

the aftermarket analyst

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

5 Reasons Not to Panic

Note: This article written by Adam Reinebach originally appeared in the August 13, 2007 edition of *Merger Mogul*. While the article is not specifically geared towards our reader base, we believe the 5 Reasons are applicable to the auto aftermarket.

Being the informed professionals that you are, I'll assume that everyone who reads *Merger Mogul* is acutely aware of the ongoing credit crunch that began with subprime mortgage lending woes and most recently jumped across the pond to infect select Europeans. To put it in perspective, I typed in the phrase 'credit crunch' yesterday on Google News and got almost 13,000 hits, which is, impressively, more than double the hits for the phrase 'Britney Spears'

That's not to say the credit crunch isn't worth talking about. But for today's column, I thought I'd share some of the credit cloud's silver lining, at least when it comes to the middle market. This comes from discussions with a random selection of mid-market professionals. Please feel free to agree, disagree or request further investigation.

1. **The mid-market doesn't live and die with mega buyouts.** Just because a firm like KKR or TPG is having problems selling high yield debt to finance their buyouts doesn't mean the average mid-market transaction is going to be impacted. Sure, there's a potential trickle-down effect here, but let's remember that some of the mega buyouts in the spotlight are looking to sell *billions* of junk bonds and leveraged loans on the backs of companies that most people agree they paid too much money for. That has little or no relation to financing a mid-market buyout where someone paid seven times.

2. **Private equity firms are still sitting on a ton of cash.** As most of us know, a private equity firm has to spend its committed cash within a certain time frame. Thus, waiting on the sidelines for an extended period of time isn't an option—unless the buyout firms start giving back their commitments, which is highly unlikely, especially if prices start to fall and companies potentially become better bargains. Buyout funds raise money so they can buy companies. Period.

3. **In the short term, there could actually be a rush to sell.** Don't cry for investment bankers—at least not this year. Their pipelines are still healthy, and for anyone who's been toying with the idea of selling, now is probably a good time to put up a 'for sale' sign. Purchase prices probably won't be this rich for long.

4. **Banks have to lend to make money.** Just because risk has increased doesn't mean banks can afford to sit on their hands. Terms might change, but banks cannot afford to turn their backs on private equity firms who, unlike one-off strategic buyers, will invariably become long-term clients.

5. **Growing by merger is still easier than growing organically.** This was a point made earlier this summer that really resonated with me, in part because I saw it first-hand at my acquisitive prior employer. A down market doesn't change this, and for well-capitalized private equity firms, it could actually spur more M&A activity.

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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
9/6/2007	Thule Inc.	United Welding Services and UWS Inc.	UWS is an industry leading manufacturer of branded aluminum truck tool boxes, step bars and accessories in the United States.	—	—	—
9/5/2007	Adyar River Ltd.	Visteon Powertrain Control Systems India	the VPCSI operation in Chennai which manufactures starters and alternators for global car makers	—	—	—
9/4/2007	Cooper-Standard Automotive Inc.	Automotive Sealing Systems S.A.	Metzeler Automotive Profile Systems (MAPS) sealing systems operations in Germany, Italy, Poland and Belgium, including a joint-venture interest in China.	\$ 136.0	—	—
8/29/2007	SPX Corp.	Matra-Werke GmbH	a German distributor of vehicle-repair tools	—	\$ 26.0	—
8/27/2007	Englefield LLP	Eaton Corp.	produces mirror actuators and power-fold actuators for exterior mirror systems	111.0	—	—
8/24/2007	Quest Specialty Chemicals Inc.	Zolatone Automotive	Industrial and Marine Division of Surface Protection Industries Inc.	—	—	—
8/22/2007	Banyan Enterprises	AJ Prindle and Co.	a catalog and online retailer of distinctive automotive accessories and provider of incentive purchase programs to auto manufacturers	—	—	—
8/22/2007	Tenneco Inc.	Combustion Components Associates, Inc.'s Mobile Emissions Business	a manufacturer of air pollution control technologies	16.0	—	—
8/22/2007	Uni-Select Inc.	Consumer Auto Parts, Inc.	an automotive replacement parts distributor and operator of 23 points-of-sale and one distribution center in Connecticut, Massachusetts, Rhode Island and Vermont.	—	41.0	—
8/20/2007	Hahn Automotive Warehouse, Inc	Prime Automotive Parts Co.	warehouse distributor of aftermarket automotive parts with 21 locations in the tri-state area of New York, New Jersey and Connecticut	—	—	—
8/17/2007	Insight Equity	Dura Automotive Systems, Inc., (Atwood Mobile Products, Inc.)	a manufacturer of products for recreational and specialty vehicles and manufactured housing.	160.2	—	—
8/16/2007	LN Acquisition Corp., a Harbour Group company	Reelcraft Industries, Inc.	manufacturer of spring-driven hose, cord, and cable reels for use in industrial, automotive, and specialty applications	—	—	—
8/15/2007	Beere Financial Group	Steadfast Automotive	supplier of aftermarket products and services used specifically in the light truck market	—	2.5	—
8/9/2007	MAHLE Clevite Canada ULC	Engine Parts 1 Inc.	Canadian distributor of engine parts	—	—	—
8/8/2007	Viper Powersports Inc.	Melling Sports Cars Inc.	supplier of aftermarket products and services for light-truck owners and dealerships	—	—	—
8/7/2007	Klarius Group Limited	ArvinMeritor, Inc.	ArvinMeritor's Light Vehicle Aftermarket (LVA) European exhaust operations	—	—	—
8/3/2007	Prestolite Wire Corp.	Mr. Gasket Inc.	a supplier of specialty racing and performance products for the automotive, motorcycle and marine aftermarket	—	—	—

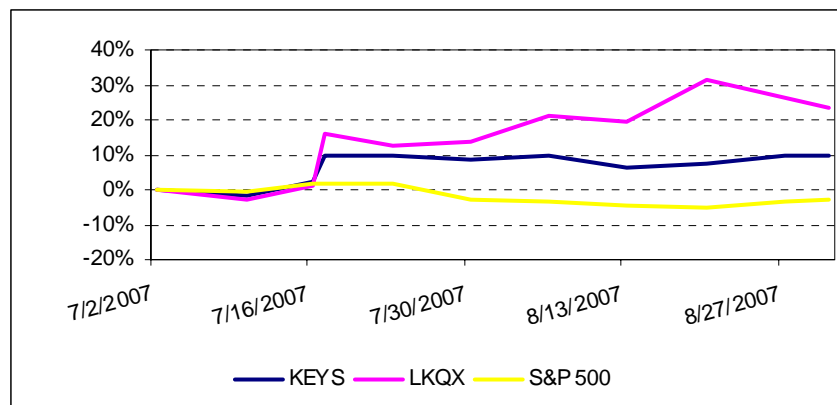
Unlocking Hidden Value in Aftermarket M&A

In our September 2006 issue of *Aftermarket Analyst*, we compared the stock performance of aftermarket distributors and retailers based on their target market, either Do-It-For-Me (DIFM) or Do-It-Yourself (DIY). We illustrated that the Capstone DIFM Index, comprised of Genuine Parts Company, O'Reilly Automotive, LKQ Corporation, and Keystone Automotive Industries, had outperformed the Capstone DIY Index, comprised of Autozone, Advance Auto Parts, and CSK Auto over the preceding twelve months. We stated that DIFM companies

exhibit stronger growth potential via acquisitions than their DIY counterparts due to the fragmented nature of the landscape. Put very simply, the greater the fragmentation the more benefits are gained through consolidation

Our theory proved true beginning on July 16, 2007, when LKQ announced its intent to acquire Keystone. These two members of the Capstone DIFM Index would command approximately 15% of the automotive replacement parts market on a combined basis and provide access to additional distribution channels. The

value of both companies has increased dramatically over the past 45 days since the announcement of the proposed acquisition. Below is a graph of weekly historical stock prices for Keystone (KEYS), LKQ (LKQX) and the S&P 500 over the last two months. As you can see from the chart below, Keystone, LKQ, and the S&P 500 moved in tandem until the July 16



announcement of the acquisition. On July 16, Keystone's value increased 8%, LKQ increased 15% and the S&P 500 remained relatively unchanged. Despite the recent economic uncertainty and volatility in the stock market, Keystone and LKQ's value has continued to increase

relative to the S&P 500. Over the past two months, Keystone has increased 10%, LKQ has increased 23% and the S&P 500 has decreased 3%.

The proposed LKQ acquisition of Keystone demonstrates the value that can be achieved in a merger or acquisition. This is especially true in fragmented markets where consolidation not only produces the ordinary synergies inherent with an acquisition, but also increased buying power and increased distribution which ultimately yield increased value for the company.

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.

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

Company	Enterprise Value					Last Twelve Months (LTM)			
	Price as of 8/31/07	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
Manufacturers									
Tenneco Automotive, Inc.	\$31.75	\$1,475.3	\$1,450.0	\$168.0	\$2,847.8	6/30/07	\$5,396.0	\$418.0	\$70.0
Aftermarket Technology Corp.	29.91	660.8	0.0	22.5	654.6	6/30/07	519.2	72.3	35.0
Directed Electronics, Inc.	5.38	135.9	327.7	13.1	450.5	6/30/07	450.5	57.7	14.3
Standard Motor Products, Inc.	9.79	184.8	369.7	21.6	533.0	6/30/07	789.5	51.5	11.4
Dorman Products, Inc.	14.05	248.5	17.7	5.9	267.3	6/30/07	312.9	40.4	19.3
Wholesalers & Distributors									
Genuine Parts Company	\$49.68	\$8,442.1	\$500.0	\$274.6	\$8,820.0	6/30/07	\$10,661.0	\$902.8	\$492.5
LKQ Corporation	30.98	1,663.5	138.7	8.9	1,956.8	6/30/07	870.8	103.6	50.5
Keystone Automotive Industries, Inc.	46.95	777.9	0.0	20.4	768.8	6/30/07	727.0	59.9	31.6
The Coast Distribution System, Inc.	6.12	27.1	35.7	1.1	61.8	6/30/07	165.3	2.3	(0.3)
Retailers									
Autozone, Inc.	\$121.29	\$8,161.3	\$1,938.9	\$82.6	\$10,150.3	5/5/07	\$6,106.1	\$1,203.5	\$591.9
Advance Auto Parts, Inc.	35.56	3,635.2	350.4	82.6	3,948.4	7/14/07	4,753.6	567.1	238.2
O'Reilly Automotive, Inc.	35.54	4,056.1	100.9	92.5	4,149.1	6/30/07	2,411.7	362.8	188.5
The Pep Boys - Manny, Moe & Jack	16.39	842.5	746.2	30.8	1,558.4	5/5/07	2,261.6	115.7	(8.9)
CSK Auto Corporation	13.22	581.0	531.5	20.2	1,094.6	2/4/07	1,907.8	148.3	35.7
US Auto Parts Network, Inc.	8.36	249.4	1.1	43.3	207.2	6/30/07	160.9	12.5	1.2

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	6.8x	11.8x	40.7x	21.1	13.0%	7.7%	1.3%
Aftermarket Technology Corp.	1.3x	11.4x	9.1x	13.2x	18.7x	18.9	22.6%	13.9%	6.7%
Directed Electronics, Inc.	1.0x	9.2x	7.8x	8.2x	31.6x	9.5	30.9%	12.8%	3.2%
Standard Motor Products, Inc.	0.7x	14.6x	10.4x	13.2x	46.6x	16.1	25.8%	6.5%	1.5%
Dorman Products, Inc.	0.9x	8.1x	6.6x	7.8x	13.9x	12.9	34.2%	12.9%	6.2%
Mean	0.9x	11.1x	8.1x	10.8x	30.3x	15.7x	25.3%	10.8%	3.8%
Median	0.9x	11.4x	7.8x	11.8x	31.6x	16.1x	25.8%	12.8%	3.2%
Wholesalers & Distributors									
Genuine Parts Company	0.8x	10.7x	9.8x	11.3x	17.9x	17.1	31.4%	8.5%	4.6%
LKQ Corporation	2.2x	21.7x	18.9x	29.7x	38.8x	33.0	45.2%	11.9%	5.8%
Keystone Automotive Industries, Inc.	1.1x	15.6x	12.8x	16.6x	24.3x	24.6	44.8%	8.2%	4.3%
The Coast Distribution System, Inc.	0.4x	41.1x	26.4x	61.5x	NM	NM	17.4%	1.4%	NM
Mean	1.1x	22.3x	17.0x	29.8x	27.0x	24.9x	34.7%	7.5%	4.9%
Median	0.9x	18.7x	15.9x	23.2x	24.3x	24.6x	38.1%	8.4%	4.6%
Retailers									
Autozone, Inc.	1.7x	9.7x	8.4x	10.5x	17.1x	13.8	49.5%	19.7%	9.7%
Advance Auto Parts, Inc.	0.8x	9.4x	7.0x	12.2x	16.6x	15.3	48.0%	11.9%	5.0%
O'Reilly Automotive, Inc.	1.7x	13.9x	11.4x	36.8x	22.0x	21.5	44.3%	15.0%	7.8%
The Pep Boys - Manny, Moe & Jack	0.7x	58.2x	13.5x	26.2x	NM	NM	25.4%	5.1%	NM
CSK Auto Corporation	0.6x	10.2x	7.4x	9.9x	30.7x	16.3	47.0%	7.8%	1.9%
US Auto Parts Network, Inc.	1.3x	69.9x	16.6x	22.6x	NM	NM	32.2%	7.8%	0.7%
Mean	1.1x	20.3x	10.7x	19.1x	21.6x	16.7x	41.1%	11.2%	5.0%
Median	0.8x	10.2x	9.9x	12.2x	19.6x	15.8x	47.0%	11.9%	6.4%

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful