

# the aftermarket analyst

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

## Aftermarket M&A Continues to Rebound Through June 2011

Auto aftermarket merger and acquisition increased in 2011 with 46 total transactions in the year-to-date (YTD) period ending June 30, 2011. This represents a 28 percent increase over the same period in 2010. However, the market is still recovering from the “Great Recession” and has yet to recover to the record levels of 2007 and 2008. The third and fourth quarter of 2011 should be very active as financial buyers are paying premiums due to the lower cost of financing. Many sellers have opted to move their deals up a year or two. These sellers have decided that the premiums being paid in today’s market outweighs increased earnings at potentially lower multiples in the future.

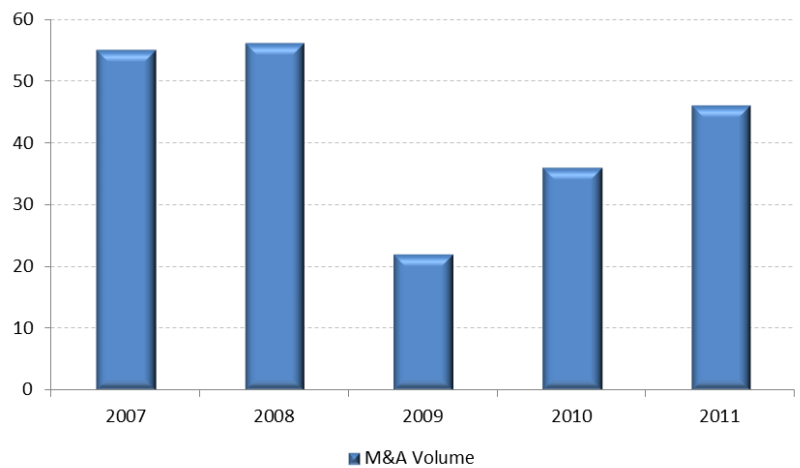
The auto aftermarket continues to see significant industry consolidation. Strategic buyers continued to dominate the deal space in 2011, although private equity buyers are beginning to take advantage of an easing credit market that is helping them consummate transactions (see graph to right).

Strategic buyers, relatively immune to the credit crunch, have completed 37 transactions through June 30, 2011. By comparison, through the first six months of 2009 and 2010, strategic buyers were involved in 17 transactions and 30 transactions, respectively. With increasing stock prices, strategic buyers have closed more deals.

Private equity groups have seen a 50% increase in completed transactions in 2011, with nine completed deals in the first six months of the year. It is important

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Aftermarket Deal Volume  
Year-to-Date (YTD) 2007-2011



Aftermarket Deal Volume by Buyer Type  
Year-to-Date (YTD) 2007-2011



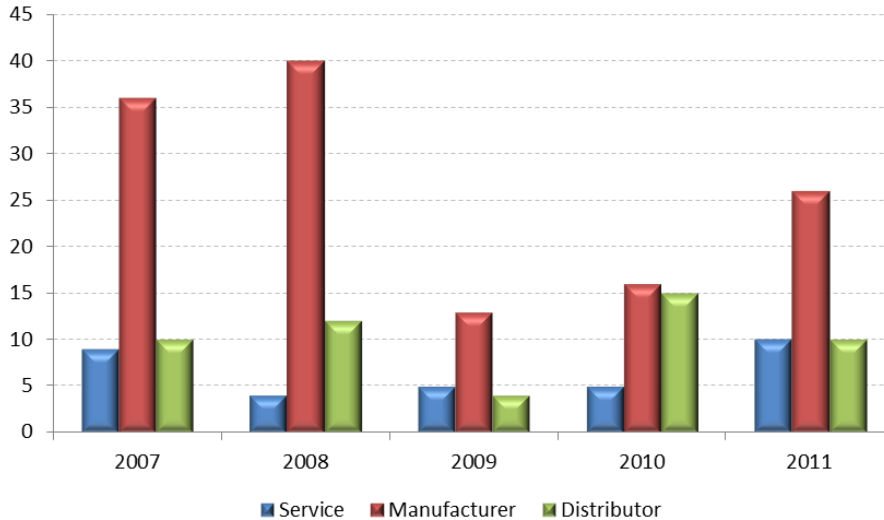
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## RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor(s)	Target	Target Description
5/16/2011	Apax Partners	Epicor/Activant	intends to combine Activant with Epicor to create one of the largest global providers of enterprise applications focused on the manufacturing, distribution, retail and service sectors.
5/16/2011	Amerigon, Inc.	W.E.T. Automotive Systems	a German company that focuses on thermal seat comfort
5/16/2011	Jasper Engine & Transmission	Canam Marketing Corp.	provides vehicle maintenance parts and supplies for LLV, FFV, Windstar, Uplander and other USPS delivery vehicles
5/15/2011	The Gores Group & Management	Sage Automotive Interiors	a Greenville-based manufacturer and wholesaler of automotive bodycloth and headliners
5/5/2011	Motorcar Parts of America	Fenwick Automotive Products Limited	manufactures and distributes new and remanufactured parts, including steering components, brake calipers, master cylinders, hub assembly and bearings, clutches and clutch hydraulics, constant velocity drive shafts, water pumps, control arms and loaded struts for the full range of passenger and truck vehicles in use in the markets it serves
5/5/2011	Pep Boys	Big 10 Tire Stores Inc.	85-store Big 10 Tire Chain in the southeast
5/3/2011	FleetPride	Midway Truck Parts	includes 13 Midway Truck Parts locations in Illinois and one in St. Louis, Mo. Four of the Illinois locations also offer drive-in service
5/2/2011	Global Tube	Cummins (exhaust business)	includes what were formerly Cummins exhaust operations in Stoughton, Arcadia, Black River Falls and Viroqua, all in Wisconsin, and in Scoresby, Australia and Daman, India.
4/29/2011	Eigen Capital	Plews & Edelmann	a leading designer, manufacturer and distributor of a broad range of automotive parts and tools sold to the vast majority of mass merchant and retail auto parts stores and wholesale automotive parts and industrial distribution outlets, worldwide.
4/27/2011	Standard Motor Products	BLD Products Ltd., (subsidiary of Qualitor Inc.)	the Engine Controls business of BLD Products Ltd. BLD has plants in Holland, Mich., and Ocala, Fla., and manufactures a range of products including fuel pressure regulators, air by-pass valves, idle air control valves and PCV valves.
4/19/2011	Continental AG	Modi Tyre	tire producer for the Indian market
4/12/2011	FleetPride	Cimarron Truck Parts/Oklahoma Truck Supply	both companies were previously owned by East Tulsa Truck Parts and Equipment, Inc., with these acquisitions, FleetPride now owns and operates six locations in Oklahoma
4/5/2011	Flexitech	Trelleborg	Trelleborg's light vehicle brake host operations
4/4/2011	Carlex Glass America	Zeledyne	a float glass manufacturing and automotive windshield fabricating plant in Nashville and an automotive replacement glass distribution business in Lebanon, Tenn
3/31/2011	Platinum Equity	Keystone Automotive Operations	(majority stake) wholesale distributors and retailers of aftermarket automotive accessories and equipment, with operations servicing customers in all regions of the United States and provinces of Canada, as well as various other international locations

### Aftermarket Deal Volume by Seller Type Year-to-Date (YTD) 2007-2011



Distribution deals declined this year. In the year-to-date 2011 period, distribution deals accounted for 22 percent of total transactions as compared to 42 percent last year.

Service and repair deals reflected a large increase over last year — accounting for 22 percent of transactions in 2011 versus 11 percent in 2010.

### M&A Outlook for Remainder of 2011

(Continued from page 1)

to note that six of the private equity transactions occurred in the last three months indicating a “return” to the automotive aftermarket. While these financial buyers will likely fall short of their historical average of annual transactions, easing of the credit markets bodes well for a continued strong return.

### Deals by Seller Type

Manufacturers continued to account for the largest percentage of auto aftermarket M&A transactions this year (see chart above). In the year-to-date period, 26 manufacturing targets were acquired — which is a significant increase from last year. In all, manufacturing targets accounted for 57 percent of total aftermarket transactions as compared to 44 percent in the same period last year.

2011 is shaping up to be a strong year for auto aftermarket M&A. The driving forces for continued aftermarket M&A growth are the consolidating nature of the industry, the solid fundamentals of the DIFM segment, and access to capital for private equity groups. We expect a surge of activity for the remainder of the year as Private Equity is sitting on \$500 billion. Additionally, strategic acquirers will continue to benefit from rising stock prices for the year to date.

The sellers market should continue for the remainder of 2011 with significant premiums being paid for quality businesses. Owners that are considering a sale in the next 36 months should consider acting sooner, rather than later, as private equity is flush with cash and eager to put it to work.

### 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.

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

Company	Enterprise Value					Last Twelve Months (LTM)			
	Price as of 6/30/11	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
<b>Manufacturers</b>									
Federal-Mogul Corporation	\$22.95	\$2,269.9	\$2,831.0	\$1,015.0	\$4,177.9	3/31/11	\$6,454.0	\$626.0	\$185.4
Tenneco Automotive, Inc.	45.44	2,747.2	1,331.0	199.0	4,038.5	3/31/11	6,381.0	537.0	79.0
Dorman Products, Inc.	40.54	704.6	4.2	34.1	699.4	3/25/11	481.1	86.3	48.9
Standard Motor Products, Inc.	15.63	357.1	72.7	13.6	417.1	3/31/11	851.8	67.2	30.7
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	\$55.46	\$8,725.0	\$500.0	\$465.9	\$8,856.7	3/31/11	\$11,579.7	\$905.9	\$501.4
LKQ Corporation	26.74	3,901.0	559.3	64.5	4,563.0	3/31/11	2,653.0	374.0	185.9
The Coast Distribution System, Inc.	2.95	13.4	20.0	1.0	32.4	3/31/11	109.2	0.6	(0.9)
<b>Retailers</b>									
Autozone, Inc.	\$297.62	\$12,369.2	\$3,171.1	\$100.4	\$15,976.6	5/7/11	\$7,876.1	\$1,639.0	\$816.4
Advance Auto Parts, Inc.	59.10	4,731.6	431.8	53.7	5,235.7	4/23/11	5,992.7	756.0	346.2
O'Reilly Automotive, Inc.	66.21	9,128.4	498.8	230.0	9,782.4	3/31/11	5,500.2	922.1	445.8
The Pep Boys - Manny, Moe & Jack	11.29	594.7	295.9	100.4	795.5	4/30/11	1,992.1	156.2	35.9
US Auto Parts Network, Inc.	7.65	233.7	22.2	18.9	236.9	3/31/11	293.0	9.4	(15.7)

**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	0.6x	13.7x	6.7x	13.0x	22.5x	12.2	16.0%	9.7%	2.9%
Tenneco Automotive, Inc.	0.6x	12.4x	7.5x	10.7x	51.1x	34.8	17.1%	8.4%	1.2%
Dorman Products, Inc.	1.5x	8.9x	8.1x	9.8x	14.3x	14.4	37.5%	17.9%	10.2%
Standard Motor Products, Inc.	0.5x	7.8x	6.2x	7.4x	13.6x	11.6	25.5%	7.9%	3.6%
<b>Mean</b>	<b>0.8x</b>	<b>10.7x</b>	<b>7.1x</b>	<b>10.2x</b>	<b>25.4x</b>	<b>18.3x</b>	<b>24.0%</b>	<b>11.0%</b>	<b>4.5%</b>
<b>Median</b>	<b>0.6x</b>	<b>10.7x</b>	<b>7.1x</b>	<b>10.2x</b>	<b>18.4x</b>	<b>13.3x</b>	<b>21.3%</b>	<b>9.1%</b>	<b>3.2%</b>
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	0.8x	10.9x	9.8x	10.9x	17.7x	17.4	28.9%	7.8%	4.3%
LKQ Corporation	1.7x	13.8x	12.2x	14.9x	24.5x	21.0	43.5%	14.1%	7.0%
The Coast Distribution System, Inc.	0.3x	NM	53.3x	88.6x	NM	NM	17.0%	0.6%	NM
<b>Mean</b>	<b>0.9x</b>	<b>12.3x</b>	<b>25.1x</b>	<b>38.1x</b>	<b>21.1x</b>	<b>19.2x</b>	<b>29.8%</b>	<b>7.5%</b>	<b>5.7%</b>
<b>Median</b>	<b>0.8x</b>	<b>12.3x</b>	<b>12.2x</b>	<b>14.9x</b>	<b>21.1x</b>	<b>19.2x</b>	<b>28.9%</b>	<b>7.8%</b>	<b>5.7%</b>
<b>Retailers</b>									
Autozone, Inc.	2.0x	11.1x	9.7x	12.3x	19.6x	15.2	50.8%	20.8%	10.4%
Advance Auto Parts, Inc.	0.9x	8.9x	6.9x	9.9x	15.1x	13.7	50.2%	12.6%	5.8%
O'Reilly Automotive, Inc.	1.8x	12.8x	10.6x	17.7x	21.9x	20.5	48.6%	16.8%	8.1%
The Pep Boys - Manny, Moe & Jack	0.4x	9.9x	5.1x	9.9x	22.2x	16.6	26.1%	7.8%	1.8%
US Auto Parts Network, Inc.	0.8x	NM	25.2x	NM	NM	NM	34.2%	3.2%	NM
<b>Mean</b>	<b>1.3x</b>	<b>10.7x</b>	<b>11.5x</b>	<b>12.4x</b>	<b>19.7x</b>	<b>16.5x</b>	<b>42.0%</b>	<b>12.2%</b>	<b>6.5%</b>
<b>Median</b>	<b>1.3x</b>	<b>10.5x</b>	<b>9.7x</b>	<b>11.1x</b>	<b>20.8x</b>	<b>15.9x</b>	<b>49.4%</b>	<b>14.7%</b>	<b>6.9%</b>

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful