

McTevia comments on Private Equity Investors to Saginaw News

Private equity is the buzz among big-time investors
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If someone were to remake "The Graduate" today, young Benjamin Braddock surely wouldn't hear advice to pursue a career in plastics.

Instead, someone would whisper in his ear, "Two words: Private equity."

You can hardly pick up the newspaper or surf the Web these days without reading about some faceless equity firm snapping up a publicly held corporation and taking it private.

Neiman Marcus, Toys R Us and Harrah's Entertainment are some of the more recent well-known companies that private equity firms acquired.

These firms get their investment cash from a variety of sources, including pension funds, insurance companies and wealthy individuals. They raised a record \$200 billion last year as the rich got richer and invested more of their cash in largely unregulated private equity funds that often produce big returns to investors.

"These equity firms fly under the radar," said James McTevia, president of McTevia & Associates, a corporate turnaround consulting business in Bingham Farms.

They're known, and often criticized, for their secretive ways. And now they've discovered Michigan's auto industry -- big time.

Southfield-based auto supplier Lear Corp. last month agreed to a sale to billionaire equity fund investor Carl Icahn.

Several private equity firms are vying to buy pieces of bankrupt supplier Delphi Corp.

Four private equity firms apparently are exploring a purchase of the Chrysler Group.

So why are these equity firms salivating over a domestic industry that many people outside Michigan think is doomed?

Because there's money to be made in companies that have become relatively cheap to buy as their

fortunes have fallen.

David Brophy, director of the Office for the Study of Private Equity Finance at the University of Michigan, says private equity firms are experts in reorganizing companies, cutting costs and returning them to profitability.

But Brophy said job losses at auto-related companies private equity firms buy could become substantial as the firms pare them down and revamp them.

"It probably won't have a nice effect on Michigan in the short term," he said.

After these companies are revitalized, the private equity owners often take them public again through initial public stock offerings, which is how investors in the equity funds make money.

They don't always succeed. Former Reagan Budget Director David Stockman, who headed equity firm Heartland Industrial Partners, is the target of a federal probe in the bankruptcy of Collins & Aikman, a large auto supplier Heartland owned.

And not all these transactions go smoothly. Investors and employees of Lear are suing the company, saying Icahn is trying to buy the company for far less than it's worth.

Many of the private equity firms investing in auto suppliers have former auto executives in leadership positions.

David Thursfield, for example, heads the automotive unit of Cerberus Capital Management, which is investing in Delphi and is said to have its eye on Chrysler. He's the former chief of Ford Motor Co.'s international operations.

Other private equity executives have Michigan connections. Tom Gores, a Flint-area native and Michigan State University graduate, heads Beverly Hills, Calif.-based Platinum Equity, which is bidding to buy Delphi's Saginaw Steering Systems.

Brophy said there may be no limit to the number of auto-related companies that private equity firms might buy. Even Ford and General Motors Corp. could become targets, he said.

"Put two or three of these equity firms together in a club deal, and they can buy any of (the automakers)," Brophy said.

That might get the heart of today's Benjamin Braddock racing faster than the prospect of having an affair with Mrs. Robinson.