

the aftermarket analyst

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

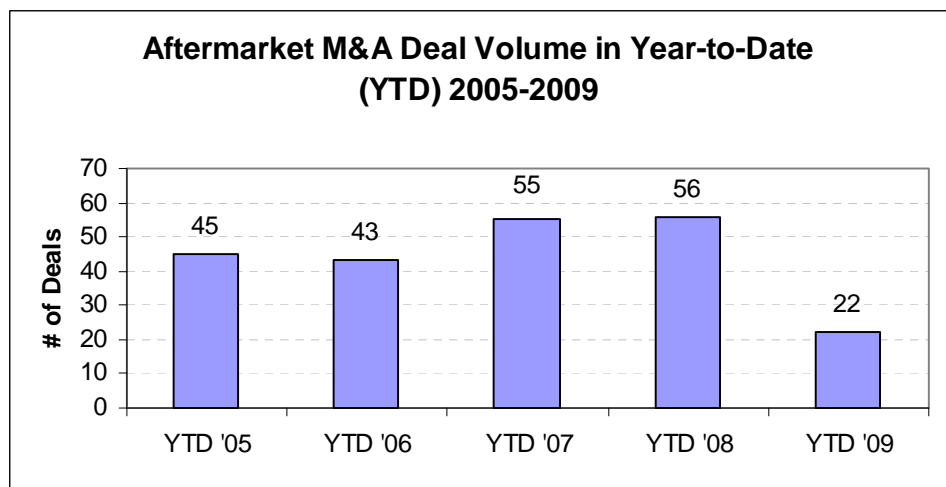
First Six Months of 2009: Deal Flow Shifts; Options Exist

Overview

During the past year, we have seen a vast increase in bankrupt or underperforming aftermarket companies that are being sold out of necessity. This distressed M&A is growing rapidly, while “healthy” automotive M&A has reached a virtual standstill. This is evident when looking at merger and acquisition activity through the first half of 2009 (see graph). During this period, there were 22 recorded transactions in the automotive aftermarket representing a 60.8% decline year-over-year from 2008’s record 56 transactions over the same six-month period. Of the 22 recorded transactions, 15 were distressed buyouts. Many strategic buyers are taking advantage of decreased valuations to grow via acquisition.

Minority Deals Abound

Minority investments are becoming much more popular and necessary in the present economy. This type of transaction is not counted in the deal volume noted above. Many private equity groups are unable to secure financing for a leveraged deal, so instead of sitting on the \$400 billion of equity they have, purchasing a minority interest becomes an attractive option. Many companies are open to selling small



stakes in this economy because it provides owners much needed capital while allowing them to maintain control of the business. Additionally, many aftermarket companies are ridden with debt, and banks have been unwilling to extend further credit. With an inability to secure debt and diminishing revenues, minority investments are an increasingly popular way to increase equity.

Minority investments are increasingly prominent across all industry sectors, but they fit particularly well with the automotive aftermarket. If the investment turns promising, a strategic investor holding a minority interest is well-positioned for an add-on acquisition. A minority investment is also a good way for a private

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RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor(s)	Target	Target Description
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 repair shops, 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
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

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equity fund with little experience in the aftermarket to acclimate to the unique field while the experienced seller retains control

Debt with Equity

An additional option available to many aftermarket businesses is a combination of debt and equity. There are a number of different debt/equity structures, but some of the most popular involve subordinated debt. Sub debt is “junior” to a company’s secured debt and usually has an interest rate of 4 points to 8 points higher than secured debt. An equity “kicker” is sometimes used to sweeten the deal for an investor and may take a host of forms including “traditional” equity, warrants, or preferred stock. The differences in these equity structures are driven by a company’s overall capital structure and potential for future earnings. For example, “traditional” equity for privately held companies is a straight percentage ownership in the business. Company A is valued at \$50 million dollars with Investor B interested in making a \$5 million investment. Investor B would own a 10% equity stake in the business.

Warrants provide the debt holder an opportunity to invest in the business at a later date for a previously determined price. An example would be an agreement that entitles the debt holder to purchase 10% of the business for \$5 million dollars at the end of five years. If the business is performing well and doubles in value to \$100 million dollars over the five year period, the Investor would be inclined to exercise the warrant, thus obtaining \$10 million in value for the discounted \$5 million. A warrant would not be exercised in a scenario where the company’s value had diminished

below \$50 million at the end of the fifth year. This equity “kicker” allows investors to benefit from the potential upside of a particular business while mitigating its downside risk.

Both underperforming companies and healthy companies have a host of options available to them in today’s market. Underperforming companies dominate today’s buyouts as strategic buyers and some private equity groups seek out discounts in the current market. Healthy companies are accessing capital in the forms of minority investments and debt with an equity component.

Help is Out There

Automotive companies looking to the capital markets have found it increasingly difficult to navigate without professional assistance. Until 12 months ago, investment banks utilizing a one-size fits all approach for their aftermarket clients were generally not overly harmful. However, all facets of the capital markets have changed dramatically in the last year. It is now more important than ever to find an investment bank that has aftermarket expertise and strong connections to the industry’s buyers and lenders.

Investment banks don’t charge for initial consultations and their process should include:

- Evaluating the company’s performance, market opportunities and capital structure;
- Exploring strategic alternatives for the company;
- Presenting the company with appropriate strategic alternatives and their timeline;
- Recommending the strategy that best fits the goals of the company and shareholders; and
- Successfully executing the selected strategy.

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	Enterprise Value					Last Twelve Months (LTM)			
	Price as of 6/30/09	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
Manufacturers									
Federal-Mogul Corporation	\$9.45	\$939.4	\$2,865.6	\$663.7	\$3,141.3	3/31/09	\$6,243.9	\$532.1	(\$154.8)
Aftermarket Technology Corp.	14.50	286.7	70.0	82.1	274.6	3/31/09	514.5	67.5	24.9
Tenneco Automotive, Inc.	10.60	500.8	1,587.0	113.0	1,974.8	3/31/09	5,323.0	282.0	(394.4)
Dorman Products, Inc.	13.83	244.1	7.9	4.7	253.8	3/31/09	348.6	38.8	19.7
Standard Motor Products, Inc.	8.27	156.8	184.3	11.0	330.1	3/31/09	739.4	30.4	(0.4)
Wholesalers & Distributors									
Genuine Parts Company	\$33.56	\$5,351.0	\$500.0	\$133.3	\$5,717.7	3/31/09	\$10,720.3	\$841.9	\$441.0
LKQ Corporation	16.45	2,306.3	638.6	92.8	2,959.5	3/31/09	1,963.4	240.6	106.3
The Coast Distribution System, Inc.	2.41	10.7	20.3	0.5	30.5	3/31/09	116.0	(1.9)	(1.9)
Retailers									
Autozone, Inc.	\$151.11	\$8,119.7	\$2,405.9	\$94.3	\$10,622.6	5/9/09	\$6,663.6	\$1,332.4	\$656.7
Advance Auto Parts, Inc.	41.49	3,951.6	280.1	50.9	4,203.4	4/25/09	5,299.8	575.3	249.5
O'Reilly Automotive, Inc.	38.08	5,165.8	791.0	37.4	6,064.0	3/31/09	4,094.1	482.1	209.6
The Pep Boys - Manny, Moe & Jack	10.11	528.8	334.0	21.3	841.5	5/2/09	1,926.2	64.5	(25.6)
US Auto Parts Network, Inc.	3.77	112.5	0.0	33.9	78.6	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	0.5x	16.2x	5.9x	13.6x	NM	NM	16.3%	8.5%	NM
Aftermarket Technology Corp.	0.5x	5.2x	4.1x	4.6x	11.0x	11.5	21.3%	13.1%	4.8%
Tenneco Automotive, Inc.	0.4x	31.3x	7.0x	26.0x	NM	NM	14.3%	5.3%	NM
Dorman Products, Inc.	0.7x	8.1x	6.5x	8.2x	12.9x	12.4	32.7%	11.1%	5.6%
Standard Motor Products, Inc.	0.4x	21.3x	10.9x	15.4x	NM	NM	23.5%	4.1%	NM
Mean	0.5x	16.4x	6.9x	13.5x	12.0x	12.0x	21.6%	8.4%	5.2%
Median	0.5x	16.2x	6.5x	13.6x	12.0x	12.0x	21.3%	8.5%	5.2%
Wholesalers & Distributors									
Genuine Parts Company	0.5x	7.6x	6.8x	7.7x	13.0x	12.1	29.7%	7.9%	4.1%
LKQ Corporation	1.5x	14.4x	12.3x	16.4x	27.8x	21.7	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	11.0x	9.5x	12.1x	20.4x	16.9x	30.7%	10.1%	4.8%
Median	0.5x	11.0x	9.5x	12.1x	20.4x	16.9x	29.7%	10.1%	4.8%
Retailers									
Autozone, Inc.	1.6x	9.2x	8.0x	9.8x	16.2x	12.4	50.1%	20.0%	9.9%
Advance Auto Parts, Inc.	0.8x	9.8x	7.3x	10.5x	16.8x	15.8	48.3%	10.9%	4.7%
O'Reilly Automotive, Inc.	1.5x	16.2x	12.6x	125.3x	28.9x	24.6	46.0%	11.8%	5.1%
The Pep Boys - Manny, Moe & Jack	0.4x	NM	13.0x	27.1x	NM	NM	24.2%	3.4%	NM
US Auto Parts Network, Inc.	0.5x	NM	NM	NM	NM	NM	34.9%	NM	NM
Mean	1.1x	11.7x	10.2x	43.2x	20.6x	17.6x	40.7%	11.5%	6.6%
Median	1.1x	9.8x	10.3x	18.8x	16.8x	15.8x	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