

# the aftermarket analyst

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

## If It Were Easy, Everyone Would Be Doing It

When you consider everything that can go wrong in the course of selling or recapitalizing a company, it's a marvel that any deal ever makes it to closing.

While buyers have their share of shortcomings, sellers create problems as well. Below are some of the more common seller-driven issues that can deep-six even the most promising transaction.

### Unrealistic expectation of value

Although many business owners are highly skilled managers, product developers, and salespeople, few have an accurate idea of what a qualified investor would actually pay for their company. This is understandable because many have simply never gone through the process of selling a company themselves.

Business owners' naiveté about the business valuation process usually leads them to focus on the wrong aspects of their company when trying to derive a value. Additionally, every business owner views his company as unique and expects to be compensated appropriately. These aspects give an upward bias to the valuation.

Once an owner has this arbitrary and sometimes inflated figure in mind, it can be difficult to let it go. However, if the seller is unwilling to adjust his or her expectations, the deal may not happen.

### No sense of urgency

Many sellers fail to understand that their deal has a finite shelf life. They do not realize that buyers — including many Private Equity Groups — have relatively short attention spans. If a seller is slow to produce documentation, provide answers to questions, or make reasonable concessions, buyers quickly lose interest and move on to the next deal.

Most qualified buyers look at hundreds of deals each year and pick only a handful to pursue. Companies that are "high maintenance" or require a great deal of hand holding are deemed not worth the time because there are always plenty of other deals to close.

### Lack of flexibility

In order to get the best possible deal for shareholders, flexibility is key. This is especially true when working with financial buyers who like to see management stay on post-transaction and maintain a substantial ownership stake.

Owner-managers who want to sell 100 percent of their business and leave six months later won't get the best offer from these groups. However, if owner-managers want to stay on for the foreseeable future and rollover some of their equity, financial buyers tend to be the best partners.

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## RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor(s)	Target	Target Description
2/12/2010	MEMA	OptiCat	electronic parts catalog data repository
2/12/2010	Service Repair Solutions	Auto Point, Inc.	pioneer of ownership lifecycle management services to automotive retailers
2/12/2010	Great Dane Trailers	Johnson Truck Bodies	leader in the manufacture of insulated fiberglass refrigerated truck bodies and all-electric refrigeration solutions that was founded in 1932 by the Johnson Family
2/12/2010	WAI Global	Lester Catalog	an industry standard catalog, part number and information service provider
2/12/2010	General Automotive Company	Spec, Inc.	a manufacturer of clutches, flywheels and pressure plates for the performance market
2/4/2010	International Automotive Components Group (IAC)	Stankiewicz International Corp.	a U.S. subsidiary of Gimotive GmbH, manufactures flooring systems, dash insulators and trunk systems
2/3/2010	Uni-Select	Automotive Information Management Inc.	a program distribution group which offers a membership program that grants access to preferred purchase terms offered by selected manufacturers.
2/3/2010	Klarius Group Limited	Affinia Group - Quinton Hazell	a diverse aftermarket manufacturer and distributor of automotive components throughout Europe
1/29/2010	The Gonher Group	Mighty Distributing System of America	a franchisor of sales and service operations in the automotive aftermarket. Mighty oversees 110 franchisees and company operations in 43 states.
1/28/2010	Autoliv	Delphi	Delphi's Occupant Protection Systems (OPS) operations in Korea and China
1/27/2010	Fisher Auto Parts	Crystal Lake Pit Stop	headquartered in Crystal Lake, Ill., was founded in 1977 and joined the Federated Auto Parts programmed distribution group in 1999
1/15/2010	Owner Resource Group	Global Parts Distributors	distributes components for AC and radiator units to parts warehouses, retail chains, mass-market retailers and repair shops
1/6/2010	Zep, Inc.	Amrep Inc	maintenance chemicals for the automotive aftermarket as well as the janitorial market sold through distributors
12/31/2009	Shoreview Industries	Twincor 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

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Type of consideration is another important area where preferences can be traded off for increased value. For example, if a seller is willing to take non-cash consideration like a note, stock, or an earn-out, a higher purchase price is almost always achievable with greater certainty of closure.

### **Misalignment of owner and management interests**

If the management team of a company does not have an ownership stake in the business when it is sold or recapitalized, conflicts of interest can occur because of unbalanced economic concerns between shareholders and management. This can open up a whole host of issues that can weigh down a sales process and eventually break it.

For example, management might be slow to produce certain information or fail to be completely candid with the owner in order to “save face.” In the worst case, management might intentionally sabotage the process in order to ensure the viability of their own positions.

In any case, the best outcomes are usually achieved when owner and management incentives are as closely aligned as possible with mutual equity participation in the form of phantom or real stock.

### **Emotional engrossment**

This can happen when the seller takes offense to a prospective buyer’s negotiation tactics or style and allows these feelings to cloud his or her judgment to their own detriment. Sellers that are inexperienced or

thin-skinned can easily fall into this trap.

As with any economic transaction, keeping a cool head and approaching important decisions in an emotionally detached way is the best method for achieving a favorable outcome.

An experienced financial advisor can be very helpful in guiding a seller through these types of pitfalls by acting as a buffer between the two parties. This is especially important since buyers and sellers often have to work together as partners post-closing.

### **Not fully committing to the process**

As the saying goes, “it’s hard to be a little bit pregnant.” Likewise, sellers who decide to “test the market” without fully committing themselves beforehand usually end up with less than pleasing results.

By the second or third attempt, they tend to get more serious. However, by that time, a considerable amount of time, energy, and resources have been wasted.

In addition, the seller’s credibility in the marketplace can become damaged. For example, buyers who go down the road with a company only to be left at the altar can grow skeptical of a seller’s commitment to sell.

When buyers become skeptical, they simply withdraw from the bidding process, and the company’s ability to maximize shareholder value is compromised.

## **About Capstone**

Capstone Financial Group, Inc. 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](http://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 1/31/10	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
<b>Manufacturers</b>									
Federal-Mogul Corporation	\$16.38	\$1,628.2	\$2,862.2	\$784.3	\$3,768.8	9/30/09	\$5,241.2	\$330.3	(\$243.6)
ATC Technology Corporation	21.87	437.2	70.0	129.7	377.5	9/30/09	486.2	75.0	26.2
Tenneco Automotive, Inc.	17.68	837.9	1,468.0	137.0	2,203.3	9/30/09	4,535.0	242.0	(312.4)
Dorman Products, Inc.	15.45	272.4	6.3	5.7	280.9	9/30/09	361.4	45.0	23.6
Standard Motor Products, Inc.	7.84	149.5	110.9	10.5	249.9	9/30/09	724.2	39.2	11.1
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	\$37.68	\$6,011.9	\$500.0	\$363.1	\$6,156.2	9/30/09	\$10,106.5	\$753.3	\$388.2
LKQ Corporation	18.75	2,628.8	636.6	129.5	3,265.2	9/30/09	1,985.6	247.3	110.0
The Coast Distribution System, Inc.	3.79	16.9	11.5	2.6	25.8	9/30/09	102.8	(0.4)	(1.1)
<b>Retailers</b>									
Autozone, Inc.	\$155.03	\$7,673.4	\$2,739.5	\$79.6	\$10,507.6	11/21/09	\$6,927.8	\$1,380.8	\$669.0
Advance Auto Parts, Inc.	39.45	3,733.2	279.5	216.2	3,813.0	10/10/09	5,461.4	592.1	260.3
O'Reilly Automotive, Inc.	37.80	5,185.8	703.7	29.5	5,933.4	9/30/09	4,788.0	600.2	278.3
The Pep Boys - Manny, Moe & Jack	8.35	437.1	307.6	40.8	703.8	10/31/09	1,923.6	88.9	(12.5)
US Auto Parts Network, Inc.	5.90	176.1	0.0	33.6	142.5	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	11.4x	35.9x	NM	NM	14.3%	6.3%	NM
ATC Technology Corporation	0.8x	6.2x	5.0x	5.5x	14.4x	16.7	23.1%	15.4%	5.4%
Tenneco Automotive, Inc.	0.5x	84.7x	9.1x	19.2x	NM	NM	15.5%	5.3%	NM
Dorman Products, Inc.	0.8x	7.5x	6.2x	7.5x	11.9x	11.5	33.6%	12.4%	6.5%
Standard Motor Products, Inc.	0.3x	10.3x	6.4x	7.9x	22.5x	13.4	23.8%	5.4%	1.5%
<b>Mean</b>	<b>0.6x</b>	<b>27.2x</b>	<b>7.6x</b>	<b>15.2x</b>	<b>16.3x</b>	<b>13.9x</b>	<b>22.1%</b>	<b>9.0%</b>	<b>4.5%</b>
<b>Median</b>	<b>0.7x</b>	<b>8.9x</b>	<b>6.4x</b>	<b>7.9x</b>	<b>14.4x</b>	<b>13.4x</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	9.3x	15.9x	15.5	29.6%	7.5%	3.8%
LKQ Corporation	1.6x	15.6x	13.2x	16.9x	29.7x	23.9	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>0.8x</b>	<b>12.4x</b>	<b>10.7x</b>	<b>13.1x</b>	<b>22.8x</b>	<b>19.7x</b>	<b>30.8%</b>	<b>10.0%</b>	<b>4.7%</b>
<b>Median</b>	<b>0.6x</b>	<b>12.4x</b>	<b>10.7x</b>	<b>13.1x</b>	<b>22.8x</b>	<b>19.7x</b>	<b>29.6%</b>	<b>10.0%</b>	<b>4.7%</b>
<b>Retailers</b>									
Autozone, Inc.	1.5x	8.8x	7.6x	9.5x	15.7x	11.5	50.2%	19.9%	9.7%
Advance Auto Parts, Inc.	0.7x	8.6x	6.4x	9.3x	14.6x	14.3	49.2%	10.8%	4.8%
O'Reilly Automotive, Inc.	1.2x	12.0x	9.9x	29.4x	21.3x	18.6	47.5%	12.5%	5.8%
The Pep Boys - Manny, Moe & Jack	0.4x	40.1x	7.9x	14.4x	NM	NM	24.3%	4.6%	NM
US Auto Parts Network, Inc.	0.9x	NM	24.6x	NM	NM	NM	36.3%	3.5%	NM
<b>Mean</b>	<b>1.0x</b>	<b>17.4x</b>	<b>11.3x</b>	<b>15.6x</b>	<b>17.2x</b>	<b>14.8x</b>	<b>41.5%</b>	<b>10.3%</b>	<b>6.7%</b>
<b>Median</b>	<b>1.0x</b>	<b>10.4x</b>	<b>7.9x</b>	<b>11.9x</b>	<b>15.7x</b>	<b>14.3x</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