

the aftermarket analyst

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

2007 Auto Aftermarket Distribution Survey

In our May newsletter, we asked our thousands of readers to participate in our annual survey. This year's topic was the changes underfoot in the traditional three-step distribution of automotive accessories. We would like to thank our survey respondents, which represented all steps of the traditional distribution channel. Their data provided a wealth of information on aftermarket distribution, and it verified our claims, found in the May 2007 issue of *Aftermarket Analyst*, of the beginnings of a dramatic shift away from three step distribution to two-steps (or less). Below is a list of the more significant findings:

1. Manufacturers believe three-step distribution is on the way out.

Manufacturers were asked, "Do you agree that three-step distribution is gradually being phased out by the two-step system?" A shocking 79% of respondents agreed with that statement, with 18% being unsure. Put another way, only 3% of those surveyed believed that three step distribution would not be phased out.

2. A majority of manufacturers have not begun to sell around Warehouse Distributors (WDs), but for those that have, it's been a success.

Most manufacturers (63%) have not altered their distribution methods to sell around the larger WDs; however, for those that have done so, the transition has been a success. Of those altering their distribution methods, only 6% of respondents deemed the strategy to be unsuccessful.

Capstone Distribution Survey

As part of our analysis of this revolution in aftermarket distribution, we conducted an online survey to gather opinions from industry executives.

To view the full results of this survey, please visit our home page at www.capfg.com and click on the link "*Click here for results from our June 2007 Auto Aftermarket survey.*"

3. Manufacturers are experiencing stagnant sales through WDs

Of those manufacturers strictly selling through three-step distribution, sales are stagnant. 47% report a decrease in sales, 42% report an increase in sales, while the remaining 11% report same sales.

4. Manufacturers are very pleased with their sales through other distribution channels (direct to jobbers, installers, and consumers)

Manufacturers are not limited to a single distribution channel. Selling through WDs represents only one of the ways for these manufacturers to reach their customer. 55% of manufacturers also sell directly to jobbers, with 93% deeming these efforts successful. Sales direct to jobbers average 27% of the company's revenue, and on average manufacturers have been selling through the channel for 11 years.

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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
7/25/07	Continental AG	Siemens VDO	VDO manufactures entertainment systems, safety equipment and sensors for cars	\$15,700.0	1.10x	11.3x
7/14/2007	LKQ Corp.	Keystone Automotive Industries	a provider of aftermarket vehicle collision replacement parts	811.0	1.14x	14.0x
7/14/2007	Auto Meter Products, Inc. (Harbour Group)	Stack Limited	a leading global developer and supplier of professional-quality data acquisition systems and instrumentation for automotive racing and other rugged applications	—	—	—
7/10/2007	LKQ Corp.	Pintendre Autos	recycled parts business which primarily serves the professional repair market for not only automobiles but also for heavy trucks and several types of light-duty vehicles	—	\$29.0	—
7/5/2007	American Tire Distributors	Martino Tire	operated five wholesale distribution centers, 27 retail stores and two commercial centers	—	—	—
7/3/2007	Kohlberg & Co.	Trico Products, Inc.	global manufacturer of integrated wiper systems for OEM and aftermarket applications	110.9	\$378.2	—
7/3/2007	AER Sales, L.P.	Universal Distribution, LLC	Universal distributes remanufactured Ford and Motorcraft branded engine and transmission assemblies and other powertrain related components, mainly to Ford dealerships	—	—	—
6/29/2007	ROL Manufacturing	Corteco	the transaction includes the U.S., Canadian and Mexican assets related to Omega Power Steering Hose and Kits, Mountee Engine and Transmission Mounts and Corteco Gaskets and Seals.	—	—	—
6/28/2007	The Carlyle Group and Onex Corporation	(Allison Transmission) General Motors	Allison Transmission designs and manufactures automatic transmissions for on-highway trucks and buses, off-highway equipment and military vehicles worldwide.	5,600.0	—	—
6/27/2007	ClearLight Partners, LLC	Katzkin Leather, Inc.	a leading designer, manufacturer, and distributor of made-to-order leather interiors for automobiles and light trucks	—	—	—
6/20/2007	Mahle Industries, Inc.	Promec	Promec produces cylinder liners and piston rings for passenger car and heavy duty applications for the OE and Aftermarket businesses	—	\$67.0	—
6/8/2007	Englefield Capital LLP	Eaton Corp.	mirror controls unit - which is part of Eaton's automotive group, produces mirror actuators and power-fold actuators for external automotive mirror systems	111.0	—	—
6/8/2007	Standard Auto Parts	three Maryland warehouses	Action Auto Supply of Rosedale, MD, Action Auto Supply of Parkville, and Belvedere Auto Parts of Baltimore.	—	—	—
6/6/2007	Umicore	Delphi Corp's automotive catalyst business	Delphi Corp's automotive catalyst business	55.6	—	—

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55% of manufacturers surveyed sell directly to automobile dealers/installers, with 75% reporting success. Sales direct to automobile dealers/installers average 20% of the company's revenue, and manufacturers have been selling through the channel for 7.5 years on average.

43% of manufacturers sell direct to consumer, and 75% of these believe this direct channel is successful for them. While this channel is still in its infancy, as evidenced by the limited average time (3 years) that these manufacturers have sold through it and the resultant average contribution of only 5% of sales, it is by far the fastest growing distribution channel.

5. Distributors are concerned about manufacturers selling around them

60% of distributors admitted they were concerned about manufacturers selling around their distribution channel.

6. Distributors are unsure about the future of three step distribution

In response to the question, "Do you agree that three-step distribution is gradually being phased out by the two-step system?," distributors exhibited greater uncertainty than manufacturers. 40% agreed with the statement and only 10% disagreed with the statement, while 50% were unsure as to the future of three-step distribution.

7. Companies are looking for growth through acquisitions

54% of respondents answered that they were looking to grow through acquisition, while 37% said they were not and 9% were unsure.

In summary, this data all points to a manufacturing base that is disenfranchised with large WDs. Whatever the reason may be, these manufacturers are looking at either selling around the WDs or instigating a power shift by consolidating and growing their business. Either way, the manufacturer appears to be eager to change the status quo, which is the traditional three step distribution process.

Late Breaking News:

Continental to buy Siemens VDO

Continental AG will buy Siemens' automotive unit VDO for 11.4 billion euros (\$15.7 billion), German industrial conglomerate Siemens announced on Wednesday. The proposed stock sale of Siemens VDO Automotive AG is expected to close by the end of 2007. Management cited industry consolidation, focus on their core business, and increased capital to invest in higher-growth businesses as the strategic rationale behind the proposed sale.

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 6/30/07	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
Manufacturers									
Tenneco Automotive Inc.	\$35.04	\$1,622.0	\$1,453.0	\$136.0	\$3,043.5	3/30/07	\$4,952.0	\$392.0	\$47.0
Aftermarket Technology Corp.	29.68	648.4	9.0	12.3	661.1	3/31/07	510.4	68.3	31.7
Directed Electronics, Inc.	8.84	222.9	324.5	14.1	533.3	3/31/07	441.4	58.3	17.6
Standard Motor Products, Inc.	15.03	283.7	361.7	18.3	628.1	3/31/07	801.8	52.2	11.0
Dorman Products, Inc.	13.82	244.5	28.2	7.3	273.4	3/31/07	301.3	37.7	16.2
Wholesalers & Distributors									
Genuine Parts Company	\$49.60	\$8,450.7	\$500.0	\$250.1	\$8,851.1	3/31/07	\$10,553.2	\$884.8	\$483.0
LKQ Corporation	24.66	1,318.9	117.0	5.9	1,546.6	3/31/07	832.6	96.9	48.1
Keystone Automotive Industries, Inc.	41.37	683.6	0.0	20.6	671.2	3/30/07	714.0	57.9	30.3
The Coast Distribution System, Inc.	7.15	31.6	42.7	1.0	74.0	3/31/07	171.2	4.8	1.2
Retailers									
Autozone, Inc.	\$136.32	\$9,172.7	\$1,938.9	\$82.6	\$11,208.5	5/5/07	\$6,106.1	\$1,203.5	\$591.9
Advance Auto Parts, Inc.	40.53	4,314.7	404.2	17.0	4,783.5	4/21/07	4,691.6	556.8	232.7
O'Reilly Automotive, Inc.	36.55	4,171.3	100.7	90.2	4,286.5	3/31/07	2,360.0	359.7	186.1
The Pep Boys - Manny, Moe & Jack	20.09	1,032.7	746.2	30.8	1,756.3	5/5/07	2,261.6	115.7	(8.9)
CSK Auto Corporation	18.40	808.7	531.5	20.2	1,334.0	2/4/07	1,907.8	148.3	35.7
US Auto Parts Network, Inc.	9.46	282.2	1.2	45.6	239.8	3/31/07	145.8	10.2	1.0

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.	0.6x	14.9x	7.8x	14.3x	64.8x	34.5	13.5%	7.9%	0.9%
Aftermarket Technology Corp.	1.3x	12.2x	9.7x	12.5x	20.9x	20.5	21.7%	13.4%	6.2%
Directed Electronics, Inc.	1.2x	10.5x	9.1x	9.5x	30.3x	12.7	29.8%	13.2%	4.0%
Standard Motor Products, Inc.	0.8x	17.0x	12.0x	15.1x	57.1x	25.8	25.4%	6.5%	1.4%
Dorman Products, Inc.	0.9x	8.9x	7.3x	8.9x	16.9x	15.1	34.7%	12.5%	5.4%
Mean	1.0x	12.7x	9.2x	12.1x	38.0x	21.7x	25.0%	10.7%	3.6%
Median	0.9x	12.2x	9.1x	12.5x	30.3x	20.5x	25.4%	12.5%	4.0%
Wholesalers & Distributors									
Genuine Parts Company	0.8x	10.9x	10.0x	11.6x	18.3x	17.5	31.3%	8.4%	4.6%
LKQ Corporation	1.9x	18.4x	16.0x	25.7x	32.2x	27.4	45.2%	11.6%	5.8%
Keystone Automotive Industries, Inc.	0.9x	14.1x	11.6x	15.1x	22.1x	22.5	44.6%	8.1%	4.2%
The Coast Distribution System, Inc.	0.4x	18.5x	15.4x	18.4x	60.5x	25.8	18.2%	2.8%	0.7%
Mean	1.0x	15.5x	13.2x	17.7x	33.3x	23.3x	34.8%	7.7%	3.8%
Median	0.9x	16.2x	13.5x	16.8x	27.1x	24.2x	38.0%	8.2%	4.4%
Retailers									
Autozone, Inc.	1.8x	10.7x	9.3x	11.6x	18.9x	15.5	49.5%	19.7%	9.7%
Advance Auto Parts, Inc.	1.0x	11.6x	8.6x	15.9x	20.6x	18.5	47.9%	11.9%	5.0%
O'Reilly Automotive, Inc.	1.8x	14.5x	11.9x	37.5x	23.0x	22.4	44.2%	15.2%	7.9%
The Pep Boys - Manny, Moe & Jack	0.8x	65.6x	15.2x	29.5x	NM	NM	25.4%	5.1%	NM
CSK Auto Corporation	0.7x	12.4x	9.0x	12.0x	37.4x	22.7	47.0%	7.8%	1.9%
US Auto Parts Network, Inc.	1.6x	66.2x	23.5x	32.2x	NM	NM	32.5%	7.0%	0.7%
Mean	1.2x	23.0x	12.9x	21.3x	25.0x	19.8x	41.1%	11.1%	5.0%
Median	1.0x	12.4x	10.6x	15.9x	21.8x	20.5x	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