

# the aftermarket analyst

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

## 2009 Year in Review

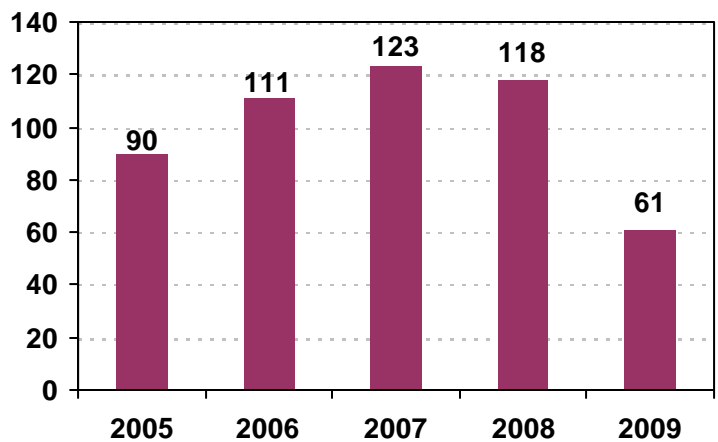
Aftermarket M&A activity declined precipitously in 2009 dragged down by declining corporate earnings, frozen credit markets, and uncertainty about the domestic automotive market. The 61 recorded transactions in 2009 is a 50% decline from the industry's record 123 transactions in 2007. Additionally, the 22 recorded transactions in the first half of 2009 was the worst half year in over two decades. While we expect the pace of M&A activity to increase in 2010 as credit markets thaw and corporate earnings recover, we believe it will be well short of record levels.

Manufacturers continued to represent most of the aftermarket transactions, with 34 reported transactions in 2009. This represents a 57% decrease from the 79 aftermarket manufacturing transactions in 2008. Unfortunately, many of last year's manufacturing transactions were distressed situations, which further limits the number of "healthy" transactions in 2009. Distressed manufacturers will likely continue to sell in 2010, but at decreasing levels as the year progresses. As aftermarket fundamentals continue to improve, "healthy" M&A should return to this sector in 2010

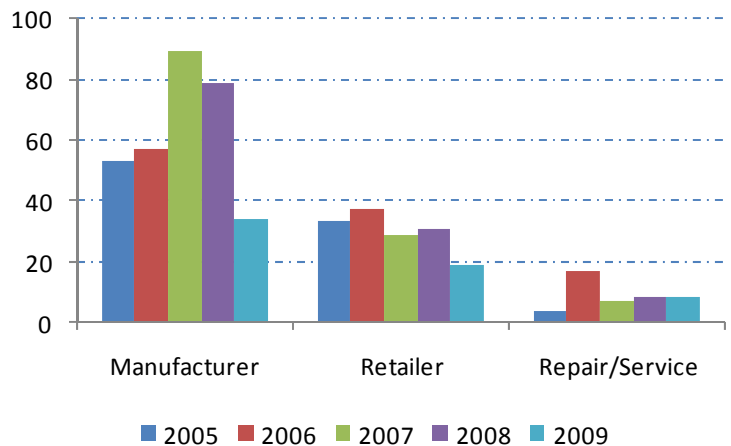
Distribution/retail transactions were down in 2009. The 19 transactions in 2009 represented a 45% drop

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Aftermarket Transaction Volume by Year



Aftermarket Transaction Volume by Industry Segment



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## RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor(s)	Target	Target Description
12/31/2009	Shoreview Industries	Twinco Romax	manufacturer and distributor of automotive fluids and related products
12/22/2009	Atlas Copco Tools	Quincy Compressor	designs and manufactures reciprocating compressors, rotary screw compressors and vacuum pumps, primarily under the Quincy brand
12/18/2009	Total Lubricants Canada	Ultramar	one of the largest marketers and refiners of petroleum products in Canada
12/4/2009	Management buyout	Standard Motor Products	Standard's European distribution business
12/1/2009	Auto-Camping Ltd.	N&D Automotive	German and Swedish parts distributor
12/1/2009	TopGuard	Penray	Penray's JetGo Automotive Chemicals brand
11/10/2009	A Raymond	Tinnerman Palnut Engineered Products	a leading supplier of engineered metal-clip fasteners and precision metal stampings for the auto industry with 482 employees
11/6/2009	Performance Motorsports Inc.	Innovate Motorsports Inc.	a supplier of universal digital tuning tools for internal combustion engines
11/5/2009	Vortech Engineering	Lysholm Technologies	develops and produces twin-screw compressors for the supercharging of combustion engines used in vehicles and boats
11/3/2009	Navistar Inc	Continental Diesel Systems	manufactures key fuel injection components for MaxxForce diesel engines, the company also will establish a dedicated research and development facility to support Navistar's diesel power system components
11/1/2009	Mitsubishi Steel Mfg. Ltd.	Meritor Suspension Systems	ArvinMeritor has completed the sale of its 57-percent stake in the Meritor Suspension Systems Co. (MSSC) joint venture to Mitsubishi Steel Mfg. Ltd. (MSM)
11/1/2009	Zhongding Sealing Parts	Myers Industries	part of Myers Industries' Automotive and Custom Segment, BRP of Hannibal, Mo., and MRP of Cadillac, Mich., provide engineering and manufacturing of rubber original equipment parts for automotive, heavy truck, agriculture and construction markets
10/28/2009	The Carlyle Group	Broadleaf	provides automotive after-market software to the Japanese car repair & inspection industry
10/23/2009	Madison Capital Partners	SPX Corp.	completed the sale of its Filtran business unit, a global leader in automotive filtration solutions
10/23/2009	FleetPride	Angelo Fleet and Industrial Supply	the primary independent heavy-duty parts distributor in San Angelo and its surrounding markets
10/16/2009	W.W. Grainger	Imperial Supplies LLC	a national distributor of maintenance products and aftermarket components for the vehicle and fleet industry, specializing in supplying fasteners, hardware, shop supplies, vehicle lighting products, air brake products and more
10/9/2009	LKQ	Greenleaf Auto Recyclers	automobile recycling operation
10/5/2009	Hephaestus Holdings, Inc.	FormTech Industries, LLC	independent manufacturer of forged parts and a leading manufacturer of wheel bearings for the North American automotive industry
10/2/2009	JohnDow Industries	Dynamic Merchandising Inc.	a national supplier of automotive fasteners, hardware, and parts
9/24/2009	Monroe Motor Products	Ronald Hinson Enterprises	a regional parts distributor
9/24/2009	Monro Muffler Brake	Tire Warehouse Central	a privately-owned tire store chain serving five New England states

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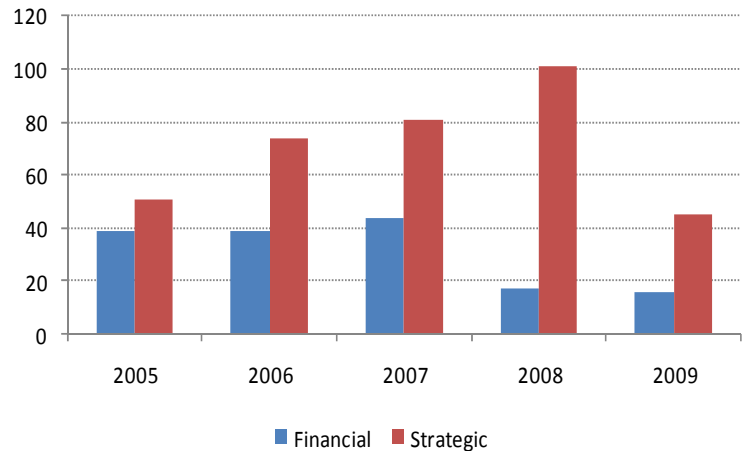
over the 31 transactions in 2008. Retail/Distribution transactions have remained relatively consistent over the past four years as a percentage of aftermarket transactions and comprise a quarter of all aftermarket transactions.

The service/repair segment accounted for eight transactions in 2009, which is equal to 2008's total. The relative strength of the service/repair segment versus manufacturing and retail is attributable to growth in service/repair businesses as consumers have foregone new auto purchases and instead relied on their older vehicles. Service/Repair should continue to be active in 2010 as there continues to be pent-up repair/service demand.

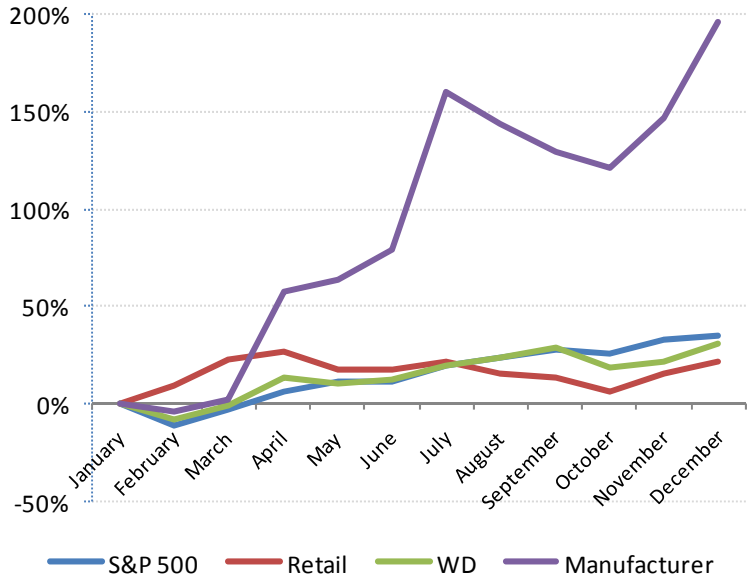
Financial buyers, primarily private equity groups, only participated in 15 transactions which is on par with last year's 17 transactions, but significantly lower than the 44 transactions in 2008. Over the last two years the debt markets have seen a cessation of cash flow lending and tightening of asset based lending. Put simply, many private equity groups can't secure enough leverage to complete buyouts.

Publicly traded aftermarket companies rebounded strongly in 2009. This was especially true for manufacturing companies that after a dismal 2008 (60% decline) experienced 196% growth in stock performance. While the Distribution (up 31%) and Retail (21%) Indices failed to outperform the S&P 500 (up 35%), they fared well in 2009. Most aftermarket companies were able to regain stock market losses they experienced in 2008.

### Aftermarket Transactions by Type of Buyer



### 2009 Weighted Aftermarket Stock Performance



Manufacturers—TEN, ATAC, FDML, SMP, and DORM  
 Retailers—AZO, AAP, ORLY, PBY, and PRTS  
 Distributors—GPC, LKQX, and CRV

### 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 12/31/09	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
<b>Manufacturers</b>									
Federal-Mogul Corporation	\$17.30	\$1,719.7	\$2,862.2	\$784.3	\$3,860.3	9/30/09	\$5,241.2	\$330.3	(\$243.6)
ATC Technology Corporation	23.85	476.8	70.0	129.7	420.6	9/30/09	486.2	75.0	26.2
Tenneco Automotive, Inc.	17.73	840.3	1,468.0	137.0	2,205.8	9/30/09	4,535.0	242.0	(312.4)
Dorman Products, Inc.	15.67	276.3	6.3	5.7	285.0	9/30/09	361.4	45.0	23.6
Standard Motor Products, Inc.	8.52	162.5	110.9	10.5	262.9	11/30/09	724.2	39.2	11.1
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	\$37.96	\$6,056.6	\$500.0	\$363.1	\$6,200.9	9/30/09	\$10,106.5	\$753.3	\$388.2
LKQ Corporation	19.59	2,746.5	636.6	129.5	3,391.6	9/30/09	1,985.6	247.3	110.0
The Coast Distribution System, Inc.	3.91	17.4	11.5	2.6	26.3	9/30/09	102.8	(0.4)	(1.1)
<b>Retailers</b>									
Autozone, Inc.	\$158.07	\$7,823.9	\$2,739.5	\$79.6	\$10,667.4	11/21/09	\$6,927.8	\$1,380.8	\$669.0
Advance Auto Parts, Inc.	40.48	3,830.7	279.5	216.2	3,913.5	10/10/09	5,461.4	592.1	260.3
O'Reilly Automotive, Inc.	38.12	5,229.7	703.7	29.5	5,979.0	9/30/09	4,788.0	600.2	278.3
The Pep Boys - Manny, Moe & Jack	8.43	441.3	307.6	40.8	708.0	10/31/09	1,923.6	88.9	(12.5)
US Auto Parts Network, Inc.	5.20	155.2	0.0	33.6	121.6	9/30/09	164.3	5.8	(2.7)

**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
<b>Manufacturers</b>									
Federal-Mogul Corporation	0.7x	NM	11.7x	36.8x	NM	NM	14.3%	6.3%	NM
ATC Technology Corporation	0.9x	6.9x	5.6x	6.2x	16.1x	18.2	23.1%	15.4%	5.4%
Tenneco Automotive, Inc.	0.5x	84.8x	9.1x	19.2x	NM	NM	15.5%	5.3%	NM
Dorman Products, Inc.	0.8x	7.7x	6.3x	7.6x	12.1x	11.7	33.6%	12.4%	6.5%
Standard Motor Products, Inc.	0.4x	10.8x	6.7x	8.4x	23.6x	14.6	23.8%	5.4%	1.5%
<b>Mean</b>	<b>0.6x</b>	<b>27.5x</b>	<b>7.9x</b>	<b>15.6x</b>	<b>17.3x</b>	<b>14.8x</b>	<b>22.1%</b>	<b>9.0%</b>	<b>4.5%</b>
<b>Median</b>	<b>0.7x</b>	<b>9.2x</b>	<b>6.7x</b>	<b>8.4x</b>	<b>16.1x</b>	<b>14.6x</b>	<b>23.1%</b>	<b>6.3%</b>	<b>5.4%</b>
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	0.6x	9.3x	8.2x	9.4x	16.0x	15.6	29.6%	7.5%	3.8%
LKQ Corporation	1.7x	16.2x	13.7x	17.5x	30.8x	25.0	44.6%	12.5%	5.5%
The Coast Distribution System, Inc.	0.3x	NM	NM	NM	NM	NM	18.2%	NM	NM
<b>Mean</b>	<b>0.9x</b>	<b>12.8x</b>	<b>11.0x</b>	<b>13.5x</b>	<b>23.4x</b>	<b>20.3x</b>	<b>30.8%</b>	<b>10.0%</b>	<b>4.7%</b>
<b>Median</b>	<b>0.6x</b>	<b>12.8x</b>	<b>11.0x</b>	<b>13.5x</b>	<b>23.4x</b>	<b>20.3x</b>	<b>29.6%</b>	<b>10.0%</b>	<b>4.7%</b>
<b>Retailers</b>									
Autozone, Inc.	1.5x	8.9x	7.7x	9.6x	15.9x	11.7	50.2%	19.9%	9.7%
Advance Auto Parts, Inc.	0.7x	8.8x	6.6x	9.5x	15.0x	14.7	49.2%	10.8%	4.8%
O'Reilly Automotive, Inc.	1.2x	12.1x	10.0x	29.7x	21.5x	18.8	47.5%	12.5%	5.8%
The Pep Boys - Manny, Moe & Jack	0.4x	40.3x	8.0x	14.4x	NM	NM	24.3%	4.6%	NM
US Auto Parts Network, Inc.	0.7x	NM	21.0x	NM	NM	NM	36.3%	3.5%	NM
<b>Mean</b>	<b>1.0x</b>	<b>17.5x</b>	<b>10.6x</b>	<b>15.8x</b>	<b>17.5x</b>	<b>15.1x</b>	<b>41.5%</b>	<b>10.3%</b>	<b>6.7%</b>
<b>Median</b>	<b>1.0x</b>	<b>10.5x</b>	<b>8.0x</b>	<b>12.0x</b>	<b>15.9x</b>	<b>14.7x</b>	<b>48.3%</b>	<b>11.7%</b>	<b>5.8%</b>

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful