

# the aftermarket analyst

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

## 2009 CFO Outlook: A Survey of What Manufacturing Chiefs Expect

The following article explores the results of the 11th annual survey of mid-size and large U.S. manufacturing company CFOs commissioned by Bank of America Business Capital. The survey was conducted during a period of deteriorating health of the U.S. economy. As a result, responses trended downward during the timeframe the survey was conducted.

The good news from the 600 CFOs who were asked their opinions on the economy, financing, M&A activity, and their involvement in foreign markets was that half expect their company's revenues to increase in the coming year—and nearly four in ten (37%) predict increased profit margins.

Also, despite tough times, nearly two-thirds (65%) of CFOs surveyed report that their company has an environmental management plan and nine in ten say the level of funding for their plan will either stay the same or increase in 2009.

But, the news doesn't get better from there. While CFOs appear to be determined that their own companies will weather this storm, they seem to be less sure about the prospects for economic expansion and growth opportunities in the manufacturing sector in 2009.

### The Economy

Not surprisingly, manufacturing company CFOs view the current state of the U.S. economy negatively, giving it an average score of "46," a significant drop from last year's score of "64" on a scale ranging from 0 (extremely weak) to 100 (extremely strong).

When asked their economic outlook for 2009, less than one third (31%) of manufacturing company CFOs believe the U.S. economy will expand. This is the lowest average score in the 11-year history of the survey and a significant decline from the 44 percent who expected the economy to expand in

last year's survey. What's more, nearly the same percentage (32%) of CFOs believe the economy will contract next year, compared to only 20 percent from last year's survey.

Ninety-two percent of CFOs believe the credit crisis will have the greatest impact on the economy in 2009. This is followed closely by the impact of the housing market, oil prices and the strength of the U.S. dollar, all at 85 percent.

Thirty percent of CFOs do expect the U.S. economy to outperform the world economy next year, a significant increase from 22 percent in last year's survey, but a decline from 39 percent in 2007, 46 percent in 2006 and 58 percent in 2005. CFOs began to see the U.S. in a slightly better light as the economies around the world weakened during the course of the survey.

Another small bright spot is an increased belief (64%) that the actions taken by the Federal Reserve Board in 2008 have helped the economy. This is up from 58 percent last year.

### Manufacturing Sector

CFOs are not much more positive about the state of manufacturing over the past 12 months. When asked, "How would you rate the current state of the manufacturing sector on a scale of 0 (extremely weak) to 100 (extremely strong)?" the average score was "50," a nine point drop from the level it had remained for the past three years.

Consistent with the CFOs' negative outlook for the economy, only 25 percent of CFOs forecast expansion in the manufacturing sector in 2009, down from 30 percent last year. The remaining CFOs are nearly evenly split between

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**RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS**

Announce Date	Acquirer/Investor(s)	Target	Target Description	Firm Value (\$mil.)	FV / Rev.	FV / EBITDA
12/5/2008	Speedway Motors	A-FAB Corp.	manufacturers AFCO-branded premium shocks, springs and radiators; U.S. Brake-branded automotive brakes; and Dynatech premium exhaust systems	—	—	—
12/5/2008	American Axle & Manufacturing	FormTech Industries	AAM exchanged its hub and spindle forging business for FormTech's differential gear, hypoid pinion and ring gear forging businesses	—	—	—
12/4/2008	Audax Group	Select Distributors, Inc.	a manufacturer and distributor of custom car audio installation accessories and materials	—	—	—
12/3/2008	Perfection (Berkshire Hathaway)	Affinia	the clutch hydraulic business from Affinia's Global Brake and Chassis business unit	—	—	—
12/2/2008	Cerion LLC	Hillsdale Automotive	a provider of precision-machined and assembled powertrain and chassis components to the automotive industry	—	\$ 100.0	—
11/21/2008	General Dynamics	AxleTech International	a global manufacturer and supplier of axles, axle components, planetary axles, independent suspensions, brakes and aftermarket parts for military vehicles, commercial specialty trucks and off-highway machines	—	—	—
11/21/2008	OMIX-ADA	Alloy USA/Precision Gear	Alloy USA makes aftermarket performance axle and drive components for autos, trucks and SUVs. Precision Gear is a full-line axle component distributor	—	—	—
11/21/2008	Management buyout	Weld Wheel Industries Inc.	manufacturer of aftermarket and racing wheels	—	—	—
11/18/2008	FleetPride	Automotive Brake Co. of Newburgh, Inc.	auto parts distributor with 2 locations in New York State	—	—	—
11/16/2008	Keystone	Arrow Speed Warehouse	auto parts distributor	—	—	—
11/13/2008	Affinia Group	HBM Investment Ltd.	one of the world's largest drum and rotor manufacturing companies	—	—	—
11/11/2008	FleetPride	E.H. Burrell Co.	a distributor of OEM and aftermarket parts serving western Oregon and southwest Washington	—	—	—
11/1/2008	Marmon Highway Tech.	TSE Brakes	produces brake actuators in Sonora, Mexico	—	—	—
10/31/2008	US Auto Parts	AutoMD.com	a provider of diagnosis and repair technology to help consumers understand what's wrong with their vehicles and guide them in determining how to repair	—	—	—
10/31/2008	Westin	T-Max LLC	the North American distributor for the T-Max Hangzhou Industrial Co., a manufacturer of winches, recovery systems and related off-road accessories	—	—	—
10/31/2008	Don Youngblood	Atlantic Pacific Automotive	distributor which sells to jobbers and distributors both domestically and around the world, based in Germantown, TN.	—	—	—
10/30/2008	Donaldson Co.	Western Filter Corp.	manufactures filters for hydraulic oil, fuel, lube oil and coolant systems used in a wide array of commercial and military aircraft and helicopters, military ground vehicles and naval shipboard systems	—	—	—
10/17/2008	LKQ Corp.	Automotive Rebuilders Supply Co.	a recycled heavy-duty truck parts business located in the Chicago area	—	9.5	—

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no change (38%) and contraction (36%).

Approximately half (52%) of CFOs say that the current state of the economy will not cause them to change their growth plans. While this is a significant drop from 67 percent last year, it nonetheless, shows the determination of these CFOs to remain competitive in a challenging economy.

### **M&A and Global Expansion**

Expectations for merger and acquisition activity were identical to last year at 23 percent, but still considerably less than 30 percent three years ago. That's in spite of an anticipated decline in the price of acquisitions with only 17 percent of CFOs expecting acquisition targets to go for a higher multiple of earnings in 2009. Due to a severe tightening in the credit markets, the percentage of CFOs who believe there are more businesses available at lower purchase prices has jumped to 49 percent from 29 percent last year and 23 percent the year before.

Companies conducting business internationally remain robust at 83 percent, consistent with last year. Of those, 66 percent of CFOs said they buy from foreign suppliers, up from 62 percent last year. Also, 36 percent of companies have operations outside the United States compared to 39 percent last year and 42 percent the year before. For the first time in five years, international sales are expected to slow. Fifty-six percent of all companies selling to foreign markets expect international sales to increase next year, down significantly from 71 percent reported last year. Perhaps this decline is, in part, due to the strengthening U.S. dollar.

Growth in international trade is again expected primarily in Asia (57%), while Europe saw a significant decline in growth expectations to 45 percent from 54 percent last year. The Middle East saw the biggest increase to 16 percent from just 2 percent in 2008.

### **Cost Concerns**

Eighty-one percent of CFOs surveyed consider materials and equipment to be their number one cost concern. This

was up from 74 percent last year, and still holds the top spot.

It was followed closely by energy prices at 73 percent and the cost of healthcare at 67 percent.

With the considerable tightening in the credit markets, it is not surprising that 42 percent of CFOs forecast an increase in the cost of capital, up significantly from 26 percent last year.

### **Slower Spending**

The outlook for capital expenditures continues to weaken with only 20 percent of CFOs indicating that their capital expenditures for next year will be higher compared to 32 percent last year and 38 percent the year before. Forty percent of CFOs expect to spend less or refrain from making capital expenditures altogether in 2009 compared to 27 percent last year. This correlates with the continued weakening of the U.S. economy.

Among those predicting higher than average levels of capital expenditures over the next 12 months are businesses expecting expansion in the manufacturing sector (27%), and public companies (26%).

Thirty-two percent of CFOs report that their lender has restricted credit availability over the past 12 months, up dramatically from 10 percent in last year's survey. Only 15 percent say their lender has increased credit availability compared to 35 percent last year.

Consistent with last year, fifty-nine percent of CFOs expect to borrow money for a variety of purposes, including capital expenditures (31%), working capital (30%), U.S. expansion (17%) and acquisitions (15%). They also expect to use a variety of financing sources, with internal funding (54%), cash flow financing (45%), asset-based lending (42%) and leasing (31%) mentioned most frequently.

*(Article courtesy of Bank of America Business Capital's bi-monthly newsletter "CapitalEyes".)*

### **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)				
	Price as of 11/30/08	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
<b>Manufacturers</b>									
Federal-Mogul Corporation	\$5.29	\$525.8	\$2,907.7	\$781.5	\$2,703.3	9/30/08	\$7,294.9	\$760.2	\$456.6
Aftermarket Technology Corp.	17.29	350.7	0.0	5.5	347.3	9/30/08	539.9	71.8	35.4
Tenneco Automotive, Inc.	3.28	153.4	1,524.0	127.0	1,585.4	9/30/08	6,273.0	405.0	(193.3)
Dorman Products, Inc.	11.95	210.9	21.0	7.1	229.8	9/30/08	346.1	37.5	16.9
Standard Motor Products, Inc.	2.49	46.5	250.4	11.0	285.9	9/30/08	793.6	34.2	13.1
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	\$38.73	\$6,175.0	\$500.0	\$124.4	\$6,623.6	9/30/08	\$11,122.3	\$932.9	\$513.7
LKQ Corporation	10.42	1,412.9	642.5	97.7	2,007.7	9/30/08	1,881.7	251.2	112.8
The Coast Distribution System, Inc.	0.85	3.8	20.7	3.3	21.2	9/30/08	142.0	0.7	(1.1)
<b>Retailers</b>									
Autozone, Inc.	\$109.22	\$6,331.9	\$2,250.0	\$242.5	\$8,405.9	8/30/08	\$6,522.7	\$1,293.6	\$641.6
Advance Auto Parts, Inc.	30.36	2,874.8	471.2	21.3	3,324.7	10/4/08	4,998.2	578.8	248.4
O'Reilly Automotive, Inc.	26.07	3,492.6	665.4	26.4	4,148.2	9/30/08	3,066.2	397.6	191.0
The Pep Boys - Manny, Moe & Jack	4.50	233.3	337.9	56.2	514.9	8/2/08	2,044.5	31.0	(47.1)
US Auto Parts Network, Inc.	2.08	62.1	0.1	33.1	29.0	9/30/08	157.0	7.6	(2.1)

**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>									
Federal-Mogul Corporation	0.4x	7.5x	3.6x	6.3x	5.9x	1.2	16.7%	10.4%	6.3%
Aftermarket Technology Corp.	0.6x	6.2x	4.8x	6.1x	9.8x	9.9	22.7%	13.3%	6.6%
Tenneco Automotive, Inc.	0.3x	8.7x	3.9x	10.4x	NM	NM	14.7%	6.5%	NM
Dorman Products, Inc.	0.7x	7.7x	6.1x	7.6x	13.6x	12.5	32.5%	10.8%	4.9%
Standard Motor Products, Inc.	0.4x	14.6x	8.4x	13.1x	21.9x	3.6	23.7%	4.3%	1.6%
<b>Mean</b>	<b>0.5x</b>	<b>8.9x</b>	<b>5.4x</b>	<b>8.7x</b>	<b>12.8x</b>	<b>6.8x</b>	<b>22.0%</b>	<b>9.1%</b>	<b>4.8%</b>
<b>Median</b>	<b>0.4x</b>	<b>7.7x</b>	<b>4.8x</b>	<b>7.6x</b>	<b>11.7x</b>	<b>6.7x</b>	<b>22.7%</b>	<b>10.4%</b>	<b>5.6%</b>
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	0.6x	7.9x	7.1x	7.9x	12.9x	12.0	29.7%	8.4%	4.6%
LKQ Corporation	1.1x	9.1x	8.0x	10.2x	17.8x	12.5	44.9%	13.4%	6.0%
The Coast Distribution System, Inc.	0.1x	NM	28.9x	NM	NM	NM	19.2%	0.5%	NM
<b>Mean</b>	<b>0.6x</b>	<b>8.5x</b>	<b>14.7x</b>	<b>9.0x</b>	<b>15.3x</b>	<b>12.3x</b>	<b>31.2%</b>	<b>7.4%</b>	<b>5.3%</b>
<b>Median</b>	<b>0.6x</b>	<b>8.5x</b>	<b>8.0x</b>	<b>9.0x</b>	<b>15.3x</b>	<b>12.3x</b>	<b>29.7%</b>	<b>8.4%</b>	<b>5.3%</b>
<b>Retailers</b>									
Autozone, Inc.	1.3x	7.5x	6.5x	8.0x	13.1x	9.9	50.1%	19.8%	9.8%
Advance Auto Parts, Inc.	0.7x	7.7x	5.7x	8.8x	13.4x	11.6	48.3%	11.6%	5.0%
O'Reilly Automotive, Inc.	1.4x	13.0x	10.4x	55.8x	21.7x	18.3	45.1%	13.0%	6.2%
The Pep Boys - Manny, Moe & Jack	0.3x	NM	16.6x	NM	NM	NM	22.3%	1.5%	NM
US Auto Parts Network, Inc.	0.2x	NM	3.8x	9.1x	NM	NM	33.8%	4.8%	NM
<b>Mean</b>	<b>0.9x</b>	<b>9.4x</b>	<b>8.6x</b>	<b>24.2x</b>	<b>16.1x</b>	<b>13.2x</b>	<b>39.9%</b>	<b>10.1%</b>	<b>7.0%</b>
<b>Median</b>	<b>1.0x</b>	<b>7.7x</b>	<b>6.5x</b>	<b>8.8x</b>	<b>13.4x</b>	<b>11.6x</b>	<b>46.7%</b>	<b>12.3%</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