

the aftermarket analyst

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

Dare We Say It: A Seller's Market!

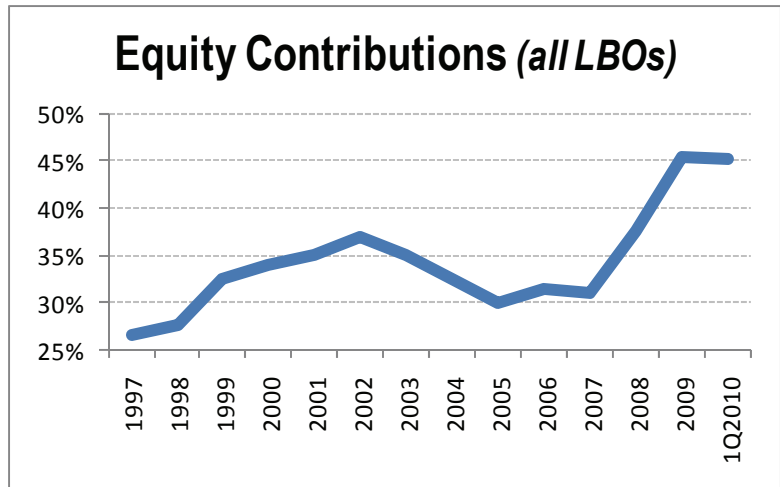
A number of macroeconomic factors are influencing both sellers and buyers of aftermarket businesses, prompting many sellers to act in the near term. These factors include: sellers' rebounding financial performance, abundant capital market liquidity for the next 9-12 months, and uncertain tax changes in 2011.

Earnings Growth

Many aftermarket businesses are experiencing a pronounced improvement over recessed sales and earnings in 2007, 2008 and the first half of 2009. This year, like the second half of 2009, has been very good for the aftermarket as a whole. Depending upon the segment of the aftermarket and the type of products, the gains can be broadly attributed to either increasing consumer confidence (accessories) or relatively low gas prices (hard parts). Many owners who elected not to sell their business in the midst of the recession are eager to bring the company to market as earnings and valuations continue to rise.

Debt Capital (for Now, at Least)

Debt capital has always been the lifeblood of private equity groups and private equity backed acquirers. In 2008 and 2009, the most recent "credit crunch," private equity transactions in the aftermarket declined almost



65%. In our last newsletter, we alluded to the fact that while the debt spigot has been turned on again, there is uncertainty as to how long it will stay on. In this edition, we want to provide more detail on why the debt markets look uncertain beyond 2010.

Private equity groups typically use between 50% and 70% debt when completing a transaction, with the remaining portion coming in the form of their equity contribution (see above graph). Over the last 20 years, banks have sold these commercial loans to outside investors in the form of a Collateralized Loan Obligations (CLOs). CLOs allow banks to reduce

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RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor(s)	Target	Target Description
5/24/2010	Stant Corp.	Expert Corp.	designs and manufactures evaporative emission canisters and front end carriers for the automotive industry
5/19/2010	Eugene Service Parts	Fortuna Distributing	an ACDelco and Ford Motorcraft distributor, located in Eugene, Oregon
5/10/2010	Halifax Group	Service Champ	independent distributor of maintenance parts and accessories to oil change shops in North America
5/3/2010	BorgWarner	BERU-Eichenauer	develop and manufacture electric cabin heaters in Kandel, Germany
4/23/2010	BBB Industries	Vista-Pro	the remanufacturing operations of Vista-Pro automotive
4/23/2010	APW Knox Seeman	V-P Sales Auto Parts	a WD formerly owned by Harvey Valley since 1978
4/22/2010	TPG Capital	American Tire Distributors	North America's largest independent tire distributor
4/22/2010	National Performance Warehouse	Speed Warehouse	high performance parts distributor with three distribution points in Hayward, San Jose and Tustin, Calif.
4/9/2010	BorgWarner	Dytech ENSA	a producer of exhaust gas recirculation (EGR) coolers
4/8/2010	SPX	Torque Tension Systems	a global supplier of hydraulic torque wrench and tensioner tool products
4/6/2010	Illinois Tool Works	Slime (AMI)	Accessories Marketing Inc. (AMI), creator and manufacturer of the Slime brand of tire sealant
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.
3/16/2010	Dominus Capital	Spectrum Corp.	a formulator, blender, packager and distributor of specialty lubricants.
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.	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

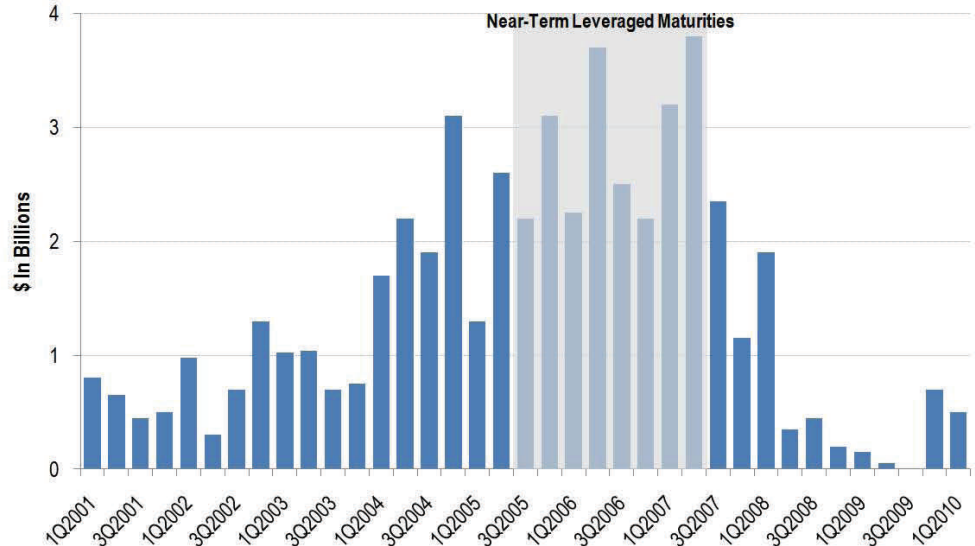
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regulatory capital requirements by selling large portions of their commercial loan portfolios to international markets, reducing the risks associated with lending. CLOs provide the majority of leveraged loan investments in middle-market transactions. Record junk bond offerings in 2009 and 2010 provided cash to repay the commercial loans backing the CLO credits, so these CLOs are currently flush with money to buy more loans, creating a wave of liquidity. However, the current appetite for CLOs is virtually non-existent, causing consternation about the availability of banks to continue unloading this risk beyond 2010.

Additionally, the period from 2006 to 2007 was especially active for leveraged buyouts and their primary source of funding, CLOs (see above graph). With CLOs having an investment period of 5 to 7 years and many of the underlying credits weakened due to the recession, 2011 through 2014 will likely see a wave of re-financings, which will limit the available supply of debt capital for other borrowers.

Sellers could be impacted by declining interest from prospective buyers, especially private equity acquirers. History suggests that private equity groups and their portfolio companies account for 30-50% of all aftermarket acquisitions. Further, a decline in the number of available buyers will likely lead to decreased valuations as the number of bidders for a selling company declines.

Total Middle-Market LBO Volume



Capital Gains Tax Increase in 2011

In 2011, the capital gains tax is scheduled to increase from 15% to 20%. Given that this capital gains tax rate increase represents a 33.33% higher effective tax rate, there is significant motivation for owners already considering a sale in the near-term to consider action in 2010.

Summary

While economic growth should continue in 2011, there are concerns about access to debt and the impending rise in capital gains tax rates in 2011. Owners that are contemplating a sale of their business over the next three years should consider acting sooner rather than later.

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)			
	Price as of 5/31/10	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
Manufacturers									
Federal-Mogul Corporation	\$17.26	\$1,707.1	\$2,855.0	\$1,028.0	\$3,611.1	3/31/10	\$5,581.0	\$480.0	\$80.2
ATC Technology Corporation	18.70	375.6	0.0	86.9	288.7	3/31/10	476.1	78.6	36.1
Tenneco Automotive, Inc.	22.16	1,323.7	1,339.0	193.0	2,531.2	3/31/10	6,265.0	409.0	(283.4)
Dorman Products, Inc.	22.64	401.9	0.3	15.9	397.9	3/31/10	389.9	59.8	31.6
Standard Motor Products, Inc.	8.37	190.4	93.5	14.7	269.2	3/31/09	742.6	46.8	12.2
Wholesalers & Distributors									
Genuine Parts Company	\$40.61	\$6,448.6	\$500.0	\$333.5	\$6,623.0	3/31/10	\$10,215.1	\$778.4	\$411.0
LKQ Corporation	18.42	2,431.2	596.6	193.5	2,923.9	3/31/10	2,140.6	301.0	148.2
The Coast Distribution System, Inc.	4.25	19.8	12.9	1.0	31.7	3/31/10	104.1	3.0	1.0
Retailers									
Autozone, Inc.	\$190.88	\$9,447.8	\$2,774.7	\$105.6	\$12,402.2	2/13/10	\$6,875.2	\$1,377.3	\$664.5
Advance Auto Parts, Inc.	51.76	4,775.4	204.3	100.0	4,967.1	1/2/10	5,412.6	605.3	270.4
O'Reilly Automotive, Inc.	51.02	7,046.9	702.5	29.9	7,954.6	3/31/10	4,963.4	739.5	342.1
The Pep Boys - Manny, Moe & Jack	12.33	646.7	307.3	39.3	921.7	1/30/10	1,910.9	126.4	23.4
US Auto Parts Network, Inc.	8.16	247.5	0.0	25.0	222.5	3/31/10	192.9	12.4	3.5

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	0.6x	24.2x	7.5x	11.9x	45.1x	21.3	15.9%	8.6%	1.4%
ATC Technology Corporation	0.6x	4.4x	3.7x	4.2x	8.0x	10.4	23.6%	16.5%	7.6%
Tenneco Automotive, Inc.	0.4x	13.8x	6.2x	14.5x	NM	NM	15.3%	6.5%	NM
Dorman Products, Inc.	1.0x	7.7x	6.7x	7.7x	12.6x	12.7	36.2%	15.3%	8.1%
Standard Motor Products, Inc.	0.4x	8.2x	5.7x	7.1x	22.0x	15.6	24.3%	6.3%	1.6%
Mean	0.6x	11.7x	6.0x	9.1x	21.9x	15.0x	23.0%	10.7%	4.7%
Median	0.6x	8.2x	6.2x	7.7x	17.3x	14.1x	23.6%	8.6%	4.6%
Wholesalers & Distributors									
Genuine Parts Company	0.6x	9.6x	8.5x	9.3x	16.1x	15.7	29.7%	7.6%	4.0%
LKQ Corporation	1.4x	11.1x	9.7x	12.1x	19.7x	16.4	45.9%	14.1%	6.9%
The Coast Distribution System, Inc.	0.3x	14.5x	10.5x	11.1x	31.4x	19.6	19.3%	2.9%	1.0%
Mean	0.8x	11.8x	9.6x	10.8x	22.4x	17.2x	31.6%	8.2%	4.0%
Median	0.6x	11.1x	9.7x	11.1x	19.7x	16.4x	29.7%	7.6%	4.0%
Retailers									
Autozone, Inc.	1.8x	10.4x	9.0x	11.4x	18.7x	14.2	50.2%	20.0%	9.7%
Advance Auto Parts, Inc.	0.9x	10.9x	8.2x	12.0x	18.4x	17.7	48.9%	11.2%	5.0%
O'Reilly Automotive, Inc.	1.6x	13.4x	10.8x	20.6x	23.2x	20.6	48.4%	14.9%	6.9%
The Pep Boys - Manny, Moe & Jack	0.5x	16.5x	7.3x	11.1x	39.4x	27.7	25.4%	6.6%	1.2%
US Auto Parts Network, Inc.	1.2x	36.3x	17.9x	72.4x	62.8x	69.9	35.8%	6.4%	0.0x
Mean	1.2x	12.8x	10.6x	13.8x	24.9x	30.0x	41.7%	11.8%	4.9%
Median	1.3x	12.2x	9.0x	11.7x	21.0x	19.1x	48.6%	13.0%	5.9%

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful