McTevia Comments on Chrysler & Private Equity

Cerberus has big appetite for auto firms
Private equity investor on buy binge

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Cerberus Capital Management, one of the private equity firms bidding on the Chrysler Group, has been buying up large stakes in the U.S. auto industry and appears hungry for more, leaving Detroit wondering who's taking over and what the group's intentions are. Those aren't easy questions to get answered, even as the firm seems to make moves and news daily in southeast Michigan. The New York private equity fund, named after the mythological three-headed dog that guards the gates of Hades, is known for being among the most secretive of the private equity world. Its founder Stephen Feinberg and other top executives rarely give interviews or make public statements -- they weren't available for this report, either. Cerberus has a Web site, but -- for a firm with offices in 10 cities around the globe and whose companies generate more than $60 billion in annual revenues -- there is little information on it. One page on the site is dedicated to Cerberus' investment professionals, but despite boasting the likes of former U.S. Vice President Dan Quayle and former U.S. Secretary of the Treasury John Snow on its boards, it simply reads "currently under revision." Its secrecy also means the chances are good that you've done business with a Cerberus company and didn't know it. The firm owns the Alamo and National rental car companies, more than 250 Burger King restaurants, the Fila shoe brand, Blue Bird school buses and the Rafaella clothing brand. Cerberus also owns several banks, mortgage companies and property managers around the world. Critics and competitors say secrecy is imperative to success in the takeover business. It allows buyers to make bids before competitors even know a business is for sale. "Private equity, just by its nature, is secretive," said auto analyst Kevin Tynan of Argus Research.

"Even people within private equity firms don't talk to each other. They don't know what the other people there are doing." At Cerberus, that appears to have paid off. The New York Times reports that Cerberus' fund earns an average annual return of about 22%. And Institutional Investor magazine estimated Feinberg was paid $75 million in 2004. But that general lack of information directly from Cerberus, and the speculation that comes with it, can make workers at the companies that are in play and the communities they call home anxious -- as is happening in southeast Michigan. Private equity is by definition private. Its investors don't have to publicize plans; they aren't beholden to public shareholders. Private equity is exactly what should be calling the shots in companies that require fresh capital -- and tough decisions -- said Jim McTevia, chairman of McTevia & Associates. "The future of the industry, at least domestically here, is uncertain," he said. "The people who should be bankrolling these companies during those circumstances should be risk capital and not the man on the street."

But private equity groups have a reputation for selling off divisions of a business, drastically trimming workforces and doing it all quickly. Cerberus, like other private equity firms, makes money by buying companies it believes are undervalued, improving their operations in the span of a few years and then selling the company for a profit. "They love undervalued assets," said Erich Merkle, an auto analyst at IRN Inc. "If there's some babies in that bathwater, they're going to be there to pick them up." Three business units deploy Cerberus' money -- private equity, loan origination and real estate -- said spokesman Peter Duda. In southeast Michigan, Cerberus already has purchased a controlling interest in General Motors Corp.'s finance arm, GMAC, as well as auto suppliers CTA Acoustics in Madison Heights and GDX Automotive in Farmington Hills. It has offered to invest $3.4 billion in parts giant Delphi Corp., which is in bankruptcy. And earlier this month, a judge gave auto supplier Tower Automotive, also in bankruptcy, preliminary permission to sell nearly all of its assets to Cerberus for $1 billion. And, of course, Cerberus is reported to be among the parties that are serious about investing in DaimlerChrysler AG's Auburn Hills-based Chrysler Group, whose annual revenue -- at $62.2 billion -- is nearly the same as the revenue of Cerberus' entire current portfolio. The United Auto Workers and Canadian Auto Workers have publicly opposed the sale of Chrysler, and they are particularly opposed to its sale to Cerberus or any other private equity group. "If the writing's on the wall, and there is a decision here to sell it, that decision had better not be to sell it to some private equity group that's going to come in and destroy it," CAW representative Bob Chernecki said. "There's a fear of private equity, and there should be," said Brett Hoselton, an auto analyst with Key Banc Capital. Private equity has the potential to drastically transform a company. And Cerberus has a fierce reputation. Competitors say Cerberus is known for having a combative, take-no-prisoners style. The firm is also known for its lengthy roster of highly successful turnaround and industry managers. Its automotive investments are headed up, in part, by former Ford Motor Co. international operations chief David Thursfield. In December, following its acquisition of GMAC, Cerberus hired former Goldman Sachs executive and Ford special adviser Kenneth Leet. And in March, as Cerberus evaluated the potential purchase of Chrysler, it reportedly retained former Chrysler COO and Volkswagen executive Wolfgang Bernhard as an automotive adviser. Feinberg is "a relatively young guy. He's very personable. He's very smart. He does what he says he'll do. And he hires good people," said Al Koch, vice chairman and managing director of turnaround firm AlixPartners.

"They've hired some very, very good people to work on the different acquisitions they're making. If the U.S. auto industry is going to have a chance, it needs to have smart owners and smart operators. "For all of us who live here, it is in our best interests to have a healthy automotive sector. Will it be tougher for the Big Three to deal with them? Yeah, I think it will be. And delivering parts in some cases at less than the cost of the raw materials ... they won't do that. "While the purchasing managers for the Big Three won't like it, we've seen what happens when the industry doesn't operate that way. We end up with Delphi in bankruptcy, Dura in bankruptcy, Dana in bankruptcy. ... There's no way the industry can survive unless it is economically healthy, so I am encouraged when smart savvy investors become involved."

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