

Auto suppliers are on verge of bankruptcy McTevia tells Detroit Free Press

Supplier troubles may halt products
Bankruptcy filings up for parts makers; shortages possible

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With or without federal loans to the Detroit Three automakers, many of the companies that supply automakers with door handles, gear shifters and other parts are already edging closer to bankruptcy in the suffering economy.

So even if the automakers get the \$34 billion they seek, collapsing parts makers could cause parts shortages that threaten the automakers' production schedules. That, in turn, could derail or slow any auto industry turnaround.

While testifying before the U.S. Senate Banking Committee, Johnson Controls Inc. Chief Operating Officer Keith Wandell said Thursday that a year ago, 20% of the company's automotive suppliers were in a state of financial distress.

Now, as U.S. light-vehicle sales have tanked, more than 35% of the company's automotive suppliers are on the verge of bankruptcy.

"This number continues to grow," said Wandell, whose company bought most of the assets of one of its bankrupt suppliers, Plastech Engineered Products Inc., to ensure Johnson Controls could continue delivering parts to its customers.

Plummeting production in recent months has led to falling revenues for parts makers, who already operated on thin profit margins, leaving suppliers with few options in a virtually frozen credit market.

Not only is it tough to obtain a loan, but loans to operate in bankruptcy also are scarce.

Companies that seek to sell all or part of their business are finding few willing buyers because of the credit crisis.

Liquidation might be the only option, particularly for small to midsize suppliers.

"You're going to see a lot of insolvencies in the automobile industry," restructuring expert Jim McTevia predicted. "The margins have been so thin that these companies haven't had a chance to build up the kind of cash and reserves that they need to weather this storm."

If one of the domestic automakers were to go bankrupt, the pain among parts suppliers would most certainly be worse.

In that event, auto analysts warn a cascade of supplier bankruptcies would follow as parts makers lose out on much-needed cash.

But even without a Chapter 11 filing, as they fight the worst U.S. automotive market in decades, parts suppliers -- like their domestic customers -- are running out of money and time.

The brewing troubles in the already-weak parts industry have led the industry to call for a portion of any federal loans the government might make available to the Detroit automakers.

But if the automakers' testimony before Congress is any indication, there doesn't seem to be much support for assisting parts makers, which employ 600,000 people in the United States.

To prevent a crisis in the supplier industry, Craig Fitzgerald, a partner at Plante & Moran in Southfield, suggested that Congress not just loan money to the Detroit Three but also encourage banks to lend money to suppliers that present a viable business plan.

35 in bankruptcy

More than 35 automotive firms -- most of them suppliers, but also some dealers -- have filed for bankruptcy protection this year, according to AlixPartners.

Of those filings, some of the larger companies, including Plastech Engineered Products Inc. and Cadence Innovation LLC, have either chosen or been forced to sell their operations instead of reorganizing.

But selling in this environment hasn't been easy.

Potential buyers are struggling to attract credit for automotive operation or investment.

Sellers, meanwhile, are finding that the value of their assets is dwindling in the deteriorating U.S. automotive market.

"In this market, realistically, you're selling a Popsicle. It's melting. It's losing value every day," said James Sampson, CEO of Blue Water Automotive Systems, which filed for Chapter 11 help in February.

Blue Water was one of several plastic parts makers that filed for Chapter 11 this year because it couldn't keep up with volatile material prices, volume declines and pressures to cut prices.

In July, a bid to buy the company from Illinois rival Flex-N-Gate Corp. was too low and prompted objections from several stakeholders in Blue Water's case.

Ultimately, the company was pushed into liquidation instead of selling the business.

Blue Water, which generated \$200 million in sales this year, has closed five plants, sold two others in the United States and has been trying to sell its plant in Mexico.

Throughout Blue Water's liquidation, potential buyers have backed out because they haven't been able to secure financing.

"There's nobody around to buy a major supplier to the automotive industry," McTevia said.