

the aftermarket analyst

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

A Diamond in the Rough

The investment brilliance of many industries has faded as the economy has faced turmoil and instability; yet investors continue to see the aftermarket as a precious gem — an attractive, long-term and valuable undertaking.

“Like all businesses, aftermarket companies are valued on future earnings. The industry is set to ride some very attractive tailwinds, including what many expect to be an increase in miles traveled, an aging vehicle fleet and new car dealership closings which will create a \$6 billion jump ball for aftermarket businesses,” says Jonathan Carey, vice president of investment firm BB&T Capital Markets.

“Couple this with expected growth and relatively low beta or risk as demonstrated by the industry’s relative stability over the past two years as compared to other consumer businesses and one can understand the increased interest in the aftermarket.”

Granted, the opportunities may have changed shape — those who once looked for steady and historically strong companies to back may now seek out distressed deals or merger and acquisition (M&A) activities. But the money is still coming in.

“We certainly don’t see any slowdown in the investment capital coming into the industry. We get pretty much as many queries as we ever have,” says Dan Smith,

president of Capstone Financial Group, an investment firm that handles interests in the aftermarket.

“Granted, it’s different. With so many aftermarket companies suffering these days, or having diminished sales and diminished profitability, it is a different kind of money, meaning a lot these days may be looking for distress deals,” Smith adds.

An M&A about-face

Current and potential investors are looking for the opportunities available, and those most common throughout this economic environment tend to fall around merger and acquisition activity.

“The term M&A has been around forever, but the “M” was not so prominent until a couple years ago,” says Smith. “We are seeing a lot of mergers, just outright mergers from institutional money that owns a company merging with other companies. The influx of capital and the importance of capital will not diminish, it is just different kinds of deals.”

The presence of what Capstone’s Managing Director Graham Payne deems “healthy” M&A activity — or typical succession planning — has taken a backseat in the past 12 months to more distressed M&A deals, mainly because of the economic state of the industry.

“But now we’re starting to come out of that and we’re seeing more healthy M&A deals getting done,” he says.

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RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor(s)	Target	Target Description
7/31/2009	Katcon	Delphi	Delphi's catalytic converter and exhaust system global business
7/23/2009	FleetPride	Panhandle Truck Parts	an independent aftermarket distributor of heavy-duty truck and trailer parts serving Amarillo and Lubbock, TX.
7/14/2009	FleetPride	Fleet Supply of Tallahassee Inc.	an independent aftermarket distributor of heavy-duty truck and trailer parts serving Florida and the panhandle
7/9/2009	CoverCraft	Global Accessories, Inc.	purchased most of the assets including the lines Wolf Automotive, Powersports and Marine covers; LeBra front-end covers; DashMat dashboard covers; Premier Floor Mats; and Spidy Gear cargo web products
7/6/2009	Uview	MotorVac Technologies	supplies professional automotive fluid maintenance equipment and service products that are distributed to more than 60 countries
7/3/2009	OpenGate Capital	ArvinMeritor	ArvinMeritor has sold the U.S. portion of its Gabriel ride control products business to OpenGate Capital
7/3/2009	Management buyout	Thule - Valley Towing Systems	the management team of Valley Towing Systems has purchased the Lodi, CA-based company from its former parent, Thule
7/1/2009	Sun Capital	Big 10 Tire Stores Inc.	one of the largest independent tire dealers in the Southeastern U.S.
6/19/2009	Cerion LLC	Contech	serve the global automotive market with highly-engineered lightweight die cast components
6/15/2009	Platinum Equity	Alcoa	divestiture of its wire harness and electrical distribution business
6/15/2009	Monro Muffler Brake	Autotire Car Care Centers	a wholly-owned subsidiary of American Tire Distributors with 26 Autotire locations
6/10/2009	Fiat	Chrysler	transfer of most of Chrysler's assets and some of its liabilities to the Fiat-led group. Unwanted assets, mostly idled plants and surplus properties, will remain in Chapter 11
6/8/2009	New Life Transport Parts Center	Trailmobile Parts	exclusive rights to the distribution of Trailmobile's aftermarket repair parts in North America
5/5/2009	Bienes Turgon	Delphi	assets and shares related to the company's global exhaust business including locations in Blonie, Poland; Clayton, Australia; Port Elizabeth, South Africa; joint venture interests in Monterrey, Mexico; technical centers in Auburn Hills, Mich. USA; and Bascharage, Luxembourg.
5/1/2009	Kelly Capital	Earl Scheib	operator of 85 automotive paint and collision repair shops across the United States and manufactures paint coating systems that are used, not only by its paint and collision repairshops, but also sold to OEMs and used by architectural construction firms
4/6/2009	Kinderhook Industries	BedRug	BedRug, a division of Wise Industries Inc., a manufacturer of truck bed and van protection products.
3/30/2009	FleetPride	Pro Truck and Trailer Supply	a 21,000 square foot retail and warehouse facility in Lubbock, Texas
3/27/2009	Cerion LLC	Precision Parts International	a global leader in fineblanking and complimentary value-added finishing technology, enabling it to supply precision components to customers in the automotive, industrial HVAC and fluid control industries, and a highly-respected stamping company serving the automotive, trucking, industrial and consumer markets.
3/26/2009	Fisher Auto Parts	Robbins Auto	12 stores and a centralized distribution center which has served New Hampshire, northern Massachusetts and southern Maine for more than 75 years.
3/3/2009	General Motors	Delphi	Delphi's steering division

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Opportunity growth

Despite the changing investment landscape within the industry, last year's recession left not nearly as big of an impact on the aftermarket as it did on other industries. But still, what little recovery was needed for the aftermarket to regain stable footing is already in motion.

"As a caveat that we can't tell the future, certainly if the economy, if the industry continues to grow as we've seen it grow very recently, as we talk to a lot of folks out there, we seem to, in the last two to three months, have begun to see signs of recovery. Some call it green shoots — the first signs of coming back to a thriving environment. We are cautiously optimistic about the future," Payne says.

Faltering new automotive sales have driven the aftermarket through dollars spent on repair and maintenance — services that will always be in demand, says Kristin Newhall, partner with the Riverside Company, a global private equity firm.

The increased presence of the Internet in the supply chain and its impact on efficiency throughout the distribution and procurement area will also prove to be a dramatic factor in improving the aftermarket, she says.

The continued enhancement of vehicle technology sophistication, globalization and new and growing segments in the aftermarket have all allowed new opportunities to come to the surface, Carey says.

Proceeding with caution

But not everyone is so optimistic on the stability and future of the aftermarket. While the recession has boosted the aftermarket in the short-term, not all long-

term effects are promising, says Jon Vander Ark, a consultant with the automotive and assembly sector at consulting firm McKinsey & Co.

"As people have stopped buying cars and are driving their cars longer, they end up in the sweet spot for automotive repair. So it helps in the short term," he says.

"Conversely, it hurts over a 5-7 year period. The number of cars sold was 17 million a few years ago, and this year it will be probably 10 million. There are fewer vehicles that will be moving through the funnel 5-7 years from now into their prime service years."

Vander Ark also predicts a reduction in market demand and increased competition.

"People are looking to the aftermarket as a source of profitable growth, so you are getting increased competition," he says. "There is a real consumer trend for store brands in the market, and I think there is a real shift toward the independent market away from dealers as a broad class, so lots of dynamics are changing in the market."

But how these changes will play out and the impact they will have on the industry will be different in each segment.

"What does this mean in terms of investment? It depends because you are talking about a \$200 billion-plus industry, so I think some areas will be challenged and some areas will be attractive," Vander Ark says.

"For the core activist investors, this is a fairly interesting time to think about investing in the aftermarket," he says.

Whether the optimistic or pessimistic predictions prove true in the end will remain to be seen, but one thing is certain — industry change and evolution remains a certainty for the future.

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.

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

Company	Price as of 7/31/09	Enterprise Value				Enterprise Value (1)	Last Twelve Months (LTM)		
		Market Cap	Debt	Cash	LTM Date		Revenue	EBITDA	Net Income
Manufacturers									
Federal-Mogul Corporation	\$14.13	\$1,404.6	\$2,862.2	\$687.3	\$3,636.5	6/30/09	\$5,553.1	\$381.6	(\$239.3)
Aftermarket Technology Corp.	20.92	415.3	70.0	99.0	386.3	6/30/09	497.3	69.3	22.7
Tenneco Automotive, Inc.	16.37	773.4	1,587.0	113.0	2,251.6	3/31/09	5,323.0	282.0	(394.4)
Dorman Products, Inc.	16.37	288.9	7.9	4.7	300.7	3/31/09	348.6	38.8	19.7
Standard Motor Products, Inc.	11.17	211.8	184.3	11.0	385.1	3/31/09	739.4	30.4	(0.4)
Wholesalers & Distributors									
Genuine Parts Company	\$35.42	\$5,647.6	\$500.0	\$133.3	\$6,014.3	3/31/09	\$10,720.3	\$841.9	\$441.0
LKQ Corporation	17.94	2,515.2	638.6	92.8	3,182.6	3/31/09	1,963.4	240.6	106.3
The Coast Distribution System, Inc.	2.10	9.3	20.3	0.5	29.1	3/31/09	116.0	(1.9)	(1.9)
Retailers									
Autozone, Inc.	\$153.57	\$8,251.9	\$2,405.9	\$94.3	\$10,762.5	5/9/09	\$6,663.6	\$1,332.4	\$656.7
Advance Auto Parts, Inc.	46.23	4,403.0	280.1	50.9	4,668.9	4/25/09	5,299.8	575.3	249.5
O'Reilly Automotive, Inc.	40.66	5,515.8	791.0	37.4	6,443.1	3/31/09	4,094.1	482.1	209.6
The Pep Boys - Manny, Moe & Jack	9.93	519.4	334.0	21.3	832.0	5/2/09	1,926.2	64.5	(25.6)
US Auto Parts Network, Inc.	4.41	131.6	0.0	33.9	97.7	3/31/09	153.1	(18.6)	(16.7)

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
Manufacturers									
Federal-Mogul Corporation	0.7x	80.8x	9.5x	30.0x	NM	NM	14.7%	6.9%	NM
Aftermarket Technology Corp.	0.8x	7.0x	5.6x	6.1x	17.0x	18.3	22.0%	13.9%	4.6%
Tenneco Automotive, Inc.	0.4x	35.7x	8.0x	29.6x	NM	NM	14.3%	5.3%	NM
Dorman Products, Inc.	0.9x	9.7x	7.8x	9.7x	15.3x	14.7	32.7%	11.1%	5.6%
Standard Motor Products, Inc.	0.5x	24.9x	12.7x	18.0x	NM	NM	23.5%	4.1%	NM
Mean	0.6x	31.6x	8.7x	18.7x	16.1x	16.5x	21.4%	8.3%	5.1%
Median	0.7x	24.9x	8.0x	18.0x	16.1x	16.5x	22.0%	6.9%	5.1%
Wholesalers & Distributors									
Genuine Parts Company	0.6x	8.0x	7.1x	8.1x	13.6x	12.8	29.7%	7.9%	4.1%
LKQ Corporation	1.6x	15.5x	13.2x	17.7x	29.9x	23.7	44.1%	12.3%	5.4%
The Coast Distribution System, Inc.	0.3x	NM	NM	NM	NM	NM	18.1%	NM	NM
Mean	0.8x	11.7x	10.2x	12.9x	21.8x	18.2x	30.7%	10.1%	4.8%
Median	0.6x	11.7x	10.2x	12.9x	21.8x	18.2x	29.7%	10.1%	4.8%
Retailers									
Autozone, Inc.	1.6x	9.3x	8.1x	9.9x	16.4x	12.6	50.1%	20.0%	9.9%
Advance Auto Parts, Inc.	0.9x	10.9x	8.1x	11.7x	18.7x	17.6	48.3%	10.9%	4.7%
O'Reilly Automotive, Inc.	1.6x	17.2x	13.4x	133.2x	30.7x	26.3	46.0%	11.8%	5.1%
The Pep Boys - Manny, Moe & Jack	0.4x	NM	12.9x	26.8x	NM	NM	24.2%	3.4%	NM
US Auto Parts Network, Inc.	0.6x	NM	NM	NM	NM	NM	34.9%	NM	NM
Mean	1.1x	12.5x	10.6x	45.4x	21.9x	18.8x	40.7%	11.5%	6.6%
Median	1.2x	10.9x	10.5x	19.3x	18.7x	17.6x	47.1%	11.3%	5.1%

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful