

the aftermarket analyst

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

Distressed M&A

While Companies face financial distress for a variety of reasons, all distressed companies face the same host of issues: they are unable to pay their debts in a timely fashion, the value of the business is deteriorating, and there are significant questions about the viability of the business as a going concern. In such Special Situations, businesses face a host of legal and financial restructuring issues as they seek to identify time-sensitive strategic alternatives. With the help of effective advisors experienced in distressed situations, shareholders can work with the company's creditors to successfully facilitate a consensual resolution that can maximize recoveries.

Often that consensual resolution may involve a sale of all or a portion of the business in an efficient and orderly way that preserves going-concern value and avoids the loss of substantial value brought about in a liquidation.

Typically, distressed M&A candidates face many of the following challenges:

- Changing industry conditions;
- Declining operating performance and cash flow;
- Significant liquidity constraints;
- Stretched payables;
- Total debt exceeding enterprise value;
- Covenant defaults on debt instruments;

- Senior lenders restricting access to capital;
- Limited access to new capital; and
- The commencement of bankruptcy proceedings.

Differences in Distressed M&A

There are key distinctions in a distressed M&A process. Because of these differences, the successful distressed M&A advisor must possess unique qualifications in order to effectively create and execute the transaction. Five of the more significant differences in a distressed M&A process are discussed below.

Experience with Potential Buyers—Many buyers view a struggling company's distress as an opportunity to gain an upper hand in bargaining and purchase assets at a fraction of their value. The distressed M&A advisor must know the market of potential buyers very well to assist the stakeholders in selecting a buyer that is the most credible, has the least execution risk, and is least likely to attempt to re-negotiate the transaction late in the process. This understanding of the buyer universe must also be used to create the kind of competitive bidding environment that will maximize value.

Deal Initiation—The sale process is often initiated by one or more creditors anxious to quickly collect from what they perceive to be a deteriorating credit. As described below, speed and effective execution are critical to these creditors, since constrained liquidity is often a major issue threatening the company's survival, and delay

(Continued on page 3)

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.)	FV / Rev.	FV / EBITDA
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.	—	\$30.0	—
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	—	—	—
1/7/2009	Belron US	Cindy Rowe Auto Glass	a prominent vehicle glass repair and replacement brand in the central Pennsylvania area	—	—	—
1/6/2009	FleetPride	E.H. Burrell	a wholesale distributor of parts and accessories for commercial trucks and heavy equipment that serves 1,000 commercial and industrial accounts throughout western Oregon and southwestern Washington State	—	—	—
1/6/2009	Aero Performance Products	Jones Exhaust Products	one of the largest manufacturers of chrome exhaust tips and glasspack mufflers and performance diesel systems in the U.S.	—	—	—
1/5/2009	Speedway Motors	Kentucky Speedway	motorsports facility just south of Cincinnati, Kentucky	—	—	—
12/30/2008	Paul Lee (Individual)	McLeod Industries Inc.	a U.S.-based manufacturer of high-performance automotive clutch assemblies for performance automotive enthusiasts and the auto industry	—	—	—

(Continued from page 1)

could result in values declining precipitously. Additionally, existing creditors are usually reluctant to take on the additional exposure necessary to address the company's liquidity needs. In these situations, the M&A advisor must possess the reputation and credibility with creditors necessary to obtain their support for the sale process.

Speed—To preserve going-concern value, distressed companies must often be sold quickly, before they run out of cash and are forced to cease operations and liquidate. In addition, value can be seriously threatened when operations that are bleeding cash cause overall debt to increase and enterprise value to decline. Accordingly, a distressed M&A advisor must have the resources and experience to move quickly, assess the trade-off between time and value, and advise the various parties accordingly.

Knowledge of the Seller's Industry—The speed required by a distressed M&A transaction does not allow an investment bank to spend several weeks learning about the seller and applicable industry trends. An effective distressed M&A banker must have in-house knowledge of the industry and can immediately identify strategic buyers and equity sponsors that may wish to make an acquisition.

Deal Execution—Although the process of contacting buyers and facilitating due diligence is similar to that of a healthy M&A deal, the investment banking expertise required to facilitate a distressed deal is highly specialized. To manage a distressed company sale process effectively, an M&A banker must:

- Have the relationships, credibility and experience to effectively influence and/or negotiate with numerous parties including secured creditors, key suppliers, shareholders, directors and management;


- Work within the shortened timeframes forced by limited liquidity and manage the process away from a complete meltdown; and
- Articulate distressed company valuation issues to the company's constituents and to prospective buyers.

Capstone is pleased to announce:



a manufacturer of truck bed protection products including
bed liners and bed mats

has been acquired by




the parent company of



and 

The undersigned initiated this transaction
and represented Wise Industries, Inc., the owner of BedRug.



CAPSTONE
FINANCIAL GROUP
www.capfg.com

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	Enterprise Value					Last Twelve Months (LTM)			
	Price as of 3/31/09	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
Manufacturers									
Federal-Mogul Corporation	\$6.68	\$664.0	\$2,869.7	\$888.2	\$2,690.5	12/31/08	\$6,865.6	\$623.4	(\$101.6)
Aftermarket Technology Corp.	11.20	221.5	0.0	17.2	204.3	12/31/08	530.6	72.1	27.7
Tenneco Automotive, Inc.	1.63	76.2	1,451.0	126.0	1,432.2	12/31/08	5,916.0	334.0	(339.4)
Dorman Products, Inc.	9.33	164.6	15.4	5.8	177.1	12/31/08	342.3	36.1	17.8
Standard Motor Products, Inc.	2.75	51.6	89.9	6.6	134.9	12/31/08	775.2	32.7	13.2
Wholesalers & Distributors									
Genuine Parts Company	\$29.86	\$4,761.0	\$500.0	\$67.8	\$5,262.2	12/31/08	\$11,015.3	\$889.0	\$475.4
LKQ Corporation	14.27	1,934.9	642.9	79.1	2,585.4	12/31/08	1,937.3	239.7	105.1
The Coast Distribution System, Inc.	0.93	4.1	17.2	1.9	19.5	12/31/08	132.2	(1.0)	(1.8)
Retailers									
Autozone, Inc.	\$162.62	\$8,894.2	\$2,690.8	\$108.0	\$11,704.0	2/14/09	\$6,654.0	\$1,316.0	\$649.6
Advance Auto Parts, Inc.	41.08	3,902.6	456.2	37.4	4,342.8	12/31/08	5,142.3	561.5	238.0
O'Reilly Automotive, Inc.	35.01	4,654.7	0.0	0.0	4,764.7	12/31/08	3,576.6	443.0	193.1
The Pep Boys - Manny, Moe & Jack	4.38	228.3	332.6	38.4	522.5	11/1/08	1,979.9	59.8	(28.5)
US Auto Parts Network, Inc.	1.60	47.8	0.0	0.0	47.8	12/31/08	153.4	(21.1)	(16.9)

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									
Federal-Mogul Corporation	0.4x	9.8x	4.3x	8.9x	NM	NM	16.4%	9.1%	NM
Aftermarket Technology Corp.	0.4x	3.6x	2.8x	3.4x	7.4x	8.0	21.6%	13.6%	5.2%
Tenneco Automotive, Inc.	0.2x	12.8x	4.3x	14.2x	NM	NM	14.4%	5.6%	NM
Dorman Products, Inc.	0.5x	6.2x	4.9x	6.2x	9.9x	9.2	32.2%	10.5%	5.2%
Standard Motor Products, Inc.	0.2x	7.5x	4.1x	6.1x	10.2x	3.9	23.8%	4.2%	1.7%
Mean	0.3x	8.0x	4.1x	7.7x	9.2x	7.1x	21.7%	8.6%	4.0%
Median	0.4x	7.5x	4.3x	6.2x	9.9x	8.0x	21.6%	9.1%	5.2%
Wholesalers & Distributors									
Genuine Parts Company	0.5x	6.6x	5.9x	6.7x	11.1x	10.0	29.7%	8.1%	4.3%
LKQ Corporation	1.3x	12.5x	10.8x	15.0x	24.6x	18.4	44.2%	12.4%	5.4%
The Coast Distribution System, Inc.	0.1x	NM	NM	NM	NM	NM	18.6%	NM	NM
Mean	0.7x	9.6x	8.4x	10.8x	17.8x	14.2x	30.8%	10.2%	4.9%
Median	0.5x	9.6x	8.4x	10.8x	17.8x	14.2x	29.7%	10.2%	4.9%
Retailers									
Autozone, Inc.	1.8x	10.2x	8.9x	10.9x	18.0x	13.7	50.1%	19.8%	9.8%
Advance Auto Parts, Inc.	0.8x	10.5x	7.7x	11.5x	18.2x	16.4	47.9%	10.9%	4.6%
O'Reilly Automotive, Inc.	1.3x	14.2x	10.8x	47.0x	24.7x	24.1	45.5%	12.4%	5.4%
The Pep Boys - Manny, Moe & Jack	0.3x	NM	8.7x	19.3x	NM	NM	23.9%	3.0%	NM
US Auto Parts Network, Inc.	0.3x	NM	NM	NM	NM	NM	34.3%	NM	NM
Mean	1.0x	11.6x	9.0x	22.2x	20.3x	18.1x	40.3%	11.5%	6.6%
Median	1.1x	10.5x	8.8x	15.4x	18.2x	16.4x	46.7%	11.7%	5.4%

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful