

the aftermarket analyst

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

The Changing Face of Automotive Retail

Leading automotive retailers have recently weighed in with their views on the Do-it-Yourself (DIY) and Do-it-for-Me (DIFM) segments of the auto aftermarket. In one of the largest retail shifts we have seen in recent years, retailers are focusing on the commercial (DIFM) segment instead of the consumer-driven DIY segment. The following recent comments from CEOs of major aftermarket retailers illustrate this shift:

“2008 will be about growing our commercial business”

-Bill Rhodes CEO AutoZone

“We continue to believe that Pep Boys successful future is linked to our lead with DIFM focus”

-Jeff Rachor, (former) CEO Pep Boys

“Retail DIY side of our business seems to have been more negatively affected by this challenging economy”

-Greg Henslee, CEO O'Reilly Automotive

In a period where discretionary income is dwindling, retailers are clamoring for their share of the DIFM market and its non-discretionary purchasing nature. Over the past year, DIFM sales have increased roughly 3-8% while DIY sales have decreased 1 to 5% for leading national retailers. The current state of the economy accounts for some of the sales discrepancies between the two segments, but there are also fundamental demographic issues which are impacting this sales shift at the retail level.

DIFM Growth Drivers

Age of Auto Fleet

One of the fundamentals driving DIFM growth is the median age of automobiles. R.L. Polk & Company recently released its 2007 annual vehicle population report which shows that the median age for passenger cars and light trucks in the U.S. remains at a record high for the second consecutive year. The median age of passenger cars in operation remained at 9.2 years in 2007, tying the record set in 2006. The median age for light trucks increased 5.8 percent to 7.3 years in 2007. As both cars and trucks are staying on the road for longer periods of time, demand for DIFM replacement parts and equipment will continue to rise.

Size of Auto Fleet

Over the past 10 years, the size of the U.S. auto fleet has grown 2.2% annually, from 193 million autos in 1997 to 240 million autos ten years later. As the auto fleet increases, so does the demand for DIFM products.

Technological Advances in Vehicles

New vehicle technology has significantly increased vehicle complexity. As a result, fewer people are desirous or even capable of repairing their own vehicles – opting instead to have them serviced by professional mechanics which comprise the DIFM segment.

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RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor(s)	Target	Target Description	Firm Value (\$mil.)	FV / Rev.	FV / EBITDA
5/9/2008	Uni-Select	Beck/Arnley	Beck/Arnley Worldparts Corp. and its Canadian subsidiary both are automotive replacement parts distributors specialized in parts for foreign nameplate vehicles.	—	—	—
5/6/2008	Cash Technologies Inc.	Champion Parts	was a leading remanufacturer of automotive fuel system components in the U.S. before its bankruptcy in October 2007	\$2.9	—	—
5/6/2008	Purcell Tire & Rubber Co.	D&D Tire Inc.	a large OTR tire dealer and retreader based in Fernley, Nev.	—	\$300.0	—
5/2/2008	FSBO Ventures	Thermacore, Inc.	electronics cooling subsidiary of Modine Manufacturing	13.3	—	—
5/2/2008	Platinum Equity	Wheel Pro's Inc.	Lakewood, Colo.-based chrome wheel distributor	—	—	—
4/30/2008	Tasco Auto Color	Collision Equipment Group	products include paint booths, frame racks and prep stations to pulling posts and lifts. They also offer welding, lighting, and air compressor products	—	—	—
4/29/2008	FleetPride	Keller Truck Parts, Inc.	distributor with 11 locations across Delaware and Maryland.	—	—	—
4/29/2008	U.S.A. Switch Inc	Rostra Precision Controls, Inc.	leading supplier of transmission components, cruise control systems, rear obstacle sensing systems and electronic controls for the automotive and heavy truck aftermarket	—	—	—
4/23/2008	Magna International	Ogihara America Corp.	Ogihara's stamping and sub-assembly plant in Birmingham, Ala.	140.0	—	—
4/16/2008	Robert Price	Ford Motor Co.	Ford's automotive and architectural glass business	—	—	—
4/3/2008	Haldex	Concentric	a supplier of oil, water and fuel pumps for diesel engines	149.0	—	—
4/1/2008	O'Reilly Automotive	CSK Auto Corp.	retailer of automotive parts and accessories with 1,332 stores in 22 western states	1,000.0	1,950.0	9.1x
4/1/2008	Midas	G.C. & K.B. Investments, Inc.	affiliated entities that franchise or sub-franchise 181 SpeeDee quick-lube and automotive maintenance shops in the United States and Mexico	—	—	—
3/31/2008	Superior Capital Partners	Rostra Precision Control	manufacturer of auto electronics and accessories for the automotive aftermarket	—	—	—
3/28/2008	Bosch	Weicon	manufacturer of diagnostic equipment and related software	—	4.7	—
3/19/2008	Pilot Automotive	Racing Sports Akimoto and DUB-Air	Racing Sports Akimoto and DUB-Air, both divisions of the Avanche Corp. Racing Sports Akimoto and DUB-Air are leaders in the sport compact and urban markets, respectively.	—	—	—
3/14/2008	Cash Technologies	Turbomotive	certain assets related to Turbomotive's turbocharger technology.	—	—	—
3/14/2008	1-800-Radiator	AAA Radiator Warehouse	San Diego, CA-based automotive cooling parts business	—	—	—

Light Trucks

Light trucks require more repairs and maintenance than cars. The sharp increase in light truck sales over the past 5 years bodes well for the DIFM market as these trucks are now approaching the “prime” years for repairs.

DIY Retail Decline

Discretionary Nature of Purchases

Most DIY purchases, especially DIY accessories, are discretionary purchases. Typically, they are more closely tied to consumer confidence levels and the current state of the economy than purchases made through DIFM channels.

Internet

DIY sales at retail automotive stores appear to be falling victim to the rise of the internet. Sales for aftermarket products via the internet have increased 6.6% per year over the last 3 years, illustrating changing consumer purchasing habits. This new consumer preference, along with the rise of internet rivals that do not require substantial inventory or overhead, has the brick-and-mortar retailers at a competitive disadvantage. A recent SEMA study noted that 52% of enthusiasts turn

to manufacturers' websites to purchase desired items. Manufacturers see the benefits of internet distribution in the form of increased margins and stronger customer relationships with the end user.

Product Assortment

As OEMs push for greater vehicle differentiation by increasing the number of vehicle models, there is a corresponding increase in the number of model-specific SKUs. This need for increased inventory comes at a time when retailers are downsizing their shelf space in an attempt to maximize the sales per square foot metric that is prevalent in the industry. Added pressure is placed on DIY products as retailers attempt to maximize shelf space for DIFM product lines.

As we have stated in previous versions of this newsletter, the DIFM market segment is fundamentally more attractive than the DIY segment. This is especially true in a period of declining discretionary income, since the discretionary nature of these purchases is one of the largest differences between the DIY and DIFM segments. We expect retailers to continue focusing on DIFM as macro-economic factors and the internet erode DIY for the major aftermarket retailers.

DIFM sales as % of total sales		
<u>Top 10 Auto Chains:</u>	<u>2005</u>	<u>2007</u>
1 Autozone	13%	13%
2 Advance Auto	20%	27%
3 O'Reilly	48%	50%
4 General Parts International	80%	82%
5 CSK Auto	18%	17%
6 Genuine Parts Company	60%	60%
7 The Pep Boys	0%	0%
8 Fisher Auto	75%	75%
9 Uni-Select	90%	90%
10 Replacement Parts Inc.	75%	85%
Average	48%	50%

About Capstone

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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 4/30/08	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
Manufacturers									
Tenneco Automotive, Inc.	\$25.58	\$1,171.8	\$1,374.0	\$188.0	\$2,424.0	12/31/07	\$6,184.0	\$461.0	(\$5.0)
Aftermarket Technology Corp.	22.91	486.5	0.0	19.2	473.0	3/31/07	529.0	79.8	40.8
Directed Electronics, Inc.	2.00	50.6	266.9	4.8	312.8	12/31/07	401.1	50.7	(21.1)
Standard Motor Products, Inc.	6.08	112.5	255.3	13.3	354.6	12/31/07	790.2	48.5	12.1
Dorman Products, Inc.	10.40	184.0	17.6	6.9	198.8	12/31/07	327.7	42.1	19.4
Wholesalers & Distributors									
Genuine Parts Company	\$42.46	\$7,018.9	\$500.0	\$231.8	\$7,381.4	12/31/07	\$10,843.2	\$925.6	\$506.3
LKQ Corporation	21.76	2,926.8	658.5	74.2	3,693.0	12/31/07	1,126.8	141.1	66.1
The Coast Distribution System, Inc.	5.30	23.5	24.8	0.8	47.5	12/31/07	164.3	3.6	0.2
Retailers									
Autozone, Inc.	\$120.75	\$7,633.8	\$2,095.0	\$93.5	\$9,753.5	2/9/08	\$6,271.3	\$1,244.0	\$608.0
Advance Auto Parts, Inc.	34.68	3,545.3	505.7	14.7	4,048.2	12/29/07	4,844.4	563.7	238.3
O'Reilly Automotive, Inc.	28.87	3,331.3	100.5	47.6	3,418.3	12/31/07	2,522.3	384.1	194.0
The Pep Boys - Manny, Moe & Jack	8.92	461.4	521.1	20.3	962.3	2/2/08	2,138.1	48.9	(46.7)
CSK Auto Corporation	11.93	525.3	509.3	16.5	1,020.1	2/4/08	1,851.6	103.4	4.7
US Auto Parts Network, Inc.	3.49	104.2	1.1	42.0	63.2	12/31/07	161.0	10.1	(0.8)

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.	0.4x	9.5x	5.3x	8.5x	NM	NM	15.8%	7.5%	NM
Aftermarket Technology Corp.	0.9x	7.4x	5.9x	8.3x	11.6x	11.9	24.8%	15.1%	7.7%
Directed Electronics, Inc.	0.8x	7.6x	6.2x	6.6x	NM	NM	35.3%	12.6%	NM
Standard Motor Products, Inc.	0.4x	10.6x	7.3x	10.3x	29.3x	9.3	25.6%	6.1%	1.5%
Dorman Products, Inc.	0.6x	5.8x	4.7x	5.4x	10.2x	9.5	34.3%	12.9%	5.9%
Mean	0.6x	8.2x	5.9x	7.8x	17.0x	10.2x	27.2%	10.8%	5.1%
Median	0.6x	7.6x	5.9x	8.3x	11.6x	9.5x	25.6%	12.6%	5.9%
Wholesalers & Distributors									
Genuine Parts Company	0.7x	8.8x	8.0x	9.1x	14.6x	13.9	29.7%	8.5%	4.7%
LKQ Corporation	3.3x	30.0x	26.2x	36.0x	55.8x	44.3	44.9%	12.5%	5.9%
The Coast Distribution System, Inc.	0.3x	17.9x	13.3x	26.7x	NM	109.4	18.7%	2.2%	0.0
Mean	1.4x	18.9x	15.8x	23.9x	35.2x	55.8x	31.1%	7.7%	3.6%
Median	0.7x	17.9x	13.3x	26.7x	35.2x	44.3x	29.7%	8.5%	4.7%
Retailers									
Autozone, Inc.	1.6x	9.1x	7.8x	9.5x	16.0x	12.6	50.0%	19.8%	9.7%
Advance Auto Parts, Inc.	0.8x	9.7x	7.2x	11.5x	17.0x	14.9	47.9%	11.6%	4.9%
O'Reilly Automotive, Inc.	1.4x	11.2x	8.9x	33.7x	17.6x	17.2	44.4%	15.2%	7.7%
The Pep Boys - Manny, Moe & Jack	0.5x	NM	19.7x	NM	NM	NM	22.7%	2.3%	NM
CSK Auto Corporation	0.6x	16.3x	9.9x	14.9x	NM	111.1	46.8%	5.6%	0.3%
US Auto Parts Network, Inc.	0.4x	NM	6.2x	12.3x	NM	NM	33.4%	6.3%	NM
Mean	0.9x	11.6x	9.9x	17.4x	16.9x	38.9x	40.9%	10.1%	5.6%
Median	0.8x	10.5x	8.4x	13.2x	17.0x	16.0x	46.8%	11.6%	6.3%

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful