

the aftermarket analyst

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

Investment Banking

As investment bankers, we are well aware of the stereotypes facing our profession. Investment bankers are often thought to be a collection of Gordon Gekko-esque type characters (remember Gekko from the 1980's classic film *Wall Street*) espousing greed and unscrupulous behavior. Recent "bailouts" of the nation's largest investment banks, complete with tales of corporate opulence as millions of Americans are facing financial hardship, certainly have not helped the stereotype. In essence, Wall Street has been pitted against Main Street.

The truth of the matter is that investment banking, like all other industries, is a mixed bag. There are certain people and organizations that are universally admired and respected. On the other hand, there are individuals and companies that epitomize greed and use unethical tactics. The purpose of this edition of the *Aftermarket Analyst* is not to convince you that investment bankers are good people, but rather to more clearly define the role and services offered by investment banking firms.

In the current economic environment, management teams face increasing responsibilities and expectations amid declining resources of time, personnel and capital. That is why outside advisers are so important. Along with an attorney and accountant, an investment banker should be part of

your inner circle. This is particularly true for lower middle-market businesses — those with total enterprise values under \$100 million — whether owned privately or by a larger corporation.

What do investment bankers do?

Investment bankers provide professional advisory services to companies. They help evaluate strategic alternatives, develop sound capital structures, raise debt or equity for operations and growth, and identify targets for acquisition and divisions or assets for divestiture. They advise on exit or liquidity strategies and develop plans for a company sale or recapitalization. Large corporations retain investment banking firms to advise them regularly. Smaller companies need investment bankers more, because they typically lack sophisticated knowledge about capital markets.

When should I hire an investment banker?

Hiring outside advisers becomes more important as the complexity of a financial situation or opportunity increases. But when a company faces any significant financial decision, it should consult with an investment banker to gain outside perspective. Hiring an investment banker may not be necessary, but developing a relationship with one who can help managers make more informed decisions is prudent.

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RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor(s)	Target	Target Description
4/6/2009	Kinderhook Industries	BedRug	BedRug, a division of Wise Industries Inc., a manufacturer of truck bed and van protection products.
3/30/2009	FleetPride	Pro Truck and Trailer Supply	a 21,000 square foot retail and warehouse facility in Lubbock, Texas
3/27/2009	Cerion LLC	Precision Parts International	a global leader in fineblanking and complimentary value-added finishing technology, enabling it to supply precision components to customers in the automotive, industrial HVAC and fluid control industries, and a highly-respected stamping company serving the automotive, trucking, industrial and consumer markets.
3/26/2009	Fisher Auto Parts	Robbins Auto	12 stores and a centralized distribution center which has served New Hampshire, northern Massachusetts and southern Maine for more than 75 years.
3/3/2009	General Motors	Delphi	Delphi's steering division
2/23/2009	FleetPride	Multibearings Service Co.	supplier of heavy duty truck and trailer parts and offers in-house remanufactured products
2/23/2009	Safety-Kleen	Atlantic Industrial Services Inc.	one of the largest collectors and recyclers of used oil, oil filters and antifreeze in the Southeast
2/23/2009	Safety-Kleen	Gateway Petroleum Co.	provides used oil management services to customers in the eastern Missouri, central and southern Illinois, and Cape Girardeau areas.
1/16/2009	The Mifsud Group	JB Design Inc.	a.k.a. Corsa Performance Exhausts
1/15/2009	Aurelius	Bosch	Bosch's Blaupunkt brand, which makes portable navigation devices
1/9/2009	Comp Cams	Hawk Corp.	the clutch assemblies specialist (Quarter Master Industries) was the last remaining piece of Hawk's performance racing operations
1/7/2009	Belron US	Cindy Rowe Auto Glass	a prominent vehicle glass repair and replacement brand in the central Pennsylvania area
1/6/2009	FleetPride	E.H. Burrell	a wholesale distributor of parts and accessories for commercial trucks and heavy equipment that serves 1,000 commercial and industrial accounts throughout western Oregon and south-western Washington State
1/6/2009	Aero Performance Products	Jones Exhaust Products	one of the largest manufacturers of chrome exhaust tips and glasspack mufflers and performance diesel systems in the U.S.
1/5/2009	Speedway Motors	Kentucky Speedway	motorsports facility just south of Cincinnati, Kentucky
12/30/2008	Paul Lee (Individual)	McLeod Industries Inc.	a U.S.-based manufacturer of high-performance automotive clutch assemblies for performance automotive enthusiasts and the auto industry

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How are investment bankers compensated?

Most fees are success-based, meaning that the majority of the costs are contingent on a successful closing of the transaction. Investment bankers are typically paid a modest retainer upon being hired, but realize 80 percent or more of their fees when successfully completing the stated objective.

What are the advantages of hiring an investment banker?

The primary advantages are that it significantly increases the likelihood of a superior and timely transaction outcome, and allows management to focus on core business operations. Other reasons include:

- **Expertise and experience.** Operating the company is management's core competency. The core competency of investment bankers is deep and up-to-date knowledge of the capital markets and successful transaction structures. They often have decades of experience negotiating mergers, acquisitions and divestitures between buyers and sellers, as well as raising capital from financial institutions. They may have completed multiple transactions in your industry.
- **Relationships.** Relationships matter in any business, and a good investment banker has them with lenders, equity investors, buyers and sellers of companies in your industry. A key function of any good investment banker is to help distribute your opportunity to the right counterparties.
- **Efficient outsourcing.** A management team can focus on core operations and efficiently outsource transaction management to an expert project manager, the investment banker. Even relatively straightforward refinancings can take months of management attention, and a successful acquisition or divestiture can require six months or more to complete. To help ensure success for the core business and the transaction, leave the financial advisory work to the expert.
- **Objectivity and independence.** Company leaders must objectively examine their alternatives and may need outside perspective and guidance to identify optimal solutions. Investment bankers bring experience and help establish realistic valuation and transaction expectations.
- **Developing transaction alternatives and structures.** An investment banker draws upon experience to tailor the transaction to fit the company's needs, navigating different market conditions, time constraints, complex covenants, liabilities and labor issues.
- **Optimal outcomes.** Good investment bankers create value for their clients. In a company sale or financing transaction, he or she will help identify the full universe of potential acquirers or capital sources, create a professional and competitive process, attract multiple offers, and consistently yield a closing price or financing savings incrementally high enough to cover the cost of investment banking fees.

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	Price as of 4/30/09	Enterprise Value				Enterprise Value (1)	Last Twelve Months (LTM)		
		Market Cap	Debt	Cash	Value (1)		LTM Date	Revenue	EBITDA
Manufacturers									
Federal-Mogul Corporation	\$11.10	\$1,103.4	\$2,869.7	\$888.2	\$3,129.9	12/31/08	\$6,865.6	\$623.4	(\$101.6)
Aftermarket Technology Corp.	15.89	314.2	0.0	17.2	297.0	12/31/08	530.6	72.1	27.7
Tenneco Automotive, Inc.	3.06	143.1	1,451.0	126.0	1,499.1	12/31/08	5,916.0	334.0	(339.4)
Dorman Products, Inc.	10.70	188.7	15.4	5.8	202.3	12/31/08	342.3	36.1	17.8
Standard Motor Products, Inc.	4.00	75.1	89.9	6.6	158.3	12/31/08	775.2	32.7	13.2
Wholesalers & Distributors									
Genuine Parts Company	\$33.96	\$5,414.7	\$500.0	\$67.8	\$5,915.9	12/31/08	\$11,015.3	\$889.0	\$475.4
LKQ Corporation	16.98	2,302.3	642.9	79.1	2,978.6	12/31/08	1,937.3	239.7	105.1
The Coast Distribution System, Inc.	1.06	4.7	17.2	1.9	20.1	12/31/08	132.2	(1.0)	(1.8)
Retailers									
Autozone, Inc.	\$166.39	\$9,100.4	\$2,690.8	\$108.0	\$11,921.9	2/14/09	\$6,654.0	\$1,316.0	\$649.6
Advance Auto Parts, Inc.	43.75	4,156.2	456.2	37.4	4,604.4	12/31/08	5,142.3	561.5	238.0
O'Reilly Automotive, Inc.	38.85	5,165.2	0.0	0.0	5,318.5	12/31/08	3,576.6	443.0	193.1
The Pep Boys - Manny, Moe & Jack	7.40	386.8	353.8	21.3	719.3	1/31/09	1,927.8	53.6	(34.8)
US Auto Parts Network, Inc.	2.18	65.1	0.0	0.0	65.1	12/31/08	153.4	(21.1)	(16.9)

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									
Federal-Mogul Corporation	0.5x	11.4x	5.0x	10.3x	NM	NM	16.4%	9.1%	NM
Aftermarket Technology Corp.	0.6x	5.2x	4.1x	4.9x	10.7x	11.4	21.6%	13.6%	5.2%
Tenneco Automotive, Inc.	0.3x	13.4x	4.5x	14.8x	NM	NM	14.4%	5.6%	NM
Dorman Products, Inc.	0.6x	7.1x	5.6x	7.0x	11.4x	10.6	32.2%	10.5%	5.2%
Standard Motor Products, Inc.	0.2x	8.8x	4.8x	7.1x	12.0x	5.7	23.8%	4.2%	1.7%
Mean	0.4x	9.2x	4.8x	8.8x	11.4x	9.2x	21.7%	8.6%	4.0%
Median	0.5x	8.8x	4.8x	7.1x	11.4x	10.6x	21.6%	9.1%	5.2%
Wholesalers & Distributors									
Genuine Parts Company	0.5x	7.4x	6.7x	7.5x	12.4x	11.4	29.7%	8.1%	4.3%
LKQ Corporation	1.5x	14.4x	12.4x	17.2x	28.3x	21.9	44.2%	12.4%	5.4%
The Coast Distribution System, Inc.	0.2x	NM	NM	NM	NM	NM	18.6%	NM	NM
Mean	0.7x	10.9x	9.5x	12.4x	20.4x	16.6x	30.8%	10.2%	4.9%
Median	0.5x	10.9x	9.5x	12.4x	20.4x	16.6x	29.7%	10.2%	4.9%
Retailers									
Autozone, Inc.	1.8x	10.4x	9.1x	11.1x	18.4x	14.0	50.1%	19.8%	9.8%
Advance Auto Parts, Inc.	0.9x	11.1x	8.2x	12.2x	19.3x	17.5	47.9%	10.9%	4.6%
O'Reilly Automotive, Inc.	1.5x	15.8x	12.0x	52.5x	27.5x	26.7	45.5%	12.4%	5.4%
The Pep Boys - Manny, Moe & Jack	0.4x	NM	13.4x	38.2x	NM	NM	24.1%	2.8%	NM
US Auto Parts Network, Inc.	0.4x	NM	NM	NM	NM	NM	34.3%	NM	NM
Mean	1.1x	12.5x	10.7x	28.5x	21.7x	19.4x	40.4%	11.5%	6.6%
Median	1.2x	11.1x	10.5x	25.2x	19.3x	17.5x	46.7%	11.7%	5.4%

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful