

the aftermarket analyst

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

Burgeoning Trend: Geographic Expansion of DIFM Distributors/Retailers

When Capstone is asked about growth drivers for successful aftermarket companies, one of the strategic initiatives we emphasize is geographic concentration. For retailers and distributors, geographic concentration must be a priority. This allows distribution costs to be leveraged by running additional volume through fewer warehouses and offers customers access to higher inventory availability. These factors are particularly critical for Do-It-For-Me customers, and an expanding geographical “footprint” is a fairly commonplace strategic initiative for distributors which focus on this type of customer.

To effect this initiative, many DIFM distributors/resellers rely heavily on acquisitions to supplement organic growth. Recently, we have seen a significant increase in acquisitions to increase geographic concentration. Over the past 45 days, large distributors have completed three acquisitions and one merger to expand geographically. Historically, we see one acquisition or merger every quarter that we categorize as “geographic concentration.” The four acquisitions are outlined below.

On August 20, 2007, Hahn Automotive Warehouse, Inc., a Rochester, NY-based warehouse distributor, signed a definitive agreement to acquire Prime Automotive Parts Co., Inc., a Glendale, NY-based warehouse distributor. Prime operates 21 locations in New York, New Jersey and Connecticut.

On August 31, 2007, Uni-Select Inc. acquired Consumer

Auto Parts, Inc., which is an automotive replacement parts distributor and operator of 23 retail stores and one distribution center in Massachusetts and Vermont.

On October 1, 2007, Uni-Select acquired all of the assets of Parts Holding, LLC and its operating companies which include Parts Distributors, LLC., an automotive replacement parts distributor that operates 16 retail stores and one distribution center in New Jersey, New York, Pennsylvania, Virginia and Maryland.

On October 1, 2007, Fisher Auto Parts merged with Hayden's Auto Supply, which is headquartered in Leonardtown, Maryland, and has four retail stores in that state.

Not only are companies expanding more rapidly, but they are also expanding within the same geographic markets. One aspect of geographical expansion is that it forces competitors to follow suit. With the exception of Uni-Select's acquisition of Consumer Auto Parts, the above transactions occurred within the same geographic area. Clearly the hotbed of activity is in the Middle Atlantic states, from Maryland to New York.

Geographic concentration, whether built via organic growth or acquisition, is a key to success for many aftermarket distributors. We are witnessing a significant period of increasing geographic concentration for these firms via acquisitions in the Mid-Atlantic states that will likely broaden to surrounding markets.

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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
10/1/2007	Huron Capital Partners LLC	Advanced Refinish Technologies	manufacturer and marketer of high-performance acrylic sealers, base coats, top coats and other coatings to automotive refinish and paint distributors	—	—	—
9/28/2007	ETX Inc.	Accurate Transmissions	remanufacturer of complete transmissions and torque converters for automotive and heavy-truck applications.	—	—	—
9/27/2007	Uni-Select	Parts Holding, LLC	distributor and retailer with 16 retail locations and one distribution center in the states of New Jersey, New York, Pennsylvania, Virginia and Maryland.	—	\$52.0	—
9/20/2007	Clore Automotive, LLC	Christie Automotive Products	manufacturer of high-performance battery service equipment for the automotive service industry	—	—	—
9/19/2007	Kurz-Kasch, Inc.	MacLean Molded Components, LLC	manufacturer of highly-engineered thermoset and thermoplastic components for use in automobiles and light trucks	—	—	—
9/17/2007	Wynnchurch Capital	Metzeler North America	designer and manufacturer of a complete line of highly-engineered vehicle sealing systems for doors, windows, trunks, lift gates, sunroofs and hoods.	—	—	—
9/10/2007	Thule	United Welding Services Inc.	manufacturer of welded aluminum tool boxes, draw slides, step bars and transfer tanks.	—	—	—
9/4/2007	Cooper-Standard Automotive Inc.	Automotive Sealing Systems S.A.'s MAPS European Operations	manufacturer of complete weathersealing systems	\$136.0	400.0	—
8/29/2007	SPX Corp.	Matra-Werke GmbH	German distributor of vehicle-repair tools	—	26.0	—
8/27/2007	Englefield LLP	Eaton Corp.	manufacturer of mirror actuators and power-fold actuators for exterior mirror systems	111.0	—	—
8/24/2007	Huron Capital Partners LLC	Zolatone Automotive	manufacturer of high performance acrylic sealers, base coats, and top coats	—	—	—
8/22/2007	Banyan Enterprises	AJ Prindle and Co.	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	manufacturer of air pollution control technologies	16.0	—	—
8/22/2007	Uni-Select Inc.	Consumer Auto Parts, Inc.	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.)	manufacturer of products for recreational and specialty vehicles and manufactured housing.	160.2	—	—

E-commerce in the Auto Aftermarket

While we have addressed the growing importance of the internet and its ability to potentially decrease steps in certain distribution channels, this is our first article devoted solely to e-commerce. We have recently been barraged by information that points to the importance of this distribution channel. From the web-based article, *"Aftermarket Auto Parts: Growing Online Trend Benefits Consumers"* by Jerry Marks to a recent SEMA press release entitled *"Enthusiasts Buying More of Your Parts Online,"* the growing importance of e-commerce cannot be denied. The Census Bureau of the Department of Commerce notes that during the second quarter of 2007, e-commerce sales increased 20.8 percent over the same period in 2006.

While the Department of Commerce data is not auto aftermarket specific, the SEMA article referenced above directly relates to the aftermarket and contains the following results from its 2007 Automotive Lifestyles survey:

- The internet is the number one method of purchasing specialty equipment parts and accessories.
- 22 percent of respondents said they purchase over half of their specialty equipment online.
- 17 percent of respondents said they purchase direct from manufacturers websites.
- 10 percent of respondents stated they purchase

over half of their specialty equipment through online auction sites.

Patty Freeman Evans, a senior retail analyst for Jupiter Research, takes the internet distribution channel one step further. "We look to the internet to remain a highly influential channel for retailers to affect customer purchasing regardless of what channel the actual transaction occurs in." Like Ms. Evans, we believe that the internet will continue to grow in importance to all auto aftermarket participants.

Schedule a meeting with Capstone Financial Group



TUESDAY, OCTOBER 30 – FRIDAY, NOVEMBER 2, 2007
LAS VEGAS CONVENTION CENTER, LAS VEGAS, NEVADA, USA

If you would like to meet with Capstone during Industry Week in Las Vegas, please contact Graham Payne at gpayne@capfg.com.

We look forward to seeing you in Las Vegas.

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

Company	Enterprise Value					Last Twelve Months (LTM)			
	Price as of 9/30/07	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
Manufacturers									
Tenneco Automotive, Inc.	\$31.01	\$1,440.9	\$1,450.0	\$168.0	\$2,811.2	6/30/07	\$5,396.0	\$418.0	\$70.0
Aftermarket Technology Corp.	31.74	701.3	0.0	22.5	697.8	6/30/07	519.2	72.3	35.0
Directed Electronics, Inc.	3.99	100.8	327.7	13.1	415.4	6/30/07	450.5	57.7	14.3
Standard Motor Products, Inc.	9.40	177.5	369.7	21.6	525.6	6/30/07	789.5	51.5	11.4
Dorman Products, Inc.	14.10	249.4	17.7	5.9	268.3	6/30/07	312.9	40.4	19.3
Wholesalers & Distributors									
Genuine Parts Company	\$50.00	\$8,496.5	\$500.0	\$274.6	\$8,876.3	6/30/07	\$10,661.0	\$902.8	\$492.5
LKQ Corporation	34.81	1,869.1	138.7	8.9	2,190.8	6/30/07	870.8	103.6	50.5
Keystone Automotive Industries, Inc.	47.76	791.3	0.0	20.4	782.7	6/30/07	727.0	59.9	31.6
The Coast Distribution System, Inc.	6.40	28.4	35.7	1.1	63.2	6/30/07	165.3	2.3	(0.3)
Retailers									
Autozone, Inc.	\$116.14	\$7,814.8	\$1,938.9	\$82.6	\$9,787.8	5/5/07	\$6,106.1	\$1,203.5	\$591.9
Advance Auto Parts, Inc.	33.56	3,430.8	350.4	82.6	3,729.4	7/14/07	4,753.6	567.1	238.2
O'Reilly Automotive, Inc.	33.41	3,813.0	100.9	92.5	3,892.3	6/30/07	2,411.7	362.8	188.5
The Pep Boys - Manny, Moe & Jack	14.03	724.3	671.4	26.6	1,369.1	8/4/07	2,241.9	127.3	(2.3)
CSK Auto Corporation	10.65	468.2	524.4	23.3	969.6	5/6/07	1,917.0	136.4	27.1
US Auto Parts Network, Inc.	8.71	259.8	1.1	43.3	217.7	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	12.0x	6.7x	11.7x	40.2x	20.6	13.0%	7.7%	1.3%
Aftermarket Technology Corp.	1.3x	12.1x	9.7x	14.1x	19.9x	20.0	22.6%	13.9%	6.7%
Directed Electronics, Inc.	0.9x	8.4x	7.2x	7.5x	29.1x	7.1	30.9%	12.8%	3.2%
Standard Motor Products, Inc.	0.7x	14.4x	10.2x	13.0x	45.9x	15.5	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	11.0x	8.1x	10.8x	29.8x	15.2x	25.3%	10.8%	3.8%
Median	0.9x	12.0x	7.2x	11.7x	29.1x	15.5x	25.8%	12.8%	3.2%
Wholesalers & Distributors									
Genuine Parts Company	0.8x	10.8x	9.8x	11.3x	18.0x	17.3	31.4%	8.5%	4.6%
LKQ Corporation	2.5x	24.3x	21.1x	33.3x	43.4x	37.0	45.2%	11.9%	5.8%
Keystone Automotive Industries, Inc.	1.1x	15.9x	13.1x	16.9x	24.8x	25.0	44.8%	8.2%	4.3%
The Coast Distribution System, Inc.	0.4x	42.0x	27.0x	62.9x	NM	NM	17.4%	1.4%	NM
Mean	1.2x	23.3x	17.7x	31.1x	28.7x	26.4x	34.7%	7.5%	4.9%
Median	1.0x	20.1x	17.1x	25.1x	24.8x	25.0x	38.1%	8.4%	4.6%
Retailers									
Autozone, Inc.	1.6x	9.3x	8.1x	10.1x	16.5x	13.2	49.5%	19.7%	9.7%
Advance Auto Parts, Inc.	0.8x	8.9x	6.6x	11.5x	15.7x	14.4	48.0%	11.9%	5.0%
O'Reilly Automotive, Inc.	1.6x	13.1x	10.7x	34.5x	20.6x	20.2	44.3%	15.0%	7.8%
The Pep Boys - Manny, Moe & Jack	0.6x	35.5x	10.8x	19.2x	NM	NM	25.9%	5.7%	NM
CSK Auto Corporation	0.5x	10.1x	7.1x	10.0x	35.8x	17.3	47.0%	7.1%	1.4%
US Auto Parts Network, Inc.	1.4x	73.4x	17.4x	23.7x	NM	NM	32.2%	7.8%	0.7%
Mean	1.0x	15.4x	10.1x	17.1x	22.2x	16.3x	41.1%	11.2%	4.9%
Median	0.8x	10.1x	9.4x	11.5x	18.6x	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