

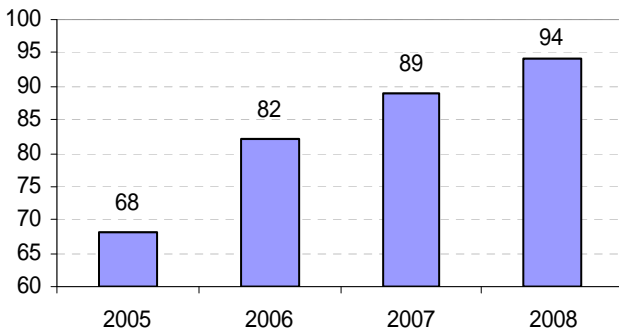
# the aftermarket analyst

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

## Strategic Buyers Lead the Way in Record Third Quarter for U.S. M&A Market

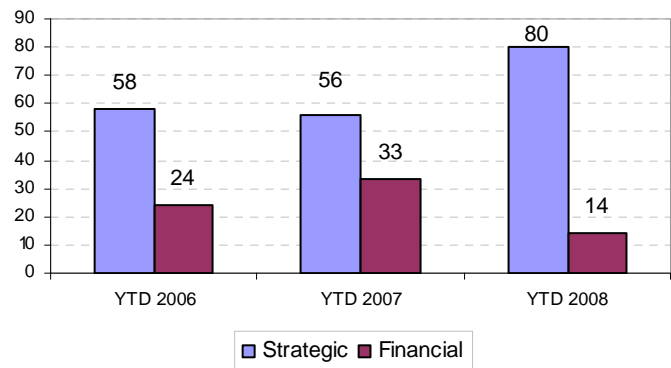
Despite a broader economy in shambles, merger and acquisition volume in the auto aftermarket reached record levels through the third quarter of 2008, with 94 recorded transactions for the year. This represents a 6 percent increase year-over-year from the 89 transactions recorded over the same period in 2007 and a 15 percent increase over the 82 transactions through the third quarter of 2006. Aftermarket M&A saw record numbers of transactions in 2006 and 2007. The most recent quarter saw a flurry of activity with 37 recorded transactions versus 34 transactions in the third quarter of 2007. This growth can be attributed to

**Aftermarket M&A Deal Volume**  
(YTD September 30)



the significant increase in participation by strategic buyers, who are attempting to grow via acquisition during these challenging times. Effects of the global credit crisis are evident in aftermarket M&A as financial

**Aftermarket M&A Deals**  
(Strategic vs. Financial)



buyers, or private equity groups, have very limited access to the formerly ubiquitous cash flow financing used in most of their deals (though asset-based lending is still available). The result is the dramatic decrease in private equity involvement in aftermarket M&A.

Over the preceding three years, private equity has represented about 33 percent of all aftermarket buyers. For the year to date 2008, private equity has been the acquirer in only 14 transactions, or 15 percent of all aftermarket M&A. In the third quarter of 2008, financial buyers represented only 10 percent of aftermarket purchasers, down from 41 percent in the third quarter of 2007. This decline is directly attributable to the tightening of credit markets. Private equity will continue to languish until credit markets are restored.

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## RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

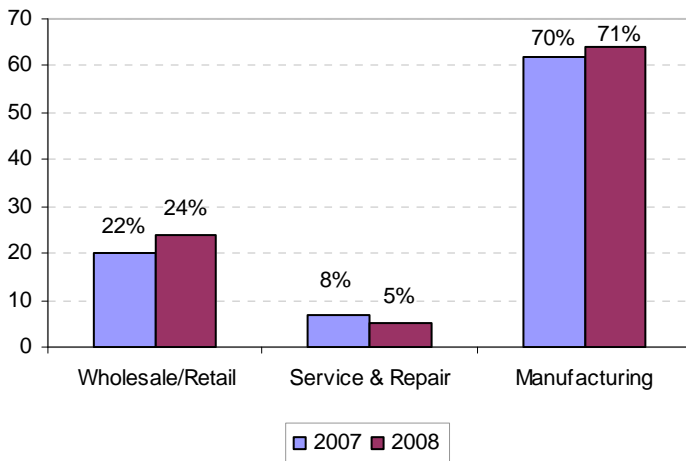
Announce Date	Acquirer/Investor(s)	Target	Target Description	Firm Value (\$mil.)	FV / Rev.	FV / EBITDA
10/13/2008	3M	Financiere Burgienne	a provider of finished license plates under the FAAB and FABRICAUTO brands in France	—	—	—
10/9/2008	American Tire Distributors	Gray's Wholesale Tire Distributors	assets of Remington Tire Distributors, dba Gray's Wholesale Tire Distributors, located in Texas	—	—	—
10/9/2008	US Hybrid Corp.	Satcon Technology Corp.	a broad range of brush and brushless servomotors and custom designed motors that serve equipment manufacturers in several high-tech markets	—	—	—
10/1/2008	1-800-Radiator	Automotive Cooling Products	a specialty distributor of heating and cooling products for the automotive, light truck, heavy-duty truck, agricultural and industrial industries	—	—	—
9/30/2008	U.S. Auto Parts Network, Inc.	SmartTrac, Inc.	a website providing a broad range of information on the purchase, care and repair of automobiles.	—	—	—
9/29/2008	PPG Industries	Bonny Coating-Made Co., Ltd.	the automotive refinish coatings business of the Bonny Coating-Made Co., Ltd. (Bonny), in Guangzhou, China.	—	—	—
9/17/2008	Wetherill Associates Inc.	National Component Parts Ltd.	a distributor of automotive, heavy duty and bus rotating electrical components and complete units.	—	—	—
9/15/2008	Bosch	Morse Friction	develops, manufactures and markets pads for disc brakes and linings for drum brakes, as well as brake calipers, predominantly for the North American market	—	\$ 157.0	—
9/12/2008	NAPA	C.W. Carter Co./ Redline Automotive	eight stores and warehouses on three major Hawaiian Islands that distribute to independently owned auto parts stores in the state	—	—	—
9/9/2008	3M	Meguiar's	the 100-year-old family-owned manufacturer of Meguiar's car-care products	—	—	—
9/4/2008	MANN+HUMMEL	Korean Dongwoo company	a market leader in the field of automotive filters in Korea and a former joint venture of the international MANN+HUMMEL Group	—	—	—
9/4/2008	Sun Capital Partners	Kraco	the leading manufacturer and distributor of automotive aftermarket floor mats as well as cargo floor mats for vehicle, home, and shop use	—	—	—
9/3/2008	Genuine Parts Co.	Drago Supply Co.	a regional industrial supplies distributor headquartered in Port Arthur, Texas	—	—	—
9/2/2008	IAC Europe	Visteon	assembly facility and associated assets including purchase and supply contracts of its Halewood, U.K. location	—	—	—
9/2/2008	SPX Corp.	AUTOBOSS Tech Inc.	a Shenzhen, China-based manufacturer of diagnostic tools and equipment.	—	—	—
9/2/2008	Tenneco	Gruppo Marzocchi	an Italian-based worldwide leader in supplying suspension technology and products in the two-wheeler market.	\$ 15.0	—	—
9/2/2008	SKF	GLO s.r.l.	manufacturer of constant velocity joints and drive shafts	—	25.0	—
8/28/2008	Perelli	Pirelli Turk Lastikleri, Celikord	Pirelli SpA's tire division has purchased minority shareholdings in the two tire companies it controls in Turkey	—	—	—
8/28/2008	Motorcar Parts of America	Suncoast Automotive Products	MPA acquired Suncoast's new and remanufactured alternators and starters operation.	—	—	—

(Continued from page 1)

Strategic buyers, from all segments of the industry, continue to drive aftermarket M&A. In an era marked by consolidation, strategic buyers continue to look outside their businesses for avenues of growth. We began seeing increased interest from strategic investors early in the third quarter. These businesses cited the need for growth and potential for discounted values of acquirees as motivators to ramp up acquisition efforts.

Acquisitions by strategic buyers increased from 20 reported transactions in the third quarter of 2007 to 33 transactions over the same period in 2008.

### Aftermarket M&A by type of business



There has been no shift in the type of businesses that are being acquired in 2008. Aftermarket acquirers are still primarily buying manufacturing businesses. Through September 30, 2008, 71 percent of all targets were manufacturing concerns, which is in line with the 70 percent manufacturing targets through the same period in 2007. Wholesalers and retailers comprised 24

percent of YTD transactions, up from 22 percent in 2007. Service and repair businesses are down slightly in 2008 representing 3 percent of 2008 transactions compared to 5 percent over the same period in 2007

Aftermarket M&A is very much alive as is evidenced by the record 94 announced transactions in the YTD period ending September 30. The broader credit crisis has hampered the ability of financial buyers to raise debt capital, an integral part of their typical deal structures. Strategic buyers, seeking inorganic growth and discounted valuations, have taken aftermarket M&A to record levels this year. We expect this trend to continue for the remainder of 2008 as frozen credit markets will take some time to "thaw."

Deal volume should remain high as economies of scale and depressed earnings drive strategic buyers, throughout the industry, to further consolidate the industry through year end. For many aftermarket companies, M&A has been the bright spot in an otherwise forgettable 2008.

### Schedule a Meeting with Capstone

The Capstone Auto Aftermarket Team is scheduled to be at Industry Week in Las Vegas from November 3 through November 7. To schedule a meeting, please contact Graham Payne at [gpayne@capfg.com](mailto:gpayne@capfg.com).

### 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 9/30/08	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	
<b>Manufacturers</b>									
Federal-Mogul Corporation	\$12.55	\$1,261.3	\$2,934.4	\$843.9	\$3,450.0	6/30/08	\$7,288.4	\$713.4	\$473.8
Aftermarket Technology Corp.	23.74	499.0	6.3	7.2	504.7	6/30/08	534.2	75.7	38.0
Tenneco Automotive, Inc.	10.63	495.9	1,492.0	164.0	1,856.9	6/30/08	6,332.0	434.0	(32.0)
Dorman Products, Inc.	12.53	221.2	23.1	7.5	242.4	6/30/08	338.1	38.8	17.5
Standard Motor Products, Inc.	6.22	116.3	273.9	12.3	377.8	6/30/08	796.8	38.6	17.9
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	\$40.21	\$6,506.2	\$500.0	\$135.8	\$6,951.6	6/30/08	\$11,037.8	\$929.7	\$511.3
LKQ Corporation	16.97	2,301.0	647.4	104.1	2,973.3	6/30/08	1,634.5	213.4	94.1
The Coast Distribution System, Inc.	2.85	12.7	30.8	1.3	42.2	6/30/08	150.5	3.2	0.1
<b>Retailers</b>									
Autozone, Inc.	\$123.34	\$7,807.0	\$1,932.0	\$81.7	\$9,779.9	5/3/08	\$6,314.9	\$1,253.2	\$615.0
Advance Auto Parts, Inc.	39.66	3,779.0	452.9	19.5	4,253.9	7/12/08	4,968.3	582.7	251.3
O'Reilly Automotive, Inc.	26.77	3,586.4	75.3	117.2	3,565.7	6/30/08	2,616.7	387.9	195.8
The Pep Boys - Manny, Moe & Jack	6.18	320.1	462.6	87.3	695.4	5/3/08	2,096.5	42.5	(46.4)
US Auto Parts Network, Inc.	2.15	64.2	0.1	34.1	30.1	6/30/08	158.2	(12.1)	(14.8)

**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	0.5x	9.6x	4.8x	8.9x	7.3x	2.7	16.7%	9.8%	6.5%
Aftermarket Technology Corp.	0.9x	8.4x	6.7x	8.5x	13.3x	13.1	23.6%	14.2%	7.1%
Tenneco Automotive, Inc.	0.3x	8.6x	4.3x	9.1x	NM	NM	15.3%	6.9%	NM
Dorman Products, Inc.	0.7x	7.8x	6.3x	7.5x	13.8x	12.6	33.3%	11.5%	5.2%
Standard Motor Products, Inc.	0.5x	15.8x	9.8x	15.0x	21.1x	6.5	24.3%	4.8%	2.2%
<b>Mean</b>	<b>0.6x</b>	<b>10.0x</b>	<b>6.4x</b>	<b>9.8x</b>	<b>13.9x</b>	<b>8.7x</b>	<b>22.6%</b>	<b>9.4%</b>	<b>5.3%</b>
<b>Median</b>	<b>0.5x</b>	<b>8.6x</b>	<b>6.3x</b>	<b>8.9x</b>	<b>13.6x</b>	<b>9.6x</b>	<b>23.6%</b>	<b>9.8%</b>	<b>5.8%</b>
<b>Wholesalers &amp; Distributors</b>									
Genuine Parts Company	0.6x	8.3x	7.5x	8.5x	13.6x	12.7	29.7%	8.4%	4.6%
LKQ Corporation	1.8x	15.9x	13.9x	17.8x	31.6x	24.5	45.1%	13.1%	5.8%
The Coast Distribution System, Inc.	0.3x	19.2x	13.2x	20.9x	NM	NM	19.6%	2.1%	0.0%
<b>Mean</b>	<b>0.9x</b>	<b>14.5x</b>	<b>11.5x</b>	<b>15.7x</b>	<b>22.6x</b>	<b>18.6x</b>	<b>31.5%</b>	<b>7.9%</b>	<b>3.5%</b>
<b>Median</b>	<b>0.6x</b>	<b>15.9x</b>	<b>13.2x</b>	<b>17.8x</b>	<b>22.6x</b>	<b>18.6x</b>	<b>29.7%</b>	<b>8.4%</b>	<b>4.6%</b>
<b>Retailers</b>									
Autozone, Inc.	1.5x	9.0x	7.8x	9.5x	15.9x	12.7	50.0%	19.8%	9.7%
Advance Auto Parts, Inc.	0.9x	9.8x	7.3x	11.1x	16.9x	15.0	48.2%	11.7%	5.1%
O'Reilly Automotive, Inc.	1.4x	11.5x	9.2x	29.6x	18.2x	18.3	44.7%	14.8%	7.5%
The Pep Boys - Manny, Moe & Jack	0.3x	NM	16.4x	NM	NM	NM	22.6%	2.0%	NM
US Auto Parts Network, Inc.	0.2x	NM	NM	NM	NM	NM	34.6%	NM	NM
<b>Mean</b>	<b>1.0x</b>	<b>10.1x</b>	<b>10.2x</b>	<b>16.7x</b>	<b>17.0x</b>	<b>15.4x</b>	<b>40.0%</b>	<b>12.1%</b>	<b>7.4%</b>
<b>Median</b>	<b>1.1x</b>	<b>9.8x</b>	<b>8.5x</b>	<b>11.1x</b>	<b>16.9x</b>	<b>15.0x</b>	<b>46.4%</b>	<b>13.3%</b>	<b>7.5%</b>

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful