

DEMOLITION DERBY

BY VYVYAN TENORIO

Given the sheer number of troubled businesses in the sector, it's tempting to describe automotive parts as private equity's junkyard dogs. While mortgages and retail account for many recent bankruptcies, the U.S. auto parts sector -- hammered by huge production cuts, pricing pressures, competition, high raw-materials and energy costs, not to say recession -- has been every bit as gnarly for leveraged buyout folks.

Yet investors continue to test their knowledge and skills, with mixed results. Not every parts maker is destined for the scrap heap. Less reliance on the Big Three and geographic diversity helps. A good example: **TRW Automotive Holdings Corp.**, a Livonia, Mich., maker of air bags, seat belts, brakes and other components, which supplies both domestic, European and Asian carmakers. **Blackstone Group LP**, which bought it in 2003, has profited enormously from its estimated \$675 million bet.

Backed by **Cypress Group LLC** and **Goldman, Sachs & Co., Cooper-Standard Automotive Inc.**, a Novi, Mich.-based maker of fluid handling systems, is also making strides in diversifying globally through acquisitions in Germany, Italy, Poland and Belgium, as well as joint ventures in India and China.

It is still early for Wilbur Ross Jr.'s ongoing rollup effort, **International Automotive Components Group North America LLC**. But on a more modest scale, New York buyout boutique **Monomoy Capital Partners LP** is betting that **Compass Automotive Group Inc.**, a merger of several other portfolio companies, can ride out industry woes by focusing on so-called safety-critical and highly engineered components for passenger cars rather than hard-to-sell sport utility vehicles or trucks. "We're actually fairly upbeat, though if we were a plastic injection molder, we'd be singing a

different story," Monomoy partner Justin Hillenbrand says.

Suppliers are slightly better off, having capitalized on robust credit markets in recent years. Many have refinanced loans or issued new debt or equity, minimizing near-term debt maturities. Still, having too much leverage has left parts makers with less of an equity cushion to absorb bumps. True, many North American suppliers have gone through major restructuring, but conditions haven't improved, and analysts' views have been increasingly negative, as Detroit's automakers struggled.

In the latest bankruptcy wave this year, only six of 50 in the auto parts sector had PE funding. The largest, **Progressive Moulded Products Ltd.**, a Concord, Ontario, maker of console and instrument panels subsystems, was actually twice LBO'd, by **Oak Hill Capital Partners** in 2000 and by **Thomas H. Lee Partners LP** in 2004. Much of its output went into SUVs, light trucks and minivans. Despite increased revenue from new parts programs culled from bankruptcies of other suppliers, the company succumbed to nearly \$550 million of debt at the time of the filing, and is winding down.

Others share its fate. They include **Blue Water Automotive Systems Inc.**, a Marysville, Mich., manufacturer of molded thermoplastic components and assemblies and a key supplier to the Big Three. Blue Water's failure is a blot on backer **KPS Capital Partners LP's** KPS Special Situations Funds' otherwise successful turnaround record. Management had tried to restructure, but the combination of reduced volumes and high resin prices proved insurmountable. On Aug. 12, the company said it was looking to liquidate after a sale collapsed. "There'll be more restructurings and more consolidation," says **Lazard** managing director Barry Ridings. "The story isn't over."

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