

the aftermarket analyst

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

Some Positive News for the Aftermarket

Amidst the dark clouds surrounding the US economy, the aftermarket is providing some glimpses of sunshine. The “sunshine” comes in the form of strong aftermarket fundamentals as well as revenue and earnings growth by publicly traded aftermarket distributors and retailers.

Increasing Age of Automobiles

One of the fundamentals driving aftermarket growth, especially among hard parts manufacturers, is the median age of automobiles. With replacement parts and equipment constituting 75% of the aftermarket, an increasing median age of automobiles is desirable. R.L. Polk & Company recently released its annual vehicle population report which shows that the median age for passenger cars and light trucks in the U.S. remains at a record high for the second consecutive year. The median age of passenger cars in operation remained at 9.2 years in 2007, tying a record high in 2006. The median age for light trucks increased 5.8 percent to 7.3 years in 2007. As both cars and trucks are staying on the road for longer periods of time demand for replacement parts and equipment will continue to rise.

Recent Quarterly Announcements by Publicly Traded Aftermarket Companies

Recent quarterly announcements by aftermarket

wholesalers and retailers point to an increasing demand for aftermarket products despite the macro economic conditions weighing on the aftermarket. Autozone, Genuine Parts Company, LKQ Corporation and O’Reilly Automotive saw 3% to 8% revenue growth over the same period last year with earnings increases of 1% to 7%. Two of the common themes among retailers was a continuing rationalization of product assortment and a focus on the DIFM segment in 2008. Rationalization is a trend we are seeing across all retailers, including the “big box” stores. Because the DIFM sector is geared to the non-discretionary service and repair, it is roughly five times as large and growing at a faster rate than the DIY segment. For more detailed information on these, and other, public companies’ financial and operating figures see page 4 of this newsletter.

Autozone (AZO)

The company reported another record quarter of sales and earnings. Revenue rose 3% to \$1.34 billion from \$1.3 billion for the quarter ended Feb. 9, but comparable store sales actually slipped .3 percent. AutoZone said net income rose 3.6% to \$106.7 million, or \$1.67 a share, from \$103 million, or \$1.45 a share, a year earlier. The company announced it had made product assortment changes across 12 of its major categories

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RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor(s)	Target	Target Description	Firm Value (\$mil.)	FV / Rev.	FV / EBITDA
2/29/2008	Sun Capital Partners	Raytech Corp.	products for wet friction applications, primarily plates and friction material for automobile and light-truck automatic transmissions, as well as transmission filters and related components	—	—	—
2/21/2008	ATK VEGE	Orient Engine, Inc.	a remanufacturer of import engines, specializing in Japanese brands.	—	—	—
2/18/2008	Bearing Technologies, Ltd.	North Coast Bearings, Inc.	a supplier of differential and transmission rebuild kits, bearings and related components.	—	—	—
2/12/2008	ITW Permatex	Spray Nine Corporation	privately owned manufacturer of specialty cleaning products	—	—	—
2/4/2008	Centrum Equities	Visteon	its non-core North American-based aftermarket underhood and remanufacturing facilities which include a manufacturing plant in Sparta, TN, and two plants in Reynosa, Mexico	—	—	—
1/31/2008	Melling Tool Co.	Wop Industria e Comercio de Bombas	a subsidiary of Dana Industrias Ltda, the Brazilian arm of Dana Corp. based in Toledo, OH, which engineers and manufactures oil and water pumps for the Brazilian automotive original equipment market	—	—	—
1/25/2008	ATK VEGE	California Cylinder Heads	cylinder head manufacturer	—	—	—
1/25/2008	Black Eagle Partners	Rockford Products	supplies chassis and suspension components to aftermarket and OEM customers	—	—	—
1/18/2008	Transaxle	Maryland Truck Parts	supplies new, used and rebuilt truck parts to the medium- and heavy-duty truck aftermarket, specializing in transmissions, steering boxes and differentials, as well as complete drive shaft and transmission repair services.	—	—	—
1/17/2008	Resilience Capital Partners	Delphi	Delphi Corp.'s Sandusky bearings plant	\$44.2	—	—
1/16/2008	ITW Permatex	Anaerobicos S.A	a privately owned maker of adhesives and sealants headquartered in Argentina	—	—	—
1/11/2008	Uni-Select	Replacement Parts Depot Limited	owned by and serves 22 automotive parts wholesalers and retailers, as well as a number of independent automotive-related businesses across Ontario	—	—	—
1/7/2008	Sherwin Williams Co.	Flex Recubrimientos and Acabados Automotrices	the privately owned companies manufacture and distribute automotive aftermarket body fillers, putties, primers and other vehicle refinish products	—	\$14.0	—
1/4/2008	APW International	GCK Industrial	Taiwanese manufacturing company which makes constant velocity axle drive shafts	—	—	—
1/2/2008	1-800-Radiator	JMAC Radiator and Air	JMAC holds a key position in the air conditioning market as a \$13 million dollar company with 18 locations, covering two thirds of the country	—	—	—
12/18/2007	Chicago Pneumatic	KTS Co. Ltd	a leading Japanese maker of handheld pneumatic tools for the vehicle service market	—	—	—
12/17/2007	PPG Industries	Unipart Automotive	Unipart Automotive is among the United Kingdom's largest independent suppliers of car and truck parts, bodyshop parts and workshop consumables	—	—	—
12/16/2007	Wynnchurch Capital	GDX Automotive	a supplier in the automotive sealing systems industry	—	—	—
12/12/2007	Robert Bosch Group	Holger Christiansen	a specialist in engine starter maintenance and sells other electrical automobile parts	—	164.0	—

during the quarter. Continuing rationalization and growing the commercial side of the business are areas of emphasis for the company in 2008.

Genuine Parts Company (GPC)

The company reported record sales and earnings for the year ended Dec. 31, 2007. According to the company, sales increased by 4 percent for the year, while earnings per share were up 8 percent. The company's net income increased 7 percent to \$506.3 million, compared with \$475.4 million in 2006. Management forecasted 3% to 6% sales growth in 2008 due to a "cautious" economic environment.

LKQ Corporation (LKQX)

Profit more than doubled in the fourth quarter on surging revenue from its acquisition of several new businesses, including Keystone Automotive. The auto-products company reported net income of \$21.5 million, or 16 cents per share, up from \$10.2 million, or 9 cents per share, a year earlier. Revenue soared to \$414.7 million from \$204.5 million. These results easily beat Wall Street expectations according to Thomson Financial. Much of the quarter's success can be attributed to cost synergies associated with the Keystone Automotive acquisition which are being realized well ahead of projections.

O'Reilly Automotive (ORLY)

Fourth quarter sales increased 8.2 percent to \$604 million

from \$558 million over the same period last year. Net income rose from \$40.35 million in Q4 2006 to \$40.60 million in Q4 2007. Comparable store sales increased 2.1% percent for the quarter marking the 59th consecutive quarter of same store sales growth for the company. This growth came in spite of a drop-off in sales during the holiday period. Management noted that customers continue to be under significant financial pressures related to rising energy costs, inflation on consumable items and other negative economic conditions. Management also noted that both DIY and DIFM customers are making a slight shift away from branded products to less expensive private label products. While the company is seeing growth from both DIY and DIFM customers, management indicated they are seeing stronger DIFM growth. The company expects a modest 1 to 3% growth in same store sales during the first quarter of 2008.

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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 2/29/08	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
Manufacturers									
Tenneco Automotive, Inc.	\$25.25	\$1,156.7	\$1,374.0	\$188.0	\$2,408.0	12/31/07	\$6,184.0	\$461.0	(\$5.0)
Aftermarket Technology Corp.	18.75	415.7	0.0	40.1	378.6	12/31/07	530.7	79.9	40.8
Directed Electronics, Inc.	2.20	55.7	309.9	5.5	360.2	9/30/07	459.5	53.5	8.9
Standard Motor Products, Inc.	7.41	136.5	344.6	19.4	461.6	9/30/07	792.0	53.8	14.9
Dorman Products, Inc.	10.50	185.7	25.7	6.1	209.7	9/30/07	321.1	42.5	20.4
Wholesalers & Distributors									
Genuine Parts Company	\$41.25	\$6,818.8	\$500.0	\$231.8	\$7,173.7	12/31/07	\$10,843.2	\$925.6	\$506.3
LKQ Corporation	21.24	2,856.9	658.5	74.2	3,617.4	12/31/07	1,126.8	141.1	66.1
The Coast Distribution System, Inc.	5.40	24.0	23.0	0.9	46.1	9/30/07	164.1	2.5	(0.1)
Retailers									
Autozone, Inc.	\$115.08	\$7,470.4	\$2,161.1	\$79.8	\$9,652.5	11/17/07	\$6,232.4	\$1,233.2	\$604.3
Advance Auto Parts, Inc.	33.54	3,428.7	505.7	14.7	3,924.9	12/29/07	4,844.4	563.7	238.3
O'Reilly Automotive, Inc.	26.96	3,110.9	100.5	47.6	3,186.0	12/31/07	2,522.3	384.1	194.0
The Pep Boys - Manny, Moe & Jack	11.44	591.8	672.2	26.2	1,237.8	11/3/07	2,226.4	89.5	(19.2)
CSK Auto Corporation	9.07	398.7	532.1	19.9	910.9	8/5/07	1,908.5	130.4	21.4
US Auto Parts Network, Inc.	4.91	146.5	1.1	17.2	130.5	9/30/07	160.4	12.5	1.9

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									
Tenneco Automotive, Inc.	0.4x	9.4x	5.2x	8.5x	NM	NM	15.8%	7.5%	NM
Aftermarket Technology Corp.	0.7x	5.9x	4.7x	6.7x	9.3x	10.2	24.7%	15.1%	7.7%
Directed Electronics, Inc.	0.8x	8.2x	6.7x	7.1x	40.5x	6.3	31.3%	11.6%	1.9%
Standard Motor Products, Inc.	0.6x	11.8x	8.6x	11.7x	30.9x	9.1	26.4%	6.8%	1.9%
Dorman Products, Inc.	0.7x	6.0x	4.9x	5.7x	10.3x	9.1	34.3%	13.2%	6.4%
Mean	0.6x	8.3x	6.0x	7.9x	22.7x	8.7x	26.5%	10.8%	4.5%
Median	0.7x	8.2x	5.2x	7.1x	20.6x	9.1x	26.4%	11.6%	4.1%
Wholesalers & Distributors									
Genuine Parts Company	0.7x	8.6x	7.8x	8.9x	14.2x	13.5	29.7%	8.5%	4.7%
LKQ Corporation	3.2x	29.4x	25.6x	35.2x	54.7x	43.2	44.9%	12.5%	5.9%
The Coast Distribution System, Inc.	0.3x	29.3x	18.8x	62.4x	NM	NM	17.8%	1.5%	NM
Mean	1.4x	22.4x	17.4x	35.5x	34.4x	28.3x	30.8%	7.5%	5.3%
Median	0.7x	29.3x	18.8x	35.2x	34.4x	28.3x	29.7%	8.5%	5.3%
Retailers									
Autozone, Inc.	1.5x	9.0x	7.8x	9.5x	16.0x	12.4	49.8%	19.8%	9.7%
Advance Auto Parts, Inc.	0.8x	9.4x	7.0x	11.1x	16.5x	14.4	47.9%	11.6%	4.9%
O'Reilly Automotive, Inc.	1.3x	10.4x	8.3x	31.4x	16.4x	16.0	44.4%	15.2%	7.7%
The Pep Boys - Manny, Moe & Jack	0.6x	NM	13.8x	40.1x	NM	NM	24.1%	4.0%	NM
CSK Auto Corporation	0.5x	10.2x	7.0x	10.1x	42.6x	18.6	47.1%	6.8%	1.1%
US Auto Parts Network, Inc.	0.8x	42.0x	10.4x	15.5x	69.4x	78.0	33.1%	7.8%	1.2%
Mean	0.9x	9.8x	9.1x	20.4x	22.9x	27.9x	41.1%	10.9%	4.9%
Median	0.8x	9.8x	8.1x	11.1x	16.4x	15.2x	47.1%	11.6%	6.3%

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful