%	8.1%
The Pep Boys - Manny, Moe & Jack	0.5x	NM	**15.0x**	NM	NM	NM	22.9%	3.3%	NM
CSK Auto Corporation	0.6x	10.7x	**7.5x**	10.1x	29.2x	17.0	45.4%	7.6%	2.0%
Mean	*1.0x*	*10.1x*	*9.4x*	*15.3x*	*19.6x*	*15.1x*	*41.7%*	*11.5%*	*6.3%*
Median	*0.8x*	*9.8x*	*7.5x*	*11.1x*	*17.2x*	*15.2x*	*45.4%*	*12.3%*	*6.8%*

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