

the aftermarket analyst

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

“Strongest Seller’s Market in a Decade”

In last month’s issue of the Aftermarket Analyst, we questioned why owners were not selling their businesses given the heightened level of buyer interest in 2011. One private equity professional referred to the market as the “strongest sellers’ market in a decade.” For this month’s newsletter, we spoke with private equity professionals familiar with the aftermarket to get their view on the current state of aftermarket M&A. Driven by excess capital that needs to be invested, relatively high stock prices, and inexpensive and readily accessible debt capital, buyers have returned to the market.

“It’s almost like 2006”

One M&A professional puts it like this, “If you went to sleep in 2006 and woke up in 2011 you would have no idea that the world had faced the largest economic crisis since the 1930s.” Armed with more capital than ever, buyers are ready to put their \$500 billion stockpile to work (see graph). “On a recent deal for a good, not great, company, 35 IOIs (Indications of

Interest) were submitted. That’s unbelievable competition.”

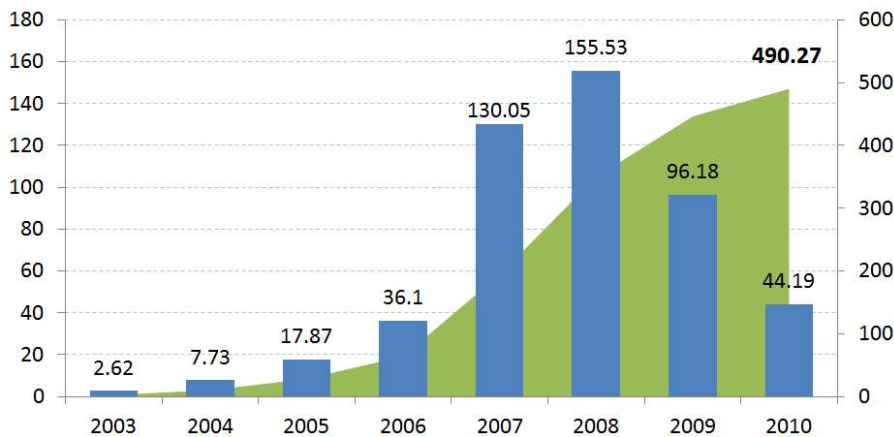
“It’s a double edged sword”

With a ripe opportunity for investing and very few quality deals at market, sellers have been receiving a significant premium. Anyone familiar with the law of supply and

demand understands that the sellers are in an enviable position. Further defining the premiums paid, an M&A pro noted that, “mediocre companies are not garnering the premiums. The good companies are being paid like great companies, and the great companies are being paid like

exceptional companies.” Buyers are becoming frustrated with the rising prices. “We bid 8.0x EBITDA for two separate asset-light businesses and were not invited to the next round in either situation,” explains one private

Capital Overhang of US PE Investors by Vintage Year



Source: Pitchbook

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RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

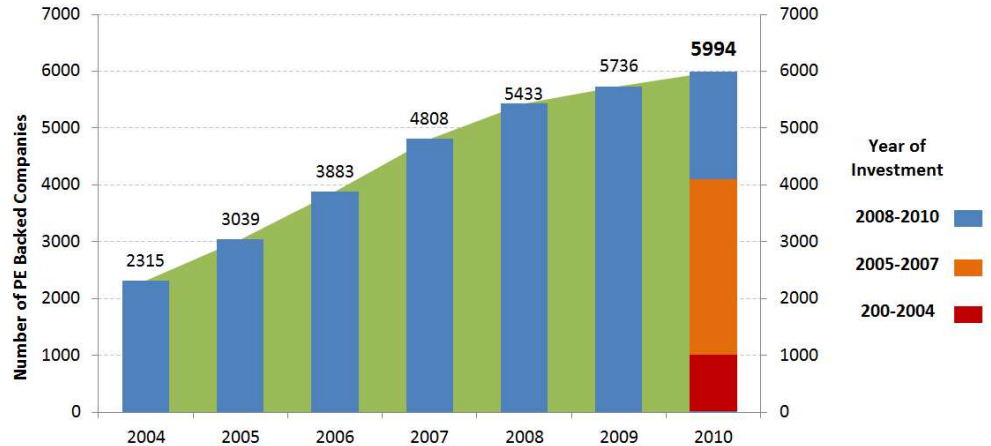
Announce Date	Acquirer/Investor(s)	Target	Target Description
4/29/2011	Eigen Capital	Plews & Edelmann	a leading designer, manufacturer and distributor of a broad range of automotive parts and tools sold to the vast majority of mass merchant and retail auto parts stores and wholesale automotive parts and industrial distribution outlets, worldwide.
4/27/2011	Standard Motor Products	BLD Products Ltd., (subsidiary of Qualitor Inc.)	the Engine Controls business of BLD Products Ltd. BLD has plants in Holland, Mich., and Ocala, Fla., and manufactures a range of products including fuel pressure regulators, air by-pass valves, idle air control valves and PCV valves.
4/19/2011	Continental AG	Modi Tyre	tire producer for the Indian market
4/12/2011	FleetPride	Cimarron Truck Parts/Oklahoma Truck Supply	both companies were previously owned by East Tulsa Truck Parts and Equipment, Inc., with these acquisitions, FleetPride now owns and operates six locations in Oklahoma
4/5/2011	Flexitech	Trelleborg	Trelleborg's light vehicle brake host operations
4/4/2011	Carlex Glass America	Zeledyne	a float glass manufacturing and automotive windshield fabricating plant in Nashville and an automotive replacement glass distribution business in Lebanon, Tenn
3/31/2011	Platinum Equity	Keystone Automotive Operations	(majority stake) wholesale distributors and retailers of aftermarket automotive accessories and equipment, with operations servicing customers in all regions of the United States and provinces of Canada, as well as various other international locations
3/29/2011	Cooper Standard Automotive	Usi Inc.	provides an exclusive hard coating process for use in automotive and industrial applications
3/25/2011	Apax Partners	Trader Corp.	include 74 publications as well as the online automotive classified businesses of AutoTrader.ca, Auto.ca, AutoHebdo.net and Buysell.co. The deal also comes with a 30% stake of Dealer.com, a digital dealer marketing service provider
3/22/2011	SPX Corp.	Teradyne Diagnostic Solutions	a global supplier of diagnostic solutions for transportation OEMs and automotive dealerships
3/15/2011	B&M Automotive Group	Flowmaster, Inc.	company with three facilities, totaling more than 400,000 square feet, which are dedicated to producing exhaust products that are easy to install and provide immediate performance gains
3/11/2011	Heartland Automotive	Constitution Lube	the operator of Jiffy Lube retail service centers throughout Hartford, New Haven and Fairfield counties in Connecticut
3/1/2011	ITW	SOPUS Products	a leading automotive aftermarket consumer products portfolio, a subsidiary of Shell Oil Co.
2/25/2011	Factory Motor Parts	Tri-City Automotive	an Arizona-based auto parts wholesaler with 11 locations in the Phoenix area
2/23/2011	Heartland Automotive	Empire Lube Inc.	the operator of Jiffy Lube retail service centers throughout Nassau County, Brooklyn and the Bronx, New York
2/18/2011	Trelleborg	U.S. group Maine Industrial Tire LLC	an operation in eastern China to facilitate the group's expansion in the Chinese market for specialty tires, primarily agricultural tires

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equity professional. "The return of the debt market, it's a double edged sword. With debt this cheap and available, other equity groups are sacrificing returns to employ their capital. While some groups are willing to go to near mezzanine (14-18%) level returns, we can't justify that and are consistently getting outbid."

We believe there is a relatively brief window for sellers to take advantage of this "overheated" seller's market. Some private equity groups that were planning to sell portfolio companies in 2012 have begun pushing their deals forward to take advantage of the current market conditions. "We believe 2011 will continue to be a seller's market, but look out in 2012 and 2013." With the M&A markets cratering from 2007 through mid-2010, there was a substantial lack of activity. This has produced a backlog of companies that normally would have sold during this period. The

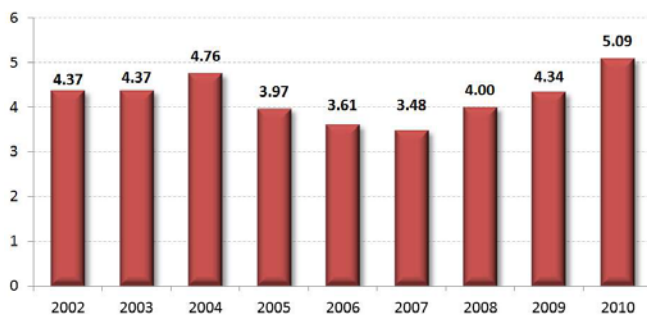
Number of Private Equity-Owned Companies



Source: Pitchbook

average hold time, which had declined through 2007, drastically increased as the M&A market drew to a standstill from 2007 to 2009 (see graph). This is evidenced by the marked increase in the average holding period for private equity groups. Of the close to 6,000 private equity backed companies, almost half of them were purchased in 2005 to 2007 which was the height of private equity investing (see graph). If we assume 5 to 7 years from buyout to exit, roughly 3,000 companies will need to be sold from 2012 through 2014. While this is hardly attainable, we do expect to see a large increase over that three year period with hold times also increasing by default.

Average Time From Buyout to Exit



Source: Pitchbook

Many private equity groups have pushed forward the proposed sale of their businesses into 2011 to take advantage of the current market. All business owners would be wise to consider this option given current premiums and increasing supply in 2012 and beyond.

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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 4/30/11	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
Manufacturers									
Federal-Mogul Corporation	\$26.51	\$2,622.0	\$2,831.0	\$1,015.0	\$4,530.0	3/31/11	\$6,454.0	\$626.0	\$185.4
Tenneco Automotive, Inc.	46.21	2,784.9	1,223.0	233.0	3,933.0	12/31/10	5,937.0	503.0	39.0
Dorman Products, Inc.	39.00	677.8	4.2	34.1	671.5	3/25/11	481.1	86.3	48.9
Standard Motor Products, Inc.	14.25	324.9	65.6	12.1	378.8	12/31/10	810.9	61.7	26.8
Wholesalers & Distributors									
Genuine Parts Company	\$53.70	\$8,448.1	\$500.0	\$465.9	\$8,568.0	3/31/11	\$11,579.7	\$905.9	\$501.4
LKQ Corporation	25.22	3,679.3	559.3	64.5	4,327.1	3/31/11	2,653.0	374.0	185.9
The Coast Distribution System, Inc.	3.88	17.6	10.1	4.8	22.9	12/31/10	108.6	2.0	0.2
Retailers									
Autozone, Inc.	\$282.38	\$12,366.1	\$3,249.2	\$107.9	\$16,000.2	2/21/11	\$7,719.8	\$1,599.9	\$791.8
Advance Auto Parts, Inc.	65.46	5,240.7	301.8	59.2	5,643.0	1/1/11	5,925.2	749.4	346.1
O'Reilly Automotive, Inc.	59.06	8,335.1	431.3	43.2	9,037.7	12/31/10	5,397.5	893.4	425.0
The Pep Boys - Manny, Moe & Jack	13.70	721.1	307.3	39.3	998.4	1/31/11	1,988.6	154.3	35.7
US Auto Parts Network, Inc.	7.76	236.3	0.0	17.6	218.7	12/31/10	262.3	10.8	(13.9)

Selected Public Company Multiples and Operating Statistics

Company	Enterprise Value /					Margins			
	Revenue	EBIT	EBITDA	Free Cash Flow (2)	Net Income	P / E Ratio	Gross Margins	EBITDA Margins	Net Margins
Manufacturers									
Federal-Mogul Corporation	0.7x	14.8x	7.2x	14.1x	24.4x	14.1	16.0%	9.7%	2.9%
Tenneco Automotive, Inc.	0.7x	13.7x	7.8x	11.2x	100.8x	71.4	17.5%	8.5%	0.7%
Dorman Products, Inc.	1.4x	8.6x	7.8x	9.4x	13.7x	13.9	37.5%	17.9%	10.2%
Standard Motor Products, Inc.	0.5x	7.9x	6.1x	7.4x	14.1x	12.1	25.6%	7.6%	3.3%
Mean	0.8x	11.2x	7.2x	10.5x	38.3x	27.9x	24.1%	10.9%	4.3%
Median	0.7x	11.1x	7.5x	10.3x	19.3x	14.0x	21.5%	9.1%	3.1%
Wholesalers & Distributors									
Genuine Parts Company	0.7x	10.5x	9.5x	10.5x	17.1x	16.8	28.9%	7.8%	4.3%
LKQ Corporation	1.6x	13.1x	11.6x	14.2x	23.3x	19.8	43.5%	14.1%	7.0%
The Coast Distribution System, Inc.	0.2x	17.8x	11.2x	12.8x	NM	115.9	18.1%	1.9%	0.1%
Mean	0.9x	13.8x	10.8x	12.5x	20.2x	50.9x	30.1%	7.9%	3.8%
Median	0.7x	13.1x	11.2x	12.8x	20.2x	19.8x	28.9%	7.8%	4.3%
Retailers									
Autozone, Inc.	2.1x	11.4x	10.0x	12.4x	20.2x	15.6	50.7%	20.7%	10.3%
Advance Auto Parts, Inc.	1.0x	9.6x	7.5x	10.3x	16.3x	15.1	50.0%	12.6%	5.8%
O'Reilly Automotive, Inc.	1.7x	12.3x	10.1x	17.1x	21.3x	19.6	48.6%	16.6%	7.9%
The Pep Boys - Manny, Moe & Jack	0.5x	12.5x	6.5x	11.9x	28.0x	20.2	26.3%	7.8%	1.8%
US Auto Parts Network, Inc.	0.8x	NM	20.2x	NM	NM	NM	34.2%	4.1%	NM
Mean	1.3x	11.5x	10.9x	12.9x	21.4x	17.6x	41.9%	12.4%	6.4%
Median	1.3x	11.8x	10.0x	12.2x	20.7x	17.6x	49.3%	14.6%	6.9%

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful