

# the aftermarket analyst

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

## Rising Gas Prices

Recently we were asked for our thoughts on rising gas prices and the effect on new auto sales and the aftermarket. Increasing gas prices and decreasing vehicle sales have dominated the aftermarket media and general media for the last year. However, we have reached the point where consumers are looking beyond the short-term horizon and focusing on the long-term effects of high gas prices.

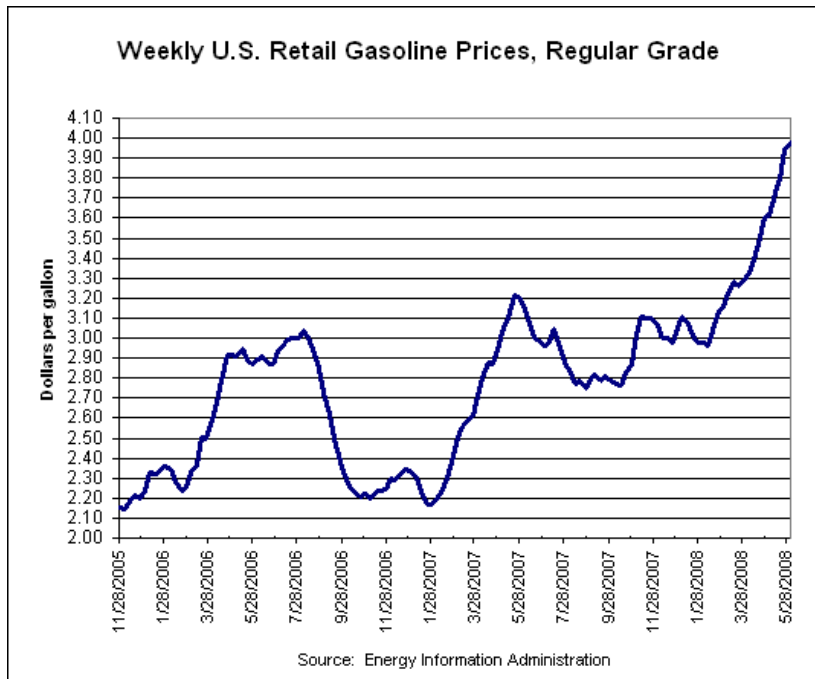
Gas prices have experienced a dramatic increase in the past four months (see chart to right). From February 1, 2008 to June 1, 2008 gas prices increased a

staggering 33% from \$3.00 per gallon to \$4.00. On June 6, 2008 crude oil experienced its largest one day increase as the price of a barrel of crude oil increased 8%. Consumers are desperately trying to find ways to offset this increase. Additionally, all experts expect increasing gas prices in the short and long term. The only caveat would be should Congress decide to

suspend the gas tax for the summer, but this is a short-term fix that does not affect the underlying supply/demand relationship. Consumers are now coming to grips with the reality that elevated gas prices are here to stay and they are making decisions with higher gas prices in mind.

The rising fuel costs have a direct effect on OEMs' vehicle mix. GM and Ford have recently announced their intentions to significantly scale back production of light trucks and SUVs. Referring to the shift away from light trucks and SUVs, Rick Wagoner, CEO of GM said, "These higher gasoline prices are changing

consumer behavior and rapidly. We don't think this is a temporary shift. We think it is permanent." This correlation between increasing gas prices and decreasing truck and SUV sales is evident when looking at the *Weekly U.S. Retail Gasoline Prices, Regular Grade* above and the *U.S. Industry Retail Mix* graph



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**RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS**

Announce Date	Acquirer/Investor(s)	Target	Target Description	Firm Value (\$mil.)	FV / Rev.	FV / EBITDA
6/10/2008	MAHLE Group	Clemex Mexico S.A. de C.V.	produces engine bearings and bushings for the automotive aftermarket and global automotive OE manufacturers	—	\$16.0	—
6/6/2008	1-800-Radiator	B&B Radiator	a family-owned and -operated automotive cooling parts business based in Texas.	—	—	—
6/6/2008	Leonard C. Lang	Tex Racing Enterprises	a driveline components specialist based in Ether, NC, owned by Hawk Corp.	—	—	—
6/3/2008	Continental	Enax	acquired a 16 percent stake in Japanese lithium-ion specialist Enax	—	—	—
6/3/2008	CARDONE Industries	Remy Automotive Europe	CARDONE Industries has entered into a definitive agreement with Remy Automotive Europe to acquire three plants in the U.K.	—	—	—
6/2/2008	Barclays Private Equity	Novem Group	a global provider of real wood, aluminum and carbon trim for vehicle interiors	—	—	—
6/1/2008	Tenneco Inc.	Delphi Automotive Systems	certain ride control assets and inventory at Delphi's Kettering, Ohio, facility	\$19.0	—	—
5/30/2008	DEA Products	ROL Manufacturing	certain assets of its engine and transmission mount business	2.0	—	—
5/28/2008	EQT Opportunity	Valeo	the heavy duty engine cooling division of automotive Group Valeo	—	—	—
5/22/2008	S&S Engine Remanufacturing	Jones Automotive Engines	Automotive engine rebuilding service; manufactures motor vehicle parts and accessories; retails automotive parts	—	—	—
5/19/2008	Motorcar Parts of America	Automotive Importing Manuf.	a privately held company based in Rancho Cordova, Calif.	—	—	—
5/16/2008	Dorman Products	Eastern Manufacturing, Inc	the assets of its catalytic converter business	—	—	—
5/9/2008	Uni-Select	Beck/Arnley	Beck/Arnley Worldparts Corp. and its Canadian subsidiary both are automotive replacement parts distributors specialized in parts for foreign nameplate vehicles.	—	—	—
5/6/2008	Cash Technologies Inc.	Champion Parts	was a leading remanufacturer of automotive fuel system components in the U.S. before its bankruptcy in October 2007	2.9	—	—
5/6/2008	Purcell Tire & Rubber Co.	D&D Tire Inc.	a large OTR tire dealer and retreader based in Fernley, Nev.	—	300.0	—
5/2/2008	FSBO Ventures	Thermacore, Inc.	electronics cooling subsidiary of Modine Manufacturing	13.3	—	—
5/2/2008	Platinum Equity	Wheel Pro's Inc.	Lakewood, Colo.-based chrome wheel distributor	—	—	—
4/30/2008	Tasco Auto Color	Collision Equipment Group	products include paint booths, frame racks and prep stations to pulling posts and lifts. They also offer welding, lighting, and air compressor products	—	—	—

found below This second graph illustrates a dramatic shift away from trucks and SUVs. Coinciding with the rapid run up in gas prices is a drop off in truck/SUV sales. Trucks/SUVs have declined from 34% of the industry's retail mix to 22% over the last 5 months. This 35% decrease occurs over the same period that gas prices increased 33%. We are not implying a direct correlation between gas prices and truck sales, rather a causal relationship that has led GM to downsize truck production and "plan our business around elevated fuel prices going forward."

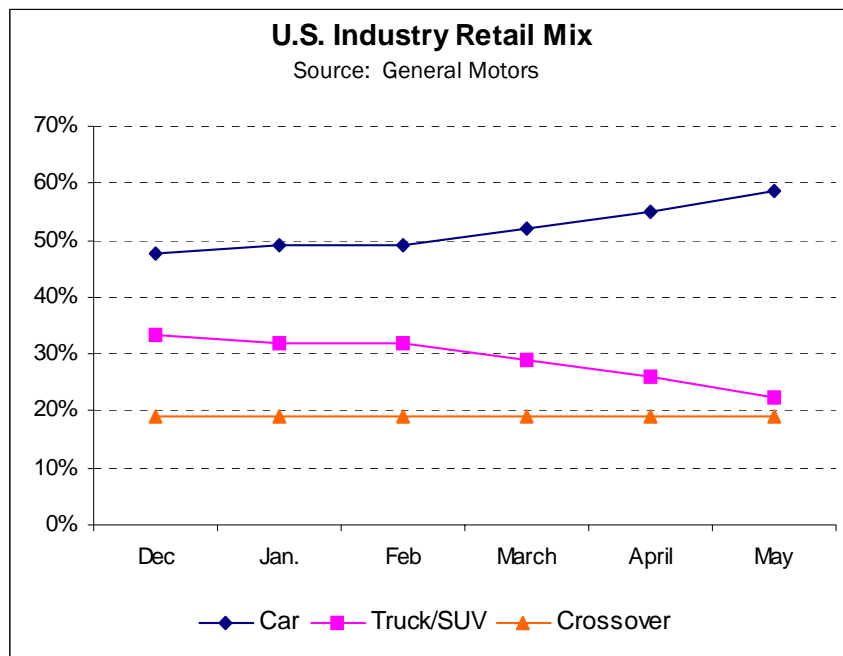
Light trucks and SUVs reached their peak in 2004 when they constituted 54% of all light vehicle sales. The previous 10 years saw steady increases in truck sales and market share while 2005 –

2007 have seen declines in sales and market share. The trend of declining sales and market share will continue for 2008 given the sharp decline through the first six months.

The impact on declining truck sales will first be felt by accessories manufacturers, as most accessories are purchased in the first two years of a vehicle's life. Additionally, accessories are discretionary in nature, and with declining discretionary income available due to,

among other things, rising gas prices, accessories are most likely to be squeezed in the short term. The exceptions to this are accessories that offer fuel savings, like truck tonneaus. Hard parts manufacturers have longer lag times as most of their sales occur five years from the vehicle purchase and tend to be non-discretionary. These manufacturers are still benefiting

from the truck sales increases experienced through 2004. Incidentally, this is one of the reasons for the marked discrepancies between DIY and DIFM sales that retailers are currently experiencing. The DIY market is discretionary in nature and marked by heavy accessory sales, while DIFM requires more of the non-discretionary hard parts.



Gas prices have decreased consumers' discretionary income, decreased vehicle sales and have led to a fundamental shift away from trucks in favor of more gas efficient vehicles. While the decreased vehicle sales is a short-term boost for the aftermarket in that cars are on the road longer, the long term effect is negative. Accessory manufacturers, relatively closely tied to new vehicle purchases, are the first to be effected, while the lag time for hard parts makers is typically five plus years.

### 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](http://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 5/31/08	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue		EBITDA
<b>Manufacturers</b>									
Tenneco Automotive, Inc.	\$25.58	\$1,192.1	\$1,463.0	\$161.0	\$2,563.4	3/31/08	\$6,344.0	\$455.0	(\$4.0)
Aftermarket Technology Corp.	22.91	486.5	0.0	19.2	473.0	3/31/08	529.0	79.8	40.8
Directed Electronics, Inc.	2.00	50.9	262.3	16.7	296.5	3/31/08	383.8	52.5	(20.0)
Standard Motor Products, Inc.	6.08	113.4	90.7	14.6	189.5	3/31/08	798.5	46.2	23.8
Dorman Products, Inc.	10.40	184.0	26.8	6.9	207.8	3/31/08	333.6	39.9	18.1
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	\$42.46	\$6,955.7	\$0.0	\$0.0	\$6,983.9	3/31/08	\$10,933.8	\$921.1	\$501.9
LKQ Corporation	21.76	2,926.8	651.6	85.4	3,677.1	3/31/08	1,383.4	180.9	81.9
The Coast Distribution System, Inc.	5.30	23.5	40.3	1.2	62.7	3/31/08	160.1	3.5	0.0
<b>Retailers</b>									
Autozone, Inc.	\$120.75	\$7,633.8	\$2,095.0	\$93.5	\$9,753.5	2/9/08	\$6,271.3	\$1,244.0	\$608.0
Advance Auto Parts, Inc.	40.30	3,840.0	554.5	19.1	4,420.6	4/19/08	4,902.4	572.5	244.3
O'Reilly Automotive, Inc.	28.87	3,334.0	100.4	113.3	3,356.0	3/31/08	2,555.4	381.1	191.9
The Pep Boys - Manny, Moe & Jack	8.92	461.4	521.1	20.3	962.3	2/2/08	2,138.1	48.9	(46.7)
CSK Auto Corporation	11.93	525.3	509.3	16.5	1,020.1	2/4/08	1,851.6	103.4	4.7
US Auto Parts Network, Inc.	3.49	104.2	0.1	32.2	72.1	3/31/08	157.2	8.4	(1.9)

**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
<b>Manufacturers</b>									
Tenneco Automotive, Inc.	0.4x	10.5x	5.6x	10.1x	NM	NM	15.6%	7.2%	NM
Aftermarket Technology Corp.	0.9x	7.4x	5.9x	8.3x	11.6x	11.9	24.8%	15.1%	7.7%
Directed Electronics, Inc.	0.8x	7.0x	5.6x	6.0x	NM	NM	36.3%	13.7%	NM
Standard Motor Products, Inc.	0.2x	6.0x	4.1x	6.0x	8.0x	4.8	25.3%	5.8%	3.0%
Dorman Products, Inc.	0.6x	6.5x	5.2x	6.1x	11.5x	10.2	33.4%	12.0%	5.4%
<b>Mean</b>	<b>0.6x</b>	<b>7.5x</b>	<b>5.3x</b>	<b>7.3x</b>	<b>10.3x</b>	<b>9.0x</b>	<b>27.1%</b>	<b>10.7%</b>	<b>5.4%</b>
<b>Median</b>	<b>0.6x</b>	<b>7.0x</b>	<b>5.6x</b>	<b>6.1x</b>	<b>11.5x</b>	<b>10.2x</b>	<b>25.3%</b>	<b>12.0%</b>	<b>5.4%</b>
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	0.6x	8.4x	7.6x	8.7x	13.9x	13.9	29.7%	8.4%	4.6%
LKQ Corporation	2.7x	23.2x	20.3x	26.6x	44.9x	35.7	45.0%	13.1%	5.9%
The Coast Distribution System, Inc.	0.4x	24.7x	17.9x	33.9x	NM	NM	19.0%	2.2%	0.0
<b>Mean</b>	<b>1.2x</b>	<b>18.8x</b>	<b>15.3x</b>	<b>23.1x</b>	<b>29.4x</b>	<b>24.8x</b>	<b>31.2%</b>	<b>7.9%</b>	<b>3.5%</b>
<b>Median</b>	<b>0.6x</b>	<b>23.2x</b>	<b>17.9x</b>	<b>26.6x</b>	<b>29.4x</b>	<b>24.8x</b>	<b>29.7%</b>	<b>8.4%</b>	<b>4.6%</b>
<b>Retailers</b>									
Autozone, Inc.	1.6x	9.1x	7.8x	9.5x	16.0x	12.6	50.0%	19.8%	9.7%
Advance Auto Parts, Inc.	0.9x	10.4x	7.7x	11.7x	18.1x	15.7	48.0%	11.7%	5.0%
O'Reilly Automotive, Inc.	1.3x	11.1x	8.8x	32.5x	17.5x	17.4	44.6%	14.9%	7.5%
The Pep Boys - Manny, Moe & Jack	0.5x	NM	19.7x	NM	NM	NM	22.7%	2.3%	NM
CSK Auto Corporation	0.6x	16.3x	9.9x	14.9x	NM	111.1	46.8%	5.6%	0.3%
US Auto Parts Network, Inc.	0.5x	NM	8.6x	21.2x	NM	NM	34.3%	5.3%	NM
<b>Mean</b>	<b>1.0x</b>	<b>11.7x</b>	<b>10.4x</b>	<b>17.1x</b>	<b>17.2x</b>	<b>39.2x</b>	<b>41.1%</b>	<b>9.9%</b>	<b>5.6%</b>
<b>Median</b>	<b>0.9x</b>	<b>10.7x</b>	<b>8.7x</b>	<b>13.3x</b>	<b>17.5x</b>	<b>16.5x</b>	<b>46.8%</b>	<b>11.7%</b>	<b>6.2%</b>

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful