

# the aftermarket analyst

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

**“It was the best of times, it was the worst of times...”**

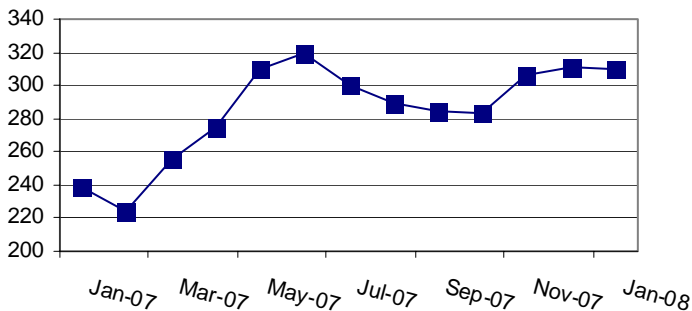
*- Charles Dickens, A Tale of Two Cities*

While Dickens’ famous quote is admittedly a stretch in describing the aftermarket in 2007, it has a stark resemblance to a year that, despite challenging macroeconomic conditions, saw a new record in aftermarket M&A transactions. In this newsletter, we will address some of the issues that shaped 2007.

**The “worst” of times**

**1. Gas prices increased 30 percent**

**US Retail Gasoline Prices  
(Cents per Gallon)**  
*source: US Dept. of Energy*



In 2007, gas prices experienced their largest annual year-end increase in the past eight years. Gas prices

rose steadily in the first half of the year and then “flattened out” during the second half of the year.

**2. US new vehicle sales declined 2.5%**

According to data provided by Ward Automotive Group, US manufacturers bore the brunt of the sales decrease as vehicle sales decreased 3.7 percent compared to a 1.7 percent increase by overseas competitors. Domestic car sales were off 4.1 percent and domestic light truck sales declined 3.5 percent in 2007. Import vehicle sales partially offset the losses with import car sales up 1.0 percent in 2007 and import light trucks sales reporting 3.1 percent gains in 2007.

**3. Aftermarket stock prices declined**

As a whole, aftermarket stock prices underperformed the S&P 500 in 2007. While the distributors in the Capstone Distributor Index, led by LKQ Corporation, posted 10 percent gains for the year, manufacturers and retailers experienced equity losses in 2007. The Capstone Manufacturer Index was down almost 5 percent in 2007, with Directed Electronics and Standard Motor Products suffering the greatest declines. The Capstone Retail Index fell almost 25 percent as all companies in the index were down in 2007. The largest percentage and point decliner in the retail index was CSK Auto, which lost about 70 percent of its equity value in 2007 (see graph on following page).

*(Continued on page 3)*

**in this issue**

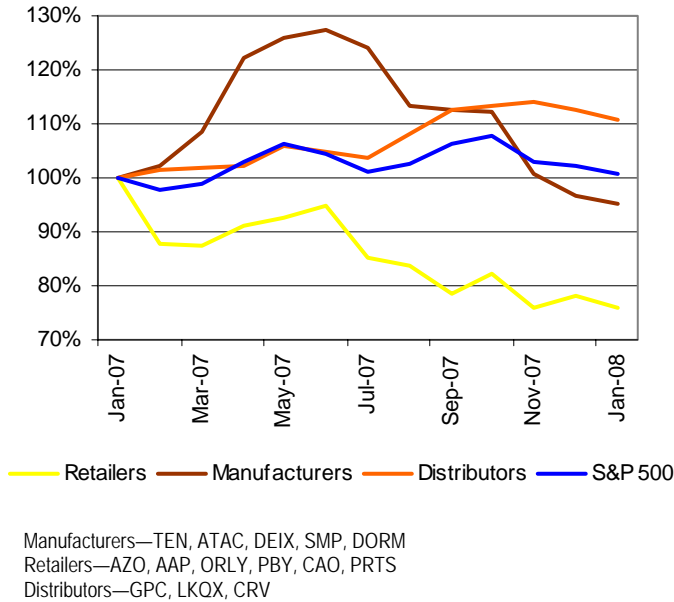
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## RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

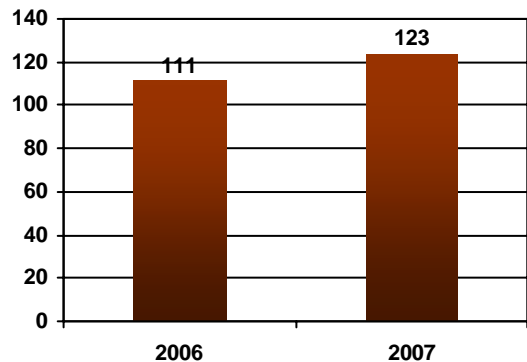
Announce Date	Acquirer/Investor(s)	Target	Target Description	Firm Value (\$mil.)	FV / Rev.	FV / EBITDA
1/4/2008	APW International	GCK Industrial	Taiwanese manufacturing company which makes constant velocity axle drive shafts	—	—	—
1/2/2008	1-800-Radiator	JMAC Radiator and Air	JMAC holds a key position in the air conditioning market as a \$13 million dollar company with 18 locations, covering two thirds of the country	—	—	—
12/18/2007	Chicago Pneumatic	KTS Co. Ltd	a leading Japanese maker of handheld pneumatic tools for the vehicle service market	—	—	—
12/17/2007	PPG Industries	Unipart Automotive	Unipart Automotive is among the United Kingdom's largest independent suppliers of car and truck parts, body shop parts and workshop consumables	—	—	—
12/16/2007	Wynnchurch Capital	GDX Automotive	a supplier in the automotive sealing systems industry	—	—	—
12/12/2007	Robert Bosch Group	Holger Christiansen	a specialist in engine starter maintenance and sells other electrical automobile parts	—	\$164.0	—
12/11/2007	American Tire Distributors	Texas' Homann Tire Wholesale	Tire Wholesaler which has some 1,600 customers across Texas and Louisiana.	—	—	—
12/11/2007	Platinum Equity LLC	Delphi Corp.	Delphi's global steering and halfshaft business	—	—	—
12/11/2007	ArvinMeritor	Mascot Truck Parts Ltd.	a major remanufacturer of transmissions, drive axle carriers, steering gears and drivelines, based in Mississauga, Ontario, Canada.	—	—	—
12/10/2007	Sun Capital Partners	Von Weise, Inc.	Von Weise offers two product lines including: (i) Automotive - small motors or actuators for automobiles, and (ii) Specialty Products - electric and recoil small engine starters for garden tractors, lawn mowers and snow blowers.	—	—	—
12/6/2007	DURA Automotive Jack and Tool Kit Business	Autoline Industries Limited	DURA's jack and tool kit business produces automotive bottle jacks, scissor jacks and related products for automotive jack tool kits.	—	25.0	—
12/5/2007	Commercial Vehicle Group	Short Bark Industries, LLC	a supplier of seat covers and various cut-and-sew trim products.	—	—	—
11/29/2007	Linsalata Capital Partners Resilience Capital Partners	Lund International	Lund designs, manufactures and markets branded accessories for light and heavy trucks, sport utility vehicles, crossover utility vehicles and passenger cars.	—	—	—
11/29/2007	American Capital Strategies	Dynojet (Graham Partners)	a research and development company that provides aftermarket performance-enhancing parts and accessories, diagnostic equipment, and software for the automotive, motorcycle and powersports markets.	—	—	—
11/12/2007	MAHLE Clevite Canada	Canadian Engine Parts 1 Inc.	Engine Parts 1 currently serves the Canadian engine parts market with five warehouses located across the country.	—	—	—
11/16/2007	Kinderhook Industries	Extang Corporation	manufacturer of soft tonneau covers for the light truck market	—	—	—
11/16/2007	Kinderhook Industries	TruXedo	manufacturer of soft tonneau covers for the light truck market	—	—	—
11/12/2007	Brembo North America	Hayes Lemmerz' Automotive Brake Components	Hayes Lemmerz' Automotive Brake Components division includes production facilities in Homer and Apodaca, which manufacture brake rotors and drums for the North American passenger car and light truck markets.	\$58.0	0.5x	—

**2007 Aftermarket Stock Performance by Industry vs. S&P 500**



The aftermarket showed tremendous resilience in 2007. Despite the macroeconomic conditions that negatively impacted the broader M&A market in the second half of 2007, the aftermarket continued to get deals completed throughout the year. While the US faces an uncertain economy with evolving macroeconomic challenges, we firmly believe in the resiliency of the aftermarket and look for an active M&A market in 2008.

**Annual Aftermarket Deal Volume**

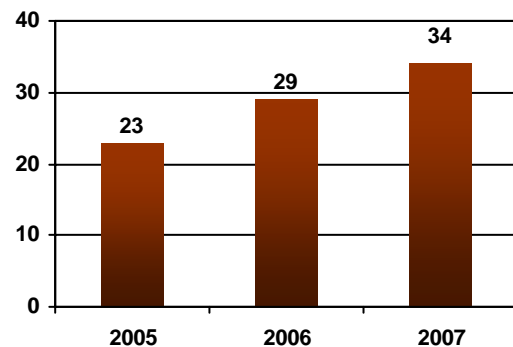


The “best” of times

**M&A transactions in the aftermarket**

2007 was another record year for M&A in the auto aftermarket. The 123 transactions in the aftermarket easily eclipsed the previous record of 111 transactions in 2006. As we noted in last month’s edition of the Aftermarket Analyst, there has been no slowdown in aftermarket transactions in the recent months even as fears of a prolonged credit crunch and recession have increased. It is also important to note that we saw no evidence of decreasing multiples being paid for aftermarket companies.

**Last 3 Months Aftermarket Deal Volume**



**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](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 12/31/07	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
<b>Manufacturers</b>									
Tenneco Automotive, Inc.	\$26.07	\$1,214.0	\$1,536.0	\$203.0	\$2,619.2	9/30/07	\$5,831.0	\$446.0	\$84.6
Aftermarket Technology Corp.	27.26	603.0	0.0	20.7	594.5	9/30/07	523.7	78.6	40.6
Directed Electronics, Inc.	1.66	42.0	309.9	5.5	346.5	9/30/07	459.5	53.5	8.9
Standard Motor Products, Inc.	8.16	150.3	344.6	19.4	475.5	9/30/07	792.0	53.8	14.9
Dorman Products, Inc.	14.29	252.8	25.7	6.1	279.2	9/30/07	321.1	42.5	20.4
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	\$46.30	\$7,773.8	\$500.0	\$330.1	\$8,077.3	9/30/07	\$10,758.9	\$915.1	\$499.7
LKQ Corporation	21.02	2,798.9	12.5	225.3	2,655.1	9/30/07	916.6	112.0	54.6
The Coast Distribution System, Inc.	5.88	26.1	23.0	0.9	48.2	9/30/07	164.1	2.5	(0.1)
<b>Retailers</b>									
Autozone, Inc.	\$119.91	\$7,783.9	\$2,161.1	\$79.8	\$9,982.7	11/17/07	\$6,232.4	\$1,233.2	\$604.3
Advance Auto Parts, Inc.	37.99	3,883.6	434.4	14.8	4,366.3	10/6/07	4,812.2	565.6	238.9
O'Reilly Automotive, Inc.	32.43	3,731.6	100.5	109.8	3,783.6	9/30/07	2,476.4	370.4	193.7
The Pep Boys - Manny, Moe & Jack	11.48	593.9	672.2	26.2	1,239.9	11/3/07	2,226.4	89.5	(19.2)
CSK Auto Corporation	5.01	220.2	532.1	19.9	732.4	8/5/07	1,908.5	130.4	21.4
US Auto Parts Network, Inc.	8.11	242.1	1.1	17.2	227.8	9/30/07	160.4	12.5	1.9

**Selected Public Company Multiples and Operating Statistics**

Company	Enterprise Value /						Margins		
	Revenue	EBIT	EBITDA	Free Cash Flow (2)	Net Income	P / E Ratio	Gross Margins	EBITDA Margins	Net Margins
<b>Manufacturers</b>									
Tenneco Automotive, Inc.	0.4x	10.6x	5.9x	9.1x	31.0x	14.3	12.7%	7.6%	1.5%
Aftermarket Technology Corp.	1.1x	9.3x	7.6x	10.6x	14.6x	14.8	24.0%	15.0%	7.8%
Directed Electronics, Inc.	0.8x	7.9x	6.5x	6.9x	39.0x	4.7	31.3%	11.6%	1.9%
Standard Motor Products, Inc.	0.6x	12.2x	8.8x	12.1x	31.8x	10.1	26.4%	6.8%	1.9%
Dorman Products, Inc.	0.9x	8.0x	6.6x	7.6x	13.7x	12.4	34.3%	13.2%	6.4%
<b>Mean</b>	<b>0.8x</b>	<b>9.6x</b>	<b>7.1x</b>	<b>9.2x</b>	<b>26.0x</b>	<b>11.3x</b>	<b>25.8%</b>	<b>10.9%</b>	<b>3.9%</b>
<b>Median</b>	<b>0.8x</b>	<b>9.3x</b>	<b>6.6x</b>	<b>9.1x</b>	<b>31.0x</b>	<b>12.4x</b>	<b>26.4%</b>	<b>11.6%</b>	<b>1.9%</b>
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	0.8x	9.7x	8.8x	10.1x	16.2x	15.6	31.5%	8.5%	4.6%
LKQ Corporation	2.9x	27.1x	23.7x	35.7x	48.6x	51.3	45.0%	12.2%	6.0%
The Coast Distribution System, Inc.	0.3x	30.7x	19.7x	65.3x	NM	NM	17.8%	1.5%	NM
<b>Mean</b>	<b>1.3x</b>	<b>22.5x</b>	<b>17.4x</b>	<b>37.0x</b>	<b>32.4x</b>	<b>33.4x</b>	<b>31.4%</b>	<b>7.4%</b>	<b>5.3%</b>
<b>Median</b>	<b>0.8x</b>	<b>27.1x</b>	<b>19.7x</b>	<b>35.7x</b>	<b>32.4x</b>	<b>33.4x</b>	<b>31.5%</b>	<b>8.5%</b>	<b>5.3%</b>
<b>Retailers</b>									
Autozone, Inc.	1.6x	9.3x	8.1x	9.8x	16.5x	12.9	49.8%	19.8%	9.7%
Advance Auto Parts, Inc.	0.9x	10.5x	7.7x	12.1x	18.3x	16.3	47.9%	11.8%	5.0%
O'Reilly Automotive, Inc.	1.5x	12.4x	10.2x	26.7x	19.5x	19.3	44.4%	15.0%	7.8%
The Pep Boys - Manny, Moe & Jack	0.6x	NM	13.9x	40.2x	NM	NM	24.1%	4.0%	NM
CSK Auto Corporation	0.4x	8.2x	5.6x	8.1x	34.3x	10.3	47.1%	6.8%	1.1%
US Auto Parts Network, Inc.	1.4x	73.3x	18.2x	27.1x	121.3x	128.8	33.1%	7.8%	1.2%
<b>Mean</b>	<b>1.0x</b>	<b>10.1x</b>	<b>10.6x</b>	<b>19.4x</b>	<b>22.1x</b>	<b>37.5x</b>	<b>41.1%</b>	<b>10.9%</b>	<b>5.0%</b>
<b>Median</b>	<b>0.9x</b>	<b>9.9x</b>	<b>9.2x</b>	<b>12.1x</b>	<b>18.9x</b>	<b>14.6x</b>	<b>47.1%</b>	<b>11.8%</b>	<b>6.4%</b>

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful