

the aftermarket analyst

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

Record Foreign Investment In the Aftermarket

European investment is propelling aftermarket M&A towards another record year. While private equity investments have been down in 2008, significant foreign interest in the U.S. automotive aftermarket has made up for the shortfall. In our January 2008 edition of this newsletter, we forecasted that this would be a strong year for aftermarket M&A based on foreign investors capitalizing on a “weak” dollar. Indeed, the strength of the euro versus the dollar has been the single biggest macro-economic factor positively affecting aftermarket M&A.

Euro to U.S. Dollar for Last Five Years



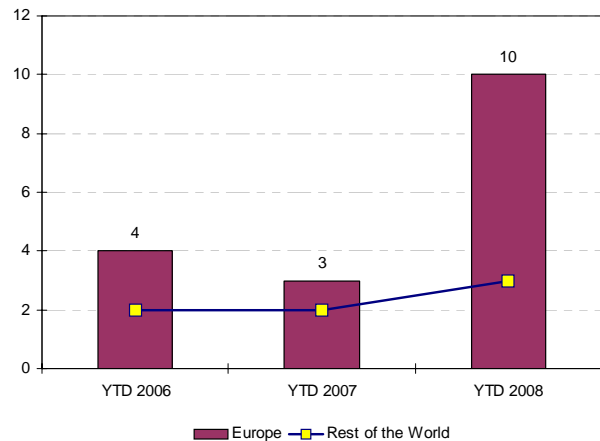
The euro made slight gains against the dollar through 2007, but appreciated 15-20% in the last 12 months. (see graph above) This dramatic increase coupled with strong aftermarket fundamentals fueled European investment in the past year. As the representative graph of the Japanese Yen indicates, other currencies did not perform as well as the euro, explaining why foreign investment in the aftermarket was not more balanced. Simply put, U.S. assets were not discounted as much versus other world currencies as they were versus the euro.

Yen to U.S. Dollar for Last Five Years



For the year to date period ending July 31, 2008, there have been 13 transactions in the U.S. aftermarket involving foreign buyers. This is a dramatic increase over the five foreign transactions during the same period in 2007 and six foreign transactions through July 2006. These foreign transactions are driving what has been a record year for M&A in the aftermarket. European buyers represented 10 of the 13

Transactions in the U.S. aftermarket involving foreign buyers



in this issue

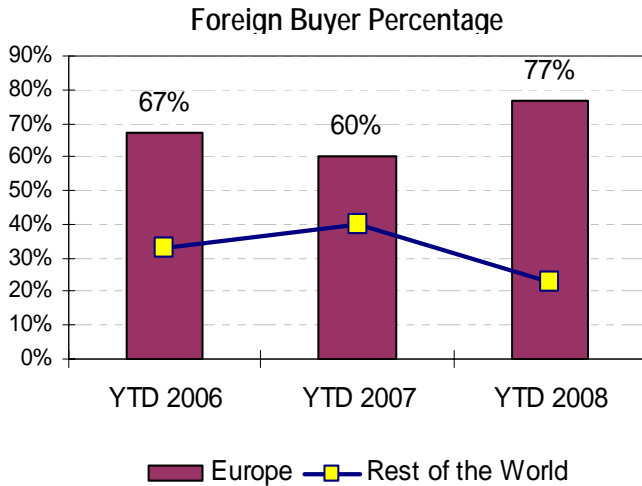
Recently Announced Transactions.....2
 Public Company Valuations.....4



RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor(s)	Target	Target Description	Firm Value (\$mil.)	Rev. FV / Rev.	EBITDA FV / EBITDA
8/6/2008	FleetPride	Truck & Trailer Supply Inc.	an independent aftermarket distributor of heavy-duty truck and trailer parts	—	—	—
8/5/2008	Atlas Copco Tools	Industrial Power Sales Inc.	a distributor of tools, assembly systems and material handling equipment headquartered in N.C.	—	—	—
8/4/2008	Specialty Tools Inc.	Hisco Professional Tools	manufactures fiberglass-handled digging and cleaning tools for the professional market	—	—	—
7/31/2008	Eaton Corp.	Kirloskar Oil Engines Ltd.	designs, manufactures and sells intake and exhaust valves for diesel and gasoline engines	—	\$5.0	—
7/30/2008	Autoliv Inc.	Tyco Electronics Ltd.	a “carve-out” of the Radio Frequency and Subsystems business unit.. This part of the business unit designs and manufactures active radar proximity and attribute sensor systems used in vehicle driver assist and safety applications for the global automotive market	\$42.0	—	—
7/29/2008	ZF Friedrichshafen AG	Cherry Corp.	develops as well as produces switches, sensors, control units and electronics modules for the automotive industry, components for industrial and household applications and computer input devices	—	—	—
7/23/2008	Continental AG	Oltas Spa	exclusively distributes Continental, Uniroyal and Barum branded passenger car and commercial vehicle tires in Turkey, and has built up a franchise dealer network of 200 outlets	—	39.0	—
7/18/2008	iSuppli Corp.	Telematics Research Group, Inc.	a provider of vehicle-electronics business intelligence	—	—	—
7/18/2008	Kohlweiss Auto Parts	Reed Distributing Co.	independent wholesale and retail distributor of import and domestic auto parts, tools and equipment	—	—	—
7/16/2008	PPG Industries	Vanex, Inc.	makes Plascon and Breakthrough brand water-based industrial coatings for use on metal, plastic and wood	—	—	—
7/14/2008	Big Country Truck Accessories	Go Rhino!	manufacturer of metal fabricated aftermarket accessories for light trucks and sport utility vehicles, which include products for public safety and soft-sided cargo management products	—	—	—
7/14/2008	Harbin Electric, Inc.	Weihai Hengda Electric Motor Co.	full range of electric motors from linear motors, to specialty micro-motors, to rotary motors	54.0	48.7	8.3x
7/9/2008	SKF	PEER Bearing Co.	PEER Bearing Co. and its manufacturing operations in China and Thailand. PEER is a U.S.-based bearing company selling primarily to North American customers.	—	—	—
7/8/2008	Kohlberg & Co. LLC	PPG Industries Inc.	its automobile glass and services business	330.0	—	—
7/7/2008	Linamar Corp	Visteon	its Swansea, United Kingdom, operation	—	—	—
7/7/2008	Arvin Meritor	TruckTechnic	a major remanufacturer and distributor of commercial vehicle disc and foundation brakes and components, based in Liege, Belgium	—	—	—
7/2/2008	Johnson Controls	Plastech	the interior product assets of Dearborn, Mich.-based Plastech Engineered Products	—	—	—
7/1/2008	Fras-Le S.A.	Haldex	its disc brake friction material business	—	—	—

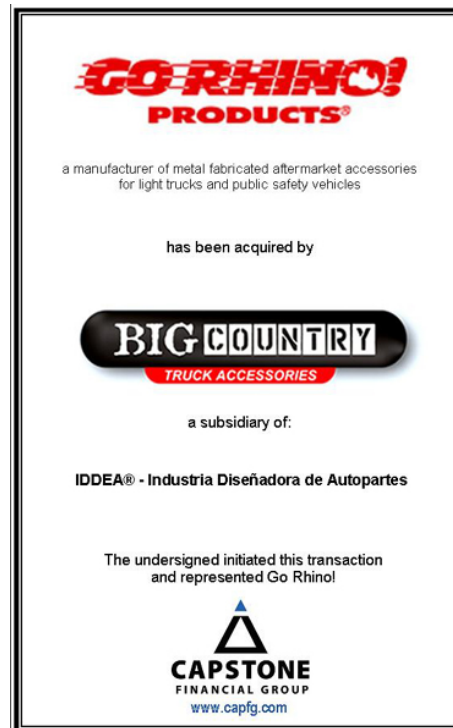
transactions during the period. This is a marked increase over the three European transactions in 2007 and four transactions in 2006.



While European buyers have always participated heavily in aftermarket investment, they now hold a dominant position. In 2008, European buyers have represented almost 80% of foreign transactions in the U.S. aftermarket. This is up from 60% in 2007 and 67% in 2006. Not only are the European acquirers buying more U.S. assets, they are branching out and moving down the traditional distribution chain. European entities are no longer interested solely in manufacturing operations here in the United States. We're seeing more acquirers of aftermarket distributors. In 2006 and 2007, all European purchases were of manufacturing operations. However in 2008, 20% of the acquisitions were distributors. With our nation the largest consumer of aftermarket products in the world, foreign entities are attempting to get closer to the customer and end user. We believe this process will continue and only lead to increased demand for aftermarket manufacturers, distributors, and retailers in the U.S. We expect healthy

aftermarket M&A through 2008 as consolidation and European investment continue unabated.

In addition to European buyers, we are also seeing considerable interest in US acquisition targets from Mexican investors, as evidenced by Capstone's recent sale of its client, Go Rhino!, a California-based manufacturer of metal fabricated aftermarket accessories for light trucks, sport utility vehicles, and public safety vehicles. The buyer was Big Country Truck Accessories, a subsidiary of Guadalajara, Mexico-based Industria Diseñadora De Autopartes ("IDDEA"). As China encounters growth issues, Mexico is gaining certain economic advantages, particularly for large manufactured items or those with a relatively low labor component. We also expect this trend to continue.



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	Price as of 7/31/08	Enterprise Value				Last Twelve Months (LTM)			
		Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
Manufacturers									
Tenneco Automotive, Inc.	\$14.42	\$672.0	\$1,463.0	\$161.0	\$2,008.0	3/31/08	\$6,344.0	\$455.0	(\$4.0)
Aftermarket Technology Corp.	25.12	528.0	6.3	7.2	535.1	6/30/08	534.2	75.7	38.0
Directed Electronics, Inc.	1.76	44.8	262.3	16.7	290.4	3/31/08	383.8	52.5	(20.0)
Standard Motor Products, Inc.	9.39	175.1	90.7	14.6	251.2	3/31/08	798.5	46.2	23.8
Dorman Products, Inc.	11.49	203.3	23.1	7.5	223.6	6/30/08	338.1	38.8	17.5
Wholesalers & Distributors									
Genuine Parts Company	\$40.11	\$6,570.7	\$500.0	\$161.5	\$6,988.0	3/31/08	\$10,933.8	\$923.1	\$508.3
LKQ Corporation	20.50	2,757.3	651.6	85.4	3,492.3	3/31/08	1,383.4	180.9	81.9
The Coast Distribution System, Inc.	3.82	17.0	40.3	1.2	56.1	3/31/08	160.1	3.5	0.0
Retailers									
Autozone, Inc.	\$130.29	\$8,246.9	\$1,932.0	\$81.7	\$10,243.2	5/3/08	\$6,314.9	\$1,253.2	\$615.0
Advance Auto Parts, Inc.	41.09	3,915.2	554.5	19.1	4,500.6	4/19/08	4,902.4	572.5	244.3
O'Reilly Automotive, Inc.	25.54	2,949.4	100.4	113.3	2,949.6	3/31/08	2,555.4	381.1	191.9
The Pep Boys - Manny, Moe & Jack	7.38	382.3	462.6	87.3	757.6	5/3/08	2,096.5	42.5	(46.4)
US Auto Parts Network, Inc.	3.30	98.5	0.1	32.2	66.4	3/31/08	157.2	8.4	(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
Manufacturers									
Tenneco Automotive, Inc.	0.3x	8.3x	4.4x	7.9x	NM	NM	15.6%	7.2%	NM
Aftermarket Technology Corp.	1.0x	8.9x	7.1x	9.0x	14.1x	13.9	23.6%	14.2%	7.1%
Directed Electronics, Inc.	0.8x	6.8x	5.5x	5.9x	NM	NM	36.3%	13.7%	NM
Standard Motor Products, Inc.	0.3x	8.0x	5.4x	7.9x	10.5x	7.3	25.3%	5.8%	3.0%
Dorman Products, Inc.	0.7x	7.2x	5.8x	6.9x	12.8x	11.6	33.3%	11.5%	5.2%
Mean	0.6x	7.8x	5.6x	7.5x	12.5x	10.9x	26.8%	10.5%	5.1%
Median	0.7x	8.0x	5.5x	7.9x	12.8x	11.6x	25.3%	11.5%	5.2%
Wholesalers & Distributors									
Genuine Parts Company	0.6x	8.4x	7.6x	8.6x	13.7x	12.9	29.7%	8.4%	4.6%
LKQ Corporation	2.5x	22.0x	19.3x	25.2x	42.6x	33.7	45.0%	13.1%	5.9%
The Coast Distribution System, Inc.	0.4x	22.1x	16.0x	30.4x	NM	NM	19.0%	2.2%	0.0
Mean	1.2x	17.5x	14.3x	21.4x	28.2x	23.3x	31.2%	7.9%	3.5%
Median	0.6x	22.0x	16.0x	25.2x	28.2x	23.3x	29.7%	8.4%	4.6%
Retailers									
Autozone, Inc.	1.6x	9.4x	8.2x	9.9x	16.7x	13.4	50.0%	19.8%	9.7%
Advance Auto Parts, Inc.	0.9x	10.6x	7.9x	11.9x	18.4x	16.0	48.0%	11.7%	5.0%
O'Reilly Automotive, Inc.	1.2x	9.8x	7.7x	28.6x	15.4x	15.4	44.6%	14.9%	7.5%
The Pep Boys - Manny, Moe & Jack	0.4x	NM	17.8x	NM	NM	NM	22.6%	2.0%	NM
US Auto Parts Network, Inc.	0.4x	NM	7.9x	19.5x	NM	NM	34.3%	5.3%	NM
Mean	1.0x	9.9x	9.9x	16.8x	16.8x	14.9x	39.9%	10.8%	7.4%
Median	1.0x	9.8x	7.9x	11.9x	16.7x	15.4x	46.3%	13.3%	7.5%

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful