McTevia comments on private equity interests in auto industry

Many auto-related companies appeal to private equity firms

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If "The Graduate" were to be remade today, young Benjamin Braddock surely wouldn't be advised to pursue a career in plastics.

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

You can hardly pick up a 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 acquired by private equity firms.

The firms themselves also are making headlines these days. On March 22, Blackstone Group LP, one of the world's biggest private equity firms, said it seeks to raise up to $4 billion in a highly anticipated initial public offering.

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 firm in Bingham Farms, Mich.

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

Southfield, Mich.-based auto supplier Lear Corp. last month agreed to be sold to billionaire equity fund investor Carl Icahn.

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

And four private equity firms are reported to be separately 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? The reason is, 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 purchased by private equity firms could be substantial as they are pared down and revamped.

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 LP, is reported to be the target of a federal probe in the bankruptcy of Collins & Aikman, a large auto supplier owned by Heartland.

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.

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

"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.