

# the aftermarket analyst

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

## 2010 Year in Review

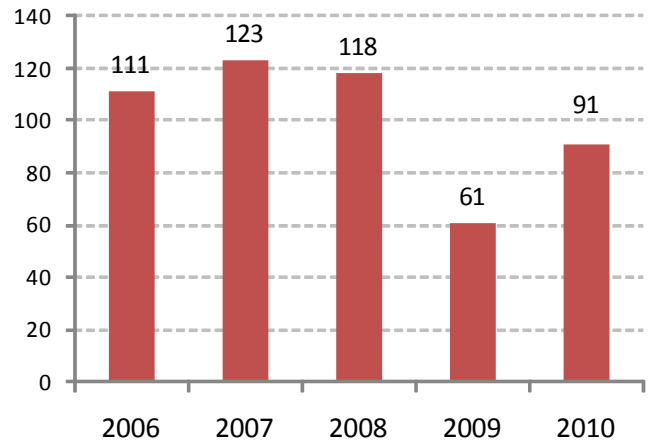
Aftermarket M&A activity rebounded sharply in 2010. Loosening of the credit markets provided the much needed debt capital for private equity groups to return to the aftermarket. The 91 recorded transactions in 2010 is a 50% increase from the industry's disappointing 2009 number of 61. We expect the pace of M&A activity to continue to increase in 2011 as credit becomes increasingly available and corporate earnings recover.

Manufacturers continued to represent most of the aftermarket transactions, with 54 reported transactions in 2010. This represents a 59% increase from the 34 aftermarket manufacturing transactions in 2009. While 2009 was marked by many distressed deals that were consummated out of necessity, by the end of 2010 these deals had worked through the system and more traditional M&A activity had returned. As aftermarket fundamentals continue to improve, we expect increased deal flow and deal volume.

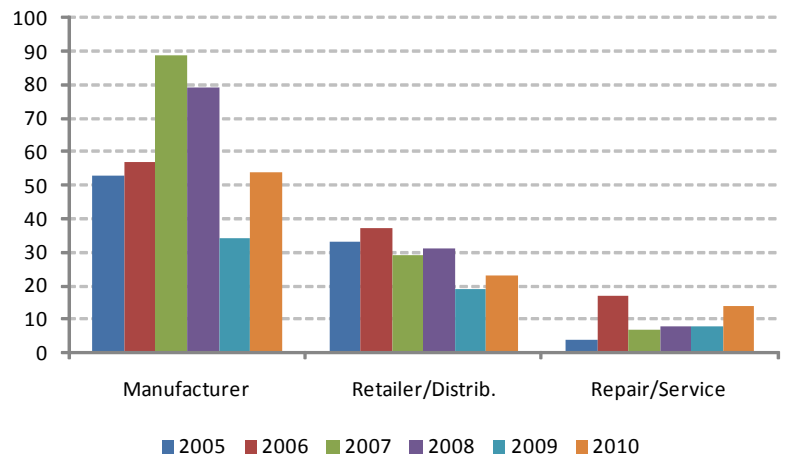
Distribution/retail transactions were also up in 2010. The 23 transactions in 2010 represented a 21% gain over the 19 transactions in 2009. While this was an increase, it did not rise at the rate of aftermarket M&A as a whole.

*(Continued on page 3)*

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   |
|---------------|---|--|--|
| 12/27/2010    | Friedman Fleisher & Lowe                          | Transtar Industries                                    | a distributor of transmission units, transmission rebuilder kits, hard and soft parts, electrical components, torque converters, transfer cases, and high-performance engine parts, and autobody refinishing solutions to the automotive repair industry |
| 12/22/2010    | Littlefuse  | Cole Hersee Co.  | a leader in the off-road, truck and bus (OTB) market   |
| 12/22/2010    | Trelleborg  | Lutz Sales, Inc.                                       | a distributor of a broad range of precisions seals and customer-specific rubber components for the North American market   |
| 12/21/2010    | Insight Equity Holdings (Atwood Mobile Products)  | Fan-Tastic Vent  | a market leader in 12-volt powered vents, selling primarily to the recreational vehicle ("RV") market  |
| 12/20/2010    | FleetPride  | Friction Materials                                     | a manufacturer and supplier of automotive brake friction materials and aftermarket brake products  |
| 12/14/2010    | Century Park Capital Partners (Eckler Industries) | Dearborn Classics                                      | the world's leading provider of restoration parts and accessories for mid-sized and full-sized Fords   |
| 12/14/2010    | Castle Harlan                                     | IDQ Holdings, Inc.                                     | an automotive aftermarket company focused on do-it-yourself automotive air conditioner repair  |
| 12/13/2010    | American Tire Distributors                        | Lisac's of Washington, Inc. and Tire Wholesalers, Inc. | services more than 1,400 customers in Montana, Washington, Oregon and northern Idaho. Tire Wholesalers operates one distribution center in Kent, Wash., to service more than 750 customers in western Washington.  |
| 12/11/2010    | Pendergast Partners                               | Magnuson Products, Inc.                                | a premier designer and manufacturer of OEM and aftermarket automotive superchargers  |
| 12/10/2010    | Bosch   | RTI Technologies                                       | manufactures and distributes automotive maintenance equipment, most notably air conditioning service machines  |
| 12/1/2010     | Littlejohn & Co.                                  | Henniges Automotive Holdings Inc.                      | manufactures a complete line of automotive sealing systems for doors, windows, trunks, lift gates, sunroofs and hoods  |
| 11/29/2010    | THI, Inc. (Kinderhook)                            | Advantage Truck Accessories                            | produces a range of tonneau covers such as the TorzaTop, Sure-Fit and Hard Hat   |
| 11/23/2010    | International Automotive Components Group (IAC)   | AMPRO Molding  | manufactures a variety of vehicle interior components  |
| 11/22/2010    | HIG Capital/Stant Corp.                           | Shelby Enterprises                                     | supplies filler pipe, vapor line and other products to the automotive industry   |
| 11/18/2010    | Shelby Enterprises                                | Stant Corp.  | a high quality provider of filler pipe and vapor line products   |
| 11/18/2010    | Goff's Enterprises                                | Tiger Wall   | manufactures curtain wall systems for auto body facilities   |
| 11/12/2010    | Thule Group                                       | TracRac, Inc.  | a manufacturer of branded truck racks and accessories based in Fall River, MA  |
| 11/9/2010     | FleetPride  | Springfield Brake Co. Premier Truck Parts (2)          | each location operates both a parts counter and drive-in service bays  |
| 11/5/2010     | Meyer Distributing                                | Croft Supply   | a subsidiary of Ranch Hand Truck Accessories that supplies more than 80 product lines to customers throughout Texas, Louisiana and Colorado  |

(Continued from page 1)

The service/repair segment accounted for 14 transactions in 2010, which is a 75% jump over 2009's total of 8. The relative strength of the service/repair segment is attributable to the attractive underlying growth characteristics affecting the aftermarket. With increasing miles driven, vehicle age and number of cars coming off warranty, service/repair should continue to be active in 2011.

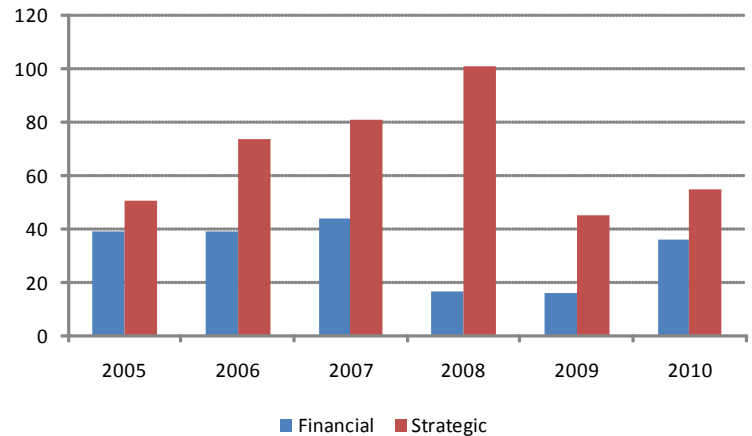
Financial buyers participated in 36 transactions, more than doubling last year's 16 transactions. Over the prior two years, cash flow lending was non-existent and asset based loans had been curtailed. Put simply, many private equity groups couldn't secure enough leverage to complete buyouts. By late 2010, with a return of both cash flow and asset based lending, the debt markets had almost returned to 2007 levels.

In 2010, publicly traded aftermarket companies continued the strong growth foundation laid in 2009, with most of this growth occurring in the last six months of the year.

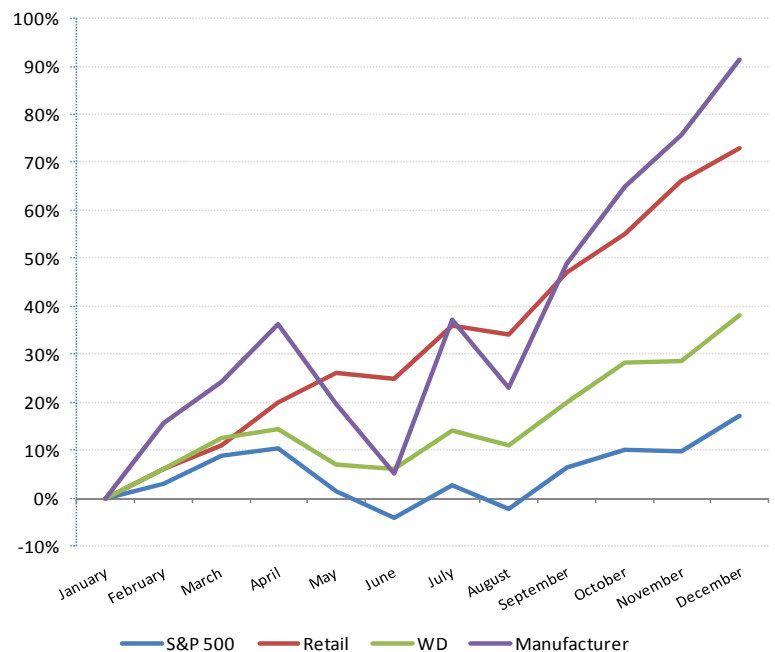
The Manufacturing Index, led by Tenneco's 132% gain, was up 91% in 2010. The Distribution Index, led by Genuine Parts Company's 42% gain, grew 38% in 2010. The Retail Index grew 73% in 2010, due to AutoZone's 76% growth during the year. Each of these indices more than doubled the returns of the S&P 500 during 2010.

Assuming gas prices do not spike, we expect continuing solid results from the capital markets which should lead to another active year for aftermarket M&A transactions.

### Aftermarket Transactions by Type of Buyer



### 2010 Weighted Aftermarket Stock Performance



Manufacturers—TEN, FDML, SMP, and DORM  
Retailers—AZO, AAP, ORLY, PBLY, 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) |            |           | Net Income |
|---------------------------------------|----------------------|------------|-----------|-----------|----------------------|--------------------------|------------|-----------|------------|
|                                       | Price as of 12/31/10 | Market Cap | Debt      | Cash      | Enterprise Value (1) | LTM Date                 | Revenue    | EBITDA    |            |
| <b>Manufacturers</b>                  |                      |            |           |           |                      |                          |            |           |            |
| Federal-Mogul Corporation             | \$20.65              | \$2,042.4  | \$2,856.0 | \$1,054.0 | \$4,067.4            | 9/30/10                  | \$6,039.0  | \$593.0   | \$149.7    |
| Tenneco Automotive, Inc.              | 41.16                | 2,469.1    | 1,297.0   | 184.0     | 3,715.6              | 9/30/10                  | 6,949.0    | 506.0     | (187.2)    |
| Dorman Products, Inc.                 | 36.24                | 646.2      | 0.3       | 18.9      | 649.2                | 9/25/10                  | 429.9      | 76.3      | 41.7       |
| Standard Motor Products, Inc.         | 13.70                | 312.4      | 74.3      | 13.4      | 373.4                | 9/30/10                  | 798.1      | 58.4      | 19.9       |
| <b>Wholesalers &amp; Distributors</b> |                      |            |           |           |                      |                          |            |           |            |
| Genuine Parts Company                 | \$51.34              | \$8,087.8  | \$500.0   | \$531.7   | \$8,134.5            | 9/30/10                  | \$10,871.1 | \$855.3   | \$456.0    |
| LKQ Corporation                       | 22.72                | 3,281.3    | 597.5     | 168.7     | 3,839.9              | 9/30/10                  | 2,351.7    | 326.2     | 163.1      |
| The Coast Distribution System, Inc.   | 3.87                 | 18.0       | 9.5       | 7.0       | 20.5                 | 9/30/10                  | 108.3      | 2.6       | 0.8        |
| <b>Retailers</b>                      |                      |            |           |           |                      |                          |            |           |            |
| Autozone, Inc.                        | \$272.59             | \$12,164.5 | \$2,882.3 | \$98.3    | \$15,413.2           | 8/28/10                  | \$7,362.6  | \$1,511.5 | \$738.3    |
| Advance Auto Parts, Inc.              | 66.15                | 5,560.1    | 302.2     | 194.5     | 5,831.1              | 10/9/10                  | 5,798.6    | 719.7     | 332.4      |
| O'Reilly Automotive, Inc.             | 60.42                | 8,436.9    | 431.3     | 43.2      | 9,152.9              | 9/30/10                  | 5,260.9    | 850.4     | 398.3      |
| The Pep Boys - Manny, Moe & Jack      | 13.43                | 704.7      | 306.7     | 92.4      | 927.9                | 8/1/10                   | 1,940.4    | 134.8     | 25.9       |
| US Auto Parts Network, Inc.           | 8.40                 | 255.4      | 25.0      | 24.5      | 256.0                | 9/30/10                  | 227.6      | 11.6      | (10.4)     |

**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               | 15.5x        | 6.9x         | 10.2x              | 27.2x        | 13.6         | 16.4%         | 9.8%           | 2.5%        |
| Tenneco Automotive, Inc.              | 0.5x               | 13.1x        | 7.3x         | 14.6x              | NM           | NM           | 15.7%         | 7.3%           | NM          |
| Dorman Products, Inc.                 | 1.5x               | 9.5x         | 8.5x         | 9.7x               | 15.6x        | 15.5         | 37.8%         | 17.8%          | 9.7%        |
| Standard Motor Products, Inc.         | 0.5x               | 8.3x         | 6.4x         | 7.9x               | 18.8x        | 15.7         | 25.4%         | 7.3%           | 2.5%        |
| <b>Mean</b>                           | <b>0.8x</b>        | <b>11.6x</b> | <b>7.3x</b>  | <b>10.6x</b>       | <b>20.5x</b> | <b>14.9x</b> | <b>23.8%</b>  | <b>10.5%</b>   | <b>4.9%</b> |
| <b>Median</b>                         | <b>0.6x</b>        | <b>11.3x</b> | <b>7.1x</b>  | <b>10.0x</b>       | <b>18.8x</b> | <b>15.5x</b> | <b>20.9%</b>  | <b>8.6%</b>    | <b>2.5%</b> |
| <b>Wholesalers &amp; Distributors</b> |                    |              |              |                    |              |              |               |                |             |
| Genuine Parts Company                 | 0.7x               | 10.6x        | 9.5x         | 10.5x              | 17.8x        | 17.7         | 29.5%         | 7.9%           | 4.2%        |
| LKQ Corporation                       | 1.6x               | 13.4x        | 11.8x        | 14.6x              | 23.5x        | 20.1         | 45.0%         | 13.9%          | 6.9%        |
| The Coast Distribution System, Inc.   | 0.2x               | 11.2x        | 7.9x         | 8.7x               | 26.0x        | 22.9         | 18.4%         | 2.4%           | 0.7%        |
| <b>Mean</b>                           | <b>0.9x</b>        | <b>11.8x</b> | <b>9.7x</b>  | <b>11.3x</b>       | <b>22.5x</b> | <b>20.2x</b> | <b>31.0%</b>  | <b>8.0%</b>    | <b>4.0%</b> |
| <b>Median</b>                         | <b>0.7x</b>        | <b>11.2x</b> | <b>9.5x</b>  | <b>10.5x</b>       | <b>23.5x</b> | <b>20.1x</b> | <b>29.5%</b>  | <b>7.9%</b>    | <b>4.2%</b> |
| <b>Retailers</b>                      |                    |              |              |                    |              |              |               |                |             |
| Autozone, Inc.                        | 2.1x               | 11.7x        | 10.2x        | 12.9x              | 20.9x        | 16.5         | 50.4%         | 20.5%          | 10.0%       |
| Advance Auto Parts, Inc.              | 1.0x               | 10.4x        | 8.1x         | 11.4x              | 17.5x        | 16.7         | 49.7%         | 12.4%          | 5.7%        |
| O'Reilly Automotive, Inc.             | 1.7x               | 13.2x        | 10.8x        | 19.2x              | 23.0x        | 21.2         | 48.5%         | 16.2%          | 7.6%        |
| The Pep Boys - Manny, Moe & Jack      | 0.5x               | 14.7x        | 6.9x         | 11.4x              | 35.9x        | 27.2         | 25.8%         | 6.9%           | 1.3%        |
| US Auto Parts Network, Inc.           | 1.1x               | 106.3x       | 22.1x        | NM                 | NM           | NM           | 34.6%         | 5.1%           | NM          |
| <b>Mean</b>                           | <b>1.3x</b>        | <b>12.5x</b> | <b>11.6x</b> | <b>13.7x</b>       | <b>24.3x</b> | <b>20.4x</b> | <b>41.8%</b>  | <b>12.2%</b>   | <b>6.2%</b> |
| <b>Median</b>                         | <b>1.4x</b>        | <b>12.4x</b> | <b>10.2x</b> | <b>12.1x</b>       | <b>21.9x</b> | <b>19.0x</b> | <b>49.1%</b>  | <b>14.3%</b>   | <b>6.7%</b> |

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful