

the aftermarket analyst

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

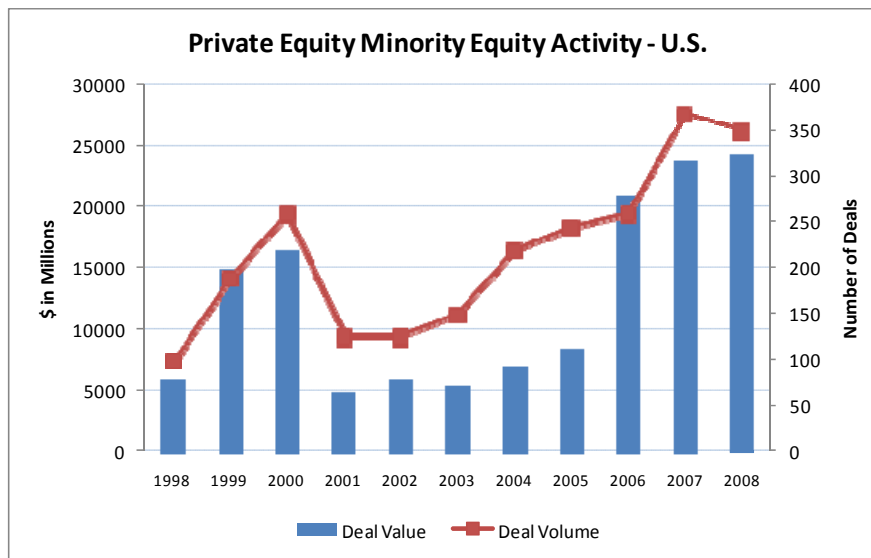
Minority Investment

In a recent newsletter we highlighted the financial options available to aftermarket companies. One option that was discussed briefly was a minority investment which is an investment in less than 50% of the company's common or preferred shares. Minority equity has become increasingly popular with Private Equity Groups (PEGs) as they face difficulty obtaining or refinancing acquisition debt. As minority investments

become more common place in the aftermarket, it is important to gain a deeper understanding of the benefits to both the acquirer and the seller.

With the tightening in the credit markets over the last 24 months, PEGs have been forced away from traditional Leveraged Buyouts (LBOs), the lifeline of private equity. Two years ago, a PEG could finance approximately 60-70% of a transaction with debt. In today's world, a PEG may only be able to get 30-40% debt assuming the target company has sufficient

collateral. This dramatic change in lending practices has reduced Private Equity's ability to consummate LBO transactions and led to smaller minority investments.



As the graph illustrates, increased minority equity activity began in 2006 and has remained high through 2008. This minority equity uptick occurred over the same period that credit markets began to tighten. This tightening ultimately led to decreased buyouts in 2008 and 2009. Consequently, private equity funds coffers swelled to

approximately \$450 billion in 2009.

Private equity groups are very diverse in their approaches to minority investments. There are private equity groups that, due to a lack of expertise and/or operating partners, are solely interested in minority deals. Much like an investment in public equities, these groups take a very "hands off" approach and are content with periodic updates in the form of financial statements with management analysis. There are also

(Continued on page 3)

in this issue

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



RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor(s)	Target	Target Description
11/10/2009	A Raymond	Tinnerman Palnut Engineered Products	a leading supplier of engineered metal-clip fasteners and precision metal stampings for the auto industry with 482 employees
11/6/2009	Performance Motorsports Inc.	Innovate Motorsports Inc.	a supplier of universal digital tuning tools for internal combustion engines
11/5/2009	Vortech Engineering	Lysholm Technologies	develops and produces twin-screw compressors for the supercharging of combustion engines used in vehicles and boats
11/3/2009	Navistar Inc	Continental Diesel Systems	manufactures key fuel injection components for MaxxForce diesel engines, the company also will establish a dedicated research and development facility to support Navistar's diesel power system components
11/1/2009	Mitsubishi Steel Mfg. Ltd.	Meritor Suspension Systems	ArvinMeritor has completed the sale of its 57-percent stake in the Meritor Suspension Systems Co. (MSSC) joint venture to Mitsubishi Steel Mfg. Ltd. (MSM)
11/1/2009	Zhongding Sealing Parts	Myers Industries	part of Myers Industries' Automotive and Custom Segment, BRP of Hannibal, Mo., and MRP of Cadillac, Mich., provide engineering and manufacturing of rubber original equipment parts for automotive, heavy truck, agriculture and construction markets
10/28/2009	The Carlyle Group	Broadleaf	provides automotive after-market software to the Japanese car repair & inspection industry
10/23/2009	Madison Capital Partners	SPX Corp.	completed the sale of its Filtran business unit, a global leader in automotive filtration solutions
10/23/2009	FleetPride	Angelo Fleet and Industrial Supply	the primary independent heavy-duty parts distributor in San Angelo and its surrounding markets
10/16/2009	W.W. Grainger	Imperial Supplies LLC	a national distributor of maintenance products and aftermarket components for the vehicle and fleet industry, specializing in supplying fasteners, hardware, shop supplies, vehicle lighting products, air brake products and more
10/9/2009	LKQ	Greenleaf Auto Recyclers	automobile recycling operation
10/5/2009	Hephaestus Holdings, Inc.	FormTech Industries, LLC	independent manufacturer of forged parts and a leading manufacturer of wheel bearings for the North American automotive industry
10/2/2009	JohnDow Industries	Dynamic Merchandising Inc.	a national supplier of automotive fasteners, hardware, and parts
9/24/2009	Monroe Motor Products	Ronald Hinson Enterprises	a regional parts distributor
9/24/2009	Monro Muffler Brake	Tire Warehouse Central	a privately-owned tire store chain serving five New England states
9/24/2009	Monro Muffler Brake	Midwest Tire & Auto Repair	a small independent tire chain in northwest Indiana
9/22/2009	lochpe-Maxion S.A.	Arvin Meritor	Arvin Meritor's wheels business -- formerly a division of the company's Light Vehicle Systems segment
9/8/2009	Azalea Capital	Milliken & Co.	its global automotive body cloth division and has renamed the company SAGE Automotive Interiors Inc.
9/8/2009	Henkel	National Adhesive	lighting adhesives and sealant technologies for automotive lamp assemblies
9/1/2009	Continental	Matador Rubber	Slovak Republic-based truck tire plant
8/29/2009	Manufacturas Diversas	ROL Manufacturing	Manufacturas Diversas will acquire the assets of ROL's Engine Gasket division in the U.S., Canada, and Mexico

(Continued from page 1)

private equity groups that want to be involved in the day to day operations of the business feelings they can add sufficient value to the organization. Most minority investors fall somewhere between these two extremes.

Private equity groups, at a minimum, will typically require:

- Representation on the company's board of directors;
- Some control over key business decisions; and
- Influence regarding exit strategy.

The biggest issue between investors and company management is building a relationship that best serves the business. Private equity groups range from being completely hands off (as was mentioned above) to having a person visit the facility weekly. One important point for owners is to spend some time identifying what is wanted out of an equity partner in these four areas:

1. Management Team – Most private equity groups either have operating partners on staff or are aware of strong managers that can aid the current management team. Does the management team need an upgrade?
2. Financial Support – Beyond the investment made into the company, what level of financial support may the company need in the future? If there are acquisition opportunities on the horizon, the

company may want to make sure its financial sponsor has the means to consummate these transactions.

3. Technical Expertise – Private equity groups often have staff members with specialized technical expertise. For instance, there are several private equity groups with specialists in Asian outsourcing. These individuals have a long history of business in the region and have strong relationships with leading Asian manufacturers. For companies contemplating moving operations to Asia, these individuals offer a wealth of experience.
4. Industry Knowledge – Some private equity groups have extensive industry knowledge via existing holdings in the space and operating partners with extensive backgrounds in the industry. These individuals may provide entrees to new vendors or customers based on prior relationships and experiences.

With decreased lending and fewer buyouts, aftermarket companies have limited access to capital markets. At the same time, private equity groups have roughly \$450 billion in capital that needs to be invested, but they have limited control investment opportunities given the limited LBO and financing opportunities.

While minority investors will have some control over both ongoing operations and exit strategy, they can also bring management, financial, technical and industry expertise to the table.

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 11/30/09	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
Manufacturers									
Federal-Mogul Corporation	\$13.50	\$1,342.0	\$2,862.2	\$784.3	\$3,482.6	9/30/09	\$5,241.2	\$330.3	(\$243.6)
ATC Technology Corporation	22.02	440.2	70.0	129.7	380.8	9/30/09	486.2	75.0	26.2
Tenneco Automotive, Inc.	14.42	683.4	1,468.0	137.0	2,040.4	9/30/09	4,535.0	242.0	(312.4)
Dorman Products, Inc.	14.79	260.8	6.3	5.7	268.7	9/30/09	361.4	45.0	23.6
Standard Motor Products, Inc.	8.99	171.5	110.9	10.5	271.9	11/30/09	724.2	39.2	11.1
Wholesalers & Distributors									
Genuine Parts Company	\$35.83	\$5,716.8	\$500.0	\$363.1	\$5,861.1	9/30/09	\$10,106.5	\$753.3	\$388.2
LKQ Corporation	17.43	2,443.7	636.6	129.5	3,067.6	9/30/09	1,985.6	247.3	110.0
The Coast Distribution System, Inc.	3.65	16.2	9.2	5.6	19.9	9/30/09	102.8	(0.4)	(1.1)
Retailers									
Autozone, Inc.	\$147.87	\$7,374.1	\$2,726.9	\$92.7	\$10,160.4	8/29/09	\$6,816.8	\$1,356.5	\$657.0
Advance Auto Parts, Inc.	39.30	3,719.0	279.5	216.2	3,798.3	10/10/09	5,461.4	592.1	260.3
O'Reilly Automotive, Inc.	38.78	5,320.3	703.7	29.5	6,073.0	9/30/09	4,788.0	600.2	278.3
The Pep Boys - Manny, Moe & Jack	8.09	423.3	309.4	21.9	710.8	8/1/09	1,915.1	76.1	(20.8)
US Auto Parts Network, Inc.	4.61	137.6	0.0	33.6	104.0	9/30/09	164.3	5.8	(2.7)

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	NM	10.5x	33.2x	NM	NM	14.3%	6.3%	NM
ATC Technology Corporation	0.8x	6.2x	5.1x	5.6x	14.5x	16.8	23.1%	15.4%	5.4%
Tenneco Automotive, Inc.	0.4x	78.5x	8.4x	17.7x	NM	NM	15.5%	5.3%	NM
Dorman Products, Inc.	0.7x	7.2x	6.0x	7.2x	11.4x	11.0	33.6%	12.4%	6.5%
Standard Motor Products, Inc.	0.4x	11.2x	6.9x	8.6x	24.4x	15.4	23.8%	5.4%	1.5%
Mean	0.6x	25.8x	7.4x	14.5x	16.8x	14.4x	22.1%	9.0%	4.5%
Median	0.7x	9.2x	6.9x	8.6x	14.5x	15.4x	23.1%	6.3%	5.4%
Wholesalers & Distributors									
Genuine Parts Company	0.6x	8.8x	7.8x	8.9x	15.1x	14.7	29.6%	7.5%	3.8%
LKQ Corporation	1.5x	14.6x	12.4x	15.8x	27.9x	22.2	44.6%	12.5%	5.5%
The Coast Distribution System, Inc.	0.2x	NM	NM	NM	NM	NM	18.2%	NM	NM
Mean	0.8x	11.7x	10.1x	12.4x	21.5x	18.5x	30.8%	10.0%	4.7%
Median	0.6x	11.7x	10.1x	12.4x	21.5x	18.5x	29.6%	10.0%	4.7%
Retailers									
Autozone, Inc.	1.5x	8.6x	7.5x	9.4x	15.5x	11.2	50.1%	19.9%	9.6%
Advance Auto Parts, Inc.	0.7x	8.6x	6.4x	9.2x	14.6x	14.3	49.2%	10.8%	4.8%
O'Reilly Automotive, Inc.	1.3x	12.3x	10.1x	30.1x	21.8x	19.1	47.5%	12.5%	5.8%
The Pep Boys - Manny, Moe & Jack	0.4x	NM	9.3x	18.8x	NM	NM	24.3%	4.0%	NM
US Auto Parts Network, Inc.	0.6x	NM	17.9x	NM	NM	NM	36.3%	3.5%	NM
Mean	1.0x	9.8x	10.3x	16.9x	17.3x	14.9x	41.5%	10.2%	6.7%
Median	1.0x	8.6x	9.3x	14.1x	15.5x	14.3x	48.3%	11.7%	5.8%

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful