

the aftermarket analyst

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

State of the Aftermarket

As the leading investment bank in the automotive aftermarket, we pride ourselves in our aftermarket relationships, access to aftermarket information and ability to assist our aftermarket clients. We are not generalists; we specialize in the automotive aftermarket. Further, we spend most of our time looking at the industry from the 30,000 foot level. We don't see the individual trees, we see the entire forest. By our very nature, we are aggregators of information and analyzers of trends. The reason we tell you this is to provide some credence to our view of the forest that is the automotive aftermarket.

2008 will be a watershed year in the automotive aftermarket. Certain segments of the aftermarket are experiencing greater than 50% declines in overall sales year over year and many companies are ceasing operations or questioning their short and long-term viability. We know of no company in the aftermarket that has met its 2008 budget. In short, for many owners this year has been disastrous.

The Cause

It should come as little surprise that the driving force behind the slowdown in the aftermarket is the increased cost of fuel. From June 2007 to June 2008 retail gas prices increased 32.2%. Increasing gas prices have negatively impacted the following key drivers of aftermarket growth:

- Consumer Confidence Index – A key indicator of the degree of optimism on the state of the

economy. From June 2007 to June 2008, the Conference Board's Consumer Confidence Index has fallen 52%

- New Vehicle Sales – Critical for the aftermarket as most aftermarket accessories are installed within one year of purchase and a decreased supply of vehicles leads to a decreased demand in "hard parts" and consumables. New vehicle sales are down 19% over June 2007. Truck sales have decreased 29.5% while car sales are down 7.6%.
- Annual Miles Driven – Indicator of "hard parts" needed for repairs. Miles driven is down 4.7% on a year over year basis.

The Effect

We are seeing a marked increase in sellers that are coming to us out of necessity. These are not businesses that have been mismanaged; rather these businesses have been caught up in the "perfect storm" as described above. We saw the first signs of this systemic revenue drought in March 2008 followed by another wave in June 2008. The initial wave was most pronounced in the light truck segment of the market where sales dropped precipitously. The second wave seems to have affected the broader aftermarket. The result of these declining revenues is that many warehouse distributors stopped purchasing and relied on existing inventory. This, of course, exacerbated

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RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor(s)	Target	Target Description	Firm Value (\$mil.)	Rev. FV / Rev.	EBITDA FV / EBITDA
9/17/2008	Wetherill Associates Inc.	National Component Parts Ltd.	a distributor of automotive, heavy duty and bus rotating electrical components and complete units.	—	—	—
9/15/2008	Bosch	Morse Friction	develops, manufactures and markets pads for disc brakes and linings for drum brakes, as well as brake calipers, predominantly for the North American market	—	\$157.0	—
9/12/2008	NAPA	C.W. Carter Co./Redline Automotive	eight stores and warehouses on three major Hawaiian Islands that distribute to independently owned auto parts stores in the state	—	—	—
9/9/2008	3M	Meguiar's	the 100-year-old family-owned manufacturer of Meguiar's car-care products	—	—	—
9/4/2008	MANN+HUMMEL	Korean Dongwoo company	a market leader in the field of automotive filters in Korea and a former joint venture of the international MANN+HUMMEL Group	—	—	—
9/4/2008	Sun Capital Partners	Kraco	the leading manufacturer and distributor of automotive aftermarket floor mats as well as cargo floor mats for vehicle, home, and shop use	—	—	—
9/3/2008	Genuine Parts Co.	Drago Supply Co.	a regional industrial supplies distributor headquartered in Port Arthur, Texas	—	—	—
9/2/2008	IAC Europe	Visteon	assembly facility and associated assets including purchase and supply contracts of its Halewood, U.K. location	—	—	—
9/2/2008	SPX Corp.	AUTOBOSS Tech Inc.	a Shenzhen, China-based manufacturer of diagnostic tools and equipment.	—	—	—
9/2/2008	Tenneco	Gruppo Marzocchi	an Italian-based worldwide leader in supplying suspension technology and products in the two-wheeler market.	\$15.0	—	—
9/2/2008	SKF	GLO s.r.l.	manufacturer of constant velocity joints and drive shafts	—	25.0	—
8/28/2008	Perelli	Pirelli Turk Lastikleri, Celikord	Pirelli SpA's tire division has purchased minority shareholdings in the two tire companies it controls in Turkey	—	—	—
8/28/2008	Motorcar Parts of America	Suncoast Automotive Products	MPA acquired Suncoast's new and remanufactured alternators and starters operation.	—	—	—
8/18/2008	LKQ Corp.	Pick-Your-Part Auto Wrecking	an auto recycler with nine recycling locations in California	—	114.1	—
8/15/2008	Uni-Select	Parts Depot	the Mid-Atlantic parts distribution operations of Parts Depot Inc.	—	—	—
8/6/2008	FleetPride	Truck & Trailer Supply Inc.	an independent aftermarket distributor of heavy-duty truck and trailer parts	—	—	—
8/5/2008	Atlas Copco Tools	Industrial Power Sales Inc.	a distributor of tools, assembly systems and material handling equipment headquartered in N.C.	—	—	—
8/4/2008	Specialty Tools Inc.	Hisco Professional Tools	manufactures fiberglass-handled digging and cleaning tools for the professional market	—	—	—

State of the Aftermarket (Cont'd)

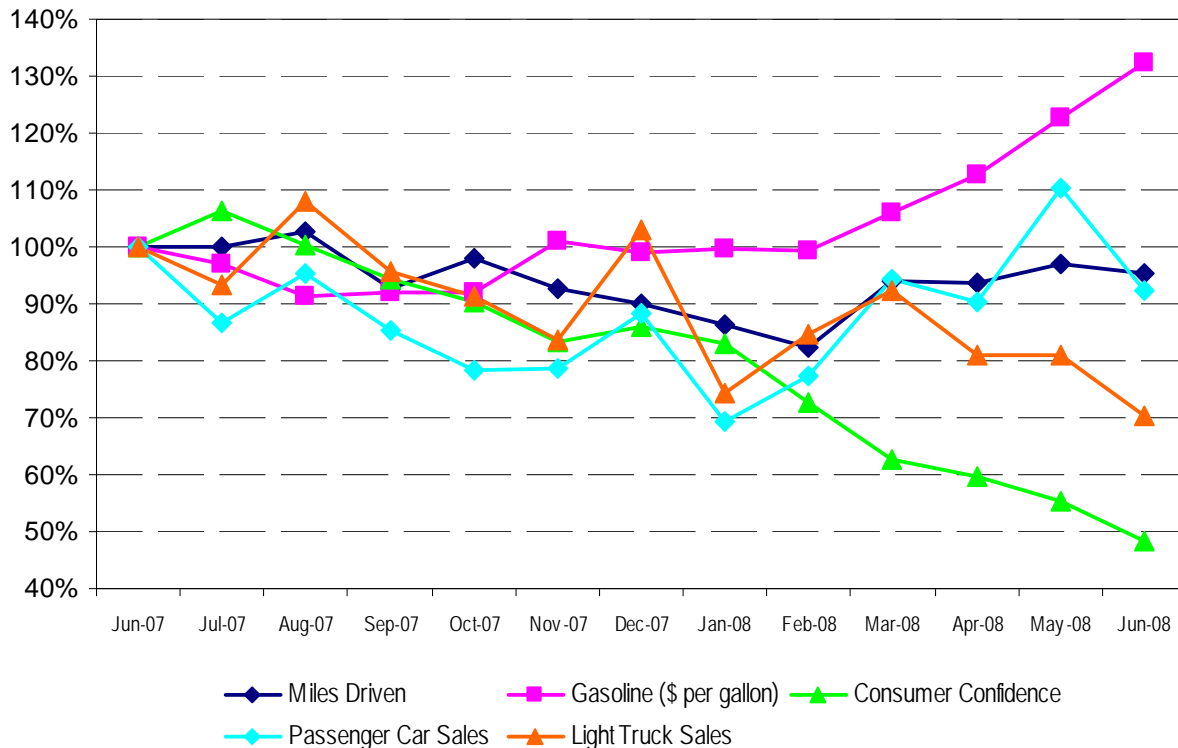
the situation and has lead to a more pronounced effect on manufacturers' sales. Manufacturers have once again begun the rallying cry of going direct to consumers, a trend we identified in early 2007. Many of these manufacturers are dependent on warehouse distributors and realize that they can no longer be competitive in a three-step distribution model. These manufacturers are examining ways to band together as a means of survival and forego the WD channel. We receive such overtures almost daily.

Many businesses are struggling in our industry. The most common problem we see is owners waiting too long to get desperately needed help. We're seeing more businesses failing to reach out until irreparable damage has been done.

There are some management teams which recognize a deteriorating situation and act quickly, salvaging most of a company's value.

The Solution

While there is very little that can be done about macroeconomic factors such as increasing gas prices, there are a host of operational factors, like shortening distribution chains, which can greatly affect the profitability of a company. As was stated in the beginning of the newsletter, we pride ourselves in our relationships, access to information and ability to assist our clients; we hope owners and management teams will reach out before it's too late.



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	Enterprise Value				Last Twelve Months (LTM)			Net Income	
	Price as of 8/31/08	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue		EBITDA
Manufacturers									
Tenneco Automotive, Inc.	\$14.61	\$681.5	\$1,492.0	\$164.0	\$2,042.5	6/30/08	\$6,332.0	\$434.0	(\$32.0)
Aftermarket Technology Corp.	24.22	509.1	6.3	7.2	515.3	6/30/08	534.2	75.7	38.0
DEI Holdings, Inc. (formerly Directed Elk)	1.43	36.4	258.6	12.8	282.2	6/30/08	355.9	48.3	(22.0)
Standard Motor Products, Inc.	6.91	129.2	273.9	12.3	390.7	6/30/08	796.8	38.6	17.9
Dorman Products, Inc.	12.79	225.8	23.1	7.5	247.2	6/30/08	338.1	38.8	17.5
Wholesalers & Distributors									
Genuine Parts Company	\$42.03	\$6,800.7	\$500.0	\$135.8	\$7,257.6	6/30/08	\$11,037.8	\$929.7	\$511.3
LKQ Corporation	18.73	2,539.6	647.4	104.1	3,230.7	6/30/08	1,634.5	213.4	94.1
The Coast Distribution System, Inc.	3.34	14.8	30.8	1.3	44.3	6/30/08	150.5	3.2	0.1
Retailers									
Autozone, Inc.	\$137.23	\$8,686.2	\$1,932.0	\$81.7	\$10,705.7	5/3/08	\$6,314.9	\$1,253.2	\$615.0
Advance Auto Parts, Inc.	43.04	4,101.1	452.9	19.5	4,596.1	7/12/08	4,968.3	582.7	251.3
O'Reilly Automotive, Inc.	29.12	3,901.3	75.3	117.2	3,895.9	6/30/08	2,616.7	387.9	195.8
The Pep Boys - Manny, Moe & Jack	8.80	455.8	462.6	87.3	831.1	5/3/08	2,096.5	42.5	(46.4)
US Auto Parts Network, Inc.	2.58	77.0	0.1	34.1	43.0	6/30/08	158.2	(12.1)	(14.8)

Selected Public Company Multiples and Operating Statistics

Company	Enterprise Value /				Net Income	P / E Ratio	Margins		
	Revenue	EBIT	EBITDA	Free Cash Flow (2)			Gross Margins	EBITDA Margins	Net Margins
Manufacturers									
Tenneco Automotive, Inc.	0.3x	9.5x	4.7x	10.0x	NM	NM	15.3%	6.9%	NM
Aftermarket Technology Corp.	1.0x	8.5x	6.8x	8.7x	13.6x	13.4	23.6%	14.2%	7.1%
DEI Holdings, Inc. (formerly Directed Elk)	0.8x	7.3x	5.8x	6.4x	NM	NM	40.1%	13.6%	NM
Standard Motor Products, Inc.	0.5x	16.4x	10.1x	15.5x	21.8x	7.2	24.3%	4.8%	2.2%
Dorman Products, Inc.	0.7x	8.0x	6.4x	7.6x	14.1x	12.9	33.3%	11.5%	5.2%
Mean	0.7x	9.9x	6.8x	9.6x	16.5x	11.2x	27.3%	10.2%	4.8%
Median	0.7x	8.5x	6.4x	8.7x	14.1x	12.9x	24.3%	11.5%	5.2%
Wholesalers & Distributors									
Genuine Parts Company	0.7x	8.6x	7.8x	8.8x	14.2x	13.3	29.7%	8.4%	4.6%
LKQ Corporation	2.0x	17.3x	15.1x	19.4x	34.4x	27.0	45.1%	13.1%	5.8%
The Coast Distribution System, Inc.	0.3x	20.1x	13.9x	22.0x	NM	NM	19.6%	2.1%	0.0
Mean	1.0x	15.4x	12.3x	16.7x	24.3x	20.2x	31.5%	7.9%	3.5%
Median	0.7x	17.3x	13.9x	19.4x	24.3x	20.2x	29.7%	8.4%	4.6%
Retailers									
Autozone, Inc.	1.7x	9.9x	8.5x	10.4x	17.4x	14.1	50.0%	19.8%	9.7%
Advance Auto Parts, Inc.	0.9x	10.5x	7.9x	12.0x	18.3x	16.3	48.2%	11.7%	5.1%
O'Reilly Automotive, Inc.	1.5x	12.6x	10.0x	32.3x	19.9x	19.9	44.7%	14.8%	7.5%
The Pep Boys - Manny, Moe & Jack	0.4x	NM	19.6x	NM	NM	NM	22.6%	2.0%	NM
US Auto Parts Network, Inc.	0.3x	NM	NM	NM	NM	NM	34.6%	NM	NM
Mean	1.1x	11.0x	11.5x	18.2x	18.5x	16.8x	40.0%	12.1%	7.4%
Median	1.2x	10.5x	9.3x	12.0x	18.3x	16.3x	46.4%	13.3%	7.5%

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful