

the aftermarket analyst

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

“Go On, Take The Money and Run”

- Steve Miller

But you'd better hurry, Steve, because the huge cash hoards out there may only be around for a few more months. The record levels of junk bond issuance late in 2009 has caused the treasuries of Collateralized Loan Obligations (CLOs) to be rife with cash, prompting them to re-enter the financing market along with traditional banks. However, the timing of their tranches dictates that this liquidity won't be around forever.

We have not written extensively about the state of the credit markets over the past 2 years because, frankly, there was very little to write about. 2008 and 2009 were marked by very limited access to credit for the middle market across all industry segments. Loan origination was down 50% from 2008 to 2009. The automotive sector was in a precarious position as there were concerns about the viability of the American automotive manufacturers. This obviously negatively affected companies involved in the automotive aftermarket and OEM channels, making debt even more challenging for them to obtain.

Over the last 6 months, however, the debt markets have begun to thaw. Increasingly optimistic signs of a gradual economic recovery, a flattening out of payment default/bankruptcy rates, and excess liquid assets have persuaded many issuers that the worst of the recession is behind us. Debt issuers have responded by cautiously re-entering the market primarily with larger deals (those in excess of \$15 million EBITDA) as can be seen in the table above.

(Continued on page 3)

Debt Piece	March '10	March '09	Dec. '07
Cash Flow Senior Debt (x EBITDA)	<\$10MM EBITDA 1.5-2.0x >\$15MM EBITDA 2.0-3.0x	1.0-2.0 (non-recap) 1.0x (recap) Less than \$7mm: not available	2.50-3.25x
Total Debt Limit (x EBITDA)	<\$10MM EBITDA 3.0-3.5x >\$15MM EBITDA 3.5-4.5x	3.0-4.0x (non-recap) 2.0-2.5x (recap)	3.5-4.5x
Senior Cash Flow Pricing:	L+2.5%-4.0%	L+5.5%-6.5%	L+3.5%-4.0%
Second Lien Pricing (Average)	L+9%-11%	Almost non-existent	L+6-10%
Subordinated Debt Pricing	16%-19%	16%-19%	13%-17%
Warrants Feature	Requested, not Required	Requested most deals	Potentially
“Story” Receptivity	Available	Limited, but improving	Available

L=LIBOR (London InterBank Offered Rate)
source: SPP's "Leveraged Cash Flow Market at a Glance"

in this issue

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

RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor(s)	Target	Target Description
3/29/2010	The Parts House	Parts Pros Automotive	automotive warehouse in Bradenton, FL.
3/19/2010	FleetPride	Express Truck Parts	this acquisition includes a 10,000-square-foot facility and brings the total number of FleetPride locations in California to 21.
3/5/2010	Autoliv	Visteon	auto parts warehouse/installer in the Albuquerque, N.M., market.
3/4/2010	Parts Plus	B&B Brake and Suspension	Visteon's radar system business
3/3/2010	Genuine Parts Co.	BC Bearing	a family owned bearing and power transmission distributor operating 53 branches throughout western Canada and the northwestern U.S.
2/18/2010	Halfords Group	Nationwide Autocentres	a UK-based independent operator of automotive service centers
2/12/2010	MEMA	OptiCat	electronic parts catalog data repository
2/12/2010	Service Repair Solutions	Auto Point, Inc.	a pioneer of ownership lifecycle management services to automotive retailers
2/12/2010	Great Dane Trailers	Johnson Truck Bodies	leader in the manufacture of insulated fiberglass refrigerated truck bodies and all-electric refrigeration solutions that was founded in 1932 by the Johnson Family
2/12/2010	WAI Global	Lester Catalog	an industry standard catalog, part number and information service provider
2/12/2010	General Automotive Company	Spec, Inc.	a manufacturer of clutches, flywheels and pressure plates for the performance market
2/4/2010	International Automotive Components Group (IAC)	Stankiewicz International Corp.	a U.S. subsidiary of Gimotive GmbH, manufactures flooring systems, dash insulators and trunk systems
2/3/2010	Uni-Select	Automotive Information Management Inc.	a program distribution group which offers a membership program that grants access to preferred purchase terms offered by selected manufacturers.
2/3/2010	Klarius Group Limited	Affinia Group - Quinton Hazell	a diverse aftermarket manufacturer and distributor of automotive components throughout Europe
1/29/2010	The Gonher Group	Mighty Distributing System of America	a franchisor of sales and service operations in the automotive aftermarket. Mighty oversees 110 franchisees and company operations in 43 states.
1/28/2010	Autoliv	Delphi	Delphi's Occupant Protection Systems (OPS) operations in Korea and China
1/27/2010	Fisher Auto Parts	Crystal Lake Pit Stop	headquartered in Crystal Lake, Ill., was founded in 1977 and joined the Federated Auto Parts programmed distribution group in 1999
1/15/2010	Owner Resource Group	Global Parts Distributors	distributes components for AC and radiator units to parts warehouses, retail chains, mass-market retailers and repair shops
1/6/2010	Zep, Inc.	Amrep Inc	maintenance chemicals for the automotive aftermarket as well as the janitorial market sold through distributors
12/31/2009	Shoreview Industries	Twinco Romax	manufacturer and distributor of automotive fluids and related products
12/22/2009	Atlas Copco Tools	Quincy Compressor	designs and manufactures reciprocating compressors, rotary screw compressors and vacuum pumps, primarily under the Quincy brand

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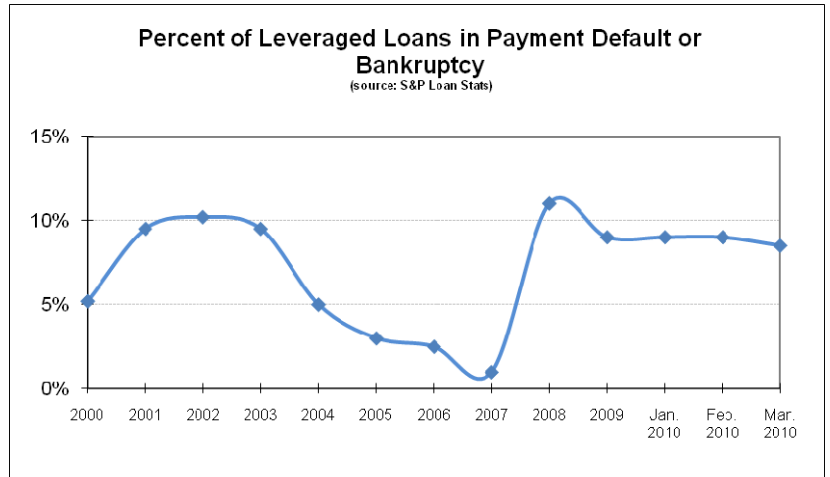
Highlights of these new credit market conditions include:

Senior Asset Based Market: Greater Supply, Less Demand

- Great demand for new assets as large issuers return “en masse” to the bond markets and cash flow syndicated facilities
- Pricing at LIBOR +2.75% - 3.75% for stable credits;
 - ◇ LIBOR +3.50% - 4.50% for “storied” credits
- Return to more asset based analysis, and less focus on credit
- Three to four-year maturities most common.

Senior Cash Flow Market: Greater Liquidity for Larger Credits

- Market is increasingly competitive with respect to pricing, maturities, and structure for credits with more than \$15MM EBITDA. (Less liquidity in March for smaller credits)
- Increased participation by non-bank commercial lenders, adding competitive pressure throughout the market;
 - ◇ Again, non-bank commercial lenders not actively bidding sub \$10MM EBITDA business
- Sr. Debt/EBITDA tolerances increasing for middle mid market: 2.0x - 3.00x
 - ◇ 2.5 - 3.50x for larger issuers (\$50MM+ EBITDA)
- Total Debt/EBITDA tolerances of 3.50 - 4.25x
 - ◇ Larger credits (EBITDA over \$50MM) potentially getting one additional turn;
- Pressure on pricing throughout the market
 - ◇ For larger mid market deals: L+2.25% - 4.00%



Mezzanine Market: Significant Competition for Deals

- Liquidity in market approaching mid-2007 levels
- Pricing remains firmly entrenched in the 16%-19% range for subordinated notes
 - ◇ Most >\$15mm deals pricing 16%-17%
- Leverage tolerances in excess of 4X are common

With the thawing of the credit markets, we have seen a resurgence in M&A activity. Private equity groups which have been on the sidelines for much of the past 2 years have re-entered the market as debt capital becomes more readily available. Additionally, Private Equity has been stockpiling cash over this period and needs to find a home for this liquidity. For companies with excess of \$10 million in EBITDA, the market has almost fully returned as compared to late 2007. For companies with smaller EBITDAs, we expect continuing favorable debt markets in the months ahead as the economy stabilizes. After a challenging 2008 and 2009, M&A activity is poised for a rebound in 2010.

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)			Net Income
	Price as of 3/31/10	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	
Manufacturers									
Federal-Mogul Corporation	\$18.36	\$1,815.9	\$2,857.0	\$1,034.0	\$3,714.9	12/31/09	\$5,330.0	\$380.0	(\$13.3)
ATC Technology Corporation	17.16	344.2	0.0	73.8	270.3	12/31/09	485.0	82.5	37.8
Tenneco Automotive, Inc.	23.65	1,120.9	1,468.0	137.0	2,505.3	12/31/09	4,535.0	242.0	(312.4)
Dorman Products, Inc.	18.36	324.7	0.4	10.6	323.0	12/31/09	377.4	51.5	26.5
Standard Motor Products, Inc.	9.92	224.0	76.4	10.6	289.8	12/31/09	735.4	44.9	10.4
Wholesalers & Distributors									
Genuine Parts Company	\$42.24	\$6,703.7	\$500.0	\$336.8	\$6,883.3	12/31/09	\$10,057.5	\$761.4	\$399.6
LKQ Corporation	20.30	2,679.3	603.0	108.9	3,280.6	12/31/09	2,047.9	272.0	128.7
The Coast Distribution System, Inc.	4.01	17.8	9.7	5.6	22.0	12/31/09	103.2	1.7	0.1
Retailers									
Autozone, Inc.	\$166.14	\$8,223.3	\$2,739.5	\$79.6	\$11,091.9	11/21/09	\$6,927.8	\$1,380.8	\$669.0
Advance Auto Parts, Inc.	41.92	3,867.6	204.3	100.0	4,007.3	1/2/10	5,412.6	605.3	270.4
O'Reilly Automotive, Inc.	41.71	5,737.9	790.7	26.9	6,649.0	12/31/09	4,847.1	680.5	307.5
The Pep Boys - Manny, Moe & Jack	9.56	501.4	307.3	39.3	771.8	1/30/10	1,910.9	126.4	23.4
US Auto Parts Network, Inc.	7.52	225.3	0.0	26.3	199.1	12/31/09	176.3	9.8	1.3

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	70.1x	9.8x	18.2x	NM	NM	14.9%	7.1%	NM
ATC Technology Corporation	0.6x	3.9x	3.3x	3.7x	7.2x	9.1	24.4%	17.0%	7.8%
Tenneco Automotive, Inc.	0.6x	96.4x	10.4x	21.8x	NM	NM	15.5%	5.3%	NM
Dorman Products, Inc.	0.9x	7.4x	6.3x	7.4x	12.2x	12.3	34.9%	13.6%	7.0%
Standard Motor Products, Inc.	0.4x	9.5x	6.4x	7.7x	27.8x	21.5	24.1%	6.1%	1.4%
Mean	0.6x	37.4x	7.2x	11.7x	15.7x	14.3x	22.8%	9.8%	5.4%
Median	0.6x	9.5x	6.4x	7.7x	12.2x	12.3x	24.1%	7.1%	7.0%
Wholesalers & Distributors									
Genuine Parts Company	0.7x	10.3x	9.0x	9.9x	17.2x	16.8	29.9%	7.6%	4.0%
LKQ Corporation	1.6x	14.0x	12.1x	15.2x	25.5x	20.8	45.3%	13.3%	6.3%
The Coast Distribution System, Inc.	0.2x	24.6x	12.6x	14.0x	NM	NM	18.8%	1.7%	0.1%
Mean	0.8x	16.3x	11.2x	13.0x	21.4x	18.8x	31.4%	7.5%	3.5%
Median	0.7x	14.0x	12.1x	14.0x	21.4x	18.8x	29.9%	7.6%	4.0%
Retailers									
Autozone, Inc.	1.6x	9.3x	8.0x	10.0x	16.6x	12.3	50.2%	19.9%	9.7%
Advance Auto Parts, Inc.	0.7x	8.8x	6.6x	9.7x	14.8x	14.3	48.9%	11.2%	5.0%
O'Reilly Automotive, Inc.	1.4x	12.4x	9.8x	25.0x	21.6x	18.7	48.0%	14.0%	6.3%
The Pep Boys - Manny, Moe & Jack	0.4x	13.8x	6.1x	9.3x	33.0x	21.5	25.4%	6.6%	1.2%
US Auto Parts Network, Inc.	1.1x	46.8x	20.3x	140.2x	NM	NM	36.2%	5.6%	0.0x
Mean	1.0x	11.1x	10.2x	13.5x	21.5x	16.7x	41.7%	11.5%	4.6%
Median	1.1x	10.8x	8.0x	9.9x	19.1x	16.5x	48.4%	12.6%	5.7%

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful