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US auto bailout to aid buyout firms

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Many private equity firms have exposure to the US auto sector that was teetering on the edge of collapse. The US government's multi-billion efforts to prop up the big three US auto makers will accordingly affect many portfolios, not just Cerberus'.

The bailout of the US auto industry has given much needed relief to some of the private equity firms which have invested in the struggling sector.

Last month, the US government agreed to extend up to \$17.4 billion to General Motors and Chrysler to help keep the companies afloat. The US Treasury just recently agreed to provide up to \$6 billion to GMAC Financial, GM's financing arm.

Cerberus Capital Management, which owns both Chrysler and GMAC, is perhaps the most public private equity firm getting help from the US government. Cerberus agreed to turn over its equity in Chrysler's automotive operations as part of the rescue package. The firm also agreed to donate the first \$2 billion in proceeds from its financing arm, Chrysler Financial, to help backstop the government relief money.

But the rescue has also given a lifeline to other firms that are exposed more peripherally to the industry, for example through auto parts manufacturers. Platinum Equity, WL Ross, the Carlyle Group, Hg Capital, PAI Partners, KPS Capital Partners and IK Investment Partners are among firms with investments in the sector.

"It's not for the faint of heart, being in the auto business today," said Stephen Presser, partner with Monomoy Capital Partners. The US private equity firm has several auto parts makers in its portfolio, including Hess Industries and KurzKasch.

"What's happening in the private equity world, instead of looking at our investment as, 'is this a good or a bad company, do I want to own, when can I sell?', many of us are saying, 'Can I be a survivor?'" Presser said. "If I can, in theory I should be able to pick up enough volume from those who don't survive, so I'll be okay at the bottom of the cycle."

JF Lehman, a US private equity firm, saw its portfolio company, Special Devices, go bankrupt last month. The firm bought auto parts maker SDI for \$296 million in 1998.

Key Principal Partners, a private equity firm that takes minority stakes in mid-market companies, is invested in some auto parts makers for whom the rescue comes too late.

"[The bailout] won't have an impact before some of our companies' futures are resolved," John Sinnenberg, chairman of Key Principal Partners, said in an interview.

The industry needs restructuring, but even with cost cutting and more efficiency, the industry will continue to struggle as long as the US consumer is hurting, he said.

"The object is to lower costs and to make the industry more competitive, but that won't change volumes very much," Sinnenberg said. "The US consumer is pretty much tapped out. Just because we restructure the industry, that won't change consumer behavior in the near term."