

the aftermarket analyst

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

Buyers of Distressed Assets

In last month's edition of the Aftermarket Analyst, we reviewed some of the issues surrounding distressed situations. At the end of the article, we introduced the premise of selling an equity stake in lieu of filing bankruptcy. In this edition of the newsletter, we will go into more detail about two types of investors that are investing in distressed situations: Buyout Funds and Strategic Buyers.

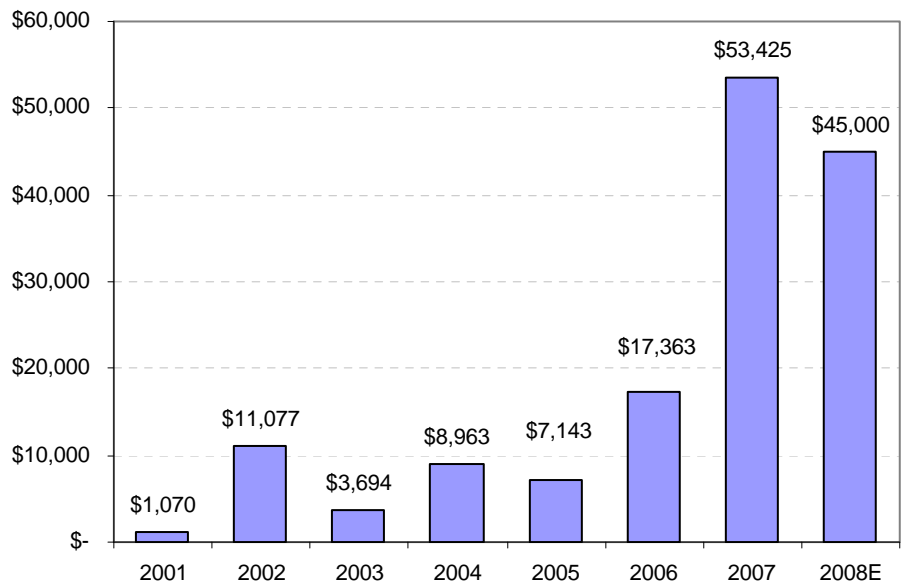
for distressed assets. Buyout funds raised \$53 billion in 2007 and estimated \$45 billion in 2008 for troubled assets. The consensus seems to be that money committed to distressed assets will continue growing this year. Clearly, buyout funds have become a far more important factor on the financial landscape in recent years and especially in the market for distressed companies.

Buyout Funds

Ten years ago, buyout funds exhibited little interest in troubled or underperforming companies, mainly because very few had the skills to fix a troubled company's problems. That's changed. Today, an increasing number of buyout funds seek out companies with problems. Typically these funds have roots in the turnaround profession and have put together a group of professionals with the operational and financial skills to acquire distressed companies, turn them around and eventually sell them.

Buyout funds have come to the forefront due to current economic conditions and the amount of money these entities have raised specifically

Historical U.S. Distressed Fund Raising
(in millions)



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RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor(s)	Target	Target Description	Firm Value (\$mil.)	FV / Rev.	FV / EBITDA
2/23/2009	FleetPride	Multibearings Service Co.	supplier of heavy duty truck and trailer parts and offers in-house remanufactured products	—	—	—
2/23/2009	Safety-Kleen	Atlantic Industrial Services Inc.	one of the largest collectors and recyclers of used oil, oil filters and antifreeze in the Southeast	—	—	—
2/23/2009	Safety-Kleen	Gateway Petroleum Co.	provides used oil management services to customers in the eastern Missouri, central and southern Illinois, and Cape Girardeau areas.	—	—	—
1/16/2009	The Mifsud Group	JB Design Inc.	a.k.a. Corsa Performance Exhausts	—	—	—
1/15/2009	Aurelius	Bosch	Bosch's Blaupunkt brand, which makes portable navigation devices	—	—	—
1/9/2009	Comp Cams	Hawk Corp.	the clutch assemblies specialist (Quarter Master Industries) was the last remaining piece of Hawk's performance racing operations	—	—	—
1/7/2009	Belron US	Cindy Rowe Auto Glass	a prominent vehicle glass repair and replacement brand in the central Pennsylvania area	—	—	—
1/6/2009	FleetPride	E.H. Burrell	a wholesale distributor of parts and accessories for commercial trucks and heavy equipment that serves 1,000 commercial and industrial accounts throughout western Oregon and southwestern Washington State	—	—	—
1/6/2009	Aero Performance Products	Jones Exhaust Products	one of the largest manufacturers of chrome exhaust tips and glasspack mufflers and performance diesel systems in the U.S.	—	—	—
1/5/2009	Speedway Motors	Kentucky Speedway	motorsports facility just south of Cincinnati, Kentucky	—	—	—
12/30/2008	Paul Lee (Individual)	McLeod Industries Inc.	a U.S.-based manufacturer of high-performance automotive clutch assemblies for performance automotive enthusiasts and the auto industry	—	—	—
12/29/2008	Champion Parts	Turbomotive Inc.	acquired certain turbocharger technology assets of Turbomotive Inc. for \$1.75 million	—	—	—
12/22/2008	American Tire Distributors	Am-Pac Tire	a wholly owned subsidiary of Tokyo-based Itochu Corp., which purchased the assets of Aspen Enterprises Inc. and its Tire Pros assets in 1999	—	—	—
12/5/2008	Speedway Motors	A-FAB Corp.	manufacturers AFCO-branded premium shocks, springs and radiators; U.S. Brake-branded automotive brakes; and Dynatech premium exhaust systems	—	—	—
12/5/2008	American Axle & Manufacturing	FormTech Industries	AAM exchanged its hub and spindle forging business for FormTech's differential gear, hypoid pinion and ring gear forging businesses	—	—	—
12/4/2008	Audax Group	Select Distributors, Inc.	a manufacturer and distributor of custom car audio installation accessories and materials	—	—	—

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The following are some of the key investment criteria used by most buyout funds:

1) Comfort with the company's future

Getting comfortable essentially means becoming convinced that the company can be fixed. This is often accomplished by looking for a prior history of profitability to see if there's a foundation on which to build. Remember, we're talking about buying a troubled company—everyone knows there are problems. The buyer needs to understand all the problems, decide if they can be fixed and develop an action plan to correct them. Sometimes the buyer decides the company can't profitably be turned around and will pass on investing.

2) Control of the business

The need to have control is obvious. Troubled or underperforming companies need immediate and dramatic action, which means the buyout fund must be able to implement its plans in a timely fashion. This can't be done from a minority ownership position. For this reason, buyout funds want to own at least 51 percent of the company and control the board of directors. With most buyout funds, the management team is granted equity participation, which assures that management has similar financial incentives.

Strategic Partners

Some companies in the automotive aftermarket are looking to acquire during this period of upheaval.

Whether they are acquisitive in nature or this is their first foray into mergers & acquisitions, many companies see inherent value in distressed assets. Strategic partners typically have a better understanding of the market and take less time getting "up to speed" on a particular business or segment.

Strategic partners typically utilize much of the same investment criteria as buyout funds, but they are also driven by synergies that can be obtained. Consolidating duplicative tasks, utilizing excess manufacturing capacity, and strengthening distribution are some of the areas ripe for potential synergy. In many instances, these synergies are the difference between success and failure for an organization.

Strategic partners with private equity backing (portfolio companies) are uniquely suited to take advantage of the current environment. They provide the capital of a buyout fund with the knowledge and potential synergies of a strategic partner. These groups can do deals very quickly, see upside potential where others may not, and provide equity participation to management. Many of these groups are currently looking to broaden their aftermarket portfolios.

For many owners of distressed businesses, waiting for the situation to "turn around" on its own or the economy to "come back" is a decision to continue down the path towards a forced bankruptcy. Whether they are buyout funds or strategic partners, if a troubled or underperforming company is fixable, potential buyers could be knocking at the door.

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)			
	Price as of 2/28/09	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
Manufacturers									
Federal-Mogul Corporation	\$6.47	\$643.1	\$2,907.7	\$781.5	\$2,820.6	9/30/08	\$7,294.9	\$760.2	\$456.6
Aftermarket Technology Corp.	6.47	131.2	0.0	5.5	125.7	9/30/08	539.9	71.8	35.4
Tenneco Automotive, Inc.	1.36	63.6	1,524.0	127.0	1,495.6	9/30/08	6,273.0	405.0	(193.3)
Dorman Products, Inc.	8.26	145.8	21.0	7.1	161.7	9/30/08	346.1	37.5	16.9
Standard Motor Products, Inc.	2.09	39.1	250.4	11.0	278.4	9/30/08	793.6	34.2	13.1
Wholesalers & Distributors									
Genuine Parts Company	\$27.73	\$4,421.2	\$500.0	\$124.4	\$4,865.2	9/30/08	\$11,122.3	\$932.9	\$513.7
LKQ Corporation	13.50	1,830.5	642.5	97.7	2,454.6	9/30/08	1,881.7	251.2	112.8
The Coast Distribution System, Inc.	0.98	4.4	20.7	3.3	21.8	9/30/08	142.0	0.7	(1.1)
Retailers									
Autozone, Inc.	\$142.23	\$8,173.2	\$2,268.2	\$85.8	\$10,519.4	11/22/08	\$6,545.3	\$1,295.3	\$640.5
Advance Auto Parts, Inc.	38.19	3,616.3	471.2	21.3	4,098.9	10/4/08	4,998.2	578.8	248.4
O'Reilly Automotive, Inc.	33.36	4,469.3	665.4	26.4	5,172.6	9/30/08	3,066.2	397.6	191.0
The Pep Boys - Manny, Moe & Jack	3.16	164.7	332.6	38.4	458.9	11/1/08	1,979.9	59.8	(28.5)
US Auto Parts Network, Inc.	1.31	39.1	0.1	33.1	6.0	9/30/08	157.0	7.6	(2.1)

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
Manufacturers									
Federal-Mogul Corporation	0.4x	7.8x	3.7x	6.5x	6.2x	1.4	16.7%	10.4%	6.3%
Aftermarket Technology Corp.	0.2x	2.2x	1.8x	2.2x	3.5x	3.7	22.7%	13.3%	6.6%
Tenneco Automotive, Inc.	0.2x	8.2x	3.7x	9.8x	NM	NM	14.7%	6.5%	NM
Dorman Products, Inc.	0.5x	5.4x	4.3x	5.3x	9.6x	8.6	32.5%	10.8%	4.9%
Standard Motor Products, Inc.	0.4x	14.2x	8.1x	12.8x	21.3x	3.0	23.7%	4.3%	1.6%
Mean	0.3x	7.6x	4.3x	7.3x	10.1x	4.2x	22.0%	9.1%	4.8%
Median	0.4x	7.8x	3.7x	6.5x	7.9x	3.3x	22.7%	10.4%	5.6%
Wholesalers & Distributors									
Genuine Parts Company	0.4x	5.8x	5.2x	5.8x	9.5x	8.6	29.7%	8.4%	4.6%
LKQ Corporation	1.3x	11.1x	9.8x	12.5x	21.8x	16.2	44.9%	13.4%	6.0%
The Coast Distribution System, Inc.	0.2x	NM	29.7x	NM	NM	NM	19.2%	0.5%	NM
Mean	0.6x	8.5x	14.9x	9.1x	15.6x	12.4x	31.2%	7.4%	5.3%
Median	0.4x	8.5x	9.8x	9.1x	15.6x	12.4x	29.7%	8.4%	5.3%
Retailers									
Autozone, Inc.	1.6x	9.3x	8.1x	10.1x	16.4x	12.8	50.2%	19.8%	9.8%
Advance Auto Parts, Inc.	0.8x	9.5x	7.1x	10.8x	16.5x	14.6	48.3%	11.6%	5.0%
O'Reilly Automotive, Inc.	1.7x	16.2x	13.0x	69.5x	27.1x	23.4	45.1%	13.0%	6.2%
The Pep Boys - Manny, Moe & Jack	0.2x	NM	7.7x	16.9x	NM	NM	23.9%	3.0%	NM
US Auto Parts Network, Inc.	0.0x	NM	0.8x	1.9x	NM	NM	33.8%	4.8%	NM
Mean	1.1x	11.7x	7.3x	26.8x	20.0x	16.9x	40.2%	10.4%	7.0%
Median	1.2x	9.5x	7.7x	13.9x	16.5x	14.6x	46.7%	12.3%	6.2%

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful