

# the aftermarket analyst

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

## Aftermarket M&A Trend:

### “Weak” Dollar Boosts Foreign Investment

As the U.S. economy has slowed over the past 12 months, the American dollar has declined significantly against leading foreign currencies. This is not a new phenomenon, although it has been over a decade since foreign currencies have compared so favorably against the U.S. dollar. One of the recurring themes we are seeing in the aftermarket in early 2008 is the increased purchasing power by foreign countries, allowing them to invest in and acquire U.S. businesses at foreign currency induced discounted rates. In the last year, as the accompanying graphs indicate, the dollar has:

- declined 13.0% versus the Euro;
- declined 12.4% versus the Japanese Yen; and
- declined 15.1% versus the Canadian Dollar

In essence, U.S. investments have been discounted by the same 12 to 15% for potential investors and acquirers. These discounts are significant, but are not directly felt by sellers as there is no decrease in purchase price to attain these savings for foreign investors.

While many readers view a weak U.S. dollar as “bad”, there are disadvantages and advantages to such an environment as with all things in life. Some of the disadvantages of a weak dollar are:

U.S Dollar versus Euro



U.S Dollar versus Japanese Yen



U.S Dollar versus Canadian Dollar



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**RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS**

Announce Date	Acquirer/Investor(s)	Target	Target Description	Firm Value (\$mil.)	FV / Rev.	FV / EBITDA
2/4/2008	Visteon	Centrum Equities	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	—
12/11/2007	American Tire Distributors	Texas' Homann Tire Wholesale	Tire Wholesaler which has some 1,600 customers across Texas and Louisiana.	—	—	—
12/11/2007	Platinum Equity LLC	division of Delphi Corp.	Delphi's global steering and halfshaft business	—	—	—
12/11/2007	ArvinMeritor	Mascot Truck Parts Ltd.	a major remanufacturer of transmissions, drive axle carriers, steering gears and drivelines, based in Mississauga, Ontario, Canada.	—	—	—
12/10/2007	Sun Capital Partners	Von Weise, Inc.	Von Weise offers two product lines including: (i) Automotive - small motors or actuators for automobiles, and (ii) Specialty Products - electric and recoil small engine starters for garden tractors, lawn mowers and snow blowers.	—	—	—

- U.S. consumers face higher prices on foreign products/services;
- Higher prices on foreign products contribute to higher cost-of-living; and
- Difficulty for U.S. firms and investors expanding into foreign markets

While most everyone is aware of the disadvantages of a declining dollar it is important to remember that there are advantages to the current foreign exchange environment. Some of these advantages are:

- U.S. manufacturers find it easier to sell goods in foreign markets;
- U.S. manufacturers find less competitive pressure to keep prices low; and
- U.S. acquisitions become more attractive to foreign investors

While each of these advantages benefits U.S. exporters in the aftermarket, the larger trend we have seen is the interest in the U.S. aftermarket by foreign acquirers. There is a significant increase in late 2007 and early 2008 in foreign buyers that are looking for U.S. aftermarket companies. The interest has truly been world-wide, from neighboring countries to Europe to the Pacific Rim. These companies have also been interested in a wide range of aftermarket sectors. We have seen foreign interest in manufacturers, distributors, and retailers, with requested products ranging from hard parts to performance

accessories. Foreign investors are seeking to take advantage of these discounts across all sectors of the aftermarket.

With many pundits claiming U.S. M&A activity is poised for a dormant period, we continue to see strong signs of life in the aftermarket. A "weak" dollar will entice foreign investment in our industry. Private equity fundraising is continuing to climb higher on the heels of a record year in 2007. Middle market deals, those of less than \$1 billion, are still finding access to relatively "cheap" debt. While we believe that U.S. strategic buyers will be hampered by their equity declines over the past six months, we believe this will be partially offset by the new inflow of foreign capital into the aftermarket. Foreign investment, private equity fundraising, and access to relatively "cheap" debt should provide the cornerstone of what we believe will be a very active year for aftermarket M&A.

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**Selected Public Company Capitalization and Operating Figures**  
(\$ in millions, except per share data)

Company	Enterprise Value				Enterprise Value (1)	Last Twelve Months (LTM)			Net Income
	Price as of 1/31/08	Market Cap	Debt	Cash		LTM Date	Revenue	EBITDA	
<b>Manufacturers</b>									
Tenneco Automotive, Inc.	\$26.47	\$1,232.6	\$1,536.0	\$203.0	\$2,639.0	9/30/07	\$5,831.0	\$446.0	\$84.6
Aftermarket Technology Corp.	25.41	562.1	0.0	20.7	550.8	9/30/07	523.7	78.6	40.6
Directed Electronics, Inc.	2.59	65.6	309.9	5.5	370.0	9/30/07	459.5	53.5	8.9
Standard Motor Products, Inc.	8.26	152.2	344.6	19.4	477.3	9/30/07	792.0	53.8	14.9
Dorman Products, Inc.	11.07	195.8	25.7	6.1	220.2	9/30/07	321.1	42.5	20.4
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	\$43.93	\$7,375.9	\$500.0	\$330.1	\$7,664.9	9/30/07	\$10,758.9	\$915.1	\$499.7
LKQ Corporation	17.89	2,382.2	12.5	225.3	2,222.2	9/30/07	916.6	112.0	54.6
The Coast Distribution System, Inc.	5.45	24.2	23.0	0.9	46.3	9/30/07	164.1	2.5	(0.1)
<b>Retailers</b>									
Autozone, Inc.	\$120.65	\$7,832.0	\$2,161.1	\$79.8	\$10,033.2	11/17/07	\$6,232.4	\$1,233.2	\$604.3
Advance Auto Parts, Inc.	35.78	3,657.7	434.4	14.8	4,124.3	10/6/07	4,812.2	565.6	238.9
O'Reilly Automotive, Inc.	29.43	3,386.4	100.5	109.8	3,419.1	9/30/07	2,476.4	370.4	193.7
The Pep Boys - Manny, Moe & Jack	10.97	567.5	672.2	26.2	1,213.5	11/3/07	2,226.4	89.5	(19.2)
CSK Auto Corporation	5.95	261.6	532.1	19.9	773.7	8/5/07	1,908.5	130.4	21.4
US Auto Parts Network, Inc.	5.97	178.2	1.1	17.2	162.1	9/30/07	160.4	12.5	1.9

**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>									
Tenneco Automotive, Inc.	0.5x	10.6x	5.9x	9.2x	31.2x	14.6	12.7%	7.6%	1.5%
Aftermarket Technology Corp.	1.1x	8.7x	7.0x	9.8x	13.6x	13.8	24.0%	15.0%	7.8%
Directed Electronics, Inc.	0.8x	8.4x	6.9x	7.3x	41.6x	7.4	31.3%	11.6%	1.9%
Standard Motor Products, Inc.	0.6x	12.2x	8.9x	12.1x	31.9x	10.2	26.4%	6.8%	1.9%
Dorman Products, Inc.	0.7x	6.3x	5.2x	6.0x	10.8x	9.6	34.3%	13.2%	6.4%
<b>Mean</b>	<b>0.7x</b>	<b>9.2x</b>	<b>6.8x</b>	<b>8.9x</b>	<b>25.8x</b>	<b>11.1x</b>	<b>25.8%</b>	<b>10.9%</b>	<b>3.9%</b>
<b>Median</b>	<b>0.7x</b>	<b>8.7x</b>	<b>6.9x</b>	<b>9.2x</b>	<b>31.2x</b>	<b>10.2x</b>	<b>26.4%</b>	<b>11.6%</b>	<b>1.9%</b>
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	0.7x	9.2x	8.4x	9.6x	15.3x	14.8	31.5%	8.5%	4.6%
LKQ Corporation	2.4x	22.7x	19.8x	29.9x	40.7x	43.6	45.0%	12.2%	6.0%
The Coast Distribution System, Inc.	0.3x	29.4x	18.9x	62.7x	NM	NM	17.8%	1.5%	NM
<b>Mean</b>	<b>1.1x</b>	<b>20.4x</b>	<b>15.7x</b>	<b>34.1x</b>	<b>28.0x</b>	<b>29.2x</b>	<b>31.4%</b>	<b>7.4%</b>	<b>5.3%</b>
<b>Median</b>	<b>0.7x</b>	<b>22.7x</b>	<b>18.9x</b>	<b>29.9x</b>	<b>28.0x</b>	<b>29.2x</b>	<b>31.5%</b>	<b>8.5%</b>	<b>5.3%</b>
<b>Retailers</b>									
Autozone, Inc.	1.6x	9.4x	8.1x	9.9x	16.6x	13.0	49.8%	19.8%	9.7%
Advance Auto Parts, Inc.	0.9x	9.9x	7.3x	11.4x	17.3x	15.3	47.9%	11.8%	5.0%
O'Reilly Automotive, Inc.	1.4x	11.2x	9.2x	24.2x	17.6x	17.5	44.4%	15.0%	7.8%
The Pep Boys - Manny, Moe & Jack	0.5x	NM	13.6x	39.3x	NM	NM	24.1%	4.0%	NM
CSK Auto Corporation	0.4x	8.7x	5.9x	8.6x	36.2x	12.2	47.1%	6.8%	1.1%
US Auto Parts Network, Inc.	1.0x	52.2x	12.9x	19.3x	86.3x	94.8	33.1%	7.8%	1.2%
<b>Mean</b>	<b>1.0x</b>	<b>9.8x</b>	<b>9.5x</b>	<b>18.7x</b>	<b>21.9x</b>	<b>30.6x</b>	<b>41.1%</b>	<b>10.9%</b>	<b>5.0%</b>
<b>Median</b>	<b>0.9x</b>	<b>9.6x</b>	<b>8.7x</b>	<b>11.4x</b>	<b>17.5x</b>	<b>14.1x</b>	<b>47.1%</b>	<b>11.8%</b>	<b>6.4%</b>

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful