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MORNING NOTE

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PROLIANCE INTERNATIONAL INC.
(AMEX: PLI: \$0.31, BUY)
INDUSTRY: TRANSPORTATION

Disclosures: 1, 10

FY: Dec	2007A	2008E	2009E
EPS	(\$1.18)	(\$0.13)	\$0.28

Trends In Counter-Cyclical Aftermarket Better and Better For PLI

Unlike the U.S. OEM automakers, **the \$215 billion aftermarket is flourishing.** Aftermarket sales, including both products and services, grew 4% in 2007 to \$285.5 billion, according to the most recent annual numbers available from the Automotive Aftermarket Industry Association (AAIA). Cars and light trucks accounted for \$211.4 billion, and sales in the heavy duty vehicle aftermarket totaled \$74.1 billion.

Naturally, a booming aftermarket is good news for PLI. Aftermarket demand is a function of the age of the vehicle fleet and miles driven.

- **The average age of vehicles on the road is increasing as new car sales grind down close to a halt.** About 27 million vehicles on the road today are between eight and 11 years old, and some 59 million more will age into that group in the next three years.
- According to privately held car auction operator Adesa, Inc., **used vehicle prices bottomed out in October 2008 and are trending higher each month since,** reflecting greater demand. Older cars need more maintenance.
- Miles driven, which dropped in 2008, can be expected to return to more normal levels now that gasoline prices have plunged back to earth.
- Most aftermarket sales are not discretionary, but necessary to keep a car running and its owner provided with transportation. Maintenance can be deferred, but not indefinitely, and is usually costlier when it has been put off. O'Reilly Automotive, for instance, estimates that 80% of its sales are "clearly not discretionary" and that U.S. drivers are up to **\$60 billion behind in maintenance: pent-up demand** that should flow through later in 2009.
- **Increased price sensitivity** is driving consumers to service centers, which use aftermarket parts, over the more expensive dealerships.
- Dealerships have been closing, and **about 2,000 more dealerships are expected to close** in the coming year. This consolidation places more and more customers outside the footprint of convenience and drives them to local repair shops. Dealer consolidations will also make available more trained, experienced technicians, keeping labor costs down.

- Monro Muffler Brake projects that **about 2,000 more dealerships will close** in the coming year. This consolidation places more and more customers outside the footprint of convenience and drives them to local repair shops.
- Finally, in further proof of the health of the industry, Monro Muffler's December quarter comparable store sales rose 5.9%, exceeding management's guidance and representing a third straight quarter of mid-single-digit positive comps.

PLI: Waiting On Senior Credit Facility

PLI, as previously reported, has signed a proposal letter with a major bank that would provide a new \$60 million senior secured credit facility. PLI intends to complete a transaction early in 2009 and replace its current lender. We are still watching for this announcement.

Also as previously reported, PLI has signed a letter of intent with a group of institutional lenders to provide \$30 million of mezzanine financing, subject to PLI obtaining the new senior secured credit facility. We are very encouraged that **PLI has been able to make progress toward this financing and amend its existing credit agreement in a tight credit environment.**

We recommend PLI as an intriguing deep value play as soon as its senior secured credit facility is in place, which we expect shortly.

PLI's ongoing cost reduction efforts are showing a solid improvement to operating margin. Even better, a driver of sales growth has appeared in the international heavy-duty marine segment. We believe **that the operational turnaround is well underway and will be more visible in the market once new financing is in place.**

We expect PLI to report 2008 year-end results in mid-March. We maintain our price target of \$3.00, which represents 11 times 2009 earnings. We maintain our **BUY** rating.

DISCLOSURES

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This report has been written in accordance with current SEC regulations and the Standards of Practice developed by the Association of Investment Management & Research (AIMR). Our research has been conducted by employing analytical practices generally accepted as standard within the analytical industry. In this instance, a comparison of financial strength, a bottom-up earnings projection based on a recovery in the U.S. economy, and relative multiples, were employed. The target price was calculated on comparative EPS, sales and book value multiples, a projection of potential multiples given other similar operations, and our knowledge of small-cap markets when enjoying both a sector and a cyclical rebound. Our conclusions are, by the very nature of forecasting, speculative, but are also reasonable, supportable and consistent.

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Hold	Holding the stock is recommended because the share price has moved above the specific "Buy" range and, therefore, appreciation potential is less than or equal to the market.
Sell	The stock has reached the target price objective and/or conditions have changed sufficiently to alter the outlook for the stock.

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