Automotive

INDUSTRY REPORT






Volume 1

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Merger & Acquisition Update - A Year in Review

As 2007 ends and 2008 gets under way, let's take a look at the past year and what the future holds for the Automotive Industry.

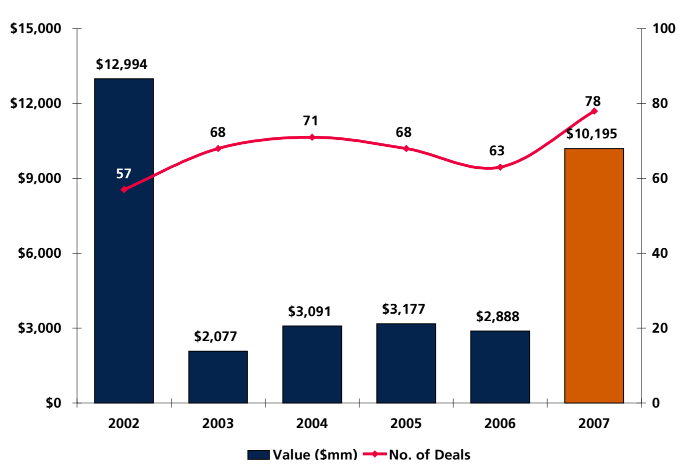
Looking Back at 2007

2007 marked another transition year for the U.S. auto industry. Rising competition from Japan coupled with several union strikes offered momentous challenges for beleaguered domestic manufacturers. New vehicle sales declined to 16.1 million units, the lowest total in nine years. Marketshare for domestic OEMs also fell to a historic low under 50%, with Toyota finally surpassing GM to become the global sales leader (according to some reports).

The much maligned CAFE level increases passed late in 2007 have also added to frustrations, impacting OEM strategies as GM terminated plans for a new V-8 engine to replace the aging Northstar powerplant. Increased fuel economy requirements may continue to skew the playing field in favor of Asian and European producers possessing more product development expertise with smaller refined gas or diesel engines, as alternative fuel drivetrain development becomes increasingly important.

Hardships within the industry have also caused domestic manufacturers to make drastic changes in operations. Following the Goodyear-USW strike resolution in January of 2007, the industry finally had a model for shedding the financial burden of pensioner healthcare costs using the Voluntary Employees' Beneficiary Association model (VEBA). Now incorporated into the new UAW agreements with The Big Three, the road to restructuring the domestic OEMs cost structure has begun.

Domestic Auto & Truck Aftermarket Activity



Source: FactSet Mergerstat, LLC

Similarly, OE suppliers continued to refine their strategies to seek higher profits and growth outside of their OEM businesses in the aftermarket. We've seen more companies selling and purchasing business units rather than entire companies, such as Caterpillar's purchase of Remy's remanufacturing division and ArvinMeritor's sale of its exhaust and emissions business.

Meanwhile, aftermarket suppliers and small retailers considered flat year-over-year sales performance a victory. Independent retailers without the supply chain economies of their larger competitors are selling to larger retailers and distributors as maintaining marketshare becomes increasingly difficult.

Smaller suppliers were squeezed by the conflicting need for volume to globalize their supply chain and lower costs, while being subjected to strong gross margin pressure from the handful of retailers and wholesale distributors that can offer the necessary volume. With the rest of the market so fragmented, it is hard to make up the thin margins elsewhere.

Importantly, the continued involvement of private equity throughout the industry, such as Cerberus' purchase of Chrysler or Platinum Equity's pending purchase of Delphi's steering business, continues to intensify the focus on restoring profitability to the OE supply chain.

Looking Ahead to 2008

The coming year is likely to bring continued challenges and opportunities for the industry. The economy began the New Year on full "recession watch." Continued credit and housing market challenges along with high oil prices are setting the stage for the lowest new vehicle sales since 1998, with further potential downside from weakening consumer spending. Upside to current market forecasts may come from a soft landing for the economy, lower oil prices and interest rates, or signs of recovery in the housing market.

Until relief materializes, however, the tightened new vehicle market should provide ample impetus and opportunity for domestic OEM's to continue restructuring efforts aimed at restoring competitiveness and profitability as they cut production volumes, capacity, refine product pipelines, and consolidate distributor networks. Supplier consolidation is inevitable as 2008 light-vehicle production forecasts dip 5% to 14.3 million.

Meanwhile, the aftermarket has been clinging to hopes that high gas prices have postponed vehicle repairs. The big question is whether or not the repair backlog will materialize to drive sales growth in 2008. Increased focus on high margin, value line products will continue throughout the DIFM and DIY supply chains as market players search for gross margin dollars at the lowest price points possible.

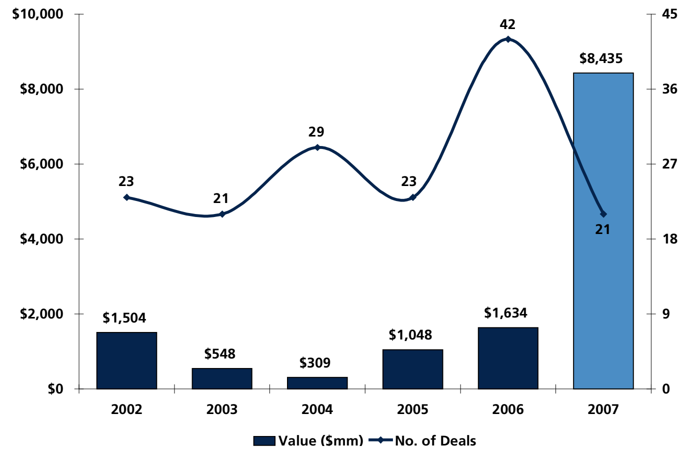
M&A Outlook

Despite the challenges facing the market, a strong M&A environment should continue in the automotive sector. Transaction motivation and deal parameters evolve, but overall deal activity continues to be healthy.

For strategic buyers, key areas of interest are new market entry platforms as industry players try to add scale and presence in both existing and emerging markets. Acquisitions and divestitures driven by refined core competencies are noticeable as large market participants seek to become leaders in their markets. Major players are aligning their resources and focus in an effort to drive profitability first and growth second.

Within the private equity community more changes are afoot. Constraints in the credit markets are likely to limit blockbuster deals in 2008, but there remains ample capital seeking a home that should drive buyout activity in the middle market, in particular. As the larger economy slows down, private equity groups are working harder to understand the likely performance of target investments in a tougher economic cycle. The automotive industry's relative stability and better visibility compared to more volatile industry segments, particularly other discretionary consumer segments, may be valued more highly in this period of uncertainty than in past periods.

Domestic OE Auto & Truck M&A Activity



Source: FactSet Mergerstat, LLC

As private equity groups selectively deploy capital in the industry, their focus on performance may lighten the shadow over the automotive sector as buyout activity could help recapitalize industry players and bring operational efficiencies.

Valuations for aftermarket companies in the middle market will be driven by company-specific factors, such as:

- Proprietary products
- Recognized brands
- High gross margins
- Established distribution including niche channels
- Strong management
- Growth opportunities
- Transplant exposure
- Quality real estate and geography for retailers
- Proven customer relationships

There is no doubt that the M&A market has become more conservative over the last six months, but it remains a great market by historical standards and 2008 should be another positive year.

Carl Genberg joined Barrington Associates in 2007 as the head of the Barrington Automotive industry practice specializing in providing expert merger, acquisition, divestiture, and capital raising advisory services to middle market automotive companies. Mr. Genberg has advised clients in a range of industry sectors including performance aftermarket, replacement parts aftermarket, OE suppliers, heavy duty truck, and distribution at both the retail and wholesale levels. Over the course of his career, Mr. Genberg has also completed M&A and capital raise transactions in the consumer products, manufacturing, business services, retail, media/entertainment, internet content, and e-commerce sectors.

Q&A with Evan Lyall, CEO of Roush Enterprises

Evan Lyall, CEO of Roush Enterprises, Inc., began his career in the automotive industry as a summer intern for Jack Roush Performance Engineering (JRPE) in 1981. Holding various positions in Accounting, Finance, Operations, and Racing, Mr. Lyall has been an integral part of the leadership team that has transformed JRPE into Roush Enterprises, a multinational firm widely recognized as a leader in automotive engineering, product development, aftermarket performance parts, alternative fuels technology, plastics manufacturing, and motorsports. Over the course of his tenure at Roush, the company has grown from 23 employees to 2,500 with revenues approaching $500 million.

Barrington: What is your perspective on the state of the aftermarket industry today and what is Roush excited about in particular?

Lyall: The industry is currently facing some challenges due to the economy and the reaction will be just what you would expect: strong companies with good balance sheets, brands, and quality engineering are going to be fine. But, because of the economy, there will be consolidation and some original founders will look to exit as the industry trends toward fewer companies. At Roush, there really are four things we're excited about today: engineering, motorsports, aftermarket, and small niche vehicle manufacturing. We've received some really positive news in all areas, but in particular we're excited from a powertrain engineering standpoint, which is a key element of our business. The new 35-mpg regulation will probably drive research in our industry, and it's really right in our sweet spot. At the same time, with our brand and the things we've had going on with performance aftermarket and Roush Performance products, we think we have the opportunity to potentially become a consolidator in that market – it's definitely an area we're looking to grow in and an exciting time for us at Roush.

Barrington: 35-mpg by 2020. What impact is that going to have on the performance aftermarket?

Lyall: There is a lot of opportunity, and all you had to do was go around SEMA to see it. A lot of people are doing things with ethanol, bio-diesel, diesel performance packages, and even electric vehicles. There are announcements coming that people are doing electric sports cars. The technology is moving quickly and there are enthusiasts who are interested in having differentiation in their vehicle. People will always want to do things with performance so I don't think anyone is going to stop racing cars, either at the drag strip or on the road course. There's an awful lot of opportunity in green performance that is centered on powertrain, and that's an area of expertise for Roush and an opportunity for our company in the future.

Barrington: How is Roush looking to expand into burgeoning areas like green performance?

Lyall: We're looking at the development of our own product for the aftermarket, and we'll start to take advantage of alternate fuels. What we hope to do is find the right people to partner with or to potentially acquire that are developing these technologies. We see ourselves as doing what we've always done and that's excel at integrating technology into existing products. The role that Roush has played for a period of time is that of an integrator as opposed to an inventor. There are lots of inventors that have ideas that we are going to be watching and looking for, and then potentially we have the opportunity to help them with their integration to make the product more mainstream, and that could apply on the OE and aftermarket side.

Barrington: What is it about Roush as a potential acquiror that makes you particularly attractive to middle market companies?

Lyall: We've been fortunate over the past 30-plus years because of our involvement in motorsports to develop heightened brand recognition, especially in the performance aftermarket. There are people out there with technology but no brand and no distribution channel, and maybe without the engineering resources to get their products fully integrated. Companies with products like that are potentially great fits for us because we can bring the brand, integration, and engineering. There are also companies whose products might survive under their current brand, but they would benefit more from our engineering capability to allow a broader reach for the product in terms of integration with more vehicle lines and possibly different applications. We also have a robust distribution system that we've developed in the last ten years in the automotive aftermarket – all of these things are valuable to a midsized business looking to grow.

Barrington: How has Roush been able to flourish in both the OE and aftermarket space?

Lyall: We've stayed true to who we are, even as the company has grown. I tell people this all the time: we may be involved in a lot of different areas, but we are engineers first. In this business all you

"I think what's getting ready to happen in the auto industry, and more robustly in the aftermarket industry, is continuing consolidation, and private equity firms will accelerate that…" - Evan Lyall, CEO of Roush Enterprises

really have is your technical reputation on the engineering side, so even our motorsports was built off an engineering foundation. When we entered the aftermarket and tried to take advantage of some of the brand recognition we had there, we told ourselves we wouldn't go aftermarket unless we could do it at or near an OE level. So we've always had an engineering directive and wanted to be proud to present our product offerings to GM, Chrysler, or Ford. That meant we had to look carefully at the fit and finish, instruction sheets, warranty levels, and the technical integration to ensure our products were always at that level. I think that's how we've been successful, because we went into it with that kind of high-performance attitude and stayed true to our engineering heritage.

Barrington: You mentioned GM, Ford, and Chrysler. How has their relationship with the aftermarket evolved?

Lyall: I think they've ebbed and flowed depending on the particular agenda that the OE had at the time, but I think it's safe to say they always have and will continue to use the aftermarket as a kind of sounding board on consumer opinion, and in some cases, look to the aftermarket as a test market for product ideas.

Barrington: Can you talk about how your racing activities fit into the bigger picture at Roush?

Lyall: In addition to our engineering, racing permeates everything we are at Roush without a doubt. Motorsports exists here in attitude, brand, and in the performance orientation we have. It's an unforgiving business, and, as we like to say around here, 'The flag is going to drop and the race is going to start every Sunday whether you are ready or not.' We apply that same sense of urgency and responsiveness to everything we do in this business in terms of deadlines, budgets, and just the way our business works. In terms of branding, the winning and competitive tradition is really the lifeblood of who Roush is as a company. Motorsports is a business unto itself, and it's a standalone entity, but we certainly get a lot of intangibles from it in terms of that attitude in our brand and our culture.

Barrington: How do acquisitions fit into your strategic plan for growth and innovation?

Lyall: Traditionally, we haven't been an acquiror; we've only made a couple of acquisitions over time and those were really partnerships where it turned out the best thing for both parties was an acquisition. Now, we are more focused on acquisitions as an opportunity and established growth strategy, particularly for Roush Performance products. We think there's going to be some consolidation based on what we see in the industry, and we're interested in looking for companies that have a technical product or products, in particular companies that think they can benefit from our brand recognition, distribution, and engineering. That's prime for us. We're also very interested in having the opportunity to look at companies that have great brands that could be expanded with our engineering and technology, or we could possibly add to brands and have the chance to become a multiple manufacturer as time goes on. We're very forward oriented in our performance aftermarket goals and are open to dialogue with companies.

Barrington: What is a key criterion you look for in a potential acquisition?

Lyall: The key for us would be the partnering aspect. We are interested in people who seek some synergy in being involved with our company - people who are excited about continuing to build what they've been working on. That's not to say we rule out a straight acquisition where people walk away, but we're much more interested in people who want to join up and add energy to the total of what we are doing. One of the first things we like to look at is making sure the people we talk to really understand what they do well, and from there we start to look for the synergies between the two companies to see if there is a good fit. As with all strategic acquisitions, we'll try to see if we can get a one plus one equals three situation, and that often times relies on the people.

Barrington: A closing thought on M&A and investor activity: how has private equity impacted you at Roush, and to a larger extent the OE and aftermarket industry?

Lyall: Private equity has definitely changed the industry. I think you're crazy to not pay attention to what the private equity firms are looking at. If they see an opportunity within a sector that you're in, you certainly need to pay attention. There are a lot of smart people working in that area and they wouldn't be making those investments unless they thought there was an upside opportunity. That being said, generally they don't show up at the top of the market so you have to be careful in that respect too. I think what's getting ready to happen in the auto industry, and more robustly in the aftermarket industry, is continuing consolidation, and private equity firms will accelerate that to try and take advantage of economies of scale. A wealth of management talent can come along with that obviously, and an ability to get to a global scale quicker for smaller firms. I think that it raises the stakes and the game moves a little faster so you have to be ready to take advantage of opportunity when you see it.

Select Strategic Acquisitions

Metzeler Acquires GDX Automotive
January 28, 2008 - Metzeler Automotive Profile Systems - North America (a portfolio company of Wynnchurch Capital) acquired GDX Automotive from Cerberus Capital Management for an undisclosed amount. The merged entities, renamed Henniges Automotive, manufacture sealing and anti-vibration systems globally.

TBC Acquires Pioneer Tire
January 18, 2008 - Benicia, CA-based TBC has acquired Pioneer Tire Supply and merged it into its National Tire Warehouse (NTW) operation on the West Coast. Pioneer Tire Supply is an independent tire wholesaler.

Brembo Acquires Hayes Brake Division
November 9, 2007 - Brembo acquired the automotive brake components division of Hayes Lemmerz for $58 million. Northville, MI-based Hayes Lemmerz manufactures brake rotors and drums.

LKQ Acquires Keystone Automotive
October 12, 2007 - LKQ acquired all the operations of Keystone Automotive Industries in a transaction valued at $807 million. Pomona, CA-based Keystone distributes aftermarket collision replacement parts.

Michelin to Acquire Oliver Rubber
July 31, 2007 - Michelin North America, Inc agreed to acquire Oliver Rubber Co from Cooper Tire and Rubber Co for $69 million. Findlay, OH-based Cooper manufactures and treads tires.

ONEX Corporation Acquires Allison Transmission
June 28, 2007 - ONEX acquired Allison Transmission from General Motors for $5.575 billion. Detroit, MI-based Allison Transmission designs and manufactures automatic transmissions for trucks, buses, and military vehicles.

THK Acquires Rhythm Corp
April 23, 2007 - THK acquired Rhythm from the Carlyle Group for $103.44 million. Washington, D.C.-based Rhythm designs, manufactures, and markets automotive parts.

Eaton Acquires Hydrogen Hybrid Technology
March 30, 2007 - Eaton Laboratories acquired Hydrogen Hybrid Technologies for $68.31 million. Hydrogen Hybrid manufactures on-board hydrogen generating and injection systems for trucks.

Caterpillar Acquires Remy Units
January 31, 2007 - Caterpillar acquired Remy International's Franklin Power Products and International Fuel Systems for $153.2 million. Anderson, IN-based Remy manufactures and exports light and medium truck diesel engines and components.

Select Private Equity Transactions

Centrum Acquires Visteon Facilities
February 1, 2008 - Centrum Equities acquired the non-core North American-based aftermarket underhood and remanufacturing facilities of Visteon for an undisclosed amount. The sale includes a manufacturing plant in Tennessee and two plants in Mexico.

ComVest Acquires Southern Comfort Conversions
December 31, 2007 - The ComVest Group acquired Southern Comfort Conversions, the largest vehicle converter in the United States. Birmingham, AL-based Southern Comfort provides custom paint, interior finish, lighting, ground effects, and wheels to standard vehicles off the assembly line.

Linsalata Capital Acquires Lund
December 4, 2007 - Linsalata Capital Partners along with Resilience Capital Partners agreed to acquire Lund International for an undisclosed amount. Suwanee, GA-based Lund is a designer and manufacturer of car and truck accessories including grills, spoilers, and vents.

Kinderhook Acquires Extang and TruXedo
November 19, 2007 - Kinderhook Industries acquired Extang Corp and TruXedo, Inc for an undisclosed price. Ann Arbor, MI-based Extang and Yankton, SD-based TruXedo are leading manufacturers of tonneau covers and other truck accessories.

Monomoy Capital Acquires Alcoa Automotive Castings
November 5, 2007 - Monomoy Capital Partners acquired Alcoa's auto castings business for an undisclosed amount. Alcoa manufactures a full range of safety-critical suspension and chassis components.

Wynnchurch Acquires Metzeler's North American Operations
September 17, 2007 - Wynnchurch Capital acquired the North American Operations of Metzeler Automotive Systems for $66 million. Madison Heights, MI-based Metzeler is a supplier of sealing systems to the automotive industry.

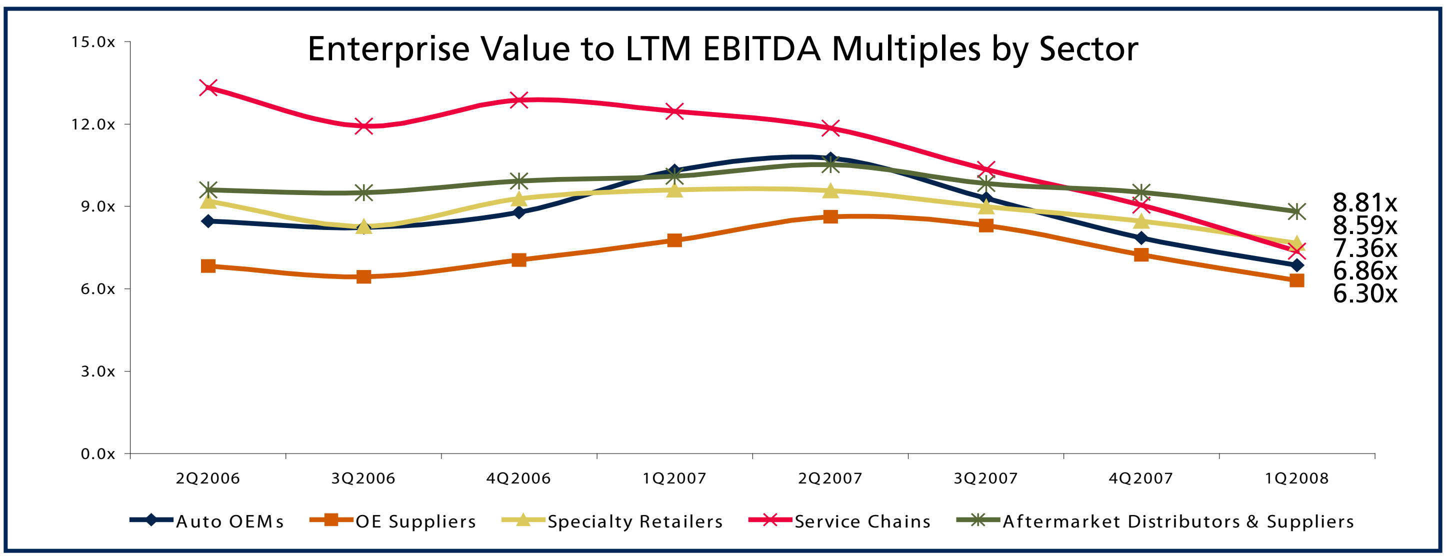
Resilience Capital Acquires Penda
August 2, 2007 - Resilience Capital Partners acquired Penda Corp for an undisclosed amount. Portage, WI-based Penda manufactures OE and aftermarket pickup truck bedliners, fiberglass truck products, and other accessories.

Warburg Acquires Alliance Tire
July 11, 2007 - Warburg Pincus & Co agreed to acquire Alliance Tire Co for $149.42 million. Alliance Tire manufactures various passenger and industrial tires.

ClearLight Partners Acquires Katzkin
June 27, 2007 - ClearLight Partners acquired Katzkin Leather Interiors, Inc for an undisclosed amount. Montebello, CA-based Katzkin manufactures and distributes leather interiors and seat kits for the automobile market.

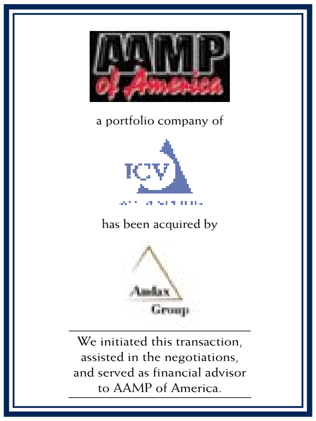
Public Market Valuations*

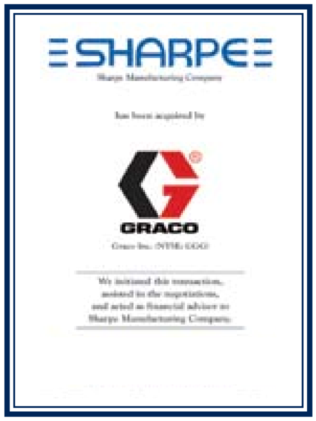
Company	Stock Price	Enterprise Value	LTM Revenue	LTM EBITDA	Net Income	Gross Margin	EBITDA Margin	Net Income %	Inventory Turns	EV/LTM EBITDA
Auto OEMs										
Ford Motor Co. (NYSE:F)	$6.31	$151,766	$168,700	$17,207	($5,537)	12.5%	10.2%	-3.3%	11.1x	8.8x
General Motors Corp. (NYSE:GM)	$25.71	$35,767	$186,703	$15,493	($37,060)	16.7%	8.3%	-19.8%	10.6x	2.2x
Honda Motor Co. Ltd. (TSE:7267)	$29.37	$89,874	$112,726	$15,362	$7,032	29.2%	13.6%	6.2%	6.8x	5.9x
Nissan Motor Co. Ltd. (TSE:7201)	$8.96	$83,519	$103,018	$15,178	$3,738	22.8%	14.7%	3.6%	8.3x	5.5x
Toyota Motor Corp. (TSE:7203)	$54.32	$278,635	$238,734	$38,997	$16,946	19.3%	16.3%	7.1%	10.8x	7.1x
OE Suppliers										
Continental AG (DB:CON)	$97.72	$16,732	$23,223	$3,943	$1,682	25.7%	17.0%	7.2%	6.6x	4.2x
Denso Corp. (TSE:6902)	$35.40	$28,325	$36,115	$5,394	$2,148	17.4%	14.9%	5.9%	10.1x	5.3x
Eaton Corp. (NYSE:ETN)	$80.41	$14,495	$13,033	$1,636	$994	27.9%	12.6%	7.6%	6.8x	8.9x
Johnson Controls, Inc. (NYSE:JCI)	$33.58	$23,989	$35,898	$2,695	$1,325	14.7%	7.5%	3.7%	15.9x	8.9x
Magna International, Inc. (NYSE:MGA)	$77.05	$7,274	$25,599	$1,863	$664	12.8%	7.3%	2.6%	13.7x	3.9x
Specialty Retailers										
Advance Auto Parts, Inc. (NYSE:AAP)	$34.81	$4,087	$4,812	$566	$239	47.9%	11.8%	5.0%	1.7x	7.2x
AutoZone, Inc. (NYSE:AZO)	$114.00	$9,284	$6,232	$1,233	$604	49.8%	19.8%	9.7%	1.6x	7.5x
CSK Auto Corp. (NYSE:CAO)	$9.10	$874	$1,897	$105	($0)	46.8%	5.5%	0.0%	1.9x	8.3x
Genuine Parts Co. (NYSE:GPC)	$44.62	$7,726	$10,759	$913	$500	31.5%	8.5%	4.6%	3.3x	8.5x
O'Reilly Automotive, Inc. (NasdaqNM:ORLY)	$28.85	$3,310	$2,476	$376	$194	44.4%	15.2%	7.8%	1.6x	8.8x
Service Chains										
Midas, Inc. (NYSE:MDS)	$15.69	$329	$177	$39	$10	64.5%	22.1%	5.6%	20.6x	8.4x
Monro Muffler Brake, Inc. (NasdaqNM:MNRO)	$17.01	$411	$440	$61	$24	40.2%	13.9%	5.5%	4.0x	6.7x
Pep Boys - Manny, Moe & Jack (NYSE:PBY)	$11.46	$1,120	$2,226	$139	($13)	26.1%	6.2%	-0.6%	2.7x	8.1x
Aftermarket Distributors & Suppliers										
Aftermarket Tech. Corp. (NasdaqNM:ATAC)	$24.19	$514	$524	$79	$40	24.1%	15.1%	7.6%	6.7x	6.5x
Coast Distribution System, Inc. (AMEX:CRV)	$5.23	$45	$164	$3	($0)	17.8%	1.6%	-0.1%	3.1x	17.4x
Dorman Products, Inc. (NasdaqNM:DORM)	$11.18	$217	$321	$43	$20	34.3%	13.2%	6.4%	2.8x	5.1x
Exide Technologies (NasdaqNM:XIDE)	$8.37	$1,356	$3,201	$173	($83)	15.8%	5.4%	-2.6%	5.5x	7.9x
LKQ Corp. (NasdaqNM:LKQX)	$19.11	$2,332	$917	$112	$55	34.1%	12.2%	6.0%	4.3x	20.8x
Snap-on, Inc. (NYSE:SNA)	$49.81	$3,295	$2,904	$401	$181	44.6%	13.8%	6.2%	4.9x	8.2x
Mean						37.3%	11.7%	4.4%	4.6x	9.3x
Median						37.3%	12.7%	5.6%	3.2x	8.1x

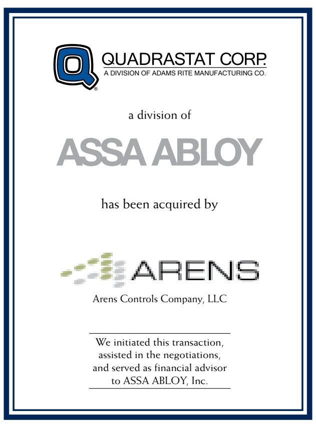


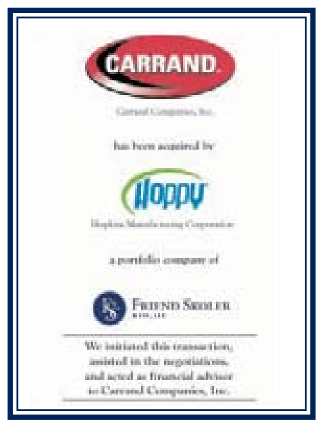
*Source: Capital IQ; Stock price and EV/LTM EBITDA multiples data as of February 6, 2008; other data as of latest company filings.

DRIVING VALUE FOR AUTOMOTIVE COMPANIES









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