March, 2011 - Volume 8, Issue 3

the aftermarket analyst

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

Where are the sellers?

The first quarter of 2011 has been marked by a lack of interested sellers. While the number of aftermarket transactions has remained relatively constant from this year to the same period last year, the reasons are entirely different. In early 2010, financial buyers were forced to the sidelines as little debt capital was available. In 2011, sellers have expressed little interest in divesting their businesses despite the fact that most businesses sold this year have been at a premium.

Today's seller's market is driven by:

Capital overhang. The difference between funds raised and equity invested is at record levels. With almost $500 billion to invest, there has never been more private equity money chasing so few deals. This monumental figure has grown steadily over the past 3 years as M&A activity slowed to a crawl from 2007 to 2009. Private equity groups have a "use it or lose it" mentality as most funds have a 5 or 6 year time horizon to use the committed capital. If the funds are not used during this period, investors can pull out.

Easy access to credit. Debt capital has always been the lifeblood of private equity groups and private equity backed acquirers. In 2008 and 2009, private equity transactions in the aftermarket declined almost 65% as the debt markets froze. Late 2010 and 2011 has seen a return to 2007 levels in terms of pricing, availability and debt limits.

Increasing earnings. For publicly traded companies, increased earnings equates to an increased stock price. As stock is the preferred currency for many strategic acquirers, the companies can afford to pay for the business while still being accretive to the purchaser. Shares prices of public aftermarket companies have increased 28% over the past year. The same amount of stock can purchase 28% more value than at this time last year.

These three factors have created tremendous competition between buyers. The competition serves to increase the purchase price, decrease the time to close, and present the seller with a certainty of getting a deal completed.

Increased purchase price. Deals are exceeding seller expectations by 30% or more. Many buyers are now remarking that the access to credit is a mixed blessing in that while they can now borrow roughly 30% to 50% of a purchase price, they are being priced out of deals by the intense competition. These groups have $500 billion that they need to put to work and are willing to forego ROIs in the upper 20s and 30s to assure they get the deal.

Time to close. Sellers want a deal to close quickly as they are typically in a state of operational limbo from the signing of the LOI to the signing of a definitive agreement. Buyers, wary of losing their shot at a deal, have been moving very expeditiously, usually closing a

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Recently Announced Automotive Aftermarket Transactions

Announce Date	Acquirer/Investor(s)	Target	Target Description
3/31/2011	Islington Capital Partners	TMR Holdings, LLC	a suppler of a diverse combination of consumable products to the automotive industry
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
3/29/2011	Cooper Standard Automotive	Usi Inc.	provides an exclusive hard coating process for use in automotive and industrial applications
3/25/2011	Apax Partners	Trader Corp.	include 74 publications as well as the online automotive classified businesses of AutoTrader.ca, Auto.ca, AutoHebdo.net and Buysell.co. The deal also comes with a 30% stake of Dealer.com, a digital dealer marketing service provider
3/22/2011	SPX Corp.	Teradyne Diagnostic Solutions	a global supplier of diagnostic solutions for transportation OEMs and automotive dealerships
3/15/2011	B&M Automotive Group	Flowmaster, Inc.	company with three facilities, totaling more than 400,000 square feet, which are dedicated to producing exhaust products that are easy to install and provide immediate performance gains
3/11/2011	Heartland Automotive	Constitution Lube	the operator of Jiffy Lube retail service centers throughout Hartford, New Haven and Fairfield counties in Connecticut
3/1/2011	ITW	SOPUS Products	a leading automotive aftermarket consumer products portfolio, a subsidiary of Shell Oil Co.
2/25/2011	Factory Motor Parts	Tri-City Automotive	an Arizona-based auto parts wholesaler with 11 locations in the Phoenix area
2/23/2011	Heartland Automotive	Empire Lube Inc.	the operator of Jiffy Lube retail service centers throughout Nassau County, Brooklyn and the Bronx, New York
2/18/2011	Trelleborg	U.S. group Maine Industrial Tire LLC	an operation in eastern China to facilitate the group’s expansion in the Chinese market for specialty tires, primarily agricultural tires
2/11/2011	The Riverside Company	Rameder Anhangerkupplungen und Autoteile GmbH & Co.	a German distributor of automotive carrier systems and related accessories
2/7/2011	Trelleborg	Watts Tyre Group	world leading industrial tire, wheel and services organization that provides tire, wheel and service solutions to the Materials Handling and Forklift Truck industries across the world
2/2/2011	Schnitzer Steel	Ferrill's Auto Parts, Inc.	the company’s three self-service facilities will become part of the Schnitzer’s Auto Parts Business and will operate under the “Pick-n-Pull” brand
2/1/2011	Johnson Controls, Inc.	C. Rob. Hammerstein Group	a global supplier of high-quality metal seat structures, components and mechanisms based in Solingen, Germany
2/1/2011	BorgWarner	Haldex Group (Tranction Systems division)	supplies its leading front-wheel drive based all-wheel drive systems for passenger car and crossover vehicles. Customers include Volkswagen, Audi, Skoda, Seat, Lamborghini, Bugatti, Volvo, Land Rover, Saab and GM

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transaction from 30 to 60 days following the signing of an LOI.

Certainty of closing. With more competition and less required time to close, certainty of closure has not been an issue from the seller's perspective. Any "surprises" that occur in due diligence are more likely to be worked through rather than scuttle the deal.

While it is undoubtedly a seller's market, there have not been an abundance of sellers that have stepped forward to take advantage of these conditions. Conventional wisdom dictates that most deals got pushed forward into the 4th Quarter of 2010 in advance of the looming capital gains tax increase scheduled to take effect January 1, 2011. While we did see a slight increase in M&A activity at the end of last year, that does not fully explain why aftermarket M&A is so soft.

We believe that many sellers are busy trying to grow their business to pre-2007 levels in order to maximize the value of the business. While earnings are a critical piece of the business, the capital markets environment is also crucial in determining value. Today, buyers are desperately seeking out sellers and have been willing to pay a 30% premium for strong aftermarket businesses. If buyers were not offering a premium, sellers would have to grow earnings by 30% to attain the same value. For many companies, 30% growth will take in excess of five years.

All business owners should have an exit strategy for their business. If your exit strategy includes a sale of part or all of your business, it's important to weigh forecasted earnings growth against current premiums that are being offered. There is an old adage that the best time to sell a business is when you have a buyer. Sellers in today's market will likely find many potential buyers.

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.

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

	Enterprise Value					Last Twelve Months (LTM)			
Company	Price as of 3/31/11	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
Manufacturers									
Federal-Mogul Corporation	$24.90	$2,462.7	$2,825.0	$1,105.0	$4,270.7	12/31/10	$6,219.0	$607.0	$149.4
Tenneco Automotive, Inc.	42.45	2,558.3	1,223.0	233.0	3,692.6	12/31/10	5,937.0	503.0	39.0
Dorman Products, Inc.	42.09	752.5	3.2	30.5	751.1	12/25/10	455.7	82.9	46.1
Standard Motor Products, Inc.	13.83	315.3	65.6	12.1	369.0	12/31/10	810.9	61.7	26.8
Wholesalers & Distributors									
Genuine Parts Company	$53.64	$8,456.7	$500.0	$530.0	$8,512.0	12/31/10	$11,207.6	$875.7	$475.5
LKQ Corporation	24.10	3,514.3	601.0	95.7	4,162.2	12/30/10	2,469.9	340.0	167.5
The Coast Distribution System, Inc.	4.40	20.0	10.1	4.8	25.3	12/31/10	108.6	2.0	0.2
Retailers									
Autozone, Inc.	$273.56	$11,979.9	$3,249.2	$107.9	$15,588.6	2/21/11	$7,719.8	$1,599.9	$791.8
Advance Auto Parts, Inc.	65.62	5,253.6	301.8	59.2	5,656.7	1/1/11	5,925.2	749.4	346.1
O'Reilly Automotive, Inc.	57.46	8,109.3	431.3	43.2	8,796.0	12/30/10	5,397.5	893.4	425.0
The Pep Boys - Manny, Moe & Jack	12.71	667.5	306.5	107.3	874.4	10/30/10	1,964.1	141.8	29.9
US Auto Parts Network, Inc.	8.70	264.9	0.0	17.6	247.6	12/31/10	262.3	10.8	(13.9)

Selected Public Company Multiples and Operating Statistics

	Enterprise Value /						Margins		
Company	Revenue	EBIT	EBITDA	Free Cash Flow (2)	Net Income	P / E Ratio	Gross Margins	EBITDA Margins	Net Margins
Manufacturers									
Federal-Mogul Corporation	0.7x	15.6x	**7.0x**	12.0x	28.6x	16.5	16.2%	9.8%	2.4%
Tenneco Automotive, Inc.	0.6x	12.9x	**7.3x**	10.5x	94.7x	65.6	17.5%	8.5%	0.7%
Dorman Products, Inc.	1.6x	10.0x	**9.1x**	10.5x	16.3x	16.3	37.9%	18.2%	10.1%
Standard Motor Products, Inc.	0.5x	7.7x	**6.0x**	7.2x	13.8x	11.8	25.6%	7.6%	3.3%
Mean	***0.9x***	***11.5x***	***7.4x***	***10.1x***	***38.3x***	***27.5x***	***24.3%***	***11.0%***	***4.1%***
Median	***0.7x***	***11.4x***	***7.2x***	***10.5x***	***22.4x***	***16.4x***	***21.5%***	***9.1%***	***2.9%***
Wholesalers & Distributors									
Genuine Parts Company	0.8x	10.8x	**9.7x**	10.8x	17.9x	17.8	29.0%	7.8%	4.2%
LKQ Corporation	1.7x	13.9x	**12.2x**	14.9x	24.8x	21.0	44.3%	13.8%	6.8%
The Coast Distribution System, Inc.	0.2x	19.7x	**12.4x**	14.1x	NM	131.5	18.1%	1.9%	0.1%
Mean	***0.9x***	***14.8x***	***11.5x***	***13.3x***	***21.4x***	***56.7x***	***30.5%***	***7.8%***	***3.7%***
Median	***0.8x***	***13.9x***	***12.2x***	***14.1x***	***21.4x***	***21.0x***	***29.0%***	***7.8%***	***4.2%***
Retailers									
Autozone, Inc.	2.0x	11.1x	**9.7x**	12.1x	19.7x	15.1	50.7%	20.7%	10.3%
Advance Auto Parts, Inc.	1.0x	9.7x	**7.5x**	10.3x	16.3x	15.2	50.0%	12.6%	5.8%
O'Reilly Automotive, Inc.	1.6x	12.0x	**9.8x**	16.7x	20.7x	19.1	48.6%	16.6%	7.9%
The Pep Boys - Manny, Moe & Jack	0.4x	12.6x	**6.2x**	10.5x	29.2x	22.3	25.9%	7.2%	1.5%
US Auto Parts Network, Inc.	0.9x	NM	**22.8x**	NM	NM	NM	34.2%	4.1%	NM
Mean	***1.3x***	***11.3x***	***11.2x***	***12.4x***	***21.5x***	***17.9x***	***41.8%***	***12.3%***	***6.4%***
Median	***1.3x***	***11.5x***	***9.7x***	***11.3x***	***20.2x***	***17.1x***	***49.3%***	***14.6%***	***6.9%***

(1) Enterprise Value equals market cap, plus debt, minus cash
(2) Free Cash Flow equals EBITDA less capital expenditure
"NM" is not meaningful