

the aftermarket analyst

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

The China Syndrome

Reading ten thousand books is not as useful as travelling ten thousand miles
- Chinese Proverb

As the proverb implies, travelling ten thousand miles (gaining practical experience) is much more valuable than reading ten thousand books (theoretical experience). Over the past few

years, we have had many sellers tell us that their businesses are ideal for a Chinese acquirer – the theory being that the Chinese are interested in gaining a foothold into the U.S. market via unique distribution, a particular brand, or shelf space. Additionally, companies with ties to Chinese manufacturing, whether it's a wholly owned foreign entity or a supply relationship with a Chinese manufacturer, see

Top 15 China outbound Automotive deals, 2003-2010

Announced	Target Company	Target Country	Bidder Company	Bidder Location	Seller Company	Value (US \$ml)
3/28/2010	Volvo Cars Corporation	Sweden	Zhejiang Geely Holding Group Company Limited	China	Ford Motor Company	1,800
12/5/2009	General Motors Company (Manufacturing facilities in India)	India	SAIC Motor Corporation Limited	China	General Motors Company	650
8/26/2005	SAIA-Burgess Electronics Holding AG	Switzerland	Johnson Electric Holdings Limited	Hong Kong		600
10/29/2004	Ssangyong Motor Company Limited (49% stake)	South Korea	Shanghai Automotive Industry Corporation	China	Ssangyong Motor Company Limited (Creditor Group)	500
12/28/2009	General Motors India Pvt Ltd. (50% Stake)	India	Shanghai Automotive Industry Corporation	China	Motors Liquidation Company	500
12/11/2006	Repco Corporation Ltd.	Australia	Unitas Capital Ltd.	Hong Kong	Macquarie Group Limited	435
3/30/2009	Delphi Corporation (Global Suspension and Brakes business)	USA	Beijing West Industries Co. Ltd.	China	DPH Holdings Corporation	100
7/23/2005	MG Rover Group Limited	United Kingdom	Nanjing Automotive Corporation	China		87
9/16/2005	Benelli SpA	Italy	Qianjiang Group	China	Fineldo SpA	73
9/29/2008	Midsouth Holdings Ltd. (24.88% Stake)	Singapore	Zhong Nan Holdings Limited	China		46
9/25/2007	Copperweld Bimetallics LLC	USA	Fushi Copperweld Inc.	China		23
12/26/2006	Lawrence Automotive Interiors Ltd.	United Kingdom	Hua Xiang Group	China	Magna International	21
6/28/2005	NMPC (50% Stake)	Canada	Baosteel Group Corporation	China	Court Group	15
12/16/2009	Nikko Electric Industry Co. Ltd. (79.1% Stake)	Japan	Ningbo Yunsheng Co. Ltd.	China	WL Ross & Co. LLC; Daiwa Securities SMBC Principal Investments Co. Ltd.	11
11/1/2009	Michigan Rubber Products, Inc.	USA	Anhul Zhongding Sealing Parts Co. Ltd.	China	Myers Industries Inc.	10

themselves as attractive candidates for Chinese investment. Theoretically, these are all legitimate reasons. However, in practice, the Chinese are not acquiring U.S. automotive companies. According to Mergermarket, there have been only two Chinese acquisitions of U.S. automotive companies worth more than \$10 million in the past eight years (see chart). The largest transaction was

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Source: Mergermarket

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RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor(s)	Target	Target Description
8/31/2011	Timken	Drives LLC	a leading manufacturer of highly engineered drive-chains, roller-chains and conveyor augers for the agricultural and industrial marketplace
8/30/2011	FleetPride	Interstate Turbo Supply	aftermarket distributors of heavy-duty truck and trailer parts located in Denver, CO
8/19/2011	Bosch	Unipoint Group/NSA Brands	a producer of starters, alternators, temperature control parts and wiper blades for the aftermarket.
8/1/2011	Rank Group Limited	Honeywell (Consumer Products Group)	includes four leading consumer automotive brands: FRAM filters, Prestone antifreeze, Autolite spark plugs, and Holts car care products
7/27/2011	Commercial Vehicle Group, Inc.	Stratos Seating	a seat supplier to the Australian military, truck and specialty vehicle markets
7/22/2011	China Auto Parts & Accessories Capital Holding Ltd. (CAPACH)	Century Automotive Mfg., Inc.	a supplier of auto parts and components headquartered in Los Angeles
7/19/2011	Heartland Automotive	multiple entities in the Midwest and West	in the Minneapolis, Minn., area, acquired the assets of Carpenter Lube Centers LLC, also purchased the assets of Fish Enterprises LLC in Seattle, Wash., raising the total number of operating sites to 86 in the greater Seattle market, also purchased stores from Wisconsin Car Care Inc. in the Chicago area, driving its store count to 41 in this market
7/8/2011	Timken	Philadelphia Gear	a provider of gear-drive systems and aftermarket services for the industrial and military marine sectors
6/28/2011	Pep Boys	My Mechanic	seven stores previously operated by My Mechanic, a trusted full-service automotive repair chain in the Houston area since 1989
6/22/2011	Monro Muffler Brake	Vespia Tire Centers	24 Vespia Tire Center locations purchased located in New Jersey and Eastern Pennsylvania.
6/21/2011	Boyd Group	Cars Collision Center of Colorado LLC	includes 28 collision repair shops in Illinois, Indiana and Colorado
6/21/2011	Accuride Corp.	Forgitron Technologies LLC	include an 80,000-square-foot forged aluminum wheel manufacturing facility located in Camden, S.C.
6/17/2011	Johnson Controls	Keiper and Recaro Automotive	Keiper is a leader in recliner system technology and is known for its engineering and manufacturing expertise in metals and mechanisms for automobile seats. The company also produces complete seats for commercial trucks. Recaro Automotive offers complete seats for automakers and as aftermarket equipment.
6/13/2011	Hyosung Corp.	Goodyear Tire & Rubber Co.	its global wire business, which produces tire reinforcement wire from plants in Asheboro, N.C., and Colmar-Berg, Luxembourg, and employs about 600 people.
6/6/2011	ONCAP	Hopkins Manufacturing Corp. (Friend Skolar)	a leading designer, manufacturer and marketer of proprietary branded products for the automotive and RV aftermarkets

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Beijing West's acquisition of Delphi's Global Suspension and Brake business. Beijing West acquired the Delphi assets out of bankruptcy for \$100 million. Purchasing assets at a discount and then relocating them to China is a common theme among Chinese buyers. The other automotive transaction, Fushi Copperweld Inc.'s acquisition of Copperweld Bimetallics LLC was another distressed asset acquisition.

Fushi funded the \$23 million acquisition with proceeds from the private placement of new common shares. The vast majority of the common shares were purchased by U.S. interests. Ultimately, U.S. capital was used to purchase a distressed U.S. business.

In eight years, two Chinese organizations have purchased U.S. automotive assets, both at discounts and one using American dollars. Sellers usually find these numbers difficult to believe. They have been led to believe that China, with its double digit GDP growth and stockpile of American dollars, is banging at the door of American manufacturers. In reality, its only sizable

purchase in the US auto industry was the division of Delphi at a liquidation value. Sellers don't understand that the China-US relationship remains a one way street with the US investing far more in Chinese assets than vice versa.

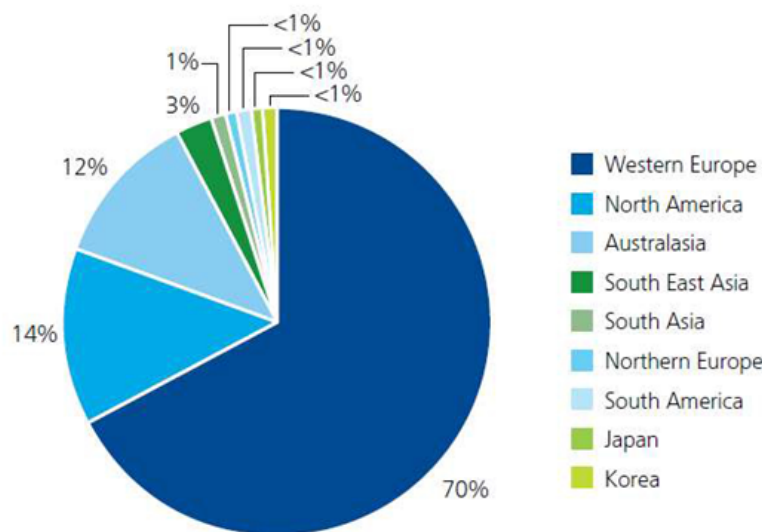
Chinese buyers have purchased few U.S. assets because:

1. They don't like to participate in auction processes;
2. They pay discounted values;
3. They typically don't have enough managerial depth;
4. They have difficulty working within the American economy (unique labor policies and legislation); and
5. US private equity groups are flush with cash.

As of 2011, Chinese companies have only been competitive when they can pay

discounted values on companies that have no formal processes. These assets are then relocated to China. Over the next decade, this will undoubtedly change as Chinese acquirers become more accustomed to U.S. M&A processes and as American companies become more familiar with Chinese business practices.

China outbound Automotive M&A deal value (US\$m) by region, 2003 - 2010



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.

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Selected Public Company Capitalization and Operating Figures
(**\$ in millions, except per share data**)

Company	Enterprise Value				Last Twelve Months (LTM)				
	Price as of 9/30/11	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
Manufacturers									
Federal-Mogul Corporation	\$14.75	\$1,458.8	\$2,831.0	\$1,042.0	\$3,351.8	6/30/11	\$6,656.0	\$633.0	\$198.4
Tenneco Automotive, Inc.	25.61	1,541.9	1,294.0	161.0	2,753.1	6/30/11	6,767.0	558.0	89.0
Dorman Products, Inc.	33.05	596.0	4.2	38.8	580.7	6/25/11	497.8	87.7	50.3
Standard Motor Products, Inc.	12.97	296.9	68.2	13.1	352.0	6/30/11	864.7	74.1	35.7
Wholesalers & Distributors									
Genuine Parts Company	\$50.80	\$7,963.8	\$500.0	\$516.7	\$8,022.4	6/30/11	\$11,917.5	\$946.4	\$528.8
LKQ Corporation	24.16	3,537.8	586.4	42.3	4,225.1	6/30/11	2,828.0	373.1	187.0
The Coast Distribution System, Inc.	2.65	12.0	12.7	2.8	22.0	6/30/11	107.8	0.3	(1.1)
Retailers									
Autozone, Inc.	\$319.19	\$13,265.7	\$3,171.1	\$100.4	\$16,935.0	5/7/11	\$7,876.1	\$1,639.0	\$816.4
Advance Auto Parts, Inc.	58.10	4,284.0	566.4	68.8	4,902.4	7/16/11	6,054.5	776.5	358.4
O'Reilly Automotive, Inc.	66.63	9,057.9	498.6	268.8	9,677.1	6/30/11	5,598.3	950.0	474.3
The Pep Boys - Manny, Moe & Jack	9.87	519.9	295.7	62.0	756.5	7/30/11	2,009.9	158.1	40.5
US Auto Parts Network, Inc.	5.07	154.9	21.0	16.2	159.7	7/2/11	324.0	10.4	(18.7)

Selected Public Company Multiples and Operating Statistics

Company	Enterprise Value /					Margins			
	Revenue	EBIT	EBITDA	Free Cash Flow (2)	Net Income	P / E Ratio	Gross Margins	EBITDA Margins	Net Margins
Manufacturers									
Federal-Mogul Corporation	0.5x	10.4x	5.3x	11.1x	16.9x	7.4	15.9%	9.5%	3.0%
Tenneco Automotive, Inc.	0.4x	8.0x	4.9x	7.2x	30.9x	17.3	16.7%	8.2%	1.3%
Dorman Products, Inc.	1.2x	7.3x	6.6x	8.3x	11.6x	11.9	37.0%	17.6%	10.1%
Standard Motor Products, Inc.	0.4x	5.9x	4.8x	5.5x	9.9x	8.3	25.6%	8.6%	4.1%
Mean	0.6x	7.9x	5.4x	8.0x	17.3x	11.2x	23.8%	11.0%	4.6%
Median	0.5x	7.6x	5.1x	7.7x	14.2x	10.1x	21.2%	9.0%	3.6%
Wholesalers & Distributors									
Genuine Parts Company	0.7x	9.4x	8.5x	9.5x	15.2x	15.1	28.8%	7.9%	4.4%
LKQ Corporation	1.5x	12.9x	11.3x	14.6x	22.6x	18.9	43.0%	13.2%	6.6%
The Coast Distribution System, Inc.	0.2x	NM	NM	NM	NM	NM	16.9%	0.3%	NM
Mean	0.8x	11.1x	9.9x	12.0x	18.9x	17.0x	29.5%	7.1%	5.5%
Median	0.7x	11.1x	9.9x	12.0x	18.9x	17.0x	28.8%	7.9%	5.5%
Retailers									
Autozone, Inc.	2.2x	11.7x	10.3x	13.0x	20.7x	16.2	50.8%	20.8%	10.4%
Advance Auto Parts, Inc.	0.8x	8.1x	6.3x	9.3x	13.7x	12.0	50.0%	12.8%	5.9%
O'Reilly Automotive, Inc.	1.7x	12.3x	10.2x	15.7x	20.4x	19.1	48.6%	17.0%	8.5%
The Pep Boys - Manny, Moe & Jack	0.4x	9.3x	4.8x	9.0x	18.7x	12.8	25.9%	7.9%	2.0%
US Auto Parts Network, Inc.	0.5x	NM	15.4x	NM	NM	NM	34.0%	3.2%	NM
Mean	1.3x	10.4x	9.4x	11.8x	18.4x	15.0x	41.9%	12.3%	6.7%
Median	1.3x	10.5x	10.2x	11.2x	19.5x	14.5x	49.3%	14.9%	7.2%

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

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful