

# the aftermarket analyst

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

## The Rise of “Microcap” Private Equity

The intensifying competitiveness within the private equity industry and the increasingly crowded private equity marketplace has been well documented recently. Today, private equity groups (PEGs) number in the thousands and non-traditional players like hedge funds are entering the fray.

Consequently, PEGs have tried to differentiate themselves from competitors in virtually any way they can, often specializing in certain industries or focusing on unique situations like turnarounds or distressed companies.

Transaction size is another way PEGs differentiate themselves. In fact, deal size has always been a major restricting parameter for most PEGs since their human resource limitations compel them to use minimum deal size criteria to help allocate their capital efficiently.

For example, if a private equity fund has \$400 million and the staff to buy and build ten companies over its life, \$40 million might be allocated per deal — translating into deals of approximately \$100 million each for companies with at least \$6 to \$10 million in EBITDA. Companies that fail to meet these financial benchmarks are excluded from consideration regardless of their merits.

Historically, most lower middle-market private equity funds have not been structured so they could do smaller deals efficiently enough to make money at it. This means that good deals have often gone undone due to PEGs' lack of flexibility and the difficulty in sourcing transactions.

There seems little doubt this has had an impact on the auto

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## Financial Symposium to Discuss Business Valuations and Shareholder Liquidity: A Preview of Breakout Session #3

The fast approaching Aftermarket Financial Symposium will feature an exciting line up speakers and panel discussions elucidating the finer points of mergers, acquisitions, and corporate finance in the auto aftermarket industry. The Symposium's third breakout session entitled, “Maximizing Business Value and Liquidity,” will focus on providing insight to business owners on how to determine the value of their companies, make them more valuable, and achieve shareholder liquidity.

The breakout session will be moderated by Dan Smith, President of Capstone Financial Group. Dan has extensive hands-on experience as an entrepreneur and investment banker, having owned, operated, built and sold several substantial enterprises.

“Everybody wants to know how to make their business more valuable,” Smith said. “If you don't, you shouldn't be in business.”

Topics during the session will include Current Capital Market Conditions; Valuation 101: What's My Company Worth?; Factors That Affect Valuation Multiples; Preparing Your Company For A Capital Market Transaction; The Capital Market Transaction Process; and Common Capital Market Transaction Mistakes.

The panel for the breakout session will feature highly experienced finance professionals, including Neal Berman of Harbour Group Industries, Inc., Bill Spizman of American

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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
7/26/2005	Advance Auto Parts, Inc.	Lappen Auto Supply Co., Inc.'s auto parts division	19 auto parts stores in the greater Boston, MA market	—	—	—
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 (certain assets)	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 midsize 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

*(Microcap Funds, Continued from page 1)*

aftermarket since most companies tend to be of the smaller variety.

However, this convention may now be changing as some private equity firms are launching "microcap" funds to focus on investing in much smaller businesses than they have in the past.

The Riverside Group, a New York-based fund is the most recent example of PEGs unshackling themselves from traditional deal size dogmas. "We're targeting companies with good growth prospects and historical growth rates with less than \$3 million of EBITDA and typically companies with more than \$5 million of revenues," said Loren Schlachet, the Riverside partner leading the new effort.

Schlachet said Riverside plans to hold its microcap investments for seven to 10 years, compared to the usual four- to five-year holding periods of its traditional middle-market transactions. He explained that this will allow the smaller companies more time to grow before Riverside seeks to realize its investment through a sale or public offering.

This longer term outlook is another welcome departure from traditional PEG conventions which often focus on churning capital quickly over short time periods to boost investor returns. Unfortunately, the long term health of a company can suffer when investors take a short term perspective on corporate growth.

Other PEGs moving in the same direction as Riverside include Jordan Company affiliate JZ Equity Partners, which recently partnered with Chicago private equity firm Edgewater Funds in forming Chicago-based Bolder Capital LLC with the intent to acquire businesses with \$3 million to \$8 million of EBITDA.

An important driver leading the emergence of microcap funds is the limited number of institutional equity investors looking at this size range. This makes it possible to acquire these smaller companies at attractive multiples and make handsome returns for investors.

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Express Tax and Business Services, as well as Larry Sherman and Ted Polk of Citigroup Geneva Capital Strategies.

"Maximizing Business Value and Liquidity" will be held Wednesday, Sept. 7 at 2:45 PM and again at 4 PM. It will run concurrently with three other breakout sessions: "The Financial Benefits of Standards Based eBusiness in the Aftermarket," "Managing the Volatility of Employee Benefits" and "Tax Planning: The Latest in Tax Planning Strategies."

The symposium will be held at the Hyatt Regency O'Hare in Chicago on Wednesday, September 7th and Thursday, September 8th. For more information, contact Barbara Clark at 301-654-6664 or [barbara.clark@aftermarket.org](mailto:barbara.clark@aftermarket.org). To register online, visit [www.aftermarket.org](http://www.aftermarket.org).

### **About AAIA**

The Automotive Aftermarket Industry Association (AAIA) is a Bethesda, Maryland-based association whose more than 7,566 member companies and affiliates manufacture, distribute and sell motor vehicle parts, accessories, service, tools, equipment, materials and supplies. Through its membership, AAIA represents more than 54,000 repair shops and parts stores.

### **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](http://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 8/24/05	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
<b>Manufacturers</b>									
Tenneco Automotive Inc.	\$17.74	\$779.2	\$1,412.0	\$66.0	\$2,198.3	6/30/05	\$4,348.0	\$369.0	\$25.6
Standard Motor Products, Inc.	10.39	206.2	293.0	6.2	493.0	6/30/05	818.3	27.2	(4.9)
Aftermarket Technology Corp.	17.05	366.4	94.0	10.1	456.0	6/30/05	411.5	65.8	30.3
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
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	\$44.35	\$7,719.6	\$500.9	\$260.5	\$8,092.1	6/30/05	\$9,420.4	\$724.9	\$411.8
TBC Corporation	26.06	585.6	272.2	1.4	882.9	6/30/05	1,913.8	105.3	41.3
LKQ Corporation	31.17	661.7	56.5	2.3	794.2	6/30/05	489.6	51.8	25.6
Keystone Automotive Industries, Inc.	31.90	507.9	1.1	5.9	515.5	7/1/05	561.4	31.5	15.5
The Coast Distribution System, Inc.	5.03	22.7	28.1	0.5	51.1	6/30/05	172.6	7.9	3.4
<b>Retailers</b>									
Autozone, Inc.	\$95.99	\$7,413.9	\$1,914.5	\$77.4	\$9,680.3	5/7/05	\$5,664.4	\$1,119.0	\$573.8
Advance Auto Parts, Inc.	62.31	4,547.2	479.7	175.9	5,021.7	7/16/05	4,020.5	493.2	219.8
O'Reilly Automotive, Inc.	29.14	3,258.3	101.1	36.5	3,323.0	6/30/05	1,870.2	268.2	132.8
The Pep Boys - Manny, Moe & Jack	12.29	680.4	504.2	84.3	1,100.3	4/30/05	2,271.0	122.4	8.2
CSK Auto Corporation	17.04	769.5	495.7	97.7	1,180.5	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
<b>Manufacturers</b>									
Tenneco Automotive Inc.	0.5x	11.5x	6.0x	9.6x	85.8x	30.4	15.5%	8.5%	0.6%
Standard Motor Products, Inc.	0.6x	58.1x	18.1x	29.0x	NM	NM	21.9%	3.3%	NM
Aftermarket Technology Corp.	1.1x	8.9x	6.9x	9.0x	15.1x	12.1	25.1%	16.0%	7.4%
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%
<b>Mean</b>	<b>0.7x</b>	<b>19.5x</b>	<b>8.9x</b>	<b>14.2x</b>	<b>33.9x</b>	<b>16.7x</b>	<b>23.9%</b>	<b>9.4%</b>	<b>4.1%</b>
<b>Median</b>	<b>0.6x</b>	<b>9.6x</b>	<b>6.9x</b>	<b>10.6x</b>	<b>17.3x</b>	<b>13.2x</b>	<b>21.9%</b>	<b>8.5%</b>	<b>4.2%</b>
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	0.9x	12.2x	11.2x	12.7x	19.7x	18.7	31.3%	7.7%	4.4%
TBC Corporation	0.5x	11.4x	8.4x	8.1x	21.4x	14.2	37.4%	5.5%	2.2%
LKQ Corporation	1.6x	18.0x	15.3x	22.2x	31.0x	25.8	45.1%	10.6%	5.2%
Keystone Automotive Industries, Inc.	0.9x	22.3x	16.4x	20.6x	33.3x	32.8	43.8%	5.6%	2.8%
The Coast Distribution System, Inc.	0.3x	7.2x	6.4x	7.0x	14.9x	6.6	18.6%	4.6%	2.0%
<b>Mean</b>	<b>0.8x</b>	<b>14.2x</b>	<b>11.5x</b>	<b>14.1x</b>	<b>24.0x</b>	<b>19.6x</b>	<b>35.2%</b>	<b>6.8%</b>	<b>3.3%</b>
<b>Median</b>	<b>0.9x</b>	<b>12.2x</b>	<b>11.2x</b>	<b>12.7x</b>	<b>21.4x</b>	<b>18.7x</b>	<b>37.4%</b>	<b>5.6%</b>	<b>2.8%</b>
<b>Retailers</b>									
Autozone, Inc.	1.7x	9.8x	8.7x	11.3x	16.9x	12.9	49.1%	19.8%	10.1%
Advance Auto Parts, Inc.	1.2x	13.2x	10.2x	17.9x	22.8x	20.7	47.1%	12.3%	5.5%
O'Reilly Automotive, Inc.	1.8x	15.5x	12.4x	44.9x	25.0x	24.5	43.3%	14.3%	7.1%
The Pep Boys - Manny, Moe & Jack	0.5x	24.0x	9.0x	48.6x	134.2x	83.0	26.4%	5.4%	0.4%
CSK Auto Corporation	0.7x	13.1x	9.3x	11.9x	34.7x	22.6	46.0%	8.1%	2.2%
<b>Mean</b>	<b>1.2x</b>	<b>15.1x</b>	<b>9.9x</b>	<b>26.9x</b>	<b>46.7x</b>	<b>32.7x</b>	<b>42.4%</b>	<b>12.0%</b>	<b>5.0%</b>
<b>Median</b>	<b>1.2x</b>	<b>13.2x</b>	<b>9.3x</b>	<b>17.9x</b>	<b>25.0x</b>	<b>22.6x</b>	<b>46.0%</b>	<b>12.3%</b>	<b>5.5%</b>

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful



# AFTERMARKET FINANCIAL SYMPOSIUM

**LEVERAGING FOR GROWTH**

**SEPT. 7 - 8, 2005 • HYATT REGENCY O'HARE • CHICAGO, ILL.**

Join other CFOs, financial service providers, investment analysts, CPA firms and others with interests in the automotive aftermarket for such opportunities as:

#### **GENERAL SESSIONS**

- Perspectives on Key Financial Issues from the Operating Side
- Perspectives on Key Financial Issues from the Accounting Side
- Mergers & Acquisitions
- Benchmarking
- Financing for Growth Panel Discussion
- Risk Management
- View From Wall Street

#### **BREAKOUT SESSIONS**

- The Financial Benefits of Standards-Based eBusiness in the Aftermarket
- Managing the Volatility of Employee Benefits
- Maximizing Business Values and Liquidity
- Tax Planning

The symposium also features a full vendor show with representatives providing business services to the aftermarket.

For additional information, visit  
[www.aftermarket.org](http://www.aftermarket.org) or call 301-654-6664.

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