

the aftermarket analyst

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

Aftermarket Poised for Rebound in 2010

In last month's edition of the Aftermarket Analyst, we detailed the positive trends in the debt capital markets. Easing of the "credit crunch" affects the aftermarket in the form of increased interest from potential buyers and ultimately more liquidity for owners looking to exit. Like the capital markets, the aftermarket is ready for a rebound in 2010. We have divided our analysis into aftermarket accessories and aftermarket replacement parts. A few of the key indicators we follow for the accessories segment of the aftermarket include Consumer Confidence Index (CCI), disposable income, new light vehicle sales, and gasoline prices. For the replacement parts segment of the aftermarket, which is dominated by non-discretionary purchases, we monitor Miles Driven and the annual age of vehicles.

Accessories Market

Consumer Confidence Index – The Conference Board's CCI is designed to measure the degree of optimism that U.S. consumers are expressing based on spending and saving activities. This is a good benchmark for consumers willingness to spend discretionary income in both the short-term and long-term. Consumer Confidence in April rose to 57.9, the highest monthly CCI since September 2008. While the number is fairly irrelevant, it is important to note the trend. The CCI has increased over 40% from April 2009 and 25% from the beginning of 2010.

Disposable Income – Measured by the Bureau of Economic Analysts, Disposable Income reflects income remaining after all necessary expenses are paid, such as living, transportation, taxes, insurance, etc. Disposable has increased 2.6% over the past year to \$921.1 billion, one of the largest totals on record.

New Light Vehicle Sales – While consumer confidence and disposable income apply across the broader economy, new light vehicle sales directly impacts the aftermarket. As the majority of light vehicle accessories are purchased within the first six months of owning a new automobile, new vehicle sales is the life blood of accessory manufacturers. For the first quarter of 2010, light vehicle sales are up 15.6% over the first quarter of 2009 with cars up 18.2% while truck sales grew by 12.9%. Domestic manufacturers are performing better than imported light vehicles with domestic car sales experiencing 27.9% growth and domestic trucks increasing 19.1% over the same period in 2009.

Gasoline Prices – Gasoline prices have risen 35.6% over the past year to a national average of \$2.86 per gallon. While consumers tend to adapt to smaller shifts in gas prices, there remains a psychological \$3.00 per gallon barrier that affects some consumers driving and auto spending behavior. We don't expect to see larger

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RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor(s)	Target	Target Description
4/23/2010	APW Knox Seeman	V-P Sales Auto Parts	a WD formerly owned by Harvey Valley since 1978
4/22/2010	TPG Capital	American Tire Distributors	North America's largest independent tire distributor
4/22/2010	National Performance Warehouse	Speed Warehouse	high performance parts distributor with three distribution points in Hayward, San Jose and Tustin, Calif.
4/9/2010	BorgWarner	Dytech ENSA	a producer of exhaust gas recirculation (EGR) coolers
4/8/2010	SPX	Torque Tension Systems	a global supplier of hydraulic torque wrench and tensioner tool products
4/6/2010	Illinois Tool Works	Slime (AMI)	Accessories Marketing Inc. (AMI), creator and manufacturer of the Slime brand of tire sealant products.
3/29/2010	The Parts House	Parts Pros Automotive	automotive warehouse in Bradenton, FL.
3/19/2010	FleetPride	Express Truck Parts	this acquisition includes a 10,000-square-foot facility and brings the total number of FleetPride locations in California to 21.
3/5/2010	Autoliv	Visteon	auto parts warehouse/installer in the Albuquerque, N.M., market.
3/4/2010	Parts Plus	B&B Brake and Suspension	Visteon's radar system business
3/3/2010	Genuine Parts Co.	BC Bearing	a family owned bearing and power transmission distributor operating 53 branches throughout western Canada and the northwestern U.S.
2/18/2010	Halfords Group	Nationwide Autocentres	a UK-based independent operator of automotive service centers
2/12/2010	MEMA	OptiCat	electronic parts catalog data repository
2/12/2010	Service Repair Solutions	Auto Point, Inc.	a pioneer of ownership lifecycle management services to automotive retailers
2/12/2010	Great Dane Trailers	Johnson Truck Bodies	leader in the manufacture of insulated fiberglass refrigerated truck bodies and all-electric refrigeration solutions that was founded in 1932 by the Johnson Family
2/12/2010	WAI Global	Lester Catalog	an industry standard catalog, part number and information service provider
2/12/2010	General Automotive Company	Spec, Inc.	a manufacturer of clutches, flywheels and pressure plates for the performance market
2/4/2010	International Automotive Components Group (IAC)	Stankiewicz International Corp.	a U.S. subsidiary of Gimotive GmbH, manufactures flooring systems, dash insulators and trunk systems
2/3/2010	Uni-Select	Automotive Information Management Inc.	a program distribution group which offers a membership program that grants access to preferred purchase terms offered by selected manufacturers.
2/3/2010	Klarius Group Limited	Affinia Group - Quinton Hazell	a diverse aftermarket manufacturer and distributor of automotive components throughout Europe
1/29/2010	The Gonher Group	Mighty Distributing System of America	a franchisor of sales and service operations in the automotive aftermarket. Mighty oversees 110 franchisees and company operations in 43 states.
1/28/2010	Autoliv	Delphi	Delphi's Occupant Protection Systems (OPS) operations in Korea and China

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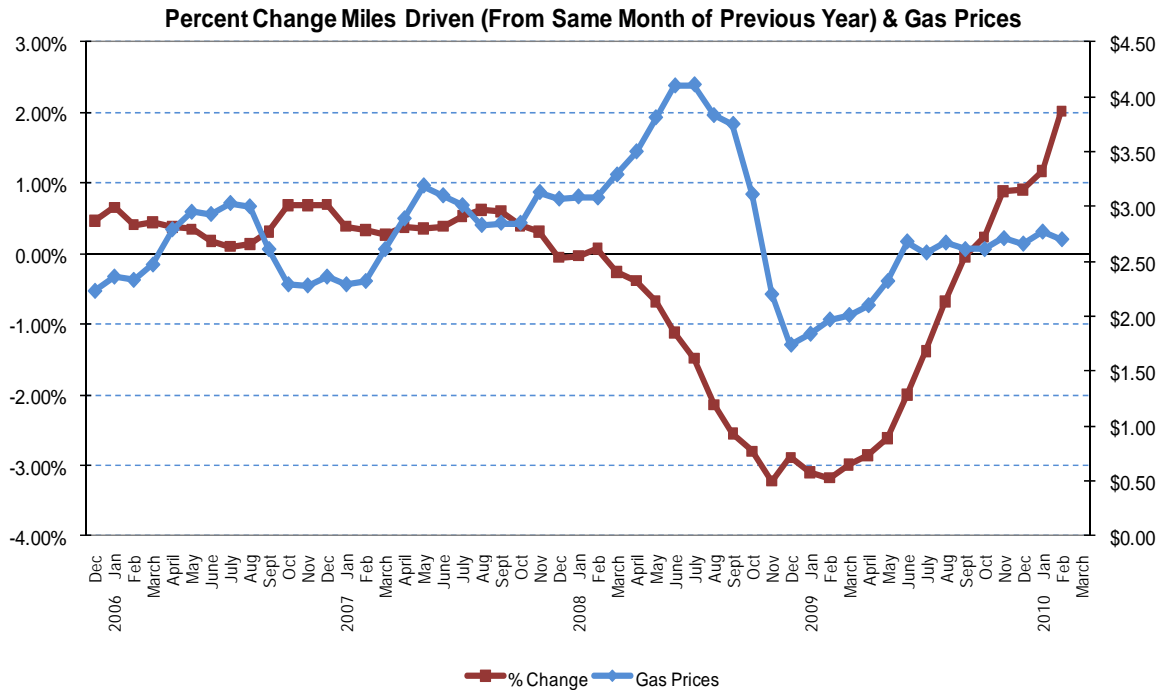
shifts in this behavior until the \$3.50 per gallon mark is reached. However, the increase in gas prices has warranted additional attention.

Accessory manufacturers should continue to benefit from consumers increased optimism and disposable income. With increasing new light vehicle sales, especially domestic manufacturers, accessories should be in continuing demand through 2010 assuming gas prices do not rise exorbitantly.

Replacement Market

The replacement market is non-discretionary in nature and increases with use and age of vehicles. We monitor Miles Driven and the average age of vehicles as an indicator of the need for replacement parts.

Miles Driven – Annual miles driven in the U.S. has returned to February 2007 levels, roughly 213 billion miles. 2008 saw a dramatic decline in miles which did not stabilize until late 2009. This year we have seen a steady increase in miles driven. The largest factor affecting Miles Driven is gas prices, a continued



increase in gas prices will yield to decreasing Miles Driven.

Average Age – The average age of vehicles has increased 21% over the last 14 years. The average age for all light vehicles is now 10.2 years. Cars remained constant at an average age of 10.6 years in 2008 and 2009, while trucks increased from an average age of 9.3 years in 2008 to 9.6 years in 2009.

With increases in Miles Driven and average age of vehicles, we expect continued brisk demand for replacement parts. The only point of caution remains increasing gas prices and the negative effect on Miles Driven. Assuming relatively steady gas prices, the replacement market should experience significant growth in 2010.

About Capstone

Capstone Financial Group, Inc. 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 4/30/10	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
Manufacturers									
Federal-Mogul Corporation	\$19.02	\$1,881.2	\$2,855.0	\$1,028.0	\$3,785.2	3/31/10	\$5,581.0	\$480.0	\$80.2
ATC Technology Corporation	20.44	410.6	0.0	86.9	323.7	3/31/10	476.1	78.6	36.1
Tenneco Automotive, Inc.	25.77	1,221.3	1,468.0	137.0	2,612.6	12/31/09	4,535.0	242.0	(312.4)
Dorman Products, Inc.	25.35	450.0	0.3	15.9	448.0	3/31/10	389.9	59.8	31.6
Standard Motor Products, Inc.	10.66	240.7	76.4	10.6	306.5	12/31/09	735.4	44.9	10.4
Wholesalers & Distributors									
Genuine Parts Company	\$42.80	\$6,792.5	\$500.0	\$336.8	\$6,975.9	12/31/09	\$10,057.5	\$761.4	\$399.6
LKQ Corporation	21.07	2,780.9	596.6	193.5	3,298.4	3/31/10	2,140.6	301.0	148.2
The Coast Distribution System, Inc.	4.55	20.2	9.7	5.6	24.4	12/31/09	103.2	1.7	0.1
Retailers									
Autozone, Inc.	\$185.01	\$9,157.3	\$2,774.7	\$105.6	\$12,093.5	2/13/10	\$6,875.2	\$1,377.3	\$664.5
Advance Auto Parts, Inc.	45.10	4,161.0	204.3	100.0	4,317.5	1/2/10	5,412.6	605.3	270.4
O'Reilly Automotive, Inc.	48.87	6,722.9	790.7	26.9	7,703.6	12/31/09	4,847.1	680.5	307.5
The Pep Boys - Manny, Moe & Jack	12.53	657.2	307.3	39.3	932.5	1/30/10	1,910.9	126.4	23.4
US Auto Parts Network, Inc.	9.40	281.6	0.0	26.3	256.2	12/31/09	176.3	9.8	1.3

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	0.7x	25.4x	7.9x	12.5x	47.2x	23.5	15.9%	8.6%	1.4%
ATC Technology Corporation	0.7x	4.9x	4.1x	4.7x	9.0x	11.4	23.6%	16.5%	7.6%
Tenneco Automotive, Inc.	0.6x	100.5x	10.8x	22.7x	NM	NM	15.5%	5.3%	NM
Dorman Products, Inc.	1.1x	8.6x	7.5x	8.6x	14.2x	14.3	36.2%	15.3%	8.1%
Standard Motor Products, Inc.	0.4x	10.0x	6.8x	8.1x	29.4x	23.1	24.1%	6.1%	1.4%
Mean	0.7x	29.9x	7.4x	11.3x	25.0x	18.1x	23.1%	10.4%	4.6%
Median	0.7x	10.0x	7.5x	8.6x	21.8x	18.7x	23.6%	8.6%	4.5%
Wholesalers & Distributors									
Genuine Parts Company	0.7x	10.4x	9.2x	10.1x	17.5x	17.0	29.9%	7.6%	4.0%
LKQ Corporation	1.5x	12.6x	11.0x	13.7x	22.3x	18.8	45.9%	14.1%	6.9%
The Coast Distribution System, Inc.	0.2x	27.3x	14.0x	15.5x	NM	NM	18.8%	1.7%	0.1%
Mean	0.8x	16.8x	11.4x	13.1x	19.9x	17.9x	31.5%	7.8%	3.7%
Median	0.7x	12.6x	11.0x	13.7x	19.9x	17.9x	29.9%	7.6%	4.0%
Retailers									
Autozone, Inc.	1.8x	10.1x	8.8x	11.1x	18.2x	13.8	50.2%	20.0%	9.7%
Advance Auto Parts, Inc.	0.8x	9.5x	7.1x	10.5x	16.0x	15.4	48.9%	11.2%	5.0%
O'Reilly Automotive, Inc.	1.6x	14.3x	11.3x	29.0x	25.1x	21.9	48.0%	14.0%	6.3%
The Pep Boys - Manny, Moe & Jack	0.5x	16.7x	7.4x	11.2x	39.9x	28.1	25.4%	6.6%	1.2%
US Auto Parts Network, Inc.	1.5x	60.3x	26.1x	NM	NM	NM	36.2%	5.6%	0.0x
Mean	1.2x	12.7x	12.1x	15.4x	24.8x	19.8x	41.7%	11.5%	4.6%
Median	1.2x	12.2x	8.8x	11.1x	21.6x	18.6x	48.4%	12.6%	5.7%

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful